

**Erschienen als:** Ritz, Adrian; Vögtli, Franziska (2011). Public Sector Reform Initiatives in Development Cooperation. A Case Study of the Kyrgyz Rural Advisory Service RAS. International journal of public administration, 34(9), S. 591-603. Philadelphia, Pa.: Taylor & Francis [10.1080/01900692.2011.587989](https://doi.org/10.1080/01900692.2011.587989)

## **Public Sector Reform Initiatives in Development Cooperation: A Case Study of the Kyrgyz Rural Advisory Service RAS**

Shortened version of title: Public Sector Reform in Developing Countries

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# **Public Sector Reform Initiatives in Development Cooperation:**

## **A Case Study of the Kyrgyz Rural Advisory Service RAS<sup>3</sup>**

### **Abstract:**

Public sector reform initiatives as part of development cooperation characterize and challenge many agricultural support services in developing countries of Central Asia. This paper analyzes the application of the result-based payment system in the Kyrgyz Rural Advisory Service and identifies key determinants that are likely to influence its effective adaptation. The paper is based on a literature review on public sector reforms in developing countries, donor agencies' programme documents, and participatory action research of the authors. The results from this research indicate that although the RAS develops in a positive way under the new system, it directed the Rural Advisory Service's accountability towards the donors rather than towards local actors. Crucial impediments to the effective implementation of the result-based payment system are primarily institutional uncertainty and limits of management capacity. These non-intentional reform effects, which are to some extent directly opposed to the underlying theories, are discussed in the article.

**Key words:** Public Sector Reform, New Public Management, Result-based Payment System, Developing countries, Kyrgyz Republic

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<sup>3</sup> The authors would like to thank the Swiss Agency for Development and Cooperation for making available programme documents for this research. All findings, interpretations, and conclusions in this article are entirely those of the authors and should not be attributed to those of the Swiss Agency for Development Cooperation.

## INTRODUCTION

Recent years have seen a worldwide movement away from state ownership towards a more porous view of the state. This market-oriented public sector reform is now encapsulated as a model known as New Public Management (NPM) (Batley and Larbi, 2004). In developing countries, the NPM agenda mainly involves stabilization, liberalization and privatization of state-owned enterprises (Minogue, 2004). With the adaptation of the Millennium Declaration of the United Nations in the year 2000, the reform agenda has been widened by a focus on aid effectiveness and the role of government as the principle enabler and responsive partner of non-state actors such as the private sector and civil society groups, or the international community, namely global institutions and donor agencies (The World Bank, 2000).

In view of that, the present reform agenda of the international community is concerned with three main issues: first, the promotion of effective governance; second, the enhancement of efficiency and effectiveness of public services; and third, the improvement of government financial management and accountability mechanisms (OECD, 2002). Thus, it provides some of the impetus for new approaches to public management in developing countries.

In line with this global trend, the Kyrgyz Republic experience of public sector reform is characterized by substantive policy and structural changes. Since 1993, the Kyrgyz Republic has embarked on the most rapid and liberal reforms in the Commonwealth of Independent States (CIS) that have helped create the basic foundation of a market-oriented economy with an open foreign trade regime and substantive private ownership of key productive assets. These efforts have borne significant results such as substantial economic, mainly agricultural growth since 1996, notable progress in the stabilization and liberalization of the economy, and the formula-

tion of a Nation Poverty Reduction Strategy in 2002. In 1998, the Kyrgyz Republic became the first Central Asian republic to join the WTO (Christensen and Pomfret, 2008).

Nevertheless, despite success in liberalization, stabilization and privatization, the effects of the reforms were not as good as expected, largely because the institutional environment for a well-functioning market economy still does not exist (Christensen and Pomfret, 2008). Nineteen years after its independence, the Kyrgyz Republic remains the second poorest of the former Soviet republics and one of the poorest countries in the world (The World Bank, 2010). The situation remains unsatisfactory and fragile and popular frustration remains strong, notably in rural areas.

In this context, this article explores the specific experience of Kyrgyz-Swiss Development Cooperation, where elements of the NPM model have been tested. In particular, the article examines the effects of the result-based payment system as part of the cooperation between the local, semi-autonomous Rural Advisory Service (RAS) and the Swiss Agency for Development and Cooperation (SDC). Yet the concerns of the present reform agenda and the complexity of the local context in which the result-based payment system has been introduced, raises three important questions:

1. Is the Kyrgyz policy and institutional environment compatible with the separation of the Kyrgyz Government supply role from the support, regulatory and facilitation roles – say, to the decentralization of advisory services?
2. Does the introduction of NPM elements such as user fees, indicators and incentives make the RAS more responsive, transparent and accountable towards its clients, the farmers, and to other partners?
3. Are appropriate skills and processes available for the application of the result-based payment system within the RAS?

This article answers these questions by arguing that although the reorientation of the RAS management had a positive effect on the organizational performance of the RAS, it left the Kyrgyz Government and farmers in a weak position to adequately govern and manage its relationship with the RAS at arm's length. This becomes even more obvious in the overall context of the dominant development agenda of the international donor community, which brings two transformative conceptions of state-market and state-society relations together. These complex changes encounter difficulties in the context of the Kyrgyz Republic.

In the following section, a brief overview of theory and core tendencies of NPM reforms in developing countries is given. The third section presents the result-based payment system application in the RAS. The fourth section of the article analyzes and discusses the result-based payment system taking into account the concerns of the new reform agenda and comes up with key determinants likely to influence the effective adaptation of the result-based payment system in the Kyrgyz context. The concluding section presents implications arising from this analysis for would-be reformers and advisors and considerations for future development work.

## AGRICULTURAL REFORMS AND ITS THEORETICAL CONTEXT

### **New Public Management and Agricultural Policies in Developing Countries**

According to various authors, the theoretical assumptions underlying the NPM model derive from sources such as new institutional economics, public choice theory and business management that emphasize market competition, business principles, managerial autonomy, customer choice and performance standards (Borins, 1997; Hood, 1991; Manning, 2001; Haque,

2007a). In line with these market-centred underpinnings of the NPM model, according to its main proponents, the major tenets of the model include the following (Haque, 2007b; McCarten, 2006; Polidano, 1999):

- (a) reduction of the public sector's direct role, redefinition of its role as *facilitator*, and involvement of private sector in service delivery by *downsizing*, *outsourcing*, and *public-private-partnership*;
- (b) restructuring of the public sector for more *internal competition* among its various units by introducing *performance contracts* and market-type mechanisms like the competitive pricing and *market-testing* of various goods;
- (c) expansion of the management's operational *autonomy* and *flexibility* in financial and personal matters (as found in business management) through conversion of public organizations into various businesslike (*semi-)**autonomous agencies*;
- (d) assessment of public sector performance by evaluating its *final outcomes* or *results* (rather than inputs and procedures) based on the preset *performance targets* or *standards*; and
- (e) reinforcement of *customer-orientation* by providing greater *customer choice* and ensuring better service quality based on *user charges* (*demand-side financing*).

NPM is considered as a standard model among a number of contending strands of market-oriented public sector reforms in developing countries. According to its proponents it may be seen as a set of reforms with different countries adopting different elements of the model to a greater or lesser extent than others (Haque, 2007b; McCarten, 2006; Batley and Larbi, 2004; Cook *et al.*, 2004; OECD, 2002; Polidano, 1999). Characteristically, NPM reforms in developing countries may be crystallized into three core tendencies *organizational restructuring* (e.g. decentralization and capacity building), *increasing use of market-type mechanisms* (e.g.

user fees/demand-side financing) and *increasing emphasis on performance* (e.g. quality standards and indicators) (see Table 1)<sup>1</sup>.

--- Insert Table 1 about here ---

Typically, NPM reform initiatives in the Kyrgyz RAS have been tested along all three core tendencies. Thereby, decentralization, demand-side financing, and performance management play a crucial role in restructuring and result-orientation of the Advisory Service. The core mechanism, through which these initiatives are managed in the partnership of the donor and the RAS, is the NPM-type result-based payment system.

Related to this, “NPM theory” provided important orientation. Accordingly, NPM suggests the separation of government advisory service supply role from the support and regulatory role (decentralization), going along with government market-friendly governance and management capacity ({Schedler, 2010 #2612}). The introduction of demand-side financing roots in the NPM idea intends user fees to be a way of increasing accountability towards clients in order to make service providers more responsive and accountable (Batley and Larbi, 2004; Ferlie *et al.*, 2005). When it comes to the measurement of performance in connection with NPM, theory advocates applying consistent targets and indicators at the output, outcome and impact level of interventions in order to allow transparency and accountability towards multiple stakeholders and partners at all political levels (Curristine, 2005; Minogue, 2004; Batley and Larbi, 2004; Dibben *et al.*, 2004). Finally, incentives (e.g. bonus/malus system) as a common element of NPM and understood as monetary and non-monetary payments or promises, are considered to influence addressees expected behaviour and to increasingly gain importance in the management since they emphasize performance and motivation ({Schedler, 2010 #2612}).

Even though the NPM model offers concrete solutions for problems that developing countries are facing the general discussion about NPM transferability to the context of developing countries and its appropriateness in the broader strategic context of the Millennium Development Goals is rather divided (The World Bank, w. d.). The picture is particularly blurred with respect of reforms which involve a new conception of state-market relation, thereby adding to the complexities of governance and political institutions in developing countries. However, in general there is wide consensus about the importance of adapting the NPM reform concept to local contingencies and complex realities of developing countries (Curristine, 2005). The specific issues of state-dominance in socio-economic transformation, the low level of economic development, the non-existence of a formal market economy, the lack of knowledge concerning good governance principles, political and economic instability, institutional weakness in public management and the low level of administrative infrastructure are used here to illustrate the difficulties to which NPM-oriented public sector reforms must be adjusted in developing countries in order to perform.

Under the influence of NPM concepts transferred and applied in developing countries, agricultural policies have significantly changed in recent years. Given the fact that the agricultural sector in developing countries is the driving force for progress of economic growth and social indicators emphasizing the Millennium Development Goals, above all agricultural policies show important changes which direct at local governments. They revise the political and institutional framework targeting at promoting beneficial impact of reform initiatives on agricultural output. Hence, these profound policy changes inevitably cause agricultural institutions to change (Anderson and Feder, 2004; Rivera, 1997). The changes in government, as well as in 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 agricultural service structure and management to change.



The need for change is most vital with agricultural services interlinking farmers with know-how, information, technology and markets. Although such kind of public agricultural services are very common in developing countries, they are often inadequately funded and their effectiveness is above all limited by structural and management deficiencies such as the large scale and complexity of extension operations and related difficulties at tracing extension results and impact, fiscal volatility and the important influence of the broader policy environment on agriculture.

Against this background, governments and international development agencies are advancing structural, financial and managerial adjustments to improve agricultural services. A reform agenda for agricultural services has been discussed and agreed upon in many developing countries. Contracting, cost-sharing and demand-side financing of service delivery and the shift from input to performance and result-oriented management are therefore important elements of agricultural services currently in transition (IBRD, 2006/2007; Anderson and Feder, 2004; Rivera, 1997).

## CASE STUDY: THE RESULT-BASED PAYMENT SYSTEM IN THE KYRGYZ RURAL ADVISORY SERVICE

### **Method**

For the exploration of historical and social changes as well as for the description and reconstruction of a specific phenomenon like the transformation and applicability of NPM in developing countries such as the Kyrgyz Republic a descriptive single case study design is chosen (Ragin and Becker, 1992; Yin, 2003; Yin, 2004). Its main purpose is to describe the result-

based payment system within the context of RAS and Kyrgyz agricultural policies rather than to explain presumed causal links. Our research follows a hybrid approach between an instrumental and an intrinsic case study (Stake, 1995). On the one hand, the RAS of the Kyrgyz Republic is used as an illustrative device to highlight the larger issue of transformation and applicability of the NPM model in a developing country and serves as an instructive example for this general problem (instrumental focus). On the other hand, our case study was part of an evaluation within the Swiss Agency for Development and Cooperation and the choice to select different cases for this research was therefore limited. Furthermore, the entity itself, the change of the institutional settings within Kyrgyz agricultural policies, was of genuine interest for the researchers and the intention is to better understand this case through intensive investigation rather than to build theory (intrinsic focus).

The data collected for this case study reflect a three-dimensional approach. First, document study was applied. The paper is based on a broad review of literature related to NPM as well as programme documents and evaluation reports of the Kyrgyz Swiss Agricultural Programme of the period 2002-2005. Second, qualitative interviews with field experienced representatives of the Swiss Agency of Development and Cooperation and the Swiss non-governmental organisation Intercooperation were conducted. These interviews provided information about the former practices and views on NPM in the Kyrgyz Swiss Agricultural Programme and in other development programmes. The interviews were conducted in 2008. Third, participatory action research was applied. One of the authors was involved in the Kyrgyz Swiss Agricultural Programme during the period 2002-2005 when the result-based payment system was introduced. His role was ..... This perspective provides grassroots information about the application of the result-based payment system from an advisor perspective to the RAS and its partners such as the Kyrgyz Government at all political levels, private sector organisations, and international development organisations supporting and cooperating with the RAS.

Although this case study design integrates three different perspectives on the development of the result-based payment system within RAS it primarily has to be understood as a description and interpretation of the authors' own experience, enriched by views and experiences of interview partners as well as reflected against the literature and documents studied. A data-driven inductive approach with definition of codes and categories and an analysis of the material based on the coding scheme was not applied. Therefore, in the following sections caution is necessary when it comes to the link between analysis of experiences and documented material and findings.

### **The Kyrgyz Republic and its Rural Advisory Service (RAS)**

In the early transition years after the disintegration of the Soviet Union in 1991, the disruption of the ties between the former Soviet Republic Kyrgyzstan and Russia resulted in a deterioration of living standards for most of the roughly five million inhabitants of the Kyrgyz Republic. 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. Rapid farm growth led to a significant increase in demand for agricultural support services, which Kyrgyz Government became increasingly unable to meet.

The RAS is a country-wide network of seven semi-autonomous advisory service organisations<sup>2</sup> at Oblast (regional) level that offer agricultural advisory services to peasant farmers. The RAS is locally organized and lead by member elected Steering Councils at local, regional and national (central) level to serve as a link between farmers and advisors. Today, the RAS operates from 46 decentralized offices and reaches approximately 42'000 households in dispersed communities throughout the country.<sup>3</sup> The advisory services are on topics such as crop production, animal husbandry, marketing, farm economy/management and business planning

and target at increasing on-farm production and productivity through the transfer of improved technology and the introduction of improved farm management systems.

This being the situation, the country-wide RAS has been set up on the joint initiative of the Kyrgyz Government (Ministry of Agriculture, Water, Resources and Processing Industry MAWRPI), the Swiss Agency for Development and Cooperation, The World Bank and the International Fund for Agricultural Development (IFAD) during 1999-2010. The overall RAS has been largely funded – in terms of finances and strategic directives – from both the donors and the Kyrgyz Government. Since 2003, the RAS has been managed under the result-based payment system.

However, in view of continuously decreasing external funding and Kyrgyz Government's unclear commitment to support the RAS in future, alternative funding and continuous effective management and service delivery plays an increasingly important role for financial and strategic independence as well as sustainability of the Rural Advisory Service. All the more as the share of funding coming from member and user fees might not realistically exceed 5 to 10 percent of the yearly organisational budget as long as the RAS keeps on working mainly with farmers that are not well off.

Against the background of the Kyrgyz Government agricultural strategy of fundamental reorientation and restructuring of public agricultural services and the donor's reform agenda (SDC, 1999), the Result-Based Payment System has been introduced in the partnership of the Kyrgyz RAS and the Swiss Agency for Development and Cooperation in 2001.<sup>4</sup> The introduction of the new funding mechanism initiated a shift from the so far applied input-oriented budget support system (replenishment system) to the output- and result-oriented mandate system. The result-based payment system is based on targets (results/indicators) and incentives (bo-

nus/malus payments) to motivate the 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 their influence over the provided services.

### **Performance of the Rural Advisory Service under the Result-based Payment System**

Today, the RAS operates as a semi-autonomous farmer organization that offers services to peasant farmers throughout the country. Donor funding provides the financial basis of the Rural Advisory Service. However, concerned with long-term financial security, the RAS became more active in the acquisition of additional mandates of international donor agencies and the private sector. With the introduction of the result-based payment System, the 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 promoted by the Kyrgyz Government and donor agencies.

Donor review and analyses of the RAS organisational performance find a positive development of the organisation efficiency and effectiveness owing to the introduction of the result-based payment system (SDC, 2004). The new funding mechanism is considered to provide an opportunity for cost-efficient and improved field operation, provided that the right incentives are set. With the introduction of the result-based payment system, the motivation of the RAS to improve advisory service quality has significantly increased. At the same time, the risk of under-performance has been met with more focussed and careful planning and budgeting and the reorientation of service delivery towards measurable results at farm-level.

Further, a positive change of living standards in villages where farmers have access to services of the RAS could be observed (SDC, 2003). Though it remains unclear to what extent the increase of living standard can be attributed to the RAS performance (attribution gap), the

introduction of the result-based payment system is considered to be an influential factor in the process of market-orientation of the RAS that would enable farmers to improve their situation.

The last and important point to mention is the financial management of the RAS and the donor agency that became more transparent with the introduction of the result-based payment system. But related efforts on monitoring, reporting and communication considerably increased and substantial resources were needed for the former state employees to understand, handle and adopt the new management approach under the result-based payment system. Nevertheless, the increasing concern for efficiency and self-reliance left its mark in a changing organisational culture.

However, notwithstanding the positive development of the RAS under the result-based payment system, the new management practises and their application encountered difficulties while being introduced to the local Kyrgyz context at which we take a closer look in the next section. To date it is not clear what role the RAS would play in the future in a broader institutional context of advisory service supply. Reform of related policies and institutions is slow and government capacity to govern and manage market type management systems such as the result-based payment system is limited by poor ownership, responses and implementation capacity.

## THE APPLICATION OF THE RESULT-BASED PAYMENT SYSTEM IN THE CONTEXT OF NPM REFORM TENDENCIES

In the context of the NPM model and the development context of RAS, as illustrated above, the major concerns for a more successful application of the result-based payment system are located in the areas of organisational restructuring, market-type financing mechanisms and performance measurement. Concretely, the policy and funding settings to which the result-based payment system is applied are closely related to the major tenets of the NPM model. These are: decentralization and actors' new roles and functions (organizational restructuring and capacity-building), demand-side financing (market-type governance) as well as systems of indicators and incentives (performance measurement). These major tenets allow us to analyse the extent to which these settings are likely to influence the application of the result-based payment system in RAS.

### ***Decentralization***

The result-based payment system was introduced into the RAS in an environment of institutional uncertainty. While the Kyrgyz agricultural sector policy is clear concerning the reorientation and restructuring of advisory service supply, the government is not clear on public and private sector roles and functions in advisory service provision and public support to new advisory service structures and organizations.<sup>5</sup> In a situation where the government's commitment towards the RAS is unclear and donor funding from the International Fund for Agricultural Development and the Swiss Agency for Development and Cooperation is decreasing, 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 the result-based payment system, this decentralization allowed the RAS to gain competence and capacity, which was in line with the remit of reforms and donor agendas with their focus on poverty reduction and customer needs, and the generation of criteria of performance directly related to them. In this respect, the reorientation towards decentralized advisory service supply and the organisational performance of the RAS meet and fit

potential donor/partner requirements in terms of efficiency, effectiveness and transparency. This lead to important gains in the acquisition and productive use of resources (funds), mainly as a result of the exposure of a better performing RAS to a ‘competitive’ (donor) environment.

As previously pointed out in the NPM model, with decentralizing the responsibility for advisory service supply, and with separating the Kyrgyz Government supply role from the support and regulatory roles, government support and regulatory roles should, in fact, increase – 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 (Anderson and Feder, 2004). Yet, the Kyrgyz Government regulatory and enabling roles and its response to related policies are performed weakly and there has not been enough effort to reform these roles in response to liberalization. New forms of market-friendly regulation and support have been insufficiently institutionalized.

By decentralising advisory service delivery and management responsibility (consisting 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, the government is left with few effective instruments for market-friendly governance and management. Managing arms-length relationship with the RAS proves difficult. The separation of direct from indirect provider roles and one sided introduction of new management practices has left the government in a weak position to regulate, support and contract the RAS within market-type collaboration arrangements (for example, contracting, public-private-partnership) and market-type financing schemes like the result-based payment system. Under these circumstances it is difficult for the government to adequately support the current RAS structure.



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

Together with the result-based payment system, 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>6</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 *et al.*, 2005).

As NPM theory showed, increasing the user voice through demand-side financing has a potential to make service providers more responsive and accountable towards users, particularly the poor. Though farmers play an increasingly active role in planning and implementation of RAS services (by membership and payment for RAS services), the result-based payment system directed the accountability of RAS rather towards the donor than towards the clients (farmers).

The introduction of the result-based payment system reinforced the tendency of the RAS to concentrate on cost-effectiveness and output. In consequence, RAS advisors tended to select the farmers they wanted to 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-oriented farmers who cannot afford to pay for advisory services are limited in their accessibility to RAS advisory services. The perverse outcome of asymmetrical access to advisory services and weakening of user accountability is in fact conflicting with the idea of NPM, which regards demand-side financing as a way of increasing accountability towards the clients. This undesired orientation is not going to

change easily because fairness in charging has so far been limited by the RAS' strong donor accountability focusing on cost-effectiveness and output, at the expense of user accountability.

### *New roles and functions*

In the RAS, the result-based payment system has been introduced in the post-soviet context of transition from traditional central planning 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). Thus, "it seems preferable to work on both institutional development and the creation of management capacity" (Dubois xxxx, 134).

Difficulties inherent in the transformation from traditional to market-type management have proved to be both, transitional and more fundamental. With the introduction of the result-based payment system, both types of capacity deficiencies within the RAS system had to be addressed as the management role of RAS under the result-based payment system required new professional skills. These skills are related to contract management, performance measurement and financial management together with an unaccustomed culture of 'organisational detachment'. While transitional capacity deficiencies within the RAS 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 the RAS organisational and individual behaviour.

## ***Indicators***

The NPM model asks for the measurement of performance and effects of activities; so does the result-based payment system. 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. With the introduction of the result-based payment system, 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. With the 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.

As NPM reforms previously have shown, it is difficult to define targets and indicators at outcome and impact level (Ritz and Sager, 2010; Sager *et al.*, 2010). The definition mainly fails for technical, political and financial reasons which apply to the result-based payment system application in the RAS in a comparable way: the indication of strategic directive is too unclear, and internal and external know-how and capacity (including financial capacity) is too limited in order to technically translate the result-based payment system 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 a fear of control, criticism and transparency is conflicting with the theoretical requirements of the result-based payment system (and NPM concept).

Experience of result-based payment system application in RAS shows that performance measurement proves particularly challenging when it is related to the definition of targets and indicators responsive to partners at all levels and to its verification with effective measurements. Still, the RAS' initial practice of consistent and systematic description of performance at output and result level contributed to significant improvement of operational management, field operations and verification of targets which in fact gives good reason for continued 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.

### ***Incentives***

The result-based payment system is based on targets and incentives to motivate RAS staff to improve the quality of advisory service delivery. As mentioned before, 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 (Schedler, 2010 #2612). In RAS, the incentive arrangements under the result-based payment system prominently address individual staff motivation to give impetus by means of external reward or sanction.

However, with its strong focus on individuals and monetary compensation, the incentive system increases external control which reduces the feeling of self-control and motivation for the activity as such (Frey, 1997; Frey and Jegen, 2001). Hence, with the strong focus on individual performance, the result-based payment system creates a situation of competition (and control) among RAS staff which is destructive to customer-focused collaboration. Unstable and uncertain conditions external to the RAS and limited (decreasing) finance intensify this trend.

In this situation, the expansion of incentive arrangements to the overall organisation could serve as a balance to give more prominence to the overall organisation in contrast to the individual. In this way, the result-based payment system would appear as a ‘strategy-oriented incentive system’ (Thom and Ritz, 2008) that recognizes and values individual performance contributing to the RAS’ organisational development and RAS sustainability in the wider context of overall strategies and policies of rural development.

## IMPLICATION AND CONCLUSION

By linking theory and practice, this paper has investigated and discussed the application of result-based payment systems in the Kyrgyz Rural Advisory Service. Against the background of a rich literature analysis and interviews as well as own field observations the Kyrgyz result-based payment system was evaluated along the core tendencies of public sector reforms in developing countries.

Before summarizing the results of this study the major limitations have to be discussed. First, the pre-ceding conclusions are based on the data base of one case study in one policy field in one developing country. Accordingly, caution must be used when generalizing the results. It cannot without further ado be assumed that similar reform efforts in other policy fields, like for example education or health services, or in other countries would be confronted with the same concrete issues as agricultural policies in an agricultural region where the relationship between advisors and service recipients is of highest importance due to the fact that there are no intermediate institutions. Therefore, a series of case studies including different levels of comparison would be an improvement and lead to a better theoretical understanding (Flick, 2009). Second, the research design of this case study is limited as its results are mainly based on the authors’ interpretation of documents, interviews and own observations. Although this

is not a restriction itself, the development of a priori template of codes based on theory and an ongoing coding and categorization process of the material with a systematic and more comprehensible deduction of findings would have increased internal validity ({Crabtree, 1999 #2232}).

This article shows that in line with Kyrgyz Government and donor agencies' policies and agendas it has been possible to introduce the result-based payment system in RAS in order to initiate a shift from the input-oriented budget system to the result-oriented mandate system. Undisputedly, the introduction of the result-based payment system in RAS happened in an environment of institutional uncertainty with the government being unclear about roles and functions of advisory service supply and deficient in converting required policies into appropriate executive action. Though the reorientation of RAS management had a positive effect on RAS organisational performance, it left the government in a weak position to adequately govern and manage arm-length relationship with RAS. The one sided reform of service supply directed RAS orientation towards the donors. This tendency has been reinforced with the introduction of demand-side financing because weak user-voice directed RAS accountability towards donors rather than towards service recipients. Such dysfunctional effects of weakening central government and attracting attention towards interest groups with negative impacts on the governance framework supports other findings reported by Fuhr ({, 2001 #2602}). However, the increase of RAS performance may represent an improvement, but without balancing economic rationality and equity issues and an equivalent strengthening in system of user accountability, inequity or "bad governance" is likely to grow.

Limiting elements of management capacity, behavioural change, and a tradition-rooted input focus on performance challenge the effective application of the result-based payment system in RAS. The result-based payment system proves particularly challenging when it comes to

defining targets and indicators responsive to partners at all levels and designing effectual incentive systems that value individual performance contributing to the RAS organisational development and sustainability. Against this background the reform experiences of RAS is comparable to other effects of NPM inspired public sector reforms in developing countries. Sarker ({, 2009 #2595}), for example, shows in his analysis that the introduction of market-based mechanisms in governmental organizations in Bangladesh did not prove to bring substantial changes regarding public accountability and people's participation in rural development programs. Due to missing capacity development a new bureaucracy evolved. However as also shown in this study, collaborative programs between government organizations and NGOs could help to improve program performance. Larbi ({, 2001 #2599}) reports from the water sector in Ghana that newly implemented performance contracts overstretched the planning and monitoring capacities due to missing qualifications of staff in central agencies like showed in the case of RAS. Thus, results-based payment systems can work in Swiss-Kyrgyz development cooperation, but changing roles and built-up capacities towards managing, measuring and enabling agricultural advisory service providers are an indispensable precondition.

Certainly, the main discernible advantage coming from the result-based payment system has been the improved efficiency and quality of advisory service. There have been important gains in the acquisition and productive use of resources (funds), mainly as a result of the exposure of RAS to a 'competitive' (donor) environment. As the result-based payment system has tended to focus on organizational structures and individual performance, it rather easily 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. In this context, however, the result-based payment system can provide these efficiency gains only under

certain preconditions: there must be solid organisational capacity for contract management, performance measurement and financial management. Yet, these conditions are least likely to pertain in the context of donor competition, weak private sector capacity and where administrative and human resource management capacity is weak. As shown by the study about development cooperation in Mozambique from Wuyts ({, 1996 #2596}) the competitive donor environment and often frenetic donor activities can overload government capacities and the proliferation of projects undermines the coherence of government. Policy makers, reformers and advisors need to consider this point and carefully assess their own contexts and thereby establish realistic and capacity-/need-based funding mechanisms that could come up to people's capacities and expectations. Therefore, the result-based payment system should be developed progressively, focusing not primarily on special management mechanisms, but more on long-term capacity development in the sense meta-competencies. At the same time, results that can be specified and measured easily and taking multi-level requirements into account are necessary in order to perform its benefits, say the overall reform and development goals.

What does this mean for the actual practice of public sector reforms in development cooperation and what can we learn from this study? In distinctively different economic, social and political circumstances and considerable variation in cultural terms when compared to developed countries, policy makers, reformers and advisors need to examine their ways of articulating and designing administrative reform practices. They need to consider that transferring models like the result-based payment system to the context of developing countries implies a double transfer from developed to developing countries and across the public-private boundaries. However, developing countries may benefit from western public sector reform initiatives, critically analyse their potential benefits and adverse outcomes, and selectively use and adopt components that fit to the local context. From this study we can draw the following les-



sons regarding the transfer of reform policies such as result-based payment systems to Kyrgyz agricultural sector policy: First, .....

Finally, the observations and claims made in this article suggest further research directions for those interested in understanding the effects of public management reforms in development cooperation. XXXXXXX possible and potentially overlapping research suggestions will be discussed: In this study several problems related to the implementation of NPM reforms in development cooperation are described. Although some of these problems may exist due to the intractability of implementing public management mechanisms in developing countries it is of great interest to know more about the exact circumstances for this intractability. Further research should analyze in-depth the institutional constraints when introducing market-centred mechanisms in post-soviet countries. On the one hand, a historical approach investigating the effects and the extent of formal, bureaucratic capacities versus informal rules as institutional constraints within Kyrgyz' RAS could lead to further insights why these reforms cannot prove the expected results and follow many reform failures in developing countries ({Polidano, 1998 #2597}). On the other hand, a behavioural-cultural approach for the analysis of individual attitudes and cultural fit at different levels of the RAS framework in promoting or resisting market-type mechanisms would shed more light on the issue which might differ between environments of different politico-administrative cultures (see also {Mendonca, 1996 #2598}; {Collier, 2004 #2601}).

Furthermore, we recommend for future research to investigate decentralization in development cooperation as an agricultural policy reform impacting the lives of ordinary citizens. While in this study the research framework encompassed actors from central government agency to peasant farmers and showed some unexpected effects in the sense that accountabil-

ity of RAS rather directed towards the donor than towards the client farmers, the impact of reforms on customers and dependents of peasant farmers should be analyzed more in-depth. If government should be brought closer to the people through NPM inspired reform efforts, than benefits like, for example, decreasing costs or increased quality of goods and services, should result for those stakeholders.

Furthermore, development cooperation and program funding creates pressure on state government due to its “power of the purse”. Objections to donor-financed initiatives are often seen as blocking aid for the areas of interest ({Hirschmann, 1993 #2600}) and, thus, subnational governments attract foreign investments which give power to them against central government. It is of interest to know more about the redefinition and changes of state tasks at different government levels and within the legal framework over time due to donor pressure. For example, in Kyrgyz agricultural policy.....

## FIGURES AND TABLES

Table 1: Core tendencies of NPM reforms in developing countries

Core Reform Tendencies	Themes	Elements
<b>Organisational Restructuring</b>	Decentralisation  Capacity Building	Corporatisation, agencies  Devolution of resources, operational decisions  Skill development
<b>Market-type mechanisms</b>	Competition	Regulation, de-regulation  Privatization, PPP, contracting out  Retrenchment (downsizing)  Customer orientation  Charging for services (user fees)
<b>Emphasis on performance and ethics</b>	Result-oriented and performance management  Good governance  Anti-corruption measures	Output-oriented and performance budgeting  Output-oriented and performance indicators  Monitoring and evaluation  Citizen involvement in decision (participation)  Revenue authorities  Public complaint facilities  Anti-corruption commissions

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<sup>1</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 and education. Furthermore, agriculture and industry are sectors with relatively little political sensitivity and welfare considerations; hence there is less reluctance to change.

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<sup>2</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>3</sup> The population of the Kyrgyz Republic is estimated to amount 5,2 Mio (2008) of which around 50 percent is employed in agriculture (The World Bank, 2010).

<sup>4</sup> 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 include the 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 (Anderson and Swinnen, 2008; SDC/SECO, 2007; Kyrgyz Republic/IMF, 2004; SECO, 2003).

<sup>5</sup> See: [http://www.swisscoop.kg/Home/Activities\\_in\\_Kyrgyzstan/Agriculture](http://www.swisscoop.kg/Home/Activities_in_Kyrgyzstan/Agriculture).

<sup>6</sup> Before reforms were initiated in the nineties, the provision of advisory services was based on free access and direct state subsidies (See [http://www.swisscoop.kg/Home/Activities\\_in\\_Kyrgyzstan/Agriculture](http://www.swisscoop.kg/Home/Activities_in_Kyrgyzstan/Agriculture)).