

Performance Evaluation of Government in New Zealand

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New Zealand is the first country that comes to mind whenever reference is made to performance evaluation of core government activities. It has become the most celebrated benchmark for judging reforms to improve performance in core government administration. Not only are the reforms in New Zealand impressive for their scope and depth of coverage, they are also notable for the boldness and swiftness with which they were executed.

The first section of this chapter provides a brief background of the introduction of the New Zealand reforms. The second section describes the methodology used for conducting performance evaluation of core government administration in New Zealand. Before moving to the relevance of this experience for developing countries in Section IV, Section III takes a critical look at New Zealand's evaluation system in light of the theory of performance evaluation developed in earlier chapters.

I. Background

Performance evaluation of core administration is only one aspect of the overall reform of government machinery in New Zealand. However, it is one of the reform's most important elements and has provided the necessary impetus for all other aspects. It is easy to see why this is the case. The ultimate goal of the reform was to improve performance in core government administration. To achieve this, it was necessary to define the term *performance* and devise a system to determine whether performance was improving or deteriorating.

The motivation for reform can be traced to two main sources. First, the new Labor government that came to power after nine years realized that the existing government machinery and the managerial system would be slow to respond to new policy priorities. Second, the enormous improvements in efficiency and quality of service that resulted from the transformation of commercial activities of the government departments following the enactment of State-Owned Enterprise Act in 1986 led advisors to search for a framework that would bring analogous incentives for efficiency to the activities of other government entities and departments.

A. Problems with the Old System

Before turning to a description of the New Zealand reforms, it is useful to note the prevailing problems of the core government administration at the time reforms were introduced. These problems are wonderfully transcendental; they exist in most governmental systems around the world. For example:

- The objectives of government departments were not clearly specified.
- The respective responsibilities of politicians and civil servants were confused, so that lines of accountability and responsibility were never clear. There were few sanctions for poor performance. The system was designed for micro-management and control of inputs rather than performance in the production of effective public services.
- The control systems administered by central agencies curtailed freedom to manage effectively, leading to poor central decision making about matters that could have been managed more efficiently in a decentralized way. These control systems generally destroyed incentive to perform.
- The structures of the government departments lacked focus and grouped functions in ways that undermined performance. Information was suppressed, and cross-subsidies between different activities were concealed—in some cases deliberately, but in most simply as a consequence of the system. There were conflicts of interest—for example, departments giving advice about the regulation of activities in which they were directly involved—and this lack of focus in structures weakened incentives to perform effectively.
- Accounting systems did not measure total resource use and thus created incentives for poor resource use.
- Ministers made detailed decisions about the internal management of departments for which they did not have adequate knowledge and suitable incentives.

While these problems can be found in almost any conventional bureaucracy in the world, the response of the reformers in New Zealand was radically different from the traditional approaches to civil service reform.

B. Structure of the New System

To deal with the problems just outlined, the government of New Zealand passed legislation that provided a new management framework for its departments and other non-commercial government-controlled entities. The new system entailed:

- clarification of strategic and operational objectives;
- clear specification of the roles of the parties in organizational governance;
- resources allocated on the basis of the results being sought;
- decentralization of management authority with accountability for results;
- incentives for performance; and
- information about results achieved and the condition of the organization.

The State Sector Act passed in 1988 provided for the departments to be headed by chief executives, in place of former Permanent Secretaries, and clarified the roles and responsibilities of ministers and chief executives. It led to the development of annual Performance Agreements between ministers and the chief executives. These Performance Agreements specify what is to be delivered and expectations of quality and cost.

The Public Finance Act of 1989 removed many input controls on chief executives and further developed the concept of performance by changing the basis of appropriation from inputs to outputs.

It is the formal responsibility of the ministers to determine which outcomes the government wishes to seek. The government then selects the outputs it considers will best meet outcomes and allocates resources to them. Chief executives are accountable for outputs as well as being fully responsible for the appointment and employment conditions of their staff. Previously all staff were employed by the State Services Commission, but now the chief executives have the power to hire and fire, set salaries, and negotiate conditions of employment.

II. Performance Evaluation Methodology

The previous section outlined the reasons for and broad contours of the reform of New Zealand's core government management framework. It is clear that performance evaluation is at the heart of the reform efforts in New Zealand's state sector. This section focuses on the details of this important aspect of the reform, taking an in-depth look at the methodology for performance evaluation.

A. Who Is Evaluated?

Before examining the methodology, we need to ask whose performance is being evaluated: the government department, the concerned minister, or the department's chief executive? Under the current system in New Zealand, the focus of evaluation is on chief executive's performance. The performance of the government ministers is expected to be judged at the polls with reference to the promises made in their party platform. Since the chief executive is fully accountable for the performance of his or her department, the department's performance is subsumed under the performance of the chief executive. If the chief executive does a good job, the department will do as well as possible under the current constraints. This is the distinction made earlier in Chapter 2 between *Managerial Performance* and *Agency Performance*:

$$\text{Agency Performance} \equiv \text{Managerial Performance} \pm \text{Exogenous Factors}$$

If resources are limited, the chief executive cannot be expected to perform miracles in terms of Agency (or departmental) Performance. Rather, it is expected that the chief executive will deliver the maximum bang for the bucks allocated to his or her Agency. Thus, the chief executive of a government department is the focus of the performance evaluation exercise in New Zealand.

B. What Is Evaluated?

Chief executives of various departments are evaluated for delivering pre-agreed results and for their leadership and other behavioral qualities. Table 8.1 summarizes the areas in which a chief executive's performance is evaluated:

Table 8.1: Elements of a Chief Executive's Performance Evaluation

PERFORMANCE AREA	PERFORMANCE ELEMENT	DESCRIPTION OF MEASURE
Results	1. Strategic Priorities	Results are achieved in areas of strategic priority for the Government and the department.
	2. Ownership Interest	The department's capability is maximized to meet current and future demands efficiently and effectively.
	3. Output Delivery	The department's agreed outputs are delivered.
Behaviors	4. Relationship with Minister(s)	The Chief Executive maintains professional, productive and effective working relationship(s).
	5. Leadership	The Chief Executive demonstrates strategic thinking and maintains effective communications and relationships.
	6. Promotion of the collective interest of the Government	The Chief Executive behaves in ways that contribute to the wider interests of government.

While the performance elements listed under Behavior are self-explanatory, some elaboration on the strategic priorities and ownership interest may be useful.

Strategic Priorities:

Strategic Result Areas (SRAs) for New Zealand's public sector were first developed for 1994/1995 through a process coordinated by the Department of the Prime Minister and Cabinet. They set the medium-term priorities for the public service as a whole and provide a mechanism for linking the government's broad strategic goals with departmental planning within the limits implied by the assumptions of resource availability contained in the Budget Policy Statement.

After analyzing the strategic context within which the department operates as well as the SRAs, chief executives work with their ministers to identify the major contributions they and their departments will make to the government's medium-term objectives over a three-year period. These contributions are described as Key Results Areas (KRAs) in performance agreements and are expected to command "considerable" attention from the chief executive. The purpose of SRAs is to focus departments upon a small number of result areas that will be instrumental in giving the

greatest effect to the Government's objectives.

Given that SRAs are a selective set of major cross-sectoral results for realizing the Government's vision, not all departments are expected to be lead contributors to SRAs. Thus, while KRAs need not necessarily contribute to any specific SRA, the KRAs for each department are expected to be, at the very least, consistent with Government's SRAs.

For chief executives whose business does not relate directly to SRAs, the emphasis in KRA selection is given to activities that are critical to the medium term operational effectiveness and future capability of their departments, consistent with the Minister's priorities and departmental strategy.

Ownership Interest

New Zealand also distinguishes two distinct types of interests of government in the performance of its organizations. The purchase interest is reflected in purchase agreements and deals with the output delivery by the department. The ownership interest is reflected in the performance agreement.

The ownership interest reflects the government's desire to ensure that its departments serve its priorities, that they abide by the collective obligations and standards of management and behavior, and that they are capable of meeting future demands reliably and cost effectively.

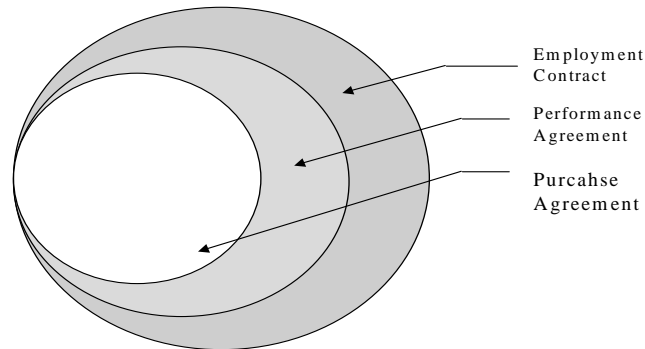
The core responsibility of chief executives are outlined in the State Sector Act (1988) and the Public Finance Act (1989). Taken together, they form a responsibility to exercise prudent management of a department and its resources. Prudent management of a department requires the four dimensions of the ownership interest to be addressed, i.e.:

- **Strategic Alignment** means that strategic thinking and management within and across departments is defined by a common understanding of the Government's priorities. This will ensure that departments apply their resources effectively to these priorities.
- **Integrity of the Public Service and Commitment to the Collective Interest** means that departments reinforce important public service values through their behavior and performance, and through following sound public management practices.
- **Future capability** means that departments can respond effectively to ongoing and future requirements of government, and to changes in their operating environment.
- **Long-run cost effectiveness** means that departments operate cost effectively over time. Cost effective operations require that departments produce specified outputs at the lowest price consistent with maintaining long-term viability and ensuring value to the nation from the resources consumed.

c. What Instruments are used for Evaluation

Figure 8.1: Relationship between Instruments of Evaluation

Instruments for Evaluating Chief Executive's Performance



Chief executives's performance is evaluated with reference to three instruments. Figure 8.1 depicts the relationship between the three instruments. These instruments are part of an integrated system of accountability. The Employment Contract includes a commitment for drawing up an annual Performance Agreement which, in turn, includes that year's Purchase Agreement. In what follows, each instrument is described in detail.

1. Employment Contract

Employment Contract is for five years with a possibility of extension based on performance. It also enumerates the possibility of receiving performance bonuses for performance above expectations, or of being criticized or dismissed for performance below expectations. As a condition of employment, chief executives are required to sign an annual Performance Agreement against which the State Services Commissioner evaluates their performance.

The contract of employment of the chief executive is a formal legal contract subject to normal provisions of New Zealand's labor and contract laws. The essential principles underlying these laws are concerned with equity and due process.

2. Performance Agreement

Each chief executive is required to complete an annual performance agreement with his/her responsible minister. The purpose of the performance agreement is to assist the chief executive to achieve the responsible minister's and Government's objectives by defining what the minister expects from the chief executive. It provides a basis for specification and the appraisal of chief executives performance in terms of the Key Result Areas (KRAs). A copy of the 1998/1999 Chief Executive's Performance Agreement Proforma is enclosed at Annex 1.

3. Purchase Agreement

The annual purchase agreement between the minister and the chief executive sets out the outputs to be delivered by the department or government agency. The purpose of this agreement is to allow the minister to:

- determine which outputs to purchase;
- agree to appropriate cost, quantity and quality standards for desired outputs;
- make comparisons with other providers where possible;
- hold provider accountable for delivery of the specified output.

In addition to the outputs that will be purchased by the minister, the document sets out the terms and conditions surrounding the purchase, such as procedures for monitoring, amending and reporting. A copy of the Purchase Agreement Proforma is enclosed at Annex 2.

d. What is the Typical Process for the Annual Evaluation Cycle

The best way to understand the process and the timetable for the performance agreements is to look at the actual timetable for one specific year (1998/99):

- Step 1 By November 26, 1997: The Responsible Minister (in consultation with portfolio colleagues and the chief executive will have considered the strategic result area, the result of the Prime House meeting, budgetary issues and the ownership interest of Government, the prepared provisional change to key result areas for the 1998/99 financial year, and referred them to the State Services Commissioner.
- Step 2 By December 19, 1997: The Commissioner will have reviewed the provisional key result areas in consultation with the chief executive of the Department of the Prime Minister and Cabinet and the Treasury and, where necessary, referred back to the chief executive with suggested amendments for discussion with the Minister.
- Step 3 By February 27, 1998: Key result areas will have revised, (where required), and their

associated milestones established. Draft performance agreement will have been prepared, and forwarded to the State Services Commissioner for review by the commissioner and the chief executive of the Department of the Prime Minister and Cabinet and the Treasury.

- Step 4 By May 29, 1998: The Responsible Minister and the chief executive will have been advised of further action on amendment (if any) proposed on the performance agreement. The State Services Commission will require signed purchase agreements to be available before Step 6 below.
- Step 5 Prior to the commencement of the 1998/99 financial year, the Treasury and the State Services Commission will have issued Expectation Letters outlining the approach to be taken to departmental performance monitoring.
- Step 6 By June 30, 1998: All performance agreements will have been signed by the Responsible Minister and the chief executive and forwarded by the chief executive to the commissioner.
- Step 7 By January 28, 1999: Chief executive will have prepared a report to the Responsible Minister on the department's performance for the six months to 31 December 1998, and forwarded a copy of this report to the State Services Commission.
- Step 8 By July 28, 1999: Chief executive will have prepared a report to the Responsible Minister on the department's performance for the full year to 30 June 1999, and forwarded a copy of this report to the State Services Commission.

Where this timetable cannot be met, the chief executive concerned is expected to notify the State Services Commissioner. Any changes made to KRAs and current year's milestones need to be agreed with the Minister, in advance. The Commissioner must be advised, in writing, of any changes to KRAs or milestones which may be agreed between the Minister and the chief executive.

III. Critique of the Performance Evaluation System

Most observers would quickly agree that the public sector reforms in New Zealand are by far the boldest attempt to reform the government machinery in modern times. The comprehensiveness of the coverage and the political will to implement theoretically "first-best" solutions is indeed awe inspiring. However, no system can claim to be perfect and the protagonists for the New Zealand's reform are first to acknowledge that. The purpose of this section is to focus on areas of improvement in the seemingly robust performance evaluation system within the government without diminishing the enormous achievements of New Zealand in this and other areas of public sector reform.

a. Strengths of the System

However, to put the weaknesses of the current system in proper perspective, it is useful to recapitulate the strengths of the system.

(i) Consistency with Management Theories on Performance Improvement

In Chapter 3 it was pointed out that performance improvement requires simultaneous development of the following three systems: (1) Performance Information System; (2) Performance Evaluation System and (3) Performance Incentive System. It is to the credit of New Zealand that it has focused on all three systems. The following table shows the primary instruments for each system:

Table 8.2: Components of the Performance Improvement System

Performance Information System	Accrual Accounting
Performance Evaluation System	Performance Agreement Purchase Agreement Expectation Letters
Performance incentive System	Employment Contract of the Chief Executive

To our knowledge, no other country has managed to implement all three elements of the performance improvement system to the same degree as New Zealand . In previous sections, evaluation and incentive systems in New Zealand have been discussed in some detail. However, little has been said about the application of the accrual accounting system in the government, which is among the most innovative and difficult aspect of the reform.

The objective of accrual accounting is to ensure that the accounts for any one period of time accurately represent the total resource flows in the period. The accounts should not be distorted from year to year due to changes in outstanding debtors, creditors, unusual payments and receipts from asset acquisition and disposal—thus avoiding distortions in picture of underlying resource usage that cash accounts can produce.

Accrual accounting also captures information faster than cash accounting by taking account of commitments for the future that have been entered into, but for which no cash payment has occurred.

(ii). Emphasis on Ex Ante Performance Specification

The typical government monitoring in most countries emphasizes ex post evaluation. In many cases, government programs are evaluated after they are completed. Experience shows that this kind of performance evaluation is far less effective than the one in which evaluation emphasizes ex ante specification of performance parameter. New Zealand’s system consciously focussed on the ex ante specification of performance and this principle, in turn, became a determining factor for the

design of all other elements of the performance management system in the government, including performance agreements, departmental corporate plans, appropriations and ex post financial reporting. Adherence to this principle resulted in various elements of the performance management system reinforcing one another.

(iii) Shift from Controlling Inputs to Controlling Outputs

The old system in New Zealand consisted of detailed instruction issued by the Treasury that controlled all departmental spending on a line-item basis and allowed very little discretion to managers to vary their input mix. In addition, all investments, down to quite modest sums were required to be approved by the Cabinet.

The new system changed all that. Managers were freed from many of these procedural control for a greater accountability with regard to results. Further, “results” were defined as “outputs” and not “outcomes.” Outputs are the goods and services produced by departments. Outcomes are the consequences for the public resulting from the output and activities of government. While no doubt the purpose of government activity is to produce desired outcomes, the reason for the focus on outputs rather than outcomes was that outputs are a more objective basis for accountability: delivery of services can be more directly attributed to chief executives than can ultimate consequences of that service delivery. In doing so the system devised was not only more efficient but also perceived to be “fair” to both parties.

(iv) Fully Integrated System of Accountability

In the New Zealand system the performance agreements of the chief executives are linked to the strategic goals of the government. This ensures that chief executives working in their own self interest promote the larger public interest. In turn, chief executives are given full freedom to hold their subordinates accountable for helping the former achieve their commitments listed in annual performance agreements. Thus accountability for results-oriented performance trickles down all the way in the hierarchy of the department and each level is aligned to achieve the common goal.

(v). Covers all Aspects of Performance

Another unique feature of the New Zealand’s performance evaluation system is its emphasis on comprehensiveness—if it is desirable it is considered worth measuring. The system evaluates the performance of the chief executives in delivering results as well as with respect to their behavioral qualities.

b. Weaknesses of the System

The robust system described above appears hard to improve upon. Yet, there is a fundamental way in which this system deviates from an important principle of performance evaluation. The system still involves a great deal of subjectivity and personal judgements of the evaluator can still make a big difference.

Subjectivity can be of two types. It can be either explicit or implicit. Explicit subjectivity refers to a case where the two parties to a performance contract agree that a particular aspect of performance is inherently subjective in nature and given this constraint one will have to lay down as clear a procedure or set of norms to assist in the evaluation of this particular aspect of performance at the end of the year. For example, performance criteria dealing with behavioral aspects of performance are most likely to fall under this category. There is not much one can do except to take great care in ex ante specification of procedure and protocol for evaluating these inherently subjective performance criteria.

The real problem arises in dealing with implicit subjectivity. This is the unplanned type of subjectivity that creeps into the system and vitiates the entire system. In the language of this book, the New Zealand's system suffers from implicit subjectivity due to its failure to incorporate criterion weights and criterion values.

(i). Lack of Prioritization of Performance Criteria

As mentioned in the previous section, the performance evaluation system for chief executives in New Zealand is more comprehensive than other similar systems. However, the care in specifying performance criteria is not matched by the clarity regarding the relative importance in the whole scheme of things. From a reading of performance agreements it is not clear whether the relative weight of behavior-related performance criteria is as much as that of the result-oriented performance criteria. Further, the relative importance of each of the output categories in the purchase agreements is also not clear.

It would be wrong to assume that the designers of these performance agreements consider all criteria to be equally important. This would not only be simplistic and mechanistic but also inconsistent with the realities of management. In the absence of any explicit guidance, each chief executive has to implicitly assume the relative priorities for all the tasks expected from him or her. This should be fine, if these assumptions match those of the evaluators at the end of the evaluation cycle. But in the absence of such a fortuitous coincidence, the inherent subjectivity could wipe out all the benefits derived from a meticulous specification of performance criteria.

As an example consider the following version of Table 8.1 given in Table 8.3 below. The hypothetical weights assigned for illustration to each of the results area give a much clearer picture of what is expected from a chief executive. These weights could (and should) be different for each department as well as they could change overtime to reflect contemporary priorities of the government.

Table 8.3: Criterion Weight for Elements of Performance Evaluation

PERFORMANCE	PERFORMANCE ELEMENT	CRITERION
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AREA		
Results	1. Strategic Priorities	.20
	2. Ownership Interest	.10
	3. Output Delivery	.40
Behaviors	4. Relationship with Minister(s)	.10
	5. Leadership	.10
	6. Promotion of the collective interest of the Government	.10
Total		1.00

(ii). Lack of Clarity in Evaluating Deviations from Agreed Targets

It may not have perfected it but there is no question that New Zealand has done more than most countries in establishing appropriate targets and milestones for various performance criteria. They have complemented performance agreement exercise with the design of an effective performance information system. This information system grounded in generally accepted principles of accrual accounting provides timely and accurate information for fixing physical and financial targets. In addition, there is a great deal of shared understanding on the best practice methods for establishing performance targets. All this is necessary and desirable.

However, this rigor is nullified by a lack of clarity on how much deviation from targets is acceptable and how various levels of performance are related to the incentive system. This is a judgement that is left to the State Service Commission.

How Serious are these Flaws in the Evaluation System?

These are serious flaws. They prevent objective evaluation by increasing the noise created by the implicit subjectivity. Having said that, it is important to explain how the New Zealand system has worked so well in spite of these methodological deficiencies.

Part of the answer lies in the dynamics of implementing evaluation methodologies and the importance of context in which it is implemented. Irrespective of the methodological soundness of the system, whenever a new evaluation system is put in place it has an “audit effect” on the organization covered by this system. In the short run, often various actors in the organization may not even know exactly what this system will measure. Yet they shape up their performance as an insurance against unexpected and also to buy time to figure out ways of dealing with the new system. Thus, even a somewhat flawed system can result in immediate benefits.

The audit effect also provides the designers of this system time to fine-tune the evaluation system and improve it before this effect wears out. If the designers manage to close the loop holes, they can minimize the cost of these flaws and make the system effective in the medium and long term. However good a system one may design, in the long run it begins to atrophy as the players (agents) discover ways to beat the system. It is for this reason, all evaluation systems have to be redesigned from time-to-time, to shake off the lethargy and create a new cycle of audit effect.

This evaluation dynamics can surely explain part of the success of the New Zealand experience. The system in New Zealand was not created as a perfect system but has evolved over time. For example, as a first step, in 1989/90 it was decided to simply present in the new output format the activities that were currently being funded. This was followed by the introduction of performance agreements and accrual accounting. Thus, the evaluation and accountability system was being improved constantly. This created a continuous stream of benefits resulting from the recurring audit effect.

Part of the credit for the success of the performance management framework in the government has to go to contextual factors specific to New Zealand. These factors would include the existence of a small, well-knit community of high-calibre senior managers in the government, a highly literate population and a national consensus for rapid change. This is not a comment made as a catch all, convenient argument to explain the huge success of a methodologically flawed system. There are precedents for this type of success.

The intellectual roots of the New Zealand's performance agreements can be traced to the French policy of Contract du Plan in the mid sixties. The French policy was aimed at simultaneously bringing greater accountability and autonomy to French public enterprises. The concept was sound and successfully implemented in several French public enterprises and even to this day continues to enjoy a sound reputation in France. The French system of Contrat du Plan was in many ways similar to performance agreements in New Zealand. And, just like performance agreements, the concept of Program du Contrat suffered from the two major flaws noted above—absence of criterion weights and criterion values. Yet it worked well in France because of the quality of their civil servants who have all gone to the same set of elite schools and form a proud and tightly-knit community of professionals. In addition, the French justice system and the legendary Court de Comps (Auditor General) played their role in compensating for the methodological lapses.

How can one be sure of the above assertion regarding the ability of the strong institutional system in the government to overcome methodological flaws? The answer to this can be found by comparing the experience of Contract du Plan type approaches in countries which did not have strong institutional backing. The most well documented case is that of India. Following the French model, the Indian government entered into eleven MOUs (Memorandum of Understanding)—a type of performance contract— with their large public enterprises. At the end of the fiscal year, the then Prime Minister, Rajiv Gandhi, asked the concerned official for the results of the evaluation. In particular Mr. Gandhi was interested in finding out the ranking (best and the worst performers). Unfortunately, he was told that it was impossible to do so. The responsible officials said that the best they could do was to give him a description of the performance of these public enterprises with

respect to the agreed targets. This was the turning point in the MOU policy in India. From next year onwards, MOUs were required to give relative weights and criterion values for each of the targets. This allowed the Indian government to calculate a weighted performance index and rank their public enterprises. The latter approach of the Indian government was based on the successful application of this methodology in Korea.

Thus, I believe that serious as some of the methodological flaws are in the case of New Zealand, they have been more than overcome in the short run by the momentum generated by the audit effect and the existence of a strong institutional support including competent civil servants. However, there is no question that for the system to continue to prosper, New Zealand will have to correct these methodological flaws. Other countries looking for successful models will do well to correct these flaws. This is particularly true for many developing nations that do not have some of the institutional preconditions. More on this in the next section.

IV. Lessons for Developing Countries

This is a subject on which much has been written and my purpose is not to summarize the eloquently written material which is easily available elsewhere. Rather, I want to focus on what I believe are the chief objections to the relevance of New Zealand's experience to developing countries.

Skeptics argue that New Zealand's socio-economic context is very different from that of the developing countries. This is an argument that is generally offered by people to explain why a seemingly reasonable action is not being undertaken in their own country. It is also offered to highlight the differences rather than the similarities. Unfortunately, there are several problems with this line of reasoning.

First, it is interesting to note that when the new system was being designed and implemented, similar arguments were offered within the country by those who were opposed to the proposed changes in New Zealand. Thus, a lot of opposition comes from the fear of change and this is true when implementing public policies in most areas. This is the reason why similar arguments are also made against change in developed countries. Many developed countries also argue that New Zealand's experience is difficult to emulate.

Second, skeptics often tend to make broad generalization regarding the relevance of the New Zealand's system. This implies that either we adopt the entire package or we will not succeed. This is again a misreading of the way reform took place in New Zealand. It is true that New Zealand's reforms are comprehensive but this did not happen overnight. For example, the accountability in core government was introduced once the government appeared to be getting positive results from the reform in the state-owned enterprises. Indeed, the policy of "statement of intent" in state-owned enterprises was a precursor to "performance agreements" in the core government.

A more appropriate question ought to focus on those aspects of the reform that are relevant to developing nations. After all, in all developing nations, at least in theory, the performance of

government officials and departments is evaluated. No country will say that the framers of their constitution and system of government were not aware of this possibility. The only issue is to do what most governments already do in the technically best possible manner. That is, we must ask whether governments are they evaluating performance in the technically correct way. Like other field, the science of public administration has developed exponentially and opportunities for reform have expanded. Only a few years back, the system in New Zealand was not very different than the system in many developing countries. Thus, I believe any developing nation interested in improving the effectiveness of government machinery can learn valuable and relevant lessons from New Zealand's experience.

Consider an example of the above proposition. Will it be too much to ask the government officials responsible for managing a department to report their achievements to their relevant ministers in the form of outputs rather than in terms of the money spent? Is this element of reform culturally so far-fetched that it is difficult to implement in developing countries? I do not think so. After all, citizens in most developing countries are used to buying their daily necessities in the market. Everyday they pay money to businessmen and ask them to deliver well specified products. In fact, I would go further and argue that this type of reform would make a lot more sense to most citizens in most countries than the current practice.

Lessons regarding sequencing of reforms, is among the most important lessons from the New Zealand experience. In New Zealand the attempt was to focus attention on the accountability of the top management. Thus, performance agreements and purchase agreements deal with the performance of the chief executives of government departments. The logic for this was the assumption that if you hold the chief executives accountable for results, then they would in turn hold others under them accountable. This would lead to trickling down of a culture of accountability all the way to the lowest levels in the government. This is particularly important for developing nations because they have limited resources and can not afford action on all fronts. Sadly, developing nations have tried in vain the traditional approaches to civil service reforms and wasted their limited resources in unsuccessful micro-managing all aspect of the government machinery. It is time for the developing nations to seriously examine and adapt some of the successful elements of the New Zealand experience.