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Managing Investment Climate Reforms

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“Reform process is not the sideshow.....

.....it’s the main event”Stiglitz, 2000

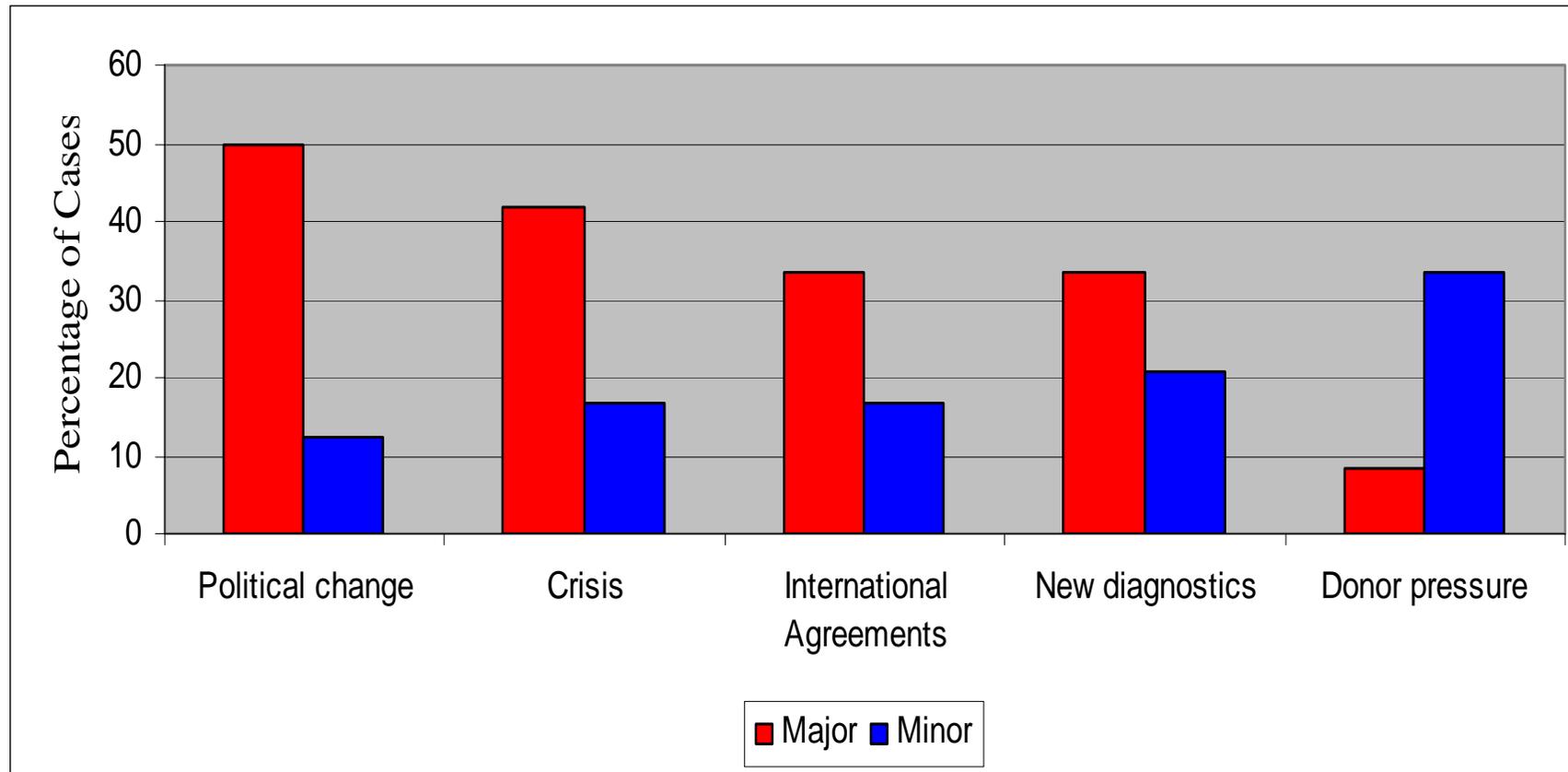
- Political process about winners and losers:
 - Deep vested interests
 - Uneven distribution of costs and benefits
 - Political cost of losses often higher than gains from benefits

- Continuous institutional change:
 - Changing not just policies and regulations but institutions, incentives, and behavior

Reform case studies

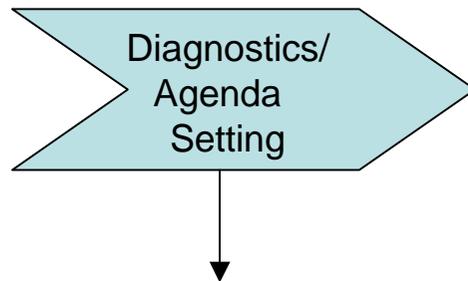
Broad reforms	Inspections	Land	Infrastructure	Access to credit	Labor
Hangzhou	Latvia	Peru	Colombia ports	Mexico	Colombia
Mexico	Mexico	Mozambique	Mumbai port		Slovakia
Pakistan	Netherlands	Cape Town	Uganda telecom		Poland
Vietnam		Shenzhen			
Australia		Novgorod			
Hungary					
Italy					
Korea					
Slovakia					
UK					

What triggers reform?

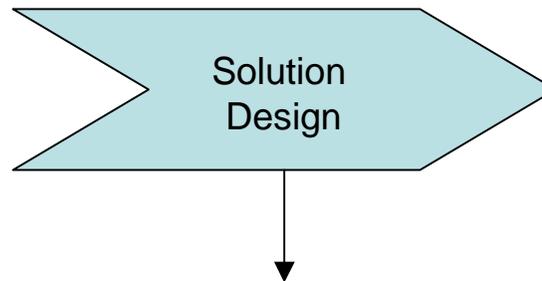


2007 Doing Business: 85% of reforms in first 15 months

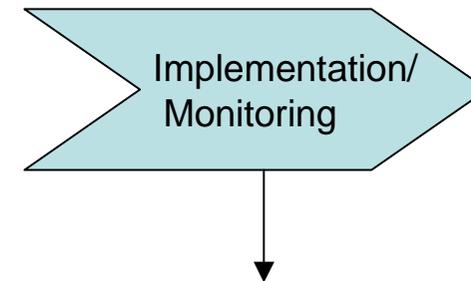
Reformers' Checklist of Strategic Questions



- Binding constraints identified (cross-cutting and industry specific)?
- Start with bold reforms or quick wins?
- World class team to lead the process?
- Public commitment from political leaders?



- Leverage of relevant international good practices?
- Strategy to deal with vested interests?
- Strategy to mobilize public support?
- Fix existing laws or new legal framework?
- Fix existing institutions or build from scratch?
- Pilots?



- The right implementation leaders?
- Clear and realistic implementation targets?
- Monitoring systems and accountability?
- Leverage of private sector?
- Leverage of new IT solutions?
- Support and coordination of donors?

- Powerful role of diagnostics/benchmarking in:
 - Identifying binding constraints, reform priorities
 - Building support
- Bold reforms vs. gradual approach:
 - Crisis/new government – e.g. Colombia, Slovakia
 - Spillovers
 - Pilots – e.g. land
- Small technical teams for formulating reforms:
 - Often newly constituted – 50% of cases

Policy learning in solution design

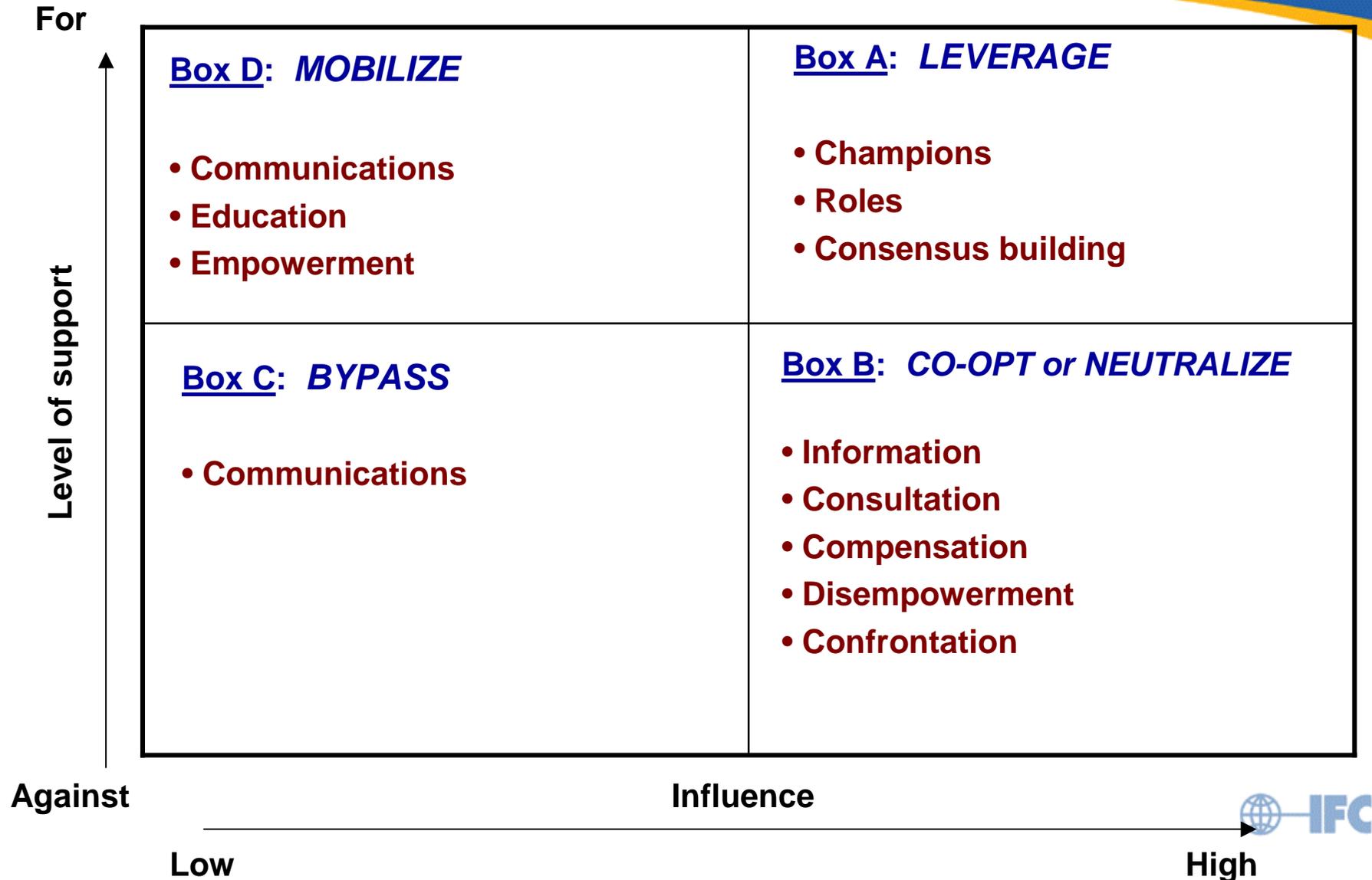
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- Leveraged good practice: majority of all cases
 - From previous reforms in the country
 - International best practice
 - Experts as part of reform teams
- Pilots: used to make progress on “tricky” issues
 - Land – all cases
 - China, Vietnam – experimental approach
 - Local level – La Paz, Mexico City

- Choosing legal strategies:
 - Framework laws – LFPA in Mexico
 - New laws – land code in Russia
 - Amendments to laws – labor code in Poland
 - Regulations
- New institutions – 76% of all cases
 - Facilitate policy coordination – SGELI in Vietnam
 - Review existing and new policies – COFEMER in Mexico
 - Bypass existing institutions – Peru, new property registry
- Reforming existing institutions – SECP in Pakistan

Stakeholder management essential part of process

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Implementation and monitoring

- Main levers:
 - Political leadership
 - Dedicated reform team
 - Private sector/stakeholder participation – 72% of cases
 - IT/internet solutions – streamline procedures/process (e.g. Pakistan)

- Even good reform cases show room for improvement:
 - Performance incentives/implementation targets – ineffective or seldom used
 - Training and capacity building
 - Coordination between different levels of government
 - Monitoring – in less than half of cases, no feedback loop

- **Big opportunities to do more:**
 - Diagnostics and benchmarking to identify key cross-cutting and industry specific constraints and stimulate action
 - International good practices along the technical, institutional and reform process dimensions
 - World class team to drive the process
 - International agreements
 - Conditionality to strengthen the hand of reformers
 - Stakeholder management early in process
 - Pilots on tough issues
 - Change management in existing institutions
 - Monitoring and evaluation capabilities