Session 3

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The Impact of Poor Governance on Foreign Direct Investment: The Bangladesh Experience

Quamrul Alam¹
Mohammad Emdad Ullah Mian²
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Introduction

Foreign direct investment (FDI) is seen as an instrument by which countries can gain access to the benefits of globalization (Azim and Uddin 2001). In recent years, FDI has received singular attention in many developing countries. The close integration of national economies, driven by worldwide competitive pressures, economic liberalization, and the opening up of new areas of investment, has helped many countries to attract FDI (IFC 1997). Policy makers and multilateral organizations have increasingly emphasized the importance of a sound investment climate and flow of FDI in promoting economic growth in developing countries (Stern 2002).

The climate for investment is determined by the interplay of many factors—economic, social, political, and technological—which have a bearing on the operations of a business. The business environment has three main features: macroeconomic conditions, governance, and infrastructure. The more favorable these factors are to a firm’s operation, the more likely it is that the firm will invest in the economy and help create a bandwagon effect for others.

Bangladesh has long been trying to attract FDI. In the 1990s, Bangladesh achieved a growth rate far superior to that of most low-income countries and positioned itself with a better macroeconomic policy regime to attract FDI. The Government introduced a generous program of incentives for investors. The country experienced an upward trend in FDI inflow in the early 1990s, but recently too little foreign capital has come in (Azim 1999, World Bank 2005b). In gross FDI inflows as a share of gross development product (GDP) in the 1990s, Bangladesh was 137th out of 141 countries (World Bank 2005b).

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Despite a relatively liberal FDI regime, foreign investors are not interested in moving to Bangladesh. It is therefore crucial to understand the major impediments that distort the business environment. A conducive business environment—with well-functioning factor markets, efficiently run infrastructure services, easy market entry and exit, an enabling regulatory environment, access to information, and strong competitive pressures—allows businesses to become productive, competitive, dynamic, and innovative (World Bank 2005b). In view of these considerations, this paper investigates the business environment in Bangladesh and identifies critical factors, especially economic governance issues, that affect the volume of FDI.

**FDI in Developing Countries**

The preconditions of FDI have been addressed by a number of theories. Among these theories are: the theory of market imperfection (Hymer 1960, Dunlop 1999); behavioral theory (Aharoni 1966, Dunlop 1999); product life cycle theory (Vernon 1977; Hossain, Islam, and Kibria 1999); internalization theory (Buckley and Casson 1976); transaction cost theory (Williamson 1975, 1985); location-specific advantage (Franco 1971, 1974; Porter 1990); and eclectic theory (Dunning 1988). Caves (1971) argues that through FDI multinational corporations (MNCs) attempt to exploit firm-specific assets in a foreign market. But FDI is more than merely moving capital across borders; it offers certain advantages to both the host country and the investor. Dunning (1980, 1988) argues that a firm’s foreign investment decisions are influenced mainly by firm- and location-specific advantages. Open-door economic policy (Singh and Jun 1995, Walder 1996), market size (Lardy 1995, Milner and Pentecost 1996, Fitzock and Edwards 1998), political stability (Tesai 1994), and the host country’s macroeconomic policy, tax regime, and regulatory practices are considered major determinants of FDI.

FDI inflows generate jobs through new establishments and expanded activities, and indirectly increase competition within domestic markets and facilitate the transfer of improved technology and management techniques (Crone and Roper 1999). For the investor, the potential benefits lie in penetrating a new market, gaining access to raw materials, diversifying business activity, rationalizing production processes, and overcoming some of the drawbacks of exporting, such as trade barriers and transport costs. FDI also enables companies to learn about the host market and how to compete in it.

Transaction cost theory (Williamson 1975, 1985; Buckley and Casson 1976; Caves 1971; Caves, Christensen and Diewert 1982) explains how multinational enterprises (MNEs) own and control operations abroad to benefit from diverse production locations and globalization of markets (Benito
and Gripsurd 1992, Buckley and Casson 1976, Teece 1986). Similarly, Vernon (1966) and Dunlop (1999) argue that MNEs undertake production in different countries to minimize production costs and expand globally. Firms therefore choose least-cost locations for their production activities (Buckley 1988). Dunning (1980, 1988) suggests that the propensity of a firm to get involved in international production depends on three conditions: ownership advantages, location advantages, and internalization advantages.

Internal factors in host countries are also important determinants. Tatoglu and Glaister (1998) classify the host country location–related factors into two types. First are Ricardian-type endowments, which mainly comprise natural resources, most kinds of labor, and proximity to markets. Second are environmental variables, or the political, economic, legal, and infrastructural conditions in a host country.

According to Dunning and Pearce (1988), FDI can be “resource seeking” (gaining access to local, natural, or human resources); “import substituting” (producing locally instead of exporting to the local market); an “export platform” (providing a basis for exporting to a regional market); or “rationalized or vertically disintegrated” (locating each stage of production where the local costs are most advantageous). A particular investment may, however, be motivated by several of these factors at the same time.

An economy that offers long-term business prospects can influence an FDI decision, but the prospects need to be directly relevant to the profitability of the venture (Petrochilos 1989). The inflow of FDI to a host country depends on the availability of location-specific factors and the opportunity to use those resources effectively. Overall, the factors that influence FDI decisions—Porter (1990) called these “factor endowments”—can include the size and growth of the host-country market, factor prices (labor, raw materials, etc.), economic policies (interest rates, exchange rates, taxes, etc.), profitability, and the protection afforded to investing firms by tariffs and other measures.

Key Features of the Investment Climate

Major factors that influence firms to choose to locate their investment in a particular developing country are macroeconomic factors, governance, infrastructure, access to finance and international integration, political stability, knowledge infrastructure and labor-force skills, and technology.

Macroeconomic Factors

Investment is driven by profit, and foreign investors will always prefer a country with a buoyant business sector (measured in terms of GDP growth rate, inflation rate, level of industrialization, etc.). There is an element of herd
mentality among foreign investors that tends to create a bandwagon effect in a particular country. The People’s Republic of China (PRC) and some other East Asian countries are recent examples of this phenomenon, and India now exerts a similar attraction. By contrast, Nepal, Bangladesh, and many other slow-growth Third World economies have so far received very negligible amounts of FDI.

**Governance**

A country’s general structure of governance and the institutions that regulate interactions between business and government determine the burden of compliance with government regulations, the quality of government services, and the extent to which corruption is associated with the procurement of these services. Recent empirical research confirms, for example, that measures of corruption are significantly and negatively related to inflows of FDI (Smarzynska and Wei 2000, Wei 2000, Stiglitz 2003).

Regulations in developing countries may tend to be more complex and bureaucratic than necessary as a result of corruption, and often are not intended to correct market failures or protect consumers (World Bank 2005b). Djankov et al. (2002) state that having more regulations is generally not associated with better societal outcomes in developing countries. They also find that stricter regulation of entry is correlated with increased corruption and costs.

**Infrastructure**

The better its infrastructure, the more attractive the host economy is to foreign investors. For example, the quality of transport and communication systems can be estimated from expenditure on road transport (Hill and Munday 1991). Ernst and Young (1992, in Dunlop 1999) identify the following infrastructure factors as important in attracting FDI:

- Good base of related and supporting industries (suppliers, subcontractors, university research center, business services, and raw materials)
- Good transport facilities (road, rail, and air) and port system
- Low cost and availability of utilities (telecommunications, energy, and water)
- Existence of environmental regulations and procedures
- Availability of sites and premises
In countries with poor infrastructure, businesses must devote more resources to acquiring information, procuring inputs, and delivering their products to the market. This undermines their competitiveness at best, and at worst deters them from entering markets where they could otherwise operate efficiently.

Access to Finance and International Integration

Access to finance significantly influences a firm’s propensity to invest. Businesses invest in projects where the expected benefits exceed the cost of investment. However, this can be achieved only where businesses do not face credit constraints unrelated to their own performance. Credit constraints are less likely in countries with well-developed and well-functioning financial systems. Indeed, a great deal of research has shown the importance of financial sector development for growth (Levine 1997). A healthy financial system allows businesses to expand according to their expected potential, rather than their current stock of cash. Thus, countries with well-developed financial systems (banks, stock and bond markets) tend to grow faster than countries with less-developed systems (World Bank 2003).

Countries that aggressively pursued integration with the global economy (such as Brazil, PRC, India, Malaysia, Mexico, Philippines, and Thailand) grew more quickly in the 1990s than those that did not (World Bank 2003). Indeed, many studies find that openness to trade and FDI accelerates growth (Dollar and Kraay 2001, Frankel and Romer 1999).

Political Stability

Political certainty and transparency makes developing countries much more likely to attract FDI. Political uncertainty in a potential host country may unexpectedly change the rules of the game under which businesses operate (Butler and Joaquin 1998). Adverse consequences have a profound influence on multinational corporations (MNCs) (Boddewyn 1988). An unstable government or monetary and fiscal policies lead to greater uncertainty about investment outcomes and detract from firm value (Brewer 1983).

Political factors like frequent changes of government, a political opposition critical of foreign direct investment, lack of transparency in the public service, rabid nationalism, corruption, and the possibility of terrorism are seriously considered by investors before making investment decisions (Azim and Uddin 2001). Mudambi (1995) says that business and political risks are plausible determinants of FDI location. He uses variables representing the regulatory environment, inflation, incidence of violent or peaceful power transitions, and host-country relationships with other countries to proxy this risk factor.
Knowledge Infrastructure and Labor Force Skills

A fundamental requirement of economic growth is the knowledge infrastructure and the level of human development in a country. Developing-country governments must therefore strengthen their human resources through education, training, health, and social services. According to Reza (1995) governments must first make a systematic assessment of their human resources before formulating any policy to attract FDI. Such an assessment should be designed to:

- Identify critical shortages of skilled manpower in the various sectors of the economy and take measures to address the reasons for the shortage,
- Develop knowledge development strategies for creating a skilled labor force that foreign investors find advantageous for future growth, and
- Set targets for human resources development based on reasonable expectations of growth.

Technology

Technological progress encourages innovation and attracts FDI. A well-developed technology infrastructure allows the implementation of better business processes. It also involves a great deal of adaptation (Reza 1995). To support innovation, the public sector can undertake research and development (R&D) activities on its own or with private sector partners.

Whether singly or in combination the factors canvassed above set a substantial policy agenda that developing countries wishing to attract FDI need to address.

Research Method

An empirical study of 21 businesses was conducted in December 2004 and January 2005 to collect primary data on the investment climate in Bangladesh. Thirty structured face-to-face interviews were held to gather information. The study used a quantitative structure encompassing a wide range of topics.

The interviews were done face-to-face (rather than through mailed questionnaires) to achieve greater flexibility, a better response rate, and a clearer understanding of the questions among the respondents. Face-to-face contact with the respondents was also considered valuable from a qualitative standpoint.

The interviewees came from two target groups—foreign investors and local business experts, and researchers (see Table 1). A structured questionnaire (see Appendix) was prepared for 21 foreign firms operating in different places.
in Bangladesh. A semi-structured questionnaire was used to collect data from nine other interviewees—various experts, researchers, policy makers, and policy observers in Bangladesh. The interviews with experts helped clarify issues arising from the policy regime and helped identify institutional dysfunction.

Table 1: Distribution of Interview Sample

<table>
<thead>
<tr>
<th>Category</th>
<th>No. of Interviewees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign investors</td>
<td>21</td>
</tr>
<tr>
<td>Senior representatives of Foreign Investors’ Chamber of Commerce and Industry of Bangladesh and Federation of Bangladesh Chamber of Commerce and Industry</td>
<td>3</td>
</tr>
<tr>
<td>Representatives of research groups and the academe</td>
<td>2</td>
</tr>
<tr>
<td>Government officials (senior executives of BOI-2 and BEPZA-1, and Joint Secretary–1, Ministry of Commerce)</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30</strong></td>
</tr>
</tbody>
</table>

BOI= Board of Investment (Bangladesh), BEPZA= Bangladesh Export Processing Zone Authority.

Analytical Framework

Fifty-eight common questions were posed in each interview with the companies, and the data were analyzed with the use of two statistical techniques—frequency analysis of responses and weighted index for the questions.

Frequency Analysis

The opinion survey elicited qualitative data. The interview responses were classified into three groups. Two positive response levels (“very attractive” and “attractive”) made up one group, and two negative perceptions (“very frustrating” and “frustrating”) composed the other. The third group contained the indifferent responses—those that were neither positive nor negative. The frequency of the three groups was calculated and reported. Missing values were excluded from the analysis.

Weighted Average of Responses

Because the frequency method would have given equal weight to all three levels of response, weighted frequency analysis was used (see Appendix). First, the scores -2 and -1 were assigned to the two different levels of negative responses, the scores 1 and 2 were assigned to the two levels of positive responses, while the score 0 was assigned to the indifference level. The weighted approach allows readers to understand at a glance trends in the perceptions of executives about the business environment in Bangladesh.
Interview Design

In view of the position and role of the target groups in their organization, data were collected through purposive sampling, from December 2004 to January 2005.

Of the 21 foreign companies covered by the interviews, 10 were in Dhaka, 6 in Gazipur, and 2 in Narayanganj, and there was 1 company each in Hobiganj, Sunamgonj, and Chittagong.

Twelve companies were from the manufacturing sector, two were financial institutions (banks), one was from the energy sector, and there were three companies each from the wholesale and retailing sector and the services sector. Table 2 shows the sector distribution of the companies.

Of the companies surveyed, 43% were entirely devoted to the domestic market, while around 24% were exclusively export-oriented. The remaining 33% operated in both domestic and export markets. More than one third (43%) of the respondent companies were fully owned foreign companies and the rest (57%) were joint ventures.

Table 2: Industry Sectors Surveyed

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number</th>
<th>Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>12</td>
<td>57</td>
</tr>
<tr>
<td>Financial institution</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>Energy</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Wholesale and retailing</td>
<td>3</td>
<td>14</td>
</tr>
<tr>
<td>Services</td>
<td>3</td>
<td>14</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>21</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

To obtain in-depth information, the researchers followed a topic guide like the semi-structured questionnaires for the other interviewees. The respondents were thus encouraged to share their experiences, attitudes, needs, and ideas, and the interviewer could zero in on areas that the respondents considered important.

The following issues were considered in preparing the questionnaire for the representatives of business and research groups, and government officials:

- Factors that generally influenced the firm to select Bangladesh for FDI or joint venture;
- Problems and difficulties usually experienced when considering Bangladesh for FDI location;
Analysis of the Data

The study revealed that Bangladesh could provide a favorable environment for foreign investment, as the overall weighted response was positive, although the total weighted average score of 8.927 was at the lower end of the range (1–58) for an attractive location. This means that while foreign investors in Bangladesh are not altogether satisfied with the business environment, there is hope for improvement.

Macroeconomic Context

The macroeconomic factors together scored an average of 0.548, between “neutral” (0) and “attractive” (1). This score indicates that investors are not worried about the macroeconomic aspects. Among the macroeconomic factors, inflation (0.762) and exchange rate (0.619) were more promising to investors, followed by fiscal policy (0.476) and monetary policy (0.333). More than 55% of the respondents found Bangladesh attractive in terms of inflation rate (81%), exchange rate (67%), and fiscal policy (57%), while about 52% said that monetary policy was either “neutral” or “frustrating.”

Infrastructure

The overall negative perception (-0.152) of business executives indicates the inadequacy of infrastructure. The high negative weighted score for poor and inefficient supply and service of power (-1.048) and ports (-0.762) is an especially significant concern. More than 80% (17 out of 21) of the respondents were strongly critical and said that electric supply in the country was frustratingly poor (“very frustrating” to some). Most of the respondents relied on private generators to ensure continuous power supply.

Around 76% of the respondents also expressed dissatisfaction and frustration with the poor port facilities in Bangladesh. Frequent strikes in ports, lack of modern equipment, corruption, container congestion, and similar problems cause serious trouble for foreign investors.
Fixed-line phones were perceived to be scarce. But the availability of mobile phones partly offset the negative perceptions (overall positive weighted value of 0.286).

More than 60% of the respondents noted that the transport system was below average. The respondents were especially dissatisfied with the quality of railroads and waterways. The weighted average score of transportation was -0.095.

Natural gas is a very vital fuel resource in Bangladesh. It accounts for about 70% of commercial fuel used in the country (Government of Bangladesh 2003). More than 75% of the respondents (16 out of 21) rated Bangladesh attractive or very attractive because of its gas supply (average positive weighted value of 0.857).

The low overall weighted value for natural resources (0.206) indicates that these are scarce and limited in quantity. But positive values were assigned to the availability of land (0.238), natural resources (i.e., gas, coal, etc.) (0.190), and raw materials (0.190). A significant number of respondents (about 90%) agreed that the Government should take more effective steps to maximize the use of its natural resources and land.

**Markets**

Bangladesh has a very good domestic market, with very high prospects. An overwhelming majority of the respondents (more than 90%) rated the domestic market attractive (positive weighted average value of 1.429).

In addition, more than two thirds of the respondent companies (71%) believed that Bangladesh could gain much by making good use of the regional market. They said that the South Asian Free Trade Agreement could have a positive effect on the Bangladesh economy if only negotiations could be more effective. The northeastern part of India is an especially good market for Bangladeshi products because of its proximity and the facilities of the port at Chittagong.

Opinions about the availability of local suppliers in Bangladesh were mixed (cumulative average of 0, indicating a situation that is neither good nor bad). More than 60% of the respondents (13 out of 21) gave a neutral rating (0) to this aspect, while the scores of the rest were equally divided between “attractive” (1) and “frustrating” (-1).

The overall weighted value for the quality of local suppliers was positive (0.048) but close to zero. More than 75% of the respondents (16 out of 21) either gave this aspect a neutral rating (0) or said it was an attractive feature (1) of the country. However, the results indicate that there is much room for improvement in the quality of local suppliers.
Interestingly enough, all of the respondents strongly believed in the market prospects of Bangladesh, provided the environment could be made more conducive to business. They rated the prospects of the domestic market “attractive” or “very attractive.” The weighted average value of 1.381 is a good signal for FDI.

**Global Integration**

Although the study results indicated a positive weighted value for global integration (0.603), Bangladesh still needs to develop an industrial development strategy for better integration with regional and global markets.

Among the three factors considered in this regard, the respondents pointed out the low level of integration with the regional economy (0.381) and the global economy (0.524). However, they were satisfied with bilateral investment treaties (average weighted value of 0.905).

More than 42% of the respondents rated regional integration either “neutral” (0) or “frustrating” (1), while alluding to the very good prospects of the country in the regional market. About two thirds (66%) of the respondents had positive attitudes toward integration with the global economy, adding that more integration would be better for business.

The research findings correspond with the results of recent World Bank studies on growth and export competitiveness, which likewise indicated low integration, by most measures, with the global economy (World Bank 2005a). Bangladesh ranked 56th out of 62 countries in A. T. Kearney’s 2004 globalization index (Table 3). In the area of economic integration, Bangladesh is not doing well (*Foreign Policy* 2004).

**Knowledge Infrastructure and Skills**

Almost every respondent expressed dissatisfaction with access to information and the dismal state of R&D. To start a new business or adopt any business strategy, all kinds of companies require sufficient reliable information, relevant data, and proper R&D. The data indicate that Bangladesh lags behind in this aspect.

This factor was “frustrating” (or even “very frustrating”) to more than 62% of the respondents. The remaining 38% gave it a neutral rating (no one made a positive comment). The average weighted negative value was -0.762 for access to information and -0.571 for R&D. Although the study showed that the low quality of education and training is a major stumbling block in producing efficient and qualified human resources, the overall positive rating (0.505) for human resources is encouraging. All the respondents noted the
<table>
<thead>
<tr>
<th>Country</th>
<th>Overall Globalization Index Ranking</th>
<th>Economic Integration</th>
<th>Personal Contacts</th>
<th>Technology</th>
<th>Political Engagement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Trade</td>
<td>Portfolio</td>
<td>FDI</td>
<td>Investment Income</td>
</tr>
<tr>
<td>Malaysia</td>
<td>20</td>
<td>8</td>
<td>14</td>
<td>26</td>
<td>46</td>
</tr>
<tr>
<td>Chile</td>
<td>37</td>
<td>29</td>
<td>50</td>
<td>27</td>
<td>39</td>
</tr>
<tr>
<td>Thailand</td>
<td>48</td>
<td>28</td>
<td>48</td>
<td>40</td>
<td>58</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>51</td>
<td>41</td>
<td>34</td>
<td>56</td>
<td>60</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>56</td>
<td>62</td>
<td>43</td>
<td>62</td>
<td>35</td>
</tr>
<tr>
<td>PRC</td>
<td>57</td>
<td>37</td>
<td>59</td>
<td>49</td>
<td>56</td>
</tr>
<tr>
<td>Indonesia</td>
<td>59</td>
<td>47</td>
<td>61</td>
<td>51</td>
<td>53</td>
</tr>
<tr>
<td>India</td>
<td>61</td>
<td>61</td>
<td>53</td>
<td>55</td>
<td>57</td>
</tr>
</tbody>
</table>

PRC = People's Republic of China
Source: Foreign Policy (2004).
abundance of unskilled and semiskilled labor and the very competitive price (rated “attractive” or “very attractive,” with an average value of 1.619).

More than 90% of the respondents expressed satisfaction with the productivity of workers (weighted value of 0.905). Respondents had mixed opinions about the workers’ skills and education (average positive value of 0.333). More than 42% of the respondents rated Bangladesh “attractive” (1) in terms of the skill and education of its workers, while 47% gave this factor a neutral rating (0) and about 9% declared it “frustrating” (-1). One interesting comment by respondents (about 75%) was that workers were very keen to be trained.

Regarding the availability of qualified managers, about 42% of the respondents considered it an attractive feature of the country, while the remaining 58% thought this factor either neutral or frustrating. However, the average weighted value was negative (-0.143).

The study also showed the unsatisfactory quality of education and training in Bangladesh. To a majority of the respondents (more than 80%), this factor was “neutral” or “frustrating” (overall negative score of -0.190).

A recent World Bank report indicated that Bangladesh still lags behind on most human development, innovation, and knowledge indicators, and this deficiency keeps labor productivity, growth, and wage levels down (2005).

**Legal and Regulatory Framework**

This study considered the legal and regulatory framework as one, with nine related elements of regulations, including the court system, all of which have a direct impact on the business environment. The overall weighted value was positive (0.265), indicating that the rules and regulations themselves are favorable to business. But, as the respondents pointed out, implementing the regulations or securing benefits through them is another matter. This gap was cause for dissatisfaction among the respondents.

More than two thirds (66%) of the respondents rated either “attractive” (1) or “very attractive” (2), four out of nine aspects of the legal and regulatory framework. They gave a score of 0.714 to labor regulations, 0.714 to the fire department, 0.9048 to environmental certification and 0.4762 to customs, trade, and other government regulations.

But the respondents showed frustration with the court system of the country (average negative weighted value of -0.524. More than half of the respondents (52%) found the court practice “frustrating” (-1) or “very frustrating” (-2), while about 42% gave a neutral rating (0). Moreover, two other aspects had negative average values: intellectual property rights (-0.190) and legal operational facilities (-0.048).
However, the overall legal and regulatory framework in Bangladesh has been described as lax, with a positive weighted score, and was also criticized by the respondents. According to the World Economic Forum report, on average, Bangladesh takes 30 days to clear procedures in relation to starting a new business. The cost of these procedures is very high in Bangladesh (World Economic Forum 2004).

Data from the World Bank’s Doing Business project also suggest that starting a new firm in Bangladesh is relatively costly, although hiring and firing workers is generally perceived to be easier than in most other developing countries in East and South Asia. An entrepreneur must complete seven procedures to start a firm—the smallest number among a group of comparator countries in Asia (Malaysia also has seven). But the cost of these procedures amounts to 77.6% of per capita income, by far the highest among these countries (see figure).

Another statistic suggests that start-up regulations and utility connections are relatively more difficult in Bangladesh than in other Asian countries. Executives surveyed for the Global Competitiveness Report 2001/02 (World Bank 2003) ranked Bangladesh 60th out of 75 countries with regard to the degree of difficulty in starting a new business. This ranking is worse than that of all the comparator countries in East and South Asia.

**Number of Procedures and Cost of Starting a Firm in Bangladesh and Comparator Countries, 2002**

[Diagram showing the number of procedures and cost as a percentage of gross national income per capita for various countries, including Bangladesh, Sri Lanka, People's Republic of China, Thailand, Philippines, Malaysia, and India.]

Institutional Support

The overall weighted average value of the institutional support sector was positive (0.262). Among the six elements of institutional support, only the cost of finance had a negative score (0.286). More than 38% of the respondents were frustrated at the high cost of finance in Bangladesh, while about 57% gave a neutral response. Some of the respondents expressed the view that the interest rate and inflation together may increase the cost of capital, and adversely affect business.

Six out of the 21 respondents (28%) rated access to finance “attractive,” while more than 47% gave a neutral response (0.048). Some of the respondents said that they did not usually depend on financing from the host country, so they were not that concerned about the accessibility and cost of capital.

With regard to modern banking, more than 42% of the respondents considered the facilities and services “attractive,” while 38% gave a neutral rating, and 19% declared themselves “frustrated” (overall weighted score of 0.238). However, among the factors related to finance and openness, the respondents emphasized the low level of sophistication of the financial market and services by international standards, as well as the inaccessibility of financing.

The foreign investors had positive opinions about the tax rates and incentives offered by the Government of Bangladesh (average score of 0.857). An overwhelming number of the respondents (more than 80%) were quite satisfied with the tax rates and incentives for foreign investment. However, some respondents also reported difficulties in gaining access to incentives.

The respondents had mixed reactions to the facilitation role of government agencies (average score of 0.2381). Out of the 21 respondents, 10 (about 47%) had a positive reaction, while 6 (29%) were neutral and 5 (24%) voiced their frustration. However, the majority of the respondents (more than 70%) stated that the quality of services and authority of the government facilitating agencies like Board of Investment (BOI), Bangladesh Export Processing Zone Authority (BEPZA), and Export Promotion Bureau (EPB) needed to be improved.

The findings showed that, along with other factors, the cost of finance is a major obstacle to economic performance and the ability of the country to attract investments. The average real lending rate in Bangladesh is higher than the real GDP growth rate and substantially more than the real lending rates of competing countries like India, Malaysia, Sri Lanka, Thailand, and Viet Nam (World Bank 2005b).
Political Uncertainty

The study covered five relevant aspects of the political environment, for which the average weighted value was -0.1714—not conducive to business. The political climate in Bangladesh is rife with warring political parties, strikes, demonstrations, and pressure groups. In this connection, the Centre for Policy Dialogue (CPD) raised the issue of the alarming drop in trust in politicians in its 2004 report on business competitiveness in the country.\(^4\)

However, most of the businesses were affected by strikes and other political demonstrations. As much as 91% of the respondents were critical about this aspect and rated it “frustrating” or “very frustrating” (average negative score of -1.333).

Political uncertainty is another major concern, followed by economic policy uncertainty. A large majority of the respondents (more than 85%) expressed frustration in this regard or had a neutral response (weighted average score of -0.2381 for political instability and -0.1905 for economic policy uncertainty).

The study also revealed the equivocal attitude of the opposition parties toward foreign investment (below-average score of 0.333). The majority of the respondents ranked the attitude of the opposition parties either “neutral” or “frustrating,” as the political parties used strikes and demonstrations for short-term political gains. These tactics disrupted the entire supply chain and major export activities, increasing the cost of production and market uncertainty.

Governance

The governance framework, a cluster of six factors, scored an average of -0.401, far below expectations. All the respondents viewed government attitudes toward foreign investment as either “attractive” or “very attractive.” But the performance of the Government and the public sector was rated unsatisfactory. Most of the respondents mentioned burdensome administrative regulations, favoritism in policy decisions, and poorly managed contracts.

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\(^4\) The Centre for Policy Dialogue (CPD), a partner organization of the World Economic Forum for Bangladesh, conducted a survey of 100 local and foreign companies in May–June 2004 as part of its contribution to the Global Competitiveness Report 2004–2005. In that report, the CPD mentioned that almost all (98%) top executives (of surveyed companies) believe that public trust in financial honesty of politicians is low and this belief has become stronger in 2004 (compared to previous years). The weighted response has declined from -2.43 to -2.68 in 2004. The change of scores between these two years is also statistically significant. As the score is closer to -3, the highest score, it is obvious that this perception is very strong. This is a strong signal of the business community to the government and the politicians to work on improving such bad/negative image of the politicians. (CPD 2004). This indicated that investors were worried and unhappy about the political environment.
The findings indicate weak economic governance—a major reason for the poor performance of Bangladesh. Economic governance here refers to quality of public service delivery and public private dealings that directly affect the operations of the foreign firms. The problem of endemic corruption is undeniable and it has a significant impact on business and on FDI. Two out of the 21 respondents did not comment about corruption. The rest (89%) ranked corruption as “frustrating” or “very frustrating” (overall weighted score of -1.263). Firms reported having to make unofficial payments (bribes) to procure various government permits, gain access to public utilities (telephone, electricity, gas), get customs clearance (import and export permits), make tax payments, or file tax returns.

A large proportion of the respondents (more than 85%) commented that the bureaucratic procedures and regulatory and administrative bottlenecks were directly affecting the day-to-day operations of their firms. Bureaucratic control had an overall weighted average value of 0.9524, giving a clear sense of the burden that governance problems impose on firms.

The study also revealed the dissatisfaction of respondents with law and order, security, and cooperation between government agencies. About 42% of the respondents rated law and order “frustrating” (on account of the high incidence of crime, theft, and other disorders), while 47% had neutral comments (overall average value of -0.333).

The majority of the respondents (52%) expressed apprehension about overall security (referring to both personal security and security of property), while 42% gave a neutral response (weighted average of -0.4762). Almost half of the respondents (48%) expressed frustration with the degree of cooperation between government agencies, like customs, tax, and police, while 52% made neutral remarks (average value of -0.524). No one had a very good impression of these agencies.

A number of studies have been conducted by international organizations (World Bank, Asian Development Bank, World Economic Forum, Transparency International, Centre for Policy Dialogue, Bangladesh Enterprise Institute) on the problems of governance in Bangladesh. In most cases their findings coincide with the empirical findings of this study.

**FDI Climate in Bangladesh**

Respondents were asked to rank the major factors that motivate companies to do business in Bangladesh. The top six, based on the feedback, are listed in Table 4.
The Role of Public Administration in Building a Harmonious Society

Table 4: Motivations for Doing Business in Bangladesh

<table>
<thead>
<tr>
<th>Motivating Factors</th>
<th>Ranking</th>
<th>No. of Respondents Who Mentioned the Factor (out of 21)</th>
<th>Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market</td>
<td>1</td>
<td>21</td>
<td>100</td>
</tr>
<tr>
<td>Availability of labor</td>
<td>2</td>
<td>21</td>
<td>100</td>
</tr>
<tr>
<td>Government attitude to FDI</td>
<td>3</td>
<td>19</td>
<td>90</td>
</tr>
<tr>
<td>Legal framework</td>
<td>4</td>
<td>15</td>
<td>71</td>
</tr>
<tr>
<td>Geographical location</td>
<td>5</td>
<td>10</td>
<td>48</td>
</tr>
<tr>
<td>Natural resources (gas, etc.)</td>
<td>6</td>
<td>8</td>
<td>29</td>
</tr>
</tbody>
</table>

According to the table, market opportunities and the availability of labor are the most attractive to foreign investors. The favorable government attitude toward FDI is also appreciated. However, for lack of a long term-vision and political commitment, the policy initiatives have not translated into an FDI-friendly environment.

Respondents were also asked to identify and rank the major barriers to doing business in Bangladesh. As listed in Table 5, the main obstacles to investment are corruption, red tape, and political unrest. Respondents also mentioned the dampening effect of poor infrastructure, political uncertainty, and limited access to information.

Table 5: Major Problems in Doing Business in Bangladesh

<table>
<thead>
<tr>
<th>Issue</th>
<th>Ranking</th>
<th>No. of Respondents Who Mentioned the Issue (out of 21)</th>
<th>Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corruption</td>
<td>1</td>
<td>19 (2 did not comment)</td>
<td>100</td>
</tr>
<tr>
<td>Bureaucracy and red tape</td>
<td>2</td>
<td>21</td>
<td>100</td>
</tr>
<tr>
<td>Security/Political unrest (crime, theft, strikes and other political demonstrations, etc.)</td>
<td>3</td>
<td>20</td>
<td>95</td>
</tr>
<tr>
<td>Inadequate infrastructure (electricity and ports etc.)</td>
<td>4</td>
<td>20</td>
<td>95</td>
</tr>
<tr>
<td>Policy uncertainty</td>
<td>5</td>
<td>17</td>
<td>81</td>
</tr>
<tr>
<td>Access to information</td>
<td>6</td>
<td>14</td>
<td>67</td>
</tr>
<tr>
<td>Court system</td>
<td>7</td>
<td>10</td>
<td>48</td>
</tr>
</tbody>
</table>
Conclusion

The findings and analysis indicate that the macroeconomic environment in Bangladesh is investment-friendly. The factors evaluated positively by investors were market prospects, availability of labor, labor productivity, incentives for investors, and language and culture.

But respondents painted a bleak picture of economic governance. They had significant inhibitions about investment because of perceptions of corruption, bureaucratic red tape, strikes and other political demonstrations, inadequate infrastructure, law and order difficulties, policy uncertainty, and low access to information. These factors dulled the attractions of the competitive, market-driven environment.

The findings of this research correspond with observations of the World Economic Forum (WEF) (2004). The WEF survey suggested that Bangladesh ranked among the lowest in effectiveness of bankruptcy law (96th out of 102 countries) and in business competitiveness (80th out of 102). In a recent report, the WEF ranked Bangladesh on list of most competitive economies to the 99th. The ranking is based on various factors affecting a nation’s business environment and economic development. In the last year, Bangladesh’s position was 98th among 117 countries. According to the WEF report released on 26 September 2006, Bangladesh ranked 121st in institutions and 117th in infrastructure. The report, however, recognized the country’s better performance in macroeconomy as it ranked 47th in this sub-index. In South Asia, Bangladesh is the only country that failed to retain its previous position. The WEF ranking was based on a survey of over 11,000 business leaders in 125 countries. The survey was conducted to examine the range of factors that can affect an economy’s business environment and development as it seeks to maintain economic growth including the levels of judicial independence, protecting property rights, government favoritism in policy making and corruption (The Daily Star 28 September 2006).

Taken together with the findings of such studies, the analysis here suggests that the FDI potential of Bangladesh may be realized with the help of public policy and management agendas that improve governance generally, coordinate the instruments of economic governance, and ensure more effective and accountable public management.
References


The Impact of Poor Governance on Foreign Direct Investment: The Bangladesh Experience


Dunlop, T. 1999. An Analysis of Foreign Direct Investment and Joint Venture Motivations in Northern Ireland and Bahrain. MSc in Marketing Studies thesis, The University of Ulster, Faculty of Business and Management.


The Daily Star. 28 September 2006.


Appendix. The Survey Mechanics

Structure of the Questionnaire

The questionnaire contained mostly structured close-ended questions with a five-point response scale. The response scale represented the entire spectrum of possible views, from extremely negative (“very frustrating”) to extremely positive (“very attractive”). The middle of the scale represented completely neutral views.

The points were defined precisely to facilitate an exact response. “Very attractive” was defined as a situation where no further improvement was needed. “Attractive” meant that the situation was quite satisfactory but improvement was expected. “Neutral” represented a situation where the respondent was undecided whether to respond positively or negatively. “Frustrating” indicated a situation where there was enough room for improvement, but it would take much time. “Very frustrating” was defined as a situation that was very bleak and hopeless.

In addition to a description of the company, the 11 sections of the questionnaire contained 58 questions pertaining to the macroeconomic context, infrastructure, markets, integration, natural resources, human resources, legal and regulatory framework, institutional support, governance framework, political setting, and social setting. A separate open-ended section was intended to generate more information.

Respondents were also requested to cite the most common motivating factors and problems that affect decisions to do business in Bangladesh. In line with the inductive studies on FDI in developing counties and the peculiarities of the Bangladesh economy, the researcher identified some environmental factors that were more likely to influence the operations of foreign firms in Bangladesh.

Calculation of Weighted Average of Responses

To estimate the weighted average of responses, the following were defined:

\[
f_i = \text{Frequency of response belonging to the } i\text{th response level } (i = 1, 2, \ldots, 5)
\]

\[
\{\begin{align*}
-2, & \text{if very frustrating, with negative side response} \\
-1, & \text{if frustrating, with negative side response} \\
0, & \text{if indifferent between the two answers} \\
1, & \text{if attractive, with positive side response} \\
2, & \text{if very attractive, with positive side response}
\end{align*}\]

Scores, \(x_i = \)
Then, the weighted response \((R_w)\) was defined as
\[
R_w = \sum f_i x_i / \sum f_i \quad (i = 1, 2, ..., 5)
\]

The value 0 of \(R_w\) was considered the demarcation value between the average positive and negative side response. If \(R_w > 0\), the response was positive overall; if \(R_w < 0\), the response was considered negative. However, the distance of the score of the response from 0 showed a relatively stronger opinion on a particular aspect of the business environment.
E-governance in Bangladesh: A Scrutiny from the Citizens’ Perspective

Shah Mohammad Sanaul Hoque1

Introduction

Information and communication technology (ICT) applications in public administration, among other areas, have achieved transparent, responsible, accountable, participatory, and responsive governance in many countries. Innovative ICT applications also allow information and public services to be delivered at the citizens’ convenience. Ways of integrating new technologies into public administration to modernize systems, ensure good governance, and enhance democratic practices are now commonly discussed as e-governance has become popular worldwide.

ICT in Bangladesh

In Bangladesh, computer-aided applications were first introduced in public sector organizations in the 1980s, but only in a very few agencies, where the applications, installed in stand-alone personal computers, were mostly limited to providing support for management information systems, reporting, payroll, accounting, and budgeting. The concept of e-governance came late to the country and has not yet been discernibly adopted in public administration.

Objectives

This paper looks at the e-governance posture of the Government of Bangladesh from the standpoint of benefits to its citizens. Specifically, it reviews (i) how the policies and strategies of the country protect the citizens’ interests in e-governance, and (ii) how the citizens have benefited so far from e-governance initiatives.

Methodology

The paper is exploratory and descriptive, and uses qualitative and quantitative data collected from both primary and secondary sources. Various research techniques, procedures, and methods were used in collecting,

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processing, analyzing, and presenting data on various aspects. To attain the objectives of the paper, many administrative studies, reports, and development plans were reviewed to find out how those provide policy guidelines for reforms by integrating modern technologies into governance and development, and to extract the major trends and features of e-governance in the country. A limited survey was conducted in 36 ministries and divisions in the Bangladesh secretariat to identify the focus of current e-governance initiatives and to understand how new electronic means of communication are being used to bring citizens closer to the public administration. The Web sites of 20 selected ministries and divisions were also reviewed to find out how these provide information and services to the people.

Toward Reform and Development

**Administrative Reforms and ICT**

An efficient, transparent, and accountable public sector, greater focus on the citizenry, reorganization, simplified procedures and forms, and the use of modern technology to improve governance—these are some areas of public administration that have long been discussed in Bangladesh. Many administrative reports and documents, including the early ones, have advocated these reforms in governance.

Although ICT in its modern form had not yet emerged at the time, the report of the Administrative and Service Reorganisation Committee, formed in 1972, observed that “Progress in science and technology and the vast amount of new knowledge have made a major impact on the tasks of the Government and on the process of decision-making” (Government of Bangladesh 1973, page 2). The report suggested the creation of a permanent body “for the continuous study for the simplification of the forms and procedures with a view to removing the hardships the people have to undergo because of the cumbersome forms and complicated procedures” (Government of Bangladesh 1974, page 1). The report of the Public Administration Efficiency Study in 1989 recommended the modernization of government offices and the improvement of the file management system and office operations through the use of computers and the training of the workforce in the new technology (Government of Bangladesh 1989a, pages 14–17). Another report on administrative reform, prepared by four secretaries of the Government in 1993, suggested the increased use of modern office equipment, including computers, for efficiency and transparency in the public sector (Rahman et al. 1993, page 96). In 2000, the report of the Public Administration Reform Commission
specifically called for the use of modern technologies in “electronic government.” (Government of Bangladesh 2000, page xvii). The report pointed out:

To ensure customer services of a particular department or organisation all information, procedures, list of services obtainable, and requirement for the services can be preserved in the computer at the reception from where a customer can easily get information on the status of the services he/she has sought (Government of Bangladesh 2000, pages 11–12).

These reports, and many others, attempted to identify long-standing issues and problems in Bangladesh public administration and to offer ways of addressing them. Many of the suggestions endorsed the use of modern technology to improve governance. Some of the suggestions have been implemented and the structure of the civil service has changed. But internal procedures, work methods, logistical support have received limited attention (Government of Bangladesh 1989b, page 1).

**ICT for National Development**

Five-Year Plans. The Five-Year Plan also calls for the use of technology for effective public administration in Bangladesh. The Fourth Five-Year Plan advocates “increas[ing] the comparative strength of the economy through continuous technological innovations and adaptations” (Government of Bangladesh 1991, pages xxii–5). It draws attention to the use of technology in records management, personnel management, and financial management in the public sector, and specifically mentions the computerization of some public organizations. “The Bangladesh Computer Council will promote use of computer and information technology, provide advisory and technical services to different organizations and standardize computerization and information technology” (Government of Bangladesh 1991, pages xxii–6). Categorically emphasizing the need to prepare the public workforce to use the new technologies, this plan states: “Administrative training at all levels should now cover the area of technology as well” (Government of Bangladesh 1991, pages xxii–5).

The Fifth Five-Year Plan, on the other hand, takes the strategy, among others, of “exposing the country as a whole to the process of change and progress at the frontiers of production, development, knowledge, market and changes through the information technology” (Government of Bangladesh 1998, page 533). Particularly in organization development, personnel management, and system improvement, the plan acknowledges the importance
Poverty Reduction Strategy Paper. The impact of ICT on good governance, economic growth, people’s empowerment, and poverty reduction is acknowledged in the National Strategy for Accelerated Poverty Reduction (Government of Bangladesh 2004, pages 106–110). The strategy recognizes that ICT “has capabilities to overcome barriers of social, economic and geographical isolation, increase access to information and education, and enable poor people to participate in more of the decisions that affect their lives.” It emphasizes the need to convert the vast population, rural as well as urban, into human resources trained in ICT and connected by adequate and efficient ICT infrastructure to the global village.

Many administrative reform studies and the Government’s midterm and long-term development plans and strategies acknowledge the need to integrate ICT into administration and development activities. Yet, those plans and strategies do not say how this should be done. More efforts are needed to map out specific routes for incorporating ICT particularly in public administration.

ICT Policy

The national ICT policy adopted by the Government in 2002, among other things, sets policy guidelines for introducing e-governance in Bangladesh. The ambitious goal is to build a knowledge-based society by 2010. A nationwide IT infrastructure is also to be developed to give access to information to every citizen, to empower the people and enhance democratic values and standards for sustainable economic development. The policy is yet to be accompanied by specific strategies or action plans for bringing lasting benefits to the public. But there are apparent moves to prepare a national e-governance strategy.

Official Internet Connection and Usage Policy

The Government’s Internet connection and usage policy, adopted in 2004, provides for the use of Internet facilities in government offices and determines its management and financial aspects, such as entitlement, approval...
procedures, and cost limits. But the policy does not deal with operational aspects (rules for the effective use of the Internet) and therefore does not say how the new communication channels should be used to connect and serve the citizens and engage their participation. A limited survey in this regard showed that practice of electronic correspondence has generally not yet caught on among the ministries and divisions in the Bangladesh secretariat.

Table 1: E-mail Communication by the Ministries and Divisions
(No. of Respondents = 32)

<table>
<thead>
<tr>
<th>E-Mail Correspondent</th>
<th>Exclusively</th>
<th>Mostly</th>
<th>Sometimes</th>
<th>Rarely</th>
<th>Never</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own department/agency</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>50.0</td>
<td>50.0</td>
<td>50.0</td>
</tr>
<tr>
<td>Other ministries/divisions</td>
<td>0.0</td>
<td>0.0</td>
<td>3.1</td>
<td>40.6</td>
<td>56.3</td>
<td>46.8</td>
</tr>
<tr>
<td>Foreign missions and organizations</td>
<td>12.5</td>
<td>50.0</td>
<td>31.3</td>
<td>6.3</td>
<td>0.0</td>
<td>268.9</td>
</tr>
<tr>
<td>NGOs and civil society</td>
<td>0.0</td>
<td>0.0</td>
<td>21.9</td>
<td>50.0</td>
<td>28.1</td>
<td>93.8</td>
</tr>
<tr>
<td>General public</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>16.7</td>
<td>72.2</td>
<td>16.7</td>
</tr>
</tbody>
</table>

NGO = nongovernment organization
Notes: Score provides the sum of the row where each cell is multiplied by corresponding values assigned to the categories as: exclusively = 4, mostly = 3, sometimes = 2, rarely = 1, never = 0.

As Table 1 shows, e-mail correspondence is rare within and between the ministries and divisions, and between the ministries and divisions, on the one hand, and nongovernment organizations and civil society, on the other. E-mail is exchanged mostly with foreign organizations. More than 72% of the ministries and divisions in the Bangladesh secretariat have never communicated with the general public through e-mail.

National Commitment to Strengthening the ICT Sector

Nevertheless, the Government has made ICT a strategic sector for economic development and identified ICT applications as important tools in achieving public administration goals. The Prime Minister in 2002 turned the Ministry of Science and Technology into the Ministry of Science and Information and Communication Technology to link Bangladesh with ICT progress worldwide. Import duty and tax on computers and accessories were removed to make technology more affordable and to facilitate the diffusion and adoption of ICT in the country. This overt commitment of the Government to the development of the ICT sector is a basic strength in the introduction of e-governance in Bangladesh.
E-governance Initiatives

Management Structures

The Government has also made efforts to institute e-governance in practice. The National ICT Task Force (NTF), headed by the Prime Minister, is the highest policy-making and oversight body for the ICT sector at the national level. Immediately below it is the Executive Committee on ICT, formed on 21 March 2002 to strengthen the ICT sector with the ultimate goal of national development. Focal points and committees for e-governance have also been formed in every ministry and are now preparing road maps for the introduction of e-governance in their respective sectors. Besides these bodies, key ministries and specialized agencies set strategic directions as well.

Strategic Directions for E-governance

At its very first meeting, the NTF, eager to define an appropriate vision and mission for the IT sector in Bangladesh, formed a committee for this purpose under the leadership of the minister of the then Ministry of Science and Technology. The NTF also formed another committee to identify targets and draw up an action plan for human resources development in the sector. Still, these initiatives were made with the commercial growth of the IT sector in mind; the governance perspective had yet to be considered. However, at its third meeting on 8 August 2002, the NTF paid particular attention to the issues of connectivity, regulation, and e-governance. The fifth NTF meeting dealt specifically with e-governance. The ministries and divisions could start, so the discussions went, by identifying specific e-governance services and gradually mature through outsourcing. Regulatory actions also had to be expedited to standardize the Bengali keyboard.

On the other hand, among the major efforts it has taken so far, the Executive Committee has launched an umbrella project in e-governance, formed e-governance focal points in the various ministries and divisions, arranged for the preparation of a draft ICT act, and amended the Copyright Act. Besides, as decided by the NTF, the principal secretary to the Prime Minister, who also chairs the Executive Committee, has requested all the ministries and divisions, through their focal points and teams, to formulate and implement integrated road maps for e-governance. These road maps are now being finalized for the various sectors. Table 2 lists the official directives that carry strategic value for the introduction of e-governance in Bangladesh.

E-governance in Bangladesh is evidently still at a very early stage, and the specific management structures have yet to be expressly defined by the
Government. As a result, strategic directions for e-governance come from different authorities. E-governance in Bangladesh is also concerned mostly with simple preparatory guidelines. However, these preparatory guidelines do not yet adequately cover the citizen-centered aspect of e-governance.
Table 2: Government Guidelines for E-governance (cont’d)

<table>
<thead>
<tr>
<th>Issuing Authority, Document No., and Issue Date</th>
<th>Topics Covered</th>
<th>Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Establishment. No: MOE (PACC)-e-mail/2001-108, dated 26 May 2004</td>
<td>Use of e-mail in governmental communications</td>
<td>G2G (no specific suggestions for communicating with businesses and citizens)</td>
</tr>
<tr>
<td></td>
<td>Development and updating of Web sites</td>
<td>G2G, G2B, G2C</td>
</tr>
<tr>
<td></td>
<td>Connectivity infrastructure for the secretariat and Internet connections in all district offices</td>
<td>Connectivity</td>
</tr>
<tr>
<td></td>
<td>Training for civil servants</td>
<td>Preparation of the workforce</td>
</tr>
<tr>
<td></td>
<td>E-governance road map</td>
<td>Strategic guidelines</td>
</tr>
<tr>
<td></td>
<td>Introduction of Bengali on the Internet</td>
<td>User-friendly Web presence</td>
</tr>
<tr>
<td></td>
<td>Public-private partnership; open-source policy</td>
<td>Strategic option</td>
</tr>
<tr>
<td></td>
<td>Expansion of ICT education</td>
<td>Preparation of citizens</td>
</tr>
</tbody>
</table>

G2B = government to business, G2C = government to citizens, G2G = government to government, HRD = human resources development, ICT = information and communication technology, IT = information technology

Focus of E-governance Projects

Some e-governance projects have already started. Currently, 38.9% of the ministries and divisions in the Bangladesh secretariat have at least one project that either resulted directly from e-governance initiatives or will somehow facilitate future e-governance efforts. On the other hand, 16.7% of the ministries and divisions are just launching e-governance projects, while 44.4% have no e-governance project at all. Except for one, no ministry has completed any e-governance project so far. As the responses of 142 ministries and divisions in the Bangladesh secretariat show, current e-governance drives are concerned mainly with planning and strategy formulation, connectivity and infrastructure, procurement of technology, and Web site creation.

2 Most of the respondents from the sample ministries/divisions were reluctant or declined to respond, saying that their e-governance drive was too rudimentary for them to determine the areas of attention or that they had had no knowledge in this regard. Only 14 ministries/divisions filled out this part of the questionnaire.

NAPSIPAG
Table 3 shows that better use of technology and human resources development receive only inert attention. On the other hand, the following areas receive even less attention: regulation, organizational change and process reengineering, public services, and awareness building for e-governance.

Table 3: Focus of Current E-Governance Initiatives
(No. of Respondents = 14)

<table>
<thead>
<tr>
<th>Area of Attention</th>
<th>Degree of Attention Received (% of Responses)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Most</td>
</tr>
<tr>
<td>Planning and strategy preparation</td>
<td>35.7</td>
</tr>
<tr>
<td>Identification of projects/programs</td>
<td>0.0</td>
</tr>
<tr>
<td>Connectivity and infrastructure building</td>
<td>35.7</td>
</tr>
<tr>
<td>Procurement of technology</td>
<td>14.3</td>
</tr>
<tr>
<td>Use of available technology</td>
<td>14.3</td>
</tr>
<tr>
<td>Preparation of rules and regulations</td>
<td>0.0</td>
</tr>
<tr>
<td>Web site creation</td>
<td>14.3</td>
</tr>
<tr>
<td>Human resources development</td>
<td>7.1</td>
</tr>
<tr>
<td>Business process reengineering</td>
<td>0.0</td>
</tr>
<tr>
<td>Public services</td>
<td>0.0</td>
</tr>
<tr>
<td>Awareness raising</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Note: Provides the sum of the row where each cell is multiplied by corresponding values assigned to the various degrees of attention received, as follows: most attention = 4, less attention = 3, some attention = 2, little attention = 1, no attention = 0.

Web Initiatives

To prepare and empower citizens, the Government must involve them in planning and decision making by providing them with information and soliciting their opinions. The World Bank (1996, page 102) noted:

Most industrial and developing countries now regularly consult concerned citizen groups. In the UK, for example, the Government informs the people of proposed policies through series of ‘white’ or ‘green’ papers. In the US, before Congress starts formal consideration of the budget, the proposals are made public several months ahead of the fiscal year.

This practice has now become easier and more comprehensive through the Internet. Government can publish information and connect people through Web sites. These Web sites make governmental information and services available to the public, besides offering people an effective way to deal with government at their convenience. The Government is also trying to achieve
e-governance by taking initiatives to provide information and services online. A review of these Web sites, presented below, gives an idea of the standards and quality of the Web sites, the nature and extent of information and services provided, and ultimately the degree to which these sites have succeeded in bringing public administration closer to the people.

**Web Initiatives of the Ministries and Divisions**

Of the 50 ministries and divisions of the Government, 28 have Web initiatives. Two of the Web sites are still being developed and simply display blank home pages. However, the survey covered only the 36 ministries and divisions within the Bangladesh secretariat. Of these 36, only 20 (55.6%) have Web sites, including some still under construction.

**Appearance and Contents of the Web Sites**

The Government adopted official Web design parameters as early as July 2003 to standardize the appearance, menu, and contents of public Web sites. Yet, the ministries and divisions follow their own preferences in designing their Web sites. As a result, the sites do not have the same look and feel, and are difficult to access and browse. Observations on the contents of the Web sites are given in Table 4.

**Table 4: Menu and Contents of the Web Sites**

(No. of Respondents = 20)

<table>
<thead>
<tr>
<th>Item</th>
<th>Exists (%)</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>“About Us”</td>
<td>60</td>
<td>—</td>
</tr>
<tr>
<td>“Contact Us”</td>
<td>50</td>
<td>Under construction: 10%.</td>
</tr>
<tr>
<td>News</td>
<td>20</td>
<td>Blank: 25%. Under construction: 25%.</td>
</tr>
<tr>
<td>Public notices</td>
<td>35</td>
<td>Outdated notices: 28.6%. Blank: 28.6%.</td>
</tr>
<tr>
<td>Public forms</td>
<td>20</td>
<td>Very few.</td>
</tr>
<tr>
<td>Rules and regulations</td>
<td>45</td>
<td>Very few.</td>
</tr>
<tr>
<td>Public documents/reports</td>
<td>45</td>
<td>Very few.</td>
</tr>
<tr>
<td>Publications</td>
<td>25</td>
<td>Blank: 20%. List only: 20%.</td>
</tr>
<tr>
<td>List of projects</td>
<td>40</td>
<td>Blank: 12.5%.</td>
</tr>
<tr>
<td>Use of Bengali language</td>
<td>15</td>
<td>The rest are purely in English.</td>
</tr>
<tr>
<td>E-mail address</td>
<td>50</td>
<td>—</td>
</tr>
<tr>
<td>E-mail shortcut</td>
<td>40</td>
<td>—</td>
</tr>
<tr>
<td>Search facility</td>
<td>5</td>
<td>Simple search.</td>
</tr>
<tr>
<td>Links to attached departments/offices</td>
<td>45</td>
<td>—</td>
</tr>
<tr>
<td>Links to other sites</td>
<td>55</td>
<td>—</td>
</tr>
<tr>
<td>Privacy policy</td>
<td>5</td>
<td>—</td>
</tr>
<tr>
<td>Copyright</td>
<td>45</td>
<td>—</td>
</tr>
<tr>
<td>Hit count</td>
<td>15</td>
<td>Lowest: 1,648. Highest: 30,495.</td>
</tr>
</tbody>
</table>

3 In May–June 2005.

4 Including, among others, the President’s Office, the Prime Minister’s Office, the Parliament Secretariat, and the Election Commission.
There are cases where Web sites purport to display some of the items, but the pages are blank or hold outdated contents. Publications, reports, regulations, and public documents are simply listed; and the lists are often incomplete. Only four of the ministries/divisions (20%) offer public forms on their Web sites; however, they do not provide many features that could benefit the citizens and attract wider use.

**Interactive Functions**

For interactive functions, the official guidelines suggest three options: queries and complaints; comments, suggestions, and compliments; and statistical queries with a pull-down menu. As can be seen from Table 5, the existing Web sites have practically no interactive features so far.

<table>
<thead>
<tr>
<th>Option</th>
<th>Exists(%)</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Queries, complaints</td>
<td>5</td>
<td>FAQ only.</td>
</tr>
<tr>
<td>Comments, suggestions, compliments</td>
<td>20</td>
<td>—</td>
</tr>
<tr>
<td>Statistical queries, pull-down menu</td>
<td>0</td>
<td>—</td>
</tr>
</tbody>
</table>

**Purpose and Benefits of the Web Sites**

Given the foregoing observations, the present Web sites narrowly serve a public administration purpose and hardly bring benefits to businesses or citizens. Table 6 shows that the sites have yet to take on features that appeal to these groups and to other users in Bangladesh.

<table>
<thead>
<tr>
<th>Status, Purpose, or Benefit</th>
<th>Number</th>
<th>Percentage</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under construction</td>
<td>1</td>
<td>5</td>
<td>—</td>
</tr>
<tr>
<td>Mere presence</td>
<td>3</td>
<td>15</td>
<td>—</td>
</tr>
<tr>
<td>Organizational information only</td>
<td>7</td>
<td>35</td>
<td>Informative.</td>
</tr>
<tr>
<td>Tender notice/documents for business sector and organizational information</td>
<td>3</td>
<td>15</td>
<td>Informative; also carry, in a very limited sense, G2B aspect. However, 2 sites were found to carry outdated notices.</td>
</tr>
<tr>
<td>Some useful information, documents, or rules and regulations for citizens, including organizational information</td>
<td>4</td>
<td>20</td>
<td>Informative, and with a nominal G2C purpose.</td>
</tr>
<tr>
<td>Few useful forms for citizens and organizational information</td>
<td>2</td>
<td>10</td>
<td>Informative, and with a nominal G2C purpose.</td>
</tr>
</tbody>
</table>

G2B = government to business, G2C = government to citizens

NAPSIPAG
Overall, public Web sites in Bangladesh do not have a common look and feel. On the other hand, their contents do not meet the government guidelines. Public information and forms are not adequately available, online services are not offered, and the desired interactive functions do not yet exist. Rather, the sites mostly provide detailed information on organizational structure, hierarchy, activities, achievements, top personnel, etc., all of which tend to continue the legacy of traditional governance. The sites, as they are, therefore hold little value for the people, given their needs and choices, and cannot attract a wide range of active users. Fresh ideas and sensible efforts are required to engage the interest and participation of the citizens.

Availability of Technologies and Connectivity

As a result of specific measures and steps taken by the Government in recent years, technology and connectivity status have shown visible growth. Tax incentives have been extended to the private sector to achieve the intended spread of computers and Internet use in the country. The Government also has specific plans and ongoing projects to upgrade core infrastructure, including digitizing telephone switches, installing fiber optic and radio technologies, and expanding national networks to the rural areas. Moves to privatize the telecommunication sector are noteworthy in this regard. Links with a submarine cable network are also being established to facilitate international connectivity and increase transmission speed. Still, ICT in Bangladesh lags far behind in geographic and population coverage, particularly in the rural areas.

Teledensity

Statistics show that as of March 2005, only 1.007 million people in Bangladesh had access to fixed phones. But, with the rapid growth in mobile phones, telephone subscribers (fixed and mobile) numbered 6.42 million. Teledensity was therefore only 0.72 for every 100 persons for fixed phones, and 4.6 for every 100 persons for fixed and mobile phones in total. Fixed telephones are mostly found in the urban areas. According to a newspaper report in May 2003, out of 895,000 fixed telephones installed by Bangladesh Telephone and Telegraph Board, 770,000 lines were in urban areas and 456,000 lines were in Dhaka alone (The Daily Star, 18 May 2003). Grameen Phone (mobile phones only) maintains a countrywide network that has earned a global reputation for covering rural people, particularly the women. Mobile telephony has been growing at 35–40% a year (Government of Bangladesh 2003, page 3), and “the number of connections is projected to increase more than 200% over the next few years” (Ahmed and Mashroor 2004). However, most of the mobile phones now in use can access only other mobile phones.
BTTB has recently reduced its nationwide and international tariff for fixed phones and charges a comparatively low tariff for mobile phone calls. But mobile phone operators in the private sector are under criticism for their high charges.

**PC Penetration**

Personal computers (PCs) started gaining popularity among individuals and organizations in the early 1990s as prices fell and awareness of computers increased. Sales of PCs climbed rapidly from 1998 because computers and accessories were exempted from taxes. Now, 250 computers are sold every day, on the average, in Bangladesh (Bangladesh Computer Samity and The Asia Foundation 2000, page 4). A study done by the Bangladesh Computer Council (BCC) and the Bangladesh Bureau of Statistics (BBS) placed the growth of PCs between 1999 and 2000 at about 32.88% (Government of Bangladesh 1999, page 3). The International Telecommunication Union (ITU) estimated the number of PCs per 100 population in 2003 at only 0.78 (United Nations 2003). Ahmed and Mashroor (2003), on the other hand, noted “an increase of 35% in PC imports...[such that]...the number of PCs in the country stands at 1.5 million.” With this higher figure, the number of PCs per 100 population would therefore be about 1.07. However, the rate of computer penetration in Bangladesh is still far below acceptable standards. Most of the computers are in the urban areas, particularly in Dhaka. The survey by BCC and BBS showed that IT concentration was highest in Dhaka (72.76%), followed by Chittagong (11.14%), Rajshahi (7.39%), Khulna (4%), Sylhet (2.8%), and Barisal (1.3%) (Government of Bangladesh 1999, page 3), indicating a digital divide within the country.

**Internet Penetration**

In 1999, there were about 22,000 account holders with 10 Internet Service Providers (ISPs) (eight in Dhaka and two in Chittagong) and users numbered around 0.1 million. In 2000, there were about 50 ISPs providing Internet services to more than 0.35 million users (Bangladesh Country Gateway n.d., page 8).

BTTB has started providing dial-up Internet services in all of the districts and about half of the upazilas (subdistricts) and plans to extend the facilities to the rest of the upazilas as soon as possible. The number of Internet users per 100 population was 0.18 in 2003, according to the ITU estimate (United Nations 2003). At present, the number of Internet subscribers stands at nearly 200,000; if the users of cyber cafes, academic institutions, libraries, etc., are added to this figure, the total number of users could reach nearly one million and the number of Internet users per 100 population would be 0.71.
In the early years of Internet use in Bangladesh, bandwidth was limited and expensive because of the high cost of very small aperture terminals (VSATs). The deregulation of VSATs has made increased bandwidth available at lower rates. More than 200 licenses have been issued to ISPs; nearly half have yet to start or operate fully, however. ISPs in Bangladesh have been growing at 65% a year (Government of Bangladesh 2003, page 3). These are also mostly concentrated around Dhaka city. Outside Dhaka, there are eight ISPs in Chittagong, six in Sylhet, two in Rajshahi, and one each in Khulna, Kustia, and Bogra (Abubakar 2002, page 21).

The cost of Internet access varies from Taka 5 to Tk30 per hour for individual use, and Tk1,000 to Tk3,000 per month for unlimited use. For 64–512 kilobytes per second (Kbps) broadband connection, the monthly fee varies from Tk10,000 to Tk90,000. The annual license fee for private VSAT is $3,500. At the same time, the average ISP in the country pays Tk290 (or $5) per Kbps monthly for international bandwidth, or $5,000 per megabytes per second (Mbps) monthly. ISPs in neighboring India pay $2,500 per Mbps monthly, and those in the People’s Republic of China, $1,800 (Government of Bangladesh 2003, pages 42–43).

An Evident Digital Divide

So, a digital divide separates Bangladesh from other countries and the gap is unlikely to be closed soon. Within the country, there are further divides between various groups of people—between rich and poor, male and female, advantaged and disadvantaged, rural and urban—and between geographic regions, with respect to the availability, connectivity, and affordability of technologies. Besides, as the Bangladesh Computer Samity and The Asia Foundation (2000, page 5) note: “A dependable information system has not yet been developed for the management of large volume data/information transactions in the public/private sectors.” From the perspective of the citizens, therefore, the challenge lies in making technology available at the grassroots level and in planning and building network infrastructure that is accessible, available, and affordable to everyone.

Human Development and Awareness Building

The most vital component of human development is empowering people with knowledge and skills (Government of Bangladesh 2004, page 119). Realizing the need for the “widespread introduction of IT education as a prerequisite for producing skilled human capital” (Government of Bangladesh 2004, page 119).
The national ICT policy provides for facilities to be built to promote IT education and computer-aided education at all levels (Government of Bangladesh 2002). The policy also sees the shortage of trained teachers for ICT education as an impediment to the human resources development plan.

Initiatives were taken about 13 years ago to introduce computers in schools and colleges in Bangladesh (Choudhury n.d.). Course curricula for the secondary and higher secondary levels have been developed and these are taught as optional subjects in schools and colleges, at a time when the younger generation is becoming increasingly interested in ICT training to gain additional skills. Under a plan to distribute computers to educational institutions, by June 2004, the Ministry of Education had distributed more than 12,000 PCs and provided IT training to 6,000 teachers and the BCC had distributed 725 computers to schools and arranged training for 838 teachers. Similar efforts have been made by other entities in the public as well as the private sector and nongovernment organizations, and private educational institutions have their own projects in this regard. While the distribution of computers in schools also creates awareness and makes people familiar with new technologies, however, the optimum or proper use of the computers in these schools, particularly those in rural areas, is not beyond question. Major problems pertain to low availability of power, poor location, the lack of trained teachers, and low motivation and awareness. Nevertheless, the Government plans to introduce ICT as a mainstream subject in secondary and higher education.

During the late 1990s, the number of ICT training institutes increased threefold in 4 years (Sobhan, Khaleque, and Rahman 2002). There are now about 1,500 ICT training institutions in the private sector, with enormous potential for extending IT literacy and raising awareness among the general public. But many lack a standard syllabus and technical qualities, leading to a mismatch between the ICT training courses and market demand. The BCC has begun to evaluate and rank the private training institutes to standardize their ICT training courses. Some government agencies, such as the Department of Youth, Department of Women Affairs, and BCC, also have their own ICT training programs for citizens. Some of those organizations have facilities for training at the divisional and district level, but not in adequate numbers.

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6 Information collected through personal contact with the Ministry of Education.
Citizens’ Preparedness

Citizens in general do not need more advanced or more extensive ICT education to prepare for e-governance, particularly when it comes to enjoying public services. Preparation relates to bringing public administration closer to the people and making the people aware of and able to enjoy the government services that are offered online. Despite several positive efforts, however, online services are not ready and the citizens are not prepared. They are not aware of many traditional public services or their right to such services. “The vast majority of people in Bangladesh,” the World Bank (1996, page 7) noted, “are severely handicapped in their dealings with the bureaucracy by their illiteracy and lack of knowledge of their rights as citizens.... In short, ordinary taxpayers in Bangladesh have no sense of a right to services, or, indeed, of ownership of the government for which they pay.”

This situation demands sincere efforts on the part of the Government to identify and implement specific public programs, enter into partnerships with the private sector, and collaborate with nongovernment organizations. Attention is needed to make people aware of government services and their right to those services, to introduce technology throughout the country, to connect people with the help of ICT, to interest them in government services in innovative ways. Publicity and literacy campaigns generally help build awareness and empower people. The distribution of computers in educational institutes, for one, also makes rural people familiar with new technologies and aware of their use.

Major Findings of the Study

The Government is understandably eager to introduce e-governance in the country. Already, it has taken some visible initiatives. A UN report (2002) observed: “... there are nations who are finding the resources and the expertise to make e-government happen. Bangladesh,... for example recognize[s] the importance of the role technology plays in development and [has] embarked on e-government programs representative of their respective development agendas.” However, such efforts are not being adequately marshaled; nor are they supported by an integrated strategy or a “whole approach.” Besides, current e-governance initiatives merely circle around the issue of modernizing governance. The major findings of the study are provided below.

The national commitment to strengthening the ICT sector is evident in many government policies and activities in Bangladesh, particularly in the use of government persuasion in introducing e-governance.

Administrative reform studies and the Government’s midterm and long-term development plans and strategies acknowledge the need to integrate ICT
into administration and development. Yet, they do not offer any concrete suggestions as to how such integration should be achieved. More efforts are needed to map out specific routes for incorporating ICT particularly in public administration.

A specific management structure for e-governance has yet to be expressly defined by the Government. As a result, strategic directions for e-governance come from different authorities. The directions are concerned mostly with preparatory guidelines and less with the needed focus on the citizens.

E-governance in Bangladesh has started out with no set vision and objectives. Likewise, no national strategic road map for e-governance has been prepared so far.

Technologies, particularly telephone, computer, and Internet, tend to congregate in urban areas, indicating an increasing digital divide within the country.

The current e-governance drives of ministries and divisions are focused mainly on preparing plans and strategies, achieving connectivity, procuring technologies, and creating Web sites. Areas that receive less attention include: regulation, organizational changes, public services, and awareness building for e-governance. As a result, the e-governance initiatives mostly just circle around the modernization of government and do not deal directly with the issue.

The culture and practice of official e-mail communications is yet to flourish. E-mail communications to and from the general public has yet to catch on.

Public Web sites are unselective and their contents represent traditional governance rather than e-governance. The sites do not engage citizens’ interest and participation; nor do they serve people through innovative uses of ICT.

So far, online services are not ready and the citizens are not prepared; people are not even aware of the many traditional government services or their right to public services.

The absence of a computing platform in Bangla has been a major constraint on the popularization enthusiastic use of the technology.

Government has moved to prepare citizens through training. But awareness raising has yet to become a regular part of e-governance initiatives.

Computers in rural schools also make rural people familiar with new technologies and aware of their use.

Conclusion

The national commitment to strengthening the ICT sector is evident in many governmental policies and activities in Bangladesh, particularly in the use of government influence to persuade the country to adopt e-governance.
E-governance management structures and strategic directions are emerging. The Government has made specific moves to upgrade core infrastructure and facilitate the spread of ICT. Technology and connectivity have visibly grown, as a result.

Bangladesh has explored public administration reform since independence, although it has achieved very little. Public employees must be prepared for modern public administration and for better service to the citizens. There is no lack of human resources development in preparation for the goal of a knowledge-based society. But something crucial is missing: adequacy and a whole approach. Both are linked with a crisis of “ability”—the ability to mobilize resources, and the ability to muster an integrated strategy. When strategies are disjointed and efforts are not good enough, the benefits are often unequal. The basic challenge in introducing e-governance in Bangladesh ultimately lies in connecting and serving the poor and illiterate rural masses.
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Innovations in Governance and Service Delivery: E-government Experiments in Malaysia

Noore Alam Siddiquee

Introduction

Recent advances in the field of information and communication technology (ICT) have opened up huge opportunities for governments and businesses alike to transform their operations and service delivery systems. They have also contributed to heightened public expectations and demands for increased and better-quality services from their respective agencies and service providers. Consequently, governments the world over have been forced to undertake programs and projects for ICT application in their operations, aiming to inject speed and ease in service provision and thus achieve greater productivity and excellence. Commonly known as e-government, the drive has become a major feature of current administrative reforms globally. Increasingly, it is seen and introduced as a popular strategy for transforming the delivery of public services, improving the performance of public institutions, and making them more responsive to public needs. So popular is its appeal today that it is hard to find a government that has not initiated some programs in ICT application and online service provision (United Nations 2002, Saxena 2005). Despite differences in their level of implementation, such initiatives share some common objectives: they all seek to provide the citizens with more convenient access to information and services, improve the quality of services offered, and enhance the efficiency, transparency, and accountability of the government (Commonwealth Secretariat 2002). While advanced countries like Australia, Canada, United Kingdom, and United States have already achieved remarkable success in their drive for e-government and improved service delivery, in developing countries, such attempts have produced only modest results. This is largely because, in the latter case, e-government initiatives have often been handicapped by a plethora of constraints and challenges (UN 2004). This paper examines and analyzes Malaysia’s experience with e-government and its impact on service delivery. However, the paper begins with a brief overview of conceptual issues.

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Innovations in Governance and Service Delivery: E-government Experiments in Malaysia

Conceptualizing E-government

Generally speaking, e-government refers to the use of technology in government institutions and operations to enhance access to and delivery of public services. Government agencies are not insulated from the practices of the private sector, nor can they ignore the rising expectations of their clients. As the private sector has taken the lead in ICT adoption and the delivery of services electronically, public organizations have found themselves under growing pressure to embrace new technologies to be able to perform better. The citizens, having experienced the ease and flexibility of online services delivered by private banks and a host of other agencies, have started clamoring for similar improvements in public delivery systems. Their demands have received further strength as a growing number of academics and professionals have made a strong case\(^2\) for e-government. Such demands and advocacies have had a profound impact on government policies and decisions. Thus, e-government represents governmental response to public demands and expectations for enhanced and better services by exploiting emerging technologies. Often used interchangeably with “digital government,” “networked government,” or “government online,” e-government has been subject to various interpretations and definitions. However, a key element in all these definitions is the application of new technology—especially the Internet as a tool for enhancing public access to and the delivery of government services. Though e-government has several other manifestations, in its ultimate form it entails a process whereby the government agencies at various levels transact their businesses with clients online, strategically addressing client and internal business needs through the application of new ICT tools. As a matter of fact, most writers currently see e-government as electronically executed transactions between government agencies and citizens. Therefore, e-government is much more than just the application of technology, since it seeks to improve both the internal operations and the external interface of government by transforming the process in which public services are generated and delivered and the entire range of relationships that public bodies have with citizens, businesses, and other governments (Leitner 2003). It is about how organizations in the public sector perceive and apply technology to bring about transformations in service provision, as well as in their relations with service users.

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\(^2\) E-government has been presented as something that is likely to remedy many of the ills of public sector management. It has been argued that e-government will reduce costs and delays in service delivery, widen citizens’ access to government information and services, reinforce innovations in public agencies, and increase transparency and accountability, among others (Pardo 2000, Yong 2003).
Since e-government is seen as a means of promoting efficiency in
government operations and improving the delivery of public services,
e-government typically focuses on the following dimensions seeking to bring
about major changes in the quality of services, the nature of interactions, and
governmental relations with relevant stakeholders (Yong 2003).

- Government to Citizens (G2C)—to facilitate citizens’ interaction with
the government through the development of user-friendly “one-stop”
centers offering high-quality services.
- Government to Business (G2B)—to expedite business transactions
between government and private agencies through improved
communication and connectivity.
- Government to Government (G2G)—to share data and conduct
electronic transactions between governmental actors. This includes
both intra- and interagency interactions between employees,
departments, and ministries, and even between governments.

E-government programs initiated thus far in most societies are essentially
grounded toward effecting change in one or more of these dimensions. Clearly,
these dimensions demand an effective and efficient networking of government
agencies, citizens, and businesses so as to evolve a collaborative environment.
It is only through this connectivity and collaboration between various parties
and agencies that the goal of offering efficient, high-quality services to the
citizens and businesses can be achieved.

Although e-government is quite popular and promising, it is neither
magical nor an automatically occurring phenomenon. It calls for a multitude
of changes in organizational structures, business processes, tools and strategies
used, and the relationship between the government and the governed. Hence,
the transition from government to e-government is far from easy and
straightforward; it is an evolutionary process, usually characterized by five
major stages of development. The first stage, the country’s commitment to
become an e-government player, is reflected in the presence of government on
the Internet. Commonly known as the emerging presence stage, this first stage
is characterized by the existence of government Web sites providing the citizens
with some information that is basic and limited. Most information available
on the Web remains static, with few options for the citizens. In stage 2, known
as the enhanced presence stage, a greater amount of information on public policy
and governance (e.g., policies, laws, regulations, reports, newsletters) is provided
with downloadable databases. Though more sophisticated, interaction is
primarily unidirectional, with information flowing from the government to
the citizens. In the *interactive stage* (stage 3), the citizens are able to interact with the government through the Internet, and a wide variety of services are available online. Hence, the people are also able to search for specialized databases, download forms, and apply for services like tax payment and application for license renewal online. To give the people current and up-to-date information, Web sites are regularly updated. In the *transactional stage* (stage 4), complete, secure, and two-way transactions between the citizens and government is possible for a range of online services like obtaining visas, passports, licenses, and permit renewals; paying taxes; and performing other G2C interactions. Providers of goods and services are able to bid online for public contracts through secure links. Stage 5 represents the most sophisticated level, characterized by an integration of services delivered and the institutions offering them. Known as the *integration stage*, it seeks to remove the physical barriers and offer most, if not all, public services seamlessly. Also, here the government encourages participatory decision making to involve the society in two-way open dialogues, and uses interactive features to solicit citizens' views on public policy, lawmaking, and a variety of issues (Yong 2003, UN 2004).

**E-government in Malaysia: Innovations in Governance and Service Delivery**

In line with the global trend, Malaysia has also embarked on elaborate programs seeking to improve the state of governance and service delivery systems through the application of emerging technologies. One of the early initiatives in this regard was the introduction of a public service network (PSN) in the early 1990s. As a step toward ICT application in government and the networking and integration of service delivery, this program has enabled post offices throughout the country to act as one-stop bill payment centers and provide other services. Services like the renewal of various licenses, stamping, and payment of road tax for motor vehicles were made available at the same counter of post offices throughout the country. Subsequently, additional services like the payment of local government assessment rates, sewerage charge, and a number of private sector services have been added for the convenience of the public. The experience with the PSN model has encouraged privatized utility agencies like Telekom Malaysia and Tenaga Nasional Bhd to follow similar models. While the PSN initiatives have prepared the ground for a more integrated service delivery through information sharing and networking, the establishment of the Multimedia Super Corridor (MSC) in 1996 is seen

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3 It is, in fact, a part of the Government’s larger policy objective, which seeks to develop Malaysia as a regional and global hub for ICT and multimedia.
as a major landmark in Malaysia’s drive for e-government and improved service delivery. The MSC is conceived as a principal vehicle for achieving a knowledge-based society through a fusion of ideas in management, research in technology, and dissemination of information and multimedia-based products and services. Though computerization in both private and public sectors began much earlier, it was the MSC that essentially set off the process of a more robust implementation of e-government initiatives. To achieve the objectives of MSC, a total of seven flagship applications have been identified for implementation.5

E-government is one of the leading flagship applications of the MSC project. It is aimed at reinventing how the government works, as well as improving the quality of its interactions with citizens and businesses through improved connectivity and better access to information and services. It envisions not only an efficient system of administration and service delivery but also a collaborative environment where the government, businesses, and citizens will work together for the benefit of the country as a whole (Karim and Khairuddin 1999). Such a vision calls for reinventing government through the application of ICT and multimedia and making the governmental agencies more efficient, effective, and consequently more responsive to the needs of the citizens. Thus the ultimate objective of e-Government is to achieve public service excellence by reducing paperwork and streamlining public service processes so as to enable the citizens to access public services anytime and from anywhere. It is to lead to dramatic improvements in service delivery systems, for the outcomes e-government is expected to achieve include convenience, speed, choice, accessibility, and responsiveness (Khalid 2004).

While five pilot projects were initially selected for the first phase of implementation, subsequently more projects were added to cover all three dimensions of e-government, namely, intra-agency and interagency, G2C, and G2B service applications. Thus, currently a total of eight projects involving e-government flagship applications are at various stages of implementation or 4 The MSC is a 750-square kilometer area extending from the Kuala Lumpur city center project in the north to Putrajaya in the south and to Kuala Lumpur International airport in Sepang. Within this corridor are two smart cities—Putrajaya, the new seat of the federal Government, and Cyberjaya, the site for ICT companies investing in the country. Apart from providing the best ICT infrastructure and a high-quality multimedia test bed, the MSC also offers access to and opportunities for sophisticated research and development, a set of cyber laws, and the benefits of a modern and futuristic lifestyle with new highways, high-quality houses, schools, shopping malls, and business and recreation centers.

5 These are e-Government, Telehealth, Government Multipurpose Card (smart card), Smart School, R&D Cluster, World Wide Web Manufacturing, and Borderless Marketing. The implementation of these flagship projects is expected to improve the country’s productivity and competitiveness through the use of multimedia technology.
rollout. These are Electronic Services (e-Services), e-Procurement (eP), General Office Environment (GOE), Human Resource Management Information System (HRMIS), Project Monitoring System (PMS), Electronic Labor Exchange (ELX), EG-AG Integration,6 and e-Syariah. Here we focus on a few of these applications and some MSC flagship projects that have a significant bearing on service delivery.

e-Services

The e-Services scheme was among the five pilot projects chosen by the Government for the first phase of the implementation. The primary objective of this project is to enhance service access through multiple electronic delivery channels that are widely accessible to the public and one-stop service windows where multiple services can be obtained at each delivery channel. Under the scheme, the citizens are able to conveniently access the services offered by a variety of departments and agencies7—the issuance and renewal of driving licenses, payment for summons, payment of electricity, telephone, and Internet bills (Karim and Khalid 2003). Also, there are provisions for multiple electronic channels, as services are also available through the Internet, multimedia kiosks, interactive voice response (IVR), telephone, and wireless devices, with facilities for payment with credit cards, debit and ATM cards, and other modes of payment. Thus, the citizens are provided with a choice of multiple delivery channels 24 hours a day and 7 days a week. In other words, they are no longer required to conduct transactions at agency branches and utility offices; they can do so anywhere, at their convenience. To make the services more user-friendly, multiple language capabilities for each access device have also been introduced. The implementation of the project has resulted in significant improvements in public service delivery, apart from ease and public convenience. It has encouraged users to be more responsive in paying their bills (Karim 2003, page 196).

6 This is intended to integrate the various elements of the e-Government with the Accountant-General (AG)’s Department. Such an integration is considered necessary as an end-to-end solution for electronic payment processes and procedures under e-government projects.

7 The agencies involved in this case are the Road Transport Department, the Ministry of Health, Tenaga Nasional Bhd, Telekom Malaysia Bhd, and the Police Department.
e-Perolehan (e-Procurement)

Since the Government of Malaysia is a major purchaser of goods and services from the private sector, spending a total of RM35 billion annually, the e-Procurement project has been launched with the objective of ensuring value for money, as well as transparency and accountability in public procurement. The project seeks to reengineer and automate the existing manual procurement system in the public sector to transform it into an online marketplace for suppliers and government agencies. Under the project, begun in 1999 and implemented in phases, the Government and suppliers are allowed to conduct procurement activities electronically. Suppliers may present their products on the Internet; receive, manage, and process purchase orders online; and eventually receive the payment from government agencies, also through the Internet. Government agencies may approve and submit the purchase orders, and also select items to be purchased and initiate the approval process—all electronically. Thus, the e-Procurement system supports the entire procurement cycle, from the submission of tender or contract to approval and payment, including alert notifications to the potential bidders. For the Government, the system will lead to cost savings through a shortened procurement cycle (made possible by the electronic retrieval and submission of quotations) and the creation of centralized products and supply databases across agencies. It will also enable the Government to be a smart buyer, as well as improve control and accuracy in ordering and billing. The suppliers—small or large—will also benefit from increased transparency and faster and accurate payment through electronic fund transfers (Karim and Khalid 2003). With the creation of an electronic catalogue with internationally recognized product classifications, suppliers will also be able to reach new customers on a global scale.

Electronic Labor Exchange

The Electronic Labor Exchange (ELX) was launched in 1999 as a new e-government pilot project that is aimed at serving as the country’s single source of labor market information for government agencies, businesses, and the public. The three applications of ELX—Job Clearing System, Labor Market Database, and Office Productivity System— permit the registration of job seekers and employers, job matching and the generation of profiles of candidates for prospective employment, the consolidation of labor market data from various sources, and a variety of other functions. Thus, the ELX serves as a one-stop center for labor market information, facilitating the sharing of such information by various parties, both locally and overseas. Such
availability of information enables Malaysian students studying overseas to make informed decisions about their career, and potential foreign investors, about their investment. It also helps improve the mobilization of human resources and optimize manpower utilization through systematic matching of job seekers and job vacancies (Karim 2003).

**Government Multipurpose Card (MyKad)**

The Government Multipurpose Card, commonly known as *MyKad*, is one of the major innovations promoted by MSC. With the introduction in 2002 of MyKad (which is to replace the old identity card), Malaysia has become the first country in the world to have a multipurpose smart card that facilitates transactions with government agencies and private organizations. The single smart card contains the owner’s identity code and electronic signature in a plastic card with an embedded microprocessor chip. The national identification document and driving license are combined into one card that serves as a key to managing access to many other services. Instant passport information facilitates the efficient exit and reentry of Malaysians at immigration checkpoints. Health information available on MyKad is found to be extremely useful as instant source of personal health data during emergencies and general treatment. E-cash facilities enable cashless financial transactions at government agencies, restaurants, clinics, bookshops, and gasoline stations throughout the country. With additional facilities now being added, MyKad is expected to serve as a vehicle of convenience in all aspects of the lives of Malaysians (Karim 2003).

**Telehealth**

One of the major flagship projects of MSC, the Telehealth project is aimed at promoting Malaysia as a leading regional center for telemedicine. It also seeks to widen public access to health-care facilities, as well as their knowledge of health care. A key element of the project is linking rural clinics with medical experts in the city and renowned clinics worldwide using new tele-instruments for remote diagnosis (Karim and Khalid 2003). Thus, the project is essentially geared toward developing an efficient and user-oriented health-care system. Both public and private health-care agencies will be involved and connectivity will be ensured via Internet access and call centers. Thus, once completed, the project is expected to transform the country’s health-care system to ensure integrated, accessible, and high-quality health-care services to the citizens. Four pilot projects are now being implemented in areas ranging from the provision of health information and education to the public, to
long-distance health-care consultation and referrals. It is expected that the full implementation of this project will allow individuals to manage their own health and eventually lead to an integrated and user-oriented health-care system.

Since e-government is high on the agenda of the Government, it has received strong financial, institutional, and legal support. The massive revised allocation made for the development of ICT and e-government projects to the tune of RM7.7 billion under the Eighth Malaysia Plan (EPU 2003) clearly reflects the Government's commitment to develop this sector. The Government has also developed the necessary institutional framework and coordination mechanisms for e-initiatives. At the highest level is the powerful e-Government Steering Committee (EGSC),\textsuperscript{8} responsible for providing policy directions, approving e-government programs and activities, and monitoring their implementation. The Malaysian Administrative Modernization and Management Planning Unit (MAMPU) serves as the secretariat of the EGSC, besides acting as the central agency in planning and devising e-government initiatives. Also, there are IT councils at national and state levels. The National IT Council (NITC) represents the highest forum that acts as a think tank advising the Government on relevant strategies. At the agency level, the post of chief information officer (CIO) has been created, with the task of overseeing the implementation of the ICT agenda in the various agencies. The CIO is also to determine the strategies for achieving the vision and business needs of the organization, provide leadership and direction, coordinate and allocate resources, and keep abreast of new knowledge and continuous change in the field of ICT (MAMPU 2000).

Malaysia has taken a holistic approach to the implementation of e-government, encompassing elements such as applications, networks, security, process engineering, operations and support, change management, and skills and knowledge (see Karim and Khalid 2003). Four guiding principles have been identified, namely, collaboration between the public and private sectors, sharing of data and information, customer satisfaction, and data and information security (UNESCO 2002). To keep pace with developments in ICT infrastructure and use, the Government has also introduced legislation to curb abuse in the new digital environment. The laws cover such issues as

\textsuperscript{8} Chaired by the chief secretary to the government, the committee draws its members from the Economic Planning Unit; the Implementation and Coordination Unit; the National Institute of Public Administration (INTAN); the Treasury; the Ministry of Energy, Communication and Multimedia; the Malaysian Administrative Modernization and Management Planning Unit (MAMPU); the Office of the Attorney General; the Public Service Department; and the Multimedia Development Corporation.
information security, integrity and confidentiality, legal recognition of online transactions, and the protection of intellectual property rights.\textsuperscript{9}

Since the development of adequate infrastructure is critical in realizing the full benefits of the ICT revolution and the vision of e-Government, the Malaysian Government has made continuous efforts to develop and strengthen the necessary infrastructure in the country. The Government Integrated Telecommunications Network (GITN) is a major step toward this end. The Civil Service Link (CSL), established in 1994 as a tool to disseminate government information to the public, has since been upgraded and renamed the Malaysian Civil Service Link (MCSL). Further improvements are now under way to replace it with the Malaysian Government Portal, or myGOV, which will serve as a single gateway for gaining access to all government services and making online payments. Continuous efforts are being made by the Government to encourage agencies to create and use their Web sites as a means of diversifying public service delivery mechanisms. At present, virtually every agency in the public sector maintains its own Web site displaying some key information. Evidence shows that not only have there been improvements in the quality of Web sites and the types of information available, but an increasing number of people have also visited these Web sites (Nair 2002).

The pervasive nature of ICT and the demand for skills and knowledge in the emerging technology have posed a serious challenge to governments worldwide. The Smart School flagship project of MSC is intended to address the critical challenge of manpower needs. Equipped with multimedia technology, the smart schools are to prepare students for the ICT era and develop a new generation of graduates who are creative, innovative, and capable of using ICT to leverage the wealth of information and knowledge in the information age. With the same aims and objectives in mind, a new Multimedia University has also been established. The Government is investing heavily in a high-quality and comprehensive education system to meet the demands of the evolving workplace. Training institutions like the National Institute of Public Administration (INTAN) have made sustained efforts to equip public servants with the relevant knowledge, skills, and attitudes. As an organization responsible for creating a critical mass of ICT users to support e-government initiatives, INTAN has undertaken various other programs. The Government is also aware of the widening gap between IT haves and have-nots within the community, and between the urban and rural areas, and the potential dangers


\textsuperscript{NAPSIPAG}
it poses. Therefore, programs like Medan Infodesa, Internet Desa, and Pondok Harmoni and the establishment of e-Services kiosks at community and public areas have been launched to bridge the digital divide. While Medan Infodesa provides training and hardware to rural communities, Internet Desa and Pondok Harmoni entail the supply of PCs and Internet access to rural communities.10

**e-Government and Service Delivery: Achievements and Limitations**

Malaysia has made concerted and sustained efforts to ensure the successful implementation of e-Government. Apart from the implementation of various e-Government flagship projects, Malaysia has developed and put in place institutional frameworks and coordination mechanisms, all of these supported by the necessary guidelines and ICT policies and legislation. The Government has also embarked on various novel initiatives to reinvent itself and its service delivery, empower state and local authorities to implement ICT applications, and set up special committees to oversee the implementation of e-Government initiatives. It has also adopted various strategies and schemes to enhance ICT literacy and skills in the society, in an attempt to support the application and diffusion of ICT. The Smart School initiative under the MSC project responds to the need for manpower and skills to make the transition from an industrial to a knowledge-based economy. Since much of the e-initiatives are still either in the process of pilot testing or at the initial stage of rollout, it is too premature to make any definitive judgment about their impact. However, initial indications suggest that they have quite a favorable impact on governance and service delivery.

In line with the objective of providing efficient and high-quality services to the public electronically, various government ministries and agencies have, as noted earlier, introduced Web sites. Virtually every agency in Malaysia has a Web site, which displays its vision, mission, objectives, charter, services available, and a host of other useful information for its clients. As more and more information is being posted, the citizens also increasingly find the Web sites to be useful sources of relevant information. Since such Web sites often allow the public to express their views and opinions about the quality of services provided and lodge their complaints and grievances, these sites also serve as effective tools for public consultation and engagement (Khalid 2004). Some agencies have gone beyond this stage by offering online services, thereby

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10 In 2001–2003, a total of 16 Internet Desa and 15 InfoDesa were established nationwide. These now function as one-stop centers of information and government services (EPU 2003).
allowing the public to use their facilities and services in a far more convenient manner than before. The e-portal of the Ministry of International Trade and Industry (MITI) is a case in point. It has not only enhanced the sharing of trade-related information and resources, but has also expedited the approval of licenses and permits. The potential entrepreneurs can now obtain useful information and guidelines on how to start a business and get it registered, all online (EPU 2003). Similarly, the introduction of self-assessment and e-calculation systems by the Inland Revenue Board allows taxpayers to access online information, perform self-assessment, and submit their tax returns in a more convenient way. Such initiatives are said to have helped modernize and streamline tax administration and contributed to an increased level of income tax compliance (Aziz 2003).

Thus, e-Government initiatives have led to a new mode of governance whereby the conventional method of offering services at office counters is being increasingly replaced by new methods. The provisions for online services have been particularly convenient, as the citizens are not required to make transactions over the service counter of an agency; they can now make such transactions online using the Internet, multimedia kiosks, and other channels. The integration of services offered by multiple agencies means that the customers are no longer required to visit each agency to access their services; a single agency is able to provide all these services in a more convenient and hassle-free manner. Therefore, the public now gets better services, which are often streamlined and integrated with other services offered by government and private agencies. As elaborated earlier, under the e-Services system, the clients of several public and private agencies can access multiple services at one point. Moreover, the availability of services 24 hours a day and 7 days a week means that services are available without any loss of time. In some cases, long queues at service counters have now become a thing of the past. Even those members of the public who are not electronically connected at home may conduct business with government agencies at community-based centers or kiosks. While the customers and businesses enjoy the convenience and ease of accessing multiple services at one point, such networking of services has also relieved the departments and agencies of excessive workload. They can now focus on control and data integrity while leaving the onerous job of direct delivery of services to a network of providers.

Similarly, the Telehealth project marks a new chapter in the country’s health-care system, especially in rural and remote areas. Now available in 41 clinics, the program offers remote diagnosis and consultation as well as continuous medical training through the use of virtual resources (EPU 2003). Patients from these areas are no longer required to make expensive and often
troublesome trips to major urban centers and even overseas to seek consultation and medication from specialist physicians; such facilities are now available locally for their benefit. Likewise, the National Registration Department’s MyKad, already issued to more than 15 million Malaysians (New Straits Times, 25 April 2005), has become truly a vehicle of convenience in a variety of areas. While information like personal identification, driving license, and health and passport details facilitate a number of functions related to government, with cash, “touch-n-go,” and ATM facilities cardholders can also make transactions with private agencies.

E-Government initiatives are contributing significantly as well to enhancing the efficiency of public agencies in service delivery, and the benefits are enjoyed by citizens, businesses, and the government alike. E-Procurement by government ministries is not only reducing the government’s procurement costs but also making the operations faster and steadier, contributing to the satisfaction of all parties. For private contractors, the introduction of e-Procurement has meant a significant increase in overall efficiency, since the system has reduced the time between application for registration and approval of supplies from 36 days to 20 days. The number of lost supplier registration documents has fallen from 5% to 1% (Karim 2003). Similar improvements have been reported elsewhere. It now takes the Immigration Department just 2 days to issue an international passport; before the introduction of e-Government, the same task used to take 8 weeks (Aziz 2003). E-Government has also considerably improved the efficiency of port authorities and the Customs Department. The electronic data interchange (EDI) enables port authorities across the country to process applications for import and export in a nearly paperless environment.

Despite such gains in service delivery and governmental efficiency, however, the overall impact of e-Government in Malaysia has remained limited. E-Government has promised a lot, but for most of the population, the promise has not been realized because of some serious constraints and limitations.

While the potentials of ICT in general and e-Government in particular are enormous for both government and the citizens, the unlocking of such potentials requires sufficient ICT infrastructure, including computers and telecommunications capacity in terms of wireless and broadband networks, among others. Therefore, the lack of such infrastructure, or inadequate infrastructure and capacity, will seriously hamper the delivery of services through the Internet. Although Malaysia fares well in ICT infrastructure, its facilities, when compared with those of the rest of the region (Karim 2003) and other developing countries in general, are still poor overall. This is clear when Malaysia’s position is compared with that of the regional leaders. As...
Table 1 shows, in terms of most vital infrastructure like ownership of personal computers (PCs), access to the Internet, and telephone connections, Malaysia lags far behind Republic of Korea, Australia, and neighboring Singapore. Consequently, Malaysia’s score on the Global e-Readiness Index and its e-Readiness rank have been notably poor, although it has made significant progress over the years.

### Table 1: E-government Readiness of Malaysia and Selected Countries in Asia Pacific Region

<table>
<thead>
<tr>
<th>Country</th>
<th>E-Gov’t Readiness Index</th>
<th>E-Readiness Rank</th>
<th>Internet Users (per '000)</th>
<th>PCs (per '000)</th>
<th>Population Online per '000</th>
<th>Telephones per '000</th>
<th>Mobile Phone Subscribers per '000</th>
<th>TV Sets (per '000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rep. of Korea</td>
<td>0.8575</td>
<td>5</td>
<td>551.9</td>
<td>558.8</td>
<td>538.0</td>
<td>488.6</td>
<td>679.9</td>
<td>363</td>
</tr>
<tr>
<td>Australia</td>
<td>0.8377</td>
<td>6</td>
<td>481.7</td>
<td>565.1</td>
<td>543.8</td>
<td>538.6</td>
<td>639.9</td>
<td>731</td>
</tr>
<tr>
<td>Singapore</td>
<td>0.8340</td>
<td>8</td>
<td>504.4</td>
<td>622.0</td>
<td>518.4</td>
<td>462.9</td>
<td>795.6</td>
<td>300</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.5409</td>
<td>42</td>
<td>319.7</td>
<td>146.8</td>
<td>251.5</td>
<td>190.4</td>
<td>376.8</td>
<td>201</td>
</tr>
</tbody>
</table>


Despite governmental initiatives and strong emphasis put on multimedia, broadband use has remained relatively low (Yong 2003). In fact, apart from the corporate sector and government departments and agencies, only a few households in Malaysia have broadband connections. This explains why the Internet penetration rate has been slow and the proportion of the population receiving benefits from e-Government initiatives has not been high. There are also regional variations and variations across socioeconomic groups. Because of inadequate ICT infrastructure, the Internet facility is not easily and widely accessible to all. While services are generally accessible in Klang Valley and in major urban centers, those from other areas and especially in geographically isolated regions do not have access to many of the online services. Moreover, the poorer groups and people with economic and social disabilities have neither the capacity nor the ability to use online technologies. Programs like InfoDesa and Internet Desa are yet to bring a significant proportion of the rural population under their coverage. In some areas, problems with electrical power make the job even more difficult (Yong 2003).

A study on the adoption of ICT in the public sector and its impact on service delivery in Malaysia has observed that in most cases ICT has been deployed in internal processes, or what is known as backroom operations.
These activities remain invisible to the public although they directly affect the services provided to them. The study further noted that the delivery of services through special kiosks is highly limited and so is the delivery of services via the Internet (Abdullah and Ahmad 2001). Although things have certainly improved since then, evidence shows that the progress has been rather slow especially with regard to the online delivery of services. Still, many agencies use ICT more to facilitate their internal operations than to augment online delivery and transactions. Consequently, a large majority of services continue to be offered through traditional methods. Even in information access and dissemination between government and the citizens, Malaysia is still considered inadequate (Karim 2003). This is also evident in Malaysia’s overall level of e-government maturity. As the following table shows, compared with the e-maturity of world and regional leaders in e-government, Malaysia’s e-maturity has been particularly low. While it comes as no surprise that countries like Australia, Singapore, and Republic of Korea have higher e-maturity scores than Malaysia, it is noteworthy that even India (53.6) and Thailand (50.4) are ahead of Malaysia (46.4). A close look at the table also shows that Malaysia has been bogged down between stage 2 and stage 3. This basically suggests that while government Web sites provide some useful information and some online services, the scope for transactions between citizens and government and for service delivery in a seamless fashion is extremely limited. Therefore, more robust policy initiatives are called for, to tackle that challenge and improve public access to services significantly.

<table>
<thead>
<tr>
<th>Country</th>
<th>Total</th>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>Stage 4</th>
<th>Stage 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>94.5</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>92.7</td>
<td>77.8</td>
</tr>
<tr>
<td>UK</td>
<td>92.0</td>
<td>100.0</td>
<td>97.7</td>
<td>94.0</td>
<td>92.7</td>
<td>77.8</td>
</tr>
<tr>
<td>Singapore</td>
<td>91.6</td>
<td>100.0</td>
<td>95.4</td>
<td>98.8</td>
<td>85.4</td>
<td>77.8</td>
</tr>
<tr>
<td>Rep. of Korea</td>
<td>89.4</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>70.7</td>
<td>68.5</td>
</tr>
<tr>
<td>Australia</td>
<td>78.5</td>
<td>100.0</td>
<td>93.1</td>
<td>91.7</td>
<td>61.0</td>
<td>44.4</td>
</tr>
<tr>
<td>India</td>
<td>53.6</td>
<td>100.0</td>
<td>73.6</td>
<td>70.2</td>
<td>17.1</td>
<td>16.7</td>
</tr>
<tr>
<td>Thailand</td>
<td>50.4</td>
<td>87.5</td>
<td>79.3</td>
<td>50.0</td>
<td>0.0</td>
<td>37.0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>46.4</td>
<td>100.0</td>
<td>67.8</td>
<td>53.6</td>
<td>17.1</td>
<td>14.8</td>
</tr>
</tbody>
</table>

Despite all the improvements and continuous efforts that are being made, it is not uncommon to find Web links that are either nonfunctional or under construction or have not been updated for a long time. In some cases, no multilingual options are available, despite professed policy in this regard. The Road Transport Department’s Web site available only in Bahasa Melayu, is not user-friendly especially for those not adept in local language. The Inland Revenue Board’s e-Payment is yet to be functional; the Immigration Department provides only downloadable forms with no provision for e-lodgment of new passports or the renewal of existing ones. Likewise, the benefits of e-Procurement cannot be fully enjoyed by either the government agencies or the suppliers since a very small fraction of total government contacts are managed online. Only 1,000 out of the total 4,288 government agencies now use e-Procurement. Likewise, out of more than 35,000 suppliers nationwide, only 500 have been IT-enabled, i.e., equipped with smart cards that allow them to do transactions electronically (Yong 2005). One may find a host of other anomalies and limitations in the present e-Government programs.

Conclusion

Malaysia is among the leading countries in the developing world in the implementation of huge e-government programs. The unwavering support from the leadership of the country and generous allocations for the development of the ICT sector in general and e-government in particular has helped build necessary e-government infrastructure and facilities. The various e-government and MSC projects that are currently being tested and rolled out have shown enormous promise in different spheres. The provision for online services has made a fundamental difference in public access to government information and facilities. The distance between the government and the citizens has been reduced and the public is able to obtain services conveniently without any loss of time. Thus, the programs signal a new relationship between government and the citizens. The old relationship characterized by rigidity, long delays, unnecessary complexity, and public distress is being replaced by a new relationship, which is characterized by speed, better public access, reduced cost, and public ease and convenience. The e-initiatives have helped the agencies become not only more efficient and effective in their operations but also more responsive to the needs of their clients. The Web sites maintained by most public agencies not only provide information about their activities and programs, many of them also offer feedback options, thereby allowing the public to express their views, needs,
and problems. Though it is difficult to ascertain the impact of such feedback on government policies and decisions, the mere presence of such provisions indicates an increasing public orientation on the part of the agencies.

However, as this paper shows, despite such promise and positive trends, the overall impact of e-government in Malaysia has remained limited because of a plethora of infrastructure constraints and the slow pace of implementation. At present, Malaysia is behind many other developing countries in e-readiness and e-maturity levels. Broadening public access to ICT significantly and bridging the digital divide in the society represents a major challenge for the Malaysian leadership. Recent policy measures initiated by the Government allowing Employees Provident Fund (EPF) contributors to withdraw a portion of their savings to purchase computers, and civil servants to get interest-free computer loans are steps in the right direction. Likewise, the initiatives to enhance community access to the Internet in both urban and rural areas through publicly provided facilities are bold attempts to level the access gap. However, much more needs to be done to widen public access to e-government and Internet facilities in other remote areas. While infrastructure is critical, people also need awareness, skills, and motivation to use such facilities. Training in e-technology is necessary for senior citizens in both rural and urban areas so that they can make use of e-kiosks and other new channels.
References


Innovative Tools in the Governance of Public Services and their Implementation in a Developing Country, Cambodia

Chhiv Yiseang

Isabelle Thomas

Introduction

While governance originated in Anglo-Saxon corporate culture (Meisel 2005), the evolution of the concept and its appropriation by national and international public institutions calls for a review of its effect on public service management.

Looking into governance is a complex task because of the abundance of opinions, papers, and studies on the subject. In addition, governance—or good governance, according to the terminology of international institutions—is more often decried because of the Western values it carries (Charvin and Cassen 2001, page 28), being imposed on countries that do not share the same referents. However, the transformation wrought in the international community by economic globalization requires in-depth changes in states’ modes of action. In that capacity, governance highlights contradictions in this transformation movement, and entails a global review of public affairs management.

From a political standpoint, governance is in fact the way in which governments manage the social and economic resources of a country. Therefore, “good” governance would be the various levels of government exercising power in an effective, honest, fair, transparent, and responsible way. There are some principles clarifying the concept and giving it a more concrete framework. However, these concepts vary noticeably according to the international institutions that shaped them and imposed them on governments. In this instance, being interested in the type of governance developed by an Asian

1 Director of Studies and Training Courses Office, Royal School of Administration (RSA) of Cambodia.
2 Technical Assistant to the RSA.
3 Among numerous national Web sites dedicated to good governance, see the Canadian Web site Institute on Governance at http://www.iot.ca
4 The International Monetary Fund, the World Bank, the European Union, and many other international institutions make available countless works on governance regarding the Asian region. The Asian Development Bank’s Web site is a good source of information on the subject, at http://www.adb.org/Governance/default.asp.
country, Cambodia, we will focus on four criteria identified by the Asian Development Bank: accountability, participation, predictability, and transparency.\(^5\)

In a developing country like Cambodia, good governance understandably becomes a political priority and is at the heart of government reform. Numerous international institutions—including the European Union, the United Nations Development Programme, the International Monetary Fund, ADB, and the World Bank—have made good governance a core element of their development programs. The political strategy of the Cambodian Government (2004–2008), which has been called a “rectangular strategy,” has incorporated this requirement:

For the Royal Government, good governance is the prior and sine qua non condition to sustainable economic development, characterized by equity and social justice. To reach the objectives of good governance requires the active participation of all spheres of society, more extensive sharing of information, accountability, transparency, equality, integration and the rule of law (Council for the Development of Cambodia 2004).

Exceedingly political, good governance cannot fail from having repercussions in the legal arena.

Thus, in this study on public services, viewed as activities identified by the state as required to meet the public interest—generally speaking, public services cover two types of activities, regalian and economic, but we will concentrate on economic services—governance occurs in the development of tools whose status and workings lessen the nature departing from ordinary law, of which public services are traditionally the subject. Thus, the government structure gets reshaped through the emergence of an independent authority charged with the regulation of a sector. Regulation and governance are therefore bound and form the new paradigms of state reform. “Good governance concern has thus become the development vehicle for independent authorities” (Chevalier 2003, page 216).

In accordance with these precepts, Cambodia does not escape this universal tendency and is also subjected to regulation requirements. But does such a pattern meet the needs for solidarity, cohesion, and development of this country, and does it allow the implementation of innovative tools for public service management that could meet those expectations?

In order to comprehend these issues, a first look at the types of public service regulation viewed as legal embodiments of good governance will take us, with more markers, on the path of developing-country regulation.

**Public Service Control: Legal Embodiment of Good Governance**

Public services liberalization and, as a result, their opening to competition have led in developing countries to an increase in the number of independent institutions being charged with controlling and overseeing public services, which falls under the heading of regulation. These sectoral structures provide a relevant field of analysis with regard to the principles introduced by the concept of good governance, and they encourage their implementation. As a factor for the evolution and revitalization of the classic institutional framework, regulation leads to the emergence of practices that, indeed, underlie the implementation of precepts that good governance claims to follow.

**Theoretical Foundations of Public Service Legal Regulation**

Unfortunately, regulation does not have a precise legal definition. Therefore it is described in its most simplified form, or, following one's point of view, as an “action to regulate a phenomenon (Cornu 2000).

At this stage, it seems difficult to be satisfied with such an approach, even though one can already emphasize the regulatory nature of regulation, as well as its overall nature.

The absence of a specific and formalized definition is tackled in the considerable literature on the subject produced in the various fields of economics and social sciences. Regulation is a predominant issue in scientific debate, and especially in the legal arena (Clam and Martin 1998, du Marais 2004). Still, constant elements emerge from these varied researches that stress the legal transformation logic embodied in the regulation designation. From the viewpoint of crisis in modern law and of the monistic notion according to which the state would be the exclusive source of legal standards (Chevalier 2003), regulation would offer a new type of standard whose institutional and functional aspects constitute the central theme of our research.

Generally speaking, regulation should make it possible to compensate for weaknesses in society’s two major players, the state and the market, to answer legitimate questions regarding the workings of institutions (Timsit 2004). It then serves as the balance point between two standards, the spontaneous standard of the market and the imposed standard of the state.
However, contrary to an approach that seems to be spreading, this does not mean the disappearance of the Third party figure, the characteristic figure of legally constituted State. It suggests on the other hand that this Third party, whether it is the State, a judge or international organizations, does not have the monopoly in regulation decrees anymore, since these also derive from a balance of power process (Supiot 2001).

In the field on which we are focusing, that of public services, the balance of power is set through state and market interaction in the first phase, but must integrate user-consumer interest in the second phase.

Consequently, with regard to opening these services to competition and consequently to the progressive disappearance of a legal system departing from common law, regulation becomes a renewed type of public service management, corresponding to “the whole intervention of the authorities6 aimed at implementing competition—as much as needed—in a sector in which it did not exist or hardly did, and at reconciling honest competition practice with the mandate of public interest with which public service networks are invested (Bergougnoux 2000, page 212).

Regulation therefore meets a double phenomenon: on one hand, public services’ liberalization, and, on the other hand, a redefinition of the state’s role in the management of these services. Public service regulation is seen as a way of setting up free and fair competition in the market and of keeping this compatible with the public interest mandate linked to public service activities.

The issue of regulation is thus symbolized by its ability to make the two phenomenons—free trade and the public interest—at first seemingly contradictory, coexist. However, if one refers to theoreticians of the public service school of thought, such as Hauriou, “The nature of public service does not mean monopoly to the benefit of government authorities and their representatives.” Actually, “as long as opening to competition does not constitute an end in itself but a way meant to ensure public interest’s greatest satisfaction (Duguit, cited in Quiot 2002), contradictions disappear.

In order to fulfill this double mission, some regulatory authorities have been established in diverse legal systems, whether they come under common law or Roman-Germanic law. US independent regulatory agencies, British

6 “The public intervention needed when competition is introduced can be classified in several important categories: to harmonize, control remaining monopoly sectors, promote fair competition in these sectors while guaranteeing public service mandates and protecting consumers’ interests.”
Innovative Tools in the Governance of Public Services in Cambodia

Independent administrations, and also French independent administrative authorities—regulatory—authorities use various methods and have helped for a long time to ensure “regulation of some of the sensitive sectors” and to look after “the respect of some of the constituents’ rights (Gentot 1994, page 16).

However, worldwide dissemination of the regulation concept is proving to be much more recent and shows the advent of a new approach to public service regulation, in particular the establishment of independent regulatory authorities adopting operating procedures based on good governance as defined by the international community.

Practical Implications of Public Service Legal Regulation

Regulatory authorities have various responsibilities according to the sectors they regulate. However, some general characteristics emerge. Those authorities are usually involved in competition regulation and service access, and equipped with regulatory, decision, consultative, inquiry, information, arbitration, and sanction powers. At these different stages, the implementation of transparency, participation, and accountability principles must be handled by the regulatory authorities.

Transparency constitutes the most significant aspect of regulatory authorities’ operations. On one hand, as far as the publication of deeds is concerned, whether it is notices or decisions, most regulatory authorities have developed procedures enabling access to information. Web sites, information newsletters, and annual public reports, which give an account of activities and regulatory and legislative implementation measures, are widely used communication tools (Law n° 2000-108, article 32).

On the other hand, through assessment to check that for the purpose of checking that public interest tasks entrusted by public powers have really been accomplished, regulatory authorities provide relevant information on whether public services are fulfilling their mandates. In fact, as the European Commission (2003, page 30) stresses, “a global assessment increases transparency and allows for better political choices as well as for a firmly sustained democratic debate.” In this regard, assessment must take into consideration the interests and the opinions of all interested parties: users—consumers (especially the vulnerable and marginalized groups), social partners, and other parties. Thus, it is important to determine what those parties consider good performance and what their expectations are for the future.

It is therefore through a participatory process that an assessment can legitimately reach its objectives. Participation proves to be a means of achieving transparency, mostly through its consultation and consulting aspects.
Public service assessment, public inquiries, and the creation of user committees in contact with regulatory authorities constitute the most common forms of users’ participation. For example, the activities of French Telecommunications' Regulatory Agency (TRA) were based on an ongoing consultation process with users and the market's players. For J. M. Hubert (2000), the agency’s director general, "public consultation, the working groups and experiments were extremely useful working tools.” More recently, the French Agency for Communications and Post’s Regulation (ACPR) has planned to hold episodic meetings for consultative authorities, and to organize regular hearings, meetings, and public consultation chiefly to request comments.

And yet, participation remains the most sensitive and ambiguous element. Its implementation is not a new notion and its limitations are numerous. Nevertheless, recent regulators’ practices show a will to include users-consumers in the decision process and to collect their complaints. In Great Britain but also in Western countries, the creation of consultative councils working with regulators has become common practice, mostly because of strong lobbying of regulators by consumers’ associations. Similarly in the United States—a precursory country in liberalization terms—regulatory authorities, especially in the electricity sector, have been undergoing major restructuring in order to give consumers a “definite majority position in these authorities watching markets of the utmost importance” (Greene 2000).

As the report of the French General Plan Commission points out, it seems desirable “to make it compulsory to submit to these [consultative] councils cases in which decisions will directly effect consumers’ interests or, in broader terms, citizens’, and conversely to allow these representatives to refer to regulators any problem they detect” (Bergougnoux 2000, page 226).

This last point brings up accountability demands, and documents regarding the implementation of these regulatory authorities provide some substantial elements on the subject.

This usually must make a regulator's duties incompatible “with any professional activity, any elective local council, departmental, regional, national or European mandate, any public job and any direct or indirect holding of interest in a firm in the sector” (Law n° 2000-108, article 28). Then, a double control can be put in place: judicial control, for example, through appeals lodged against ACPR’s decisions depending on the case; and political control,

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7 An audit conducted in 1997 by the National Audit Office, at the Labour government’s request, emphasizes the democratic deficit in the workings of regulatory authorities.

8 The ACPR’s mandate and competence, at http://www.art-telecom.fr
making it mandatory for the authority to submit accounts of its activities at parliamentary committees’ request. Finally, the obligation of supplying opinions and explanatory proposals constitutes a last defense against arbitrary power.

At different levels, regulatory authorities take part in the implementation of principles embodied in the concept of good governance, opening the way for more lawful public service management with regard to users-consumers’ needs. But is such an approach compatible with a developing country’s reality? When simply talking about access to service, how to integrate notions such as quality, which is nevertheless a major users’ demand in developed countries? The development of regulatory authorities in developing countries has, in any case, become a reality. Through the example of Cambodia, we will attempt to bring up issues for discussion on this institutional and legal transposition that recalls similar practices in other fields.

Public Service Regulation: The Reality of Good Governance Put to Development Test

Regarding the process of administrative reform and public service development in Cambodia, the diffusion of good governance practices in public affairs management has become a significant priority. It applies to all public activities without sparing the public service sector. And one finds again similar types of regulation, following the example of what has been put in place in Western countries.

The Electricity Authority of Cambodia (EAC) is the first regulator of Cambodia’s public service. In spite of recent practices, it is already possible to glimpse its limitations and prospects in view of Cambodia’s political, economic, and cultural society, whose references and operations clearly differentiate themselves from Western models, and in which economic development dictates choices and is confronted with realities often difficult to face.

A Regulatory Model: The Electricity Authority of Cambodia

Electricity is an important sector for Cambodia’s development. It has suffered the harmful effects of decades of war. Its opening to privatization marks the transition from a centralized system to a liberalized economy. The law on electricity in Cambodia (Kram n° NS/RKM/0201/03) passed in 2001 by the Cambodian Parliament, was adopted with the goals of reinforcing the autonomy of the service management structure by avoiding recourse to grants; promoting private sector participation in financing and networks and production-tool development; improving minimum service access for most
of the population; and instituting a sector regulatory structure. With this law, the first regulatory authority for a public service in Cambodia was created.

The EAC regulatory authority has the mandate\textsuperscript{10} of ensuring, as far as consumers’ rights are concerned, access to electricity, and of safeguarding public interest by issuing licenses and guaranteeing reasonable rates. For that purpose, it consists of three members appointed by the executive power. At this stage, this authority’s institutional terms meet the general standards adopted by public service regulatory authorities in developed countries. But what about the implementation of good governance principles—do they play a role in this regulatory system?

First, the accountability of this authority seems to be accepted to some extent. If one may deplore the absence of parliamentary control, political control can, however, be exercised by the executive power. In addition, an appeal procedure for the public service’s operations is available to users at the regulatory authority, whose decision can be appealed before a court of competent jurisdiction. These measures are complemented by numerous requirements for transparency. Thus,

In accordance with the Electricity Law of The Kingdom of Cambodia, EAC has the duty to collect the main data and relevant information from licensees for preparing the Annual Report on Power Sector of the Kingdom of Cambodia. This report is for dissemination to the Royal Government, institutions, investors and public desirous to know about the present situation of the power sector of the Kingdom of Cambodia.

In addition, a great deal of information is available at the regulatory authority’s Web site,\textsuperscript{11} its decisions and notices are explained and published; and users’ appeal procedures can be openly obtained. In this regard, the regulatory authority seems to meet transparency requirements as mandated.

\textsuperscript{9} However, a national regulatory authority for the new information telecommunications technology has existed since 2000—the National Information Communications Technology Development Authority—with the mandate of promoting information technology development and regulating projects implemented in the Kingdom of Cambodia. And yet, at the present time, this authority does not seem to perform its full functions of regulator.

\textsuperscript{10} According to the law, the four key responsibilities of the Electricity Authority of Cambodia are to (i) establish a legal and reasonable environment in the power sector for promoting fair competition in electric power business, promoting long-term efficient and quality investment, and motivating the private sector to play a role as to promoting economic growth; (ii) protect the right of the user to receive continuous, qualitative, and adequate electric power supply at a reasonable tariff; (iii) establish competition where it can be done in the power sector; and (iv) establish the conditions so that the supply and use of electric power will be efficient, qualitative, continuous, and transparent.

\textsuperscript{11} http://www.eac.gov.kh.
However, this set of measures, which comply with the implementation of the principles of good governance, fails in one area, that of users' participation. The constitutional framework of 1993 does not provide for citizens' participation. Moreover, the social organization does not legitimize a participative system because of the preeminence of family ties and the solidarities they engender (Jennar 1997, Gaillard 1994). In addition, the Cambodian civil society remains rather unstructured and users-consumers' representation is virtually nonexistent. Lastly, “their main concerns are acceding to a service...that will pave the way for modernity” (Carlier, Gay, and Conan 2001), which remains very far...” which remains very far from the expectations of quality or respect for the environment voiced by users in developed countries.

In view of this, no form of participation is foreseen as part of the regulatory authority’s operations.

However, we notice numerous citizens taking part in the authority’s fulfillment of one of its public service tasks through the acquisition of electricity licenses. In recent years, there has been an increase in the number of independent power companies whose activities are regulated by the regulatory authority. This increase in the number of players-suppliers does not necessarily involve a recognition of users-citizens’ needs and does not meet the logic for the service. It marks a strong commercial approach that is not motivated by public interest satisfaction.

Exclusion linked to poverty and the quality of the service remain sensitive issues that economic logic alone is not in a position to change. One of the regulatory authority’s roles is therefore to create an environment favorable to private investors in order for them to meet public service mandates.

Limitations and Prospects for Public Service Regulation in Cambodia

Beyond the absence of participation, some intrinsic limitations prevail, notably the characteristic of the financial and human cost they generate. Actually, the establishment of a regulatory authority involves the recruitment of skilled persons and financial means to guarantee its independence.

However, this independence does not seem to correspond with the political reality, especially in relation to the executive power. Consequently, we turn to the concept of impartiality developed in the report of the French General Plan Commission (Bergougnoux 2000, page 214), which highlights three elements for the achievement of the regulatory mandate achievement. First, the regulatory authority must have “sufficient means” at its disposal to complete its task successfully. Second, its powers “do not have to be arbitrary, and therefore the authority must be answerable.” Lastly, the tasks exercised by
this authority are “inside a framework that exceeds a single regulation, and that the authority can legitimately establish.”

In a country like Cambodia in which human resources are still insufficient, an increase in the number of regulatory authorities would face a recruitment problem and also a lack of funds. These limitations hinder the development of Cambodia's institutions, and make one wonder about the country's prospects.

Creating an environment for healthy and fair competition and ensuring equitable access for most of the population are necessary conditions for the development of public services in Cambodia. Good governance principles should lead to the success of the process in which the regulatory authority has a key role to play. But the transposition of operating approaches based on Western models does not make it possible to overcome difficulties specific to a developing country, in which recourse to justice, users' representation, and also Internet access are far from similar.

Therefore, do principles embodied in good governance remain of interest in the Cambodian context, and, furthermore, is there still room for participation?

While it is a fact that fundamental freedoms and economic and social rights asserted in the constitution encourage the emergence of a civil society, which is widely politicized, this does not seem at the present time to really produce a fertile breeding ground for users' participation.

But in a society in which preference for conciliation is declared by a political or social authority (Crouzatier 2001, page 149), participation adopts different forms, less characterized by the formality and representation so dear to Western models.

In this context, assessment constitutes a modality for participation better adapted to Cambodian society premises. With the prospect of a developing country with institutional and legal mechanisms still distant from the citizens, the possibility of having recourse to a mediator or of simply lodging a complaint enables the laying of foundations for a public service assessment process. Through its complaint mechanism, the EAC authority is likely to provide indicators on public interest satisfaction. Through a synthesis of dissatisfied users' comments, the regulatory authority could create an assessment model for public service mandates. Thus, control methods could give users ways to take part in the workings of public services. Users' satisfaction and the public services' performance then become closely linked.
The people’s office\textsuperscript{12} constitutes in this context a complementary initiative to regulatory authority work and its activities could extend to complaints on all public service operations. Initiatives like paying attention to the problems of users with few means, or assessing their public service needs and expectations, maintain an ongoing political dialogue and establish true user-consumer participation in public service assessment.

In good governance, the regulatory authority makes it possible to support private investors by supplying them with transparent information and the possibility of lodging appeals, for which the law creating EAC has made provision. But it must also guarantee citizens a minimum level of service. The recourse to mediation on a local and national scale for problem cases enables an assessment of public service tasks, and also supports the development of a more harmonious society.

In this instance, the implementation of good governance standards does not appear sufficient to guarantee public interest satisfaction, especially because of the arduous application of the participation principle. The standards seem more geared toward the satisfaction of private players’ interest and the smooth functioning of the market. The protection of public interest seems to require the definition and implementation of a regulatory authority based on standards other than those embodied in good governance.

\textsuperscript{12} Article 12 of Decision n°47 of 11 June 2003 of the Royal Government of Cambodia on the structure and administration of Battambang district, Battambang province, and Siem Reap district, Siem Reap province, states: “to enhance good governance, each of the districts shall set up a ‘people’s office’ which is tasked to receive complaints from and provide information to the locals, companies, enterprises and civil organizations regarding the irregularities and shortcomings carried out by staff at the district administration.”
References


Decision n° 47 of 11 June 2003 of the Royal Government of Cambodia on the Structure and Administration of Battambang District, Battambang Province, and Siem Reap District, Siem Reap Province.


Kram n° NS/RKM/0201/03 of 2 February 2001, promulgating the Law on Electricity of the Kingdom of Cambodia.

Law n° 2000-108, 10 February 2000, Title VI, Regulation, Article 32.


Evolution of Entrepreneurship in the People’s Republic of China

Entrepreneurship research is an emerging field that is gradually integrating several other disciplines. Low and MacMillan (1988) defined entrepreneurship as the “creation of new enterprise” and proposed that entrepreneurship research seek to explain and facilitate the role of new enterprise in furthering economic progress. By this definition, we can say that the entrepreneurial activities of the People’s Republic of China (PRC) started at the end of 1970s, with the PRC’s reform and opening that was begun in December 1978 by the Third Plenary Session of the 11th National Congress of the Communist Party of China (CPC). Generally speaking, the evolution of entrepreneurship in the 27 years since then can be divided into three stages.

The initiating stage covered the years from 1978 to 1984. Before the reforms, almost all of the enterprises in the PRC were uniformly owned by all the people, that is, they were state-owned and state-run. A small number of collectively owned enterprises did exist, but their managerial system was not essentially different from that of state-owned enterprises. Enterprises of any other ownership did not exist at all. State-owned enterprises are not enterprises in the real sense, but are administrative institutions under the control of the CPC and the Government. These so-called “enterprises” are merely production units that are neither independent nor creative. Starting from this basic reality, the Government put forward the idea of “delegating power and sharing profits” with enterprises for carrying out reforms, while gradually establishing in the countryside a household contract responsibility system with remuneration linked to output. The economic responsibility system confirmed the responsibilities and rights of the State, enterprises, and farmers, allowing enterprises and farmers to have at their disposal a certain amount of financial resources and economic benefits. In October 1984, the Third Plenary Meeting of the 12th National Congress of the CPC passed the Resolution on Reforming

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the Economic System, which called for “the whole people, collectives and individuals to go all out,” and encouraged all sectors of the economy, whether owned by the whole people, the collectives, or individuals, or with foreign funds, to cooperate with each other by establishing contractual joint ventures, equity joint ventures, or associations. Small state-led enterprises were allowed to be “let out” or “contracted” to collective or individually owned enterprises. During this stage, four different entrepreneurial models arose in eastern and southern PRC: the WenZhou model, in the “rushing market” style adopted by farmers with limited resources (Fei Xiaotong 1986, Shi Jinchuan et al. 2002); the SuNan model, based on the township and village enterprise tradition and technology from Shanghai industry (Fei Xiaotong 1983); and the ZhuJiang and JinJiang models, patterned after overseas models (Gong Weibin 2000, Xie Jian 2002).

The exploring stage covered the years from 1985 to 1991. Starting from the Third Plenary Session of the 12th National Congress of the CPC, the central emphasis for reforming the PRC’s economy shifted from rural areas to urban areas, and the reform of state-owned enterprises was identified as the central link in the reforms. During this period, reforms in state-owned enterprises, as their most prominent feature, distinguished between the roles of government and enterprise, and separated the right to own from the right to run. To this end, the Government promoted the responsibility system of contracted operation, and implemented the system of leased operation in some small state-owned enterprises. The 13th National Congress of the CPC in 1987 further proposed that the joint-stock system be tried out as one form of property organization. The property rights of small state-owned enterprises could now be transferred to collectives or individuals in exchange for remuneration. In December 1986, the Standing Committee of the Sixth National Congress passed the Enterprise Bankruptcy Law (Trial), which stipulated that insolvent enterprises could apply for bankruptcy. In April 1988, the First Session of the Seventh National People’s Congress passed the Enterprise Law. This was the first law for state-owned enterprises since the founding of the PRC. In addition, to protect the non-state-owned sector and provide legal guarantees for its development, policies, rules, and regulations were successively issued. Among these were the Interim Regulations for the Administration of Urban and Rural Individual Industrial and Commercial Businesses, the Law of Foreign Invested Enterprises, and the Provisional Regulations of Private Enterprises. The non-state-owned sector made significant breakthroughs during this period. Between 1985 and 1991, state-owned industry output grew by only 8.3% yearly on average, while the output of non-state-owned industry grew by as much as 23.9% yearly. Compared with state-owned
enterprises, non-state-owned enterprises were on the whole independent market entities, possessing relatively independent market rights and pursuing relatively independent economic benefits. In addition, the ZhongGuanCun entrepreneurial model, representative of technology entrepreneurship, arose in Beijing (Xie Jian 2002).

The expanding stage began in 1992 and extends up to the present. In November 1993, the Third Plenary Session of the 14th National Congress of the CPC passed the CPC Central Committee's Decision on Several Issues for Establishing a Socialist Market Economy System, which stated that the “market was to play a fundamental role concerning the resources under the macro control by the State”; that “the State was to create the conditions for all sectors of the economy to participate in the market competition on an equal footing, and enterprises from all sectors would be treated indiscriminately.” In 1997, the 15th National Congress of the CPC further stated that “the non-public sector is an important component part of this country’s socialist market economy.” This statement was incorporated into the Constitution when it was amended in 1999. The status and the role of the non-state-owned sector, especially the private sector, in China’s economic structure were officially confirmed. In 2003, the Third Plenary Session of the 16th Central Committee of the CPC, in a break from non-state economic theory and policies, decided to actively guide the development of the private sector. The Constitution amended in 2004 stated that “the lawful private property of citizens is inviolable.” In 2005, the State Administration of Industry and Commerce reformed its registration system to better serve private enterprises. In addition, the transformation of state-owned enterprises, aimed at establishing a modern enterprise system, was implemented in 1994. While the transformation was continuously pursued, an exit mechanism for state-owned enterprises was gradually taking shape. According to a survey done in 2002, 25.8% of private enterprises had been transformed from state-owned enterprises. The confirmation and protection afforded by the policies and laws of the State to the status of non-state-owned enterprises as market entities encouraged the rapid development of the sector. Entrepreneurial activities, even including home entrepreneurship, are expanding all over China (Wang Xiyu et al. 2003).

To sum up, even as the PRC’s reforms and development enterprises have made the transition to a market economy, entrepreneurship has continuously been on the rise. According to statistics from the departments in charge of small and medium enterprises (SMEs), there were around 10 million SMEs (14.8% of them state-owned) in 2004, accounting for 99% of all registered enterprises in the country, 60% of the national industrial output value, and 40% of national revenue, and employing 75% of the labor force.
Entrepreneurial Ecology: Features and Problems

Entrepreneurial ecology refers to the entire entrepreneurial environment. In the PRC, it normally refers to the development environment. The term was first used by local administrators in their efforts to further local economic development, and later became an approach to deepen reform and advance development. The Decision on Several Issues for Consummating a Socialist Market Economy System, passed in 2003 by the Third Plenary Session of the 16th Central Committee of the CPC, transformed the role of government to that of serving market agents and creating a good development environment. The Decision on Strengthening the Party’s Governing Capacity, passed in 2004 by the Fourth Plenary Session of the 16th Central Committee of the CPC, pointed out that the Party’s governing capacity embodies, first of all, the Party’s ability to lead development, and that one of its most important aspects was to serve market agents and build a good development environment.

In this paper we use “entrepreneurial environment,” “development environment,” and “entrepreneurial ecology” interchangeably. Gnyamali and Fogel (1994) defined the entrepreneurial environment as a combination of factors that play a role in the development of entrepreneurship. First, it refers to the overall economic, sociocultural, and political factors that influence people’s willingness and ability to undertake entrepreneurial activities. Second, it refers to the availability of assistance and support services that facilitate the start-up process. Using this definition, we may view the evolution of entrepreneurial ecology in the PRC as follows.

First, the widening of entrepreneurship is related to the Party’s ideological and theoretical rebuilding. During the era of the planned economy, private property was viewed as the root of all evil. But under the leadership of Deng Xiaoping, from the late 1970s, the Government put forward a plan to develop private companies in order to adapt to the people’s pursuit of personal wealth. Indeed, these policies have become a driving force behind the PRC’s economic growth. On the macro level, the most fundamental characteristic of economic reform in the PRC is the transition from a planned economy to a market economy through the dual-track system—developing the elements (or sectors) of a new system side by side with the old unreformed system, and then, if things go well, reforming the old system in line with the positive developments emerging from the new components of the economy. This reform strategy may not justify itself by “eliminating efficiency loss” or “minimizing the implementation costs” of the reform, but may reduce the costs of political conflict the reform may generate in the real world. On the micro level, ownership reform is at the core of economic system reform in the PRC. For example, the State Statistical Office used to present data for seven different
classes of enterprise ownership: individual ownership, private ownership, foreign ownership, joint ownership, shareholding corporations, collective ownership, and state ownership. Theoretically, the PRC’s economic reform cannot completely succeed until major reform of the ownership structure is undertaken in the state sector, and the sooner and more aggressively actions are taken to improve the conditions for conducting ownership reform, the lower the costs of the transition. However, ownership reform will not only encounter strong resistance but also be technically difficult to implement. Even today, the ownership reform of state-owned enterprises still evokes extensive discussion but with less insightful measures (Lang Xianping et al. 2004).

The ideological and theoretical rebuilding is helped along by policy practices that directly drive entrepreneurial activities. So the entrepreneurial opportunities are uneven. Among the typical models of entrepreneurship, the ZhuJiang, ZhongGuanCun, and JinJiang models, and even the SuNan model, are opportunity-driven and based on favorable policies or resource accessibility, while the WenZhou model is a model of survival-driven entrepreneurship. In general, the socialist planned economy was a quiet life where everything was “fixed.” The right to decide was concentrated in the hands of a small group of people; most of the people did not make many choices for themselves, and even for those who were decision-makers, most of the work was routine since the environment was stable. There was little need for initiative, creativity, and innovation. People who have lived for decades under such a system cannot easily adjust to a market economy, where everyone needs to make his or her own choice in an uncertain environment. It takes time for them to learn how to deal with price fluctuation, uncertainty, a range of choices, and competition. An entrepreneurial society takes time to emerge (Drucker 1984), as the PRC is finding out.

Second, entrepreneurial ecology in the PRC has been dominated by local government. PRC’s economic reform has been an experimental process (Zhang Weiying et al. 2005), with reform experiments based in regions (typically cities), sectors, or even firms. If a reform program succeeds in the selected regions, sectors, or enterprises, it is implemented in other regions, sectors, or enterprises; if it fails, it is stopped. Experiment is used not only for single reform programs, but also for comprehensive reform. Decentralization was one way of governance reform by the central leadership (Shi et al. 1993). So government entrepreneurship at the local, even grassroots, level is an important

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2 In the PRC, place-names are used to define the different regional models of development. ZhuJiang is in the south; ZhongGuancun is in Beijing; JinJiang, SuNan, and WenZhou are in the east.
feature of the reform process. Many reform programs started by local governments or at the grassroots level were later recognized and adopted as national policies by the central Government. This was the case with agriculture reform in Anhui Province, industry reform in Sichuan Province, and the development of stock exchanges in Shanghai and Shenzhen. In fact, local governments and the grassroots are important inner-system forces against the more conservative central ministerial bureaucrats. This does not necessarily mean that local governments act contrary to the will of the central leaders, but the local governments have greater flexibility and can influence actions taken on a larger scale. Local governments dismantled much of the central planning system. Many are far ahead of the national leadership in reforming the economy. Reform has been both a top-to-bottom and a bottom-to-top process (Chen et al. 1992).

The entrepreneurial efforts of local governments have reaped broad gains in economic development and public administration reform. On the one hand, local economic development is the main force pushing local administration reform, since political reform lags behind economic reform as a whole. On the other hand, local administrators have a strong impetus for development because their performance is assessed mainly on the basis of gross domestic product (GDP). Chongqing, a young municipality, struggled mightily on the way to the “economic center of the upper reaches of the Yangtze River” while directly under the central Government. But in 2000, Chongqing launched a “comprehensive renovation activity for development environment” with the aim of becoming within 3 years one of the best areas in entrepreneurial ecology in western PRC. It sought efforts from “everybody, every time, for each action, and everywhere.” So the city planned measures, called “10 passels,” for each of the 3 years. In 2002, the “10 passels” comprised measures for coping with entry into the World Trade Organization, boosting consumption, administering more capably, stopping makers of counterfeit goods, sprucing up tourism destinations, invigorating trade in farm products, developing specialty markets, eliminating safety hazards in production, clearing up pollution, and burnishing showcase areas. Growth pressures and expectations may, however, lead local governments to take shortsighted actions, such as land or mine exploitation to maximize revenue.

Given the local differences in resource endowments and policy opportunities, entrepreneurial activities have exhibited wide regional variations. In the late 1980s, some coastal areas such as Guangdong Province became quasi-market economies, while most inland areas were still dominated by central planning. The level of entrepreneurship mirrors the level of economic development. Take the private-owned enterprises as an example. There were
3.44 million of these in 2004, and eight provinces or municipalities (Jiangsu, Guangdong, Zhejiang, Shanghai, Shandong, Beijing, Liaoning, and Sichuan) each had more than 1 million private-owned enterprises, all accounting for 63.24\% of the national total. These same eight provinces or municipalities contributed more than half of GDP. As for the entrepreneurs, those from the coastal areas are opportunity-focused, while their counterparts from western PRC are necessity-driven, according to Zhang Yuli et al. (2003).

Third, entrepreneurial ecology now faces many problems. Reform with the approach of “groping for stones to cross the river,” or dealing with the problems one by one, is inevitable. Surveys done in recent years on the development profiles of private-owned enterprises described the evolution and the main problems that beset entrepreneurial ecology. The Basic Units Census in 2001 indicated the challenges faced by private-owned enterprises: standardizing the criteria for market entry, ensuring fair taxes and fees, regulating contracts between government and enterprises, providing finance and credit guarantees, making procedures more transparent and stable, building a credit system, and safeguarding property rights. Another survey organized in 2002 by the United Front Work Department of the CCP Central Committee, the All-China Federation of Industry and Commerce, and the Society of Private Economy Research revealed that social security, barriers to entry, fair competition, fee standardization, accessibility of financing, and access to overseas markets were the main problems of private-owned enterprises, and that unfair competition was a heavy barrier to development. In 2003, the China Entrepreneur Survey recognized that entrepreneurs running the private-owned enterprises were looking for streamlined bureaucratic procedures, the rule of law, more transparent policies and procedures, reforms in the financial system, fewer barriers to financing, a reduction in monopolies, and reforms in the earnings tax system. In 2004, the Corporation Survey of the State Statistical Office revealed that the five main problems of non-state enterprises were low access to financing, undisciplined public servants, policy distortions during implementation, lack of provisions for social security, and inadequately trained human resources.

Development of Entrepreneurial Ecology: An Emerging Understanding

Although the development environment concept in the PRC arose in the special context of a country in transition, studies on entrepreneurial ecology date back to earlier entrepreneurial research in the West. Pennings (1982) investigated how human ecology and the quality of urban life influenced frequency variations in organizational start-ups in 70 urban-metropolitan areas.
in the United States. Specht (1993) combined two streams of research and theory development, resource dependence and population ecology, to develop a model of relationship between organization formation, on the one hand, and environmental munificence and carrying capacity, on the other. “Environmental munificence” refers to the degree of resource abundance. “Carrying capacity” is related to the density or number of organizations competing for the same resources in a niche. So Specht (1993) came up with a five-dimension model comprising the social, economic, political, infrastructure, and market emergence dimensions. The social dimension refers to social networks, support of social-political elites, and cultural acceptance. The economic dimension refers to capital availability, aggregate economic indicators, unemployment, etc. The political dimension refers to support from government. The infrastructure dimension refers to quality of life, education system, transportation and communication system, nature of the local labor market, information accessibility, etc. The market emergence dimension refers to niche emergence and technological innovation. Gnyawali and Fogel (1994) developed a framework for understanding the environmental conditions conducive to entrepreneurship. This framework consists of five dimensions linked to the core elements of new-venture creation—developing opportunities, enhancing entrepreneurial propensity, and promoting entrepreneurial ability. The five dimensions are government policies and procedures, socioeconomic conditions, entrepreneurial and business skills, finance support, and non-finance support. Armington and Acs (2002) examined the role of human capital, training and education, and entrepreneurial environment in new-firm formation in 394 labor market areas in the United States. As a result of the study, the authors attributed variations in firm birth rates to industrial density, population, and income growth.

Li Shaomin et al. (2004) used data on 30 provinces, 566 cities, 2,612 counties, and more than 20,000 townships in the PRC to empirically analyze the variations in the ownership structure of new firms. Their findings indicated the following:

- The more developed the legal and physical infrastructure in a region, the greater the frequency of privatization among its new enterprises. A more developed physical infrastructure, such as road, transportation, power supply, and communication networks, will facilitate business operation and enhance the ability of businesses to compete in the market and be profitable. The establishment of a better legal system, including an independent judiciary and the supremacy of common-
law courts, substantially improves the security of property rights and lowers transaction cost.

- The greater the degree of government intervention in a region’s economy and the greater the opportunities for “rent seeking,” the lower the frequency of privatization among new enterprises. The opportunistic behavior of government and its preferential treatment toward different types of businesses tends to discourage the “birth rate” of private firms.

- The lower the level of government that is responsible for the approval and control of new establishments, the greater the frequency of privatization among new enterprises. The level of government to which an enterprise reports affects the competitive position of the enterprise.

- The greater the degree of privatization in a region, in neighboring regions, or in the industrial sector, the greater the frequency of privatization among new enterprises. The frequency and prominence of a particular behavioral pattern in a region strongly affect the propensity to imitate.

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<th>Four Aspects of Entrepreneurial Ecology Building in the PRC</th>
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<td>Ecological justice</td>
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To integrate the problems, frameworks for understanding, and empirical research findings mentioned earlier, we can construct four salient aspects of today’s process of entrepreneurial ecology building in the PRC, as shown in the table. Social justice is now an important challenge in the PRC, owing to the large differences between city and countryside, between the eastern and western parts of the country, and between income classes. The latest issue of the State Council’s “Some Opinions Regarding the State Council’s Encouragement and Support of the Development of the Non-state-owned Economy” recognizes the need to “provide the non-state-owned economy with an environment of competing on equal footing; a system based on the rule of law; and a policy and market environment and policy measures that encourage, support and guide the development of the non-state-owned economy.” Since private-owned companies have faced discrimination in various areas, it is significant that the Government has made clear its intention to grant them “national treatment.” Ecological support is what entrepreneurs have been...
striving for and it is never enough. However, the means of support should change somehow, for support is firstly dominated by justice. Ecological cost includes not only economic cost, but also institutional cost and moral cost. After 1992, local governments mostly paid more attention to “hard” environment building, and focused on economic cost. For example, they competed with one another in selling land at lower prices to attract capital investment. Today, the Government shall put more efforts on the “soft” and “deeper” part of entrepreneurial ecology building. Ecological modeling is the basic way for entrepreneurs to become more socially aware and extend their entrepreneurial activities.

Entrepreneurship is crucial for the efficiency of a market economy. Entrepreneurship is also a basic precondition of economic growth (Piazza-Georgi 2002). After 27 years of reform, the PRC’s private sector economy is becoming a force to equal the state-owned economy. Future economic development in the PRC depends on the dissolution of the dual economic structure in which a vibrant private sector coexists with a lethargic state-owned sector. As Premier Wen Jiabao (2005) asserted when discussing “Some Opinions Regarding the State Council’s Encouragement and Support of the Development of the Non-state-owned Economy”:

Not only does encouraging, supporting and guiding the development of the non-state-owned economy help promote the economic prosperity in urban and rural areas and increase fiscal revenue, it is also beneficial in creating new jobs, bettering the lives of the people, improving the economic structure and accelerating economic growth. It also has important strategic significance in realizing an all-round well-off society and in pushing forward the process of socialist modernization.

Entrepreneurship in the non-state-owned economy will intensify. Hu Jintao (2005) writes about the harmonious society—where there is democracy and nomocracy, justice and equity, honesty and fraternity, energy and vitality, stability and orderliness, and concordance between human and nature—as the social target for socialism, PRC-style.

Toward the goal of entrepreneurial ecology building, which by its very nature is a process of learning by doing, the PRC has now reached the fourth stage of entrepreneurship—the normal, everyday stage.
References


Performance-based Budgeting in China: A Case Study of Guangdong

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Jun Ma³

Introduction

Performance-based budgeting (PBB) refers to a systematic effort that integrates performance information with program goals and objectives to assist budgetary decision making (Cope 1995, Grizzle and Pettijohn 2002, Willoughby and Melkers 2000). It is intended to shift the focus of budgeters and policy makers from internal control and input to the efficiency and outcomes of programs, so that performance information is used to enhance the quality of budget deliberations and decision making and so that resources are allocated more effectively to meet the expectations of politicians and the public (Schick 1966, US GAO 2001).

The 1990s were a golden era for PBB reform. The US Congress passed the Chief Financial Officer Act of 1990 and the Government Performance and Results Act of 1993, which together laid down the legislative foundation for PBB reforms in recent years. The George W. Bush administration also initiated a performance rating scheme that ties agency performance to program funding requests (Peckenpaugh 2002). In addition to reforms at the federal level, many US state and local governments introduced their own version of PBB in the 1990s (Berman and Wang 2000, NASBO 2002, Poister and Streib 1999, Willoughby and Melkers 2000). Despite criticism from skeptics about the results of these efforts, the momentum of reform has remained strong.

PBB has also advanced rapidly in other countries in the Organisation for Economic Co-operation and Development (OECD) over the past decade because many politicians see it as a way to make government more competitive and cost-efficient and a possible response to cynical taxpayers who demand

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⁴ By the end of the 1990s, 47 of the 50 US states had some sort of performance-oriented budgeting requirements, 31 had legislated how the process was to be conducted, and 16 had specifically tied the reform to budget guidelines or instructions (Willoughby and Melkers 2000).
more accountable government spending. Many have expanded the practice of PBB and introduced new legislation that requires performance measurement and benchmarking (Helgason 1997). For those countries that have been using performance measurement for a number of years, many have also begun to shift their focus to reporting outcome and to building a stronger link between performance measurement and budgeting (OECD 2002, Perrin 2003).

PBB initiatives have not been introduced solely in developed countries over the past decade. India, Malaysia, Philippines, Sri Lanka, and Thailand, for example, have all introduced their own versions of PBB (Dean 1986, OECD 2002, Straussman 2005). Some of these countries have adopted the reform to reduce waste, enhance government efficiency, and increase public satisfaction with public programs. Others have adopted PBB because of external pressure from donor countries and international organizations, which have begun to demand more transparency in recipient countries to demonstrate how grant resources are used and what results foreign aid has brought.

Regardless of the motivation for reform, there is little doubt that PBB has become more widespread among both developed and developing countries today than it was a decade ago. Its worldwide popularity, however, does not imply that it always offers a quick fix for many governmental problems. Quite the contrary, the decades-long experience of Western countries in PBB reforms shows that PBB tends to create many new challenges for policy makers and requires tremendous time and resource commitments in implementation.

This paper examines these challenges in the context of the People’s Republic of China (PRC). In 2003, Guangdong became the first provincial government in the PRC to initiate PBB reform. Through personal interviews with Guangdong officials and documentation analyses, we evaluated the implementation process and analyzed the administrative and political challenges that Guangdong reformers may face in the future. In the following discussion, we first review the reform experiences of developed countries, primarily the US, to highlight some of the factors critical to the success of PBB reforms. Then we apply the framework to an analysis of the recent PBB reform in Guangdong.

Critical Factors in PBB Success: Western Experiences

In the past few decades, many studies have been done to evaluate the significance, challenges, and impact of PBB in the US and other developed countries. The general consensus is that, if implemented effectively, PBB can help improve the communication between the legislative and executive branches and the communication between the budget office and departments (Lee 1997, Willoughby and Melkers 2000). It can also encourage stronger accountability

However, these potential benefits cannot happen in a vacuum. A close examination of Western experiences, particularly in the US, shows that an organizational, technological, and cultural infrastructure has to be present to make PBB work. These fundamental success factors include the following.

**Top Leadership Support, Emphasis, and Legislative Mandate**

Top leadership support is critical in any governmental reform. If the top leadership is enthusiastic and shows full support for the reform, the lower hierarchy of the organization is more likely to take the reform seriously and implement it faithfully. Legislative mandate can often help to reinforce the political urgency and importance of the reform. Passing performance measurement requirements as law and specifying how government officials should follow the requirements gives government officials the legal responsibility to implement the reform and makes them accountable if they fail to do so. The Government Performance Results Act (GPRA) of 1993 of the US federal Government is an example of legislative-mandated reform (Radin 2000). Many PBB reforms in US state governments are also initiated and required by state legislatures to make sure that the executive branch will follow through (Willoughby and Melkers 2000). New Zealand has likewise relied on legislation, including the Public Finance Act of 1989 and the Fiscal Responsibility Act of 1994, to guide the progress of PBB reforms.

**A Solid Foundation of Cost Accounting in Government**

A key performance measure is cost-efficiency. However, to accurately account for cost-efficiency, a government must first build a reliable and accurate cost accounting system for all government programs and budget items (Breul, forthcoming; US GAO 2003). The system must cover all direct functional expenses, such as salaries, benefits, and supplies, as well as overhead costs, such as administrative overhead, rent and physical building costs, and utilities. In addition, a clear methodology must be developed for allocating these costs not only to departments, but also to various programs within each department, so that the program cost data can be compared with the output and outcome data to determine cost-efficiency and effectiveness.
A Clearly Defined and Well-organized Budgeting Structure

A budgeting structure is the fundamental infrastructure of PBB reform. At the very least, a government should have a well-defined line-item budget for all departments and programs, so that government managers and policy makers can hold departments accountable for financial management results.

However, to truly implement PBB, the line-item budget must be reorganized by program, which can be multi-departmental, and aligned with a clearly defined structure of strategic goals and targets. This allows government officials and policy makers to see more clearly what social and economic goals they are trying to accomplish, how much resources are budgeted to accomplish these goals, and what results these resources have achieved at the end of the fiscal year. This alignment exercise can be very difficult, costly, and time-consuming. In the US, for example, the federal Government has spent decades to align the goals of many federal programs, but has made significant progress only in recent years (US GAO 2002).

An Effective Administrative Mechanism for Budgeting

Having a budgetary structure is not sufficient. Someone must enforce and monitor the use of the structure and rules, and use the information to improve the performance of government programs. In the US, this responsibility falls primarily on the executive budget office within each department. Successful PBB reform often requires giving these budget offices sufficient manpower, legal authority, and analytical capacity to help program managers analyze and use performance results effectively (Lee, Johnson, and Joyce 2004).

Equally important is the central budget office, which oversees all departmental budget requests. It is often responsible for providing budgetary guidelines and priorities to departments and agencies. It also helps compile and analyze departmental performance information so that the information can be integrated into the executive’s budget requests.

A Well-defined Strategic Plan and Goal Structure for Agencies to Define “Performance”

Another success factor is having a well-defined strategic plan and goal structure with which performance measurement can be aligned. Previous studies on PBB show that the reform can help program managers see more clearly what they are trying to accomplish and rethink how they can accomplish those goals more effectively (Ho, forthcoming; Willoughby and Melkers 2000; US GAO 2004). However, these benefits can be realized only if there is a
strategic planning process that defines the long-term and short-term goals and the performance targets of public programs.

**Competent Budget Analysts and Program Managers to Handle Program Evaluation**

PBB also requires the presence of many competent and well-trained budget analysts and program evaluators within each department and at the budget office. These analysts need to understand not only program operation and budgeting, but also evaluation methodology and different types of performance measurement (Melkers and Willoughby 2001). They may require training not only in cost accounting, statistics, and budgetary analysis, but also in program evaluation, policy analysis, and other public administration skills.

**Organizational Capacity to Handle Program Evaluation**

Personnel capacity is just one of the building blocks of successful PBB reform. A government also needs to build other administrative capacity, for data collection and analysis, among other things (Newcomer and Scheirer 2001). The use of modern information technologies can offer tremendous help and time savings. Many city governments in the US today use a computerized system that tracks the time they receive an emergency call for police or fire assistance, the type of assistance needed, and the amount of time it takes for the police or fire department to arrive at the scene. Without these information technologies, performance measurement would be very costly and difficult to implement effectively and accurately.

**Positive and Negative Incentives for Workers to Focus on Performance**

Positive incentives are important because they reward government officials who perform well and encourage them to enhance public program efficiency and effectiveness. These positive incentives may include financial rewards, such as performance bonuses, faster and better promotion, and higher salaries. They can also be nonfinancial, such as public recognition of the accomplishments of a program or a department.

Disincentives can also be used, but more cautiously, because they tend to generate opposition to the reform and insubordination. Disincentives may include delays in promotion or salary raise, and public shaming of the people who are in charge of a poorly performing program.
Performance-Based Budgeting in China: A Case Study of Guangdong

**Cultural Shift to “Results-oriented” Management**

For PBB reform to succeed, officials must also be helped to understand that the old ways of managing programs and budgets are no longer enough, and that the government needs to develop a new organizational culture that emphasizes public accountability and results. PBB is not just about data collection and reporting. It is a cultural transformation that requires government officials to think and work differently (Whooley 2002).

**Time for the Reform to Sink In and Make a Difference**

Finally, the Western reform experience shows that a successful PBB system takes a long time to evolve and happens incrementally. In the US, the first systematic PBB reform, the planning, programming, and budgeting system (PPBS), was introduced in the federal Government in the late 1960s. It was later followed by zero-based budgeting, management by objectives, and national performance review. Today, the US federal Government has an elaborate system that links performance information with strategic goals and budgetary information. However, after four decades of implementation and experimentation, the federal Government still struggles with many technical and administrative issues in performance measurement and needs more time and effort to refine its current system (US GAO 1997).

Performance-based Budgeting in Guangdong Province

**Background**

The lessons from Western countries provide a useful framework for analyzing and evaluating some of the potential challenges faced by PBB reforms in developing countries, including the PRC. In recent years, several subnational governments in the country have paid close attention to the development of performance measurement and performance budgeting in developed countries and have introduced their own versions of PBB reform to rationalize and systematize their budgeting. These reforms include departmental budgetary reform, zero-based budgeting, procurement management, and treasury management (Ma and Niu, forthcoming). Several local governments, such as those of Hebei City, Shenzhen City, and Guangdong Province, are often recognized as pioneers among their peers (Niu 2005).

In 2003, Guangdong Province became the first provincial government in the PRC to launch PBB reform. The province, located in Southern PRC, is well known for bold economic and political reforms. In the late 1970s, it was selected by the central Government as the first experimental area for market-oriented reforms. Since then, the province has transformed its economy and
experienced rapid economic growth. In 2003, Guangdong’s per capita gross domestic product (GDP) reached CNY17,310.84, one of the highest among subnational governments in the PRC. Its revenues of CNY131,551.51 million that year amounted to roughly 13.4% of total local government revenue and its expenditures of CNY169,563.24 million made up about 9.8% of total local government expenditure—the largest share in both cases.

The finance department of Guangdong Province initiated and coordinated the PPB initiative. In preparation, the department sent officials to Canada, France, the United Kingdom, and the US. It also secured support from key government and party officials, the local congress, and the Chinese People's Political Consultative Conference (CPPCC). Even though no formal legislation was passed with respect to PBB, legislative support for the reform was widespread and strong.

To promote the idea further among department officials, the finance department publishes the yearly Guidelines for Expenditure Performance Evaluation in Guangdong. In addition to updated regulations and guidelines for the reform, the publication contains public speeches of key officials, including the president of the Guangdong Communist Party, the governor and vice governors, and the director of the finance department, to emphasize the political significance of the PBB reform. The publication also includes expert opinions from the central Ministry of Finance, the local congress, and the Guangdong finance, audit, and supervision departments to demonstrate the broad support behind the reform initiative.

Furthermore, the department created a new division, the performance evaluation division (PED), chiefly to (i) compile and analyze financial statistics, and (ii) organize and conduct the performance evaluation of provincial programs. The PED has eight employees, three of whom are responsible for statistical analysis. The other five employees are divided into two groups: one person is in charge of basic performance evaluation, and the other four are in charge of specified or focused program evaluation. Basic performance evaluation, also called self-evaluation, is the first stage of PBB evaluation. It is conducted by agencies with the help of guidelines from the finance department, and the results are submitted to PED (see self-evaluation form in the Appendix). On the basis of the information it receives, PED organizes and conducts focused program evaluation to examine selected programs and agencies.  

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5 The focused evaluation is done by public officials from the finance department and experts in related issues and topics. The finance department is responsible for maintaining an expert inventory of scholars, public officials, and agents, whose opinions may be solicited for focused program evaluation.
Overview of PBB Implementation

In the first year, the finance department launched six pilot projects in performance evaluation (see table). The selection of these programs was a top-down, centralized decision by the finance department. The programs that were chosen were those that (i) drew the attention of the party president or the governor; (ii) were believed to have the capacity to implement PBB; (iii) had a large appropriation and fiscal significance; or (iv) were under agencies with strong incentives to support PBB. Most of these programs were also included in the long-term strategic plan of Guangdong Province and had relatively well-defined program goals and performance targets. Only the tourism department, among the agencies in the experiment, had had a performance evaluation program, a year before the PBB experiment. This department is discussed in greater detail later on in this paper.

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<th>Pilot Program</th>
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<td>Science and Technology Department</td>
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<td>Reconstruction of Elementary Schools for Mountainous and Old</td>
<td>Accelerating Commission for Development of Revolution and Old Areas; Education</td>
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<tr>
<td>Areas in 16 Cities</td>
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<td>Highroad Construction for 16 Poor Areas in the Tenth Five-Year</td>
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<td>Plan</td>
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<td>Basic Construction for Universities</td>
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<td>Asset Reorganizations of Commercial and Enterprises Group</td>
<td>Commercial and Enterprises Group</td>
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<tr>
<td>Supporting Poor Areas with Tourism Development</td>
<td>Tourism Department</td>
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After selecting the six pilot projects, the finance department notified the responsible agencies. It also organized a working committee, chaired by the director of the finance department and having members drawn from the different divisions of the department, to guide PED in performance evaluation.

The working committee then designed a self-evaluation form for the pilot programs. After the forms had been accomplished and sent back to PED,

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6 Since 2004, all long-term programs (more than 5 years) and programs with a budget of more than CNY5 million have had to carry out performance evaluation.

7 The Highroad Construction Program for 16 Poor Areas, for example, received annual funding of CNY250 million.
the performance review process began. It consisted of four major steps. First, PED checked for information completion and data errors in the basic data review. Second, the division conducted fieldwork evaluation and site visits, and asked program managers and agency officials to present performance information and respond to questions from PED and its group of experts about the programs. Third, PED analyzed the data and site visit information and produced performance reports. The final step was to disseminate the results. An early draft of the evaluation report was circulated among the relevant expert groups and agencies for feedback. On the basis of the feedback, PED revised the report and sent the final results to the responsible agencies and other relevant organizations and individual officials.

Two Case Studies

To better understand the challenges and accomplishments of the PBB pilot project, PED conducted site visits in the fall of 2005 and held interviews with budget officials and staff of the Guangdong finance department and two of the departments that were included in the pilot implementation, namely, the tourism and transportation departments. The tourism department was chosen because it had the longest history of performance measurement among the six pilot programs and was highly supportive of PBB. It was also a functional agency with relatively more autonomous authority in its daily operation and management. The transportation department, on the other hand, was new to the idea of PBB and did not volunteer to participate in the pilot phase. Because of these differences in background, capacity, and attitude toward PBB, the following case studies should provide an interesting comparison that highlights some of the daunting challenges and barriers to implementing PBB.

A Case Study of the Guangdong Tourism Department. The tourism department began to conduct program performance evaluation in 2002, a year before the PBB pilot project. The department evaluated 14 programs in 2002 and 35 in 2003. One of its programs, Supporting Poor Areas with Tourism Development, was selected by the finance department for the PBB experiment. The program has an annual budget of about CNY30 million.

Because the tourism department has had an internal history of performance measurement, it has shown strong support for the idea of PBB and has been very proactive about it. The promotion of tourism development in poor areas is among its strategic goals (interviewee D). It has also arranged

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8 The following were interviewed: two budget officials of the PED (interviewees A and B), a budget analyst of the PED (interviewee C), a budget analyst of the tourism department (interviewee D), and a budget analyst of the transportation department (interviewee E).
for representatives of the local congress and CPPCC to visit these poor areas to improve their understanding of the importance of the program and its accomplishments.

The tourism department created a working committee to assist in the implementation of PBB. The deputy director of the department, who is also vice president of the branch committee of the communist party in the department, headed the committee. The committee members came from the various divisions of the department and represented different areas of expertise, such as natural resource extraction, tourism program management, and tourist management. In addition, the department developed a vertical reporting structure and required tourism departments at the city level to create their own working committees if they had tourist programs in poor areas. Mayors often headed these working committees, showing the political significance of the performance evaluation.

To align its internal performance evaluation with the PBB pilot project at the finance department, the tourism department broke down the Supporting Poor Areas with Tourism Development program into subprograms, prepared financial plans for each subprogram, and submitted these plans with the budget request to the finance department. The PBB pilot project evaluated investment in public facilities such as restrooms and sidewalks, as well as security and tourist product development. But it did not review entertainment projects in scenic spots, because these projects are usually done with private investment (interviewee D).

Since the National Tourism Bureau had not started any performance measurement reform, the Guangdong tourism department did not have much prior experience to draw from and had to rely on its own thinking and research to define and measure performance. The key performance measures collected and used by the department were: (i) number of tourists; (ii) increase in local employment, hotels, and restaurants; (iii) increase in local resident income; (iv) amount of matching private investment; and (v) amount of matching investment from local governments. The department also determined whether scenic spots were open to the public (availability measure) and whether local residents had started paying attention to protecting natural resources, and evaluated the quality of communication between residents and tourists.

However, because of lack of experience and data, some of the measures were still primitive and the data were not comprehensive. Also, no significant change was made in the line-item budget structure to make it more oriented toward performance. Interviewee D admitted that the current accounting system could not provide adequate information for financial analysis. Also, most of the budget analysts and program managers of the department still
lacked the necessary experience and analytical capacity to define, measure, and analyze “performance.” As a result, “the tourism department used mostly qualitative evaluation” (interviewee D).

Despite these limitations, the performance measurement effort has stimulated innovative thinking and has had a positive effect on program management. It has led to more discussion between the tourism department and the agriculture, fishery, and forestry industries about facilitating development in poor mountainous areas. It has also raised policy makers’ awareness of the need to improve highway and highroad development and to develop long-term economic development and environmental protection measures. Furthermore, budget analysts and program analysts were trained to use performance information more effectively. Although there were some complaints about the workload associated with the PBB program, departmental staff were generally supportive (interviewee D). The management also helped in reducing staff resistance to PBB by linking program performance with employees’ performance evaluations and paying public compliments to high-performing employees. Moreover, well-performing programs were offered financial incentives, such as continuous funding and easier budget approval.

Finally, PBB has contributed to a cultural shift within the tourism department. Public officials and program managers today have become more aware of the importance of public accountability and pay closer attention to the results of public spending. PBB has also raised the significance of the program within the department. The success is directly linked to the attitude of the top leadership. As interviewee D commented, “top leaders’ acknowledgement is very important for PBB implementation. Many times in public, they reiterated the importance of tourism development in supporting poor areas so that the voice of tourism could be heard and be taken seriously.”

A Case Study of the Guangdong Transportation Department. In contrast to the experience of the tourism department, the PBB initiative at the transportation department took a very different development path. First, even though one of its programs, Highroad Construction for 16 Poor Areas, was selected as a PBB pilot project in 2003, the department itself did not start using PBB until 2004. It also had limited capacity to handle performance measurement tasks and had to rely on the finance department to do most of the data work for the pilot project in 2003.

However, interviewee D also admitted the shortsightedness of tourism development policies: “Programs cannot be too long. Two or three years is OK. Otherwise, private investors or local governments would not like to invest.”
“Highroad” refers to the road system that connects highways and rural roads. Highroad construction is an important item in the Guangdong Province Tenth Five-Year Plan (2001–2005) for Supporting Poor Areas. According to this plan, CNY250 million would be invested annually in highroad construction for 16 mountainous poor areas from 2001 to 2005, and by 2009, Guangdong would build 48,000 more kilometers of highroad to meet transportation demand in the province.

The program has not only economic but also political significance. According to interviewee E, highways are built for public officials who like to get credit and national attention for their accomplishments. Rural roads, on the other hand, are built for the public, especially in poor areas, to improve the quality of life. Highroads, linking these two road systems, are critical to politicians because they help realize the full potential benefits of both types of infrastructure investment (interviewee E).

However, the results of the first 2 years of spending on highroad programs in poor areas was not satisfactory, and this was probably one reason why the program was selected as a PBB pilot project by the finance department (interviewee B). Since the transportation department itself had no previous experience with performance measurement reform, support for the PBB experiment was weak (interviewee E) and the pilot project was done only to satisfy the demands of the finance department.

From the beginning of the project, there were many technical hurdles to overcome. Since there was no unified accounting system within the transportation department, it was almost impossible to provide all the details for program evaluation and cost analysis (interviewee E). Performance measurement in the department was further complicated by the fact that multiple providers and funders were involved. The department had more than 30 programs, with a total budget of about CNY400 million. However, this was just part of the financial picture, as the department often required matching funds from local governments and private investors. Because external parties were involved, the performance of the department in road construction was more difficult to measure because it depended not only on the effort of the provincial government but also on the cooperation of the external entities.

The transportation department was also highly constrained in staffing the management of performance measurement tasks. Its financial division had nine employees: the director, the deputy director, the internal auditor, the cashier, three internal accountants, an accountant responsible for managing

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10 One of the performance measures in the PBB pilot project was whether the department had successfully secured matching funds for projects.
business with the central Government, and, finally, an accountant responsible for managing business with the provincial government. All of them were already heavily occupied and could not commit much time to performance evaluation. Since individual departments had no fiscal or administrative authority to add and hire for new positions, the problem could not be resolved easily (interviewee E).

In addition, because of the diversity of its programs, the department found it difficult to define the goals of the programs and develop reliable and valid measures for program evaluation. For example, determining how the effectiveness of environment protection or the social benefits of building a new road should be defined and measured was a serious challenge. As a result, the department kept track of only very simple performance data, such as whether roads were open or closed. It also relied mostly on qualitative analysis in the evaluation process. As interviewee E remarked, the department could focus only on very raw performance measures and its ultimate goal was to ensure that people could have efficient access to roads for basic daily needs and emergency purposes.

This is not to say that there was no benefit from the PBB pilot project. It is believed to have contributed to better strategic planning and helped shift the budgeting focus from input to results of programs. However, with its highly constrained staff and administrative capacity, the transportation department was not enthusiastic about the PPB pilot project. In reviewing the situation, interviewee E agreed that the involvement of a third party, such as a private agent funded by the finance department, might have helped the situation and increased the financial transparency of the transportation department. Also, the department needed more incentives to encourage voluntary cooperation. Interviewee E remarked:

The finance department is responsible for developing an incentive system to increase agencies’ initiatives to implement PBB. For example, the finance department can simplify the budgetary request process for agencies that have better performance. This will help reduce the workload of these agencies. In addition, the finance department can publicize the PPB results and give nonfinancial acknowledgment to agencies that implement PBB well. This will further motivate not only agencies that have good performance but also agencies that have poor performance. Financial incentives could work, but if more resources were given to programs with better performance and less resources to poorly performing programs, this may contradict the principle of fiscal administration and reduce the efficiency of budget allocation.
Lessons from the Guangdong PBB Experience

Accomplishments

The review of the pilot projects showed that Guangdong Province had to, and will need to, surmount many hurdles in implementing PBB. However, the province should be complimented for its progress so far and its realistic approach to implementation. The Guangdong experience, when compared with the decades-long experience in Western countries, confirms the fact that the success of PBB reforms depends on several critical factors.

Securing top leaders’ support is important. Like the Western experiences, the Guangdong case study shows that strong commitment and support from the top leadership is a key to the successful implementation of PBB. From the very beginning of the reform, the finance department carefully secured political support for reform. The finance director introduced PBB to the president of the communist party in Guangdong, Dejiang Zhang, and to Guangdong Governor Hua Huang and received their full support. Careful selection of the six pilot projects and the ability to demonstrate accomplishments to top leaders helped the projects win further political support. President Zhang complimented the department thus: “The [Guangdong] finance department has done a great job in the performance evaluation of the Science and Technology Park for Private Enterprises program. I recommend that the department draw lessons for others from this pilot” (Guangdong Finance Department 2005, page 2).

Patience is necessary; the reform must be given time to evolve. The Western experiences show that PBB reform may take decades of experimentation to evolve and succeed. Therefore, the Guangdong reformers set a modest goal at the early stage of the reform: to “enhance understanding of performance evaluation.” They did not expect to make drastic changes in the system. Instead, they focused on learning, education, experimentation, and information dissemination to help officials understand better the importance of PBB. As interviewee A said, “We will not introduce PBB in all agencies until people have very good understanding of PBB. The challenges in PBB implementation in Guangdong are more political than technical.”

Focusing on the cultural shift is important. Guangdong officials realized that even though many technical and administrative conditions were not fully ready for a comprehensive PBB reform, they could start working on the necessary cultural shift and create a different managerial mentality in the

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11 This is the first principle of Guangdong’s PBB, published in Guidelines for Performance Evaluation (2005) (Guangdong Finance Department 2005, page 227).
bureaucracy. They wanted all provincial officials to understand that PBB was a necessary and inevitable step in reform. “We must show results where we spend money” (interviewee B). They also wanted to make sure that all budget officials in the finance department understood the importance of PBB as the driving force for the result-oriented reform in the future (interviewees A and E).

**Future Challenges**

Despite these accomplishments, tremendous hurdles still confront the Guangdong finance department. These challenges include the following.

**How to define “performance.”** The first technical challenge is how to define “performance” for different departments. The finance department needs to develop an inventory or a knowledge base of performance measures, quantitative as well as qualitative, for different departments. This is especially important at the early stage of reform, when many departments lack experience and understanding of which measures are appropriate, reliable, and quantifiable.

**How to benchmark “performance.”** After performance measures are defined, the finance department and program analysts in the different departments still need to know whether performance is acceptable or not. Currently, there is no benchmark for the PBB pilot projects. As a result, PED has had difficulty evaluating and analyzing their performance.

**How to expand the pool of expertise in performance evaluation.** Currently, the finance department is the primary source of expertise in performance measurement and budgeting, and within the department, PED specializes in performance evaluation. However, PED originated from the statistics and evaluation division, which primarily evaluates state-owned assets, not programs. Hence, if PBB is to cover more programs and agencies, the finance department will have to provide more training and staff development to reorient its analysts. In addition, it may need to rely on external experts in related fields. Unfortunately, the progress in establishing an expert inventory has remained unsatisfactory. This may create a bottleneck for the future expansion of PBB reform in Guangdong.

**Need for complementary personnel reforms to support PBB.** As the Western experiences have shown, PBB is an intensive data exercise and demands much time and resources from departments. The special software programs created by PED to reduce the reporting workload of departments have helped only the basic data exchange between agencies and the finance department. Time and people are still needed to collect and analyze data. Unfortunately, hiring decisions are outside the control of the functional departments and the finance department and are in the hands of the Staff Administration.
Commission (interviewee B). If the commission fails to recognize the mounting hiring needs of the finance department and other agencies, this will only create more work stress among staff and ultimately resistance to reform.

Need to create stronger departmental support for PBB. The case studies above show that the different departments have varying degrees of understanding and support for PBB. The finance department apparently has the strongest support and motivation to implement the reform. The tourism department also got solid support for PBB from its director, the party president, and the governor. The transportation department, however, has been less enthusiastic about the reform. Diverse opinions about PBB can be expected. However, if not managed carefully, those opinions may create significant political roadblocks in the way of reform.

Need for accounting and financial management reforms. The current focus of the Guangdong PBB reform is on performance measurement and program evaluation. Not much has been done to link performance information to cost information and budgetary requests, which are the focus of PBB reform in Western countries today. To fully link budgeting and performance measurement will require major reforms in the accounting system of the Government to improve the cost analysis of programs. However, the Ministry of Finance at the national level, and not the provincial finance departments, manages government accounts. Hence, how the accounting system reforms can be accomplished remains a puzzling intergovernmental question.

In addition, the current PBB reform in Guangdong focuses only on individual programs without considering the full operation and personnel costs of an agency, and hence does not give a full cost picture of programs. Under the current budgeting structure, budget expenditures are divided into three major categories: personnel expenditures, operation expenditures, and program expenditures. “Personnel expenditures” are payments made to agencies’ employees, including basic salary, allowances, subsidies, social security and retirement benefits, education stipends, health insurance, and housing subsidies. “Operation expenditures” are amounts spent on daily operations, such as business travel, supplies, maintenance and repairs, reception, and other business-related spending. “Program expenditures” go to the repair and purchase of large facilities, basic construction, renovation, and the provision of products and services. If future PBB reform is to include other expenditures in the analysis, significant changes in the accounting and budgeting system will be needed.

Issues of power distribution between the finance department and the budget offices of functional departments. The finance department currently plays a significant role in initiating and coordinating the PBB reform in
The Role of Public Administration in Building a Harmonious Society

Guangdong. But it has to work closely with the executive budget offices within the functional agencies, which are responsible for financial management and budgeting at the agency level. Because of lack of understanding of PBB and miscommunication between the finance department and these budget agencies, however, agencies sometimes fail to meet the reporting requirements set by the finance department. Some agencies also play “word games” with the finance department and fail to submit the necessary information. How the power structure between agencies’ budget offices and the finance department should be reshaped in the future is another major challenge and may create political hurdles for PBB reform.

**Realignment of responsibilities between divisions in the finance department.** As mentioned above, PED is a new division in the finance department, with responsibility for performance evaluation and PBB implementation. However, other functional divisions in the finance department monitor departmental budgets. How PED should coordinate with these divisions has remained a challenge (interviewee B). Before the implementation of PBB, these functional divisions were authorized to review budget requests from agencies and provide suggestions. Under PBB, after division review, all program budgets must be sent to PED for performance evaluation. This can sometimes be regarded as a challenge to the authority of functional divisions and can create political resistance to the reform. The problem is further complicated when PED is short of expertise in specific fields and when agencies complain that PED guidelines are unhelpful or are misinformed. These problems may require more careful examination of the administrative structure of the Guangdong finance department, which may need to evolve toward the model of the Office of Management and Budgeting of the US federal Government.

**Difficulties in aligning strategic planning and performance measurement.** As shown in the Western countries’ experiences, strategic planning is an essential element of PBB. Program objectives should be the basis for developing performance measures, and performance measurement should be used to evaluate whether program goals have been met. Ideally, program goals, objectives, and performance measures should be aligned. However, the institutional setting in the PRC may not allow this to happen easily. First, strategic planning is a top-down process. Public polices and goals are often set by the central and provincial governments, and departments have little flexibility in establishing their own strategic goals and performance targets. Even if a program is found to be ineffective and inefficient, a department may still need to continue its operation if the program is mandated by a
higher level of government. Situations like this may frustrate program managers and performance analysts who believe that PBB is meaningless and futile.

**Performance incentives.** As in the Western experience, the creation of positive incentives is critical in encouraging compliance and support for PBB reforms. In the current PBB system, there is no formal incentive policy to reward high-performing agencies or punish poorly performing programs. However, according to interviewee B, the finance department has informal rules for giving agencies incentives to perform. It tends to give higher priority to the budget requests and concerns of programs and agencies that have performed well in previous years. “This does not mean that programs that were not done well will get budget cuts,” said interviewee B. “Budget allocation should serve public policy and strategic plans, but we have considered accommodating agencies that have done a very good job.” Under this strategy, “the better the agencies spend their budget, the easier it is for them to have the next year’s budget approved” (interviewee E). These rules seem to be reasonable and are highly consistent with the PBB practices in many Western countries. In the future, the finance department might formalize these rules and make them more transparent to program and agency managers so that they can respond positively to the PBB reform. Also, they might extend the incentive system to personnel management and reward managers that help organizations become more effective and efficient.

**Conclusion**

This paper analyzes the recent PBB reform in Guangdong Province, PRC. Our analysis shows that reformers in Guangdong face technical, administrative, and political challenges that are very similar to those in other countries. The common core questions seem to be how “performance” should be defined and measured, how performance information should be aligned with budgeting and strategic planning, and how the reform should be implemented within a political system.

Our analysis also implies that the future success of the Guangdong reform will depend not only on the improvement of its administrative and technical capacity, but also on the political will of the leadership to tackle some sensitive questions, such as the role of the finance department and its relationship with functional departments, the power distribution between divisions of the budget office, intergovernmental relations, and the responsibilities of the executive and the legislative branches. In the PRC, the role of the Communist Party in the budgetary process and in other governmental decision making is also a fundamental issue that deserves special attention. Whether PBB can indeed
rationalize the budgetary process and enhance government performance depends in part on whether the communist party is willing to let go of part of its administrative control of the bureaucracy and let government managers manage according to the principles of cost-efficiency and effectiveness.

Hence, PBB is not just an idea for technical, administrative reform. It also challenges policy makers and reformers to rethink some of the fundamental questions of governance, such as who should have what power in the decision-making process, and when they should be granted the power. Perhaps one reason why PBB reforms in many Western countries often took decades to evolve is that the answers to some of these questions are not easily resolved. If any lesson can be drawn from the Western experience with PBB, it would be the prediction that the reform by Guangdong is just the beginning of a long journey that may take decades to complete.
References


______. Forthcoming. Accounting for the Value of Performance Measurement from the Perspective of City Mayors. *Journal of Public Administration Research and Theory*.


Appendix: Self-Evaluation Report of Guangdong Provincial Departments

1. Cover Page:
Report of Program Performance Self-Evaluation in Guangdong (recommended)

Type of Evaluation: □ Evaluation of implementation process  □ Evaluation of program results

Title of Program: __________________________________________________________

Program Code: ___________________________________________________________

Program Legal Representative Code: ____________________________________________

Agency Code: ____________________________________________________________

Expenditure Code: _________________________________________________________

Program’s Official Seal: _____________________________________________________

Agency's Official Seal: ______________________________________________________

Date: ______________________

2. Contents

<table>
<thead>
<tr>
<th>Name of program principal</th>
<th>Telephone</th>
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<tbody>
<tr>
<td>Program manager’s address</td>
<td>Zip code</td>
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</table>

Category of program: □ 1. basic construction  □ 2. special fund  □ 3. long-term program  □ 4. others

Program expenditure category
Program start date
Selected performance measures
Selected evaluation method

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<th>Provincial fiscal investment</th>
<th>Other investment</th>
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<td>Other investment</td>
</tr>
<tr>
<td>Expenditure</td>
<td>Provincial fiscal expenditure</td>
<td>Other</td>
</tr>
</tbody>
</table>

Program introduction
Performance measures
Program execution
Self-evaluation of program performance
Role of E-governance in Tackling Corruption: The Indian Experience

R. D. Pathak¹
R. S. Prasad²

Introduction

Corruption is a complex phenomenon. A vast literature is dedicated to defining the term. This paper defines corruption as the “use of public office for private gains” (Bardhan 1997). A similar definition is given by Rose-Ackerman (1999, page 3), who describes corruption as a symptom that something has gone wrong in the management of the state. Institutions designed to govern the interrelationships between the citizen and the state are used instead for personal enrichment and the provision of benefits to the corrupt. The price mechanism, so often a source of economic efficiency and a contributor to growth, in the form of bribery, undermines the legitimacy and effectiveness of government.

The work of Rose-Ackerman (1978, 1994) and Klitgaard (1995a, 1995b) is especially pertinent here. Professor Klitgaard’s and Rose-Ackerman’s corruption framework is succinctly summarized in the following equation:

\[ \text{Corruption} = \text{Monopoly} + \text{Discretion} - \text{Transparency (in governance)} \]

Corruption reflects poor governance and erodes the moral fiber of society (TII and CMS 2005). Corruption is anti-poor: the poor, the downtrodden, and the underprivileged are its worst victims. Corruption in any form affects societal harmony and all the institutions of civilized society. It affects human dignity, freedom of speech, equity, equal opportunities, social development, prompt redress of grievances and injustice, uniform distribution of wealth, rule of law, transparency, and accountability in governance. To create a more harmonious society, corruption must be eliminated or reduced.

E-governance, on the other hand, is defined as the use of information and communication technology (ICT) to bring about simple, moral,
accountable, responsive, and transparent (SMART) governance (Budhiraja 2003, Rajashekar 2002, Heeks 2001, Harris 2004). The objective of e-governance is to support and simplify governance for the community of citizens, civil society organizations, private companies, government lawmakers, and regulators (Tapscott and Agnew 1999). E-governance includes citizen-to-government (C2G), government-to-citizen (G2C), business-to-government (B2G), government-to-business (G2B), and government-to-government (G2G) transactions.

India is one of the few countries that have taken up projects to harness the potential of ICT for better governance. Different e-governance projects in India have had different objectives. Many of these projects have been very successful, whereas others have not been as successful and some projects have failed to achieve the objectives. But all the projects have succeeded in reducing corruption to some extent.

This study examines the relationship between successful e-governance and reduced corruption by analyzing some successful e-governance initiatives in India.

Corruption in India

After gaining independence, India opted for a parliamentary democracy. Democracy was supposed to bring good governance. But, though India has proved to be a stable democracy, it has not had good governance. The most important reason for this is pervasive corruption. Former Prime Minister Rajiv Gandhi observed that for each rupee spent on antipoverty programs only 15 paise reached the beneficiary: 40 paise was spent on overhead and 45 paise was lost to corruption.

India ranked 92nd among 159 countries in the Corruption Perception Index of Transparency International (TI) for 2005. On a range of 0 (highly corrupt) to 10 (very clean), India’s score was a poor 2.9. India ranked 72nd in the 2001 version of the index, 73rd in 2002, 83rd in 2003, and 91st in 2004. In other words, corruption in the country is perceived to be increasing from year to year. It is no consolation that all the other countries in South Asia also rank poorly.

In the India Corruption Study 2005, Transparency International India (TII) studied the corruption that common citizens face daily in 11 public services in 20 major states of India. The public services were grouped into (i) need-based services, comprising income tax, municipalities, judiciary, land administration, police, and rural financial institutions; and (ii) basic services, comprising schools, water supply, public distribution system, electricity, and government hospitals. Corruption was found to be greater among need-based
services. According to the study, to avail themselves of the 11 public services, citizens had paid bribes totaling Rs210.6 billion ($4.57 billion) in 2004. The most disturbing finding of the study was that even the judiciary is plagued by corruption. Sam Piroj Bharucha, former chief justice of the Supreme Court, said that up to 20% of all judges in India are corrupt. TII’s study put the value of corruption in the judiciary at Rs26.3 billion ($0.5 billion) yearly. The study also reported that three fourths of the citizens feel that corruption is increasing (TII and CMS 2005).

The study did not include political and business-related corruption or grand larceny, where billions of rupees are paid as bribes or siphoned off. If those figures were to be included, the magnitude of corruption in India would be mind-boggling. According to TI (2004), in government procurement alone, $400 billion a year is lost to bribery worldwide. The loss due to all forms of corruption could well run into trillions of dollars yearly. India contributes a major chunk as one of the world’s largest economies—and also one of the most corrupt.

**Types of Corruption in India and Contributing Factors**

Bhatnagar (2003c) differentiates between administrative corruption, collusion, and extortion. Administrative corruption involves delaying or denying service until a bribe is paid. Collusion, where both parties gain at the expense of government, involves favors, lowered taxes, waived penalties, and tampered government records. Extortion involves unreasonable demands by law enforcement authorities or tax collectors to extract bribes. Corruption in India can be classified into petty bureaucratic corruption at lower levels, administrative corruption involving senior public servants, and political corruption. Common corrupt practices are kickbacks, bribes, nepotism and misuse of office, misuse and abuse of public funds, unfair decisions in public procurement, and unethical and unfair award of contracts for personal gain.

The factors contributing to corruption are many: political patronage, politician-bureaucrat connections, politician-police-criminal connections, lack of transparency in government and bureaucratic functioning, lack of accountability, complex administrative procedures, discretionary powers of executive and administrative authorities, absence of effective corruption reporting mechanisms, lack of deterrents, poor conviction rates of the corrupt, corrupt judiciary, poor economic policies, black money, inadequate training of officials. Unfortunately, Indian society seems to have accepted corruption as a way of life, and the cost of being corrupt in India today is much less than the cost of not being corrupt (Sondhi 2000, Vittal 2004).
**Effects of Corruption**

The Supreme Court of India has compared corruption to cancer, plague, HIV/AIDS, and also royal thievery. On the effects of corruption, the honorable court said (AIR 2000):

The socio-political system exposed to such a dreaded communicable disease is likely to crumble under its own weight. Corruption is opposed to democracy and social order, being not only anti people, but also aimed and targeted at them. It affects the economy and destroys the cultural heritage. Unless nipped in the bud at the earliest, it is likely to cause turbulence shaking of [the] socioeconomic political system in an otherwise healthy, wealthy, effective and vibrant society.

According to Peter Eigen, TI chairman, “corruption is a major cause of poverty as well as a barrier to overcoming it” (TI 2005). Corruption makes public investment more expensive, reduces government income and its capacity for investment, retards the country’s growth potential and the growth of its gross domestic product, results in poor public infrastructure, shifts investments from priority sectors (socially important areas) like education or health and social welfare projects for the underprivileged sectors of society to large investments with the capacity to provide illegal earnings like defense purchases. Corruption restricts the access of citizens to public services they are supposed to get freely, generates black money, which in turn generates corruption, and increases the rich-poor divide. The costs of corruption to the country also include personal losses, loss of time, development cost, political cost, decline in the work ethic and degradation of values, and cost to the economy (TI 2001b). Politically, corruption increases injustice and disregard for the rule of law (Sondhi 2000). Corruption also affects foreign direct investment and foreign aid. Among the factors that contribute to poverty and its persistence, corruption is the most significant. Everyone suffers because of corruption, but the poor and developing countries, and the poorest people in these countries, suffer the most. Corruption keeps the society, the government, and the economy underdeveloped, in the process creating social tensions and disharmony.

**Combating Corruption with E-Governance**

N. Vittal, India’s former chief vigilance commissioner, suggested a three-point formula for combating corruption: simplified rules and procedures, greater transparency and empowerment of the public, and effective punishment for the corrupt (Vittal 2004). In an opinion poll by Cho and Choi (2004),
84.3% of the respondents said that the OPEN system (for “online procedures enhancement”) for civil applications, set up by the Seoul metropolitan government to fight corruption, had made the city administration more transparent, and 72.3% said that they were happy with the administration. Another survey by Fuliya and Bansal (2005) showed that providing a wide range of citizen-friendly services in one place through e-governance did away with middlemen, reduced corruption, and improved service delivery.

ICT offers benefits not found in conventional information management systems that make these reforms possible. As Colby (2001), Chaurasia (2003), Budhiraja (2003), and Millard (2004) point out, ICT allows greater accessibility, wider reach, instant communication and spread of information, automatic record keeping, systematic classification and recovery of data, better knowledge management, and sharing of information. Those responsible for particular decisions or activities are readily identified and administrative actions are more transparent. These characteristics can transform public administration and the relations between government and citizens, and make ICT a powerful tool in combating corruption in public administration.

According to Bhatnagar (2003b, 2005), e-governance introduces transparency in the data, decisions, actions, rules, procedures, and performance of government agencies. It simplifies processes and rules, takes away discretion by automating processes, builds accountability, introduces competition among delivery channels, standardizes documentation for more effective supervision, centralizes and integrates data for better audit and analysis. Citizens no longer have to bribe officials because the chances of exposure are high. The result is greater civic engagement and less corruption, leading to good governance.

E-governance upholds honesty and integrity in public administration, Yisheng (2002) puts in, adding that e-governance, in helping to prevent corruption, helps to promote democracy and the rule of law.

“Transaction governance capacity” can thus be created, Prahalad (2005) says. The citizens are empowered, no longer information-poor, able to participate, no longer obliged to wait in long queues for services that are their due, and, above all, no longer exposed to the social and economic consequences of corruption.

“In India] e-governance initiatives have begun to cut through the web of bureaucracy,” notes Sing (2003). “Some states in India have begun to provide service delivery on line. And government web sites sometimes provide practical information on how to confront complaints about corrupt acts.” A study of 21 successful e-governance projects in India by Skoch consultancy services (Kochhar and Dhanjal 2004) brought out the marked decline in corruption as a result of the projects. According to the study report, 81% of the respondents
reported a reduction in corruption. The findings of that report are summarized in a table in the appendix.

A survey of 4,500 citizens from five cities (Hyderabad, Delhi, Mumbai, Kolkata [Calcutta], and Chennai) by the Center for Media Studies (Economic Times, 19 January 2004) showed that e-governance has brought down corruption in India. The study covered basic services, electricity, municipal corporations, urban development, transport, civil supplies, hospitals, water supply, and railways. Between 2000 and 2004, corruption went down from 63% to 27% in Hyderabad, from 51% to 19% in Kolkata, and from 38% to 18% in Chennai. But the level of corruption stayed about the same in Mumbai and even spurted from 40% to 49% in Delhi. The decline in corruption in Hyderabad, Kolkata, and Chennai was attributed to the successful functioning of e-governance projects.

**E-Governance Projects leading to Reduced Corruption**

For this study, we analyzed e-governance projects that, according to most studies of egovernance projects (including Dataquest 2003, and Kochhar and Dhanjali 2004), succeeded not only in achieving their stated primary objectives but also in reducing corruption.

**Bhoomi**

Bhoomi, a G2C e-governance project in Karnataka, a state in southern India, is a noteworthy example of how ICT can help reduce the discretion of authorities, improve accountability and transparency, and reduce corruption. Farmers in Karnataka who apply for a bank loan, verification, or a government pension have to present land deeds—known as records of rights, tenancy, and crops (RTCs). Before this e-governance project, 9,000 village accountants (VAs) managed all the land records. These were not subject to scrutiny and there was no accountability or transparency in providing the service. The VAs enjoyed many discretionary powers. Mostly these village accountants were inaccessible and they delayed or withheld the service until bribes were paid. It used to take 3 to 30 days to get an RTC, depending on the bribe paid. The bribes ranged from Rs100 to Rs2,500 ($2.1 to $52.1). Similarly, requests to amend land records to reflect sale or inheritance first had to be verified by the VA, who then forwarded the applications to the revenue inspector for the changes to be made. The process used to take up to 2 years, again depending on the bribe paid. It was not uncommon for these officials to tamper with government records to provide unfair advantages to people who paid bribes. VAs used to get bribes of around Rs10,000 ($220) for writing ambiguous reports.
For Bhoomi, the Karnataka government set up computerized land record kiosks (Bhoomi centers) in taluk (subdistrict) offices to provide the service to the farmers. The Bhoomi project automated 20 million land records affecting 6.7 million farmers. Now in less than 10 minutes and for only Rs15 ($0.30) a farmer can get a copy of an RTC online from any of the 180 computerized kiosks. A touch-screen facility allows easy access. Bhoomi has totally eliminated the discretionary powers of officials by providing for online change requests. Accountability has been built in, as the kiosk operators have to provide the service within a given time, and so has security of data, transactions, and procedures. The operator of the system is accountable for decisions. Improved accountability has resulted from the deterrents imposed by the system: it tracks all database changes, documents all objections, gives the citizens easy access, and enables them to back their complaints with evidence.

Service is no longer delayed or withheld, as the transactions occur in a public place and follow a simple first-in-first-out procedure, and the people are becoming more aware that they do not have to pay bribes. According to an empirical assessment made in 2004 by the Public Affairs Center Bangalore under the World Bank-funded Governance Knowledge Sharing Program, 78% of system users found it easy to use and simple and 66% could use the kiosks without help. Seventy-nine percent did not have to meet any officials except the kiosk operator, whereas in the manual system 19% had to meet at least one official and 61% had to meet two to four officials. Errors in documents had gone down from 64% to 8%. Ninety-three percent of users who received documents with errors sought to have them corrected, compared with 49% in the manual system. The implementation of change requests had improved by 85%. The most important benefit was that corruption had gone down from 66% to less than 3%. The Bhoomi project has saved the farmers Rs806 ($17.5) million in bribes and Rs66 million ($1.43) in wages yearly (2002–2003) (Lobo and Balakrishnan 2002, Narayan 2004, Bhatnagar and Chawla 2001).

**Computer-aided Administration of Registration Department (CARD)**

CARD is a major success story of e-governance in Andhra Pradesh, one of the most IT-savvy states in India. The conventional procedure of registration was cumbersome. It involved 13 steps, among them, ascertaining the value of the property, calculating the stamp duty, writing the legal document, having it verified by a sub-registrar, copying the document, posting entries into the register. Even a person selling a small piece of land had to go through stamp vendors, document writers, registration agents (middlemen), registration
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offices, and other agencies. In Andhra Pradesh the 387 registration (sub-registrar) offices were all loaded with work, as registrations ran into 120 million documents a year. Each step and each person in the process caused and contributed to corruption. The entire process was shrouded in secrecy. The procedures were very complex, rigid, and incomprehensible to ordinary citizens. There was total lack of transparency in the evaluation of stamp duty, a major source of revenue to the state government. Although guidelines were available, the procedure gave much discretion to the officials and led to a considerable amount of corruption. Dishonest citizens exploited this weakness by paying bribes. Honest citizens, who would not pay bribes, were assessed a higher stamp duty or had to endure slow service. There was no accountability. Ordinary citizens had to seek the help of middlemen, who colluded with the officials and served as conduits for bribes.

The aim of the CARD project was to purge the corruption-ridden registration system by demystifying the process, introducing transparent and easily understandable valuation, speeding up the process, and improving efficiency and the citizen interface with an electronic document writing and document management system. The idea of automating the functioning was conceived in 1988 but met with little success at the time. A second study in 1996 led to a pilot project in September 1997, which had more success and was extended to 212 registration offices. At present, CARD operates in 387 sub-registrar offices throughout Andhra Pradesh. The service levels for various services have been established and prominently displayed in the offices. Registration now takes only 1 hour (instead of 1–7 days under the old system), encumbrance certificates are issued in 10 minutes (instead of 1–5 days), certified copies are released in 10 minutes (instead of 1–3 days). Document writing, which used to take several days, can now be completed in 30 minutes, and valuation certificates, which used to take a whole day to issue, can now be obtained in less than 10 minutes. Within 6 months of operation, 80% of CARD transactions were carried out electronically. CARD has brought transparency in property valuation, and citizens themselves can calculate the duty. Officials are now responsible for providing the service within the specified service levels. CARD has established the accountability of officials and greatly reduced discretion. Now the system handles on the average 5.7 million documents, 3.6 million encumbrance certificates, and 2 million market valuation slips annually. The most significant achievement of CARD has been eliminating middlemen and organized corruption. Corruption is down by 90%. In the absence of bribes, the savings to the citizens amount to more than Rs1 billion and more revenue goes to the treasury (Satyanarayana 2001).
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Computerized Interstate Checkpoints in Gujarat

Gujarat, a state in the western part of India, has an extensive road network. The national highway links the Indian capital of Delhi with Ahmedabad and allows the passage of goods between the northern and western states. One of the largest seaports, Kandla port, is in this state. For these reasons, there is heavy movement of vehicles carrying interstate goods on Gujarat highways. It is estimated that more than 25,000 interstate transport vehicles ply these roads every day. More than 70% of these vehicles were found to be overloaded, posing grave danger to other road users. The truckers overloaded their trucks to earn more (and the manufacturers of goods avoided sales tax and central excise duties), as the normal practice was to calculate weight or size by the truckload.

The Gujarat government has 10 interstate checkpoints managed by road transport officials of the Gujarat motor vehicles department, which controls road transport activity in the state. The officials check whether the interstate vehicles have paid the required road taxes or not, have all the required documents (like insurance and permits), and are not overloaded. They can also impose penalties for headlights that are broken or not working and for nonstandard license plates.

These checkpoints were notoriously corrupt. Officials were known to pay Rs10 million ($0.21 million) to purchase jobs at especially lucrative checkpoints. In 1999, out of 137 officials in the department, 27 were under suspension for corrupt practices.

Under the old system, suspect vehicles had to wait in line at the checkpoint. The average waiting time was 46.6 minutes. The official (inspector) examined each vehicle and, if he wanted its accurate weight, he sent it to the nearest weigh bridge. After inspecting the documents, the inspector calculated the penalty depending on the overload and issued a penalty notice. This process took 22.4 minutes on the average. The driver paid the penalty and then drove away. Documents were verified manually and the penalties imposed were arbitrary and discretionary. The old system also had other shortcomings. Only a few vehicles could be checked in a day, so that revenue was lost to the state. Truck drivers were normally held up for several hours and were forced to pay speed money (bribes) to the officials. Collusion between the officials and truck operators was not rare; in fact, some officials were known to be on the payroll of large transport companies.

To speed up the service and to ensure full inspection, the government of Gujarat implemented computerized interstate checkpoints. In this automated system, all vehicles were checked at the checkpoint, in the order they arrived. Each vehicle was weighed on an electronic weigh bridge, and the weight was
automatically transmitted to the computer in the checkpoint office. At the same time, the license plate was digitally scanned and the information was sent to a video server, where it was converted into text form. The weight and license number of the vehicle were transmitted to a control room in Ahmedabad, the state capital, over dedicated communication lines. At the control room, the particulars of the vehicle and details like road tax payment were checked with the help of license plate tracking software. If the vehicle was not yet included in the system, the details were added to the database. If taxes had not been paid, a message to that effect showed up on the computer screen at the checkpoint. The permissible weight and actual weight were also displayed. The software computed the penalty automatically and a system-generated receipt was issued to the driver for the necessary payment. To ensure transparency, all these details were also displayed on an electronic board outside the checkpoint office for the benefit of the driver. The driver paid with a prepaid card and was required to make good any other aspect noted on the computer, like repairing broken headlights, before exiting the checkpoint, as only then would the automated barrier let the vehicle through. The entire process now took only 2 minutes, despite the thorough check.

Checkpoint officials could no longer be arbitrary or collude with erring truck drivers. As a result, the annual income of the checkpoints quadrupled from Rs627.75 million ($13.6 million) to Rs2.6 billion ($0.05 billion). The increase in revenue itself indicates how prevalent corrupt practices were in the system. A study team from the Center for E-Governance of the Indian Institute of Management (IIM)—Ahmedabad conducted a survey on the effectiveness of the project 1 year after it was first implemented. According to the survey report, revenues had gone up tenfold and the $4 million investment had been recovered in just 6 months, increasing the revenue of the state. This project succeeded in eliminating corruption. However, it was later abandoned for reasons unrelated to the functioning or efficiency of the system. This project was conceived in 1998 by a former transport commissioner of Gujarat state and implemented with support from the Gujarat government. Many road transport officials saw the project as a threat. However, it was implemented smoothly and ran well for a year, under the former commissioner. After his transfer to another post after that year, monitoring mechanisms fell into disuse, maintenance and service contracts were not renewed on various pretexts, and the service provider therefore withdrew his people. This gave the road transport officials the opportunity to misuse the system and revert to old practices (CEG-IIMA 2002, UNDP-APDIP 2005). This case amply demonstrates how important it is for the project champion and the government to give sustained support to e-governance projects that root out corruption.
**Saukaryam**

Like all other municipal organizations in India, the Visakhapatnam Municipal Corporation in the state of Andhra Pradesh was known for inefficiency, corruption, complicated procedures, and poor service. Even simple services like getting a birth certificate or property tax assessment used to take several days—and bribes from citizens. Building plan approval was not transparent, took an inordinate length of time, and bred corruption. Marked by secrecy, bids and tenders for public works and procurement by the municipality were also traditional sources of corruption.

Saukaryam ("comfort or facility" in the Telugu language) is a pilot e-governance project aimed at bringing transparent municipal services to the citizen's doorstep. It is also the first project in the country that is based on public-private participation in e-government. This project covers the whole gamut of online service provision. Citizens can access the Saukaryam through its Web site, through kiosks in civic centers, or through a network of banks. With Saukaryam, citizens can check and pay their tax dues, apply for building plan approval and track the status of approval, get birth and death certificates instantly, and register their complaints—all online. They can also get redress of problems regarding taxation, water supply, and works management, as well as information about town planning and leases of municipal property online. Hospitals can forward birth and death information online. With the Saukaryam project, the Municipal Corporation has started publishing all information about bids and auctions, tenders, and procurement decisions on its Web site. Interested parties can apply online and follow the progress online. The result of all this is transparency.

Another salient feature of the project is the citizen's charter, which lays down the standards of service to citizens, thus ensuring and improving accountability. The rules and procedures are prominently displayed on the Saukaryam Web site. The utility-driven site serves every need of citizens around-the-clock and has done away with the need for a personal visit, which used to present an opportunity for corruption and harassment of citizens at the hands of corrupt officials. This project also provides an online citizen's forum, where citizens can discuss problems and vent their grievances.

Every day more than 3,000 citizens use this facility, and the Web site has more than 25,000 registered users. Services have improved many times over, in quality and speed, and corruption has largely been eliminated. This can be seen from the increase in municipal tax collections. The Municipal Corporation, which had run up debits of Rs350 million ($7.6 million), has earned a surplus of Rs1.0 billion ($21.7 million) since the project was implemented. The names of tax delinquents have been published on the Web
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In 2001 and 2002, 37,000 birth certificates were issued online and 17,000 of 18,000 complaints received were answered. After 5 years in operation, Saukaryam and the city of Visakapatnam have become inseparable (Jaju 2003, www.saukaryam.org, www.stockholmchallenge.se).

Customs Online

This is an e-government initiative of the central Government. Customs used to be perceived as one of the most corrupt departments and was known for slow service. Like any other government department, it had quite complex rules and procedures, with 18 stages of processing for exports and 15 for imports. The authorities had vast discretionary powers and no accountability.

The Government of India has introduced online functioning in all 23 customs offices all over the country. The process has been reengineered and the number of stages of processing has been reduced from 18 to 6 for imports and from 15 to 5 for exports. Digital signatures and payment gateways have been brought in. The e-filing of customs documents for imports and exports is in place and remote filing through an electronic gateway became functional in January 2004. Now 95% of all documents are filed online and 100,000 people visit the customs Web site daily to file papers or to check their status. On 1 April 2005, the customs department started accepting the electronic payment of duties. Users can now pay through designated banks.

Various studies on the effectiveness of the new system have found it to be simple, transparent, fast, and on the whole a great success. The reduction in corruption is estimated in billions of rupees. In the absence of detailed data it is difficult to quote exact figures. But there is ample evidence that online functioning has brought down corruption substantially, increased transparency in functioning, and improved services to the citizens (www.nasscom.org).

Vijayawada Online Information Center (VOICE)

The Vijayawada Online Information Center (VOICE) was an e-governance initiative launched in 1999 by the Vijayawada Municipal Corporation. Municipal corporations are well known for corrupt practices and Vijayawada Municipal Corporation was no exception. Citizens, who depended on it for services had to make a number of visits to the municipal office and pay bribes. The speed of service depended entirely on the bribe paid.

To bring the services closer to the citizens, five kiosks connected to the central server were opened in the town, eliminating the need for personal visits by the citizens. Some information was also provided on a voice response system. After implementation, VOICE provided efficient services to the citizens.
in a transparent and speedy manner. Citizens could get most of the services as well as information online, including building approvals, payment of taxes, public health, and engineering, municipal budget allocations, tax payment, grievance registration and monitoring, birth and death certificates. Rent for advertising space was calculated automatically, removing discretion and introducing transparency. In just one year, 2002, the system issued 15,000 birth and death certificates, 2,100 building approvals, and 224,000 demand notices for taxes. Of the 7,700 grievances that were registered, 97% were resolved. This project has reduced corruption, made services more accessible, and improved the finances of local governments (Kumar and Bhatnagar 2001, www.worldbank.org, CMC Limited 2004, Government of Andhra Pradesh 2005).

**Karnataka Valuation and E-Registration (KAVERI)**

KAVERI is a Karnataka government e-governance project aimed at speeding up property registration and the delivery of documents to citizens through fully automated registration. The maladies of the registration system were similar to those in Andhra Pradesh (CARD project): no transparency, complicated procedure, discretionary powers, presence of middlemen and insensitive officials. Corruption flourished. In addition to paying bribes, the people found that the process also took a large toll of their time. Earlier attempts by government to improve the system through automation did not produce the desired results. Various studies on the functioning of the old system clearly indicated that unless all the processes were reengineered, the project might not achieve the stated aim. Also, large amounts of funds were needed to automate 201 registration offices.

The government of Karnataka overcame this problem through public-private participation, whereby private parties run the front-end operations (interactions with citizens) through kiosks and the registration department handles the back-end process. The private partners provide the hardware, office furniture, and manpower needed for front-end operations like data entry, scanning, and archiving. They are expected to recover their costs from the service fee charged to the users. The registration department provides the software, completes the registration, and issues the certificates. The project became fully operational in 2003 and is a success. A survey by Skoch International in Bangalore found the project user-friendly, simple, and fast in delivering service. A major finding of the survey was that corruption had gone down by 80%. Respondents rated the reduction in corruption at 8 on a scale of 0 to 10 (Murthy, Mujibshiekh, and Patil 2002) (see Appendix).
Central Vigilance Commission (CVC) Web Site

By any standards, the CVC Web site is the most innovative experiment in e-governance by a government department with the responsibility of controlling corruption in the government. CVC was made a statutory body in 1988 at the direction of the Supreme Court of India. Under the leadership of the then Commissioner N. Vittal, CVC had the idea of propagating zero tolerance of corruption. It launched a Web site to share information about corruption with the general public. This Web site is unique in many aspects. It gives information about the role, responsibilities, and strategies of CVC for fighting corruption. It guides the citizens on the procedure to be followed in lodging complaints without fear of reprisal. Other information on the Web site includes a list of nominated officers from different departments who are responsible for taking the complaints, and corruption statistics. The most important feature of the Web site is the published list of Indian Administrative Service and revenue service officers who have been charged with corruption or punished.

The easy procedure of making complaints against corrupt government servants, and the likelihood that the names will be published on the Internet, has been an effective deterrent to corruption. The initiative has generated much resentment among senior officials but has been well received by the public. A public survey by the Economic Times on the effectiveness of this experiment showed that 83% of the respondents believed that naming the officials charged with corruption would have a deterrent effect. In a separate study by the Hindustan Times, 90% of the respondents welcomed the move. Some officials tainted with corruption were found to be in sensitive posts, which they should not have been occupying in the first place. The Web site also enables the mass media to transmit important information to the public, offsetting the problem of low computer and Internet density in India. The site is undoubtedly a bold attempt to make information available to the general public and discourage corruption (Bhatnagar 2003a, Vittal 2004, www.cvc.nic.in).

e-Seva

The aim of e-Seva ("electronic service") is to provide services to citizens under one roof. The e-Seva project, first implemented by the Andhra Pradesh government on 25 August 2001, allows citizens to pay their utility bills and taxes, register births and deaths, obtain birth and death certificates, apply for passports, file sales tax returns, and pay bills to telecom companies, all under one roof. Previously, the citizens availed themselves of these services at many different offices, in the process going up against petty bureaucratic corruption,
and generally wasting much time. Now e-Seva provides a one-stop shop for more than 66 G2C and B2C services. Many more services like railway reservations are in the pipeline. Forty-six e-Seva centers, with 400 service counters, are spread over the twin cities of Hyderabad and Secunderabad, and also Ranga Reddy district, and any citizen in these areas can access the services at an e-Seva service center. The centers are open from 8 a.m. to 8 p.m. on working days and 9 a.m. to 3 pm on holidays (second Saturday and Sunday of each month). Payments can be made by cash, check, or demand draft, with a credit card, or on the Internet.

This project is a tremendous success and has been extended to other parts of the state, including the rural areas. It cost Rs360 million ($7.82 million). In August 2001, collections amounted to a modest Rs 4.3 million ($0.093 million); by 2004, they had reached Rs2.5 billion ($0.54 billion). eSeva centers now collect revenues of Rs3 billion ($0.06 billion) monthly and serve 3.5 million citizens. eSeva has succeeded in providing all services to citizens under one roof and in making the processes transparent and eliminating corruption (www.esevaonline.com, Raghveer 2005).

Discussion

An analysis of the above cases amply demonstrates that e-governance can be very effective in reducing corruption or eliminating it altogether.

Corruption flourishes where there is no transparency in government functioning. The availability of high-quality information about governance enhances transparency. Most of the e-governance projects studied above have increased transparency by making available information about the functioning of government and its officials to the citizens around the clock or on demand by using technologies like the Internet. The Saukaryam project, for example, provided total transparency in awarding public works contracts by publishing all the relevant information on the Web. This transparency in operations and decision making has greatly eliminated corruption. The more transparent the system of governance, the less the opportunities for corruption.

Most e-governance projects brought governance (services) to the citizen’s doorstep. Under the old system, for every service the citizen had to go to the department concerned and hand over the applications for the service to officials. This face-to-face contact gave the officials the opportunity to extract bribes, which most citizens felt compelled to pay to speed up the service and not have to make another visit. With e-government projects like Saukaryam, Bhoomi, and Customs Online, citizens and businesses can get now services without meeting any officials. Thus, e-governance projects strike at the root of corruption by eliminating opportunities to commit it.
Complex and ambiguous rules and cumbersome procedures give officials discretionary powers, which are the root cause of corruption in many organizations like the customs, income tax, and road transport departments. In Gujarat, the road transport officials enjoyed unquestioned discretionary powers in checking vehicles or setting the penalties levied on truck operators. The computerized interstate checkpoint project has taken away the discretionary powers of road transport inspectors by making innovative use of technology and simplifying the process. The fivefold increase in state revenue proves how effective the e-governance project has been in eliminating corruption.

As the government is the sole provider of many services to citizens, the officials used the government monopoly to commit corruption by delaying or denying services to the citizens. In the manual system in Karnataka state, no one could get an RTC from the village accountant within a reasonable amount of time without paying a bribe. In the Bhoomi project of Karnataka, CARD, and other e-governance initiatives, technology helped overcome the problem of monopoly by setting service levels. Government agencies or officials could no longer delay the service for want of bribes.

The e-governance projects discussed above made the government and its officials accountable for their actions. Unlike the manual processes, the computerized systems allow all actions to be traced back to the source. Responsibility for inappropriate actions or incorrect decisions can thus be determined. Citizens can track their applications and complaints, and bring any delay to the notice of higher authorities. Unlike the paper-based systems, the computerized systems enable superiors while working online to monitor the progress and retrieve electronic documents. The publication of budgets, performance indicators, and citizen’s charters also helps improve accountability and reduce corruption.

In most cases, the reduction of corruption is a by-product of a primary objective like enhancing the speed of delivery of services to citizens. But as the CVC Web site experiment proved, such e-governance initiatives can be used to declare war on corruption. Despite strong objections from many quarters, the CVC persisted with the initiative, which awakened the consciousness of the society. Many corrupt officials had to face the ignominy of finding their names in the published list.

Successful e-governance systems standardized rules and procedures, and reengineered processes to eliminate discretion. The design of the systems did not permit any deviation from the established procedure, and nonconformance was reported. Similarly, features contributing to accountability and transparency were deliberately built into the design of the systems. However,
e-governance systems also need continuous monitoring and assessment. The governments cannot afford to be complacent after the initial success. Once the employees understand the new system, some of them can develop new ways to circumvent the system or they can contribute to the project’s premature demise through other means. Gujarat’s interstate checkpoint project is an example of this.

To fight corruption, e-governance projects must be selected from areas where opportunities for corruption are high, and the citizens must be involved right from the design stage. The design should be based on what the citizens want rather than what the government thinks they want (the traditional approach). But the use of ICT alone will not guarantee the success of an e-governance project in achieving its objective and eradicating corruption. The processes must be examined thoroughly and reengineered, as using ICT with outdated processes only increases corruption by providing opportunities to perform corrupt practices faster.

Most of the e-governance projects discussed above (including Bhoomi, Saukaryam, and CARD) have also improved government revenues and paid back the investment in a few months of their operation. E-governance projects like Bhoomi, VOICE, Saukaryam, and e-Seva have generated employment opportunities for the poor. These projects have also proved that problems like illiteracy and the digital divide can be tackled through innovative use of ICT; the Bhoomi project is a clear example of this.

Much research has been done on corruption and e-governance. But not many studies have focused on the impact of e-governance on corruption. Well-designed citizen feedback surveys can be of immense help in improving the e-governance projects and are urgently needed.

Conclusion

Corruption destabilizes society by creating social tensions. Corruption also indirectly increases the crime rate and violence in the society. Rampant corruption in government has pushed many young people into extremist groups. The e-governance projects discussed above have made governing transparent, taken away arbitrary and discretionary powers of government servants, and made these government servants accountable. The citizens now have more say in governance and feel empowered. The e-governance projects have showed that innovative use of ICT not only improves services to citizens but also reduces corruption and improves government revenues, which can be used for socially relevant areas like health, education, eradication of poverty, and the uplift of the downtrodden. The e-governance projects have also generated employment especially for the rural poor. All the citizens share equal
opportunities; no one is more equal than others. E-governance alone may not be enough to eradicate corruption, but it certainly can complement other efforts. Conversely, the elimination of corruption results in good governance. In the light of the Indian experience, we conclude that e-governance has the potential to tackle corruption effectively and usher in societal harmony.
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## Appendix: Skoch E-Governance Report 2004 (Summary)

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</tbody>
</table>

a Compared with manual system.
CARD = Computer-aided Administration of Registration Department; CIC = Community Information Center; KMDC = Kalyan Dombivli Municipal Corporation; LR – MIS = Land Record Management Information System; TIMS = Tax Information Management System; TIN = Tax Information Network

Note: The projects were rated on a scale of 0 (least effective) to 10 (most effective).
Innovations in Governance and Public Service: The Case of Andhra Pradesh State in India

Seeta Mishra¹
R.K.Mishra²
J. Kiranmai³

Introduction

Innovations in governance and public services have led to societal harmony in developed countries. Similar reforms are being carried out in many Asian countries. This paper discusses the participatory governance reforms that have been introduced in the Indian state of Andhra Pradesh to boost societal harmony.

Scope of the Study

The paper starts by discussing the concept of stakeholder participation in governance in Andhra Pradesh and then goes on to discuss innovative programs based on the concept. The programs reviewed here are the Janmabhoomi (serve the motherland) Program, water users’ associations, watershed development program, and vana samrakshana samithis (community forest management groups).

Methodology Used

An impact evaluation exercise was undertaken to gauge the effectiveness of these schemes in the light of suitable parameters. Achievements in the core areas were compared with the status of the core programs in 2000 and milestones to be achieved in 2010 and 2020. Policy makers, government officials, and other stakeholders were interviewed. A pre-designed and structured questionnaire was used in the interviews.

Free veterinary camps organized in five districts of Andhra Pradesh as part of the Janmabhoomi Program were evaluated in detail. First, 599 livestock owners in 42 villages in the five districts, 59 departmental staff and nodal officers, and 46 people’s representatives were interviewed. Then qualitative

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information was obtained through observations and detailed discussions with people's representatives, village functionaries, and district officials.

The innovations have fundamentally transformed the government-people interface. But implementation has been far from perfect. Some critical aspects, such as transaction cost, change management, and institutional reform, have not received the required attention from government, such that the achievement of the objective of societal harmony has been undermined. The survey findings indicated, for instance, that veterinary services have indeed been brought closer to the local people, as planned. But those surveyed also felt that the program must be strengthened and sustained. The veterinary camps were seen to be constrained by inadequacy of personnel, drug supplies, and logistical support.

The Janmabhoomi Program

The Janmabhoomi Program was launched in the state of Andhra Pradesh on 1 January 1997. This people-centered participatory development process reportedly evolved out of the experience gained in the implementation of the Prajala Vaddaku Palana (taking administration to the people) and Sharmadan (volunteer labor for development) programs and micro-level planning in the state from November 1995 to December 1996. The program was deemed necessary because of uneven and inequitable development, and the wide gap between the people’s aspirations and their fulfillment, particularly for the poorest of the poor. The people’s participation in formulating and implementing development schemes had not been effectively harnessed; they had become mere beneficiaries instead of partners in development.

The Janmabhoomi concept envisions public participation in all aspects of development. Everyone is encouraged to internalize the time-tested values of sacrifice, hard work, diligence, discipline, honesty, self-respect, and the quest for excellence, and every institution, the principles of participation, equity and equality, transparency and accountability, organizational excellence, and sustainability. As the village develops, so will the wider area, the district, the state, the country, and the people as a whole.

Objectives and Interventions

The interventions contemplated under Janmabhoomi are sensitization and values education, promotion of grassroots people's institutions built around specific interests (such as women's thrift and credit groups, youth groups, and watershed committees), institutional strengthening of local bodies through decentralization and participatory planning, training and orientation for all those involved in program implementation, and administrative reforms.
All activities of public bodies are subjected to social audit, and each department has a citizen's charter, which sets standards for the services to be provided to the citizens. Emphasis is given to awareness building through the spread of knowledge and information.

**Core Areas**

The core areas of the Janmabhoomi Program are community works, primary education, primary health care and family welfare, environmental conservation, and responsive governance.

Community works under Janmabhoomi are taken up to provide basic services to the people, strengthen social and human development infrastructure, and give sustained employment to the unemployed and the underemployed. These community works are categorized into priority, permissible, and restricted work. The priority work includes supply of drinking water, sanitation and access to primary health care and education. The permissible work includes the construction of community halls and link roads. The restricted work includes construction of marriage halls, open air theaters, high school buildings. The people (except for scheduled castes and scheduled tribes) contribute 30% of the costs in priority work, 50% in permissible work, and 100% (no counterpart funding from government) in restricted work. Except for the scheduled castes and scheduled tribes, which constitute the weaker section of society, in all other cases the contribution has to come in the form of funding. The scheduled castes and scheduled tribes are completely exempt from funding the Janmabhoomi programs.

The focus in the core area of health and family welfare is on providing effective, accessible, and affordable basic health care and family services to ensure child survival, development, and protection, and equal status and opportunity for women.

**Program Goals**

The goals to be achieved in the core area of primary health care and family welfare in 2000, 2010, and 2020 are presented in Table 1.

**Environmental Conservation**

The community activities in the core area of environmental conservation are campaigns for clean and green villages, clean and green towns, sanitation maintenance (a weekly drive), construction of individual sanitary latrines suited to the local conditions, planting of trees, and popularization of nonconventional energy sources like biogas and smokeless *chullahs* (stoves), solar energy, and windmills.
### Table 1: Primary Health Care and Family Welfare Goals of the Janmabhoomi Program

<table>
<thead>
<tr>
<th>Area</th>
<th>Indicator</th>
<th>As of 1 January 1997</th>
<th>2000</th>
<th>Goal 2010</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population and Health</td>
<td>Crude birth rate (%)</td>
<td>24</td>
<td>19</td>
<td>15</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>Crude death rate (%)</td>
<td>8.4</td>
<td>7.5</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Total fertility rate (%)</td>
<td>2.60</td>
<td>2</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td></td>
<td>Infant mortality rate (%)</td>
<td>66</td>
<td>45</td>
<td>30</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>Maternal mortality rate (%)</td>
<td>3.8</td>
<td>2</td>
<td>1.2</td>
<td>0.5</td>
</tr>
<tr>
<td></td>
<td>Life expectancy at birth (years): Male</td>
<td>61</td>
<td>63.5</td>
<td>66.5</td>
<td>69</td>
</tr>
<tr>
<td></td>
<td>Life expectancy at birth (years): Female</td>
<td>63.7</td>
<td>66</td>
<td>70</td>
<td>73</td>
</tr>
<tr>
<td>Child Survival, Development, and Protection</td>
<td>Incidence of low birth weight (%)</td>
<td>33</td>
<td>20</td>
<td>16</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Children 6–9 months receiving food supplements (%)</td>
<td>48</td>
<td>55</td>
<td>75</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Fully immunized children (%)</td>
<td>40</td>
<td>80</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Preschool children receiving vitamin A dose (%)</td>
<td>42.4</td>
<td>70</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Early detection and rehabilitation of disabled children (%)</td>
<td>0</td>
<td>25</td>
<td>50</td>
<td>75</td>
</tr>
<tr>
<td>Women’s Empowerment</td>
<td>Literacy rate among females aged 7 and above (%)</td>
<td>32.7</td>
<td>40</td>
<td>75</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Enrollment rate of females (%): Primary school</td>
<td>42.4</td>
<td>61</td>
<td>85</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Women getting married below 18 years (%)</td>
<td>53</td>
<td>45</td>
<td>30</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Anemia prevalence among women (%)</td>
<td>60</td>
<td>40</td>
<td>25</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Skilled work force among women (%)</td>
<td>&lt;10</td>
<td>10</td>
<td>30</td>
<td>60</td>
</tr>
<tr>
<td></td>
<td>Women’s participation in organized sector (%)</td>
<td>14</td>
<td>30</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>Reservation for women local—self government institutions (%)</td>
<td>33.3</td>
<td>33.3</td>
<td>50</td>
<td>Nil</td>
</tr>
<tr>
<td></td>
<td>Access to cheap credit (%)</td>
<td>&lt;10</td>
<td>30</td>
<td>50</td>
<td>&gt;80</td>
</tr>
<tr>
<td></td>
<td>Access to basic sanitation (%)</td>
<td>&lt;10</td>
<td>50</td>
<td>80</td>
<td>100</td>
</tr>
</tbody>
</table>

Institutional Arrangements

Teams of Janmabhoomi volunteers headed by social activists are formed in every habitation to encourage participation in the core areas. Among other activities, the team members assist in house-to-house surveys. An official of the village or gram panchayat (village governance unit; the lowest unit of local governance) is designated as habitation officer (in the rural areas) or ward officer (in the urban areas), and convenor of the habitation or ward committee. At the mandal level, there is a mandal committee consisting of the mandal parishad president (the member-convenor), the mandal development officer, and the nodal officer. A mandal parishad is the assembly of elected representatives of the various villages constituting a mandal. The members of the state legislative assembly are ex-officio members of the mandal committees in their jurisdiction. The mandal committees meet once a month to supervise and monitor the implementation of all the core area activities under the program at the mandal level. A mandal (lowermost institutionalized tier of the state administration) constitutes a population ranging from 35,000 to 500,000.

Monitoring

The information system developed by the planning department is used in monitoring the implementation at all levels of the core area activities under Janmabhoomi. The habitation committee and the nodal officer maintain two registers at the mandal level, namely, the community works register and the register of felt needs, which are updated during the weekly review meetings. The state monitoring cell in the planning department makes the Janmabhoomi information systems operational at the habitation, slum, mandal, municipality, district, and state levels.

Veterinary Camps

The aim is to organize veterinary camps in all gram panchayat headquarters and major habitations with focus on free vaccination against foot-and-mouth disease for graded buffalos and jersey cows, and free deworming of sheep. The veterinary camps also offer periodic health checkups and treatment. Thus, the camps cover both the preventive and curative aspects of animal health care.

The animal husbandry department of Andhra Pradesh with its 5,004 field establishments and institutions has been serving the needs of the 28,465 gram panchayats and major hamlets. It has received a much-needed boost from the Janmabhoomi Program of veterinary camps with its emphasis on reaching cattle and cattle owners in remote villages, bringing in the concept of preoperative provision of animal health care and the assurance of better funding.
Table 2 shows the number of animals vaccinated and sheep dewormed in the veterinary camps in the last five (fourth to eighth) rounds of the Janmabhoomi Program. The eight rounds were conducted in all the 43,058 habitations and 3,392 municipal wards in the state with a population of more than 200. About 86,233 community works, valued at Rs19.30 million, were established; 102,074 of 117,207 nonfinancial needs of the community, and 1.59 million of 1.80 million individual family needs, were met.

<table>
<thead>
<tr>
<th>Program Round</th>
<th>Date</th>
<th>No. of Camps</th>
<th>No. of Cases Treated (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fourth</td>
<td>1–7 Oct 1997</td>
<td>20,333</td>
<td>4.02</td>
</tr>
<tr>
<td>Fifth</td>
<td>1–7 Jan 1998</td>
<td>24,780</td>
<td>6.95</td>
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<tr>
<td>Sixth</td>
<td>1–7 May 1998</td>
<td>32,645</td>
<td>15.77</td>
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<tr>
<td>Seventh</td>
<td>1–7 Aug 1998</td>
<td>64,041</td>
<td>25.19</td>
</tr>
<tr>
<td>Eighth</td>
<td>3–9 Oct 1998</td>
<td>40,930</td>
<td>19.43</td>
</tr>
<tr>
<td>Total</td>
<td>182,729</td>
<td></td>
<td>71.36</td>
</tr>
</tbody>
</table>


Water Users’ Associations

Andhra Pradesh is the first state to implement reforms in the irrigation sector. These reforms are seen as vital to both the welfare and the economic development of the state. They are also seen as inevitable, given the history of the irrigation system, the shrinking command area, and the increasing inability of government to manage and run the large canal systems. There are bottlenecks in the irrigation structure. Hundreds of thousands of acres of land have been deprived of water. On the one hand, the weather has its vagaries; on the other hand, the water facilities do not reach the parched lands. Hence, for the fields to yield good produce, irrigation management has to be reformed.

The irrigation reforms and the establishment of water users’ associations (WUAs) in Andhra Pradesh are steps in the right direction. The reforms aim to achieve high production, increase efficiency and equity, and build the land and water management capacity of the new institutions. These reforms assume that the transfer of rights from the irrigation department to the

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4 Rs45 = $1 as of 31 March 2005.

5 At the initiative of the government of Andhra Pradesh, the Government of India has also issued guidelines to all states for earmarking funds for the forestry sector under Environmental Assistance Scheme and Jawahar Rojgar Yojana.
WUAs will improve the management of the system, through the collective action of the members.

The main functions of the WUAs are to repair the canals and supervise water distribution, settle conflicts, and raise enough funds to sustain their operations on their own. The Andhra Pradesh WUAs have taken up the following activities extensively:

- Irrigation system surveys
- Planning for cropping pattern
- Water management and water budgeting
- Resolution of disputes among farmers
- Operation and maintenance works with collective participation
- Maintenance of accounts
- Financial and social auditing
- Training and motivation

The recognition earned by WUAs in the state has helped make the experiment a success. The ideals that prompted the Andhra Pradesh government to form the societies have been achieved. Farmers have been given full control over the management of irrigation canals, and they have done yeoman service to achieve results.

**Efficient and Equal Distribution of Water**

*Irrigation System Development and Management by Farmers.* As of March 2003, the WUAs had completed about 52,500 works for about Rs5,790 million and provided irrigation water to about 404,700 hectares of tail-end lands.

*Timely Supply of Water and Early Planting.* The WUAs have made it possible for water to be supplied on time, resulting in a 10% increase in yield.

*Increase in Ayacut (Cultivable Land).* Because of the desilting of canals and drains by the WUAs, the tail-end lands now get water. Irrigation now reaches up to 200,700 hectares more of land, as of March 2003. Channel silt removal has been undertaken on a wider scale. Hundreds of thousands of farmers have enthusiastically participated in the repair works. These silt removal operations are perhaps the first of this magnitude. Eliminating contractors reduces the cost of works by 20%. Moreover, because of the well-repaired canals, higher income can be obtained from agricultural lands. Every additional ayacut that comes under irrigation fetches about Rs7,500 million. Other benefits resulting from the formation of WUAs are:
• Resolution of disputes
• Improved drainage and execution of minor drains; capacity building
• Reforms in irrigation administration
  - Merging of irrigation and drainage wings
  - Merging of construction, operation and maintenance, and command area development and administration (CADA) wings
  - Rationalization of staff distribution
  - Closure of mechanical units
  - Direct contracting

The management of canal and irrigation projects has empowered the farmers, but it has also produced a few negative results. Without proper training for WUA members and with funds in short supply, operation and maintenance is not up to professional standards. Further, the associations are becoming politicized and disputes among farmers have arisen in some places.

Watershed Program
The watershed program is not a technology but a concept that integrates the conservation, management, and allocation of rainwater through discrete hydrological units. In 1997, the government of Andhra Pradesh initiated a massive watershed development program that involved the development of wastelands, degraded lands (dry lands being cultivated under rain-fed conditions), and degraded reserve forests. The approach, as it is evolving, enables the identification of wastelands along village boundaries. Community participation has also been mobilized throughout the state. The main activities of the watershed development program are given below:

• Entry-point activities
• Soil and moisture conservation
• Water harvesting structures
• Social forestry /Agro forestry
• Pasture development
• Biogas and smokeless chullahs
• Self-employment revolving fund for thrift groups

Vana Samrakshana Samitis (Community Forest Management Groups)
“Save the tree and it will save you.” So the age-old saying goes. A tree gives precious service to mankind, delivering Rs1.8 million in direct and indirect benefits over its lifetime of 50 years. Timber and firewood are direct
benefits, and oxygen production, soil conservation, water storage, bird and animal shelter, and pollution control are indirect benefits.

Forests are necessary for human survival. The cultivation of forests will enhance environmental conservation and human life. In Andhra Pradesh, 23.2% of the land is forest, but only 11% is dense forest.

The National Forest Policy of 1988 provides for the people’s involvement in forest management, as did a circular issued on 1 June 1990. The government of Andhra Pradesh, acknowledging the need for the people’s cooperation in this regard, formed the *vana samrakshana samitis* (VSSs) to establish a strong bond between the people and the forest department. The VSSs have had a commendable role in saving the forests and preventing the smuggling of timber. The citizens and the government have carried out this program with the help of a World Bank loan.

Andhra Pradesh is in the forefront of the community forest management program. While other states reserve only 25% of the rights over forest produce to the VSSs, such rights in Andhra Pradesh are 100%. For newly grown timber and bamboo, VSS members have sole rights, subject to certain conditions.

The following benefits accrue to the VSSs:

- Except for timber, all the forest produce belongs to the VSSs, and all the income from the produce is enjoyed by the villagers.
- VSSs that cooperate in containing the theft of forest produce receive 25% of the penalty for the theft.

So far, 1.2 million villagers have benefited from this program. As of 31 March 2003, 6,575 VSSs were looking after 16.25 million hectares of forest lands.6

Table 3 shows the growth of the VSSs and the extent of their coverage. The progress over the years shows the enthusiastic participation of the people in community forest management in Andhra Pradesh state. This success is due to the unique features of the program, as follows:

- People are given full rights over the forest produce, unlike in many other states where the sharing is limited to 25%.
- For transparency in VSS operations, funds are channeled through a joint account, supported by management committee resolutions, and progress reports are presented quarterly to the general body.

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6 Half of the net revenue from Beebi leaves collected in the area goes to the VSS.
Innovations in Governance and Public Service: The Case of Andhra Pradesh State in India

• Fully half of the membership of VSSs, and at least 30% of management committee membership, is reserved for women.
• Nongovernment organizations are involved in strengthening the VSSs through motivation, extension, training, and other support activities.
• Scheduled castes and scheduled tribes are automatic members of VSSs. This is to ensure that the weaker sections of the society are not left out.
• Medicinal plants growing in forest areas, which the VSS members can harvest and market, have been identified.
• The requisite funds for implementation are made available by mobilizing resources from employment assurance schemes, centrally sponsored schemes, and the World Bank.

Table 3: Progress of Vana Samrakshana Samitis, 1994–2000

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of VSSs Formed</th>
<th>Area Covered (million hectares)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994–1995</td>
<td>133</td>
<td>.07</td>
</tr>
<tr>
<td>1995–1996</td>
<td>447</td>
<td>.25</td>
</tr>
<tr>
<td>1996–1997</td>
<td>1,722</td>
<td>.64</td>
</tr>
<tr>
<td>1997–1998</td>
<td>3,812</td>
<td>.93</td>
</tr>
<tr>
<td>1998–1999</td>
<td>6,527</td>
<td>1.55</td>
</tr>
<tr>
<td>1999–2000</td>
<td>6,575</td>
<td>16.25</td>
</tr>
</tbody>
</table>

Source: Principal Chief Conservator of Forests, Government of Andhra Pradesh, Hyderabad.
References


The Proper Role of Government in Natural Resources Management in Indonesia

Mulyadi Sumarto

Introduction

Lack of awareness of the complicated environmental problems caused by economic development has been the subject of serious debate on economic development for decades (Martinuzen 1997, page 143; Weaver, Rock, and Kusterer 1997, page 237). People do not realize that unhealthy economic growth through exhaustive natural resources extraction, without considering the future of society, imperils the ecosystem. Instead, they are confident that the technological development accompanying high economic performance will solve the problems. The report *Limits to Growth* published by the Club of Rome in 1972 confronted the optimism critically. It concluded that international development was destroying the environment far beyond the level predicted by previous studies, threatening continued economic development. The Earth Summit in Rio de Janeiro in 1992 tried to achieve a win-win situation by increasing production and at the same time upgrading the environment as well as the capacity for long-term development (Martinuzen 1997, pages 149–152).

Developing countries react to the debate differently from developed countries. They face different environmental problems from different economic circumstances. Indonesia and other developing countries cope with the scarcity and depletion of natural resources simply because their economies rely on natural resources extraction. The decentralized political system in Indonesia reveals more plainly the significance of natural resources to the economy. Natural resources extraction is the major source of revenue in many autonomous districts throughout the country, especially those outside Java. Only a few regions, mostly in Java, derive local revenues from industry and trade. During the centralized regime, the central Government subsidized all districts uniformly. In the decentralization period, they have to be self-governing. When the idea of decentralization was first talked about, local governments were apprehensive about their local revenues. Most of them did not feel that they could get enough income on their own (Dwiyanto 2003,

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They started to think about where and how they could get local revenues. Most of the resource-rich regions, such as Kutai Kartanegara, now get most of their revenues from natural resources extraction.

How to govern the extraction of natural resources is therefore critical. Inappropriate governance leads to conflict. There are at least two types of conflict: conflicts between local government and the central administration, and conflicts between the local people, the private sector, and local government. In the New Order period, most local governments with abundant natural resources felt they did not benefit from revenue sharing. For this reason, many provinces such as Papua tried to separate from Indonesia or to become self-governed. This type of conflict has died down with decentralization. But the second type is still raging, and the Indonesian Government has not found a comprehensive solution to the conflict.

Many studies (Aman 2002, CPPS and UNDP 2003, Sumarto 2003, Walhi n.d.) show that natural resources management in Indonesia is laden with this second type of conflict. The extraction of natural resources generates externalities manifested in environmental problems (Stiglitz 2000, page 215) that eventually cause conflict. This conflict has a long history. Since the 1980s, there have been conflicts between local communities and business because of land issues. Dayak Benuaq and Tonyoi, traditional communities in East Kalimantan, have opposed gold mining by PT Kelian Equatorial Mining in their areas. Dayak Siang, Murung, and Bekumpai, conservative communities in central Kalimantan, have tried to protect their traditional land rights from illegal occupancy by PT Indomuro Kencana (Aurora Gold), which is digging gold on their land. A traditional community in Paser Regency, East Kalimantan, has struggled for its rights over traditional land against PT Kideco Jaya. In still another case, Amungme, an indigenous tribe in Papua, has been wrangling with PT Freeport Indonesia over its traditional rights for several years (Aman 2002).

The Freeport dispute is one of the most controversial. Over the last three decades, the company has had major conflicts with various parties over environment, land, and human rights issues. It was sued by Amungme for environmental and human rights abuse (Sari 1998, page 10). With the help of the Government and the armed forces, Freeport violently suppressed civil disobedience by Amungme, as well as Komoro; many local people died (Sari 1998, page 11; Walhi n.d., page 21). Walhi, an Indonesian nongovernment organization (NGO) concerned with on environmental issues, also accused the corporation of environmental deterioration (Walhi n.d., page 21), saying that the company has caused physical destruction to the environment, and contaminated 35,820 hectares of land and 84,154 hectares of ocean area.
However, Freeport has denied any responsibility. It claims that it applies the best mining practices (Walhi n.d., page 24).

The conflicts arise because the Indonesian Government cannot enforce a comprehensive system for responding to the externalities. The contract to excavate is signed by the mining corporation and the central Government. Those affected by the externalities, i.e., the local government and the local people, are not involved (Sumarto 2003, page 6). The corporation believes that it complies with government requirements. The local government and the local people believe that they are entitled to compensation. Each side sticks to its claims in its own way, in line with its interests.

In fact, there are regulations for figuring out and dealing with the externalities. After signing the contract, the corporation is required to carry out a community development program to empower the local people living around its plant. Most local communities are poor and need social assistance. The program also provides compensation for the externalities. To protect the environment, the corporation has at least two obligations: install a facility to contain toxic waste and reduce its effects, and restore the ecosystem after extracting natural resources. But many corporations do not comply. Moreover, they are not subjected to significant sanctions. All this is due to rent seeking (see Clark 1991, page 108).

The situation is complicated by asymmetric information: the local people have no access to information about toxic waste and its impact, especially with the corporation doing its best to conceal the information (Sumarto 2005, page 4). As the local community lives close to the business, it is in a position to control the extraction. Ideally, if the control mechanism worked, governance would be more transparent, asymmetric information and rent seeking could be restrained, and externalities could be dealt with more easily. But the people are not aware of the damage wrought or of the importance of environmental protection. A meaningful way to develop such awareness is by attacking this issue in the education system.

This paper discusses the conflicts in natural resources management, the role of government in natural resources extraction, and the need to build a common consciousness of peaceful and sustainable environmental governance.

**Economic Development and Natural Resources Management: The Role of Government**

The analysis of links between environmental protection and economic development shows a major incongruity (Martinuzen 1997, page 147). The main concern is how to achieve high economic performance without causing harm to the environment. But there is often a trade-off between these two
objectives (Clark 1991, page 258). If the extraction of natural resources is not regulated, production will increase but the ecosystem will be at risk. On the contrary, regulations that are too tight may protect environment but will also discourage investment. To guarantee sustainable growth, a proper role is needed for government.

The theory of government, and, in a broader context, state theory, has stirred thoughtful discussion among scholars. Jessop (1990, pages 2–4) systematically maps the shifts in state theory. In the 1970s, the theory was dominated by Marxism. The assumption was that the state functioned within the class struggle. In the 1980s, sociopolitical scientists lost interest in the theoretical debate and concerned themselves with empirical studies. A major cause of this shift was globalization. As the globalization discourse spread, academics saw a reduced role for the state in formulating public policy.

Marxism rejects the notion of a “proper” role for government. In a capitalist system, according to the Marxists, government stands for the interests of the bourgeoisie and facilitates the accumulation of capital. Heightened conflict between the classes could lead to a revolution by the workers, who seize power and establish a government that embodies their collective interests—what Marx called the “dictatorship of the proletariat” (Clark 1991, pages 111–112). In contrast, economic liberals view government as providing wider room for private interests to expand their economic activities. The less the government intervenes in the market, the better (Clark 1991, page 106).

But in a democratic society, neither capitalists nor workers prevail. A democratic government is a constitutional elective government based on law and representing the aspirations of all the people. The proper role of government in a democracy is mediating the competition between the classes (Jessop 1990, pages 171–174).

Similarly, society is assumed to be pluralist. It encompasses various groups or classes with different interests. While they may contend with and try to control one another, no one group or class dominates the society. The state is therefore seen as an arena of conflict between interest groups, and the policy-making process as political bargaining between conflicting groups. Government must regulate conflicts in society so that they are resolved peacefully (Smith 1995, pages 209–227).

Since interest groups and classes compete against one another, the state represents a variety of group pressures (Smith 1995, page 211). In fact, although the legitimate government takes authority through legal means, i.e., election, the process involves many compromises among interest groups. This implies political contracts between the government and the interest groups that
supported it in the election, obliging the government to protect those interests. In a country in which corruption is high, such as Indonesia, giving government a central role in controlling natural resources management is risky. Natural resources management must be transparent. Civil society should be empowered so that it can watch how government administers natural resources extraction.

Decentralization and Conflicts related to Natural Resources

Decentralization is generally associated with political-economic values. It brings government close to the people so that accountability, efficiency (Smith 1985, pages 4–5), and transparency are reinforced. At the same time, public services improve (see Bailey 1999, page 44). Political-economic reform leading to a decentralized system in Indonesia is still chaotic and the desired values have not yet been achieved. The reform has been carried out in the general political euphoria as political aspirations, stifled during the Suharto administration, can now be spontaneously expressed. In the transition, the new system is unable to make the proper adjustments, anarchy seems to reign, and conflicts tend to escalate (see Dwiyanto 2003, page 59).

The complexity of the conflicts can be discerned from their variety and the stakeholders involved. According to a study on governance and decentralization in 20 provinces in Indonesia (Dwiyanto 2003, pages 62–70), the conflicts encompass disputes between political party supporters, land disputes, conflicts related to natural resources management, and violence. They take place among local governments, between local government and the people, between labor and management, and among ethnic as well as religious groups.

Corporations, local governments, and local communities behave differently with one another (Sumarto 2003, pages 5–8). Conflicts between local communities and corporations, which were latent in the New Order period, have escalated in the decentralization period. Local people are pressing corporations to pay damages. Local governments are requiring businesses to hire local people for their plants, and also to assess environmental impact. Moreover, corporations are expected to support local governments in providing social services to local people. The corporations have no choice but to comply with these demands to diminish the threat of conflict, which to them is a risk to production. They allocate funds for local government and they carry out community development programs.

Unocal, a private petroleum mining company that has been operating in Marangkayu, East Kutai, East Kalimantan, since the 1970s, began conducting community development programs in 2002, after the Marangkayu community protested against the pollution caused by the company. The conflict turned violent—a demonstrator was shot by military troops hired by the
company to secure the plant—and the case was brought to court. Unocal was compelled to implement the community development programs (CPPS and UNDP 2003, pages 44–45).

Caltex Pacific Indonesia (CPI) has also been operating in Indonesia for decades, but it began to conduct community development programs only in response to local demands (CPPS and UNDP 2003, page 71). One CPI case was quite complicated. The Duri community, living near a CPI plant, complained of health and economic problems caused by the expansion of CPI’s oil exploration activities. The extension narrowed the distance between the company premises and the residential area to only about 150 meters. Artesian wells in the community began to dry up and the supply of potable water became a serious problem. Fishponds also dried up. The Duri community, through the local legislature, demanded compensation from CPI. The local legislature could not solve the dispute and the case was elevated to the central assembly. The issue is still pending (CPPS and UNDP 2003, pages 78–80).

Environmental damage is caused not only by private corporations but also by state-owned mining-companies. Belitung, a district where the state-owned tin mining company PT Timah used to operate, now faces serious environmental problems. The tin has been exhausted, so the company no longer works in the area. It left wide holes, which pose the risk of erosion and in the rainy season could be breeding grounds for malaria-carrying mosquitoes. The company also did not undertake programs to protect the environment and empower the local people (Sumarto 2005, page 11). A similar situation can be observed in mining sites worked by Pertamina, a state-owned petroleum mining company.

The local people are powerless, and yet neither the local NGOs nor the local governments support them. The role of government is to protect the people, but, instead of empowering them, the local governments prefer to seek rents. The case of Kapital shows how local NGOs would rather work for local bureaucrats and corporations than for the local community. Kapital is a local NGO established to help supervise the community development programs of corporations in Kutai Timur, East Kalimantan. Kapital was appointed by Kaltim Prima Coal and Unocal. Since a sizable amount has been allocated for the programs, the participation of local elites is not without economic motives. They work hand in hand with the corporations through the NGO. The appointment of Kapital, however, caused the dismissal of other NGOs, which were more competent (Sumarto 2003, page 8). Local protests went unheeded. Such occurrences are common throughout Indonesia.
Natural Resources Management: Social Responsibility and Sustainability

Over the last 5 years, the private sector has made significant moves to promote community development programs and environmental protection in Indonesia (Sumarto 2005, page 5). The extractive companies, most of them in remote areas, perceive a higher risk in conflicts than do manufacturing, banking, and services companies, which are usually in urban areas. Hence, motivated by profit, the extractive companies, particularly those in the mining industry, are leading the environmental sustainability movement. The movement is not confined to Indonesia. It is a global phenomenon. In 2000, the United Nations (UN) established the UN Global Compact, a framework of corporate social responsibility (CSR) for the private sector representing the sector’s commitment to human rights, labor standards, environmental protection, and the fight against corruption. Community development programs, in this context, are simply a part of CSR.

### CSR Programs

<table>
<thead>
<tr>
<th>Type of Program</th>
<th>Mechanism</th>
<th>Subjects</th>
<th>Characteristics</th>
</tr>
</thead>
</table>
| Charity         | • Building physical facilities programs  
• Giving financial and technical endowment | • education  
• health  
• clean water  
• sports  
• income generation  
• religion  
• transportation  
• agriculture  
• home industry | • In general, the programs are not intended to empower local people to cope in the post-extraction period.  
• The coordination between the corporations and the local governments where the programs are being conducted are not smooth.  
• Generally, the programs are designed by the corporations in top-down fashion.  
• Local people and the local governments do not get many opportunities to participate in the implementation of the programs. Although the opportunity is not significant, they obtain it in the case of agricultural programs.  
• The programs are not planned systematically.  
• The programs do not empower local people. |
| Capacity building | Training | |

Sources: Modified from the results of interviews and focus group discussions with local people and with district and provincial government officers (Sumarto 2005, page 14).
The concept of CSR is itself controversial. Some people may argue that decentralization and welfare pluralism (see Midgley 1997, page 8; Spicker 1995, pages 115–117) give the private sector, as well as civil society, wider room to contribute to socioeconomic development. Others may question whether the profit-maximizing private sector has the social responsibility to redistribute profits for community development and environmental protection.

A study on the CSR programs of three mining companies and one agricultural company in East Kalimantan and Riau provinces (CPPS and UNDP 2003) (see table) showed that corporations carry out such programs not out of a sense of social responsibility, according to the UN Global Compact, but to gain the public trust and to secure their production facilities. Public trust is a long-term investment of corporations. Many cases show that corporations with an unhealthy track record in environmental protection and unresolved conflicts with the people cannot get their trust and, consequently, can no longer operate.

Since the programs are simply a response to specific protests, they are not concerned with the broader goal of empowering the local people. The programs do not provide ample opportunity for the local community to participate. They are planned centrally by the corporations. The programs also do not equip the local people to cope in the period after the extraction, when the companies leave and the local economy is made vulnerable (Sumarto 2005, pages 13–14).

The corporations’ production processes cannot be dissociated from environmental contamination. They must therefore solve the problems they cause. Figure 1 shows how the private sector actually responds to environmental damage. A high proportion of the companies take no action. Since conflicts are mainly triggered by environmental problems and demands for compensation, the companies’ environmental protection and community development programs not only do not answer the problems they were meant to solve but also put sustainable natural resources management at risk (see Weaver, Rock, and Kusterer 1997, page 2; Conca 1996, pages 25–29).

<table>
<thead>
<tr>
<th>Figure 1: Company Actions in Response to Environmental Damage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source: Center for Population and Policy Studies, Gadjah Mada University, Governance and Decentralization Surveys, 2002.</td>
</tr>
</tbody>
</table>
Decentralization and the Challenge to Develop Transparent Control Mechanisms

If the private sector does not show adequate concern for environmental problems in practice, neither does government. According to Figure 2, only a small number of cases of environmental damage are taken to court. The number is less than half of the number of cases on which no action is taken.

There are many ways of controlling environmental degradation and the resulting conflicts. Stiglitz (2000, pages 217–233) says that externalities can be remedied by both the public and private sectors, working independently. These sectors use different methods but a similar approach, i.e., the legal system. The liberal perspective, as elaborated by Clark (1991, pages 267–269), also emphasizes the importance of the legal system. But to solve the problem of externalities, he says, the appropriate institution is government, which can enforce environmental laws such as pollution standards. Weaver, Rock, and Kusterer (1997, page 254) also argue that the efficient way to protect the ecosystem is through environmental regulation.

These recommendations rely on the normative role of government. In the Indonesian case, as described above, the recommendations do not work well. Government cannot contain the ecological damage. Rent seeking worsens the externalities of natural resources management. Since the regulations are designed to protect the private sector (see Clark 1991, page 108), rent seeking diminishes the ability of government to administer the extraction process. Figure 3 shows the great inadequacy of legal means of solving natural resources management disputes in Indonesia: violent means are used nearly as often, and legal action is certainly much rarer than instances where no action is taken.

During the decentralization period, rent seeking and corruption tend to be higher (Dwijanto 2003, pages 117–118). The situation is worsened by asymmetric information. To minimize protests, corporations do not share information about the impact of extraction. What is more, in many cases, the local NGOs do not support the local community. Finding
alternative responses to the situation is therefore crucial. Empowering the local community to monitor the extraction of natural resources is an effective method (see Conca 1996, pages 26–27).

The empowerment could be accomplished through the development of an educational curriculum for making the public more aware of natural resources management, the importance of environmental protection, the extractive processes and their externalities and appropriate ways to get compensation for externalities. If people become more literate in the issues, natural resources management will become more transparent, and asymmetric information and rent seeking can be contained. Rowe (2002) sees a clear relationship between environmental literacy and social responsibility. People who are literate in environmental issues possess a sufficient conceptual framework and belief in the future of society so that they are not reluctant to take part in resolving environmental problems. This situation, in other words, builds a community-based control mechanism for natural resources extraction.

Many experiences, such as those of Botswana, Namibia, Bulgaria, and Florida in the US, show comprehensive efforts to respond to environmental problems through education. Jones (1999) writes that the governments of Botswana and Namibia have been training their people in sustainable natural resources management. With the goal of community-based natural resources management, the Government of Botswana is enhancing public awareness of environmental issues through curriculum development, among other methods. An educational curriculum has also been developed in Bulgaria, Markowitz (1993) says, to foster environmental literacy and appreciation of the ecosystem among schoolchildren. Monroe (2003) describes 11 years of implementation of environmental education in the US state of Florida. The program is aimed at increasing the environmental literacy of youth and adults.

Developing an environmental curriculum, with local content, is not a new approach, but it has not been carried out systematically in Indonesia. During the centralized regime, it was out of the question. The central

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**Figure 3: Methods of Resolving Natural Resource Management Disputes**

<table>
<thead>
<tr>
<th>Method</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compromise</td>
<td>60%</td>
</tr>
<tr>
<td>Report to police</td>
<td>40%</td>
</tr>
<tr>
<td>Legal action</td>
<td>20%</td>
</tr>
<tr>
<td>Take no action</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: Center for Population and Policy Studies, Gadjah Mada University, Governance and Decentralization Surveys, 2002.
Government issued the curriculum and implemented it uniformly throughout Indonesia. The widely diverse local conditions were not accommodated. In the decentralization period, the system has changed. The decentralized system allows district education officials to develop a curriculum based on local resources. However, the response to the new system has so far been shaky. Local governments do not have enough understanding of the decentralized system of public services (see Dwiyanto 2003, pages 88–89). Local corruption is also on the rise. Therefore, developing a curriculum based on local resources is still a serious challenge. In addition, there are many self-governing districts, each one consisting of different social, economic, and cultural backgrounds. A program that works well in one district may not succeed in others. Before the program can be conducted, it is necessary to assess the diversity of problems, needs, and local natural resources, and suit the curriculum content and method of implementation to those needs and resources.

Conclusion

Natural resources management in Indonesia is characterized by disharmony between national or local government, the private sector, and civil society. The causes of the disharmony are multifaceted. However, the main cause is the improper role of government in building a system for responding to externalities resulting from the extractive activities of corporations. The externalities are largely detrimental to the ecosystem and local community, and engender conflicts. This circumstance is exacerbated by asymmetric information and rent seeking. To provoke less conflict, corporations limit the disclosure of information about the extraction process and its impact. And, while there are regulations to control the extraction, they do not work properly because of rent seeking. Government therefore cannot control the externalities.

The shift from a centralized to a decentralized system of government has not significantly improved the government response to these externalities. Local governments are not well positioned vis-à-vis the private sector and civil society to implement an adequate response. Motivated mainly by the need to generate local revenues, they do not concern themselves with environmental problems and their long-term consequences. Therefore, they do not take significant action to improve the ecosystem even as environmental degradation and natural resource conflicts arise in many places. The same can be said about the corporations that create the environmental problems. They carry out CSR programs to minimize the environmental damage and conflicts, but the programs, for various reasons including complicity with local officials, do not contribute substantially to lessening the degradation.
These facts show that government is not equipped to administer the trade-off between economic growth and environmental protection. It emphasizes natural resources extraction, often to the detriment of environmental protection. The corporations, for their part, extract natural resources but do not restore the ecosystem or compensate the local people for the externalities. In short, both government and the private sector concentrate on high economic performance but do not pay enough attention to the future of the environment and society (Sumarto 2005, page 15).

Civil society must take the initiative to build collective awareness of the importance of natural resources. A more environmentally conscious society can control political behavior and management of natural resources extraction, and ensure better governance and environmental sustainability.
References


Building a Performance-based Management System: Increasing the Impact of Community Engagement in Local Authorities

Suhaimi Shahnon1

Introduction

Throughout the developing world today, increasing pressure is being placed on service agencies of all types to prove that they are truly making a difference in the lives of those they are serving, and are not just busy providing activities without proven results. Also on the increase are public complaints about difficulties in measuring government’s performance, about diverse and contradictory objectives, unreliable measurement tools, and the unwillingness of governments to invest resources in new management techniques.

In Malaysia, Prime Minister Dato’ Seri Abdullah Ahmad Badawi has voiced increasing skepticism of activity-based measures of performance and the need to see evidence that public agency investments in personnel, training, equipment, and space are indeed improving the lives of those served. This has resulted in a dramatic push among public service delivery agencies to develop outcome-based indicators of agency performance both within and outside the realm of public governance.

While difficulties undoubtedly exist, the vast amount of literature suggests that performance-based management is an advanced public governance tool that is becoming more and more sophisticated to accommodate the service needs of different communities and levels of government ranging from public safety and public works to economic development. Performance-based management is management that defines and measures agency success through the achievement of desired changes in the behavior or conditions of citizens served, at an acceptable cost. Performance-based management ties agency program and treatment functions directly to citizen outcomes—the only meaningful criterion for agency success.

Local Organizational Capacity for Public Service Delivery

There are two major criteria for assessing the quality of any service delivery system. One is a measure of efficiency, or the ability of the system to deliver

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services to the greatest number of people at the lowest cost. In this approach, measures of the processes or activities performed by an agency, such as the number of people served or the number of units of service provided, are collected and examined in relation to the costs associated with the delivery. Until recently, services were largely managed to optimize efficiency. Thus, management information or reporting systems collected data to report on the quantity of services offered and the use of those services by eligible people in the community.

A second way of assessing the quality of service is through measures of effectiveness. In this approach, measures of the outcomes generated by agency activities or the results achieved by those served are collected. Thus, effectiveness-based management strategies are designed to promote knowledge, attitudes, or behavior that reflects significant changes in the people who are served, such that program success is defined by these results rather than by the processes that produce them. This management approach is referred to as “results-oriented management” or “performance-based management.”

The focus of a performance-based management program is on the outcomes to be achieved rather than the activities to be developed and provided. Activities are only means to ends not ends in themselves. Everything that is done, and every dedicated resource, is devoted to accomplishing clear-cut outcome goals that can be measured and demonstrated. Thus, in this context, indicators of agency activities are useful only to the extent that they are tied to results. While this sounds obvious on the surface, it marks a very significant change in the way most service programs operate. We often think in terms of the outcomes of our activities rather than the activities that are necessary to produce the outcomes.

A performance-driven public service delivery system is developed and implemented in several steps. First, the key client or customer groups that are to be served and their specific needs are identified. Then the organizational (community) and client outcomes that must be achieved are defined as clearly as possible; these reflect the client needs that are being met and the community objectives being addressed. Outcomes are chosen because they are highly valued and desired by the community and they reflect an area in which an agency can have an impact. Once these outcomes are defined, it is important to identify the types of activities that can be directly related to the specified outcomes. In this type of system the focus shifts from activity-based accountability to accountability for outcomes.

The following case study demonstrates the experience of Malaysia’s largest municipality (in surface area), Seberang Perai, in involving citizens in the development of community outcome-based performance measures to
institutionalize a performance-based management system for their municipal council.

Identification of Performance Measures by Citizens: The Seberang Perai Experience (A Case Study)

Background

In mid-2001, the Seberang Perai Municipal Council, or Majlis Perbandaran Seberang Perai (MPSP), commissioned the Centre for Policy Research, Universiti Sains Malaysia, to create a process that would lead to fundamental decisions and actions by which the diverse citizenry of Seberang Perai could achieve what they wanted to achieve collectively as a community. The 18-month strategic planning project, called Project Research In Strategic Management (PRISM), was based on the premise that involving citizens in the development of performance measures would give them another avenue beyond traditional means to affect municipal decision making. In addition, through PRISM, the municipal council hoped to improve the quality of decision making and service delivery with the help of the citizens’ perspectives. The following were the performance-based specific goals of the PRISM project:

- To assist the Seberang Perai Municipal Council in establishing a sustainable process of involving citizens’ representatives, executive board members of the municipal council, and department staff in developing performance measures, to give greater credibility to performance measurement and to guide the municipal government in improving public services; and
- To set up a dialogue between the citizens and the municipal administration about the functions and responsibilities of the municipal government and its public service priorities, to make elected and nonelected (appointed) officials more sensitive to citizens’ perspectives, and more accountable to the public.

The state of Pulau Pinang, popularly known as Penang, consists of two distinct parts: the island of Penang and the mainland province of Seberang Perai. Seberang Perai province is divided into three districts of about equal size—North Seberang Perai, Central Seberang Perai, and South Seberang Perai.

The principal consultants of the PRISM project were Dr. Suhaimi Shahnon, deputy director of the Centre for Policy Research (CPR), Universiti Sains Malaysia, and Dr. Kamarudin Ngah, associate professor and coordinator of the Program for Local Government Studies (PROLOGS) in CPR.
NAPSIPAG

The Role of Public Administration in Building a Harmonious Society

Perai—each of which is managed by a district officer. Each district consists of between 16 and 21 mukim (precincts). Table 1 below shows the distribution of precincts, households, and population in the province.

Table 1: Distribution of Precincts, Households, and Population in Seberang Perai

<table>
<thead>
<tr>
<th>District</th>
<th>No. of Precincts</th>
<th>No. of Households</th>
<th>Population*</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Seberang Perai</td>
<td>16</td>
<td>51,965</td>
<td>243,938</td>
</tr>
<tr>
<td>Central Seberang Perai</td>
<td>21</td>
<td>65,623</td>
<td>294,051</td>
</tr>
<tr>
<td>South Seberang Perai</td>
<td>16</td>
<td>26,043</td>
<td>117,722</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>143,631</td>
<td>655,711</td>
</tr>
</tbody>
</table>

*As of 2000.

The PRISM project team talked to the three district officers about the project and requested them to identify precincts with more than 10,000 voters. The following precincts were identified: Kepala Batas and Butterworth in North Seberang Perai; Bukit Mertajam, Seberang Jaya, and Perai in Central Seberang Perai; and Nibong Tebal and Jawi in South Seberang Perai.

The 18-month project was divided into two phases. Phase 1, which was completed in the first quarter of 2002, focused on building the process of citizen involvement, selecting service areas, developing performance measures, and making those measures known to the general public, elected political officials in the three districts, and appointed executive board members and department staff of the municipal council. This case study documents the accomplishments of Phase 1 and summarizes the lessons learned.

**Phase 1 Activities**

**Step 1:** The first step was to create a Citizen Performance Team (CPT) in each precinct identified by the district officers. The CPT comprised citizens, representatives of the municipal council executive board, and key managers of the municipal council’s administration. The citizens came from diverse backgrounds. Some were members of neighborhood watches or of various ethnic community boards. There were also businessmen, ordinary citizens (including housewives, self-employed, and trained unemployed), and leaders of inner-city, suburban, and village communities. Two of the members represented departments of the municipal council and were expected to provide service-specific information to the CPT. Figure 1 illustrates the CPT concept.
Step 2: The CPTs then went through two exercises to gain a better understanding of the process. They were asked to identify key groups in their respective precincts that should either be part of the CPT or be informed about the functions and results of the CPT’s work. Figure 2 below shows the expanded membership of the CPT team from the Butterworth precinct.
Step 3: After their membership was finalized, the teams received a brief orientation on the project and were introduced to performance measurement. Then each precinct-CPT selected one or two public services for which they would develop measures in this pilot project. Citizens in different precincts had different community concerns and priorities, and therefore tended to select different services.

Citizens in the Butterworth precinct, an industrial precinct facing many economic challenges, decided to evaluate public security and public safety services because of their highly visible and immediate impact on daily life. Citizens in the Bukit Mertajam precinct selected emergency medical services and public security services, not because of significantly growing demand for these services but because suburban families, especially those with children, were genuinely concerned about response time, given the geographic spread of the precinct. Citizens in Kepala Batas picked recreational facilities and services because quality of life was an important issue in the precinct’s effort to sustain economic development and retain the younger population. Citizens in Seberang Jaya selected engineering or public works (especially street) services, partly because many of the citizens had to travel daily to work in nearby central cities, and were therefore more concerned about traffic flow and the quality of street repairs and maintenance. Citizens in Perai also selected public works but for a different reason: they noted that a significant share of the precinct’s funds was going to public works, and wanted to ensure efficient and effective public spending. Finally, citizens in Nibong Tebal and Jawi precincts decided to evaluate community development at the neighborhood level, where there were significant differences in the quality of life; the citizens were eager to see a visible improvement in some neighborhoods.

Each precinct-CPT identified “critical elements” for the selected services. These elements are summarized in Table 2 and discussed in the boxed text after it. Many of these—such as reducing the crime rate; lowering the response time for police, fire, and emergency medical services; improving the safety and quality of recreational facilities; increasing the timeliness of response and effectiveness in nuisance control and solid waste removal—have long been identified as important issues in the literature on performance-based management (see, for example, Hatry et al. 1992 and Campbell 1997).

Step 4: The next step was for the CPTs to develop performance measures based on the critical elements they identified. Professionals guided the CPT members through the unfamiliar task of thinking up different performance measures. Then the CPT members evaluated their own suggestions, using a worksheet that the PRISM project team had developed (see Appendix 1). The worksheet proved to be extremely useful; it helped the citizens identify those
Table 2: Critical Elements of Public Services Identified by Seberang Perai Citizens

<table>
<thead>
<tr>
<th>Public Service</th>
<th>Critical Elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Security and Public Safety</td>
<td>Legal knowledge and compliance; effective identification of problems; adequacy of training; response time; public relations; communication of progress on a case to citizens after the case is filed; professionalism in interacting with citizens; citizens’ perception of competence; citizens’ trust in the municipal council’s enforcement officers; visibility of enforcement officers in residential and school areas; timely follow-up; effective investigation; effectiveness of crime prevention programs; reduction in crime rate; prevention of loss of property and life; insurance costs; public relations; proper certification and professional standards.</td>
</tr>
<tr>
<td>Emergency Medical Services</td>
<td>Response time; quality of staff and volunteers; adequacy of professional training; adequacy of personnel and equipment; professionalism in interaction with citizens.</td>
</tr>
<tr>
<td>Recreational Programs for Youth and Adults</td>
<td>Availability of programs to different user groups; diversity of programs; quality of day care; effectiveness of marketing; adequacy of space; convenient hours; adequate maintenance of facilities and equipment; motivating and effective instructors; success in drawing attendance; a welcoming environment; security; reasonable cost; convenient location.</td>
</tr>
<tr>
<td>Community Development and Neighborhood Services</td>
<td>Timeliness and effectiveness in crowd control, noise control, mosquito control; removal or renovation of abandoned buildings; clearance of illegal dumps; clearance of graffiti and illegal billboards and sale signs; trimming of trees and bushes from sidewalks; cleanliness of streets; maintenance of streetlights; solid waste collection and disposal; maintenance of public housing. Also, ease in obtaining building permits; condition of sidewalks; and communication of progress on a case to citizens after a case is filed.</td>
</tr>
<tr>
<td>Public Works, Street Construction, Repairs, and Maintenance</td>
<td>Traffic flow; adequate handling of peak-hour traffic; scenic beauty; accessibility and response time of emergency services; security and safety; clarity of signs and road marks; cleanliness of streets; response to service requests.</td>
</tr>
</tbody>
</table>

Key Elements for Citizen Participation

What municipal administrators often overlook but citizens find critically important is the issue of public communication. How a department communicates the process and results to the public is important to citizens, and they want to measure this. This is especially important in public works and public safety services. In the precinct-CPT meetings, citizens often complained that after filing a case with a department, they heard nothing more from the department and were left to wonder about the progress of work on the case and its results.

Interaction between citizens and public officials is also critical. Effectiveness in resolving a grievance or providing services is definitely important. However, citizens also care about “customer service” and want to ensure professional, courteous, and evenhanded delivery of services and interaction with citizens during the process. This is often mentioned in connection with almost all services (Blodgett and Newfarmer 1996).
suggestions that were not reasonably measurable, valid, or useful to the general public. The list of suggested performance measures was thus significantly reduced, and data collection was made more manageable for the project team.

**Key Findings**

Many of the suggested measures were not significantly different from those identified in professional publications on performance measurement. Several findings should, however, be pointed out:

- The citizens were generally more concerned about outcome and intermediate outcome measures (see Appendix 2 for a brief definition) than input or output measures; however, some input measures were still useful and recommended. For example, many citizens in different precincts were interested in knowing the types and length of training received by public security and public safety enforcers and emergency medical personnel, even though this is an input measure.
- Performance measurement should not ignore equity concerns. For example, citizens in the Kepala Batas precinct suggested measuring the accessibility of recreational facilities and services to low-income families. Citizens in the Nibong Tebal precinct were also concerned about the accessibility of recreational programs to different age groups and the physically challenged.
- Surprisingly, not many citizens were interested in efficiency measures. This might have been because citizens were not asked during the CPT discussions to consider performance measurement in the context of budgeting. Hence, they were primarily concerned about the outcome of services rather than output.
- The precincts in the PRISM project were advised to measure and report performance not only at the precinct level but also at the neighborhood or even street level, so that the information would be more relevant and useful to citizens. Department staff of the municipal council, especially information management personnel, were asked to take this need into account in designing their performance-based management system database.
- Many of the measures suggested require citizen surveys to evaluate the effectiveness of public services. Hence, municipal administrators should integrate citizen survey strategies into performance measurement so that the information can be made available for performance reporting. User surveys are an alternative means of gathering data on many effectiveness and outcome measures. These
surveys can be quite short. For instance, a small response card with several questions can be very effective in gathering this type of performance information (Ammons 1995).

In addition to developing performance measures, each precinct-CPT identified ways of informing the public as well as the municipal council executive board members and administrative staff about their work. All of the precincts in the PRISM project planned to have one or more citizen representatives make a presentation to the municipal council about the PRISM process and outcomes.

**Evaluation of the Seberang Perai Experience**

The seven Seberang Perai precincts in the PRISM project provided an interesting experimental setting to test the feasibility of citizen-initiated performance measurement. PRISM’s Phase 1 experience showed that there may not be a “standard” procedure or a “one size fits all” process. All the seven precincts developed performance measures; however, the processes used differed between precincts. In some precincts (Kepala Batas and Seberang Jaya), the CPT members wanted to help put the performance measures in writing. In Butterworth, Perai, and Bukit Mertajam, the CPT members wanted to help determine whether the measures suggested by citizens were valid and measurable, and to help modify the measures. In Nibong Tebal and Jawi, the CPT members were a bit more passive. They preferred to be involved merely in identifying the critical factors and to leave the PRISM project team and council officials to decide which measures addressed these factors. They also asked the PRISM project team members to provide examples from other precincts so that the suggested measures could be modified.

As the experience in these seven precincts showed, how a precinct handled the process depended on how much the citizens knew about performance measurement in their private jobs or in their previous public services; how comfortable they felt about writing down specific measures; how much time they were willing to spend in meetings; and how much trust they had in municipal council officials or external consultants.

**Key Success Factors and Challenges**

In general, Phase 1 of the PRISM project was a success in the following ways:

- The creation of effective, working CPTs with citizens, elected political officials, and municipal council executive board members and
administrative staff working together to develop performance measures. Municipal council officials and staff did not dominate, as some at first thought they might; in fact, the officials and staff were very deferential to the citizens and willingly answered the questions they raised. Most of the CPTs not only asked sound, clear questions but also asked to tour facilities, review internal reports and information on performance criteria used in the municipal council, and analyze community survey data.

- The identification of critical elements and related performance measures. The process of identifying critical elements was very effective in providing a context for citizens to develop performance measures. Breaking the selected service area into critical factors allowed the citizens to express what they felt to be the important aspects of a service and subsequently develop performance measures based on these aspects.

- The strengthening of communication between government and the citizens. The measures suggested by the CPTs were similar to those developed by professional or national organizations, but adapted to the local context. The CPTs also put greater emphasis on methods of informing the public. The citizens in all seven Seberang Perai precincts in the PRISM project felt a great need to let the citizens know what the municipal council was doing, how effectively this was being done, and what follow-up actions had been taken on the citizens’ opinions and complaints. This was somewhat of a surprise for the municipal council officials and staff, who had thought all along that they were communicating effectively with the citizens. Both the municipal council and the district offices are now reexamining their communication strategies.

The project also faced some challenges. The most significant one was sustaining citizen involvement. School holidays saw a drop-off in involvement in six of the seven precincts. There was some improvement after the holidays but not to the original level of the early stages. This issue was identified by PRISM project team members, municipal council officials and staff, and CPT members as needing attention.

The PRISM project team plans to survey CPT members who did not remain hopeful about the process, to understand and, if necessary, modify the project approach. One factor that may have contributed to the loss of confidence was the protracted formation of the precinct-CPTs after the key groups were identified. The CPTs had to be reoriented many times and this further slowed the assessment of public services.
A second major challenge was the weak response of the media. The municipal council and the PRISM project team were disappointed in their efforts to attract media coverage. As a result, the CPTs were unable to achieve wider public involvement in the performance measurement process.

Another challenge was specific to the precinct of Bukit Mertajam. The initial CPT identified was somewhat dysfunctional and had difficulty identifying target service areas. Some members wanted to use the PRISM project to debate municipal government policies. On the positive side, CPT members decided to survey the various neighborhoods themselves. They also held a precinct-wide meeting to gather information. The CPT members thus got a clearer sense of which public service areas had to have performance measures. The very active involvement of an elected opposition state assemblyman in the CPT contributed as well to reviving the Bukit Mertajam process. It sent a strong signal that the precinct was committed to the process.

Finally, citizens, like professionals and elected political officials, struggled to identify outcome measures. Many could not tell the difference between output and outcome measures. Indeed, some measures, such as citizens’ satisfaction with a public service or citizens’ participation in municipal programs, are not necessarily outcome or output measures. The Urban Institute calls these measures “intermediate outcome measures” (Hatry 1999). Professional assistance in this process is therefore definitely necessary and helpful.

Overall, the experience in Phase 1 of the PRISM project in Seberang Perai was positive. The project demonstrated that a CPT consisting of citizens, municipal council executive board members, and key administrators of the municipal council can function effectively together. It also showed that if elected political officials and municipal council executive board members are committed, that commitment sends a strong signal to citizens that the PRISM approach will make a difference in municipal decision making. Also, the fact that the process is transparent to all parties allayed skepticism and the fear that one party would manipulate the process.

Case Study Conclusion

Traditionally, performance measurement has been an exercise for municipal government managers and budgeting officials. However, many measures developed internally by municipal council staff may not reflect the concerns and priorities of citizens. The PRISM project in Seberang Perai demonstrated the feasibility of engaging citizens in developing performance measures. It also proved that the process can be done in such a way as to give value to citizens and the municipal council.
While it may be premature to make any conclusion about the long-term impact of the project, several lessons have been learned. First, the PRISM project helped the Seberang Perai Municipal Council focus on outcome measures and citizens’ concerns. This should enhance public accountability and the result-orientation of public services. Second, the PRISM project showed the importance of public communication. For example, any government agency should not neglect to notify citizens about the progress or results of departmental actions after a service request is filed. Third, municipal council administrators should prepare for comparative performance measurement, as many citizens are interested in knowing how well their municipality is performing relative to its neighbors. Fourth, many performance measures should be reported at the neighborhood level to make them more relevant to citizens. Finally, public reporting of performance measurement is important. Local authorities should consider the use of technologies, such as the Internet, to do this cost-effectively.

The Seberang Perai Municipal Council continues to collect data for the measures identified by the CPTs, and disseminate the results to the general public. Several precincts in the PRISM project have indicated a desire to expand the project and add new public service areas for performance measurement. Other precincts have indicated the desire to join the project in the near future. The outlook is optimistic for citizens becoming an effective partner in developing and using agency performance measures.

Developing a Performance-based Management System

The performance-based management strategy adopted in the Seberang Perai Municipal Council through the PRISM project should result in more defensible and accountable public service. It should also result in public services designed to produce relevant community outcomes and provide a set of indicators that will keep agency activities accountable for these outcomes. Another potential benefit is that the indicators selected to monitor agency performance will be directly related to measures of agency effectiveness providing the kind of ongoing justification needed to support continued funding in a time of scarce resources. The agency’s executive board members and managerial staff should also see this type of system as promoting more effective links to other agencies and better cooperation with other agencies in accomplishing outcomes for which they are jointly responsible.

The performance-based management model put into operation in the PRISM project for the Seberang Perai Municipal Council carried out the following actions:
• **Action 1**: Identify the citizens to be served, and their problems and needs that must be addressed. This first action is to clearly state the target of a service and the specific problems or needs that justify a potential service program or policy intervention. While a primary intervention program may target an entire community, it is best to acknowledge that certain people in the community are at greatest risk of having a particular problem or challenge in their lives, and that these are the people who are most likely to need the service. We asked ourselves: Who are the people most likely to have a particular problem? Who are the people most likely to need help in a particular part of their lives? What are some of the prevailing conditions in their lives that make it likely that they will be at risk of some condition that may require intervention? What are the specific needs that previous research or other evidence suggests these individuals or families have?

• **Action 2**: Identify the community outcomes to be achieved. This action is a significant leap forward in thinking about the kinds of system-level results that should be achieved by addressing the problems and needs of the citizens. In other words, how would the community be different if people’s needs were truly addressed or their problems significantly reduced? What benefits would the system itself find so desirable that it would invest significantly in interventions to achieve outcomes that it can value and support? In a public setting, what kinds of outcomes would taxpayers be willing to support to achieve these outcomes? These outcomes must be carefully defined and defensible. While community outcomes are often influenced by many factors, they should be logical consequences of an agency’s efforts to solve the problems and needs of the potential client population. The desired outcomes should also be few in number, stated in nontechnical terms, and easily understood within and outside the public service agency (Ammons 2000).

• **Action 3**: Identify the agency outputs (see Appendix 2 for a brief definition) that can be directly related to the community outcomes. These agency outputs are those for which an agency is primarily responsible and that have clear ties to the outcomes or benefits the agency wants to achieve for its people. Agency outputs are referred to in Total Quality Management literature as “critical success variables”
or “critical success factors.” These are the agency outcomes that, if achieved, will have the greatest chance of ensuring that the individual, family, or community outcomes will occur. The critical agency outputs send a very clear message about how agency performance will be measured.

There are many potential outcomes of agency activities, but critical outputs are what the agency wants to be directed toward and measured against. Usually, agency outputs like these are defined on the basis of a careful review of research evidence or policy evaluation results or, in their absence, clear logic. Ultimately, good agency output indicators should be few in number, easily understood, related directly to agency activities, and worded in such a way that the service population is the group for whom the results are to be achieved.

• **Action 4**: Define the agency activities likely to produce each desired community outcome. Agency activities are designed to produce outcomes instead of responding directly to client needs. In performance-based management, activities are oriented forward, to results, rather than backward, to either citizen or agency needs. This type of performance management model supports only those activities whose probable impact on results can be clearly defined. All too often, agencies develop shotgun-type activities that attempt to “be everything to everybody.” When this happens, the scope of activities ranges from the effective to the ineffective, and the overall results are often mixed at best or completely unknown.

Activity measures in a performance system are directly related to specific community outcomes and the responsible agency is now the “actor” in the information system. But only those agency activities that can be directly related to community outcomes are measured. For example, simple counts of people served are to be avoided in favor of the percentage of the target population that is reached. The latter is a much better indicator of whether the program is likely to produce outcomes for the target population. The focus here is on activities that are specifically targeted toward community outcomes, and only a limited number of measures of activity are necessary to gauge performance in relation to intended results (Ammons 1996).

• **Action 5**: Acquire, allocate, and manage resources to accomplish critical agency activities. This step refers to program planning, fiscal management, and budget allocation and analysis. If the activities are
accomplished according to the performance management criteria, the
direct or indirect contribution of all resources to those activities that
are designed to support specific community outcomes should be
measurable. In management terms, this is referred to as the activity-
based costing, or ABC, model. The proportional contribution of
activities to outcomes should also be measurable, such that the cost-
effectiveness of each activity can be defined. The overall model allows
for a “return on investment” analysis in which outcomes or benefits
can then be attributed to specific activities and costs, thereby justifying
the intervention within a formal accountability structure.

• Action 6: Monitor agency performance indicators. The performance-
based measurement program described in the Seberang Perai case study
above established a set of key indicators at several levels that can be
used to assess agency performance. All of the indicators can be
measured in a way that clearly justifies program operations. The
outcome indicators (see Appendix 2 for the outcome matrix) that are
needed are the following:

- **Knowledge**: these indicate improvements in the level of knowledge
  that are necessary to operate effectively in the area of concern of
  the agency.
- **Attitudes**: these include perceptions or beliefs that are considered
  important in achieving desired outcomes or that reflect outcomes
  considered necessary by the agency for optimum performance.
- **Behavior**: these are specific behaviors or activities that should occur
  if the program has been effective or that the community deems
  necessary on the part of some portion of its people.
- **Cost-effectiveness**: these results should indicate that the benefits
  derived from the intervention are worth the costs or investments
  made in the delivery of those benefits.

• Action 7: Evaluate citizen-initiated outcomes and measure the
agency’s impact on those outcomes. The final step in building a
performance-based management system is the periodic and
comprehensive assessment of the extent to which citizen and
community outcomes are achieved by the services delivered by the
agency. All too often, this step is ignored and the results of
interventions are unknown. Without evaluation, service agencies
often “shoot in the dark” with no real data to determine how well
they are meeting their mark and achieving the intended results for which they are funded.
Any intervention should be continually evaluated. Agencies should continually improve the intended outcomes in knowledge, attitudes, behavior, and cost-effectiveness. Without evaluation, there is no way to tell if one intervention is better than another or if one works better with one target population than with another. Furthermore, lack of good and ongoing evaluation leads to public mistrust of human services and overreliance on anecdotal or exceptional case data to justify an agency’s operations. When there is no shortage of funds, this type of justification is sometimes adequate, but when funds are tight, fuzzy data are usually insufficient to justify continued support. Unfortunately, this means that the agencies that do not have good performance indicators and outcomes suffer in the competition for scarce dollars (Ammons 2000).
References


### Appendix 1: Worksheet for Developing Performance Measures

(Translated from Malay Language)

Evaluating Performance Measures | Service: ______________________________ | Precinct: ______________________________

Please put an “X” in the columns beside each suggested measure if you think the measure meets the specified criterion, and then rank the usefulness of the measure to citizens (0 = not useful at all; 1 = somewhat useful; 2 = very useful). Please feel free to write down any comments and suggestions. Citizens may form small groups to work on this exercise.

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Please provide any comments and suggestions below:

__________________________________________________________________________
__________________________________________________________________________
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Appendix 2: Definitions of Key Performance-based Management Terms

**Outcomes:** The results or benefits achieved by individuals, families, communities, or organizations that can be directly or indirectly tied to successful program interventions.

Outcome Levels
- Individual
- Family
- Community
- Organization/System

Outcome Matrix:

<table>
<thead>
<tr>
<th>Item</th>
<th>Individual</th>
<th>Family</th>
<th>Community</th>
<th>Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledge</td>
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<td>Attitudes</td>
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<td>Behavior</td>
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<tr>
<td>Costs</td>
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**Agency Output:** The results achieved by the intervention program at the termination of service that can be directly tied to program interventions:
- Owned by the intervention program
- Necessary precursor to outcomes
- Strong evidence to support contention
- Measurable
- “Critical success variable”

**Agency Activities:** The interventions employed by an agency or agencies to achieve specific agency outputs that are designed to affect needed outcomes:
- Necessary to produce agency outputs
- Clearly tied to needed outcomes
- Balance between primary, secondary, and tertiary prevention and crisis response
- Management information-driven

**Citizens’ Needs:** The specific needs of individuals, families, and communities that determine the critical objectives of agency activities:
- Defined needs assessed
- Citizen input required
- Needs monitored in terms of outcomes
Engaging Societies: Institutionalizing a Consultative Mechanism to Improve Governance

Hashim Yaacob¹
Norma Mansor²

Introduction

Consultation has become part and parcel of the government policy making and planning framework in Malaysia today. Although the types of consultation vary from policy to policy, most public policies went through some kind of discussion at various levels, involving relevant groups in the society depending on the issue. The latest is the draft of the Malaysian Specific Creative Commons Licenses, which was discussed in October 2005. Together with the Multimedia Development Corporation (a public agency), the Law Faculty of the University of Malaya held a public discussion and invited professionals and members of the public to voice their opinions on the draft. The Government is planning to legislate an alternative to the traditional copyright approach of “All rights reserved”; “Only some rights reserved.” Other dialogues include those held by the Ministry of Finance (on the annual budget for 2005), the Ministry of International Trade and Industry, and the Central Bank of Malaysia (an annual dialogue). Certain government ministries and nongovernment organizations (NGOs) have also held forums to get inputs for the Ninth Malaysia Five-Year Development Plan for 2006–2010.

Engagement with a wider group of the society outside the government bureaucracy in Malaysia is premised on three main factors: historical ethnic relations, which were essentially based on negotiations and bargaining; the prevailing view in the 1980s that the private sector was more efficient than the public sector; and the desirability of including the private sector and NGOs in policy making because it would also legitimize government policies.

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History of Consultation: Political Bargaining

The political, economic, and administrative milieu of the country is shaped by the pluralistic nature of Malaysian society. Malaysia’s political experience is one of achieving consensus between ethnic groups. Though compromises were inevitable in reaching an agreement, each group worked to optimize its interests. Consensus building started with the independence, or merdeka, framework, for which the three main ethnic groups had to draw a workable governing formula. This can be regarded as a consultative process in a limited sense, as the three main ethnic groups were represented by their leaders. The coalition formed, known as the Alliance Party and later renamed the National Front, won the elections after independence and has been ruling post-independence Malaysia since then.

Independence, however, did not translate into a better standard of living for all, especially among the majority Malays (bumiputra). The growth strategy adopted by the Government in the 1950s and 1960s had limited success, resulting in rising inequalities within and between ethnic groups. Income inequalities between ethnic groups, economic sectors, and regions were made worse by rising unemployment (8%) and underemployment despite a growing economy. The sole emphasis on growth was inevitably reviewed in the wake of the racial riots in 1969.

The shift from growth, to growth with distribution, became the objective of the new development initiative called the New Economic Policy (NEP). The NEP was launched in 1971 and eventually covered three decades. In its mission to eradicate poverty and restructure the society, the public sector had adopted a new role by getting directly involved in business. Hence, the role somewhat blurred the regulatory function of the Government. It was further complicated when it was associated with ethnic domination, i.e., the public sector was Malay-dominated while the private sector was Chinese-dominated.

Hence, 10 years into the NEP period, there was a high level of mistrust between the private sector and the Government over the implementation of the second prong of objectives of the New Economic Policy, i.e., the restructuring of the society that had led to the proliferation of public enterprises. The establishment public enterprises, seen as an economic vehicle of the Government to specifically address inequality between bumiputras and non-bumiputras and to reduce poverty, existed in almost all sectors, and were in direct competition with private enterprises. The perceived “crowding out” effect had led to capital flight out of the country. There was dissatisfaction with certain affirmative actions, including the Industrial Coordination Act mandating 30% bumiputra capital participation in industrial enterprises. Meanwhile, some public enterprises underperformed, and some of these public
enterprises were faced with management and financial problems. In addition, there was growing disenchantment in the country with other public services. Political and economic events of the 1980s had prompted the Government under Mahathir to engage the private sector, academics, and NGOs in policy making. There were at least three pertinent events during this period. The first was the economic crisis in 1984, and the second was the end of the NEP period (1970–1990) and hence the formulation of a new development plan. The economic crisis of the mid-1980s was attributed to both endogenous and exogenous factors. The world oil crisis caused by the Iran-Iraq War triggered the economic recession. There were also issues in the domestic economy that were unresolved. Chief among these was excessive investment in nonproductive sectors like the property sector by both the public and the private sector. These projects were financed heavily with external borrowings, thus causing heavy government indebtedness.

The third event was a challenge to political leadership. Notably, this was not an easy period at the national level politically: the leadership challenge had led to the expulsion and de-registration of the main political party, United Malays National Organisation (UMNO), the backbone of the ruling party. The opposing faction had formed a splinter party known as Semangat 46. The power struggle caused a split among the government political parties, as it was a test of loyalty among partners and friends of more than 20 years. For UMNO, a party with a well-planned succession plan for leadership, this was unprecedented, as it signified strong dissatisfaction with the UMNO leadership.

With the scenario mentioned above and the push for a structural adjustment program by the International Monetary Fund and the World Bank to liberalize the economy, and influenced by Thatcher-Reaganism wisdom, the Government adopted a privatization policy. Private sector management was seen to be superior to the public sector in delivering public services. Also, the Government under then Prime Minister Mahathir Mohamad felt that a wider section of the community needed to be reached to address the negative perceptions of the Government, to manage the uncertainties in the country, and to seek solutions to the economic problems. A partnership formula through the concept Malaysia Incorporated was therefore launched.

Consultative Forums

Economic Forums

The consultation with the private sector that was formalized through the Interagency Planning Group started with the creation of the Malaysian Industrial Group for High Technology to advise the Government in mapping
out an industrial strategy and industrialization plan for the country. The group consists of heads of industry and was created to identify the types of industries, their linkages, and their potential. Malaysia then embarked into heavy industry like the steel and the automotive industries. This group remains relevant in advising the Government on science and technology.

The National Economic Consultative Council (NECC) has a wider representation and was established in 1986 to frame the Second Outline Perspective Plan (OPP 2). OPP2 was to replace the First OPP, which ended in 1990. The OPP is a long and broad development plan that outlines national priorities and strategies. NECC members include central government agencies, the ruling party, opposition parties, NGOs, and academics. Although some members have expressed concern on the lip-service treatment given to this committee, there has been a significant shift in emphasis in economic policy.

The most influential forum within the private sector, many say, would be the Malaysian Business Council (MBC), which was launched in 1991 by former Prime Minister Mahathir Mohamad. It is the main body supporting the Malaysia Incorporated program, which is aimed at cooperation and collaboration between the public and private sectors for national development. There are 72 members, including prominent industry leaders, several cabinet ministers, senior government officials, and several members of NGOs. National economic policies are the main agenda of the meetings, which cover topics ranging from industrial and tax policies to trade and employment matters. Although the MBC meets infrequently, its working committees have already submitted 30 working papers to the Government. An important document, the Privatization Master Plan, was drawn up in consultation with the private sector, particularly the Federation of Malaysian Manufacturers.

The Annual Budget Dialogue, in actual fact a pre-budget input gathering, dates back to the 1970s but was further modified when more organizations were invited to systematically submit proposals. Organizations representing business associations, NGOs, trade unions, and youth organizations were subsequently invited to present their proposals to the finance minister. Many claim that the dialogue is a significant way of presenting their issues to the Government. In addition, every ministry and state has a consultative panel to advise on policies affecting them.

The National Economic Action Council became the main consultative panel when the country was faced with the 1997 economic crisis. This council of 26 members representing the private sector, NGOs, the academe, and think tanks was established in January 1998 with a twofold objective: to gauge opinions and suggestions from the private sector, and to gain support for the Government’s effort to revive the economy. The council advised the
Government on a suitable policy response to the crisis and came up with suggestions such as capital control and a fixed exchange rate.

**Social Accountability Forums**

The establishment of commissions, both outside and under parliament, was part of the Government’s effort to promote a harmonious society. Complaints about human rights abuses had caused the Government to establish the Malaysian Human Rights Commission. This commission also draws representation from NGOs and prominent persons in the country. This commission comes close to the function of an ombudsman, in the absence of the latter.

In response to complaints of corruption among the police force, the Government set up the Royal Commission of Police to enhance the operation and management of the Royal Malaysian Police, according to the Commission of Inquiry Act of 1950. The members are again former senior government officials, former judges, NGOs, and the academe. Commission members reported that they were given autonomy and were well supported by the Government during the inquiry. Moreover, their report was released to the public within a fortnight after its submission. The transparent manner in which the inquiry was administered further legitimized the police force reform.

There have been efforts by the Government to widen representation in the management of public accountability. The Public Accounts Committee (PAC), which has traditionally been very much in the government domain and somewhat ineffective, is now a more open club since Prime Minister Abdullah Ahmad Badawi took over the helm in 2003. The committee is elected at the beginning of each parliament with powers to audit a wide range of government activities. The chairman is a backbencher of the ruling party and the cochairman is a member of parliament from an opposition party. Members are from both the government and opposition parties. This is a step toward inclusion to bring about harmony.

**Discussion and Conclusion**

Although it is difficult to conclude that there is a direct causal relation between social engagement and harmonious society, the forums have provided an avenue for government officials, private sector, academe, and NGOs to share opinions and information with one another. These forums have served at least three purposes. First, they help to narrow the social gap in a racially divided society, especially when the sectors are identified with race. The forums serve as an arena through which dissonance within each interest group can be expressed, debated, and resolved behind closed doors. Second, the process
draws on the expert knowledge, insights, and judgment of leaders in the community. This is one way of discerning risks associated with certain policy directions and evaluating long-term implications. Finally, participation in these policies provides the members with a sense of ownership and a sense of commitment to the policies.

The effectiveness of these economic policies has contributed to decades of economic progress, despite the periodic difficulties. It is also worth noting that the country has been able to sustain political and social stability. Transparency in policy making has gained wide support from the public, as demonstrated by their support for some radical economic policies taken by the Government in response to the 1997 economic crisis.

The consultative process has its limitations. The representation claimed by some was from organizations that were viewed positively by the Government. And this automatically excluded useful but controversial opinions. The representation of leaders who were able to state their opinions marginalized groups that were less articulate. Also, members felt that there was lack of monitoring to ensure that recommendations were implemented. Generally, the Government adopted recommendations made by members, but members were not informed of the outcomes of the policy.

The closer relationship between the private and public sectors could also lead to corrupt practices, as some critics argue. The critics assert that a network could develop and it could lead to cronyism. However, in the case of Malaysia, consultation is institutionalized and transparent, and there is less tendency to favor any one party.

The institutionalization of consultation in Malaysia well beyond a periodic event is an innovation to ensure sustained political and social stability.
References


Institutional Change in Mongolia: Balancing Waves of Reform

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Collapse of the Regime

Before the collapse of the communist regime, Mongolia and other communist countries experienced a rule-directed, party-controlled, and centralized Weberian type of bureaucracy. Public administration in these countries was characterized by a formal hierarchical government structure. The ruling party controlled policy formulation, assets, resource allocation, and the selection and distribution of personnel, with everything directly accountable to the party auditing bodies. The collapse of the communist regime brought the need to search for ways to change the public administration system.

The options were to exchange the communist type of Weberian bureaucracy to the Western bureaucratic form, or to search for ways to become an entrepreneurial, less regulated, more flexible, and more participatory civil service. In the beginning of the transition there were no indigenous ideas about democratic styles of administration, and officials were eager to adopt any model that would seem acceptable for particular social and political conditions. The objective of the post-communist countries, however, was not reform and improvement of the old system of public administration. With the collapse of the communist regime the “party administration” had lost all trust and respect from society. Therefore, these countries needed to dismantle the old system of party administration and develop a new system of public administration (Verheijen 2003).

In Mongolia, the beginning of the transition, from 1990 to 1997, was dominated by a developmental approach to public administration, not a reformist approach. The collapse of communism brought two contradicting ideas about the theory and practice of the transition. The rush of ideas imposed from abroad, reflected in the dominance of foreign consultants, brought negative reactions to all foreign ideas and experiences as just another attempt to impose an unreliable model and system. On the other hand, the transition

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process required learning from public service ideas and experiences in the developed countries and introducing some of the relevant experiences and models. The attempt to find a balance between learning from international public administration systems, the reform movement, and empirical assessment of the needs of the existing social reality created a developmental approach to transition in Mongolia. Traditional Marxist methodology, which states that the political and administrative structure of society has to be matched to the economic and cultural basis of society, was deep-seated in the minds of scholars and experts at the beginning of the transition. This influenced the focus on the empirical assessment of the socioeconomic condition of public service transition in defining ways of public sector transition. Mongolian scholars and experts were not only focusing on the new international reform movement but also considering the transitional reality of society in order to reach a balance between these internal and external factors. Unfortunately, learning and evaluating the international public administration experience, studying and assessing the reality of the transitional society, and reflecting both of these in policy development were not easy not only for scholars from the transitional regime, but also for specialists from developed countries. Therefore, not only was balance between internal and external factors not always achieved but these factors were not considered enough.

At the beginning of the transition, inspiration was drawn from countries where a traditional public administration was predominant, like Republic of Korea, Japan, and Germany. It is therefore not surprising that building the traditional career system was given a high priority at that time. However, from 1997, with problems emerging from the implementation of the newly established traditional system of public administration, on the one hand, and rising influence from countries (Australia, New Zealand, Sweden, United Kingdom [UK], United States [US]) and international organizations (the World Bank and the Asian Development Bank) advocating neoliberal views, on the other, reformist, New Public Management approaches became the dominant consideration in Mongolia’s public service transition.

Development of the Traditional Public Administration System in Mongolia

The traditional concepts of public administration, like hierarchy and rules, permanence and stability, and equality and regulation, appeared somewhat similar to those that transitional regimes had used in the past and

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3 In this paper "transitional regime" refers only to post-communist transitional governments.
more acceptable to a society emerging from an authoritarian system. Some elements of the New Public Management (NPM) models seemed attractive, but no one knew all the systems and models of public administration, including the traditional. Traditional systems of public administration were easy to understand and accept, and seemed not too difficult to implement, given the social and cultural condition of the transitional regime. Also, it was only the fully developed and exercised public administration systems that were suitable for the countries with no indigenous democratic style of administration. All other models of NPM consisted mostly of some new elements adapted to the traditional system in order to improve the quality of the public service. Naturally, from the beginning of its transition Mongolia opted to develop a traditional style of public administration system.

The following policy documents contain the main principles of the new public administration system developed in Mongolia at the initial stage of transition:

- The new Constitution (1992) and related key consequential laws. This defines Mongolian political institutions and their structure, organization, and functions.
- The “Management Development Program” (1993), which was implemented by the Government with assistance from the United Nations Development Programme and other donors. The roles, functions, and structures of the machinery of government with regard to the central and local governments and the private sector interface were revised. The power of administrative institutions was clarified and significant improvements were made in improving the knowledge and skills of civil servants and private sector managers.
- The Law on Government Service (LGS) (1994), which provided the legal environment of the new public service system. It defined public personnel policy and the status of public employees, their duties and rights, responsibilities, incentives, conditions of work, and management of the public service.
- Mongolian State Policy on Reforming Government Processes and the General System of Structure (1996), which defined a new organizational structure for central government based on policy and planning ministers with oversight of executive agencies. It identified the policy of government cost reduction, including downsizing the public service and strengthening accountability and control through ministry and agency business plans and new financial management systems.
The policy documents essentially established a traditional career-based civil service within a Weberian type of bureaucracy, with central control over the grading and classification of positions, remuneration and other personnel decisions, and relatively permanent tenure positions. Decentralization was a part of the management development program, but it never received the same priority as public administration and civil service reform, and privatization and private sector development. As a consequence, decentralization lost momentum and did not have the same impact as these other parts.

By comparing the main principles in these policy documents with the “five old chestnuts” of the traditional model (Peters 2001) we can get a somewhat more complete idea about the traditional character of the public administration system that was established at the beginning of the transition.

**An Apolitical Civil Service**

In order to establish and maintain a politically neutral civil service, the Constitution of Mongolia declared that “Party membership of some categories of State employees may be suspended” (article 16, section 10).

The Law on Government Service states that government core employees shall have the duty “to maintain political neutrality while exercising the functions of the post” (article 13, section 8). Later, when NPM was implemented, this article was amended to include the provision that government core employees should express only official positions in the media when discussing issues related to government policy. The Law on Government Service (LGS) also restricts government core employees from “participating in the activity of political parties in the capacity of a government officer” and “holding concurrently a permanent position in political and other organizations, unless otherwise provided by legislation.”

Because there was no clear definition of what activities could be considered “political” and what nonpolitical, these regulations provided only a general declaration of neutrality. Political allegiance and loyalty of civil servants to political parties were common and open.

**Hierarchy and Rules**

The public administration transition process in Mongolia from 1990 to 1997 tried to create a Weberian and rule-directed bureaucracy. In the beginning, the first priority was a civil service independent from party control, and compatible with the emerging market society. Issues of greater economic efficiency and social effectiveness were not the highest priority.

The Government established a centrally managed career civil service, appointed on the principle of merit. The establishment of the rule-directed
bureaucracy was based on the Constitution, which states that “Ministers and other government offices shall be constituted in accordance with law” (article 46). Further, according to the LGS, public service “is the activity of accomplishing and implementing state goals and functions within the vested power, as set out in the Constitution of Mongolia and other legislation” (article 3.1) These statements show clearly that public organizations are established to act only in accordance with the law and public servants should implement state goals and functions only within the vested power set out in the law. The hierarchical structure and management of the newly established public service was reflected in its overall classification, categorization, and ranking of all government posts by the LGS (Law on Government Service; Resolution 73/1995 of the State Great Hural; Resolution 132/1995 of the Government). The first-ever handbook on the Mongolian administrative structure and personal management system stated that

The classification system enables the State to design the Government service and to allocate the resources to finance it. It also is used to estimate the remuneration costs and other running costs for different parts of the government service. Decisions on salary and other forms of remuneration are also based on the classification system. (Sambalhundev, Tsedev, and Mujaan 1996, page 19).

Permanence and Stability

The newly established government service had characteristics of the traditional public administration, such as permanent and stable organization and staff. The Constitution requires that public offices “shall be constituted in accordance with law” and “the work conditions and social guarantees of State employees shall be determined by law” (article 46), reflecting an overall philosophy of permanence of government organizations and stability and “social guarantees for civil servants.” According to the LGS, “a real government employee shall be a citizen of Mongolia, who holds a Government governing or executive post permanently on the basis of qualifications…” (article 11.2). In addition, by the same law the State is responsible for any damage that occurs as a result of a wrongful action by a government official in the course of exercising the powers provided by law (article 4.2.7). The LGS abolished the patronage system and introduced recruitment and promotion on merit, competitive examinations, regular appraisal, common grading, and salary scales throughout the civil service. It left recruitment open for all posts in the civil service, the senior civil service included. Civil servants were to be recruited on a permanent basis, with fixed-term contracts used for temporary staff only.
Human resources management in the civil service was to a large degree centralized. This system included entrance examinations, salary schedules, incentive programs, training systems, and important procedures such as hiring and firing. The Administrative Service Consul organized recruitment examinations centrally. Every ministry, agency, and local government was responsible for implementing these centrally established procedures and regulations. How well they followed the procedures and regulations was supposed to be monitored by authorities within each hierarchy.

However, senior civil servants continued to be appointed, evaluated, and promoted centrally. Vacancies for senior positions were not publicly announced and competitive examinations for senior positions were not organized until 1 June 2003.

**Internal Regulation and Equality**

One of the key principles of the LGS that guide government service is “to administer and to be administered.” This means that government core employees shall implement the lawful decisions of higher-ranking officers (articles 4.2.1, 13.1.4). The result of this principle is management by hierarchy.

Equality is another fundamental principle guiding the activities of the state. It is found in the Constitution (article 1, paragraph. 2). The principle of equality in the administrative system means, for example, that the amount, scale, and rate of remuneration for a particular government employee is determined by a similar rate of remuneration for similar government positions throughout the public service (LGS article 28.3.1). It also means that citizens should expect to be treated the same without regard to their differences.

**Problems Emerging with the Traditional System of Public Administration**

The new public administration system met the social needs of the transition period with some promising outcomes. However, the structure did not bear as much fruit as it did in developed countries (Tsedev 2002, page 120). The reasons for this were as follows.

**Problems Associated with a Neutral Civil Service**

An apolitical civil service did not work well at the beginning of the transition, when a traditional public administration system was being established.

- In socialist times everything was politicized. Citizens, especially civil servants, used to be “politically” very active, and usually saw most
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things through an ideological lens. Civil servants were selected and appointed using ideological criteria.

- The beginning of the transition was a time of “revolutionary change,” and everything became even more politicized. The nation was deeply divided politically, from very conservative “communist tip” democrats to left-wing liberal democrats and “anarchist democrats.” There were more than 20 political parties for about only one million adults. Every issue was interpreted politically. Everyone, every time and everywhere, discussed every issue as a political issue.

- In a small state it is very difficult to rely on the politics-administration dichotomy and establish a politically neutral civil service. Politicians and administrators at all levels have very close ties with each other. There are very informal relations and networks between them and it is difficult to differentiate political allegiance, loyalty, or personal relations.

- A small state does not have enough qualified specialists to organize the civil service and the political sphere separately. A small number of people have experience in both public administration and politics. It is almost impossible to find highly experienced and politically neutral specialists to appoint to senior civil service positions. The recruitment of former high-ranking elected officials to senior civil service positions is common and necessary in small states. For this reason an amendment was made to the LGS in 2002. According to this amendment, former politicians who were holding high government posts can be included on the civil servants resources list, without entrance examination and on the basis of the recommendation of the Government Service Council (article 17.11). Equally, most leading politicians and political consultants come from the civil service. There are not many career steps in a small civil service. A successful civil service career very quickly ends up as a political position.

- When there is little respect for laws and regulations it is impossible to enforce a politics-administration dichotomy and the principles of an apolitical, neutral civil service.

- From the beginning of the transition, long before the establishment of a new civil service, competition among political parties for experienced and skilled specialists deeply politicized and divided the civil service. Competing political parties began using political loyalty as the main criterion of any career, including a civil service career. The situation could not be changed simply by adapting new laws and regulations of the civil service when law and rule meant very little to people.
Problems Associated with Hierarchy and Rules

At first glance, a hierarchical and rule-bound system seemed to work in Mongolia. The law established public organizations and regulations, and government posts were organized according to official classification and ranking. Even the management of the public service was organized according to laws and regulations. But the quality of service of public organizations and the work attitudes and habits of government employees had not changed much. The organizational structure and management system still was not promising economic efficiency or social effectiveness. Rule-directed organizations and management in public service did not promise much because of the general disrespect for law and regulations. Obeying rules and regulations was not always the first priority of citizens, including civil servants. In a small state, informal relationships and networks dominate all levels of the civil service, and these did not leave much space for the effective functioning of the hierarchical structure and management. Even though there are many steps in the salary system, the differences in salary do not provide incentives that support the role hierarchy. In addition, at the beginning of the transition, the views of civil servants changed in ways that created a dilemma for them. Civil servants had duties and responsibilities from the hierarchy in the new system. At the same time, citizens had lost respect for civil servants, and civil servants had lost their authority and because of their loss of authority the hierarchy was not functioning.

Problems Associated with Permanence and Stability

Although patronage has been banned and politics is officially separated from administration in laws and regulations, patronage is one of the main breaches in the public service system. The rise of new political parties in the transition reinforced this tendency, creating new incentives for patronage and favoritism. In order to win elections and gain power, political parties began asking for the support and loyalty of key people in society in exchange for positions in the public service. In that way political parties became a host of potential seekers of administrative positions. Another factor that stimulated patronage was the small society and shared culture. Family and friends are favored over official norms and regulations. Even though a merit-based, professional civil service is espoused in current laws or decrees, it is clear that many civil servants anticipated that after the new elections there would be substantial changes throughout the civil service. They expected that many of the current civil servants would be replaced by people chosen by the new government. On the other hand, many supporters and relatives of the party leaders expected that if their party won they would be rewarded with administrative positions.
For a year and a half after the LGS passed in 1994 until the next elections, various laws and acts were passed and went into force, and the new public service structure appeared promising. Right after the elections, however, suspicions arose and the process deteriorated. Political parties and the new electoral process politicized the new public service structure and used it for their own interests, negatively affecting the confidence of the people in the structure. On 1 June 1995, the LGS was enacted, allowing a large number of members of the then ruling power, the Mongolian Revolutionary Party, to take an oath and become civil servants, without passing any examinations or assessments. This had a negative impact on the implementation of a merit-based system for the new public service. The winner of the 1996 elections, the Democratic Union and Coalition, further worsened the situation and weakened the implementation of the new structure. Instead of correcting the previous mistakes, they simply carried out a deconstruction mechanism by replacing the former officials en masse with their own. Public servants were laid off or sent to different positions in spite of the principles and spirit of the new structure. At the same time, for senior positions, civil service entrance procedures (selection examinations, a waiting list, appointment, probationary period, and performance evaluation) were skipped and the oath ceremony was used to give politically appointed employees core civil service status. For lower positions there was an appearance of using the procedures, but there was much manipulation around the procedures. As an example, temporary appointments were used to avoid competition for a position.

The newly adopted traditional administration emphasized stability by having most positions in the civil service. For example, in the ministries only the minister and at the provincial level only the governor were political appointments. All the rest were administrative. This regulation contradicted the interests of political parties to place more of their supporters in political positions and became difficult to implement. The new constitution, in addressing local governments, emphasized more democratic practices by having the lowest officials—bag governor—elected. It was very inefficient to have the lowest administrative officials in political positions, changing them every 4 years. This regulation facilitated the politicization of civil servants at the local level. Under the new system, high-ranking political officials were employed by the Government Administrative Service Consul, which started politicizing the management of the civil service. In this way, in the new administrative system political positions were made administrative and administrative positions were made political.

Thus, as in many other post-communist states (see Verheijen 2003), the adoption of civil service laws and related regulations did not resolve the
problems of instability, predictability, and politicization and did not lead to
the development of a well-working system of long-term career development.

Public Administration Reform in Mongolia

Mongolia adopted a traditional system of public administration until
1997. As we see from above, the newly created system was not functioning
well and needed either further development or reform. The dominant
assumption was that government could not do anything well, so it was a good
idea to introduce change that was as radical as possible to make government
as modern as possible.

Initial advocates of the NPM reform were leaders of the democratic
coalition government and international consultants from the Asian
Development Bank (ADB). Although NPM advocates promised more
independence for government organizations and their managers, government
was not attracting civil servants at all levels. Their main concern was instability,
politicization, and corruption in the public service.

Leaders of the democratic coalition government had several reasons to
support the reforms. First, they were not satisfied with the responsibility and
accountability of government organizations and their public employees and
wanted to improve these by reforming the system. Second, the finance and
budgeting mechanism of the public service was not transformed from the old
model and needed to be fixed. Political leaders hoped that NPM reforms
would not only establish new finance and budgeting mechanisms, but also
solve many other problems now emerging from the traditional model. Third,
leaders of the coalition government were not happy with public employees
who were collectively transferred from the old regime into a stable career system.
They saw NPM reform as one way to deal with their problem of the
permanence of ineffective bureaucrats. Fourth, they wanted to reduce the size
of the government and redirect resources to higher-priority social needs like
poverty reduction and economic development. Finally, adopting these reforms
in the public service was in compliance with requirements of the major
international donor organizations—which has come to be known as “good
governance”—for loans and grants” (Peters 2001, page 163).

In addition to this, there were external pressures to impose the New
Zealand model of NPM. The major international advocate of the New Zealand
type of reform was the ADB. In March 1997, the coalition government
scraped the Management Development Program, the program that had
assisted Mongolian public administration development, and initiated a
technical aid project supported by ADB. It was called the Public Administration
Reform Project. The purpose of the new project was to reform the
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administrative and financial structure of the state budget organization; to promote outcome-based budgetary planning, spending, and report structures; and to reduce government expenditures. Since then, ADB has supported and participated in every step of the reform through this project.

Not every international donor organization supported reform initiatives in the beginning. Many donor organizations and international consultants from the European Union, Japan, and Republic of Korea were suspicious about the predicted successes of the reform. Most of these donor organizations were assisting the public service transition in Mongolia and some of them continued their assistance within the traditional reform, some taking more neutral positions and reducing their involvement in the process.

This new public service reform initiative was strongly opposed at the outset by elected and appointed officials, and by public servants. Public servants did not welcome the initiative, as they believed the new structure would bring too much uncertainty. The classic form of bureaucracy used in the first phases of transition was close to Mongolia’s understanding, knowledge, skills, experience, and culture. NPM, on the other hand, was difficult to receive in a short time and most people were still unfamiliar with it. Public servants and national professionals were not ready to embrace the ideology of NPM. The attempt to impose it from the top, changing the direction of public service and administration, undermined confidence in implementing and developing new structures for public service and administration and left a lingering disbelief in the past and suspicion about the future (Tsedev 2002, page 120).

In November 1999 the Government introduced a draft of the Public Sector Management and Finance Law (PSMFL) into Parliament. It was not passed, but was the subject of considerable debate. Public servants worked for 5 years to implement a new structure of public service and administration, greeting every new session of the Parliament with the expectation that things would change with the passage of PSMFL (Tsedev 2002, page 120). After many debates and amendments to the draft PSMFL, the law passed in June 2002 and began gradual implementation from January 2003. The law is based on principles that are very different from traditional public administration, with most control over inputs, including personnel decision making, devolved to managers in line agencies, and comprehensive strategic planning processes and accountability for performance being “purchased” by the Government.

At the same time, the LGS and other laws and regulations of the public service were reviewed and substantially amended in order to take the PSMFL into account. However, although reviewed and amended, the LGS retained and strengthened the traditional central controls on civil service staffing inputs, including central control over the grading and classification of positions,
remuneration and other personnel decisions, and relatively permanent positions.

According to the PSMFL, the main concepts of public service reform consist of the following tools and principles (Government of Mongolia 2002a):

- Legislated medium-term strategic business plans and fiscal objectives.
- Performance agreements negotiated between ministers and general managers, and between general managers and public employees.
- Output-based budgeting (receiving funding on the basis of the government purchasing contract).
- Performance reporting on the basis of performance indicators.
- Accounting standards in accordance with international accounting standards (full accrual accounting).
- Capital charges on net assets employed by government organizations.
- Managerial authority over inputs, including employment of staff and operating expenses.
- For vacant chief executive positions, selection by the State Service Council of a short list of candidates for appropriate authorities to decide. The council holds the employment contracts of the chief executives and assesses their performance.
- Annual audits of all government organizations by the State Audit Authority.

Since several former officials of the New Zealand Treasury (Dr. Graham Scott, Prof. Ian Ball) had been involved as advisers in the initial drafting of the PSMFL and much has been learned from the New Zealand experience, the Law closely tracks the relevant New Zealand legislation, and the reform concepts and principles reflect many of the characteristic features of New Zealand's financial management reform (Laking 2000).

Public Administration Reform in Mongolia and Basic Models of Governance Reform

To present a more complete idea of Mongolia's public administration transition we now examine its development and reform efforts by comparing them with concepts and principles of four basic models of reform of governance created by Peters (2001).

Mongolian Reform Effort and Market Models

The basic assumption of the market model is that the best way to obtain better results from public sector organizations is to adopt some sort of a market-based mechanism to replace the traditional bureaucracy (Peters 2001, page 23).
According to the market model, competitive mechanisms would allocate public resources efficiently and minimize the cost of delivering services (Peters 2001, pages 25–30). In the case of a small society, such as Mongolia, it is difficult to use competitive mechanisms in the public sector, especially in the civil service. Not only can small societies not organize competing institutions and positions in one area of service, but public institutions and civil service positions usually have multiple functions. In small countries one public organization usually deals with several different tasks and has only one specialist for every specific area of service (Randma 2001). On the other hand, the private sector is underdeveloped in transitional regimes and competition with a public sector monopoly is quite limited. Introducing the market model to public service in a small society in a period of transition cannot guarantee the competitiveness of service and greater efficiency. In the case of Mongolia, reform was introduced to improve the efficiency, accountability, and responsibility of public servants by pricing the services delivered by public institutions and financing, evaluating, and accounting for this price. Yet it is difficult to find the true price and drive the costs of the service in the absence of competition. In addition, without competition public bureaucrats have a chance to use their monopoly on information and their informal relations with officials in the budgeting process to supply what they are able to do while asking more than it costs.

Another fundamental idea of the market model is generic management (Peters 200, page 31). This is based on the idea that “management is management, no matter where it takes place” and introduces the principal-agent relationship in public service. In the early stages of the transition, elements of strategic planning and management by objectives were introduced. Specifically, the Mongolian State Policy on Reforming Government Processes and the General System of Structure (1996) included many managerialist ideas, such as entrepreneurial, innovative, and creative management; continuous improvement and experimentation; customer-oriented services; and managers managing within an appropriate accountability framework. Contracting and service output price–based budgeting were introduced with the NPM reforms. Government, through its ministers and local governors, became the purchaser of the outputs of the public organizations that produced the service. One of the difficulties facing the Government now is defining the outputs or products that it can order from public organizations and determining the true cost of the products.

Performance management is one of the central points of the NPM reform. With the introduction of NPM, government has created general guidelines for performance measurement, including qualitative and quantitative criteria. According to this guide, every single organization and
employee each year has to set specific measures for every task they have to perform. Because of the lack of knowledge and skills of managers and public employees, this task is not going well. Public employees do not know what criteria to use and how to measure the quality of what they produce. There is a great need for training and practice for performance management in the public sector. Different criteria of measurement are needed for different times and conditions. It is unusual to be able to use the same criteria of measurement across all situations.

The market model tends to see public and private management as the same thing, and citizens as consumers or customers who should expect the same quality of services that they receive from a private sector firm (Peters 2001, page 45). However, citizens in transitional countries do not have enough experience as customers of the private sector. Newly emerging private sectors in these countries do not have a great deal of experience not only to share with the public service, but even to provide high-quality service for their own consumers. So, all private sector experiences that would be introduced to the public service of the transition countries within the market model can only be imposed from the business experience of other countries.

One central element of the market reforms is decentralization of policy making and implementation (Peters 2001, page 34). The most common way of doing this is “to use private or quasi-government organizations to deliver public service,” to “[split] up large departments into smaller ‘agencies,’ or [to assign] functions to lower levels of government,” and to “create multiple competitive organizations to supply goods and services” (Peters 2001, pages 33–34). Privatization, the use of private and nongovernment organizations to deliver public services, has been used by the Mongolian Government as a reform tool to create some competition in public services, such as schooling, health, and transport, but not much in the civil service. Because of the small-society factor, all public organizations need to be multiservice and multifunction bureaus. Splitting public organizations into “product line,” single-purpose organizations is not applicable to the Mongolian public service. Therefore, from the beginning, public administration development was oriented to reorganizing several small organizations into one larger, more multiservice organization, or transferring their functions to nongovernment and private organizations. For example, the number of government ministers was reduced from 16 to 9 and government agencies from 57 to 48. However, after the elections, the number of government ministers grew again. For instance, while the Government in 2000 had organized 12 ministers instead of the previous 9, the coalition government 2004 established 18 ministers.
The orientation to personnel management in the market model includes pay for performance so that better performance can be rewarded with better pay.

Governments should provide sufficient incentives for individuals working within them to perform their jobs as efficiently as they might (Peters 2001, pages 23, 37). In communist countries, most public servants believed that they had to work not for personal rewards but to exercise communist ideology, to serve society as a whole, and to implement public policy for the country and the communist system. With the collapse of communism, this kind of altruism and any concern for public interests was disregarded as old-fashioned communist ideology. Therefore, for public employees in transitional regimes, the idea of working not for personal rewards but in behalf of a public policy is not very applicable. Furthermore, civil servants’ self-determination on their jobs is limited by the self-interests of their managers and politicians. If the self-interests of these bosses were to interrupt any area of their job, civil servants would most likely lose their “empowerment.”

According to the LGS, the scale, rate, procedure, and amount of remuneration and supplementary payment due to government employees shall be defined by the Parliament or by the Government in accordance with the post classification, rank, and length of government service (article 28, sections 3–8). Thus, by reregulation of the LGS, there is not much room for performance-based pay in public service. NPM introduced the reform elements of bonus pay to the government employees’ remuneration system to achieve some coordination between pay and performance. For many reasons this bonus pay is not making much difference. Poor salary and poor bonus do not motivate civil servants. Poor performance evaluation practices also are not promising much from the bonus system. Funding these bonuses adequately and developing workable measures for performance is not only a difficult problem for transitional countries, it is an issue for developed countries, too. As mentioned in Peters (2001, p. 38), “the failure of Congress to fund these bonuses adequately and difficulties in developing the measures to judge meritorious performance have rendered the merit pay system only a hollow echo of its original intent.” As with other countries, marketability and measurability of many government services is limited. The capacity of the government to measure performance in relation to impact is limited. Mostly it can be done on the activity level, or on the quantity of outputs. On the other hand, for Mongolia and some other transitional countries to provide sufficient incentives for individuals working in public service is very difficult. They do not have sufficient financial resources to motivate people materially. Improving the performance of civil servants would not save enough resources.
to motivate individuals. Even if government could save sufficient resources, these would go to high-priority social and economic needs instead of to motivate civil servants. It is therefore hard to say that adopting some sort of a market-based mechanism in a traditional public administration system of transitional countries can motivate civil servants. Civil servants in transitional countries do not expect material motivation but have other motivations such as job security, the possibilities of self-development, and social status.

The public interest in the market model requires that government deliver public services cheaply and allow citizens to exercise free choice (Peters 2001, pages 46–47). In the case of Mongolia, it is too early to judge cost savings resulting from NPM reforms. Public institutions are learning to calculate the cost of goods and services that they deliver to citizens. Time is needed to compare and find out whether public goods and services have become cheaper for citizens. The fact that government organizations are now calculating their cost is progress compared with input-oriented, line-item budgeting. With its poor budget the Government is not capable of creating many public service options in order to provide freer choice to citizens. Without a strong, competitive private sector it is impossible to break up the traditional public service monopolies. Even after the introduction of output budgeting and competitive mechanisms in public service, we cannot expect free choices of services by citizens. A small society and extremely limited market are not going to change quickly to develop real competitive markets with many choice options.

In the end, some ideas from the market model have been introduced and gradually implemented, while many other elements of the model do not work well. Many generic management ideas, like legislated strategic planning, performance agreement, output-oriented budgeting, and performance reporting, have been. However, other fundamental pieces of market model, like competitive mechanism, performance pay, free choice, and cheap service are not promising much in the current stage of social transition.

The Participatory State and Reform Effort of Mongolia

The empowerment of citizens and lower-echelon employees and their active involvement in policy making and the delivery of public services is the main assumption of the participatory model of public administration (Peters 2001, pages 50–76).

On the one hand, in transitional regimes the bureaucracy had been authoritarian and permitted little if any options for the clients of the programs to express individual demands or complain about the services being rendered (Peters 2001, page 171). On the other hand, citizens of the communist legacy
once received every possible service without a great deal of participation in the decision-making and service delivery process. They had little intention of and enthusiasm for productive participation. Citizens in transitional countries tend to criticize the public service and wait for good service from bureaucrats, instead of participating in the process. If the authoritarian and hierarchical character of the traditional regime resisted more participation and democracy, the lower-echelon servants and citizens’ inability to become involved productively in policy making and service creation created a more hierarchical approach.

In order to involve central and local public administrative bodies at all levels, NGOs, the private sector, mass media, academic institutions, and citizens in policy formulation and implementation, the Government of Mongolia initiated and implemented the Good Government for Human Security Program starting in 2000. The project was intended to establish a policy formulation and implementation partnership through the participation of all relevant actors and stakeholders in the process. Special consideration was given to community participation and citizens’ voice in the policy process and their satisfaction and feedback with regard to services, rights, and government responsiveness to citizens’ demands. This broad participation was supposed to create consensus among all major actors, stakeholders, and opinion formers. This would establish societal ownership of policies, which could lead to extensive collaboration between the sectors in implementation and greater policy effectiveness, in addition to greater policy continuity and sustainability.

There has been much talk about the participation of citizens and lower-echelon civil servants in decision-making processes, but this right of participation is not well regulated legally. In practice there is not much informal participation in decision making. In order to facilitate greater participation we need to find more organized and slightly controlled ways to practice it. There is still not much room for participation in the public service system even after the introduction of the NPM reforms. Studies show that there has been no participation by citizens at any level of budget making in local governments. Equally, there appears to be no participation in the budget processes of any other government organizations (Household Livelihoods Support Program Office of Mongolia 2004). Civil servants and senior managers are setting the goals, objectives, and performance criteria in noncompetitive and nonparticipatory conditions. Without market competition and citizens’ participation, public employees tend to set lower goals and general, acceptable criteria of performance.

Participation and democracy in Mongolia is generally based on participation through political parties and interest groups. Citizens’ direct
participation in administrative decision making and control over public service is not common. Citizens do not have any direct control over public services, such as education or health. First, public service is highly centralized and bureaucratic and there is not much room for direct participation. Second, extreme individualism has become a dominant public characteristic in the transition to a market society. This is in contrast to the common public interest approach of the communist legacy. Now most citizens tend to use their participation in administrative decision making not for the public interest but for their private self-interests. In small societies with complex relationships, citizens’ participation many times turns into meaningless fights between local subgroups. Third, not every citizen has the ability and capacity to participate in administrative processes. Nomads, for example, living far from each other and the administrative centers and traveling across the seasons, cannot participate in governance directly and constantly. Fourth, citizens have little experience, culture, expectation, and enthusiasm for participating in administrative process. They do not have any experience of public service in a market regime, and most expectations of public service are based on the socialist. Citizens, especially local citizens, are not used to taking responsibility for their lives. This attitude is part of the inherited culture, which emasculated citizens and made them look above for decisions about their own lives. Finally, government employees have little knowledge and skills to handle broad citizens’ participation in any area of public service.

In Mongolia, administrative development and reform processes hierarchy was more dominant than participation. One of the problems was that reforms were imposed by a “top-down process” through legislation. This started with the formulation of new laws and was followed by implementation down through the government hierarchy. As a result of management by hierarchy and regulation, the implementation of public service reforms became more a matter of compliance with new rules and regulations than a mechanism of change. At the beginning of the reform, adjustment and adaptation to the new requirements became the goals and objectives of public servants rather than the stated reform goals. Because of this, there are big gaps between the expected output of the reforms and the reality of their implementation. In this regard, there are not many differences between the implementation of the traditional system of public administration and the NPM model. Filling the contents of NPM reform model would require more time, effort, energy, and skills than implementing the traditional model.

In Mongolia, a very common negative impression of government is the improper work of the lower- and middle-level public employees. The argument is usually that government works well on the policy design–making level, but...
because of the poor performance of the low- and middle-level bureaucrats in implementing decisions, overall government performance is poor and leaves a negative impression. There is no doubt that citizens are dissatisfied by the service provided by the low- and middle-level bureaucrats. But citizens are also not happy with the performance of politicians. It seems the top-down approach to development and reform in public administration works the same way in the policy formulation and strategic planning stages. Yet when the time comes for implementation and further development the approach reaches its limits. Pressures are coming from the bottom to establish more room for initiatives and creativity in order to further develop reforms.

From the beginning of the transition, the Government took the lead in finding a balance between the central Government and local self-government. In the Constitution, local governance is defined as a combination of the state and local self-governance (article 59, para. 1). In the same Constitution, all levels of local officials are considered state representatives (article 60, para. 1) and their offices are part of state administration. As a result, public administration is still fundamentally state administration. Decentralization has been implemented by transferring power from the central administrative bodies to local administrative institutions and by privatizing state-owned enterprises. Since the end of the implementation of the Management Development Program in 1996, the laws and policies of decentralization have not been sufficiently consolidated. Currently there are no particular policy documents focusing specifically on decentralization, and the issue of decentralization itself has not been addressed as a policy priority. There are different understandings of decentralization at both social and administrative levels. Even some administrative decisions are creating a negative environment for decentralization (Household Livelihoods Support Program Office of Mongolia 2004).

NPM reform without strong competition and active citizens’ participation creates opportunities for civil servants to determine their goals, objectives, and performance criteria on the basis of their own interests. These interests do not set high goals or hard criteria for performance, and serve the interests of their own organization, along with limited special private interests. Civil servants also price their services higher than their true cost. One way to enforce order and the public interest would be through citizens’ participation at all levels of government decision making and implementation. Within the NPM reform, citizens’ participation is one of the main components of quality, equality, and honesty of service, and of control over corruption and mismanagement in transitional regimes. Thus, in transitional regimes, citizens’ participation is as important as stability and predictability of administration,
or the entrepreneurialism of managers and the hierarchy and regulation of the bureaucracy.

**Public Administration Reform in Mongolia and Flexible Government**

According to advocates of flexible government, permanent structures present significant problems for effective and efficient governance, and the organizational universe needs to be shaken up to make it capable of responding effectively to new challenges (Peters 2001, pages 77–96).

At first glance, the transitional administration in Mongolia had to be flexible. Public organizations in these regimes attempt to adapt to frequently changing socioeconomic and political environments and to global developments, and are forced to reorganize and restructure themselves more frequently than government organizations in the developed world. In this sense, permanence is not a characteristic of government organizations in transitional societies.

These constant changes in most cases produce problems in predictability and coordination. In addition, the bureaucrats of transitional regimes are too flexible in their responses to society when it comes to their preferential treatment of citizens (Peters 2001, page 173). It is common for government bureaucrats to treat citizens differently, using criteria such as politics, family, friends, and business relations. Accordingly, in Mongolian public administration, development stability and predictability, rather than flexibility, were given the first priority. The state introduced a career-based, permanent employment system in its civil service. Moreover, within the NPM reforms the Government decided to strengthen the stable, career-based character of the civil service personnel management by amending the LGS.

On the other hand, the administrative culture, bureaucratic behavior, and the working habits of public employees are not much changed. In contrast with the new developments, civil servants have been locked into certain ways of running public business (Peters 2001, page 173). The problems are in the common practices of exercising public power. Little if anything has been done to replace the culture and working attitude of bureaucrats. So within the changes in policy and regulations, bureaucrats tend to adapt to the new situation rather than changing themselves. They keep doing what they have been doing for years, in the same traditional way, but within the new. Flexible adaptation to change occurs mostly for the self-interest of government organizations or the bureaucrats, not for the needs and interests of the public. Most government organizations, especially local governments, continue to operate as if the phenomenon of public service reform had never occurred. These organizations use NPM tools only for formal report purposes. They
remember NPM only at the times each year when they set the goals and performance measurements, sign performance contracts, evaluate contracts, and issue reports. Many government organizations want change without any investment. They want to implement public administration reform not by changing their working habits and cultures but by setting goals and performance standards and making formal contracts and reports. In addition, as noted earlier, from communist times many civil servants worked for ideas and principles rather than for clients or customers. For many government employees, these ideas and principles now are directly connected to the concepts and principles of public administration reform, to status, and to the future existence of their organization. For these bureaucrats, formal compliance with new concepts and principles is more important than real change in service to citizens.

Another factor that makes Mongolian civil service stable is the small pool of experts and the prominence of family and friends in a small society. It is common that when someone is fired from a government organization for any reason, he or she ends up with an offer of a similar or higher position from another government organization. On the other hand, experts attracted from business to government organizations in most cases happen to be former civil servants who transferred to business not long ago. The main reason for this is the small number of experts and their traditional relations with each other. As a consequence, from the personnel point of view civil servants mostly remain permanent in a small society.

Thus, if “shaking up the organizational universe” is not the first priority of public administration reform, shaking up the cultural and behavioral universe of public bureaucrats becomes a critical issue for these regimes. Without changing the social attitudes of citizens, administrative culture, and the bureaucratic behavior of civil servants, no permanent and stable traditional system, no flexible system, and no other model could provide the predictable and fair treatment of citizens that is so much needed in transitional administration. Thus, changing the attitudes of administrative culture and making it responsive to the changing demands of citizens is one important task of transitional regimes. In the end, the continuously changing environment of transitional societies demands a degree of permanence and stability within a flexible service that is capable of coping with rapid changes.

**Deregulated Government and Public Administration Reform in Mongolia**

The main assumption of deregulated government is that the rule-bound nature of public administration slows action and reduces creativity. With the removal of the constraints of internal red tape, activities can become more
creative, more effective, and more efficient and liberate workers as entrepreneurial engineers (Peters 2001, pages 97–98).

With the collapse of the ruling communist party, large numbers of rigid *ex ante* and *ex post* controls over bureaucrats were disregarded automatically, without being replaced by new, more flexible, democratic, and legal regulations. Most of these rigid and arbitrary regulations were ideological, and their dismissal at the beginning of transition produced a form of “deregulated government.”

Transitional governments do not have many rules and regulations that slow action and reduce the creativity of civil servants. Therefore, deregulation of the public service and liberation of public employees is not much of an issue. In reality, in the transition period there is always a lack of regulation in all sectors of society. Civil servants have much room to exercise discretion. People in government are free to act creatively, but one does not see much positive action or creative initiatives from public employees. There are several reasons for this. First, there are still some regulations from the communist period that, even if not respected or obeyed by many people, are still enforced and slow creative action. Second, people in general, and public employees in particular, are accustomed to acting on directions from above and on the basis of clear rules and regulations. They are not to ready take a chance and set their own directions. They wait instead for new regulations that will authorize their action. These people need to be free from the past and encouraged to act creatively. Third, those who were taking chances and being creative mostly did not work for the public interest. Unfortunately, many of them saw the uncertainty of the transition as a chance to use public power for own private purposes. For these employees, transitional government needed more rules and regulations.

Within its transition, Mongolia started adopting and enforcing laws and regulations designed to protect public servants from abuse, to ensure more equitable hiring, and to prevent patronage and political exploitation of government positions. Legal reforms have been implemented according to the Constitution (1992), the attachment law to the Constitution (“On Transference from Implementation of the Constitution of PRM to the Constitution of Mongolia”) (1992), the Legal Reform Program (1998), and the Main Directory of Improving the Laws and Regulations until the Year 2004 (2001). In complying with this legal reform policy, between 1992 and 2000 the Parliament adopted around 370 new laws and made changes and amendments to more than 340 laws (Amarsanaa 2002, page 81). In just the 4 years between 1992 and 1996, about 70 laws associated with government service were adopted. Furthermore, in only about a half-year’s time, more than 60 new procedures and regulations
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of public service were adopted and gradually implemented (Samballhundev, Tsedev, and Mujaan 1996). These rules and regulations helped managers to hire, pay, promote, and terminate employees. Yet, not all government agencies accepted them, and breaking them for self-interest was very common. In addition, all these regulations were derived from the traditional model of public service with few elements from new models.

Even in these early stages of the process of legal reform, signs of overregulation become apparent. There was a “mechanical” increase in the number of laws because every ministry and agency wanted to have its “own law” or raise up to the level of the laws their own “tiny” instructions and orders (Amarsanaa 2002, page 81; Chimid 2002, page 71). Furthermore, besides the law itself, a massive number of instructions and rules on the implementation of laws were produced. Ministers and agencies started “competing” for the production of different instructions and regulations. Other sources of trouble came in the form of regulations that were sometimes unrelated and legislation that was contradictory, copied from the laws of countries with a different level of development and different legal systems. There were also amendments to the laws based on specific “tiny” interests (Amarsanaa 2002, page 81). These difficulties of reregulation caused a rethinking about the process itself.

Because of this, Mongolia did not intend to deregulate government with the introduction of the NPM reforms. The Government attempted to build both effective managerialism and formal administrative rules and procedures with strong ethical regulations. If some countries implementing public service reform throw out the 10,000-plus pages of personnel regulations amassed over the decades and discard their rules permitting departments to purchase most materials and services on their own (Peters 2001, page 100), Mongolia took the opposite direction of change. The Government started adopting and enforcing new personnel and purchasing rules and regulations. In order to prevent corruption and preferential contracting, it established and enforced rules for procurement and purchasing, requiring elaborate bidding procedures for even small purchases (Government of Mongolia 2000). However, these rules and bidding processes did not prevent government officials from making purchases in ways that involved corruption and preferential contracting.

In the transitional period, on the one hand, there is a need for deregulation or dismissal of the communist era’s rigid and arbitrary regulations and controls of the public bureaucracy. At the same time, in order to function at least within some boundaries and strategic direction, transitional public service needs new, flexible, democratic regulations and controls. For this reason the transitional regime requested deregulation from the communist legacy and
reregulation in a new democratic way. In the end the public service of a transitional regime needs as much deregulation as it needs reregulation.

The Mixed Model of Government Reform

After the collapse of the communist regime, Mongolia was left with “unregulated” and highly “flexible” governance. In order to achieve some degree of stability and predictability, it developed a rule-bound traditional public administration system. This was followed by the introduction of the managerialist approach of the market model, promoting efficiency and accountability. Imposing a new output-based, contractual market model at the same time, the Mongolian Government hopes to maintain and strengthen a merit-based, centralized traditional system of civil service. Furthermore, in order to promote law and order, new rules and regulations were brought into the governing process. In addition, the Good Governance program was initiated to facilitate transparency and citizens’ participation in all levels of civil service decision making.

As was suggested by international consultants and donor organizations (Laking 2000), the Mongolian Government decided to establish effective central control over the budget, staff, and auditing as a necessary prior step to the introduction of a market model of public service. Government established central control over the budget by creating a Treasury Single Account system in the Ministry of Finance and Economics. According to this system, all public organizations are requested to have only one account under the control of the ministry and to have their expenditures for each month preapproved at the beginning of the month. In addition, amending the LGS increased central control over staff, especially over the recruitment and promotion of senior civil servants. A centralized monitoring body was created by strengthening the State Auditing Authority’s responsibility to conduct annual, mandatory auditing of all government organizations.

Imposing NPM reforms has not removed the ex ante control over personnel, purchasing, and budgeting, but introduced ex post control by combining two mechanisms of control into one system. The development of the rule-bound traditional public administration system did not encourage accountability among public bureaucrats in many post-communist countries. The traditional approach to accountability required public bureaucrats to comply with rule-bound, standardized behavior as the basis for “error-free government” and fair service (Thomas 2003). In contrast, bureaucrats and citizens in the transitional regimes were not respectful of the rules and regulations. Therefore, the Mongolian Government decided to introduce new performance accountability, but not by shifting from compliance
accountability. Instead, it enforces both at the same time. Thus, public organizations now face double accountability: more accountability for results with more procedural regulation.

Mongolia perceived NPM reform as a performance- and output-oriented improvement of the traditional system of public service, not as a replacement or dismantling of the traditional system. This was a consensus that was reached after 5 years of extensive debate between 1997 and 2002 over maintaining the traditional system or imposing the NPM model.

In Mongolia, contradictions are emerging between the transition from the communist administration to the traditional system of public administration and attempts to introduce NPM reforms into the new system. If the traditional system and the transitional character of public administration requires a more regulated, stable, and centralized approach, the market-based NPM reform requires deregulation, decentralization, and flexibility. In order to combine the development of a new system and reform of the system, along with traditional and NPM approaches to public administration, Mongolia paradoxically seems to be intending to accomplish decentralization through highly centralized mechanisms, deregulation through highly regulatory mechanisms, flexibility through permanency mechanisms, and participation within the hierarchy. The transition that started with the goal of establishing stable, predictable, and professional public administration generated ambitious reform objectives that tried to cover all the e’s (economy, efficiency, effectiveness, ethics, equalities, and equity) as well as other modern reform objectives like accountability and customer orientation. One of the characteristics of the Mongolian public administration transition is that its reform process is moving faster than in many other transitional countries, incorporating most common concepts and elements from “a shopping basket” (Pollitt 1995) of the NPM, and contemporary trajectories of civil service reform. Mongolia transition has thus ended up as a mixed model of reform.

As we can see from the most recent policy document on reforming public administration, Civil Service Reform Medium-Term Strategy (2004), within the NPM reform the Mongolian Government is trying to find some balance between the characteristics of a centrally regulated career system and competitive, performance-based personnel management. Specifying the balance of elements and characteristics of the different models is the biggest challenge for public administration reform in transitional regimes. These countries cannot impose NPM without establishing a traditional system, but they also cannot stay only with a traditional model of public service in a global environment. Transitional regimes need to establish a public administration system that reflects the specifics of the country and balances the characteristics of traditional
public administration with the positive benefits of NPM. In the transitional regimes that are emerging from dictatorship, one-party domination, and state monopoly, where any sign of bureaucracy and extreme position is seen as a legacy of the past, it is difficult to impose a strong type of traditional public administration. This is especially true in Mongolia, a small society with a traditional nomadic culture, and a style of life with extreme and rapid liberalization, both of which mean that the traditional bureaucratic model of management is no longer favored. The requirement of balancing the characteristics of the traditional system and the important values of NPM in the establishment of the public service in transitional regimes is apparent.

Factors Determining the Mixed Model in Mongolian Public Administration Transition

A transitional society is not a communist regime, but it is also not yet a market system. It has elements from both systems. Public administration in transitional regimes needs a stable, regulated, traditional character as much as flexible, participatory, market mechanisms. First, the transition is a more unpredictable, mostly unique process that requires from administration a more entrepreneurial, flexible approach rather than the regulated, standardized approach that has been part of the Western market system. Many events, programs, procedures, regulations, and decisions in transition are first-time processes that were not present before and will not be repeated again. In this respect, transitional regimes require more NPM-like approaches from public employees rather than traditional, standardized approaches. Second, the transition from an authoritarian system to a market society is taking place in more open, democratic, participatory, and global conditions than market regimes used to have in the time of the Cold War. Public service in the new society needs to be more democratic and market-oriented. Transition is a mixture of the characteristics of different systems from different times and perspectives. This society may need a more complicated system of public service. On the one hand, transitional regimes need to establish some stability and predictability, but, on other hand, they also need to promote democratic changes. In order to achieve some degree stability and predictability in public service, transitional regimes must build a traditional system of public administration. But in order to promote change and produce efficiency and effectiveness in public service and cope with social and economic development, these regimes need to introduce NPM reform. This is one reason to simultaneously accomplish the developmental and reformist tasks of public administration in the post-communist regimes.
All new models are made up of elements added to the traditional administration in order to achieve more effective and efficient service. One way for a transitional regime to introduce a new model of administration is to establish first traditional public administration or a traditional system with new elements. A more effective way to transition is establishing a public administration system with NPM elements from the beginning of the transition rather than starting with a traditional system and introducing civil service reform midway. Changing direction in the middle of a transition without strategic planning from the beginning is not just ineffective and inefficient. Changes like that interrupt processes, slow energy and enthusiasm for previous change, generate uncertainty and disbelief, and require time for discussion to overcome the resistance to the reform. Mongolia started by adopting a traditional system of public service and then began discussion about NPM reforms in the middle of the transition. It took 5 years to overcome misunderstanding and resistance, reach consensus, and adopt the law and regulations and introduce reform.

In a global world, the public service transition of any country cannot be determined by internal conditions alone. Much as one cannot ignore internal factors, neither can one ignore external factors. International conditions “push” NPM reform onto the public administration system of the post-communist countries. The adoption of neoliberal, market-embracing reforms is typically a condition for the approval of loans and other benefits (Dimitrakopoulos and Passas 2003, page 447). If the internal conditions of post-communist regimes stand more for public administration development of the traditional bureaucratic system, the external conditions push more for NPM reform (Pratt 2005).

Mongolia today is an extremely mixed society with the coexistence of nomadic and modern lifestyles; European and Asian cultures; former communist and modern market ideology, and ethics; and Romano-Germanic and Anglo-Saxon legal and administrative systems. Given this, a mixed or “all in one” approach is the common method of organizing and making decisions, not only for everyday life, but for socioeconomic, political, and administrative processes. The “combining approach” to social transition and reform started with constitutional reform. Mongolia is a parliamentary republic with a directly elected president as head of state (Constitution of Mongolia, 1992, chapter 3, parts 1, 2). According to the Constitution, “Governance of administrative and territorial units of Mongolia shall be organized on the basis of a combination of the principles of both self-government and Central Government” (chapter 4, article 59). In other parts of the Constitution we can see attempts to combine “the tradition of national statehood, history and
culture” and “the accomplishments of human civilization” (Preface). The traditional public administration system at the beginning of transition already had a mixed character. Principles and elements of the new system were selected from different concepts and a different set of assumptions. If the main principles of the civil service system were based on the career system, some elements were drawn from job systems like training, recruitment, and promotion. Many elements were selected from the civil service practices of countries with a different public administration system like Germany, Japan, Republic of Korea, Sweden, the UK, and the US. Some civil service management elements, like management by objectives, customer-oriented management, and performance management, were selected from NPM and adapted to a traditional civil service system.

Another reason that the Mongolian public administration system came to be a mixed model is political liberalization and the consensual character of transitional policies. In societies where there is little respect for laws and rules, where informal relations stand above formal rules and regulations, to establish a strong, centrally controlled, rule-bound bureaucracy, it is necessary to have permanent backing from a stable majoritarian political regime. For example, a high degree of political stability without a fully developed political party system characterizes the comparatively successful implementation of the reform processes in Kazakhstan to date (Verheijen 2003, page 495). On the contrary, Mongolia is characterized by political pluralism rather than a stable majoritarian regime. The political party system is polarized between ex-communists and the opposition democratic parties, and voters have been rotating them in office during elections. Accordingly, it was not possible for any single interest or policy to establish stability. Because of this, in its public administration transition policy Mongolia tried to reach consensus among all interests. These included the interests of core civil servants and other public employees, elected officials, citizens, and all international donor organizations. This approach tended to create change without “losers,” so that the losing interest was directly represented in the new system. This balance may be possible only in mixed systems of public administration to some degree. Furthermore, after the elections of 2004, Mongolia’s opposing political parties—former communists and democratic coalitions—not only established a coalition government but organized a joint coalition in the Parliament. As Pollitt and Bouckaert (2000, page 48) state, consensual regimes, whose innovations have longer life expectancies, are politically less susceptible to deep, radical reforms than majoritarian regimes.

Whenever the adopted system of public administration in a transitional regime does not work well, the common reaction is to impose one of the
emerging models of public administration on top of the existing one. The NPM reforms in transitional regimes tend to pile new models on top of newly established civil service systems. It is better to adopt a mixed system of public service from the beginning of transition instead of piling one model on top of another. Furthermore, the process of organizing government in transition has been to start with one reform from one donor and add on top of it another reform from another donor in a cumulative fashion. Because reform was initiated and sponsored from different sources and supported inside the country by different political and administrative powers, it soon is not easy to find the right balance among the administrative dualisms.

Concluding Remarks

Many important administrative issues exist as dualisms among these contradictory factors (Peters 2001), and the solutions for the organizational problems then tend to come in opposing pairs (Simon 1947, cited in Peters 2001). Reform may be seen as a continuing search for the right balance among factors in the administrative structure (Peters 2001)—something true for all governments, including transitional regimes. In the case of Mongolia, instead of choosing one direction for reform as the best solution, or going in one direction and then switching to the opposite direction, there has been a search for the right balance among the contradicting factors. The Mongolian approach of a mixed model of reform has not achieved a proper balancing of conflicting elements and factors so far. An important issue for further Mongolian public administration reform processes is to clarify these contradicting features of change and find the most suitable balance in the process of change. This, of course, must be done while being realistic about what is feasible given the economic, social, and cultural resources and emerging, often competing, interests.
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