

# **Application of a Result-based Payment System in the Kyrgyz Swiss Agricultural Programme KSAP**

**Possibilities and limits of NPM reform initiatives in developing countries**

Project thesis submitted to the University of Berne  
Executive Master of Public Administration (MPA)

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As regards the content of the submitted thesis, the responsibility is with the author.

## Management Summary

The Kyrgyz-Swiss Agricultural Programme KSAP is a technical assistance programme funded by the Swiss Agency for Development and Cooperation SDC. It started in 1995 within the framework of Switzerland's active involvement in the Central Asian region after the break up of the Soviet Union. With the aim to support Kyrgyz Government reforms of reorientation and restructuring public agricultural advisory service supply, the country-wide advisory network Rural Advisory Service RAS was set-up. In the partnership of KSAP and RAS the funding mechanism Result-based payment system RPS was introduced in order to initiate a shift from input-oriented budget-support towards the result-oriented mandate system.

From a RAS perspective, this thesis explores the experience of RAS in RPS application over the introductory period of 2002 – 2005. Initially, the thesis draws on literature of New Public Management theory and reform practice in developing and transition countries with particular focus on the Eastern Bloc States, the Commonwealth of Independent States CIS and the Newly Industrializing Economies NIE. It profiles then the environment internal and external to RAS, and RPS and the performance of RAS under RPS along a frame of reference. It then discusses RPS application in RAS in the broader context of international reform agendas and NPM theory and practice in order to come up with a picture about characteristics that are likely to facilitate or hinder the effective adaptation of RPS in RAS. The discussion is supported with findings of a SWOT analyses that reflect the discussion with interview partners experienced in the field of NPM practices in developing countries.

New Public Management has been widely taken up in developing countries in recent years by the process of structural stabilization and adjustment programmes and conditionalities attached to development assistance. Though it is too early to arrive at an informed judgement about results and effects of NPM reform initiatives in developing countries, there is agreement that NPM practices won't be successful unless they are appropriately adapted to the complex realities of developing countries.

Kyrgyz Government agricultural extension policy of reorientation and restructuring public agricultural extension service delivery promotes some commonly adopted elements of the NPM reform agenda like private sector-based, and cost effective advisory service supply. Against this background RAS was set up to provide quality advisory services to peasant farmers in rural areas.

The introduction of RPS in RAS initiated a shift from input- to output-oriented management. RAS is based on targets and incentives to motivate RAS to improve cost-effectiveness and quality of service delivery and to provide an accountability mechanism for delivered services, and to increase the influence and control of farmers over services provided.

Donor review of RAS observes a positive development of RAS performance under RPS. In comparison, considerable effort at capacity building was needed for RAS to handle and adapt to the market-type management style and culture of RPS. Though RAS performance has significantly improved, it is unclear, what role RAS would play in future in the broader institutional context of RAS, as Government capacity to govern and manage RAS is limited by poor policy responses and implementation capacity.

Institutional uncertainty, weak user voice, limiting elements of management capacity and behavioural change, and a tradition-rooted input focus on performance as well as culture-rooted values and norms are hindrance to effective RPS application and reform. Culture-rooted norms and values challenge the culture fit of RPS in RAS.

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## List of Acronyms and Abbreviations

a.o.	and others
cf	Confer
CIS	Commonwealth of Independent States
DAC	Development Assistance Committee
e.g.	exempli gratia
etc	et cetera
EU	European Union
HIV	Human Immunodeficiency Virus
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
KSAP	Kyrgyz-Swiss Agricultural Programme
MDG	Millennium Development Goals
MAWRPI	Ministry of Agriculture, Water Resources and Processing Industry
NIE	Newly Industrializing Economies
NPM	New Public Management
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PPP	Purchasing Power Parity
PRSP	Poverty Strategy Paper
PSP	Policy Support Project
RAS	Rural Advisory Service
SDC	Swiss Agency for Development and Cooperation
SECO	State Secretariat for Economic Affairs
SWAp	Sector Wide Approach
USD	US Dollar
WTO	World Trade Organisation



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## Glossary

<b>Aid effectiveness</b>	Refers to the achievement of the objectives of an aid activity, programme or of a total ODA programme. Donors have a direct influence over aid effectiveness since they can decide on delivery instruments, modalities and the policies governing their aid programme (OECD/DAC, 2002)
<b>Decentralization</b>	Perform public activities through organisational structure outside the central administration (Lienhard, 2005) Forms of horizontal decentralization: departments with high autonomy, public associations, cooperation with private entities Forms of Vertical decentralization: Transfer of authority to regional and communal administration (Lienhard, 2005)
<b>Effectiveness</b>	The extend to which a venture's or intervention's objective are/were achieved, taking into account their relative importance (SDC, 2002)
<b>Efficiency</b>	A measure of how economically resources or inputs are converted into output (SDC, 2002)
<b>Governance</b>	Expresses the kind and form of coordination and steering of the society (Sager, 2008)
<b>Impact</b>	Positive or negative, primary and secondary long-term changes of the societal and/or physical environment (effects), produced by a venture or intervention, directly or indirectly, intended or unintended (e.g. democratic rule of law, increased food security) (SDC, 2002)
<b>Input</b>	Financial, human and material resources required for a venture or intervention (SDC, 2002)
<b>Outcome</b>	Results of a venture or intervention relative to its objectives that are generated by its respective partners' outputs, e.g. improved capacity of an institution to manage, set and enforce policies (SDC, 2002). In the context of KSAP/RAS, outcome is understood as technologies adopted by beneficiaries/clients, such as application of crop rotation, vaccination of cattle etc.
<b>Output</b>	The tangible products (goods, services) of a venture or intervention, e.g. extension service provided to farmers (SDC, 2002). In the context of KSAP/RAS, outputs are understood as the services provided to benefi-

ciaries/clients, such as technical training, demonstrations/on-farm experiments, consultations etc.

**Performance**  
(public sector)

Refers to the direct result of public action from point of view of clients (Schedler/Proeller, 2005)

The efficiency, effectiveness and appropriateness of public action, considering resources/input, processes and results (output, outcome, impact) = overall performance from point of view of government (Schenker/Griessen, 2005)

Performance refers to individual performance, organisational performance and programme/policy performance of government (Ferlie, 2005)

Ferlie (2005) describes emerging arguments for performance: performance as accountability, as user choice, as customer service, as efficiency, as results, effectiveness and “what works”, as creating value.

**Privatization**

Material privatization: the change of ownership of some of the functions to the private sector

Formal/functional privatization: outsourcing of some of the functions to the private sector (for example, management and/or financing) (Finger 2008)

**Result**

In the context of KSAP/RAS result is synonymous with outcome

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*An einem dieser heissen Tage, die Sicheln glühten vom Ernten, kehrte ich mit dem leeren Wagen zurück und beschloss, zu Hause einzukehren.*

*Nahe der Furt, dort, wo die Strasse endete, lagen auf einer Anhöhe zwei Höfe, umgeben von einer Mauer aus Saman. Um das Anwesen herum ragten Pappeln empor. Das waren unsere Häuser. Seit langer Zeit lebten hier unsere beiden Familien in enger Nachbarschaft. Ich selbst gehörte in das grosse Haus. Meine Brüder, beide älter als ich, beide unverheiratet, standen an der Front, und wir hatten schon lange keine Nachricht mehr von ihnen. Mein Vater pflegte im Morgengrauen den Namas zu verrichten und dann zum gemeinsamen Werkhof in die Tischlerei zu gehen. Erst spät am Abend kam er zurück.*

*Daheim blieben die Mutter und das Schwesterchen. Im Nachbarhaus oder dem Kleinen Haus, wie man es im Ail nannte, wohnten unsere nächsten Verwandten. Leibliche Brüder waren zwar nur unsere Urgrossväter, doch ich nenne sie unsere*

*nächsten Verwandten, weil wir als Familie zusammen lebten. Dergleichen war schon zu der Zeit üblich gewesen, als unsere Grossväter noch gemeinsam das Nomadenlager aufschlugen und das Vieh hüteten. Diese Tradition hatten wir gewahrt. Als die Kollektivierung in unseren Ail kam, liessen sich unsere Väter nebeneinander nieder.*

*Aber nicht nur wir gehören zusammen; alle Siedler an der Araler Strasse, die durch den Ail bis ins Zwischenstromland führte, waren unsere Stammesgenossen, sie alle entstammten einem Geschlecht.*

*Bald nach der Kollektivierung starb der Familienvater im Kleinen Haus. Seine Frau blieb mit zwei kleinen Söhnen zurück. Nach dem Adat, an das man sich damals im Ail noch hielt, durfte man die Witwe mit ihren Söhnen nicht im Stich lassen, und so verheirateten sie unsere Stammesgenossen mit meinem Vater. Das forderten die Geister der Ahnen, denn er war ja der nächste Verwandte des Verstorbenen.*

*So kamen wir zu einer zweiten Familie.*

*Dshamilija  
Tschingis Aitmatow*

## 2 Transition and public sector reforms in developing countries

### 2.1 Changing views on the role of government in development

Recent years have seen a world-wide movement away from state ownership towards a more porous view of the state, and changed views on the role of government which would perform fewer functions on its own and put more reliance on other partners to supply goods and services. The crises in the welfare and developing states initiated by the economic crises in the 1970s and 1980s and the weaknesses of state bureaucracy led to the search for alternative ways of organizing and managing the public sector and redefining the role of government to give more prominence to markets and competition (cf. Batley/Larbi 2004: pp. 220, Thom/Ritz 2007: 12).

The changing views on the role of the state and the shift in public policy over the last two decades was first initiated in advanced economies and followed with delay in low-income countries in Africa, Latin America and South Asia in the context of stabilization and structural adjustment programmes designed in response to economic and fiscal crises in developing countries. The reform agenda mainly involved stabilization, liberalization and the privatization of state-owned enterprises. (cf. Batley/Larbi 2004: 220).

By the late 1980s and early 1990s the efficacy of these structural adjustment programmes and the predominant market approach to public service reforms came into question and the earlier emphasis on minimizing the role of the state gave way to a realization of the need for a capable state that is able to create the enabling conditions for markets to work. (cf. Minogue 2004: 166, World Bank 1997: pp.19).

The changing view on the role of the state in developing and transition countries and the shift in public policy and management ideally can be illustrated at the examples of the post-socialist Eastern bloc States, the Commonwealth of Independent States CIS and the East Asian Newly Industrializing Economies NIE. The recent development of these states and their importance for the *arrangement* of the public area has significantly influenced the political discussion about public sector reforms (cf. Schedler/Proeller 2006: 29, Batley/Larbi 2004: 4, Polidano 1999: 18).

The collapse of the Soviet Union and the associated states led to a rapid transition to market economy in the former **Eastern bloc states**<sup>1</sup>. Although there have been considerable disparities between the Eastern bloc states as regards to the ability to make the transition towards

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<sup>1</sup> During the Cold War, the term **Eastern Bloc** (or **Communist Bloc** or **Soviet Bloc**) was used to refer to the Soviet Union and the countries it either controlled or that were its allies in Central and Eastern Europe (Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, Romania and until the early 1960s Albania). After the break-up of the Soviet Union, the term **Central and Eastern Europe** came into wide use.

market economy and democracy, all states can point to some degree of success with the system changeover and reforms towards greater political, social and economic development which ultimately led to the European Union (EU) membership of these states<sup>2</sup>. Competing among market and plan positions became irrelevant and gave way to a more relaxed discussion about the arrangement of the systems and the roles of its actors, and further to the constructive development of the market model to systems which are described with e.g. terms such as the ‘third way’ or ‘managed competition’ (Schedler/Proeller 2006: 192) with governments creating competitive market environments and structures for supply of goods and services.

The transition to market economy over the past decade has been more arduous in the **Commonwealth of Independent States (CIS)**, in particular in the low-income countries CIS 7<sup>3</sup>. In retrospect, the leaderships of the CIS 7 member states and the international community had unrealistic expectations about the speed with which transition from communism and recovery of growth and living standards could be achieved. While true for the transition economies of Central and Eastern Europe, it has been difficult for these newly independent, landlocked and poorly endowed countries – some of them, today, being among the poorest countries in the world<sup>4</sup>. Despite the background of economic disruption created by the break-up of the former Soviet Union in 1991 which was compounded by repeated internal and external shocks, most CIS 7 countries have made significant progress in transition from plan economies over the last

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<sup>2</sup> Poland, Slovakia, Czech Republic, Hungary joined the EU in 2004 and Bulgaria and Romania in 2007. All the states are member of the World Trade Organisation WTO, and Hungary, Poland and Slovakia are members of the Organisation for Economic Co-operation and Development OECD (WTO 2008, OECD 2008).

Within the scope of bilateral cooperation, the Swiss Government (SDC, SECO) was involved in Rumania and Bulgaria from the early 1990s until the end of 2007. While the initial focus was on humanitarian aid, Switzerland shifted its emphasis from 1996 onwards to long-term programmes designed to support economic and political system changeover, namely the stabilization of the democratic system, strengthening of the local economy and institutional reforms. With Romania’s and Bulgaria’s entry into the EU, the transition programme was terminated at the end of 2007. Since 2008, under the head of the enlargement contribution, Switzerland (SECO) has been supporting the countries which joined the EU in 2004 with a framework credit over one billion Swiss francs (*Kohäsionsmilliarde*) for projects in the areas security, stability, support for reforms/ promotion of the private sector/ environment and infrastructure/ and human and social development (SDC 2008a-d).

<sup>3</sup> CIS 7 states are Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Tajikistan, and Uzbekistan (IMF/ World Bank 2004)

<sup>4</sup> There are considerable disparities between the CIS 7 states (and between the CIS states) as regards resources, economic diversity, and access to energy, raw materials and markets. And the same applies to the determination and the ability to make the transition to democracy and market economy. Reform progress and macroeconomic performance have been increasingly divergent among the seven countries. There are great disparities between urban and rural areas and enormous differences in income and wealth in all these countries. An estimated 40 per cent of the CIS 7 population lives in absolute poverty (defined by an international poverty line of USD 2.15 PPP). In Tajikistan and the Kyrgyz Republic poverty levels are among the highest in the transition economies, with 56 and 53 per cent respectively. Azerbaijan and Georgia have the lowest level of poverty with 10 and 13 per cent respectively (income per capita ranging from USD 330 in Tajikistan and USD 500 in the Kyrgyz Republic, to USD 1’240 in Azerbaijan) (SDC 2008e, World Bank 2008, IMF/World Bank 2004).

Except Azerbaijan, Tajikistan and Uzbekistan, all CIS 7 states are member of the World Trade Organisation WTO (WTO 2008).

fifteen years (cf. Anderson/Swinnen 2008: pp. 133, IMF/World Bank 2004: pp. 7). Within the framework of international stabilization and adjustment programmes, macroeconomic stability and structural and institutional reforms led to economic recovery of the CIS 7 countries.

Nevertheless, there is wide agreement among CIS 7 member states and the international community that the transition process in the CIS 7 countries is at crossroads as economic growth has seen as a necessary but not sufficient condition for poverty reduction; the challenges for the CIS 7 states concern with proceeding to implement fundamental reforms necessary to improve the efficiency and capacity of the state and to solve the problems of the region<sup>5</sup>.

The Far East Asian **Newly Industrializing Economies (NIE)**<sup>6</sup> demonstrated that it was possible for low-income nations to develop in a sustained and inclusive way whilst engaging with the international economy, and that governments could play a positive role in achieving development (cf. Batley/Larbi 2004: 4, Polidano 1999: 18). State administrations had authority and capacity to give direction to market development, respond flexibly to private sector needs, and develop technology and human resources, while controlling labour. Wade (1990: pp. 22) describes this approach as one of a 'governed market' rather than either a free market or a command economy. While these arrangements were adequate for management of relatively close economies, they could not cope with the global liberalization of financial and capital markets in the 1990s. The East Asian financial crises in 1997/98 questioned the 'Asian model' to be a convincing alternative to the neo-liberal consensus (cf. Batley/Larbi 2004: 4).

Ten years on from the financial crises 1997/98, the East Asian region has a larger global role than ever before. Economic growth and welfare have continuously increased. The NIEs have moved to high-income countries, and Emerging East Asian economies are fast becoming middle-income countries<sup>7</sup> (World Bank 2007).

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<sup>5</sup> The Swiss Government (SDC, SECO) has been involved in all CIS 7 states within the scope of bilateral technical cooperation since the early 1990s. Cooperation programmes focus on the promotion and stabilization of the democratic system, strengthening of the local economy, institutional reforms and promotion of sustainable natural resource management (SDC 2008e).

<sup>6</sup> The World Bank classifies Hong Kong, Korea, Singapore and Taiwan as belonging to the 'Newly Industrializing Economies' (NIE), and China, Indonesia, Malaysia, Philippines, Thailand, Vietnam to Emerging/Developing East Asian countries (World Bank 2007). All the states are member of the World Trade Organisation WTO (WTO 2008).

<sup>7</sup> When Vietnam becomes middle- rather than a low-income country – likely to be as early as 2010 – more than 95 per cent of East Asian population will be living in middle-income countries (World Bank 2007).

## 2.2 The role of government in the context of the Millennium Development Goals

In response to the changing views on the role of government in the 1990s and in the broader strategic context of the Millennium Development Goals (MDGs)<sup>8</sup> with increased priority given to aid effectiveness, the international reform agenda was modified during the late 1990s with a new focus on poverty reduction, efficiency, and state capacity building as well as market development and integration. The new agenda, however, has recognized that while poverty reduction and market development depended on efficient and effective states, there has often been too little government capacity to make policy and perform basic functions (for example, ensure the provision of infrastructure and public services). Hence, with the new reform agenda, the state is (re-)given more attention compared to earlier reform agendas and moves to the centre stage as the principal enabler and efficient, transparent, accountable and responsive partner of non-state actors (the private sector and civil society groups) and the international community (donor agencies and global institutions)<sup>9</sup> (cf. World Bank 2000: pp. 94).

The current phase with renewed commitment to human development, globalization and market liberalization has added new dimensions to public sector reform issues within the framework of developing countries' multilateral relations. With the new reform agenda, the international community provides some of the impetus for new approaches to public management in developing countries. The World Bank, the International Monetary Fund IMF and other international development banks, the Organisation for Economic Co-operation and Development OECD, the World Trade Organisation WTO and organisations within the United Nations-framework are increasingly setting the parameters of partner and member government's policies, with significant domestic policy implications. Driven by their influence, developing countries, thus, are widely considered as subject to new approaches to public management often promoted by donor agencies and global institutions (cf. Cook et al. 2004: 31, Dent et al. 2004: 39, Bately/Larbi 2004: 39, Polidano 1999: pp. 21).

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<sup>8</sup> In 2000 the member states of the United Nations adopted the Millennium Declaration as a renewed commitment to human development. The Declaration includes eight Millennium Goals (MDGs), each with quantified targets, to motivate the international community and provide an accountability mechanism for actions taken to enable millions of poor people to improve their livelihoods. The MDGs are as follows: 1. Eradicate extreme poverty and hunger, 2. Achieve universal primary education, 3. Promote gender equality and empower women, 4. Reduce child mortality, 5. Improve maternal health, 6. Combat HIV/Aids, Malaria and other diseases, 7. Ensure environmental sustainability, 8. Develop a global partnership for development (IBRD/World Bank 2006/07).

<sup>9</sup> The present international public sector reform agenda concerns with the three main issues: the promotion of effective governance (which encompasses a wide range of issues from election processes to local government decentralization to anti-corruption strategies), enhancing the efficiency and effectiveness of public services (notably health, education and agricultural extension, often involving various forms of public-private partnerships), and improving government financial management and accountability mechanisms (often associated with broader partnerships in Sector wide approaches SWAp, and Poverty Reduction Strategy Papers PRSP) (OECD/DAC, 2002).



## 2.3 New Public Management in developing countries

New Public Management (NPM) is one among a number of contending strands of reforms in developing and transition countries. It may be seen as a set of reforms with different countries adopting different elements of the agenda to a greater or lesser extent than others<sup>10</sup>. NPM reforms in developing countries may be crystallized into the three core tendencies *organizational restructuring*, *increasing use of market-type mechanisms* and *increasing emphasis on performance*. Other administrative and management reforms which take place in the public sector in the context of NPM-oriented reform initiatives comprise efforts at capacity building, political decentralization, and anti-corruption measures (see Table 1) (cf. Mc Carten 2006: 17, Polidano 1999: 11).

Core reform tendencies	Themes	Elements
<b>Organisational restructuring</b>	Decentralization	<ul style="list-style-type: none"> <li>• Corporatization, agencies</li> <li>• Devolution of resources, operational decisions</li> </ul>
	Capacity Building	<ul style="list-style-type: none"> <li>• Skill development</li> </ul>
<b>Market type mechanisms</b>	Competition	<ul style="list-style-type: none"> <li>• Regulation, de-regulation</li> <li>• Privatization, PPP, contracting out</li> <li>• Retrenchment (downsizing)</li> <li>• Customer orientation</li> <li>• Charging for services (user fees)</li> </ul>
<b>Emphasis on performance and ethics</b>	Result-oriented and performance management	<ul style="list-style-type: none"> <li>• Output oriented- and performance budgeting</li> <li>• Output oriented- and performance indicators</li> <li>• Monitoring and evaluation</li> </ul>
	Good governance	<ul style="list-style-type: none"> <li>• Citizen involvement in decision (participation)</li> </ul>
	Anti-corruption measures	<ul style="list-style-type: none"> <li>• Revenue authorities</li> <li>• Public complaint facilities</li> <li>• Anti-corruption commissions</li> </ul>

Table 1: Core tendencies of NPM reforms in developing countries (Mc Carten 2006, Batley/Larbi 2004, Cook et al. 2004, OECD 2002, Polidano 1999)

NPM, or versions and elements of it, has been widely applied and imitated in developing and transition countries in the process of public sector reforms. The take up rate considerably varies according to which country, sector and element of NPM is considered. In developing and transition countries three of the more commonly adopted elements of the NPM reform agenda are privatization, retrenchment (downsizing) and corporatization (cf. Haque 2007: 181, McCarten 2006: 34, Polidano, 1999: 5). Such initiatives are part and parcel of economic

<sup>10</sup> Ideas of theoretical concepts such as the *new institutionalist* and *managerialist theories*, from which the NPM reform agenda evolves, are mixed with pragmatic opportunities to diverse local NPM models which actually show few similarities in practical application. Reforms in developing and transition countries have been largely driven by pragmatic rationales (see chapter 1.2) (cf. Schedler/Proeller 2006, Batley/Larbi 2004).

structural adjustment programmes which the majority of developing and transition countries throughout the world have undertaken in the first stage of public sector reforms<sup>11</sup>.

Even though the NPM model has been widely ‘imitated’ in developing and transition countries, it is difficult to arrive at an informed judgement of whether NPM-oriented reform initiatives have succeeded in practice. Given the emphasis of NPM on such elements as efficiency, performance measurement and a commitment to results/outcomes and impact, there is little attention found to evaluation. There is an absence of empirical evidence with which to measure results on any of these dimensions. There is a changed discourse of reform, but little to link reforms of structures to processes and outcomes, whether in terms of better policymaking or better delivery of services. Where the language of result-based management is employed, this is often directed to the *introduction* of institutional changes, not to the *effects* of those changes (as measured by outcomes and impacts).

The discussion about current NPM-oriented reform initiatives in developing countries – notably the transferability of NPM to the context underdevelopment and its appropriateness in broader strategic context of the MDGs – is rather divided (cf. OECD 2005, Minogue 2004: 165, Batley/Larbi 2004: pp. 28, Dibben et al. 2004: pp. 158, World Bank w.d.). The picture is particularly blurred in respect of the reforms which involve a new conception of state-market relations (for example, privatization, contracting and regulation), and so add in the complexities of governance and political institutions in developing countries (cf. Monigue 2004: pp. 165).

For all indistinctness about the appropriateness of the NPM-oriented reform initiatives in developing countries, there is little doubt that NPM ideas and interventions have strongly influenced the discourse and the process of public sector reforms in developing countries (cf. World Bank w.d., Polidano 1999: 26 pp.) and developed countries alike; and there is wide consensus about the importance of adaptation of preconceived reform concepts to local contingencies and stubborn and complex realities of underdevelopment (cf. Sarker 2006: pp. 180, Minogue 2004: pp. 172).

The specific issues of state-dominance in socio-economic transformation, the low level of economic development, the non-existence of a formal market economy<sup>12</sup>, the ignorance of

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<sup>11</sup> Some of the more ‘advanced’ reforms – privatization and corporatization – are found in agriculture and industry. These sectors were more exposed to structural adjustment conditions and liberalization than other sectors such as water, health, education. Furthermore, agriculture and industry are sectors with little political sensitivity and welfare considerations; hence there is less reluctance to change (cf. Baltely/Larbi 2004).

<sup>12</sup> Following the logic of the theoretical underpinnings and justification for the changing role of government and new approaches in public management (which include *new institutionalist* and *managerialist theories*) Stiglitz (2002) draws attention to the limits to free markets of incomplete information, and unworkable institutions. He points out that these limiting conditions are especially likely to be present in developing countries, and he is particularly harsh on the shortcomings of premature privatization, arguing that many developing and transition countries do not have the financial systems capable of handling such transactions, or regulatory systems capable of preventing harmful behaviours after privatization; nor do they have systems of corporate governance capable

good governance principles<sup>13</sup>, political and economic instability, institutional weaknesses in public management and the low level of administrative infrastructure are used here to illustrate the difficulties into which NPM-oriented reforms must be fitted in developing and transition countries.

## 2.4 Agricultural policies and institutions in transition

Given that the majority of people in developing countries live in rural areas and rely on agriculture as supplier of basic food subsistence needs and main source of income and that agriculture considerably contributes to the economic growth of developing regions, agriculture crucially underlies the progress of economic and social indicators emphasising on the MDGs.

Governments in many developing countries recognize agriculture as a major engine of growth and social welfare. National policy reforms have considerably reduced the bias against agriculture of past the two decades and the enabling environment for agricultural development is being improved. Agricultural policies have significantly changed in recent years and now direct at local governments revisiting the political and institutional framework in the agriculture sector targeting at promoting beneficial impact of reform initiatives on agricultural output. These profound policy changes inevitably impact public agriculture institutions and bring pressure on it also to change (cf. Anderson/Feder 2004: pp. 41, Rivera 1997: pp. 29).

The need for reform and adjustment to a new order characterized by less government funding and more differentiated requirements is of particular relevance and importance with public extension (advisory) services. The changes in government, technology and farming highlight the pressures issuing from both 'the top' at government policy levels and from 'the bottom' at the grassroots, farm level, for extension structure and management to change.

Public agricultural extension services<sup>14</sup> are very common in developing countries. However, they are often inadequately funded and their effectiveness is limited by structural and managerial deficiencies and challenges such as the large scale and complexity of extension operations and related difficulties at tracing extension results and impact, fiscal unsustainability and the important influence of the broader policy environment on agriculture (vulnerability and volatility).

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of monitoring these restructured institutions. – These limiting conditions do apply for other elements of the NPM reform agenda as well (Minogue 2004: pp. 165, Batley/Larbi 2004: 53).

<sup>13</sup> *Good governance*, a strand in the international development agenda, proposes that developing political systems must embrace what are regarded as universal principles of democratization, political pluralism, human rights, the rule of law, and competent administration of public policy. Corruption has in recent years received increasing attention as part of the good governance agenda being pursued by both multilateral and bilateral donors (Minogue 2004, SDC 2003).

<sup>14</sup> Agricultural extension can be defined as a service for providing information, advice and education and agrotechnology transfer (Mosher Arthur, 1979 in Rivera, 1997).

Against this background governments and international development agencies are advancing structural, financial and managerial adjustments to improve agricultural extension. A reform agenda for agricultural extension services has been discussed and agreed upon in many developing countries. Private sector involvement<sup>15</sup>, contracting and cost-sharing/demand-side financing of service delivery, and the shift from input to performance and result-oriented management are important elements of agricultural extension currently in transition (cf. IBRD/World Bank 2006/07: pp. 49, Anderson/Feder 2004: pp. 41, Rivera 1997: pp. 30).

### **Summary**

*For the past two decades, developing and transition countries have experienced changing views on the role of government, with public policies emphasizing the neo-liberal minimalist role of the state, and the state as principal enabler and capable, efficient partner and upholder of a shared global development vision of the new millennium. Public sector reforms in developing regions and more recently in post-socialist transitional economies such as Central and Eastern Europe and the CIS, have been driven by the process of stabilization and structural adjustment programmes, and political and economical conditionality – such as good governance and effectiveness and efficiency in public service delivery – attached to development assistance.*

*Through the channel of development assistance, NPM, or versions of it, has been widely taken up in developing countries in recent years. Even though systematic analysis of NPM application in developing countries is still poor, practical experience of NPM application give ground to be critical of NPM transferability. However, there is agreement that governments in developing countries have a need for sound and efficient management practices incorporated in NPM, and that issues of NPM adaptation to different political, economic, and social environment must be the focus of reform agendas concerned to recognize policy effectiveness in the context of realities of underdevelopment. This view gains importance in the broader strategic context of policy reforms and the increased attention to sustainable agriculture productivity essential to poverty reduction. Responsively, current agricultural extension policy trends in developing countries include some commonly adopted elements of the NPM reform agenda such as private sector involvement and application of market-type management (operation) mechanisms.*

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<sup>15</sup> The question of 'appropriate' roles of the private, voluntary and public sectors in funding and delivering agricultural extension services is of great relevance to agriculture policy making and reforms. Umali-Deininger (1997) suggests that where a) the knowledge being diffused is embedded in or closely associated with market goods (for example, plantation corps, tractors, or hybrid seed), it is best to leave the delivery of advisory services to the private sector within an appropriate regulatory framework. Where b) the technology or practice being promoted is associated with toll good (such as farm management or marketing information), delivery of extension advice is best handled by a judicious combination of public and private entities. If c) a common-pool good is involved (forestry, fisheries, common pasture), it is critical to connect the extension effort closely to cooperative or voluntary action. Where d) market and participation failures are high – for example, where subsistence farming dominates or where social conditions preclude voluntary action – is a pure public-sector approach to agricultural extension advisable.



*Tanabai trachte in Gedanken versunken durch die Steppe. Doch er fand keine Antwort auf seine Zweifel und Fragen. Wie haben wir mit dem Kolchos begonnen, was für ein glückliches Leben haben wir dem Volk versprochen! Was für Träume hatten wir! Und wie haben wir für die Erfüllung dieser Träume gekämpft. Alles wurde umgekehrt, das Alte begraben. Am Anfang haben wir nicht schlecht gelebt. Aber heute? Warum ist es nicht mein Kolchos, wie damals, sondern ein fremder? Was damals die Mitgliederversammlung beschlossen hatte, war Gesetz. Man hatte es selbst angenommen und musste es erfüllen. Heute herrschte in den Versammlungen leeres Geschwätz. Niemand kümmerte sich um einen. Den Kolchos leiten nicht die Kolchosbauern, sondern irgendeiner von draussen. Als ob von draussen besser zu erkennen wäre, was getan werden musste. Mal wurde so, mal so gewirtschaftet und nichts taugte.*

*Es war schrecklich, den Menschen nicht antworten zu können. Du bist doch Parteimitglied, hast den Kolchos mit begründet, hast den Mund voll genommen wie kein anderer, erklär uns doch, wie ist das alles zu verstehen? Was sollte man antworten? Riefe man sie wenigstens zusammen und sagte ihnen, warum und wozu dies oder jenes unternommen wurde. Niemand fragte, was die Menschen auf dem Herzen hatten, welche Gedanken, welche Sorgen sie bewegten. Die Bevollmächtigten vom Kreis waren keineswegs mehr so wie früher. Früher ging der Bevollmächtigte unters Volk, war für jeden zu sprechen. Jetzt kam er in die Verwaltung, schimpfte auf die Vorsitzenden, mit dem Dorfsowjet sprach er schon nicht mehr. Trat er auf einer Parteiversammlung auf, dann ging es um die internationale Lage; die Lage des Kolchos war nicht so wichtig. Arbeitet, erfüllt den Plan, das war die ganze Weisheit.*

*Abschied von Gülsary  
Tschingis Aitmatow*

### **3 Result-based Payment System in the Kyrgyz-Swiss Agricultural Programme KSAP**

#### **3.1 Background information to KSAP**

The Kyrgyz Swiss Agricultural Programme KSAP is a technical assistance programme funded by the Swiss Agency for Development and Cooperation (SDC). It started in 1995 within the framework of Switzerland's active involvement in the Central Asian region which began in the early nineties. Switzerland's technical support and financial aid to the region emphasize interventions with the highest relevance for addressing the achievement of MDG's and a transition from authoritarian rule and central planning to pluralism and a market economy.

The Kyrgyz Republic was the first Central Asian country to actively embrace reforms after the collapse of the Soviet Union in 1991. At that time, the almost total decline of industrial production and lack of employment opportunities have forced a lot of people back into subsistence farming. About 250'000 private farms emerged in the Kyrgyz Republic since 1991. However, most of the 'new villagers' did (do) not know how to use land in a sustainable and effective way and how to exist in a market economy producing for subsistence needs and for national and international markets. Rapid on-farm growth led to a significant increase in demand for agricultural support services which Government became increasingly unable to meet.

With the aim of supporting agricultural reforms with specific, demand-oriented interventions, three Swiss NGOs started piloting agricultural extension projects with SDC grant funds in the mid nineties. At the same time, several other donors started implementing extension services in various regions of Kyrgyzstan. In 1999, most of these initiatives were merged into the Kyrgyz Swiss Agricultural Programme KSAP that aimed at building a nationwide Rural Advisory Service RAS. RAS is a joint initiative of SDC as bilateral donor and IFAD as multilateral donor. In 2005 KSAP was formally separated from the RAS system; but it continues to be funded by SDC (and IFAD and the WB) with the goal of providing advice and support to the RAS network.

Aside from RAS, KSAP also supports policy development through the Policy Support Project (PSP) which facilitates agricultural policy development by the Ministry of Agriculture, Water, Resources and Processing Industry (MAWRPI). The main achievement of PSP is the participatory development of the Agrarian Policy Concept 2005-2010 which has been approved by the Kyrgyz Government in June 2004 (SDC 2008f).

### 3.2 Result-based Payment System RPS

The Result-based Payment System RPS is a funding mechanism applied in the partnership of KSAP and RAS. Against the background of the Kyrgyz Government agricultural strategy (2004) of fundamental reorientation and restructuring of public agricultural services, with greater emphasis on private service delivery and cost recovery, and the donor's agenda of promoting effective, efficient and transparent service delivery and institutional ownership and sustainability (SDC 1999), it has been introduced on the initiative of KSAP donor and implementing organisations in 2001. The introduction of RPS has initiated a shift from the so far applied linear and input-oriented budget support ('replenishment') system to the output- and result-oriented mandate system. RPS is based on targets and incentives to motivate RAS to improve cost-effectiveness and quality of service delivery, to provide an accountability mechanism for delivered services that enable farmers to improve their income, and to increase the influence and control of farmers over services provided.

The following sections attempt to profile the terrain of RPS application within KSAP and the RAS system. From a RAS perspective, they describe the environment in which RPS has been introduced: along the frame of reference shown in Figure 1, they describe the organisational structure and performance of the RAS system and the local context of transition and reforms from which it has emerged. RAS being challenged to introduce and adopt a new, market-type management concept, is used here to identify *key areas* of NPM reforms along which RPS application in RAS is going to be discussed in the broader context of international reform agendas and NPM theory and practice in developing and developed countries (see chapter 4).

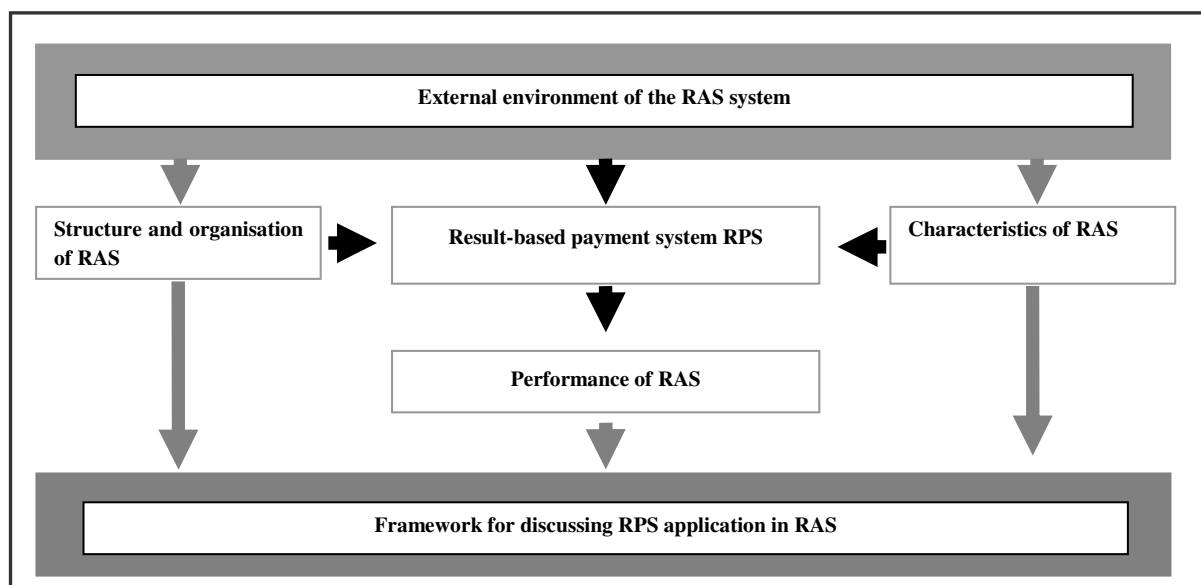


Figure 1: Reference frame for analyzing the terrain of RPS application in KSAP/RAS (adapted from Steiner 2007 and Bovaird 2008)

### 3.2.1 External environment of the RAS system

The initial transition period in the early nineties saw significant economic decline, disruption of institutions and a dramatic deterioration in living standards in the Kyrgyz Republic. Real output fell about fifty per cent between 1990 and 1995 and poverty and inequality increased substantially in the transitional recession. Despite these difficulties, stability could be achieved. After a long period of domestic stability and relative openness, political upheaval of early 2005 again created a volatile situation in the Kyrgyz Republic and has caused a slow down of reforms and policy efforts.

Since 1993, the predominantly agricultural, mountainous country has – at large within the framework of international stabilization and adjustment programmes – embarked on drastic structural reforms that helped to create the basic foundation of a market-oriented economy. Wide-ranging reforms during the 1990s and the acceleration of agriculture sector reforms, beginning in 1995, have been closely associated with strong agricultural growth. Agriculture accounted for over half of the country's total employment in 2002, up from one-third in 1990. Agricultural output began to pick up in the late nineties and regained pre-transition levels by the end of 2002. With almost 40 per cent of GDP in 2005, agriculture has become the most important single contributor to the economy. These efforts have borne significant results such as substantial economic growth since 1996, from which, however, only a fraction of the population benefits. In 1998, the Kyrgyz Republic became the first Central Asian republic to join the WTO.

Notwithstanding the remarkable reform progress and economic performance, the situation in the Kyrgyz Republic remains fragile and subject to important vulnerabilities, including from weak policy responses and lack of policy ownership, governance deficiencies and corruption problems, weak policy implementation and management capacity of institutions and weak infrastructure. A reluctance to change continues to slow policy reforms, and strong vested interests continue to block essential institutional change. The Kyrgyz Republic remains the second poorest of the former Soviet republics and one among the poorest countries in the world (see chapter 2.1, reference 4, p. 10). The situation remains unsatisfactory and fragile, notably in rural areas.

Given the huge impact of agriculture on the Kyrgyz economic performance, agricultural growth is considered central to overall growth and poverty reduction of the country. Key priorities of agricultural reforms hence include completion of land reforms and fundamental restructuring and reorientation of agricultural services. For the improvement of agricultural productivity, Government promotes private sector-based, cost-effective and capable rural advisory services, and innovative and appropriate technology transfer to peasant farmers (cf. Anderson/Swinnen 2008: pp. 265., SDC/SECO 2007: 5, Kyrgyz Government and IMF/World Bank November 2004: pp. 5 and April 2004, pp: 6, SECO 2003).



### 3.2.2 The RAS system

The Rural Advisory Service system RAS is a country-wide network of seven semi-autonomous RAS organisations<sup>16</sup> at Oblast (regional/provincial) level that offer agricultural advisory services to peasant farmers. RAS is locally organized and steered by member elected Steering Councils at local, regional and national (central) level to serve as a link between farmers and advisors. RAS units are managed by Regional managers. A Co-ordination Unit at central level is responsible for co-ordination, periodic monitoring and consolidation of RAS activities and outputs. A legally independent capacity development and knowledge management unit at central level, the Advisory Training Centre, renders capacity building services to RAS units and contributes to develop and improve advisory qualification and operation level of RAS field and management staff. RAS organisational structure and working culture can be characterized with high power distance in the RAS hierarchy and authoritarian rule as a logical spill-over from central planning and prevailing social structures into RAS 'life' and processes.

Today, the RAS system operates from 46 decentralized offices. RAS (RAS management, subject matter specialists, administrative staff and around 200 field staff) reaches approximately 42'000 rural households<sup>17</sup> in dispersed communities throughout the country. RAS advisory services target at increasing on-farm production and productivity through the transfer of improved technology and the introduction of improved farm management systems. Services (technical training, demonstrations and consultation) are on topics such as crop production, animal husbandry, marketing, farm economy and management, and business planning and development.

The overall RAS system is largely funded by SDC, IFAD and WB and receives support – in terms of finances and strategic directives – from both donors and from MAWRPI. Starting from 2003, all RAS units have been operating on the RPS, which makes the budget of RAS units and the income of RAS staff dependent on the achievement of results.

With view to continuously decreasing external funding of major donors of RAS and local Governments unclear commitment to support the RAS system in future, alternative funding and continuous efficient and effective RAS management and service delivery might play an increasingly important role for financial and strategic independence and sustainability of the RAS system. All the more as the share of funding coming from member and user fees might not realistically exceed five to ten per cent of the RAS budget as long as RAS keeps on working mainly with farmers that are not well off.

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<sup>16</sup> Initially registered as a Public Foundation, the seven RAS units and the RAS coordination unit were registered as independent Public Association in 2005.

<sup>17</sup> The population of the Kyrgyz Republic is estimated to amount 5,2 Mio (2007) of which around 50 per cent is employed in agriculture (2002) (World Bank 2008)

### 3.2.3 Functioning of the Result-based Payment System RPS

On the basis of the logical framework derived from the Programme document of KSAP/RAS, and the yearly budget of RAS units and the donors' guideline for planning, RAS units identify and develop advisory services (mandates) in consultation and with farmers (beneficiaries/clients) and RAS councils. RAS experience, innovation and staff capacity have important influence on advisory topic and service selection. Planning carries for one to two months (September to October) and comes up with a consolidated mandate list (*Leistungsauftrag*) as subject of negotiation and agreement between RAS and the donor agency. At the mandate negotiation, RAS and the donor agency agree on mandates and indicators (quantity and quality) and mandate prices that compensate RAS performance measured at output and result/outcome level. Mandate negotiation takes place in November.

At the beginning of the year, RAS units get advance payments to cover costs of ongoing activities. Later, these advances are deducted from final payments. During mandate implementation as per yearly plans, RAS units periodically report about service delivery (mandate implementation). This information is verified in regular donor monitoring (June and December) whereas quantity and quality of service delivery is randomly checked (typically on farms). Finally, the mandate list, and RAS reporting and monitoring results provide the basis for performance payments, which can be up to 120 per cent of the yearly budget in the case of over performance (bonus) or less than 100 per cent in the case of under performance (malus). Depending on the performance, payments may or may not cover RAS units' overall expenses. In case of over performance, RAS units make a profit; in case of under performance, RAS has to cover losses from earlier profits as they are not compensated by the donor.

### 3.2.4 Performance of RAS

Following Kyrgyz Government and donor agencies broader objective of reorientation and restructuring of public agricultural services, the RAS system, today, operates as a semi-autonomous farmer organisation that offers services to peasant farmers throughout the country. Donor funding provides the financial basis of RAS. However, concerned with long-term financial security, KSAP/RAS became more active in the acquisition of additional contracts outside the KSAP mandate as other financing is required for RAS to continue to operate at its present level. With the introduction of RPS, RAS is considered to be well positioned to play an important role in the new orientation of agricultural service delivery and donor-funding arrangements such as basket-funding (and tied conditionals) promoted by the Kyrgyz Government and donor agencies.

Donor review and analyses of RAS organisational performance find a positive development of RAS efficiency and effectiveness owing to RPS introduction in 2001 (Arbenz, 2005: 30). RPS is considered to provide an opportunity for cost efficient and improved field operations, given that the right incentives and indicators are set.

The overall indicators for RAS organisational performance are the percentage of mandate implementation and the profit generated from mandate implementation. With the introduction of RPS, the motivation of RAS units to entirely implement the mandate (*Leistungsauftrag*) or even over-perform (bonus) has increased; with about the same input (human and financial resources) but with significantly increased KSAP-assistance, RAS could improve the output in terms of quality and quantity services. At the same time, the risk of under performance is met with more focussed planning and budgeting. Profits that some RAS units were able to generate over the period of RPS introduction have been economized or invested in infrastructure.

With the introduction of RPS, a shift from input- to output- and outcome-orientation of RAS management and service delivery has been initiated. Indicators have increasingly been developed at outcome (result)-level; the linkage of RAS targets with achieved results at farm level was central to the reorientation RAS service delivery towards measurable on-farm production and productivity.

As RAS units' mandate lists do not include any indicators to measure the impact of RAS services, it is hard to arrive at an informed conclusion about the *effects* of RPS introduction on RAS and its beneficiaries/clients. Rather, the impact of RAS activities has been measured within the framework of KSAP (programme performance). There, donor review and evaluation find a positive change of living standard in villages where farmers have access to RAS services (Arbenz 2005: 30). Though it remains unclear to what extent the increase of living standard can be attributed to RAS performance (attribution gap), the introduction of RPS is considered to be an influential factor in the process of market-orientation of RAS that would *enable* farmers to improve their situation (Arbenz 2005).

With the introduction of RPS, financial management of RAS and KSAP became more transparent and risks of overspending could be minimized. On the other hand, efforts in monitoring, reporting and communication (accountability) considerably increased. Considerable resources in terms of finance, know-how and time were needed for the former state employees to understand, handle and adopt the 'business approach' under RPS. However, the increasing concern for efficiency and self-reliance left its mark in a changing organisational culture.

### **3.2.5 Framework for discussing RPS application in RAS**

After the initial stages of reorientation of RAS/KSAP management, it is still difficult to provide consolidated insight into the benefits and the downsides of introducing RPS in RAS, all the more as it is not easy to outline the full potential of RPS in the unstable and complex environment of RAS. This proposes to discuss RPS experiences of RAS in the broader context of international reform agendas and NPM theory and practice, so to come up with a picture about *characteristics* of the RAS environment that are likely to facilitate or hinder the effective adaptation of RPS in RAS.

With reference to chapters 2 and 3, RPS experience in RAS is discussed below along *key areas* that follow from the consolidated view at *concerns* of previously encountered reform agendas<sup>18</sup> that principally deal with the difficult circumstances in which reforms take place. In the development context of RAS, as illustrated in chapter 3, these concerns are prominently located in the areas of governance, organisational capacity, and culture fit.

### **Summary**

*Kyrgyz Government agricultural extension policy of reorientation and restructuring public agricultural extension service delivery in the transition of central planning to market economy promotes private sector-based, and cost effective advisory service supply. Against this background, the nation-wide network of semi-autonomous Rural Advisory Service RAS was set up to provide quality advisory services to peasant farmers in rural areas. Largely funded by SDC, IFAD and the WB, RAS receives strategic (and financial) directive from Government, the donor agencies, and RAS farmer councils.*

*In the partnership of RAS and KSAP, the funding mechanism RPS is applied to advance RAS efficiency, effectiveness (service quality) and transparency towards its partners. With the introduction of RPS, a shift from input-oriented budget support to the output- and result-oriented mandate system was initiated. The reorientation of RAS management had a positive effect on RAS performance in terms of cost-effectiveness, quality of service delivery, and the organisational culture. In comparison, considerable effort (financial and technical assistance) at capacity building was needed for RAS staff to be able to handle and adapt to the 'business approach' and entrepreneurial culture under RPS.*

*Notwithstanding the positive development of RAS under RPS, it is to date not clear what role RAS would play in future in the broader institutional context of advisory service supply. Reform of public policies and institutions in transition to market economy is slow and Government capacity to govern and manage market economy is limited by poor policy ownership and responses, and implementation capacity.*

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<sup>18</sup> See chapter 2.2, p. 12; chapter 2.3, p.13; chapter 2.4, p. 15; chapters 3.1, 3.2, 3.2.1, p. 17,18, 19)



*Er wusste, dass man damit dem Bauern keine Angst einjagen konnte. Man musste selbst Bauer werden, Land besitzen und sich Vieh anschaffen. Wenn ich Bauer werde, werd' ich meine Arbeiter niemals beleidigen, sagte er schon damals. Ihre Wege trennten sich. Kulubai ging als Hirt zu einem anderen Bei, während Tanabai sich in Alexandrowka bei dem Russen Jefremow als Knecht verdingte. Dieser war nicht sehr reich, er hatte ein Paar Ochsen, ein Pferd und etwas Ackerland. Er baute Weizen und brachte das Korn zur Walzmühle in das Städtchen Aulije-Ata. Jefremow arbeitete von früh bis spät. Tanabei hatte für die Ochsen und die Pferde zu sorgen. Jefremov war streng, aber gerecht. Er zahlte den ausgemachten Lohn. Die Armen im damaligen Kirgisien wurden von den Verwandten ausgeplündert; deshalb zogen sie es vor, sich bei russischen Bauern zu verdingen. So lernte Tanabai Russisch, fuhr nach Aulije-Ata und bekam etwas von der Welt zu sehen. Da war auch schon die Revolution herangereift und kehrte das Unterste zuoberst.*

*Es kam die Zeit der Tanabais.  
Tanabai kehrte in den Ail zurück.  
Ein neues Leben begann.*

*Abschied von Gülsary  
Tschingis Aitmatow*

## **4 Discussion of RPS application in the context of governance, capacity and culture**

### **4.1 Governance**

The following sections juxtapose policy and funding settings in which RPS is applied with the specific issues of privatization, demand-side financing (user fees, charges) and corruption-control<sup>19</sup> in order to highlight the extent to which these settings are likely to facilitate or hinder RPS application in RAS.

#### **4.1.1 Privatization**

The introduction of RPS in RAS happened in an environment of institutional uncertainty. While the Kyrgyz agricultural sector policy is clear about the reorientation and restructuring of advisory service supply, Government is not clear about public and private sector roles and functions<sup>20</sup> in advisory service provision and public support to new advisory service structures and organizations. In a situation of Government unclear commitment to RAS and decreasing donor funding (IFAD, SDC), alternative (donor) funds and mandates are most vital for RAS to play a role in the Kyrgyz advisory service system in future.

With the introduction of RPS, RAS gained competence and capacity in line with the remit of reforms and the donor agendas with its focus on poverty reduction and customer needs, and the generation of criteria of performance directly related to them. In this respect, RAS reorientation and organisational performance is supportive to meet and fit potential donor/partner requirements in terms of efficiency, effectiveness and transparency.

With decentralizing the responsibility for advisory service supply, and with the separation of Kyrgyz Government supply role from the support and regulatory roles, in fact, Government support and regulatory roles should strengthen – all the more considering the vulnerable environment and non-perfect market conditions (for example, asymmetric access and valuation of agricultural and market information) and the public good character of advisory service (cf. Steiner 2008: pp. 13, Anderson 2004: 51). Yet, Kyrgyz Government regulatory and enabling roles and its response to related policies<sup>21</sup> are weakly performed and there has been too little effort to reform these roles in response to liberalization. New forms of market-friendly regulation and support have been insufficiently institutionalized<sup>22</sup>.

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<sup>19</sup> Privatization, demand-side financing and corruption control are NPM elements (cf. Table 1, p. 13) connected with RPS application in RAS.

<sup>20</sup> See chapter 2.4, reference 15, p. 16

<sup>21</sup> See chapter 3.2.1, p. 19

<sup>22</sup> See chapter 3.2.1, p. 19

With decentralizing advisory service delivery and management responsibility (set up of the RAS system and the introduction of market-type management practices), yet only one side of the ‘liberal equation’ has been implemented. While decentralized organisational structures have been realized, Government is left with few effective instruments for market-friendly governance and management. Managing arms-length relationship with RAS proves difficult. The separation of direct from indirect provider roles allied with one side introduction of new management practices has left Government in a weak position to regulate, support and contract RAS within market-type collaboration arrangements (for example, contracting, public-private-partnership) and market-type financing schemes like RPS, and to adequately support the current RAS structure.

#### **4.1.2 Demand-side financing (user fees)**

Allied to RPS, another market-type mechanism was introduced in RAS. Targeting at the improvement of cost recovery of service delivery and quality of advisory services, charges for advisory services and RAS membership fees were introduced<sup>23</sup>. This part of the move towards a market-orientation in the provision of advisory services is based on the assumption that users, who are paying for advisory services will insist on better service quality, or “value for money” (Ferlie 2005: 497).

Increasing the user voice through demand-side financing has a potential to make service providers more responsive and accountable towards users, particularly the poor (cf. Batley/Labri 2004, 122). In RAS, this potential only partially could be realized. Though farmers play an increasingly active role in planning and implementation of RAS services (by membership and payment for RAS services), RPS directed the accountability of RAS rather towards KSAP (the donor) than towards the clients.

The introduction of RPS reinforced the tendency of RAS to concentrate on cost-effectiveness and output. In consequence, RAS advisors tended to select farmers they will interact with; advisors prefer farmers who are able to pay for services and are likely to exhibit better performance. With this sort of ‘supply-side rationing’ (selectivity of contracts), poor and subsistence farmers who cannot afford to pay for advisory services are limited in accessibility to RAS advisory services. The perverse outcome of asymmetrical access to advisory services and weakening of user accountability is against the idea of NPM, seeing demand-side financing as a way of increasing accountability towards the clients (cf. Schedler/Proeller 2006: pp. 11, Ferlie 2005: 498, 504, Bartley 1999: 764). This undesired orientation is not going to change easily as fairness in charging is so far limited by RAS strong donor accountability with focus on cost-effectiveness and output, at the expense of user accountability.

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<sup>23</sup> Before reforms were initiated in the nineties, the provision of advisory services was based on free access and direct state subsidies (Anderson 2008: pp. 15)

### 4.1.3 Corruption control

Where performance measures are imposed and can lead to rewards, punishment (bonus/malus) and sanctions, it is argued that they lead to attempts to manipulate results to present the best possible picture (cf. Eichenberger 2008, Ferlie 2005: pp. 494). Aside from the uncertainty this produces about reported performance, it is argued that it encourages a culture of cynicism and amoral behaviour which can seriously damage the (public) service ethics.

With the introduction of RPS (and demand-side financing) in RAS, the issue of corruption-control has been taken up in staff training curricula and training courses with the purpose of raising awareness and capacity of staff to recognize and avoid practices and behaviour that would limit the potential benefits of RPS, and the overall performance and reputation of RAS.

In literature, there is a wide range of economic ('official') and non-economic treatments and perspectives on corruption. While economic treatment<sup>24</sup> generally argues that widespread corruption is likely to be the result of multiple Government failures (cf. Minogue 2004: 173), non-economic treatments alert to the limitations of the 'narrow' economic perspective on corruption and to the possibilities to realize and treat corruption as a form of behaviour that has to be explained in the social and political context into which market-oriented reforms must be introduced.

From this perspective, it seems plausible that narrow treatments of corruption may likely to be unhelpful where persistently rooted social behaviour is not seen and judged as unacceptable by the practitioners, and where corrupt practices are isolated from the political and institutional settings in which they occur (cf. Sissener 2001, Brinkerhoff, 2004). The broader perspective on corruption inevitably points to the limits of institutional reforms and preconceived reform concepts in complex social realities of developing countries; and it points to the potential of forms of *social empowerment* to *transform* the opportunities and alternatives that people have in realities of developing countries.

## 4.2 Organisational Capacity

The following sections put the organisational capacity of RAS next to the new roles and the new functions of indicator and incentive design evolving with the introduction of RPS in order to highlight the extent to which the organisational capacity is likely to facilitate or hinder RPS application in RAS.

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<sup>24</sup> Corruption has in recent years received increased attention as part of the *good governance* agenda being pursued by both multilateral and bilateral donors; see chapter 2.4, p. 15, reference 13



### 4.2.1 New roles and functions

In RAS, RPS has been introduced in the post-soviet context of traditional central planning in transition to market economy. The new roles of RAS stakeholders are still evolving and the organisational and institutional capacity to perform the new roles and functions is still weak (Herren 2008). Practical experience of NPM reforms in developing countries shows that the introduction of NPM practices in realities of developing countries is likely to overstretch stakeholders' capacities (cf. Fischler 2008, Stiglitz 2004, see chapter 2.3, reference 11, p.14).

Difficulties inherent in the transformation from traditional to market-type management have proved to be both, transitional and more fundamental. With the introduction of RPS, both types of capacity deficiencies within the RAS system had to be addressed as the management role of RAS under RPS required new professional skills related to contract management, performance measurement and financial management together with an unaccustomed culture of 'organisational detachment'. While transitional capacity deficiencies required short-term capacity development interventions like training and technical assistance for management of 'higher level' contractual arrangements (for example, formulation of clear mandates with specified targets and indicators, roles and powers, and monitoring, reporting and communication of the mandate), fundamental capacity deficiencies need long-term capacity development, including interventions that challenge traditional 'rules' and are able to change organisational and individual behaviour.

### 4.2.2 Indicators

The concept of NPM asks for the measurement of performance and effects of activities; so does RPS. In traditional central planning the focus on performance was much on the inputs and processes of administering central policies but hardly on the output and effects of activities. In RAS there has been little experience and expertise of systematic, output- and impact-oriented performance measurement<sup>25</sup>. With the introduction of RPS, a long-term process of reorientation from input towards output and results has been initiated. For example, rather than focussing on the *task* of delivering advisory services, RAS became more focused on seeing advisory service delivery as a contributory activity to improving on-farm production and productivity.

Ferlie (2005: 500) describes two distinct ways to focus 'performance as efficiency' in public management. One way to focus performance is on programmes and policies. The other way focuses on the whole system of government and organisations and is variously called 'outcome based governance' or 'outcome based budgeting'. The latter, so Ferlie, is alleged to produce increases in efficiency and better delivery of specific services but at the expense of losing sight of the overall aims of policy.

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<sup>25</sup> With reference to *Performance- and Impact measurement in the concept of NPM* (Rieder, 2005)

The RAS focus on performance is principally on organisational and individual performance to achieving optimum efficiency, outputs and results. Indicators of the mandate agreement with donors and the overall performance and efficiency indicators of RAS (percentage of mandate implementation and profit generation) target at measuring the performance of RAS in terms of cost-effectiveness and better service delivery (quality). This focus allows RAS performance to be related to resourcing and management accountability.

With RAS growing responsibility for multiple clients and actors, and with growing needs for transparency and accountability to multiple partners, the RAS focus on performance and its contribution to the overall aims of policy hardly can be limited to outputs and results, but increasingly will be about impacts too.

Practical experience of performance measurement allied to NPM shows that performance measurement is hardly systematically applied at all three levels (output, outcome, impact) (cf. Lienhard et al. 2005: pp. 150) but best at output level where the formulation of targets and indicators causes minor difficulties. The definition of consistent targets and indicators at outcome and impact level is difficult and mainly fails for technical, political and financial reasons which applies for RPS application in RAS in a comparable way: there is unclear indication in strategic directive, and limited know-how and capacity (including financial capacity) internal and external to the RAS system to technically translate RPS to the local context; in the complex and unstable environment of RAS it is objectively difficult to find good and realistic indicators that fit to local circumstances; and the fear of control, criticism and transparency is contrary to theoretical requirements of the RPS concept.

Experience of RPS application in RAS shows that performance measurement proves particularly challenging as related to the definition of targets and indicators responsive to partners at all levels, and its verification with effective measurements. Still, RAS initial practice of consistent and systematic description of performance at output and result level contributed to the significant improvement of operational management, field operations and verification of targets which in fact gives good reason for continuous *core focus* on outputs and results of RAS performance. A complementary focus on impacts of RAS performance in the wider policy context of RAS yet would allow improving RAS transparency and accountability to multiple clients and actors.

### **4.2.3 Incentives**

RPS is based on targets and incentives to motivate RAS staff to improve the quality of advisory service delivery. Performance payments to RAS units that can be up to 120 per cent of the yearly budget in the case of over performance (bonus) or less than 100 per cent in the case of under performance (malus) likewise determine RAS staff salary.

The underlying psychological principles of work motivation incorporated in RPS are described to be universally valid, and therefore have pan-cultural applicability (cf. Mendonca/Kanungo 1996). RPS as applied in RAS is an individual incentive system which allows donor budgets to be linked to individual performance of RAS staff. The meaning of performance here relates to the performance of individuals and forms a part of human resource management practices. It is located within a framework of what and how individual performance contributes to the organisational performance, but the focus is firmly on the individual (cf. Ferlie 2005: 496).

Incentives are a common element of NPM and understood as monetary and non-monetary payments or promises – incentives or disincentives – that informally influence addressees expected behaviour (cf. Schedler/Proeller 2006: 241). Individual incentives are usually material, monetary incentives (for example, salary, and performance bonus) and direct at individuals. In comparison, collective incentives direct at groups, teams or units and include non-monetary incentives (for example, social and institutional incentives like training opportunities, good working conditions). The effect of both, individual and collective incentives depends on individual motivation (cf. Thom/Ritz 2007: pp. 346).

Individual incentives address to individuals' extrinsic motivation to give *impetus* by means of *external* reward or punishment. With the strong focus on individuals and monetary compensation, individual incentives systems stay with an aspect of outside-control to limit the feeling of self-control and (intrinsic) motivation for the activity as such (cf. Frost 2007: pp. 32). With NPM reforms, collective incentive systems gain increasing importance to be used complementary to individual incentive systems (cf. Thom/Ritz 2007: pp. 350). Collective incentive systems are considered to support the process of cultural-, strategic-, structural change basic to successful NPM interventions.

In RAS, the expansion of incentive arrangements to the overall organisation can be supportive to the institutional and organisational development of the RAS system. With the strong focus on individual performance, RPS creates a situation of competition (and control) among RAS staff destructive to customer-focused teamwork. Unstable and uncertain conditions external to RAS and limited (decreasing) finance intensify this trend. In this situation, collective incentive arrangements can serve as a balance to give more prominence to the overall organisation in contrast to individual staff.

In this way, RPS would appear as a 'strategy-oriented incentive system' (cf. Thom/Ritz 2007: 352) that recognizes and values individual performance contributory to the RAS organisational development and RAS sustainability in the wider context of overall strategies and policies to rural development.

### 4.3 Culture fit

The issue of culture fit of NPM practices in developing countries receives much attention in the connection with public sector reforms and globalization. Mariappanadar (2005: 31) for example, points to the limitations of ‘culturally alien NRM practices’ in developing countries and he is particularly critical to countries using NPM practices grossly disregarding the fundamental differences in socio-cultural constraints, local conditions and circumstances. And Mendonca/Kanungo (1996: 67) observe that management practices, which are successful in the industrialized and developed countries may fail in developing countries not because of any deficiency in or unsuitability of the practices, but because these practices were uncritically adopted without any regards to their congruence with norms and values of the internal work culture.

Programmes and practices which are consistent with and rooted in the values and norms of a culture are found to be successful and enduring. For example, Sinha and Kao (1988) describe the success of the Newly Industrializing Economies NIE to be widely attributed to management practices *modified* and *adapted* to fit the management styles and work attitudes that are rooted in Confucian social values, familism, and institutional structures that are not necessarily western.

The aspect of culture fit is vital in the context of RAS. Using the socio-cultural characteristics of relatively high uncertainty avoidance, and high power distance<sup>26</sup> and authoritarian rule in the socio-cultural work environment of RAS, it can be illustrated how norms and values of the local work culture are likely to promote or hinder the effectiveness of RPS.

Relatively high uncertainty avoidance<sup>27</sup> implies an unwillingness to take risks and accept organisational change, which is manifested in an individual’s reluctance to take personal initiatives outside of prescribed roles. Any deviation from the prescribed role is not only discouraged but is also subjected to sanctions (punishment/malus). As a result, individual RAS staff tends to be dependent on outside forces for work outcomes and develop an ‘external locus of control’ rather than an ‘internal locus of control’ basing on self-responsibility and ownership.

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<sup>26</sup> Hofstede (1980b) understands the cultural difference between developed and developing countries in an organizational context along four dimensions: power distance, uncertainty avoidance, individualism and masculinity. Kanungo and Jaeger (1990) characterize the social-cultural environment of developing countries when compared to developed countries as relatively high on uncertainty avoidance and power distance; and relatively low in individualism and masculinity.

<sup>27</sup> Uncertainty avoidance is “the extend to which a society feels threatened by uncertain and ambiguous situations by establishing more formal rules, by not tolerating deviant ideas and behaviours, and believing in absolute truths and attainments of expertise” (Hofstede, 1980b: 46)

Power distance is “the extend to which a society accepts the fact that power in institutions and organisations is distributed unequally (Hofstede, 1980b: 45)

One of the important conditions for effectively managing RAS staff performance is participatory setting of challenging targets that promote the improvement advisory service quality. In the vulnerable environment of RAS, goal setting is delicate as the risk not to achieve the goals and under-perform is high. Because uncertainty avoidance discourages risk taking and innovative work, it becomes a constraint on effective performance management and makes RPS vulnerable to perverse outcomes and corruption (for example, selectivity of contracts in terms of service and clients, services are paid regardless their quality, reporting and monitoring/controlling are manipulated).

The characteristic of high power distance is vital in the context of RAS too, when considering hierarchical structure and authoritarian rule within the RAS system. High power distance so Mendonca/Kanungo (1996: 70) implies that managers and subordinates accept their respective positions in the organisation's hierarchy and operate from these fixed positions. It is in the nature of RPS (and NPM) that critical activities in job performance require the manager to function as a coach and mentor to the subordinates. High power distance is not compatible with this nature of manager-subordinate relationship and with the joint problem solving essential to effective RPS application.

### **Summary**

*The introduction of RPS in RAS happened in an environment of **institutional uncertainty** with Government being unclear about roles and functions in advisory service supply and deficient in converting required policies into appropriate executive actions. The reorientation of RAS management had a positive effect on RAS organisational performance, but left Government in a weak position to adequately govern and manage arm-length relationship with RAS. One side reform of service supply directed RAS orientation towards donors. This trend has been reinforced with the introduction of demand-side financing as **weak user voice** directed RAS accountability towards donors rather than towards customers. **Corruption** is another hindrance to effective RPS application and reform. A broader perspective on corruption points to the potential of social empowerment as one form of anti-corruption control and reform.*

*Limiting elements of **management capacity and behavioural change** and a **tradition-rooted input focus** on performance challenged (challenge) effective RPS application in RAS. RPS proves particularly challenging as concerns the definition of targets and indicators responsive to partners at all levels and the design of effectual incentive systems that values individual performance contributory to the RAS organisational development and sustainability. **Cultural norms and values** such as **high uncertainty avoidance** and **high power distance** constrain effective RPS application and challenge the culture fit of RPS in RAS.*

## 5 Conclusion

This thesis started with a view on changing roles of governments in development. Governments in developing countries, often under pressure from internal forces for change as well as from donors, are re-thinking their service provision roles. The new (NPM) view is that, where possible, government should enable and regulate the private and community sectors or arms-length public agencies rather than directly provide services. This sort of shift is supposed to have advantages in terms of promoting efficiency, reducing the burden on government (retrenchment) and give more choice and voice to customers. Chapters 3 and 4 explored these issues in RAS, and asked whether the NPM approach RPS was being applied appropriately to the local circumstances and context, what internal and external pressures was generating RPS, how well it was performing, and whether Government and RAS have the capacity to implement it.

The following conclusions emerge from this study:

- Pre-reform practices in RAS are a product of central planning practices. The break-up of the Soviet Union has forced change but also created stress conditions which make resistance to change especially strong. The ‘constituency for reform’ takes time to emerge and support for reform – especially for the new roles and functions of participants in the reform process – requires long-term commitment (cf. chapter 2, reference 10, p. 10, chapter 4.2.1, p. 27). The proposal to introduce reforms like RPS occurred in crises, and therefore donor agencies had strong influence on its design. Where NPM practices are grafted on local management systems and practices, they risk not to have real support and result in the negative impact of absence of local ownership. As RPS concerns and involves partners at all political levels, donors and RAS need to take multi-level interests and requirements into account in order to perform the ‘liberal equation’ and the overall reform and development goals.
- The main discernible gain from RPS has been the improved efficiency and quality of advisory service. There have been gains in the acquisition and productive use of resources (funds), mainly as a result of the exposure of RAS to a ‘competitive’ (donor) environment. RPS has tended to focus on organizational structures and individual performance which allows RAS performance to be related to resourcing and management accountability. With the design of appropriate indicators and incentive systems, RAS ‘performance as efficiency’ can be recognized and realized in the wider institutional context of rural development.
- RPS sees charges and fees as a way of increasing accountability to customers and cost-recovery of service delivery. With its strong focus on individual and organisational performance, RPS directed RAS accountability towards donors rather than towards clients, so that charging for services had an inequitable effect. Attention

needs to be given to balancing economic rationality and equity issues. The increase of RAS performance may represent a gain but, without an equivalent strengthening in systems of user accountability, inequity is likely to grow.

- Under certain preconditions, RPS can provide efficiency gains: there must be organisational capacity for contract management, performance measurement and financial management. These conditions are least likely to pertain in the context of weak private sector capacity and where administrative and human resource management capacity is weak. Experience in RPS should be developed progressively, focusing first on advisory services that can be specified and measured.
- The environment in which RPS has been introduced in RAS is distinctively different in economic, social and political terms from developed countries, and there is considerable variation in culture terms. In transferring the RPS model to the context of developing countries, a double transfer from developed to developing countries and across the public-private boundary is done. Uncritical transfer of the preconceived RPS model over these boundaries is culturally 'problematic' since it may ignore or conflict with the social and political dynamics of the organisation and the system in which it is applied. Inappropriately adapted, RPS risks to be muted by local interests and organisational traditions. This actually may be seen as a way in which RPS is properly adapted to local circumstances.
- Good governance (see chapter 2.4, reference 13, p. 15) and RPS are regarded as mutually supportive, with enhanced accountability and improved efficiency reinforcing each other. In the dominant development reform agenda of the international community (see chapter 2.2, p. 12) two transformative conceptions are brought together: a reorientation of the state and its relations with the market, and a model of state-society relations. The agenda is realized through both economic and political conditionalities attached to development assistance. These ideas are in point of fact contesting and give an idea of the application of RPS (through practical reform programmes) to encounter difficulties of adaptation to complex circumstances and systems of developing countries.

It can be concluded that as well as being a contested practice, RPS is also a contested concept in terms of transferability to developing countries which requires appropriate adaptation to the specific context in which it is applied in order to perform its benefits.

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## **Statement of Authorship**

I herewith declare to have written this thesis by myself, and without having used any means but those having declared. All passages, which have been taken verbatim or analogous are clearly indicated. I know about the Senate's right by the law of the University to withdraw the title conferred to this thesis.

Basel, November 30, 2008

Franziska Vöggtli

## About the Author



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## Annex

### Annex 1: Swot-Analyses: Strengths, weaknesses, opportunities and threats of RPS application in developing countries

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Activities are in line with policies, strategies, constitution</li> <li>• Information about programme impact</li> <li>• Strengthening of stakeholder accountability</li> <li>• Strengthening of stakeholders capacity</li> <li>• Promotion of multi-level dialogue</li> <li>• Awareness of mutual responsibility</li> <li>• Empowerment of farmers</li> <li>• Target-orientation</li> <li>• Promotion of dialogue</li> <li>• Demand-driven services, client orientation</li> <li>• Quality improvement of services</li> <li>• Motivation to improve work</li> <li>• Quality improvement of work</li> <li>• Precise working concept</li> </ul>	<ul style="list-style-type: none"> <li>• Requirement of role clarity at all levels</li> <li>• Requirement of Rule of law</li> <li>• Requirement of culture of dialogue and acceptance of criticism</li> <li>• Rivalry, power-games, social control</li> <li>• Promotion of inequity</li> <li>• Payment for services</li> <li>• Mutual obligations</li> <li>• Complexity of RPS design and procedure</li> <li>• Complex co-financing mechanism</li> <li>• Demand-formulation is difficult</li> <li>• ‘Safe’ targets, ‘work around’, sup-optimisation of what is possible</li> <li>• Efforts at monitoring, evaluation</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Institutionalization of activities</li> <li>• Balance of power</li> <li>• Strengthening accountability</li> <li>• Strengthening ownership</li> <li>• Sector-specific adaptation and action</li> <li>• Efficient use of limited resources</li> <li>• Reorientation of donor-thinking and action: customer-focus</li> <li>• Reorientation input towards output</li> <li>• Provides insight in local realities, history, political culture, social justice, fears</li> <li>• Donor role: facilitator role</li> <li>• Donor: setting the right incentives</li> <li>• Donor: ‘Getting the practice right, and getting the ideas right’</li> <li>• Donor: To work with incentives</li> <li>• Public Private Partnerships</li> </ul>	<ul style="list-style-type: none"> <li>• Donor agenda ≠ government agenda ≠ client agenda</li> <li>• Reluctance for change</li> <li>• Erosion of political power</li> <li>• System change, slow reform process</li> <li>• Unclear role of government</li> <li>• Multi-level programmes: complexity</li> <li>• Democratic rule and sensitivity are limited</li> <li>• Imperfect market conditions</li> <li>• Weak information system</li> <li>• Sector-specific limitations: political sensitivity</li> <li>• Unstable environment (e.g. in agriculture)</li> <li>• Source of finance</li> <li>• Corruption</li> <li>• Limited political power and influence of clients</li> <li>• Limited customer choice</li> <li>• Limited capacity to handle RPS</li> <li>• Trouble shooting</li> </ul>