

**THE POLITICAL ECONOMY OF REFORM:
DESIGNING, INITIATING AND SUSTAINING PUBLIC
SECTOR REFORM IN DEVELOPING COUNTRIES***

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"...But our fundamental problem today is not too much government or too little government. Our fundamental problem is that we have the wrong kind of government...", Former Vice President Al Gore, *Creating a Government That Works Better and Costs Less* (1992).

"The consequences of reform are often measured using quantifiable yardsticks, such as national income, exports, or inflation. But an equally important aspect of reform is whether it succeeds in reshaping the values and norms of the state and the state's relationship to the economy. It is this transformation that ultimately legitimates reforms in the public eye." World Bank, *World Development Report 1997*, p.155.

Abstract

This paper examines the nature of the public sector reform process in developing countries, drawing primarily on the experience of countries in the Asia-Pacific region, particularly the two rather different cases of Papua New Guinea and Bangladesh. In discussing key issues, the academic debate has been summarized but the focus has been on reviewing its implications for policymakers in the developing countries. The nature and dynamics of the "reform process" are briefly examined, after which the challenges of initiating reform are discussed. Public sector reforms are not only needed to improve transparency, accountability and equity, they are essential to underpin efforts to boost economic growth and reduce poverty. The internal and external compulsions for reform are examined in the context of the global shift in the last quarter of the twentieth century away from strategies of state-led economic development towards models relying more on private-sector-led and outward-looking growth. The barriers to reform, the role of donors, the pitfalls associated with poorly designed or inappropriately sequenced reform programs and the role of the civil service are reviewed. The difficulties in building up an effective coalition of interests to support reform are examined, together with issues relating to the management of change and sustaining the reform process. The final

section deals with issues relating to the development of a constituency for continuing reforms.

I. Overview

"Neoclassical political economy has made an important contribution to the development literature by popularising the notion of 'government failure'. There has been an unfortunate tendency among many observers working in this tradition to make the unwarranted inference that 'government failure' is common, while 'marketfailure' is rare and exceptional." Chowdhury and Islam, The Newly Industrializing Economies of East Asia (1993), p. 53.

"... if there had developed in any one of half a dozen relationships in the economy absolute resistance, absolute unresponsiveness to change, the whole process of economic growth leading to industrialization might have been held back or slowed down...there must be a social system and government which has not got its face turned against economic change, or at least has not got effective power and influence to stop spontaneous forces for change from acting...Peter Mathias, The First Industrial Nation, (1969), p.10.

Only in the past two decades has the term "reform program" achieved its current ubiquitous status in the developing world, having become a common feature in virtually every nation's economic policy statements. Developing countries are constantly exhorted to "reform" their economies and their state institutions and improve the quality of "governance". The implication is that they remain underdeveloped due to weaknesses in their economic organization and shortcomings in the operation of the institutions of the State. The further implication is that whereas in the developed world the role and institutional structure of the State have successfully evolved over time to meet the changing needs and challenges of the modern world, developing countries have lagged behind in the recasting of policies and institutions. The relatively slower rate of institutional adaptation to change in developing countries may reflect a number of factors:

- the existence of powerful interest groups that may prevent the "spontaneous forces for change" noted above from operating;

- civil services that are not geared to efficient management of change processes, lacking the training or incentive structures to ensure the effective implementation and management of reform programs;
- the absence of strong political leadership in favor of the reform process. This should not be construed as an argument for discarding the checks and balances of democratic processes: it should be remembered that in some countries there may be strong leadership that firmly opposes change; and
- a relatively weak "civil society". In the developed countries "civil society" has been a major vehicle for articulating the need for change and ensuring that the forces for change coalesce in an effective manner, but its growth elsewhere has been constrained by poverty, low levels of education and poor access to the media.

In the discussion that follows the term "public sector reform" will encompass the entire range of policy actions being undertaken to:

- a) enhance the effectiveness and efficiency of the institutions of the State in meeting the needs of its citizens, particularly in terms of the provision of public goods;
- b) improve transparency and accountability in government;
- c) reorient the State to provide an enabling economic environment for the private sector, which is envisaged as the "primary engine" of economic growth,
- d) shift the focus of the State towards "core" functions, and away from activities that could be more efficiently performed by the private sector, and
- e) decentralize the provision of public services (strengthen local government institutions) and move to alternative service delivery mechanisms, enhancing the role of the private sector and Non Governmental Organizations (NGOs), where appropriate,
- f) reform principal-agent relationships, incentive structures and administrative processes that govern the activities of the civil