EFFECTIVENESS OF POLICIES AND REFORMS

A COUNTRY PERSPECTIVE

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The OED has done all of us a great service by carrying out evaluations of Bank Country Programmes in a systematic manner using a common framework. The findings of these studies should be of value not only to the Bank's own operational staff but also to the economic managers of the client countries.

As someone who has had the good fortune of working on both sides of the table, I would like to share some of my thoughts with you on the findings of these studies.

First, let me begin by saying that I find myself in agreement with some of the conclusions of this report and there are at least three such broad areas:

(a) I believe, just like the OED Report, that Aid is neither necessary nor sufficient for good policy. Aid can complement and catalyze the political and administrative processes by fostering and reinforcing the development of ownership but aid per se is no substitute for ownership.

(b) I also think that conditionality per se is ineffective in linking aid with reform because the incentive structure makes it difficult for donors to disengage when conditions are not met. The donors should avoid micromanagement and focus on results.

(c) I am more emphatic, than the OED is, on the relationship between policy reform and growth. There is strong empirical evidence at country level (not clearly sorted out in cross-country regressions) that this relationship is

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Remarks delivered at the World Bank OED Conference on Effectiveness of Policies and Reforms held at Washington D.C., on October 4, 2004

indeed robust. The experience of Pakistan since 2000 exemplifies that prudent fiscal balances, appropriate exchange rate, open trade regime, etc. do lead towards good growth outcomes and absence of these policies in the 1990s had decelerated growth and raised poverty level.

Having agreed with these broad findings let me elaborate on some other nuances and lessons which should be taken seriously at the time of formulation of policy reforms.

(i) Policy reform process is not always linear and we should expect slippages, setbacks and reversals during implementation. This should not throw donors off and they decide to disengage, withdraw or reduce planned assistance. The donors should stay on the course if the long-term direction, framework for action and overall strategy pursued by the country is clearly defined, followed and shared by them.

(ii) Donors, including the World Bank have a vast array of instruments at their disposal and they should use the appropriate instruments judiciously and imaginatively at different stages to support the strategy. For example, if it is determined by the World Bank AAA work that a particular institution is not ready for lending because it is in bad shape, the appropriate response is not to wait until there is a turnaround in the institution but to deploy technical assistance, capacity building, advice, best practice dissemination and dialogue to prepare the institution so that it is ready to become eligible for lending.

(iii) There is a convergence of interest between the sectoral ministries in the country and their counterpart sectoral departments of the Bank. So they form a lobby group and agitate for higher allocation of resources for their respective sectors and projects in an additive mode. There is little effort to explore trade-offs in a constrained resource situation and assign weights to the outcomes which can contribute towards the achievement of the strategy and desired results. On the other hand, complementarities and linkages between different sectoral programmes and interventions are not fully exploited and the planning and sequencing of different forms of reforms do not always reflect the synergies arising from such complementarities. For example, those who design the education policy interact with those responsible for labour policy only at a superficial level but not in an integrative manner.

(iv) The behaviour, response and advice extended by the donors to the countries should be counter-cyclical in nature. When there are good days and booms, they should not be carried away by excessive affection for the country manifest in form of higher lending, AAA work and all kinds of assistance. The donor staff should desist from the temptation to shine in the glory of their countries. I would suggest that it is during these times that the donors should render advice of caution to the country and exercise prudence in their assistance. But when the country faces bad days or difficulties it is incumbent upon donors to continue engagement and not pull the plug. They should not sound tough at those moments but work with the country's reformers to get the country out of the difficult patch. The trust and goodwill generated during these times will foster closer relationship between the Bank, or the donors, and the authorities of the country on a long-term sustained basis.

Let me conclude by thanking the organizers of this Conference who have provided this opportunity to share my views with such an august gathering of practitioners, policy makers and donors.