

## 8 LESSONS LEARNED

The Bank's experience in supporting economic, public sector, and governance reform in the Pacific using the program loan modality provides some key lessons.

### 8.1 Political Commitment, Ownership, and Participation

The most significant success factor of Bank assistance for reforms in the Pacific is also the most obvious: political commitment to and ownership of the reform program is essential. Externally imposed reform measures (conditionalities) that have little government ownership are doomed to certain failure. The experience in the Pacific has amply demonstrated this. Reform programs have emerged in many of the Pacific countries only consequent to the election to office of reform-oriented political parties. However, reform is a destabilizing process as it involves change; it also inevitably demands pain from various segments of society - the temporary pain of adjustment involved in moving to a more effective economic framework, right-sizing the public sector, and bringing in a cost-conscious government. No government undertakes such a process without some risk of becoming so unpopular that it loses its mandate to rule. Thus, much courage, patience, and commitment on the part of government are needed. The Bank must be sensitive to and understanding of these realities.

Another complicating issue is that the benefits of the reform process sometimes do not surface until many years after implementation starts. However, non-governmental stakeholders inevitably expect to see immediate, tangible impacts. Thus it is critical for reformist governments to involve key stakeholders in the design of reform programs, and to maintain their commitment by keeping them continually informed of the process and envisaged impacts. The national summits in the Cook Islands, FSM, Solomon Islands,

and Vanuatu (supported and in some cases financed by the Bank) have been most useful in obtaining and maintaining public support. Also, keeping the process as transparent as possible, and keeping the public informed at every major juncture, goes a long way to bolstering support for the reform process. This serves the dual purpose of involving the public and, by doing so, more deeply committing the incumbent government to the path of reform.

## **8.2 Design Issues: Scope, Phasing, and Pragmatism**

When designing a program loan, a simple scope ensures that the program content is clear to all, and implementation is realistic and within local capacity. Some program loans designed in support of reforms in the Pacific have been too complex and too ambitious in terms of time targets. The designers were obviously well intentioned. The objective was to use the opportunity of a reformist government, or an influential “champion” of reform being in power, to effect as many reforms as possible. This was the “window of opportunity” approach and was, consciously or unconsciously, preferred to the option of moving gradually but with the distinct possibility that the “champion” may be out of office a couple of years hence and the opportunity lost. The reform programs in the Cook Islands, Solomon Islands, and Vanuatu were, in some areas, designed beyond the capacity of the implementing government. Nevertheless, the reforms these governments have instituted over the first 18 to 24 months in office, and the public support they have mobilized for the reforms, will make it very difficult for successor governments to reverse them.

The reform programs have encountered some implementation difficulties due to internally conflicting objectives, unrealistic time targets, and inappropriate sequencing of measures. For instance, the objective of achieving urgent fiscal stabilization has taken precedence over other reform components. Hence, downsizing has been undertaken urgently (given the critical state of some governments’ finances) without adequate attention to allocation priorities (particularly education and health) or technical efficiency. The result is the loss of valuable staff skills in areas of economic priority and the elimination of useful, constructive activities, both of which will be difficult to re-establish in the future.

In terms of phasing or sequencing, it is of little value to attempt introducing performance-based budgeting if basic costing and accounting systems are not in order to provide timely feedback; or for that matter, if basic accounting skills are not available to government. The issue here is how to use a window of opportunity to introduce much needed reform, while keeping the reform package realistic, pragmatic and achievable.

The more complex the scope of reforms, the more critical it is to pace and sequence the reforms carefully. Two key factors must be taken into account: capacity and culture. Both can easily run a reform program aground if it does not take due account of their realities; and both are often and easily taken for granted. Internal reform leaders become enthusiastic, forgetting that institutions and people need time to adjust and change. External advisors take for granted skills and capacities that possibly are available in their own countries. Useful but difficult principles to practice in this regard are: “keep it simple”; “tackle a few though significant and relevant reforms at a time”, “think through the sequencing with the implementors”, and “allow for testing and adjustments”. It is important to lay out a sequence of reform actions that leads to tangible and specified outcomes and impacts, taking account of cause-effect linkages, and then to focus on achieving success with the initial phase. Follow on stages should come only when the initial phase has proven successful.

### **8.3 Need for a Long-term Perspective**

While macroeconomic, governance, and public sector reform are inevitably long-term processes, the Bank’s program loans that support them are generally disbursed during a two to three year timeframe. This raises two related questions: How does the Bank ensure that it remains actively involved and maintains its leverage with the government though all program monies are disbursed and the loan is closed? How does the Bank help maintain continuing enthusiasm for ongoing reform within government, when the incentive of tranche conditionalities attached to loan disbursements no longer exists?

Four key lessons in this regard have emerged from the Pacific experience. First, staff communication channels with the highest

levels in government must be cultivated and nurtured, and through them, a relationship of trust and partnership; this ensures the durability of the Bank's influence beyond the disbursement period. Second, and consequent to the first lesson, the Bank must seek to ensure high quality staff inputs and greater staff continuity in operational assignments; changes in staff responsibilities, while inevitable from other perspectives (career growth, turnover), can still be minimized through appropriate human resource policies that recognize, support and reward engendering strong long-term Bank relationships with government. Third, the package of assistance must combine a mix of loan and technical assistance, as well as follow-up project loans and TAs that help the government address spillover and sequential needs. Fourth, coordinated inputs from external agencies in a long-term framework that supports continuity of the reform process is invaluable for ensuring continuing government commitment to reform.

#### **8.4 Distinguishing Between Inputs, Process, Outputs and Impacts**

The Bank's reform matrices that support government reform programs often fail to clearly distinguish between different types of targets. Some are input targets (e.g. the government commits to allocate more resources to a particular service); others are process milestones (e.g. the establishment of a consultative mechanism to prepare a specific piece of legislation); and still others are outputs and impacts (e.g. the passing of legislation and its ensuing benefits). Clarifying these allows the program designer to sequence them appropriately and to clearly delineate the priorities.

One of the most significant lessons from this evaluation is the need to continuously focus on impacts. A reform program often and necessarily includes various levels of reform actions, influencing and building on each other. However, in the final analysis, the government must be able to demonstrate to its citizens that the impacts of these actions (some of which may initially be painful) are actually beneficial through better service provision, or lower prices, or improved employment and other income-earning opportunities. Thus, the government must establish and manage an information system which tracks the implementation of the reforms, and which

permits the analysis and publication of the resulting impacts as and when they occur. Analysis of impacts needs to extend to an assessment of who benefits and who loses, in order that government may address any inequities. A government will not be remembered by the people for the reforms it undertook, but for the impacts it achieved.

### **8.5 Timely and Reliable Information**

Information is one of most critical inputs in the reform process, and the one most commonly inadequate in the Pacific. Timely and reliable information is needed on the government's macroeconomic and public service performance. Without an information infrastructure, critical analyses, audits, fiscal target setting, budgetary allocations, and performance incentives would not be possible. If the need for reform is not urgent, governments and funding agencies should initially focus on this variable. An essential principle of development applies: begin with basics.

### **8.6 The Influence of Culture**

Outsiders often have difficulty understanding the cultural factors that permeate and influence social processes in the Pacific Islands, how they vary from one country to another, and how these influence the reform process. The greater the internal ownership of the reform program, the better it is suited to take account of cultural factors. Some of the latter may be used to advance the reform process; others may need to be taken into account so that they do not hinder the process; and some may display features that both help and hinder the reform process. One example of a social institution that may constrain the reform process is the Melanesian "wantok" system, which can make demands of politicians and public officials that conflict with the requirements of their formal, national roles. On the other hand, that same system may be a source of useful social support for those retrenched under a reform program. Another example is the varied customary land tenure systems, which are often seen as a constraint to optimal land use and a deterrent to foreign investment, but which are valued in their own right by

Pacific islanders. Reformers need to recognize and understand such cultural factors, address them overtly in a participatory manner, and “manage” them sensitively. Participatory approaches to the introduction of reform measures, particularly those that are culturally sensitive, are essential to ensure sustainable solutions.

### **8.7 Use of Long Term Advisers and Consultants**

Consultants and external advisers are often engaged for economic advice and capacity building. However, the results are far from encouraging. Some programs have been in progress for more than three years, with many thousands of dollars spent on consultants, but with little to show in institutional and human resource capacity building. Some important issues and related lessons have emerged from the Pacific experience. First, given constrained human resources capacity in the Pacific, the need for consultants is often inevitable. However, there are options in regard to how they can be used: as long-term advisers, in line positions; or as short-term, periodic inputs. These options must be carefully evaluated, keeping in mind at all times that the reform program must remain locally owned and managed. A key indicator of consultant effectiveness should be the extent of local ownership he or she is able to engender. Second, it is important to clarify whether the consultant is fulfilling a line function or whether the mandate is to build capacity. If it is the latter, technical expertise is not a sufficient qualification for the job. Proven success in transferring skills and supporting participative capacity building are essential requirements. Third, the Bank must assure the government that consultants it offers have the right breadth of experience and demonstrated exposure to a variety of reform approaches. Otherwise, there is the substantial risk that reform approaches adopted by the country are dictated not by disciplined analysis of needs and assessment of options, but by the narrow experience of the long-term adviser.

The larger issue is the need for the Bank to strengthen its policies and systems for the engagement and management of consultants. Consultancy contracts should be drafted not only in terms of expected inputs and tasks, but also in terms of precise and tangible outputs and expected outcomes. Consultants’ performance must be more closely monitored by government and Bank staff, on

the basis of the outputs delivered. And sanctions for inadequate performance should be specified in contracts and enforced. Staff must have adequate time to supervise consultants and should be held accountable for the performance of TA outputs and outcomes.

## **8.8 Bank Staffing and Supervision**

The Bank can improve its staffing and supervision of assistance for reform programs in several areas: (i) more effective monitoring of economies and of the reform process; (ii) a wider mix of expertise made available for design and supervision, with particular emphasis on public sector management; (iii) staff quality and continuity in assignments; and (iv) staff accountability, particularly for performance of TA support. The structure of the Office of Pacific Operations (OPO), which combines the programming and project functions, has substantially contributed to a more holistic and broad-based approach to development issues in the Pacific. It has been fortuitous that the reform processes in the Pacific were coincidental with the establishment of OPO and its new organizational structure in 1995. This enabled the Bank to respond more flexibly, broadly, and effectively to the reform trend in the Pacific. There is clear accountability within OPO for individual country support; the support provided is more easily tailored to country needs without competing internal agendas; transaction costs involved in having separate programs and projects functions are minimized; and staff experiences with reform programs in one country are more easily shared with other countries in the Pacific.

## **8.9 Conclusions**

The Bank's developmental role may be defined in terms of three facets: its areas of concern, its areas of influence and its areas of operations. As a major development partner in the Asia-Pacific region and given the nature of development, the Bank's areas of concern span a very wide context. Within this context, the Bank's areas of influence are narrower and its areas of operations still narrower, generally due to the need to balance its role vis-à-vis other external agencies in the region, and given its own constrained resources. The

Bank is fortunate that in the Pacific, these three facets of its development role overlap substantially. The Bank is accepted as the major multilateral in the Pacific. The focus of its concerns, influence and operations remain broad, ranging from macroeconomic stability to good governance to the provision of essential services to the rural poor. This gives the Bank substantial leverage in its work with the PDMCs, leverage that can and is being put to valuable use.

Much credit must be given to PDMC governments that have committed their countries to the reform process. The reform initiatives have been substantially internally generated, and committed political effort has gone into maintaining the reform momentum. The funding agencies have responded appropriately, with the Bank generally taking the lead in developing the reform framework as a basis for external assistance. Some reform programs have been overly ambitious. On the other hand, in retrospect, the reform programs have usefully capitalized on initial enthusiasm, and have generated substantive policy, legal and institutional gains even in those cases where the momentum is now slowing. Results achieved to date have justified the Bank's change of strategic focus in the Pacific.

The reform programs in the Pacific have only recently begun. Being change processes, they are long-term in nature. Sustainable change must be evolutionary change, allowing time for internalization and institutionalization of new modes of behavior and operation. The programs must also be and remain "continuous learning" processes. There are no ready formulae, recipes or models that have all the answers and which can assure success. There are, however, important principles that must be respected and used in designing and implementing these reform processes. This chapter has attempted to identify some of these principles based on recent experience.