A LEARNING OF NEW ZEALAND: A STEP TOWARD GOOD GOVERNANCE FOR INDONESIA

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Abstract

A number of public finance management reforms over the last several decades have served to improve governance in Indonesia. In too many cases, however, reform measures have failed to realize their full potential. Certainly the need for fundamental change was widely accepted. Indonesia has been examining major public finance reform initiatives in a number of jurisdictions that are relevant to Indonesia, with a view to fostering improvements in governance. Our examination of reforms in New Zealand encompassed an extensive review of the literatures. From the New Zealand's experience, it will be an input for implementing good governance in Indonesia.

Keywords: *New Zealand, Good Governance, Benchmark*

Abstrak

Beberapa pengalaman reformasi manajemen keuangan publik selama beberapa dekade terakhir telah membantu peningkatan tata pemerintahan di Indonesia. Dalam banyak kasus, langkah-langkah reformasi telah gagal dalam merealisasikan kemampuannya. Tentu saja kebutuhan akan perubahan yang mendasar telah diterima secara luas. Indonesia telah melakukan beberapa penyesuaian terkait dengan reformasi keuangan terutama pada yurisdiksi yang relevan dengan kondisi di Indonesia, dengan maksud untuk mendorong perbaikan tata kelola. Pengamatan kami terhadap reformasi di Selandia Baru mencakup tinjauan ekstensif dari literatur. Pengalaman tersebut tentunya akan menjadi masukan untuk menerapkan good governance di Indonesia.

Kata kunci: *Selandia Baru, Tata Kelola Pemerintahan, Standar*

INTRODUCTION

In recent years, Indonesia has been examining major public finance reform initiatives in a number of jurisdictions that are relevant to Indonesia, with a view to fostering improvements in governance.

This article focuses on reform of the core public finance in New Zealand. It examines the principal stages of a decade of reforms, including public financial management, the fundamental changes in the approach to management and accountability and more recent initiatives which perpetuate and consolidate those reforms. Our examination of reforms in New Zealand encompassed an extensive review of the literatures. Quotations from these sources are presented throughout this article.

The article begins with an outline of the context of public finance reform: the institutional setting and the significant changes in New Zealand following an economic crisis in 1984. It then examines the various phases of reform, attempting to explain their origins and evolution and assessing progress to date. It concludes with a discussion of matters which, in our view, are of particular relevance to the government ofIndonesia .

An Importance of Benchmark

A benchmark is a: (1) A methodical study; (2) A discovery process, (3) An improvement method; (4) A learning opportunity; (5) A management commitment, (6) A tool used to identify, establish, and achieve standards of excellence; (7) A continuous process.

The aim of benchmarking is to compare the performance of the companies against each other, to identify which companies that operate the most efficient and give a ranking of the remaining companies referred the efficient ones. Why do you benchmark? The reason are: (1) Satisfy customers' needs and expectations; (2) Adapt "Best Practices"; (3) Develop and stimulate strategic planning; (4) Encourage creative thinking - getting out of the box, (5) Achieve superior performance; (6) Accelerate process improvement; (7) Review/study competitive comparisons; (8) Discover emerging technologies.

The entities can do a benchmark when: (1) Management is looking for a change; (2) The organization is implementing a new process; (3) The dynamics of industry is changing; (4) The organization is striving for performance excellence using continuous improvement; (5) A change is required in processes, products, or services; (6) The organization needs to reinvent itself in order to survive.

New Zealand Model in Public Finance

The New Zealand reforms were directly stimulated by economic and fiscal conditions. A fiscal crisis in 1984 involving a stagnant economy, high national debt, 20% devaluation and an exchange rate crisis led to a search for ways to reduce public spending. An attempt by ministers in 1985 and 1986 to scrutinize spending highlighted the poor information base for decision-making and the perverse incentives for heads of departments. Criticisms of the prevailing arrangements included concern that the input based information system was largely useless for making effective decisions, and that incentives encouraged managers to protect and expand resources.

Input controls restricted managerial discretions required to improve performance and also provided a place to lay blame for poor performance. Agencies faced conflicting objectives, roles and responsibilities that made it difficult to hold them accountable for the achievement of any objectives, for example, commercial and non-commercial functions were often placed together. Staff quality was variable, and restrictive employment conditions out of step with private sector conditions favored inside appointments and made the public service unattractive.

At the same time, public sector employment arrangements encouraged costly wage settlements. Not all the problems were seen as bureaucratic. Ministers saw the budget as a game where the winner extracted the greatest increase in resources (Scott and McKenzie, 2001).

Overall, government was an inefficient and sometimes ineffective supplier of many goods and services that were considered better provided by the private sector such as telecommunications, railways, airline services, construction, farming and forestry.

The sequence of reforms

Sequencing was determined by fiscal aims and attention was paid to the areas of largest gain. As the reforms provided managers with freedom to manage in return for accountabilities under the Public Finance Act, the timing of the employment reforms and the finance reforms was necessarily closely related.

These internal reforms were accompanied by other, external changes. The Official Information Act 1982 increased the availability of information held by public sector organizations. It has been widely used by the opposition, media, interest groups and the public to obtain information on performance and other matters. The increasing use of judicial review through the courts has placed decisions taken by government under a spotlight. Public organizations are more aware of need to follow good processes in making decisions. Increasing demands for participation in government decision-making by Maori people has led to greater consultation requirements.

AN ECONOMY AND SOCIETY IN TRANSFORMATION

About the Country and Its People

New Zealand is an island nation in the South Pacific, roughly the size of the United Kingdom in area but sparsely populated, with 3.5 million people, and geographically remote from other countries (Australia lie almost 2,000 kilometers to the west, across the Tasman Sea).

The two major islands are North Island and South Island, stretching some 1,700 kilometers in combined length, but narrow across - no locality is more than 110 kilometers from the sea. The climate is temperate, and much of the terrain is mountainous, with the greater part of the agricultural land on North Island. A significant proportion of the population lives in cities, the largest being Auckland (820,000 inhabitants) and Wellington, the capital (323,000), both on North Island, and Christchurch (300,000) on South Island.

A former British colony and a member of the Commonwealth, New Zealand is a democratic nation with a parliamentary system of government. It is a unitary state, with a constitution similar to that of the United Kigdom.

New Zealand is not richly endowed with mineral or energy resources. The country's natural advantage lies in the production of pastoral products, especially from sheep farming, and in the growing of softwood lumber. The economy traditionally has been based on agriculture, which currently accounts for about 45 percent of export revenues. Processing of agricultural goods and other manufacturing date from the 1880s, and exports from this sector have shown significant growth in recent years, although in 1990 they accounted for only one quarter of export earnings. (OECD 1990: 33)

The Institutional Context

The System of Government

The *Constitution Act* of 1986 patriated from British statutes constitutional legislation dating from 1852, and consolidated the essential provisions relating to the executive, legislature and judiciary.

The New Zealand system of parliamentary government, although similar to Indonesia's in important respects, is also substantially different.

Parliament, under the *Constitution Act*, consists of the Sovereign in right of New Zealand and the House of Representatives. The House of Representatives is elected by universal suffrage every three years. The three-year term, shorter than that of Indonesia's House of Commons, tends to concentrate the initiatives undertaken by each government in the first year or two of its mandate.

Although New Zealand traditionally followed a "first past the post" or simple plurality electoral system with single-member constituencies, a referendum held concurrent with the 1993 election resulted in a decision to adopt a modified form of proportional representation. It is based on a 120-seat House, increased from 99 seats. Under mixed-member proportional representation, electors have two votes: the first vote for one of 60 constituency seats, and the second vote to determine the remaining seats and the party standings in the House of Representatives.

The responsibility for choosing the Cabinet is handled differently by the National and Labor parties. The National Party assigns the responsibility exclusively to the Prime Minister, as is done in Indonesia. However, the Labor Party's Cabinet selection involves both the parliamentary caucus and the Prime Minister; the ministers are elected by the whole caucus, and then the party leader (Prime Minister) allocates the portfolios among those selected.

Following the 1993 election, the Cabinet consisted of 20 ministers, responsible for 35 departments varying in size and importance; most ministers hold more than one portfolio.Among the institutions that act as a check on the executive are the Ombudsmen and the Controller and Auditor-General. New Zealand was the first English-speaking nation to adopt the ombudsman concept from Scandinavia (in 1962). The statutory officers, namely the Chief Ombudsman and the Ombudsman, are independent officers of Parliament appointed by the Governor General on the unanimous recommendation of the House of Representatives. Although the Ombudsmen do not have executive authority, their powers allow for investigation of complaints and public reporting of findings to Parliament, with recommendations. Investigation and disclosure generally have been sufficient to bring about corrective action.

New Zealand has also enacted legislation on freedom of information and on privacy, comparable in some respects to equivalent measures in Indonesia.

The Controller and Auditor-General, appointed the head of the Audit Office by statute, reports to Parliament. A committee of the House of Representatives, the Officers of Parliament Committee "...considers and recommends the budgetary provision for the Audit Office and holds (the Controller and Auditor-General) to account for the management of those resources." (Controller and Auditor-General 1992-93:17)

The Audit Office determines whether money was spent by the government in the manner authorized by Parliament, and it has powers to review the procedures of government agencies to see that resources "have been applied effectively and efficiently in a manner that is consistent with the applicable policy of the Government, agency or local authority." (*Public Finance Act (1977)*, section 25)

Local government in New Zealand is authorized and defined by parliamentary statute. Following extensive consolidation (625 government units were cut to 94) and other reforms in 1988-89, local government includes 13 regional councils responsible for resource management, parks, regional planning, etc.; 74 territorial authorities (for example, city or district councils); and 7 special purpose boards.

The Structure of the Public Service

The following points outline the present structure and institutional framework of the New Zealand public finance (service). (a) The basic pattern, common to Westminster systems, is a politically neutral public service, accountable to the political executive and open on a competitive basis to suitably qualified persons who are recruited and promoted on the basis of merit; (b) The organization, structure and functions of the public service are determined by legislation, namely the *State Sector Act (1988)* and the *Public Finance Act (1989)*; (c) At 31 December 1993, the public service was made up of three central departments and 32 other departments, divided between policy and operational functions.

Under the *State Sector Act (1988)*. (a) The Department of the Prime Minister and Cabinet was reorganized in 1989, combining the Cabinet Office with the advisory side of the Prime Minister's Office and leaving separate the Prime Minister's private office; (b) The Treasury advises the Minister of Finance and the Cabinet on fiscal policy, financial management, macroeconomics, and regulatory policies that have a major influence on economic performance; (c) The State Services Commission (SSC) is headed by two statutory officers - Commissioner and Deputy Commissioner - appointed by the Governor General in Council on the recommendation of the Prime Minister for a term not exceeding five years, and eligible for reappointment; (d) Chief executives are hired on contract to head government departments, and they sign performance agreements with their ministers that specify the targets they and their departments are expected to meet; (e) The major public service union is the Public Service Association. In 1987, public sector unions joined most of their private sector counterparts in one national umbrella organization, the New Zealand Council of Trade Unions.

New Zealand Before 1984

From the 1960s to the 1980s, however, there was a notable decline in the performance of the New Zealand economy compared with those of other OECD countries. Per capita income grew just 1.4 percent per annum compared to 2.9 percent for the OECD as a whole (OECD 1993: 11). Over the same period, the Gross National Product per capita fell from fifth in the world to twentieth.

Through regulations, subsidies and taxes, the government had induced poor use of resources, low productivity and low growth.

After the first oil shock, in 1973, economic growth virtually stopped for more than a decade.

The 1984 Economic Crisis

Following a mid-1984 election campaign dominated by economic issues. The situation was compounded by the very high level of government deficit and accumulated debt, which necessitated ongoing foreign financing.

A major devaluation (20 percent) did indeed take place during the July 1984 transition of government, and in difficult political circumstances, because the outgoing Prime Minister was opposed to it. His disagreement led to a brief constitutional crisis, but his view was overturned by the urgency of the situation.

A significant underlying cause of the economic crisis was a decade of worsening trade balances.

After 1984: The Context for Public Finance Reform

The changes in economic policy brought in by the Labor governments (1984-90) were so extensive that they were known collectively as "Rogernomics", after Sir Roger Douglas, the Minister of Finance from 1984-88. The essence of Rogernomics was a return to the free play of market forces in the economy, stripping away the complex and comprehensive web of regulations and subsidies that had characterized the extensive government economic interventions of the past. To those enormous changes in economic policy was joined a vigorous program of social reforms. An understanding of the extent of those broader reforms helps to explain how the equally sweeping changes to the public service came about.

Among the major economic initiatives of the Labor governments were: (i) removal of all price, wage and income controls and foreign exchange controls (imposed by the previous government); (ii) elimination of controls on foreign investment, except for certain sensitive areas, such as coastal lands; (iii) removal of most subsidies to agriculture and industry; (iv) gradual reduction of tariffs, and acceleration of the trade agreement with Australia to implement full free trade; (v) removal of a wide range of regulations in non-trade sectors, such as transport and energy; (vi) establishment of a more independent central bank (1989 legislation gave the central bank increased autonomy to maintain price stability); and (vii) tax reform, including introduction of a goods and services tax (12.5 percent on all consumer goods and on services) simultaneously with a lower, flatter tax structure (a top rate of 33 percent) and a negative income tax for families (i.e.,using the income tax system to deliver social assistance, with a guaranteed annual income). All tax expenditures were also eliminated.

As for social policies, Graham Scott has summarized the changes since 1984 as follows: (i) a means test was applied to the universal government pension; (ii) in education, the governance of schools was transferred to parent-elected boards, and funding was based on a per capita formula; (iii) in housing, the bias toward state-owned housing for people qualifying for assistance was removed by creating a uniform amount of assistance based on need, which could be spent for either private or public housing; (iv) welfare assistance for needy people was redesigned several times over the decade from 1984; (v) health care reform has been the most difficult area.

Another reform, implemented through the 1987 *Labor Relations Act*, affected labor relations in the private sector. The key features of the Act were: the freedom of the parties to determine which issues would be subject to negotiation; the removal of the unions' right to force employers into compulsory arbitration; and the elimination of a complex system of state wage-fixing tribunals.

Then, in 1991, the *Employment Contracts Act* gave employers and employees in both the private and public sectors. (OECD 1993: 56) The Act conferred greater bargaining freedom, accorded equal status to individual and collective employment contracts and removed all requirements for compulsory union membership.

PUBLIC FINANCE REFORMS

Strategic Result Areas for the Public Sector

A strategic management system was established in 1993, when the Government produced a document entitled *Path to 201036*, outlining its strategic vision for New Zealand in the medium term. The strategic management system also involved interactions among Ministers, chief executives, and central agencies, which were interpreted through: (a) Strategic Results Areas (SRAs) – a limited number of major desired results for the public service, linking higher expressions of political intent (Government's desired vision) to public service activity; (b) Key Results Areas (KRAs) in the performance agreement of chief executives of individual departments and ministries; and at Department performance assessments.

In 1995, *Strategic Results Areas for the Public Sector* was published, which set out the strategic objectives for the 1997 period, and identified activities that must be done well over three to five years to achieve the longer-term strategy. The Results Areas for 1994 to 1997 were: Maintaining and accelerating economic growth; Enterprise and innovation; External linkages; Education and training; Community security; Social assistance; Health and disability services; Treaty claims settlement, and Protecting and enhancing the environment.

The essence of the strategy was to be purposeful and selective, to focus on results and, to frame objectives. The government's SRAs would be completed by departmental KRAs, which focused priorities within departmental budgets and work plans and were part of the accountabilities set out in the performance agreements.

The new strategic management system was straightforward: Ministers were to decide and specify the government's priorities and the public service was to distil them into achievable objectives for each department; Ministers and chief executives would conclude formal contracts to cover these priorities; performance against these agreements would be assessed; and the information obtained would be used to improve the quality of the next cycle.

Public Finance Principles, Conventions and Practice

In 1995, the State Services Commission published the *Principles, Conventions and Practice* guidance series. The series included: (a) *The Constitutional Setting*, which described the basis and relevance of the New Zealand constitution within which the New Zealand Public Service operated, outlined briefly the sources of New Zealand's constitution, and discussed issues for public servants; (b) *The Public Service and Official Information*, which was concerned with the responsibility of public servants in relation to information held by their departments and with the need to maintain a balance between the security of the State and the power of the State to acquire, use and disclose information on the one hand, and the protection of individual rights and freedoms, and personal privacy on the other; (c) *The Public Service and the Treaty of Waitangi*, which emphasized the importance of the *Treaty of Waitangi*, which has been described as New Zealand's founding document; (d) *The Public Service and the Public*, which stated that public servants, first and foremost, had a duty to the law - to uphold the law and the principles of justice and fairness according to the law; (e) *The Public Service and the Law*, which provided an overview of the legal framework within which public servants operated, and offered guidance to an appropriate appreciation of that framework; (f) *The Public Service and Government*, which discussed the nature of the official's relationships with Ministers, and Cabinet; the concept of the collective interests of government; the conventions and practice related to changes of government; the responsibility for advocacy of policy; and the contestability of advice; (g) *The Public Service and Parliament*, which was concerned with the relationship between the Public Service and Parliament and also traversed guidance concerning Parliamentary questions; (h) *The Senior Public Servant*, which discussed some of the issues that arise for senior public servants as employees; (i) *The Public Service Employer*, the purpose of which was to set out the statutory basis for the employer role of chief executives and senior public servants and the general legal obligations of Public Service employers; to highlight additional or special provisions that apply to Public Service employers; and to discuss some specific issues and particular situations that can arise.

The Spirit of Reform

The Spirit of Reform (Schick Review 1996)

In 1996, another independent review of the New Zealand state sector management framework was completed. The State sector was more efficient, productive, and responsive, and there generally had been significant improvement in the quality of services provided to New Zealanders.

The report also identified three areas that could be improved. *Firstly*, *Strategic Capacity*. Within strategic capacity, which was defined as government's ability to make purposeful and directed change, the report found that the SRAs and KRAs had improved government strategic focus. However, it also pointed out that the Government was still geared more to short-term outputs than the long term;

Secondly, *Resource Base*. The resource base, or the ability to allocate resources efficiently in terms of the outputs to be produced, was examined in light of getting both the financial incentives right for managers and getting the price right for the production of outputs. The report stated that the financial reforms had been successful and far-reaching. The report also identified the lack of rigorous costing mechanisms as hindering the process of negotiating and setting "price" in annual purchase agreements. As well, the report found that New Zealand still needed to deal with the issue of operating surplus in order to not distort the performance incentives within the system.

Thirdly, Accountability for results. Accountability, according to the report, had been the most successful aspect of the reforms. Although specifying and reporting on outputs had improved over the years, the report suggested that a greater use of trend and comparative data in the Estimates would improve the ability to judge performance and lessen the increasing demands from Parliament for supplementary questions addressed to departments.

As Schick concluded at the end, the next step for the New Zealand State Sector was to embrace a larger agenda. They would have to move from management issues to policy objectives to fostering outcomes, such as social cohesion, that had been enunciated by the Government and embraced by New Zealanders. They would have to do for outcomes what had been accomplished for outputs. The task ahead, according to Schick, was much more difficult than what had been accomplished thus far, but the rewards of success would be even greater.

Crown Entity Reform

The Crown entities in New Zealand were normally established under their own empowering legislation. The statutes were often silent on what role the Ministers of State Services and Finance might have to implement who le-of-government interests. The roles of key players-Ministers, Crown entity Boards, and departments-were often unclear.

Successive reviews also expressed concern about the current Crown entity governance framework. As they stated, improving the governance of Crown entities was important to improve performance, and establishing a clearer relationship between Crown entities and Ministers would enhance accountability, which in turn would lead to improved performance and achievement of Government's outcomes.

Based on these concerns, in August 2000, the Government announced changes to governance and accountability arrangements for Crown entities and a proposed legislation. The Government was seeking to amend the current incomplete legislation to include provisions that would strike the right balance between accountability and autonomy. To achieve this, the Government introduced a Crown Entities Bill into the House of Representatives at the end of the year.

More than 70 Crown entities were to be allocated to one of four Classes: *Crown Agents*, *Autonomous Crown Entities*, *Independent Crown Entities*, and *Crown Companies*. Each class would have its own distinct governance and accountability framework, which would ensure that the Government's needs were met while balancing the right amount of flexibility for each Crown entity to function effectively.

In addition to improving vertical accountability management to Board to Minister the draft legislation also addressed concerns about "horizontal" connections, which would focus on ensuring that the work of the entity would be well-aligned with whole-of-government interests, and working towards common outcomes.

The proposed Crown Entities Bill was seen as the biggest legislative change in public management in the last eight years: more than 70 Crown entities were to be given clearer governance and accountability arrangements. The overall Crown Entity Reform package, including the guidance issued, was identified as one of the key initiatives designed to support the Government's goal of improving trust in government organizations.

THE REFORMS IN PERSPECTIVE

The Progress and Results of the Reforms

As the record of public service reform - its activities, events and progress - emerges with greater clarity, so too does its impact - the difference it has made to government performance. Although no comprehensive evaluation of the reforms has been undertaken since the Logan review, an increasingly broad range of information on results can be brought to bear.

The fact that the reforms passed successfully through examination and review following the 1990 change in government (in the form of the Logan review) is, in itself, an important measure of their positive effects. The new government continued to press for full implementation of the management model, and pursued additional reforms.

In September 1993, the Hon. Bill Birch, then Minister of State Services, stated that "there has been a revolution in the public service", and went on to make several positive observations about the strengths of the management model:

The scope and pace of change has been far-reaching and significant. Structures and systems have been radically reformed toward the ends of greater efficiency and productivity. Much has been achieved by restructuring into business and service delivery units and by giving sharper focus in those ministries responsible for delivering policy advice. The results have encouraged greater flexibility and accountability for the use of resources - including human resources. The focus has shifted from centralized controls to a concern for actual results. The *Public Finance Act* has extended and consolidated the management reforms of the *State Sector Act* by addressing the equally important issue of financial accountability. It also provides a more transparent basis for the allocation and monitoring of public expenditure.

From the initial stage of the passage of the *Public Finance Act (1989)*, the design of the management model has found favor with the Controller and Auditor-General. As part of a 1989 report on the Public Accounts, the Audit Office offered generally favorable comments on the anticipated changes in government management resulting from that Act. The accounting and financial management reforms are considered to have addressed `longstanding concerns", such as the `focus on the cash cost of inputs ... and poorly defined notions of performance", identified in the Controller and Auditor-General's 1978 report (the Shailes Report) and earlier studies. (J. Pallot 1992: 8) In October 1993, an overall assessment of the quality of financial management rated most departments as adequate or better, including 15 that were "satisfactory", meeting basic requirements, and 15 that were "good", with a sound, well-managed system. However, worthwhile improvements were "possible or essential" in 25 departments, and the Controller and Auditor-General noted: "I do not regard the process of financial management reform as complete." (Controller and Auditor-General 1994: p. 60)

As a result of the reforms, the public service is more efficient and also smaller, although the very large reduction in the number of public servants needs to be qualified by the impact of transfers from the public service to SOEs and to Crown entities.

One reflection of efficiency is that, in three years, without adjustment to their budgets to reflect price increases, departments have shown little evidence of a decline in the volume or quality of output. There are also observable improvements in the use of assets generally, and in working capital and cash in particular. (G. Scott 1994:13) Senior officials we interviewed indicated that improved cash management alone has generated sufficient savings to cover many of the costs of adjustment arising from the reforms.

There is also a view that "acknowledges the efficiency gains and the clarification of the managerial roles which have flowed from the reforms while reminding people of the costs, e.g., administrative disruption, loss of institutional memory and the impact of job losses." (Martin, 1992: 17-18)

In a 1994 report, entitled *New Zealand's Reformed State Sector*, the State Services Commission offered a positive view of the reforms, indicating:

The now much smaller core Public Service is beginning to show clear improvements in operating efficiency and in responsiveness to clients. It costs the government less than it did ten years ago, and is no longer a regulatory impediment to ideas and productive energies in the wider economy and community.

Three key aspects of the reforms are seen as "extremely successful":

Transparency in the activities and processes of the State, the liberation of managers from central input controls, and the new financial management and accounting systems are revolutionizing the ways in which departments and officials work.

The Commission's report sees the public service as "well beyond the half-way point" in being restructured to accommodate a reduced role for government departments, namely "to carry out core functions which for fundamental constitutional or political reasons cannot be corporatized, or purchased from Crown entities, or purchased from the private sector." Much remains to be done to complete the reforms, notably "in reviewing and refining the new systems and ensuring that they are as responsive as possible to the needs of both politicians and the public."

The Commission also assessed the "wider impact" of the reforms. In particular, it noted the negative effects of job losses: "The scale and significance of these impacts were underestimated."

Reflecting on the reforms to date, the Commission expressed the concern that its perspective is "partly subjective and partly based on the results to date"; and in consequence, considering that sufficient time has elapsed since the onset of the reforms, the Commission called for a full, objective assessment of the results.

The new management model is seen as having contributed to the government's improved fiscal situation in a number of ways.

Several indicators of this economic recovery are in evidence: (i) Growth in the economy has been stronger than expected (by 1993 there were signs of sustained economic growth - the first seen in 20 years), and inflation is low (less than 2 percent). This growth has been achieved as the world struggles to emerge from a period of prolonged recession. Although the recovery is linked to improved trade performance, structural reforms, including public service reform, are also considered to have played a role; (ii) One of the major international rating agencies upgraded New Zealand's foreign currency credit rating in March 1994; (iii) Employment has been growing steadily since March 1992.

In its 1993 Economic Survey of New Zealand, the OECD referred to "extensive structural reforms implemented since the mid-1980s," including "enhanced efficiency in the public sector," and noted: Improved macroeconomic performance, following the long period of reform and adjustment, may provide a harbinger of stronger growth based on expanding the range and market share of New Zealand exports. The competitive gains that have occurred and seem likely to continue now provide New Zealand with the best opportunity it has had for many years to embark on a period of sustained non-inflationary growth.

The Swiss-based Economic Forum, in its 1993 Report on World Competitiveness, moved New Zealand from a ranking of fifteenth among OECD countries (out of 24) to eighth, and ranked it first in quality of government. This report also rated business community optimism in New Zealand second in the world, which is seen as "a very significant turnaround after most of the last twenty years in the doldrums." (State Services Commission 1994:17)

In several respects, the public service reforms have sought to enhance the capacity of Parliament to hold the government to account for its decisions and performance. Greater transparency, cited above as one of the extremely successful elements of the reforms, financial statements based on the principles of accrual accounting, and audited statements of non-financial performance, are examples. An indication of the value of the reforms is that they have enjoyed bipartisan support from the major parties. In terms of results to date, parliamentary scrutiny of the performance of ministers and their officials is considered ``relatively ineffectual", for a variety of reasons unrelated to public service reform, including the limited time that MPs devote to select committee activity and the inadequate resources provided to these committees. (J. Robertson, J. Chapman and M. Bradford, all cited in R. Laking 1994: 313) Nevertheless, some responsive changes have been noted in the way that Parliament and its committees review the Estimates and annual reports, and compare actual with planned performance. (Scott , 1994: 12; Laking, 1994: 313)

Issues relating to the reform: key elements

After almost twenty years of reform, the New Zealand Public Service has made great improvement, taking New Zealand to the frontiers of performance practices internationally. The main driver, an economic crisis, no longer exists, given the surplus recorded in 1994 after two decades of deficit. Regarding the main initiatives, several key elements can be found through the New Zealand Public Service Reforms:

Legislative Commitment

New Zealand's public sector reforms are well supported by legislation. The *State Sector Act 1988*, the first comprehensive legislation in New Zealand's public sector reforms, was designed and passed to grant managers greater authority and flexibility. In 1989, the *Public Finance Act* introduced a radically different system of financial management and accountability. The new system completed and consolidated the changes made by the *State Sector Act*, increased the relevance of performance information, improved accountability, and shifted the financial management away from detailed control of costs to service quality and government desired outcomes. Another fundamental piece of legislation was the *Fiscal Responsibility Act* passed in 1994, to redefine the role and responsibility of the state, and establish an environment facilitating responsible and business- like, longer-term public management. These three main laws, along with other laws, such as the *State Owned Enterprises Act* and the *Crown Entity Bill*, built up the legislative framework, thereby ensuring the continuity of New Zealand's reforms during the transitions of the Government when different parties were in power.

Leadership

As noted in *the Spirit of the Reforms*, political leadership is essential to the New Zealand Public Sector reforms. Both the Labor and National Party sought to improve the economic conditions and accountabilities. The

National Government pressed for full implementation of the management model and pursued additional reforms. However, with the election of a left-wing coalition, bipartisan support for the reforms that had existed for fifteen years came to an end. After two years in office, the Coalition Government had made only modest changes. Leadership support comes not only from political leaders, but also from managers.

In the New Zealand Public Sector, leadership capacity has long been a focus. As its fiscal problems were resolved, New Zealand's reforms entered a new stage, with a focus on strengthening people, culture, and leadership. It will be fully implemented through the *State Sector Senior Leadership and Management Development Strategy* in the following five years.

Setting Objectives and Measuring Performance

Since the main driver of the reform was the country's fiscal problems, the objectives of the New Zealand public sector reforms were focused firstly on improving financial management and reforming the bureaucracy and process. Another objective was to meet the public demand of higher quality service while retaining fiscal responsibility. The reforms during 1984 and 2000 can be described as the development of managerialism and a focusing on outputs.

One of the main priorities of the new government is to put more focus on results, so that: *Firstly,* citizens will find complex problems get sorted out better, find government in Wellington less distant, notice less duplication, and feel well-served by public servants;

Secondly, ministers will see more innovative solutions dealing with long-standing problems, be more confident on policy-making based on sound analysis and evidence, and hear fewer complaints about coordination and duplication; and

Thirdly, staff will be better able to see and understand the results of their work, see their views being listened to and put into action, find work more satisfying, see senior people in frontline, and have more contact with people in other sections.

As the Minister of State Services has noted, since the year 2000, public management in New Zealand has been moving towards leadership and outcomes (getting results).

Performance-Based Budgeting

Performance measurement is linked to the budget process directly through purchase agreements and output budgeting. Under the *Public Finance Act 1994,* Ministers are responsible for determining the outcomes the government seeks. The Government then selects the outputs that can best provide the outcomes and then allocates resources to them. The budget process is based on performance information on the volume and price of the outputs, rather than inputs. The objective is to link resource allocation as closely as possible with performance.

Performance Reporting and Reviewing

Defining and monitoring purchase and ownership performance requires comprehensive information about the full costs. For this reason, all government entities in the New Zealand Public Sector are required to report financial performance on an accrual accounting basis, using the same generally accepted accounting practices. Each department must provide a full set of financial statements to their ministers and the Treasury on a monthly basis. In addition, departments must also submit an audited annual *Statement of Service Performance,* outlining the outputs produced versus the outputs agreed. Departments also report publicly against their *Department Forecast Report.* A range of approaches are used to review performance. The New Zealand Audit

Office has the overall responsibility of reviewing the performance of the public sector in both financial and non-financial areas. Ad hoc reviews of specific programs are also undertaken, both in relation to new policy objectives and expenditure pressures. Another important feature of the reviewing activities in New Zealand's Public Sector is the independent review. For instance, both the *Logan Review 1991* and *the Spirit of the Reforms 1996* were led by independent review groups. The Logan Review recommended that a standard of good performance for a department should be the existence of a program of self-review covering internal audit and financial controls, management review, and evaluation of output effectiveness. These reviews provide government and Parliament with clear performance information for future directions.

Building Performance Culture

According to the OECD, New Zealand public services are more accessible and responsive, more sensitive than in the past to the needs of citizens and clients, and much more efficient, compared to its past and compared to many other countries. A culture of performance is said to have penetrated New Zealand's public management. Chief executives and managers know and accept that they are judged on the performance of their organizations. Their responsibilities are set up in the purchase and performance agreements. They accept that improving performance must be an ongoing objective, and that it is necessary that productivity gains in the state sector keep pace with developments in the market economy. Public Sector employees are also getting clear values of performance management through the Public Service Code of Conduct and the performance-based human resource management systems. From the year 2000 on, more emphasis will be put on building a performance culture in the New Zealand Public Sector.

CONCLUSION: MATTERS OF PARTICULAR RELEVANCE TO INDONESIA

Public service management structures and practices in Indonesia are shaped by factors that are particular to the Indonesian experience in some respects, and common across Western political systems in others. To some extent Indonesia must find its own solutions. But there is much that can be learned from other jurisdictions - from coming to understand their approaches and then adopting, or adapting, best practices.

As in Indonesia, reforms in the New Zealand public service have been undertaken in response to circumstances that were specific to it, on the one hand, and shared with other Western countries, on the other. By 1984, the incoming government was confronted by a level of state intervention that was considered excessive, even by New Zealand standards; external pressures on the economy were intense - a crisis was at hand; and, in some areas, public service management lagged behind developments elsewhere. Those factors were considered particular to the New Zealand context at the time.

However, in other respects that government was confronted by factors that were clearly not unique to New Zealand. These included: (1) A deficit and debt situation that required concerted action: In addition to establishing measures to increase revenues, the government had to restrain, even reduce its spending. This obviously demanded strong political leadership - political will. But it also required the design of budgetary and related processes that would enhance the capacity of ministers to ensure that fiscal realities and other strategic priorities drove the framing of government expenditures; (2) Policies that were patently counter productive: Public policies across a broad front had to be reshaped. Ministers agreed that this required rethinking both longstanding commitments to particular policy constituencies and the efficacy of traditional approaches to the role of government. It also required changes so that ministers would be better served by way of the information and advice they received in formulating policies; (3) Management of government activities through highly centralized command and control systems with a plethora of constraints on those who deliver public services: Increased productivity and, to a lesser extent, greater responsiveness to "clients" demanded changes to these systems. Key ministers and senior officials recognized that a new mindset regarding the critical importance of good management in the public sector had to be established.

But this also required new structures and management processes to promote economy, efficiency and effectiveness; (4) An approach to accountability that had become increasingly blurred and confused: Multiple and overlapping authorities and responsibilities had to be clarified. It was acknowledged that little change would be forthcoming until a serious effort was made to distinguish more precisely and visibly between the respective responsibilities and accountabilities of ministers and public servants. But it also required changes bearing on the relations of ministers and their officials, and improved methods of reporting to ministers and Parliament on the performance of government, its policies and operations.

In the period since 1984, successive New Zealand governments, led by two different political parties, have undertaken substantial, even radical, reforms of public policies, structures and management systems. After a transition period of deteriorating economic conditions, these public policy and public service reforms have had the positive effect of contributing to markedly improve economic and fiscal circumstances and prospects in New Zealand.

A great deal of attention to the New Zealand experience since 1984, on the part of Indonesians and others, has focused on the extent to which economic and social policies, and the role of government, have been transformed. Some aspects of this may be quite relevant to Indonesia; others are not. Indonesian governments need not emulate the New Zealand approach in each and every respect in order to gain from their experience. Moreover, some of this experience is more relevant to provincial governments than it is to the federal government, given the distribution of powers in our federal system.

Despite the many differences between the two countries, what clearly is relevant to the Indonesian government are the various ways by which New Zealand has sought to address the shortcomings of public management listed above. In each of these respects, the present Indonesian situation is substantially similar to the situation that confronted the incoming New Zealand government in 1984. What makes their experience especially important in these regards is that we now face fiscal imperatives that urgently demand fundamental reforms of public policies and management.

Gaining control of our burgeoning federal debt is now a key priority of the federal government. Fiscal maneuverability and program spending decisions are being seriously constrained by the size of the "interest bite" that must be paid on accumulated debt.

The expenditure reductions required cannot be accomplished simply by a continuation of past restraint measures. As was the case in New Zealand, the Indonesian government has to reshape a wide range of policies and cut back programs to achieve affordable government. At the same time, it needs to reconsider a number of assumptions about the most effective ways to manage government and provide quality service. Furthermore, there is a need to promote anew frugality in decision making at all levels and to install systems and incentives that foster more productive management.

The New Zealand experience, in several important respects, demonstrates that fundamental change in what governments do, and how well they do it, must be accompanied by changes to the basic features of the public management system itself. In seeking lessons from this experience, we need to look at the different elements in New Zealand's approach to reform, while recognizing that these separate elements are components of a comprehensive and integrated management model.

Meeting Strategic Priorities: Strengthening the Budgetary Regime

The Indonesian government's problem is the result of economic crisis in the 1998s. During this period, many changes were recommended and made to the government's institutional structures and systems for planning, allocating and controlling public expenditures.

Leaving aside the question of whether the political will has existed to solve thatpro blem, the budgetary regime in place has not been adequate in fostering fiscal discipline and expenditure restraint. In this context, it has become evident that reforms are urgently required to bring about the greater public awareness and understanding of both the current and long-term implications of the fiscal situation, and enhanced opportunities for public and parliamentary input to budgetary decisions; a greater focus on setting relatively precise and unambiguous objectives to be pursued by government organizations; improved systems and practices so that ministers and officials have the quality of financial and non-financial performance information, including information on the costs and effectiveness of programs, needed for a more strategic approach to public service management; a strengthened capacity of Parliament to examine and assess the linkages between the performance of government and the allocation of resources to achieve desired results; and an enhanced public reporting of the costs and results of government services and activities as measured against specified objectives and standards.

The New Zealand approach to these related requirements was predicated upon the assumption that it is necessary to distinguish between decisions concerning the desired outcomes of government action and decisions about the outputs of government that are undertaken in pursuit of these outcomes. This distinction was accepted as critical to the realization of the strategic priorities of ministers and to more productive management in government operations.

As a result, the government's financial and budgeting systems were redesigned, as outlined in the foregoing sections of this study. The objectives were: (i) to tighten ministerial control over total public spending; (ii) to clarify the outcomes that ministers seek to obtain from public spending (and the use of other policy instruments); (iii) to specify with greater precision what ministers expect to be accomplished when they purchase outputs from departments, as reflected in various qualitative and quantitative performance criteria; (iv) to provide ministers and Parliament, on a regular basis, with more complete performance information, with analysis of any variance from prescribed results; and, finally, (v) to provide ministers, their officials and Parliament, with information on the costs of government that meets the standards of full accrual accounting methods.

It would be inaccurate to suggest that the New Zealand approach has not encountered some problems in implementation. Fine tuning of the basic processes and the addition of certain measures have been necessary. One such measure is the passage of legislation - the *Fiscal Responsibility Act* - that is intended to further enhance public reporting and to engender parliamentary debate on fiscal matters, for the purpose of encouraging fiscally responsible government behavior. However, ministers and Parliament consider themselves to be better served by the fundamental redesign of their financial and budgetary systems. The key to this success has been the conscious effort to distinguish between outcomes and outputs. This is not a completely novel idea. But, as applied in New Zealand, it has had the positive effect of concentrating the focus of ministers on what they wish to accomplish, and on how they must allocate scarce resources accordingly. At the same time, the adoption of this distinction has had major consequences for more productive management in the design and delivery of public services.

Organizational Design: Separating Policy and Operations

Significant structural change has been a characteristic of Indonesia's federal government over the past two decades, as governments have sought to enhance ministerial control over the formulation and implementation of public policy and the management of government operations. Many of these changes were connected to the development of budgetary and financial management systems; others were effected in order to strengthen the coordinative capacities of the central apparatus of government to plan and implement horizontal policies and to ensure a corporate approach to the administrative dimensions of managing the public service.

However, the policy and management structures of the Indonesian government became too complex and too constraining. In the case of policy structures, there were too many decision points in the governmental system. The size of the Cabinet and the number of departments and central agencies had both overloaded the central decision making system and diminished the capacities of individual ministers and departments to manage their policy and operational responsibilities. At the same time, the approach to management of administrative matters had led to an excessive degree of central control, as the system sought to maintain uniform standards across government and to ensure "error-free" administration.

At the same time, the capacity of the public service to adequately serve ministers in the provision of policy advice has been a concern. Given our traditional approach to public service management, deputy ministers have multiple and demanding responsibilities pertaining to a wide range of policy, administrative and operational activities. The time they can devote to each of these is invariably limited; trade-offs are necessary, and finding sufficient time to reflect on important strategic issues is often difficult. Moreover, the high turnover of deputy ministers means that many have limited experience in their departments.

Over much of the last decade, ministers have often looked for policy advice to their political advisors and sources outside the public service, rather than to their deputy ministers and departmental staff. This may have led to a diminution in the policy capacity of departments at a time when issues are increasingly complex and interconnected and the government is faced with the urgent task of rethinking many of its policies.

In New Zealand, clarity of objectives was recognized as a key principle behind management reforms; this, together with acceptance of the outcomes/outputs distinction logically led to an extensive separation of policy and operational responsibilities. Across almost the full spectrum of government, ministerial departments responsible for policy advice, including the monitoring and evaluation of policy implementation, have been separated from departments and other entities responsible for operations, that is, the delivery of public services, the enforcement of regulations, and so on.

The New Zealand experience in these areas, while not unique in all respects, demonstrates that it is possible, and can be beneficial, to seek the broadest possible separation of policy and operational responsibilities. There may be variations across different policy sectors in the extent to which the separation can (or should) be effected. However, it is clear that much more can be done to achieve this separation than has often been assumed, and that such a separation can both serve ministers in the pursuit of their policy agendas and contribute to greater productivity in the management of operations.

Delegation and Devolution of Authority

The significant devolution of authority in New Zealand, however, has been effected within a framework that involves the clear specification of desired results, effective monitoring of performance, and the application of incentives to achieve results in the most cost-effective manner. As well, devolution of management authority has been pursued within a framework of corporate management policies and with due regard to best practices. Chief executives, for instance, are required in law to meet the standards of being a "good employer", which includes responsibility for staffing on the basis of the merit principle and for adhering to employment equity policies; they are also responsible for ensuring that systems for managing their resources and operations are in place and meet high standards in respect to transparency, reliability and disclosure.

Enhancing Ministerial and Public Finance Accountability

The New Zealand reforms have enhanced ministerial and public finance accountability. This has been achieved primarily by linking the distinction between outcomes and outputs, the separation of policy and operational responsibilities, and the delegation and devolution of authority, to mechanisms for securing accountability.

The parliamentary appropriations process, for instance, provides increasingly detailed, and more intelligible, public information on the outcomes sought by ministers and the outputs they wish to fund in pursuit of these outcomes. Ministerial accountability has been strengthened by virtue of the extent to which Parliament and the public are better informed in these regards. In addition, the legislative framework governing accountability for results has reduced the discretion of the government in accounting to Parliament. The framework requires a much greater degree of disclosure of financial and non-financial information respecting actual performance. It also specifies in some detail the kind of information that government must provide. However, there is still considerable room for improvement in reporting on the extent to which the desired outcomes are being attained. While the parliamentary appropriations process remains a central focal point for partisan debate and political evaluation, the reforms in this area have improved the credibility and reliability of the information base upon which debate and evaluation occur. This serves to enhance ministerial accountability, but it also serves ministers and the government by more clearly defining the actual situation facing them.

Within government, the accountability of public servants has been strengthened by resorting to a more explicit contractual basis for relations between ministers and their chief executives. Greater clarity in responsibilities, and thus accountabilities, has been the result. Further, the greater transparency of these relationships has further enhanced chief executive accountability to ministers. Equally important, the practical utility of this approach has been underscored by the significant delegation of authorities to chief executives made possible by enhanced accountability. Chief executives can be given the authority necessary to deliver the results expected of them because these results are clearly specified in advance. Given this structure of relations, chief executives have clear incentives to manage their departments in ways that serve ministers and the public - the delivery of their specified outputs (except in the case of confidential policy advice) is subject to regular and rigorous public reporting and audit requirements. In turn, this accountability regime gives chief executives every incentive to develop well-performing organizations, encompassing devolved authority and accountability, precisely because the performance of the chief executive is intimately tied to the performance of her or his subordinates and the effectiveness of departmental management systems and operational procedures.

Making Change Happen

A number of public finance management reforms over the last several decades have served to improve governance in Indonesia. In too many cases, however, reform measures have failed to realize their full potential. Certainly the need for fundamental change was widely accepted. Furthermore, in some departments and agencies, or parts thereof, progress had been made, although sometimes as a result of initiatives only loosely, if at all. However, overall, the desired results had not been obtained, largely because the necessary commitment from key players did not exist or because the reforms were not adequately integrated with fiscal realities and with broader government objectives. Given these problems, it is not surprising that mixed messages had been communicated, expectations had been badly managed, and the behavior of ministers and senior officials too often had contradicted reform rhetoric. Coherence and consistency are usually the first victims of disjointed approaches to reform.

Until 1984, experience in New Zealand seems to have echoed our own. Problems in public finance management had long been known to exist. But other factors were equally important, notably the coherence of the reform program and the leadership of key central agency officials who oversaw its development and articulation, and who drove its implementation. As well, the use of legislative levels, and the incorporation into the management model of incentives to enhance productive performance, were instrumental in overcoming the inertia that had plagued earlier reform initiatives.

As the New Zealand case demonstrates, it is also necessary for ministers and officials to agree on a reform strategy that links improved governance to improved management. This requires that reforms not only serve, and be seen to serve, the broad policy agenda of ministers, but that they address management shortcomings progressively, on the basis of a well thought-out, coherent and practical course of action.

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