Managing Economic Policy Change

Institutional Dimensions

Geoffrey Lamb
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In recent years a great deal of work has been done on the analysis and design of economic policies to support the new emphasis in development strategies on policy reform and adjustment. In comparison with this effort on the substance of economic policy, however, knowledge about how best to strengthen the institutions in developing countries responsible for those policies is less developed. We do not yet have adequate knowledge or fully appropriate operational techniques to improve the management of economic policies--that is, to build up government structures and processes to support effective economic policy-making and implementation, and in particular to make sure that sustained rather than episodic policy improvements occur. Developing the institutional capacity for timely and flexible policy response is clearly central to successful policy reform and structural adjustment, but the sophistication of policy analysis has not yet been matched with corresponding knowledge about how to assist governments to strengthen and institutionalize their own processes of policy decision-making and implementation.

This paper is a preliminary effort to bring the issue of institutionalizing policy capacity into sharper focus, and to suggest ways of improving approaches to adjustment lending, public sector management assistance, and economic analysis in support of policy reform. It is intended to increase awareness of the institutional and political factors in economic reform, and to indicate how these factors may be better dealt with.

The paper deliberately separates policy management from the more general business of government by concentrating on economic management functions and on the state agencies critical to policy reform. This selective approach may well imply acceptance of some transitional institutional costs as a result of assigning lower priority to broader institutional problems and routine administrative functions, but these costs are justified by the urgency and leverage of better policy performance. The approach here stands in sharp contrast to that of conventional public administration reform, which has had indifferent success and is generally not sufficiently timely, focussed or powerful to have a significant impact on the performance of economic policy institutions. The paper focusses on the institutional dimensions of the economic policy process essentially by asking three questions:

- **What are the key components of policy decision-making?** This provides a rough checklist of the functions which governments' policy institutions need to perform, and which external assistance should seek to strengthen and make more disciplined within recipient countries.

- **Which institutions control critical aspects or phases of the policy process?** This involves tracking the policy process through the institutional structure, identifying weak points or bottlenecks in the flow of essential decisions, and devising appropriate action. This "policy process analysis" must identify
specific units or parts of institutions which are involved in policy formulation and implementation, rather than entire ministries or agencies.

How can different policies be managed in ways which are less institutionally intensive or demanding? Since economic policies differ widely in the demands they impose on a government's administrative capacity, it is important to assess the extent to which markets or market signals can substitute for administration, the degree of central control essential for effective policy formulation and implementation, and the range of public agencies and interest groups with a stake in the relevant policy decisions. Administrative intensity can vary in several ways: number of agencies involved, therefore complexity of coordination and management requirements; size of operation, therefore numbers of staff and cost of administration; and sophistication of operations, demanding different mixes of high-level and more routine technical and managerial skills.

These questions must also be viewed in political context. There needs to be more systematic understanding of the political process as it affects policy reform. Judicious choice and timing of policy recommendations and institutional interventions can take account of the political life cycle of governments, the institutional alliances and differences always present within governments, and the political interests to which different decision-makers respond.

The paper draws for illustration on experiences in several areas of economic management--public investment decision-making, debt management, exchange rate and trade policy, and economic policy coordination. While assistance by the World Bank and others for reform of these functions is mostly very recent, the cases cited demonstrate the importance of the institutional arrangements for policy management, and indicate ways in which the Bank is learning to deal more systematically with constraints in this area. In many instances this involves gradual progression from limited initiatives to more ambitious ones--e.g., assistance with planning methodology in Zambia leading to broader reforms of budgeting and planning arrangements, or support for better debt management in Thailand helping to promote institutional changes which have tightened policy coordination between central bank, finance, budget and planning agencies over public investment and budgetary decisions as well as over borrowing policy.

As these examples demonstrate, coordination of economic policy is a difficult institutional challenge. It is an intensely political issue, but is usually too complex and detailed to be dealt with effectively at Cabinet level except for a very few major decisions. At the same time, bureaucratic interests often make it difficult to secure effective coordination at the technical level, except over very limited crisis periods when these can usually be over-ruled. Successful intervention therefore needs to combine persistence with a degree of opportunism--i.e., persistence in drawing attention to the problem and putting forward possible solutions, and opportunism in building on whatever coordination mechanism present themselves, even if flawed or partial.
The paper suggests several implications for countries undertaking economic reform programs, and for international agencies assisting in their design and financing.

First, institutional requirements need to be more systematically addressed in the analysis and design of policy reform programs, specifying the framework of policy management in each case, and the organizational and other changes necessary to effect the policy improvements sought. This entails a change from an institution-centred approach (e.g., "weaknesses in organization, staffing and procedures of Ministry X") to a policy-centred approach (e.g., "through which specific organizations, people and processes is Policy Y formulated, decided and implemented, and how should each of these be changed?").

Second, given the long time horizon and political sensitivity of these changes, there needs to be a careful sequencing of institutional reforms, dealing first with the most urgent and tractable policy management issues, and then gradually broadening to tackle the underlying structural constraints. External assistance can then be designed to match these phases of policy-centred institutional reform--by degree of urgency and/or feasibility, and (in the case of the World Bank) by an appropriate combination and sequencing of lending instruments such as structural adjustment and sector adjustment loans, and by public sector management and technical assistance projects.

Third, technical assistance for strengthening economic policy management should concentrate on specific policy management problems rather than provide general institutional support; should use assistance primarily to institutionalize national rather than expatriate policy expertise; and should include activities to educate potential policy-makers and to broaden the informed policy community. Such approaches require careful calibration to the circumstances of individual countries. In some more advanced countries, for example, it may be feasible to concentrate on supporting quasi-independent policy institutions which have good access to policy-making. In other circumstances, however (such as those obtaining in much of Africa), assistance has to be concentrated in the shorter term on building up the day-to-day policy capacity of government agencies, and on providing incentives and logistic support for this capacity to become institutionalized: establishing centers of high-quality policy analysis and innovation should however remain an important objective.

This perspective on the institutional dimension of policy reform does not imply an abandonment of traditional institutional development efforts, which remain important. But a major effort to develop assistance for policy management will entail difficult choices for decision-makers in aid agencies, particularly in selecting countries on which to focus effort, committing the resources necessary to maintain that effort over some years, and accepting a degree of risk from changes in institutional and political conditions. It is also important to note that good work in these areas is staff-intensive, requiring detailed knowledge and sustained commitment of design and supervisory time and effort by operational staff. Particularly in African countries, for example, a case can be made for increasing Bank staff's direct support to governments to strengthen policy performance, and for acknowledgement of a staff technical assistance role in improving policy processes which is often perceived within member countries as both more authoritative and more accountable than expatriate consultancy.
The conclusion is that the Bank and other agencies should make the institutionalization of economic policy reform a cornerstone of institutional development work. This requires a more systematic focus on the institutions necessary to support better economic policy performance—a focus which is justified by its importance and urgency, and by the indifferent record of improving policy capacity through broader processes of administrative reform. There has in the past been a relative neglect of the institutional dimension in policy reform efforts and, conversely, a neglect of the policy function in most approaches to institutional development and public administration.

The approach should be policy-centered rather than institution-centered—that is, it should aim at improving the effectiveness of key processes of economic policy decision and implementation, and not merely at generally strengthening agencies which deal with only part of a particular economic policy problem but which deal with many other, lower-priority, matters as well. Assistance should be concentrated on direct support for national cadres of policy personnel, and on carefully designed policy work programs within recipient agencies. The main operational responsibility has to be assumed by specialist staff working on public sector management, an area to which the donor community has been devoting increasing attention. Support for economic policy reform should be a central component of their work, and should be closely coordinated with the external financing of adjustment programs.

There is also an important role for bodies such as the UN regional economic commissions, the Economic Development Institute (EDI) of the World Bank and others, to provide a forum for broadening and improving understanding of the management of economic reform at senior levels of government. EDI, for example, is playing an increasing role in developing policy analysis capacity—through its senior policy seminars, its support for national and regional training and development institutions, and its growing program of activities in economic management and development administration.
I. Institutionalizing Policy Reform

1. In recent years a great deal of work has been done on the analysis and design of economic policies to support the new emphasis in development strategies on policy reform and adjustment. Governments have had to respond to new and severe economic policy challenges produced by recession, indebtedness and rapidly changing patterns of trade and payments. External assistance institutions such as the World Bank have devoted increasing resources to policy analysis and advice, especially in the context of lending for structural adjustment and economic reform. The crisis in Sub-Saharan Africa in particular has demanded a strong and focused effort of economic analysis, policy work and operational innovation.

2. In comparison with this effort on the substance of economic policy, however, work on strengthening policy institutions within developing countries is less developed. We do not yet have adequate knowledge or fully appropriate operational techniques to improve the management of economic policies—that is, to build up governmental structures and processes to support effective economic policy-making and implementation, and in particular to support the process of policy reform. Developing the institutional capacity for timely and flexible policy response is clearly central to successful policy reform and structural adjustment, but the sophistication of policy analysis has not yet been matched with corresponding knowledge about how to assist governments to strengthen and institutionalize their own processes of policy decision-making and implementation. Without such an effort, improvements resulting from policy reform efforts are likely to be mere episodes rather than sustained gains. There are at the same time limits on what any external agency can accomplish in influencing the entire organization and decision-making processes of national governments. Donors must therefore be selective in their institutional reform objectives, and find realistic ways of accomplishing these objectives largely within existing structures rather than trying to supplant them.

3. The purpose of this paper is to bring the issue of institutionalizing policy capacity into sharper focus, and suggesting ways of improving approaches to adjustment lending, public sector management assistance, and economic analysis in support of policy reform. The operational need to address these problems is most obvious in the countries where policy institutions are very weak and the pool of skilled and experienced personnel extremely small, such as the majority of African countries. Even in more advanced economies, however, the institutional dimension of policy management is also a crucial issue—for example, in
middle-income countries grappling with unprecedented difficulties in simultaneously managing stabilization and growth-oriented adjustment under severe external resource constraints. In these latter circumstances, moreover, reform initiatives must often deal with institutions which, though powerful and relatively competent, may have become part of the policy reform problem rather than the means for its solution. If the promise of successful adjustment and policy reform is to be sustained over the longer run, current efforts to institutionalize improved policy capacities in a wide range of developing countries should be extended and strengthened. For this, a clearer agenda is required of what can be done to strengthen policy management, particularly at the macro level, as is a strategy for donors to help put that agenda into effect.

A Policy-Focussed Approach

4. The approach below is deliberately intended to separate policy management from the more general business of government, by careful concentration on those specific functions and parts of state institutions critical to policy reform. This may well imply acceptance of some transitional institutional costs as a result of assigning lower priority or fewer resources to tackling broader institutional or civil service problems and more routine administrative functions—costs which are justified by the urgency and leverage of better policy performance. The approach adopted here stands in deliberate contrast to the attempts at general administrative reform which have been promoted in the past by some donors and governments. Such attempts at comprehensive administrative reform have an unsatisfactory record, in part because their comprehensiveness lacked political realism about the time and political resources needed for wholesale institutional change. They are in any case blunt and unwieldy instruments for tackling weaknesses in the management of economic policy, and will not yield timely results in a context of rapid economic reform.

5. A focus on policy management functions therefore differs from the conventional administrative approach in a number of ways. This contrast is illustrated in simplified fashion in the table below.
Table 1

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<th>Conventional Institutional Approaches</th>
<th>Policy-focussed Institutional Approach</th>
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<tr>
<td><strong>Unit of Analysis</strong></td>
<td>Institution (ministry, agency, etc.)</td>
<td>Policy</td>
</tr>
<tr>
<td><strong>Focus</strong></td>
<td>Structure, functions and processes of subject institution</td>
<td>Policy functions and processes only, but across all relevant institutions</td>
</tr>
<tr>
<td><strong>Time Frame</strong></td>
<td>Long-term</td>
<td>Short- and medium-term</td>
</tr>
<tr>
<td><strong>Coverage</strong></td>
<td>Comprehensive</td>
<td>Partial - policy &quot;enclaves&quot;</td>
</tr>
<tr>
<td><strong>Type of Support</strong></td>
<td>Support for institution's main administrative systems</td>
<td>Support for policy decision systems</td>
</tr>
<tr>
<td><strong>Institutional Context for Support</strong></td>
<td>Stable; predominantly bureaucratic structures</td>
<td>Unstable; on political/bureaucratic margin</td>
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6. Firstly, this approach involves great selectivity in institutional action, with the specific economic policy task as the major criterion of selection. This discrimination is of several kinds, for example:

- by the decision process involved, so that only those divisions, agencies, etc., relevant to the policy's formulation and implementation are considered, and even among these relatively greater attention is given to the unit with a core or "nerve center" function for that policy;

- by function, so that (in general) the concentration is on discrete policy support tasks performed by the relevant staff or units, rather than on the entire spectrum of their work (note, however, that this may also involve specifying particular aspects of more "routine" support functions--information, personnel arrangements, logistic support, etc.--as critical to the specific policy task);

- by level, focussing predominantly on the capacities and motivation of the managerial and technocratic cadres responsible for policy formulation and for managing implementation.
7. Secondly, a focus on improving economic policy management emphasizes the political dimension of technical decisions. The entities involved with policy making straddle the political and administrative worlds. Many of the personnel involved in policy formulation and management (including those who may be brought in to strengthen it) require political as well as professional skills, and are to varying degrees politically as well as bureaucratically accountable. Attempts to improve policy-making must take account of this factor, rather than try to circumvent or ignore it. For example, effective policy work, particularly in its analytical and formulation stages, demands high-quality professionals. But the political vulnerability of policy roles often discourages people with the necessary competence from entering or remaining in them, so that the incentive problem may have a political dimension intermingled with financial and career considerations. Special mechanisms may sometimes be required to secure policy professionals—for example institutes which function as "holding tanks" (as in some Latin American countries), or special policy units or ministerial secretariats which enjoy a degree of autonomy—and incentives may need to be devised to compensate for the attendant insecurity, even though power itself is frequently a great motivator.

8. Third, a policy focus emphasizes professional rather than administrative staff functions, and the coordination of different agencies in pursuit of economic policy objectives—objectives which normally involve various combinations of core and line agency effort. The prime importance of coordination (and coordination of relatively high-level cadres, for the most part) makes it critically important to define the policy issues precisely, and thereby to assign tasks among entities and to delineate clearly the matters which require "coordinated" negotiation and resolution.

9. A fourth distinguishing characteristic is the non-standard nature of the policy function itself, involving unusual combinations of technical, political and managerial skills, and the non-routine use of the bureaucracy in the pursuit of policy objectives. This implies two things: the need to develop cadres' policy skills through training, supervision and experience; and a need to handle the uneasy relationship between policy functions on the one hand and "normal" bureaucratic activity on the other. Bureaucracies normally try to ensure that the functions and roles under their control become co-opted and non-threatening, part of the "machine". Since policy reform means change, this incorporation needs to be resisted, even though the bureaucracy must at the same time be harnessed to assist policy formulation and to implement the resulting decisions. The maintenance of an effective policy capacity thus entails a degree of bureaucratic tension and instability, which countries deal with in different ways—special policy units or task forces, policy negotiating committees, outright or quasi-politicization of senior administrative posts, and so forth.

10. Given these special features, an approach to reform of the key economic policy institutions based on conventional public administration prescriptions will normally not be sufficiently timely, focussed or powerful to have a significant impact on the capacity of institutions to manage urgent programs of policy reform. Instead, a more specific strategy
of institutional reform is required, directed at the critical agencies and functions, and based on an understanding of the key elements of the policy process. This paper, which singles out policy management for "enclave" treatment, is directed at this objective. In countries of great institutional weakness, as in Sub-Saharan countries, a policy enclave approach may well be the only feasible strategy, since even routine administration may not function but the severity of policy distortions nevertheless demands urgent action to correct the worst mistakes and prevent them from recurring. In these circumstances putting a minimal policy capacity in place is a first order of business, accompanied by inevitably more protracted efforts to re-build basic institutional structures, systems and personnel. It should be noted that building robust policy institutions may also have a long-term payoff for broader institutional development, since it strengthens critical information systems, training, incentives and implementation capacity—-and contributes to the accumulation of staff skills and experience. The "enclave" approach does however, carry some risks: in particular, that long-term institutional strengthening will suffer because of concentration on urgent but short-term problems. The focus on policy management has a different rationale for countries with stronger institutions and with fewer glaring skill constraints. Here, there are nevertheless frequent weaknesses in economic policy management, and a need for information systems, skills and decision tools of a high and sophisticated order.

11. However, it must be emphasized that the policy-management approach provides a focus for action and a set of institutional priorities: it is not a substitute for broader institutional and human resource development efforts in the public sector. Two particular aspects of complementarity may be mentioned. First, economic policies have to be implemented, usually with considerable involvement of the bureaucracy and its normal administrative and regulatory machinery. Constraints imposed by the quality of personnel and by administrative processes are therefore a significant determinant of policy choice and policy outcomes. Second, the quality of policy analysis and formulation depends in part on the existence of a substantial and appropriately organized pool of skilled technocrats in government: if that resource does not exist or becomes dissipated, it is very difficult quickly to find people for policy reform tasks who are both sufficiently experienced and also accepted by the political leadership and the bureaucracy. In some countries, such dissipation of economic policy skills has been one unfortunate consequence of the decline of planning agencies—-whatever other good reasons there may have been for the demise of comprehensive planning in these cases.
II. The Economic Policy Process

12. This section discusses how our understanding of policy-making and implementation may be improved, particularly with respect to the political dimension of policy decisions.

Analyzing the Policy Process

13. The process of policy-making and implementation cannot be reduced to a neatly ordered schema. Instead, it is characteristically an iterative, often haphazard and highly political process, in which the apparently logical sequence of decision-making may in practice turn out to be reversed, and in which the distinction between objectives and policy instruments is often easily confused and dependent on the level of decision (e.g., is reduction of the budget deficit a means or an end?). From an external viewpoint, the objective should be to understand how the process actually works for different policies in a particular country, in order to assist the development of greater discipline, higher skills and better procedures at those points which are susceptible to improvement. To do so, analysis should focus more systematically on the institutional dimensions of policy-making, essentially by asking three questions:

- what are the key components of policy?
- which institutions or entities control critical aspects or phases of the policy process? and
- how can policy choices be made less institutionally demanding?

14. Components of policy decision-making. Most policies have broadly common institutional requirements. The most obvious is an information base providing the raw material for policy analysis and choice in usable forms, including information about the effects of present policy. Second, governments need to be able to develop a coherent policy framework or universe—to define the problems which policy must address, and to clarify the physical, financial, institutional and political constraints affecting policy choice. Third, there may be an analysis of specific policy options or choices—different ways of reaching the same policy goal, or different policies aimed at the same broad development objective. Ideally, policy advisers would specify alternative courses of action on the basis of analysis: in practice, choice is typically heavily constrained on practical or political grounds. Fourth, there is a process of decision (characteristically not a single or discrete decision) by which policy is made. The complexity of this process and the location and level in government at which it occurs will obviously depend on a wide range of factors, including technical complexity, political sensitivity, and so forth. Fifth, policies require a "policy delivery system"—the development of specific, funded, administratively feasible means for implementing policy.
15. But the above does not describe a real sequence of policy-making: instead, these things will be done in different orders according to urgency, political visibility, institutional capacity to discharge the different functions, and so on. It does not therefore provide a model of what the economic policy process should be, but a rough checklist of the iterative functions which policy institutions need to carry out—and which external assistance should seek to strengthen and make more disciplined within recipient countries.

16. Tracking the policy process. Those policy functions, however, are normally diffused through different parts of the government structure, and are often difficult to isolate and improve. For economic policy in particular, the process is complex, involving different core and sectoral agencies, and a wide range of economic and political interests. Institutionalizing stronger policy processes involves tracking the policy process through the governmental structure, identifying weak points or bottlenecks in the flow of essential decisions, and devising appropriate action. As this “policy process analysis” gets down to concrete cases, the need is to identify quite specific units or parts of institutions which are involved in a particular policy, rather than “the government” or even a ministry or agency in general. Public investment, for example, is influenced by decisions in a large number of sectoral ministries and state enterprises. Policy decisions on investment involve not only these agencies but also others with economy-wide responsibilities such as ministries of finance or planning, plus aid coordination bodies, the central bank, and so forth. In such a diffused (though critical) setting for public policy decision, identifying the focal points of information, influence and decision is of prime importance, and is certainly a prerequisite of effective proposals for better public investment programming and decision-making. Similar considerations apply with greater or lesser complexity for other policies as well.

17. Institutional intensity of policies. The two questions posed above (what policy functions need to be performed, and who controls what in the process) relate to the process of policy formulation itself. But policies have to be implemented—and mainly through public institutions. The intensity of the demands placed on institutions by different policy options—the institutional opportunity cost of policy decisions—is a third critical dimension.

18. Economic policies differ widely in the demands they impose on a government’s administrative capacity—implementing big changes in public expenditure, for example, requires a much more elaborate structure and many more administrative and political actors than implementing a change in exchange rate policy (even though the consequences of the latter may be more far-reaching). The institutional intensity of a policy can be thought of as a function of three factors: the extent to which markets or market signals can substitute for administration of a particular policy, the degree of central control essential for effective policy formulation and implementation, and the range of public agencies and interest groups with a stake in the policy process. An important objective in choosing policy
instruments can thus be to "economize" on institutional complexity by using market-type instruments to reduce information and control requirements, and to leave much decision-making to private agents. However, such decisions are rarely purely technical or ideologically neutral: for example, the balance in counter-inflationary policy between monetary policy and price/wage intervention would always be a highly political decision, as well as one to be assessed on the grounds of economic and institutional efficiency.

20. **Economic policies can be thought of along a continuum of susceptibility to market-type instruments:** for example pricing, exchange rate, trade, public investment, fiscal and expenditure policies broadly require an increasing degree of administrative or non-market implementation in most countries. The applicability of market-oriented solutions to policy problems also depends on government political objectives, and on the development of market institutions themselves--that is, on how efficiently or quickly the relevant markets can be made to function.

20. **Administrative or institutional intensity, in turn, is itself a rather complex concept,** which can be defined in several ways: number of agencies involved, and therefore coordination and management requirements; size of operation, and therefore numbers of staff and cost of administration; and sophistication of operations, and therefore different mixes of high-level and more routine technical and managerial skills.

21. **For example, a foreign exchange regime of direct controls and allocation demands an army of clerks, checkers, bank personnel, permit issuers, supervisors, etc.** A market-oriented foreign exchange policy might demand far fewer bureaucrats, but more high-level analytical and monitoring skills in order to maintain surveillance of exchange markets and trends and to adjust rapidly to changing conditions. For other policies and their supporting functions, conversely, a scarcity of managerial and professional skills may need to be compensated for by large staffs and administrative complexity. An example of this was a recent decision in Thailand against computerization of government revenues and expenditures, because it was thought to demand skills beyond the capacities of the existing financial staff and to pose serious risks of breakdowns in the critical public accounting function. In principle, the feasibility of market-oriented policy options can thus be analysed by taking specific policy objectives and systematically exploring the type and scale of organization and the skill levels demanded by different policy solutions, both for the policy design process and for policy implementation.

**The Politics of Policy Decisions**

22. **The Bank's greater involvement in policy reform brings it closer to the political process in member countries, since policy-making is always a mixture of technocratic and political elements.** While the political process cannot be the subject of "institutional development" initiatives in the normal sense, this should not mean that the political element in policy decisions may be ignored or minimized. On the contrary, the effectiveness
of policy and institutional reform can be enhanced by more systematic understanding of the political process as it affects economic policy, and by the judicious choice and timing of policy recommendations and institutional interventions.

23. Governments tend to have a "political life cycle", for example, in which their legitimacy and capacity for policy initiatives tends to decline over time. In some circumstances (e.g. Mexico), this may be an established fact of political life, in other countries more uncertain and contingent on particular political events. Policy undertakings by weak or "twilight" governments may be relatively easy to secure, but worth little: conversely, a government with a strong popular mandate may be a tough bargainer, but is more likely to be able to implement difficult policy decisions or to effect far-reaching institutional change. New governments may also sharply break with the policy outlook of their predecessors, and in the process establish a new policy framework or "orthodoxy" which will then tend to define the limits of public and official debate over policy alternatives.

24. Second, no government is monolithic. All contain powerful alliances which reflect both broad political-economic forces and narrower internal bureaucratic interests, both of which cut across the formal differences between officials and politicians. The impact of these alliances on policy is evident in virtually any country: examples are the usually interventionist role of ministries of industry and commerce with respect to trade and protection, the expansionist role of ministries of irrigation, transport, construction or public works vis-a-vis public investment, and so forth. Particularly in periods of economic difficulty, there can be considerable tension between ministries which promote the interests of "their" sectors (and also derive budgets and benefits from regulating them) and the core economic and financial agencies normally charged with imposing financial discipline and devising stabilization and recovery programs. The political-economic cycle is relevant here again, since the influence of core economic agencies tends to increase in crisis periods, and then wane in favor of spending ministries (and their associated special interests) as crises ease.

25. Third, politicians and officials have political interests which may differ in important respects from their formal responsibilities for governance. Cabinet ministers represent political forces--economic interests, ethnic or regional coalitions, organized groups such as unions or military factions, etc.--as well as their departments and portfolios. Officials, too, may have political connections, and certainly also have bureaucratic interests to protect: autonomy from interference, their individual careers, and the legitimate or illicit rents flowing from the implementation of particular policies. Decision-makers are thus accountable to several constituencies (including sometimes external donors and creditors) and must calculate a complex set of costs and benefits flowing to those constituencies from particular decisions, and the consequent impact on their own positions and on the government more broadly. Trade policy provides vivid examples of the complexity of such interests and their impact on policy.
26. The policy-making process is for all these reasons more circuitous and incoherent than a rationalist decision-making model would suggest. Given the political insecurity and weak administrative capacity characteristic of many developing countries, it is often very difficult to arrive at policy decisions at all, and still more difficult to ensure sustained political and administrative responsibility for their implementation. A frequent paradoxical outcome is fragmented decision-making combined with extreme centralization—in many African countries, for example, there is very weak coordination of economic decision-making among the core and line ministries, but all decisions of any consequence may be referred to (and are often stacked up within) the Presidency.

27. External agencies such as the Bank may sometimes play an important role in improving direct accountability for policy decisions (for instance through the undertakings associated with adjustment lending). There is however a more subtle, longer-term, dimension to the problem of accountability. Very often, agencies and officials responsible for policy cannot provide good answers to policy questions which are vital to politicians—particularly, for example, about distribution of the political and economic costs and benefits of policy changes, and about possible ways of compensating for such effects. Political accountability may therefore be increased by improving policy knowledge and predictability—that is, by developing the technical capacity to present political decision-makers with a well-articulated framework of policy choices and likely consequences, including where appropriate political consequences. If the domestic policy process cannot provide political leaders with this service, there is likely to be a greater scepticism towards economic policy prescriptions proffered by external agencies, and a risk of political irresponsibility with respect to solutions seen as externally imposed. Building an independent technocratic policy capacity within member countries is therefore important to encourage domestic political accountability for policy decisions over the longer run and for improving the credibility of economic advice to countries' political leaderships—provided that support for technocratic “policy elites” does not too drastically compromise the recipients' influence.

Illustrations from Bank experience

28. In the past World Bank assistance for economic policy institutions has often been part of efforts to strengthen planning ministries through technical assistance. More recently, as noted earlier, adjustment lending has encouraged greater attention to the policy functions of core economic agencies in particular. The examples below give some flavor of these developments, and also illustrate the institutional complexities of policy-making which this paper addresses.

29. This is especially true in the rapidly expanding Bank work on public investment, where decision-making within governments is technically complex and often poorly organized, and where major interests (both inside and outside the bureaucracy) are at stake. In many governments there is no real decision-making mechanism for public investment policy as a whole,
other than approval of a wish-list of projects in a development plan, followed by highly politicized decisions about particular investment proposals. Establishing an effective policy and institutional framework for public investment thus has a sectoral dimension, i.e., to develop analytical capacity and decision criteria and systems in the line ministries and state enterprises where most public investment is generated. Core agency coordination is also critical: a credible investment program may involve inputs on the investment policy framework and on specific major investment decisions from the central bank's external borrowing division, from the ministry of finance's fiscal, aid coordination and budget departments, from the ministry of planning's macroeconomic, development budgeting and sectoral divisions, from a supervisory commission on state enterprises, and so on.

30. In the case of Turkey, for example, a 1986 Bank review of public investment attempts to provide guidance on the institutional requirements for improving public investment policy decision-making.\(^1\) It points out that a system based on fixed-period planning with an emphasis on annual targets cannot provide an effective basis for deciding investment priorities, or for the sensible phasing of investment expenditure. It outlines instead a rolling investment and financial planning system, such as the Bank has supported elsewhere, coupled with proposals to strengthen the central scrutiny of project proposals, to improve the planning, research and coordination divisions of sector ministries, and to ensure that all major public investment projects (including those for which no budgetary funds are sought) are assessed for macroeconomic impact. As the Turkey case illustrates, public investment policy is one of the most difficult areas of institutional innovation, both because of the number of agencies controlling resources and information, and because of the complexity of the decision process itself. In relatively advanced countries such as Turkey, the required institutional reforms can be devised and implemented internally or with highly specialized consultancy assistance, provided governments are convinced of the need. The role of the Bank or other external agencies may be limited to identifying the policy management issues clearly and to suggest from comparative experience, as in the Turkey report, broadly how these may be addressed.

31. In countries without many experienced people and institutional resources, however, the Bank may assist with detailed and specific proposals and play an active role in the evaluation of subsequent work carried out by consultants and by the government. An example of this latter type is a Bank public expenditure review for Sierra Leone, which contains detailed institutional recommendations on ministerial organization, on the legal framework and procedural sequence of both recurrent and development budgeting, and on the investment project cycle.

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\(^1\) World Bank, Turkey: Adjusting Public Investment, Report No. 6603-TU (March, 1987).
The problem in such cases, however, is how to tackle weaknesses in the management of specific economic functions short of prescriptions for the reform of entire ministries and procedures, which may not be politically or administratively feasible.\(^2\)/

32. For some other important policy functions, control of information may seem to be the most immediate problem. A leading example is debt management, where most countries in recent years have had great difficulty in discovering the extent and structure of public (let alone private) external debt, and in maintaining information systems which provide an accurate account of external debt. Such information systems are the essential basis not only for the "administrative management" of debt-service obligations, but for the coordination of external borrowing with other instruments of macroeconomic policy.\(^3\)/ Information and reporting systems have therefore been a primary focus of technical assistance and other efforts at debt management improvement by the Bank, the Fund, OECD, BIS and others.

33. Beyond information requirements, however, both borrowing policy and the administration of the existing stock of debt have considerable institutional ramifications. Debt policy-making requires close coordination with agencies responsible for trade and exchange issues, monetary policy, fiscal policy and public investment planning, for example. Below Cabinet level, some countries have resorted to special committees or similar bodies, usually headed by the Ministry of Finance, to manage external debt in relation to other policy instruments. In Thailand, for example, the National Debt Policy Committee was strengthened and its remit broadened in 1985 to encompass domestic as well as foreign public borrowing. The committee has high-level representation from agencies such as the Budget Bureau, Controller-General, Auditor-General, NESDB (the planning agency), the Fiscal Policy Office of the Ministry of Finance, and the Bank of Thailand (the last two agencies serving as the Committee's secretariat). With the growth of Thai political concern about the level of external indebtedness, the Committee emerged as a key instrument of economic management, especially with respect to the control of public expenditure and investment by government agencies and state enterprises.\(^4\)/


34. The "administrative management" of external debt may often be as complex institutionally as policy decisions about whether and how to borrow, and in fact the two become closely intertwined. Many African countries have yet effectively to centralize either borrowing approval or the management of debt servicing, even though line ministries and state enterprises now only rarely have the ability to borrow abroad independently. In Ghana, for instance, until recently contracting of foreign liabilities was carried out or was subject to approval, according to type of loan, by the Bank of Ghana, the international economic relations division of the Ministry of Finance and Economic Planning, the Ministry of Foreign Affairs, and the Public Agreements Board in the office of the Head of State. All of these bodies maintained their own records, which were only imperfectly centralized in the Bank of Ghana and/or the Ministry of Finance. Some government debts were serviced directly by the central bank, others through the Accountant-General, an autonomous office under the Ministry of Finance. Among the direct consequences of this confusion have been poor knowledge on the part of decision-makers about the sometimes slow disbursements of concessional funds, and even unintentional failure to meet repayment of foreign obligations because of administrative weaknesses rather than lack of funds.

35. In such cases establishing clear institutional arrangements for debt monitoring is obviously the essential first step, and the one to which the Bank has devoted most attention in its efforts to assist member countries' debt management. With improved information in place, progress can then be made on the management and administration of debt service obligations, normally through the agency of the central bank. Policy-making on external borrowing, as distinct from the organizational underpinnings of debt management, is more difficult to address, since there are technically complex issues regarding borrowing strategy in relation to other macroeconomic policies, and also great political and bureaucratic sensitivities over who controls the power to borrow, and for what purposes. The Bank has been active in providing technical assistance for debt monitoring and reporting, but has found that even the establishment of this essential basis for debt management is proving far more protracted in many countries than was first anticipated.

36. Different considerations may apply in other economic policy areas. For exchange rate and pricing policies, for example, policies closest to the optimal from the viewpoint of allocative efficiency are also likely to be more straightforward to implement institutionally, even though often requiring scarce managerial or analytical skills. These are not simple choices in practice, of course. In exchange rate management, choice of regime (e.g., floating, crawling peg, direct or interbank foreign exchange auction, periodically fixed rates with various types of administrative allocation) is complex from a macroeconomic point of view, and is affected by institutional considerations such as degree of concentration or competitiveness in the foreign exchange market, rules of access, market administration capacities, and so on. Foreign exchange auction systems, for example, have worked relatively well for periods in such apparently unpromising settings as Sierra Leone, Uganda, and Jamaica.
and have recently been successfully instituted in other countries, e.g., Bolivia and Ghana. They have certainly been less prone to distortions and abuse than a regime of direct administrative allocations. Though still demanding considerable administrative organization and close surveillance, they represented a relatively flexible intermediate or transitional instrument for some countries.\(^5\) They have run into serious problems (as in Uganda in 1985 and Zambia in early 1987, for example) where macroeconomic disequilibria exacerbated institutional difficulties the authorities were experiencing in ensuring speedy and fair allocations, so that confidence in the new system became undermined.

37. Exchange rate policy has some close parallels with other types of price intervention in pursuit of a strategic economic policy objective—for example food security.\(^6\) The objective of institutional reform in both cases is to move from a regime of generalized and ineffective administrative controls towards interventions which are less distorting and more precisely targeted on the major policy objective concerned. In the former case, this objective is an exchange rate which sends appropriate signals to domestic producers and consumers and reduces the likelihood of exchange crises, and in the latter secure access to food by vulnerable and/or poor people, whether directly or through ensuring adequate command over income. Moving from a highly interventionist type of food policy regime towards market prices and less direct allocation, however, often bristles with problems—many of them stemming from a political resistance to prices rises which has an important institutional component. The Sri Lanka government for example, succeeded in 1977–78 in both freeing rice producer prices and converting a long-established food ration system to a food stamp system, which it hoped would be more specifically oriented to poor people. While this fundamental policy change has been dramatic in its impact on rice production, it has to date proved politically and administratively problematic to implement substantial reductions in the number of consumers eligible for food stamps, so that some of the welfare and fiscal objectives of the policy reform remain elusive. In Zambia, the government's abolition of maize consumer subsidies was overturned in early 1987 following rapidly mounting political opposition and some disturbances. This setback to policy reform was partly the result of inadequate design and implementation. The government had apparently not anticipated that consumers would shift to cheaper qualities of maize meal in response to price changes. It had therefore not ensured that either the state of the private millers (who before the reform had had little financial incentive to process or stock substantial qualities of the lower grades) held adequate stocks of these qualities when the price increases went into effect. Shortages—especially disturbing to consumers where staple foods are concerned—therefore exacerbated political responses to prices.

\(^5\) See also K. Krumm, Recent Experiences with Exchange Options, CPD Discussion Paper 1986, No. 29, March 1986.

38. Market-oriented policy reforms often in practice alter rather than reduce demands on public institutions—because intervention must compensate for widespread economic distortions, because efficient market functioning demands considerable sophistication in information and services to producers, or because there is a high degree of interconnection with other policy areas. The obvious case is that of trade policy, where all of the above considerations normally apply. Yung Whee Rhee⁷/ has explored some of these issues from the viewpoint of a "second-best transitional trade policy" intended to simulate internationally competitive conditions for potential exporters in developing economies, emphasizing the role of institutions as a transitional substitute for market automaticity:

An important unconventional lesson to be learned from the experience of the successful East Asian countries is that effective institutional mechanisms—both public and private—have been critical, acting as catalysts for (i) implementing export policy and administration and (ii) developing the ability and desire of producers and traders to respond to opportunities in the world market." (p. 204)

39. An indication of the factors involved in such a strategy is summarized in Rhee's table setting out the legal instruments and administrative framework typically involved in export policy:

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Table 2: A TYPICAL EXPORT INCENTIVE SYSTEM

<table>
<thead>
<tr>
<th>Export Incentives</th>
<th>Laws and Regulations</th>
<th>Administering Agencies</th>
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</thead>
<tbody>
<tr>
<td>1. Realistic Exchange Rates</td>
<td>Foreign Exchange Laws</td>
<td>Ministry of Finance</td>
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<td></td>
<td></td>
<td>Central Bank</td>
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<tr>
<td>2. Free Trade Regime for Exporters</td>
<td>International Trade Law</td>
<td>Ministry of Trade and</td>
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<td></td>
<td>Tariff Law</td>
<td>Industry</td>
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<td></td>
<td>Duty Drawback Law</td>
<td>Commercial Banks</td>
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<td></td>
<td>Free Trade Zone Law</td>
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<tr>
<td>3. Automatic Access to Export Financing</td>
<td>Bank Regulations</td>
<td>Central Bank</td>
</tr>
<tr>
<td></td>
<td>EX-IM Bank Law</td>
<td>Commercial Banks</td>
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<td></td>
<td>Export Credit Insurance Law</td>
<td>Development Banks</td>
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<tr>
<td></td>
<td></td>
<td>EX-IM Bank</td>
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<tr>
<td></td>
<td></td>
<td>Export Credit Insurance</td>
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<td></td>
<td>Agency</td>
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<tr>
<td>4. Competitive Prices of Primary Inputs</td>
<td>Labor Law</td>
<td>Ministry of Labor</td>
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<td></td>
<td></td>
<td>Wage Council</td>
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<tr>
<td>5. Compensatory Export Incentives</td>
<td>Tax Laws</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td></td>
<td>Banking Regulations</td>
<td>Central Bank</td>
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<td></td>
<td>Export Estate Development Law</td>
<td>Commercial Banks</td>
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<td></td>
<td>Technical Assistance Regulations</td>
<td>Ministry of Trade and</td>
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<td></td>
<td></td>
<td>Industry</td>
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<td></td>
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<td>Ministry of Technology</td>
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<tr>
<td>6. Institutional Support</td>
<td>Export Association Law</td>
<td>Ministry of Trade and</td>
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<tr>
<td></td>
<td>Export Inspection Law</td>
<td>Industry</td>
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<tr>
<td></td>
<td>Trade Development Decree</td>
<td>Export Associations</td>
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<td>Export-Inspection Agency</td>
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<td></td>
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<td>Trade Development Council</td>
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</tbody>
</table>
On the import side of trade policy, the institutional factors tend to be more "negative," in the sense of ensuring that administering agencies such as the central bank, ministry of trade, customs department, etc., actually comply procedurally with policy changes which liberalize trade restrictions. Bureaucratic lags in implementing greater automaticity were noted (rather belatedly), for example, in Bank-supported trade liberalization programs in the Philippines and Kenya, particularly with respect to such matters as the removal of quantitative restrictions and the shifting of commodities from more to less restrictive import licensing categories. Such issues may be central to successful implementation of trade liberalization, however, and have received quite inadequate attention in the past—though they are now under greater scrutiny as "non-market barriers" to trade become the subject of international attention.

The discussion and examples above indicate how understanding of the institutional basis of particular policies may be improved—by setting out the analytical and information requirements of the policy in question, tracing the organizational intricacies of policy decision-making, and assessing the intensity of demands placed on institutions by the adoption of different policy choices. However, beyond asking such questions in the case of specific policies there is a larger issue—what institutional arrangements are required to support effective coordination of economic policies, and therefore a coherent government economic program? Economic policy coordination is a prime example of the interaction of a large number of institutions, and of the difficulties of establishing coherence between them. In many countries mechanisms such as economic policy coordinating committees have a very mixed record: they have often lacked decision-making authority and a clear remit, or have been poorly supported at the technical level, or else become an arena of conflict among well-entrenched segments of the bureaucracy, which diminishes or subtly alters its policy function.

In Turkey, by contrast, economic management has been deliberately concentrated in recent years, in particular by the creation in 1984 of a new Ministry of Treasury and Foreign Trade under the Prime Minister. Considerable problems remained in economic policy coordination, however, despite the improvements effected by the new Ministry and by the use of informal groups of senior officials to review policy issues. In an attempt to provide technical underpinning for higher level and ad hoc co-ordination, the Bank recommended establishment in the Ministry of a policy coordination division, under a senior economic adviser. This would review major policy issues and supply analytical and secretariat support to senior-level decision-making—e.g. for macro-economic analysis for budget formulation and short-term forecasting, monetary, fiscal, exchange and trade issues, and pricing, incentive and subsidy policies.

In many African countries, policy coordination barely exists, particularly where there is an institutional separation between planning and finance, and a weak role assigned to the Cabinet compared to that of the Presidency. An account of economic decision-making capacity in one African country underlines the point:
"A consistent and timely response to the deepening crisis was impeded by the fragmentation of information and decision-making. All major decisions ... are visibly concentrated in the person of the Head of State, but many other decisions are taken in a dispersed, haphazard way throughout the administration .... What planning has taken place has largely being in a formal bureaucratic sense and rarely linked to what has actually to be done to make what is planned materialize... economic considerations are relegated to second priority, because first priority is granted to short-term political considerations, often in a disconcertingly erratic manner.... In such circumstances, the incentive to enhance the Government's economic policy capabilities tends to be undermined, no matter what the prevailing economic situation calls for."

In such circumstances, it is very difficult to encourage accountability on the part of Ministers for policy decisions: instead, they tend to be accountable only in a purely political sense to the head of state, and all decisions of any consequence will often be made directly by him. Lack of joint ministerial responsibility is reflected, of course, at the official level as well.

44. In some such cases, Bank assistance has been productive by concentrating on a few key building-blocks of policy coordination, in the expectation that this would gradually introduce greater discipline into other areas of the economic policy process. In Zambia, for example, the Bank has had a series of interventions since 1978 to promote institutional development for macroeconomic policy-making and implementation. A program of economic work and direct assistance by Bank staff has been instrumental in reforming planning and the budgetary process, and in realigning the roles and relationships of key agencies involved. A study of the Zambia case notes that staff work and Bank lending for policy reform and technical assistance encountered predictable bureaucratic and political rivalries and resistance to change. Close and continuous staff involvement in the design of institutional reform was critical to the acceptance of change, bolstered by the position of trust the Bank had earned with the country's leadership. Thus, for example, in promoting planning and budgeting reform as a step towards broader improvements in macroeconomic policy management, a good deal of time was spent persuading representatives of the National Commission for Development Planning to adopt the new approach to planning when they initially viewed the merging of capital and recurrent budgets and the introduction of a financial planning model in the Ministry of Finance as a threat to the role of NCDP. They were eventually persuaded to embrace an enlarged but different role, that of setting priorities for the whole budget rather than determining the amount of only the capital budget.

45. Ghana is another country with a recent past of prolonged economic crisis and institutional decay where the Bank (more recently in this case) is playing a central role in assisting both policy reform and the reconstruction of key economic institutions. 8/ In designing assistance

for public sector management reform to accompany the government's structural adjustment program, the Bank has concentrated initially on specific policy functions necessary to support the economic recovery—e.g., macroeconomic policy analysis, public investment preparation, current expenditure control, debt management and aid coordination. For each function, agreement is sought on allocation of responsibilities within and among the agencies concerned, provision and flow of information, and coordination arrangements. The program also provides for emergency measures by government, assisted by the Bank, to mobilize skilled Ghanaians needed to implement the key policies of the recovery program. At the same time, the Bank is encouraging the institutionalization of reform by supporting changes in the salary structure of the public service, by encouraging the government to reduce the range of administrative controls and to concentrate efforts on critical areas of public intervention, and by direct assistance to Ghanaian institutions which will supply consultancy and training services to rebuild public sector capacity in these key areas. Bank support remains deliberately selective, concentrating on specific policy functions, divisions within ministries, and categories of skilled staff, and assigning markedly lower priority to other parts of the agencies' portfolios. Though the finance and economic planning functions are the centerpiece of this effort, it also involves policy aspects of the work of such other agencies as the Bank of Ghana, the statistical office, the office of the Head of the Civil Service, the Revenue Secretariat, the office of the head of government, and so on. The Bank has encouraged the creation of a high-level economic policy unit to ensure that the work of the newly-strengthened units is better managed and coordinated at a high (in fact ministerial) level, and is coordinating its activities with those of other donors to ensure that external support for Ghanaian public institutions meets the priorities of the government's adjustment program.

45. As these examples (and many other experiences) demonstrate, coordination of economic policy is an extremely difficult institutional challenge. It is an intensely political issue, but tends to be too complex and detailed to be dealt with effectively at Cabinet level, apart from a very few major decisions. At the same time, bureaucratic politics and agency interests often make it difficult to secure effective coordination at the official level, except over very limited crisis periods when sectional interests can usually be over-ruled. The Bank's role has therefore had to combine persistence with a degree of opportunism—i.e., persistence in drawing attention to the problem and putting forward possible solutions, and opportunism in building on whatever coordination mechanisms present themselves, even if flawed or partial.

46. A relevant example is Thailand, where the Bank has for some years urged the government to achieve greater consistency in economic management by strengthening its fiscal planning capability, and by improving the linkages between fiscal policy and public investment and budgeting through innovations based on program budgeting concepts. This has proven difficult to effect, given the political delicacy of the policy choices involved and the entrenched bureaucratic and military interests which are a powerful conservative force in the Thai system. Informal Bank technical assistance
was provided to the Ministry of Finance's Fiscal Policy Office and two structural adjustment loans supported program budgeting reforms and a strengthening of the planning agency (the National Economic and Social Development Board or NESDB), but progress in policy coordination via these routes remained limited. Increasing economic difficulties and representations by the Bank and the Fund have nevertheless prompted more active policy coordination in Thailand—notably through the Economic Cabinet and through the strengthened role of a few key committees—in particular the National Debt Policy Committee. This senior official-level committee (referred to above in the context of debt management) brings together many of the central economic agencies (e.g., Bank of Thailand, Fiscal Policy Office, NESDB, Controller-General), although sector departments are not represented. It formulates and recommends borrowing and credit policy decisions to Cabinet, but also approves particular proposals for public borrowing. In the latter function, it has in effect played a critical role in determining the composition of the public investment program as well, by evaluating projects' impact on indebtedness and on budgetary ceilings. However, servicing this and other policy committees entails an additional burden on staff and divisions within the core departments which are already hard pressed, making it all the more important for the government to ensure that these institutions are augmented to play their new secretariat and policy management roles effectively. The Thai government, in this case, responded to weaknesses in its policy management by setting up "semi-institutionalized" coordination structures. These structures have dealt tolerably well (and in a politically acceptable way) with key policy issues, but only by diverting very scarce high-level official skills to service the committees, with considerable effects on the performance of the agencies from which they are drawn.

47. The strain on scarce staff resources and policy skills has been exacerbated in some countries, as earlier noted, by a decline in the influence (and hence attractiveness) of planning commissions and similar bodies. This is a sort of historical accident: in many developing countries, planning agencies were the primary institutions to which economists and policy analysts were deliberately recruited in the 1950s and 1960s, and in which a sizable number of such technocrats gained policy experience. The discrediting of comprehensive planning and the shift of governments' attention to stabilization and adjustment issues has encouraged the decline of these agencies over the last decade—but frequently without a substitute locus of economic policy expertise emerging elsewhere in government. Efforts are underway in some countries to strengthen policy and planning functions in other core agencies and in sector ministries, but the diminution of planning institutions and of planning as a career has nevertheless left something of a vacuum, particularly in some South Asian and African countries. As these examples indicate, there is unlikely to be a single long-term institutional solution to policy coordination problems. Few countries, for example, have instituted (let alone maintained for long periods) policy coordination arrangements such as Korea's, where the Economic Planning Board under the
Deputy Prime Minister plays a critical role vis-a-vis line ministries—not least because of its concomitant responsibility for the budget. In most countries personalities, institutions and policy priorities change frequently, and so must the ways of bringing them together. The Bank itself has played an important role at some stages—in a number of instances, for example, Bank-supported structural adjustment programs have prompted the establishment of policy coordinating bodies which have had considerable impact in the short run, though follow-up and consolidation of these improvements often seems to have been disappointing. The Bank's experience of longer-term institutional innovation for economic policy coordination is so far limited and experimental—though this is changing rather rapidly, and will require assessment as further experience is accumulated.
III. Implications for External Assistance

48. The experience of the 1980s has produced a major movement in many developing countries towards policy reform. The Bank has played a considerable role in encouraging the shift, and in assisting a large number of countries in the elaboration of reform programs. Sustaining this progress is now an issue of fundamental importance for the international community. It is an especially demanding task, given the very limited financial and political room for maneuver which many high-debt countries currently possess, and the widespread degeneration of African public institutions as a result of economic decline and mismanagement of the economy and of the public sector in many countries. There is therefore a need to broaden the catalytic and intellectual leadership role in policy analysis and prescription which the Bank has often played. At present institutional and policy objectives of assistance programs are too often poorly linked. Donors try to strengthen economic functions and agencies which are not always the critical ones in terms of policy reform objectives, and recommend policy measures with sometimes inadequate consideration of institutional constraints on implementation, or of whether better policy-making processes will be instituted as a result of the intervention.

Policy Analysis

49. What is required, in essence, is the development of country-specific policy management diagnoses and solutions in key areas such as macroeconomic policy coordination, public expenditure, debt and external financial management, trade, and pricing, closely linked to the policy reform objectives of government adjustment programs.

50. This will require systematic, policy-focussed institutional analysis along the lines set out in part II above, carefully matching policy objectives with institutional prescriptions which are based on a realistic analysis of how the policy process actually works in the country concerned, and of the political and institutional constraints on reform. The resulting programs of assistance will obviously differ widely in focus and degree of sophistication depending on country circumstances, but in most cases would incorporate both short-run policy management support to meet emergency needs, and a longer-term program gradually to introduce more robust institutional capacities alongside the development of staff policy skills. Given the long time horizon and political sensitivity of these changes, there needs to be careful sequencing of institutional reforms, dealing first with the most urgent and tractable policy management issues, and then gradually broadening to tackle the underlying structural constraints.

51. In general, policy analysis should therefore spell out, more explicitly than is normally the case at present, the institutional framework of policy management for the topic under discussion, and the
institutional requirements of the policy improvements sought. This entails a change from an institution-centred approach (e.g., "weaknesses in organization, staffing and procedures of Ministry X") to a policy-centred approach (e.g., "through which specific organizations, people and processes is policy with respect to Y formulated, decided and implemented, and how should each of these be changed?").

52. While there are clearly sensitivities in frank discussions between governments and external agencies of the political economy of policy decisions, and of institutional and political prospects for policy reform, these can and are being overcome in many cases. Policy analysis which shows a close understanding on the part of the donor of the organizations and processes through which particular policies are managed has a greater prospect of acceptance by governments, and is more likely to demonstrate clearly where (and which) remedial steps are necessary to improve policy performance. This requires rather specific operational guidance on each major area of policy, setting out the institutional issues likely to be encountered in each case. The objective of policy analysis and policy dialogue, in other words, should not merely be to reach agreement about the substance of policy issues: it should also examine and recommend specific policy delivery systems for putting prescriptions into effect, and for identifying and removing institutional obstacles to the attainment of policy objectives.

Financial and Technical Assistance

53. Past experience has pointed to some significant problems in Bank lending in support of institutional reform, particularly at the macro level. One of these is the long-term nature of institutional change compared with the time-scale of Bank lending, especially in the case of structural and sectoral adjustment lending. Secondly, the utility of Bank finance in the process of institutional reform is not always obvious, since there is often a disparity between the political sensitivity and practical importance of reform, on the one hand, and the relative triviality of the direct institutional costs which can be readily financed by Bank operations on the other. A third and related problem is the unsatisfactory record of traditional technical assistance as a means of tackling pervasive or systemic institutional shortcomings. Some of these problems are shared by other donors, while some of them offer obvious opportunities for donors to collaborate and develop appropriate packages of institutional support for countries undertaking policy reforms.

54. The time-scale problem, by now widely recognized, can be tackled as part of such a coordinated strategy for individual countries. This requires, however, that country strategies provide a specific account of the institutional constraints seen as inhibiting better long-term policy performance, and identify appropriate lending instruments (or other operations) which the donor community can support to deal with them. Bank lending operations can then be phased and targeted to deal with different aspects of policy-centred institutional reform—by degree of urgency and/or
feasibility, and by an appropriate combination and sequencing of lending instruments such as adjustment loans, and public sector management or technical assistance projects. None of these instruments is intrinsically inflexible, moreover, and can readily be linked to the institutional development activities of other donors. In Ghana, for example, an IDA-financed Structural Adjustment Institutional Support Project accompanies a Structural Adjustment Credit, and provides a wide range of assistance for government to rebuild critical economic policy functions and to strengthen core agencies in charge of the adjustment program. Cofinancing with bilateral and multilateral donors is part of the design.

55. Adjustment lending can and does initiate and support important processes of institutional reform. However, some of these operations have in the past tried to address too wide and unstructured a range of problems, resulting in a large number of specific conditions which have been difficult for the countries to meet and for Bank staff to monitor, and which have not always assigned firm priorities to different reforms. Instead, institutional reform objectives need to be limited in scope so as to focus institutional support specifically on the policy objectives of the program, and to initiate carefully selected policy capacity-building activities for which simultaneous or follow-up operations are already being planned—whether by the Bank, by other donors or by the country without recourse to external help. These aspects of adjustment loans may best be designed by clear specification of the following, for example, for each major policy objective of the loan:

- what actions/processes of information-gathering, analysis, decision-making and implementation need to be carried out, where possible with specific timetables;

- which actors (agencies or specific officials, not "the government" or "the ministry") are responsible for each of these functions, including those at the political level;

- what immediate remedial action is necessary to ensure that these functions are performed and the relevant people assigned, and who is responsible for managing this;

- what further policy-focused institutional reforms are part of the government's program but are beyond the scope and time horizon of the present loan, and how these will be addressed by the government and by future Bank operations.

56. Institutional reform aimed at strengthening economic policy management may thus be supported by coherently designed adjustment lending. The major means of direct support for institutional change, however, has been technical assistance, which frequently suffers from well-known problems—borrower reluctance, patchy transfer of skills, poor incentives for nationals as compared to expatriates, etc. For the specific
objective of strengthening policy management capacity, technical assistance based primarily on the supply of external expertise is in most circumstances peculiarly inappropriate. An important component of the shift in focus which this paper recommends will therefore be further innovation in technical assistance, in terms both of content and of modes of delivery.

57. To achieve this, external assistance in this area should concentrate on supporting the development of indigenous networks of organizations and people responsible for key policy processes. In particular it should:

- carefully target the program on the specific policy management problem rather than on general institutional development for the agencies concerned;

- cover all relevant organizational parts of the "policy management package" rather than a single constituent (e.g., for debt management, the relevant sections of the central bank, ministries of finance, planning and foreign affairs, the accountant-general, etc., rather than being seen as a matter of assistance to the central bank or ministry of finance alone);

- concentrate resources primarily on nationals of the borrower country (rather than on financing of expatriate expertise) by expanding support for salary and incentive policy reforms, logistic support and equipment, training and nationally-based consultancy, and skills mobilization schemes;

- include, where possible, activities aimed at broadening the policy community—for example by policy seminars for senior bureaucratic and political personnel, and support for policy research and similar institutes with the potential for contributing to policy formation and debate.

- ensure that the assistance is output-oriented, e.g. by requiring the execution of agreed work programs by the policy networks and agencies being supported, rather than merely providing inputs to be absorbed by the constituent institutions.

58. The development of such approaches requires careful calibration to the circumstances of individual countries. In some more advanced countries, for example, it may be productive to concentrate on providing substantial support to quasi-independent policy institutions which do consulting work for governments and which provide relatively well-paid jobs for an important technocratic cadre: Latin America and East Asia provide some instances of this type. In other circumstances, however (such as those obtaining in much of Africa) assistance has to be concentrated on building up the day-to-day policy management capacity of government agencies, while support for independent policy analysis can probably more
effectively be provided on a regional basis—and in this area the Bank's Economic Development Institute is beginning to play an important role.

**Professional Issues**

59. The perspective on policy reform in this paper is relevant to staff of assistance agencies dealing with policy dialogue, economic adjustment and related technical assistance questions, and their projects staff dealing with sectoral institutional and policy reform issues. It also underlines an important dimension of the work of staff and units in international agencies working on specialized issues such as external debt, industrial and financial re-structuring and policy reform. The ability of all these staff to give effective advice and recommendations to member governments on economic policy is reduced unless they pay systematic attention to policy decision-making and implementation—in other words to the conditions under which policies can be put into effect in the short run, and institutionalized in the long.

60. However, the main responsibility for improving the quality and coherence of the donor community's analysis and performance in this field must lie with the specialized staff and units working on institutional development and public sector management. These have grown rapidly in recent years in the World Bank, and have also become more prominent in other agencies such as UNDP, ECA, IDB and some bilateral donors. Given the importance typically attached to institutional components of broad economic reform programs, the new emphasis is therefore appropriate. It can be sharpened, however, by a more precise concentration on the institutional requirements of policy management and policy reform outlined above. The policy management and structural adjustment objectives also provide a useful criterion for focusing rather than dissipating international effort on other important national-level issues such as public administration reform, especially in potentially contentious and technically difficult areas such as public sector pay and employment policy.

61. It is also important to note, as much Bank experience shows, that good work in these areas is staff-intensive—not least because effective interventions require sustained commitment over long periods by national governments and by the international agencies and their staffs. Particularly in African countries, for example, a strong case can be made for increasing World Bank staff's direct support to governments to strengthen policy performance, and for acknowledgement of a staff technical assistance role which is often regarded within member countries as more authoritative and more accountable than expatriate consultancy expertise.
IV. Conclusions

The main argument of this paper is that the Bank and other external assistance agencies should make the institutionalization of economic policy reform a cornerstone of their support for institutional development in developing countries. This strategy singles out the non-routine, highly skill-intensive and politically sensitive aspects of government for attention and action. It is justified on grounds of intrinsic importance and urgency, difficulty of timely treatment through broader processes of institution-building, the relative neglect of the institutional dimension in much policy-making and, conversely, the neglect of the policy function in most approaches to institutional development and public administration.

The approach should be policy-rather than institution-centred—that is, aimed at improving the effectiveness of key processes of economic policy decision and implementation, and not merely at generally strengthening agencies which deal with only part of a particular economic policy problem but which deal with other, lower-priority, matters as well. This will require close coordination between public sector management initiatives and lending operations aimed at policy reform, and a concentration on countries where donors are supporting a major policy reform effort.

Assistance for policy capacity-building should place less emphasis on the provision of expatriate expertise and more emphasis on direct support for national cadres of policy personnel and on carefully designed policy management work programs within the recipient agencies.

To do this properly will require donors to continue building up their expertise in the assessment of institutional problems and the design of public sector management reform programs which are closely coordinated with external financing of adjustment programs.

While the World Bank has taken an operational lead in some of these initiatives, there is also an important role for bodies such as the UN regional economic commissions, the Bank's Economic Development Institute and others, to provide a forum for broadening and improving understanding of the management of economic reform at senior levels of government. EDI, for example, is playing an increasing role in developing policy analysis capacity through its senior policy seminars, its support for national and regional training and development institutions, and its growing program of activities on economic management and development administration.