

2013 Harold Mitchell Development Policy Annual Lecture

The challenges of aid dependency and economic reform: Africa and the Pacific

Jim Adams

Abstract

Jim Adams delivered the 2013 Harold Mitchell Development Policy Lecture on November 14, 2013. The Harold Mitchell Development Policy Lecture Series, of which this is the second, has been created to provide a new forum at which the most pressing development issues can be addressed by the best minds and most influential practitioners of our time. The 2012 Harold Mitchell Development Policy Lecture was delivered by Emilia Pires and is available as Devpolicy Discussion Paper 26.

Jim Adams retired in 2012 after 37 years at the World Bank. His last assignment was as the Vice President for East Asia and the Pacific from 2007 – 2012, where he worked on and travelled extensively in the Pacific island region. He spent almost half of his career working on Africa, leading the Bank's program as the Regional Director in Kenya in the late 1980s and as Country Director in Tanzania and Uganda from 1995-2002. From 2002 to 2007 he served as the head of operational policy in the Bank, overseeing a program directed at making the Bank more responsive to its clients' needs. In his lecture Jim focuses on how effective economic reform emerged in Africa and related institutional and capacity issues. Drawing on this and his Pacific experience, he puts forward a number of proposals that could be taken up by governments and aid donors in the Pacific to accelerate economic reform and support the emergence of improved government institutions and policy making capacity.

2013 Harold Mitchell Development Policy Annual Lecture
The challenges of aid dependency and economic reform:
Africa and the Pacific

Jim Adams

Jim Adams is the Former Vice President for East Asia and the Pacific, World Bank.

Adams, J 2013 "2013 Harold Mitchell Development Policy Annual Lecture – The challenges of aid dependency and economic reform: Africa and the Pacific," *Development Policy Centre Discussion Paper 32*, Crawford School of Public Policy, The Australian National University, Canberra.

The Development Policy Centre is a research centre at the Crawford School of Public Policy, The Australian National University. Its discussion paper series is intended to facilitate academic and policy discussion. Use and dissemination of this discussion paper is encouraged; however, reproduced copies may not be used for commercial purposes.

The views expressed in discussion papers are those of the authors and should not be attributed to any organisation with which the authors might be affiliated.

For more information on the Development Policy Centre, visit

<http://devpolicy.anu.edu.au>

1. Introduction

Distinguished guests, ladies and gentlemen,

I want to begin by thanking the Development Policy Centre and ANU for hosting this presentation. While at the World Bank I came to appreciate the contributions that the Centre and similar organisations can make in facing the challenges of development. When I was in charge of World Bank operational policy I interacted a great deal with Nancy Birdsall's Center for Global Development in Washington, and as Regional Vice President for East Asia a similar relationship emerged with the Development Policy Centre. In my experience, these centres play a key role in fostering public engagement on development issues, thereby ensuring improved public understanding of and support for development aid. Second, their separation from traditional donor resources allows them to be an objective, if not always appreciated, source of analysis or criticism of official aid. Finally, they are often in a much better position than traditional aid agencies to foster innovative thinking on aid.

I also want to acknowledge the commitment that Harold Mitchell has made to the Development Policy Centre. Having a secure private source of funds helps ensure the independence of the Centre, allowing it the flexibility to take on difficult issues. As a former manager in a large bureaucracy that funded and oversaw significant analytic work on East Asia (and before that in Africa), I was very sensitive to the real pressures that existed for researchers to be overly responsive to Bank views or to "pull punches" when commenting on Bank work.

Today I would like to focus on a number of issues that I feel are central to successful development in low-income countries generally and the Pacific specifically: economic reform, aid effectiveness, the role of the private sector and capacity building. Drawing on my experience in both Africa and the Pacific, I will try to develop a number of themes on how to facilitate more rapid economic growth and poverty reduction. While I fully appreciate the many significant differences facing the Pacific when compared to Africa (particularly the special constraints the Pacific faces of size and distance), I also feel that these regions confront many common challenges. I will cite a number of best practices I saw in Africa and suggest how they might be effectively applied in the Pacific. I will also

review a number of areas where Pacific and Africa programs face similar challenges-- suggesting ideas which governments and the donor community might consider for action.

2. The challenge of economic reform

Since the World Bank is primarily an economic institution and I spent over 37 years there, my overriding concern with economic reform and the key role economic policy plays in facilitating economic growth and poverty reduction should not surprise anyone. However, I believe a bit of history is both important and informative. The fact is that throughout its first 30 years the Bank was comfortable with a focus on project investment and improving policy in fairly narrow areas of sector development. The dominance of infrastructure in early lending, and the Bank's continued focus on funding investment projects as its mandate expanded to include rural development and social sector operations, reflected a confidence well into the 1970s that solid investment lending and improved sector policies and institutions could lead to rapid development progress. The fact that so many countries had graduated from Bank lending reinforced this view. I would remind the audience that the first Bank loans were to France and the Netherlands, that Japan was the Bank's largest borrower in the 1950s, that many EU clients were active Bank borrowers until reaching high income status, and that the Bank remains quite proud of its financial support to the Snowy Mountain Hydro Scheme here in Australia. It was only with the second oil crisis in the late 70s and the resulting economic disequilibrium that this environment was seriously challenged.

The realisation that the "recycling of petrodollars", that had been possible in the initial oil crisis, was no longer sustainable and that macro policy weaknesses were seriously constraining economic growth, led to a basic questioning of the Bank's model of operation.

As summarised in Nick Stern's contribution to *The World Bank: Its First Half Century* (1997):

“The launching of Structural Adjustment Lending programs in February 1980, McNamara's speech to the Board of Governors in September 1980 and the choice

of adjustment as the main topic of the 1981 World Development Report were fundamental in drawing the attention of many in the development community-- policymakers and academics alike--to the magnitude of the challenge of adjustment."

While its engagement in work on structural adjustment would create significant pain for the Bank over the rest of the 20th century, it was a commitment that has had an enormous impact on its role in developing countries. Increasingly, the Bank became a "policy-focused institution", far more engaged in economic policies at the macro level. The recognition that "policy change" can have a far greater impact on development than project investments became ingrained in Bank thinking. Policy analysis expanded rapidly, most of it linked to country-based work. "Structural adjustment lending" became a dominant focus of many Bank country lending programs. Particularly in Latin America and Africa, the need for major changes in economic policy became a focus of Bank operations. Interestingly, the more stable growth and better economic policies that marked East Asia resulted in that region being less involved in the early adjustment debate--it would, of course, become actively engaged after the Asian Financial Crisis in the late-90s.

Because I was personally involved in the Africa story and because I want to relate that to the challenges the Pacific faces today, I will focus on that experience. Central to the Bank's approach to reform in Africa in the early 80s was a specially commissioned analysis of the African situation. The so-called "Berg Report" (1981) was led by Professor Elliot Berg from the University of Michigan. Supported by a small team of Bank staff, this report presented a clear message on the need for broad policy reform in Africa. Drawing heavily from Bank experience, it argued for an agriculture and export-oriented growth strategy, underlining the need for trade and exchange rate adjustments, more disciplined budgets, reductions in government controls, a reduced role for parastatals, and an increased role for the private sector and for major investments in education and in health. This report stood in stark contrast to the response to the crisis developed for the Organisation of African Unity under the leadership of the UN Economic Commission for Africa: the Lagos Plan of Action. While both reports called for increased aid to address Africa's economic problems, the Lagos Plan placed blame for the crisis on

developments outside Africa and rejected the Berg Report's argument that, to be effective, aid had to be accompanied by serious policy reforms.

In retrospect the Bank risked its reputation in Africa on its emphasis on reform and structural adjustment. While programs certainly had country-specific elements, the major themes of the Berg Report were broadly and consistently reflected in the programs that received funding. While the subsequent work by John Williamson, which became known as the "Washington Consensus", was largely based on the Latin American experience with reform, the major themes of that work also guided African adjustment efforts. The Bank cooperated with the IMF on the full range of macro issues; it also worked closely with the broader donor community to mobilise additional resources to ensure that programs received adequate funding.

The Bank became a target for considerable criticism of its new priorities. Many governments felt the Bank was being too intrusive and prescriptive, resenting the conditionality that marked adjustment lending; the NGO community rejected the dominant economic focus of the Bank, questioning the likely impact of many of the proposed reforms; and in-country vested interests affected by the reforms worked hard to undermine proposed policy changes.

Yet if one looks at the economic scene of Africa today, one cannot help but be impressed by the tremendous changes that mark economic performance in countries that were serious about reform. Overall growth rates are robust, budgets are far more disciplined, agricultural prices have been liberalised, market-driven exchange systems are universal, governments have been downsized, regulations have been reduced, there is broad emergence of a more effective private sector and increased resources have been deployed to expand programs in education and health.

At the same time I would concede that mistakes were made in Bank-supported programs. Too often the programs were overly optimistic on impact. In particular, Bank assumptions about how quickly reform could reverse economic decline were unrealistic. Second, many programs were too ambitious and overly complex--they often overwhelmed government implementation capacity. Finally, in many cases governments

signed-up to reforms but were not committed to their execution. Needless to say, this did not produce constructive results.

On balance, however, I firmly believe that history will conclude that the long-term impact of the difficult reforms that marked the 80s and 90s in Africa have been overwhelmingly positive. To underline this point I will cite a number of examples of the effects of solid reform programs on changes in GDP growth rates in specific countries. In Burkina Faso in the first half of the 80s, the average GDP growth was 1%. Over the past five years (2007-12) it rose to 6.2%. Ghana was broadly seen as a “basket case” in the early 80s, with an average growth rate of -1.9%. Over the last five years, Ghana has recorded growth of 8.6%. In Mozambique, early-80s growth averaged -3.9%; recent growth reached 7%. Finally, in Tanzania and Uganda (countries in which I was the Bank's Country Director from 1995-2002), their respective average growth rates of 0.8% and 2.1% in the 80s increased to 6.7% and 5.9% in the past five years. It is interesting that, in its 2 November edition this year, *The Economist* included an article that covered four of these countries. It made a key point that I would underline: these are countries that have not relied on the resource boom driven by China, a growth factor well-known in Australia. That article (which arrived after I developed my list of reforming countries) reinforces my message on the role of economic reform and notes other important improvements in performance in these countries.

I know some will express a concern that GDP growth rates do not necessarily reflect broader development progress, so I think it is important to note the results of household survey work that has been conducted in the two countries I was formerly responsible for. At the beginning of reforms in Tanzania and Uganda in the late-80s, both countries faced poverty levels for more than half their populations. Recent surveys indicate that poverty levels in Tanzania have fallen to 26% and in Uganda to 25%. Growth has clearly been accompanied by real improvements to living standards in the low-income segments in both countries.

Contrast these numbers with the performance that has marked the Pacific over the same periods. In Fiji, economic growth remained at 0.7% over both periods; in Kiribati average growth fell from 1.5% to 1.4%; in Samoa the respective averages improved from -3.6% to a modest 0.7%; in Solomon Islands a more impressive increase from -0.4% to

5.1% was recorded (a result, I would suggest, of RAMSI inputs, improved economic policies, as well as the resource boom, including sustainable logging); in Tonga the 80s average of 3.7% fell to 2.3% and Vanuatu also recorded a fall from 3.7% to 3%. Interestingly, PNG was the one country that looked more like Africa. Its average growth of 0% in the 80s rose to 7.8% over the past five years, much assisted by the resource boom. And of course that was very much assisted by the resource boom.

The message I draw from this “quick and dirty” analysis is that serious economic reform programs can dramatically and positively impact growth. While the Pacific does not face the level of crisis Africa faced in the early-80s, and while I recognise that Pacific constraints will not allow the region to quickly replicate some of the African examples referred to above, it remains clear to me that the very low rates of GDP growth in the Pacific can and should be more aggressively addressed. More specifically, **as my first observation, I would suggest a greater emphasis on economic reform in the Pacific can pay substantial dividends.**

I would note that experience with reform programs is an important asset in developing successful country-specific efforts. In-country capacity exists across the Pacific but is limited; I will return to this issue at the end of my presentation with a discussion of how African reform capacity has dramatically increased over the past 25 years.

On the donor side I would highlight a number of strengths. First, the IMF is taking the needs of the Pacific seriously. They have a team of solid experts in Fiji. I hope some of you have the opportunity next week to attend the presentation at the Development Policy Centre by Patrizia Tumbarello, the IMF team leader for the Pacific. I had the privilege of working with her during the last part of my tenure at the Bank and can attest to her determination to increase IMF support to the region. Second, both the World Bank and ADB have worked on economic reform across the region and have significant capacity in this area. In addition, the EU has become an important actor in the Pacific and has significant experience in reform under both its Africa and Eastern European programs. Finally, economists from across the Australian system have a role to play-- there is unique and deep expertise on the Pacific in both the academic community and within government. I would note, however, that the emphasis on expanding economic capacity within the former AusAID is fairly recent; its Chief Economist Michael Carnahan

has been devoting considerable time to strengthening its economic work. **My second observation would be to underline the importance of sustaining this effort.** Since Australia still oversees a large portion of overall resource flows to the Pacific, increased economic capacity under DFAT leadership could help ensure that reforms get appropriate attention in the composition of the aid program.

A quick, third observation: would it now be timely to consider a Pacific report along the lines of the Berg Report that reviews potential economic policy reforms to ensure that Pacific countries have concrete policy advice on how they can move to high paths of economic growth?

3. On aid dependency and aid effectiveness

The Pacific is a very aid dependent region. The present levels of per capita aid support to the Pacific continue to be at levels that are multiples of my Africa experience. All the northern islands receive more than US\$1000 per capita per year; Tonga receives US\$896. Solomon Islands receive US\$620 and Samoa receives US\$532. PNG receives US\$87 and, even with its present constraints, Fiji receives US\$75. Today Tanzania and Uganda receive US\$53 and US\$45 respectively. While there is an understandable upward bias to supporting smaller states, it is also clear to me that the quality of donor programs has a particularly important impact on the quality of life in the Pacific.

One special issue facing the Pacific is the heavy reliance on Australian support. In Tanzania and Uganda there were more than two dozen active donors and, while this sometimes resulted in issues of fragmentation, it also ensured that no single donor's funding was essential to macro stability. Australia does not have this flexibility in its relations in the Pacific, creating pressures which need to be carefully managed. Recognising these pressures and realising that multilateral support could be helpful in dealing with this issue, over the past decade both the World Bank and ADB have worked hard to ensure that both institutions are more engaged in the Pacific.

During my tenure in East Asia, Bank lending to its Pacific members grew from an average of US\$23 million per year to US\$127 million; this fiscal year the Bank expects to approve 17 projects in the Pacific, the largest number ever. To support this program the

Bank substantially increased the size of its Sydney office; created a country office in the Solomons; expanded the Bank office in PNG; and, uniquely in the multilateral lending system, established joint offices with the ADB in Samoa, Tonga, Kiribati and Vanuatu. Australia was fully supportive of these efforts.

In addition, the region has benefited from increased EU support for development; in particular, their work on regional activities is now substantial. Today the Pacific is getting broader support from an appropriately diversified donor community, underlining the importance of getting donors properly organised to ensure that the impact of their funding is maximised.

Based on my Africa experience, I have a number of observations to make on this issue. One "best practice" in many countries of Africa, which has more recently emerged in Solomon Islands, is that of creating an economics working group among donors to oversee and coordinate economic dialogue with the government. Such a group can ensure that consistent and well thought out economic policy advice is communicated to governments. It can also arrange for analytic work to be broadly available to donors for reactions and suggestions. Finally, it can serve as a sounding board for government thinking on policy issues. My understanding is that this practice is now growing in the Pacific. As such, **my fourth observation is that it would seem appropriate to quickly expand such economics working groups across all the Pacific islands.**

Another Africa practice is to secure at least an annual meeting with senior government officials on the use of aid; this has a long precedent in Asia as well. These meetings provide an opportunity for donors to engage in a dialogue with senior government officials on key issues (typically the President or Prime Minister participates in a portion of the meetings); they allow participation of visiting headquarters staff in the country dialogue when that is desired; and they give governments the space to comment on donor concerns and priorities. These meetings require a clear agenda, are increasingly open to the public and provide the opportunity for discussions of analytic work that has been completed by the donors or government. **My fifth observation is that I think this practice of annual meetings with donors could also be usefully applied across the Pacific.**

With the very large role donor resources play in government expenditure programs, it is key that there be a more systematic review of annual budget proposals. I think the case for annual Public Expenditure Reviews (PERs) is very strong. This would facilitate regular interaction on government priority setting and allow constructive exchanges on resource allocation options and on past budget performance. My experience is that this work will also help build capacity in the Ministry of Finance as well as improving information flows with donors and across government agencies. Today the Development Policy Centre is working actively on this issue in PNG--I congratulate them for this initiative. **My sixth observation would be to propose that annual PERs become a regular product across the entire Pacific.**

One trend emerging across the development community is an increased focus on development results as opposed to the traditional emphasis on inputs into development activities. I am a big supporter of this, particularly in the social sectors. The World Bank has developed a new instrument, the P4R (Payment for Results), which provides a framework for this work. My view is that this offers a real opportunity to better align donor support with impact “on the ground”. **My seventh observation would be to suggest that work on results-based lending be given a priority in the Pacific.**

In my view good data is essential to improved policy-making. In this area the Pacific is in better shape than Africa; the support from the official statistical agencies in Australia and New Zealand and the solid work of the SPC (Secretariat of the Pacific Community) statistical group have had a positive impact. But I would cite three areas where I think more can be done. First, while the IMF work has secured solid macro data there are still gaps in sector data. It would be useful to ensure that the work needed to secure comprehensive sector data is done on a systematic basis to close this gap. Second, the statistical needs of the small islands cannot be addressed by simply applying the present international framework; it would be too costly and, quite frankly, not very helpful. I know there has been work in SPC on developing an approach to the statistical needs of small islands; I feel this should be given appropriate support.

Finally, there is a lot interesting ongoing work in Africa on surveys to provide better insights into the actual conditions in the social sectors; I understand similar work is being conducted by the Development Policy Centre in PNG. By focusing on issues such as

the hours teachers actually teach, the availability of drugs in health centres, etc., this work will give a far better sense of the quality of services than we have had in the past. I believe it should also be more broadly supported. **My eighth observation is that increased attention to improved data and expanded survey work in the Pacific will pay large dividends.**

Finally, I believe the region has a unique opportunity in the Pacific Islands Forum that is presently underdeveloped. The Forum includes a Post Forum Dialogue (PFD), which I feel is a unique opportunity to address Pacific-wide challenges. However, I also believe this event can be more effectively utilised. A graduate of four forums, I believe the opportunity to interact with all the heads of state of the Pacific is a special opportunity to review issues in donor coordination and key aid challenges. However, I have been disappointed that preparation for this interaction is typically limited. As a result, the PFD is often unfocused and the messages emerging from that session are of limited impact. **My ninth observation is therefore that I think donors need to take a more structured and serious approach to the PFD.** There should be clear agreement on the one or two issues that will be the focus of debate, appropriate analytic work should be done to facilitate the dialogue and the donors should ensure their side of the dialogue is well structured and disciplined.

4. The private sector

One key message of the adjustment era was that there were real limits to the size of governments and that future growth and employment prospects of countries depended directly on the health and expansion of the private sector. This is not a message that is universally embraced in either Africa or the Pacific. Their common history of the private sector being dominated by either outside forces or minority groups has often resulted in ambivalence about the role of the private sector and reluctance in addressing private sector concerns and interests. One would have hoped that this situation would have been reversed by the dramatic transformation that private sector telecom investments have resulted in--both in Africa and the Pacific. Yet honesty demands that I note that in both Africa and the Pacific, the oft-stated interest of governments in the private sector is

typically not matched by actions which provide a welcoming and supportive environment for private sector development.

This ambivalence clearly emerges in the annual analysis that the Bank and International Finance Corporation (IFC-- the Bank's private sector arm) conducts on "Doing Business". This work results in an annual report which provides a comprehensive assessment of country performance. The 2014 report (World Bank 2013) rated 189 countries over 11 areas of business regulation, including: starting a business; dealing with construction permits; registering property; getting credit; getting electricity; prote

cting investors; trading across borders; enforcing contracts; paying taxes; employing workers; and closing a business. Each report also covers a special topic of interest; this year it focused on regulations for small and medium scale business. In addition, at the request of the East Asia region (and with the support of Australia), a separate sub-report is produced on island countries.

Reviewing Pacific performance in the context of this report is not encouraging. While three Pacific countries have consistently been listed in the top third of country performers (Tonga, Samoa and Fiji), the relative ranking of these countries has fallen since the ranking of countries began in 2006 (when 155 countries were ranked). This is in clear contrast to the Africa story, which includes many poor performers but also contains nine of the 20 countries that have recorded the greatest improvements in performance relative to the frontiers of performance. Indeed, Rwanda is typically cited as the single best example of improved regulations--it moved from 139th place in 2006 to 32nd today. The story is even worse for the rest of the Pacific. All the remaining countries have seen large declines in their ranking: Solomon Islands from a ranking of 53rd to 97th; Palau from 50th to 100th; PNG from 64th to 113th; Marshalls from 48th to 114th; Kiribati from 45th to 122nd and Micronesia from 56th to 156th. I would quietly add that this is in a region that has three of the 11 highest rated performers--Singapore at number one, New Zealand at three and Australia at 11. Clearly there is not a positive regional effect! **My tenth observation is straightforward--a greater focus on improving the Pacific environment for the private sector is timely and will pay significant benefits.**

Indeed, if I had it to do again, I would have given a higher priority to following-up the “Doing Business” work than I did during my tenure in East Asia. IFC correctly led the work on this but I now feel that increased support from the Bank side might have been effective in increasing the attention of Pacific governments to these key issues. To address private sector needs the World Bank can also directly support private sector investment through the IFC. During my tenure in East Asia we worked hard with IFC management to substantially increase IFC investments in the Pacific, an effort that has been sustained by my successors. Led by Gavin Murray, the IFC office in Sydney rapidly expanded its staff of investment officers and established a number of IFC country offices. These steps allowed IFC to be much more active in following-up investment opportunities across the Pacific. In the three years before 2007, IFC lending to the Pacific averaged about US\$20 million per year. In the last three years of my tenure in East Asia, Gavin and his team lent an average of almost US\$110 million per year; lending of US\$100 million per year has been sustained over the past two years. Reflecting on my experience in Africa, I do question whether there are enough options beyond IFC for longer term lending in the Pacific. Africa today benefits from the involvement of the many European development finance companies that work with its private sector. There is a plethora of such organisations--FMO in the Netherlands, CDC in the UK, Proparco in France, DEG in Germany, etc. **An eleventh observation: would it be timely to consider establishing a development finance company along these lines to support the development of long-term finance in the Pacific? Perhaps a joint effort with New Zealand could be considered?**

5. Capacity building

There is one capacity building success in Africa that I would like to discuss that I believe has a particular relevance to the Pacific. In the mid-80s, when the call for structural adjustment was at its peak, a clear sense emerged that too much of the debate on reform and adjustment was dominated by outsiders, particularly International Financial Institutions and European donors. There was a recognition that the local capacity involved was both too small and of limited depth. The near total absence of solid economic analysis emerging from within the continent was an obvious gap requiring

action. There was a parallel concern about the quality of the economic training within the region.

In direct response to this concern in the three East African countries, an effort was led by the Rockefeller Foundation and Jeff Fine, a Canadian economist at IDRC (International Development Research Centre), to put in place support for developing a network of qualified, policy-focused economists. Called the African Economic Research Consortium (AERC), it began operations in 1988. From its initiation, this effort included a program of funding economic policy work by young economists and a training program for Master's students. (Interestingly AERC chose the Master's level because it quickly identified that the basic level of existing training in economics across the region was so weak that a PhD program would not be able to identify appropriately qualified applicants). In both areas, there was a specific focus on quality from day one. While AERC quickly reached out to fund proposals for macro analysis, largely with university economists, from its inception it had a strict program of peer reviews and closely monitored the work that was funded.

These reviews engaged both the best African economists and solid experts from abroad. The practice of twice a year research workshops was established, where senior economists acted as a resource to criticise and strengthen ongoing work. For the Master's program, reviews were done of the capacity of African universities to deliver potential courses; courses had to meet quality standards in order to receive AERC support. Moreover, in order to respond to the course gaps that were identified, AERC set up a residential program that gathered students from across the region to Nairobi and engaged qualified teachers from Africa and abroad.

The early success of the AERC program led to its rapid expansion. First, it has funded 3,300 researchers from 25 countries since 1988 and it is now supporting policy studies over the full range of economic topics facing Africa. Its budget has grown from US\$1 million in 1988 to almost \$15 million today, as its work has expanded to cover the entire continent. Third, it has funded over 2000 masters graduates and, with the expansion of its training to the PhD level, it has supported 400 PhD students. Finally, it has an annual Senior Policy Seminar which brings together African policy-makers and AERC researchers to discuss current policy topics of interest.

Throughout its history it has sustained strong support from traditional international donors and now receives funding from a number of African governments. Most important, perhaps, is the broad and effective impact that the policy work and training is having across the region. Today governments across the continent see AERC funded work as central to their policy-making processes. They are no longer totally dependent on outside researchers and donors. In addition, AERC graduates are increasingly taking on senior policy positions across Africa. The first Program Director in AERC, Benno Ndulu, is now Governor of the Central Bank in Tanzania. His counterparts in both Kenya and Uganda have been directly involved in AERC work. The South African Chief Economist of the African Development Bank is a graduate of AERC work. Just last month at a development conference, I sat next to Caleb Fundanga, the recently retired Governor of the Zambia Central Bank--his next stop was at AERC where he was chairing a program review meeting. I could go on: AERC work is now almost a requirement for senior technical positions in ministries of finance, ministries of planning and central banks across the region.

For me, three messages emerge for the Pacific. First, increased Pacific capacity in economic policy analysis will be critical to address the challenge of economic reform discussed above. Second, the gaps in regionally based economic policy analysis capacity, while perhaps not as serious as the situation in Africa in the 80s, remain large. Third, there is a continuing shortage of capable policy-makers in many of the countries in the region.

My final observation is that the AERC model provides a useful framework for the region to consider in more effectively addressing these constraints. I am not suggesting a simple copy of that model, but I do feel the considerable experience AERC has gained over the past quarter of a century provides some useful guidance for such an effort in the Pacific.

In closing, I want to underline the importance of increasing economic performance across the Pacific and the key roles that improved aid coordination, private sector development and improved economic policy capacity can play in this effort. I trust my observations can make a constructive contribution to this effort and am personally committed to supporting this effort in any way I can.

6. Bibliography

Berg, E 1981 *Accelerated Development in Sub-Saharan Africa: an agenda for action*, World Bank African Study Review Group, Washington DC.

Stern, N & Ferreira, F 1997 “The World Bank as 'Intellectual Actor” in Kapur, D, Lewis, JP & Webb, R (eds) *The World Bank: Its First Half Century, Volume 2: Perspectives*, pp.523-609, The Brookings Institution, Washington DC.

World Bank 2013 *Doing Business 2014 – Understanding Regulations for Small and Medium-Size Enterprises*, World Bank, Washington DC.