



private sector | development

# Managing the Politics of Investment Climate Reforms

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

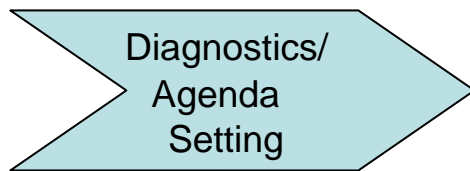
*.....it’s the main event” .....Stiglitz, 2000*

- **Technical challenges:**
  - Long list of possible reforms
  - Figuring out priorities and sequencing can be daunting
- **Political process about winners and losers:**
  - Powerful interest groups
  - Uneven distribution of costs and benefits
  - Political cost of losses often higher than gains from benefits
- **Involves continuous institutional change:**
  - Changing institutions, incentives, and behavior
  - Requiring coordination among government levels

# Reform case studies

<b>Broad reforms</b>	<b>Inspections</b>	<b>Land</b>	<b>Infrastructure</b>	<b>Access to credit</b>	<b>Labor</b>
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					

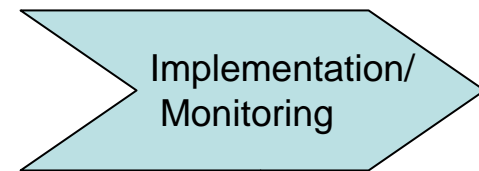
# Strategic questions



- How to identify reform priorities?
- How to seize opportunities?
- Who are key players in leading and formulating reforms?



- Start with bold reforms or quick wins?
- Pilots?
- How to deal with interest groups?
- How to mobilize public support?
- New institutions for reform?

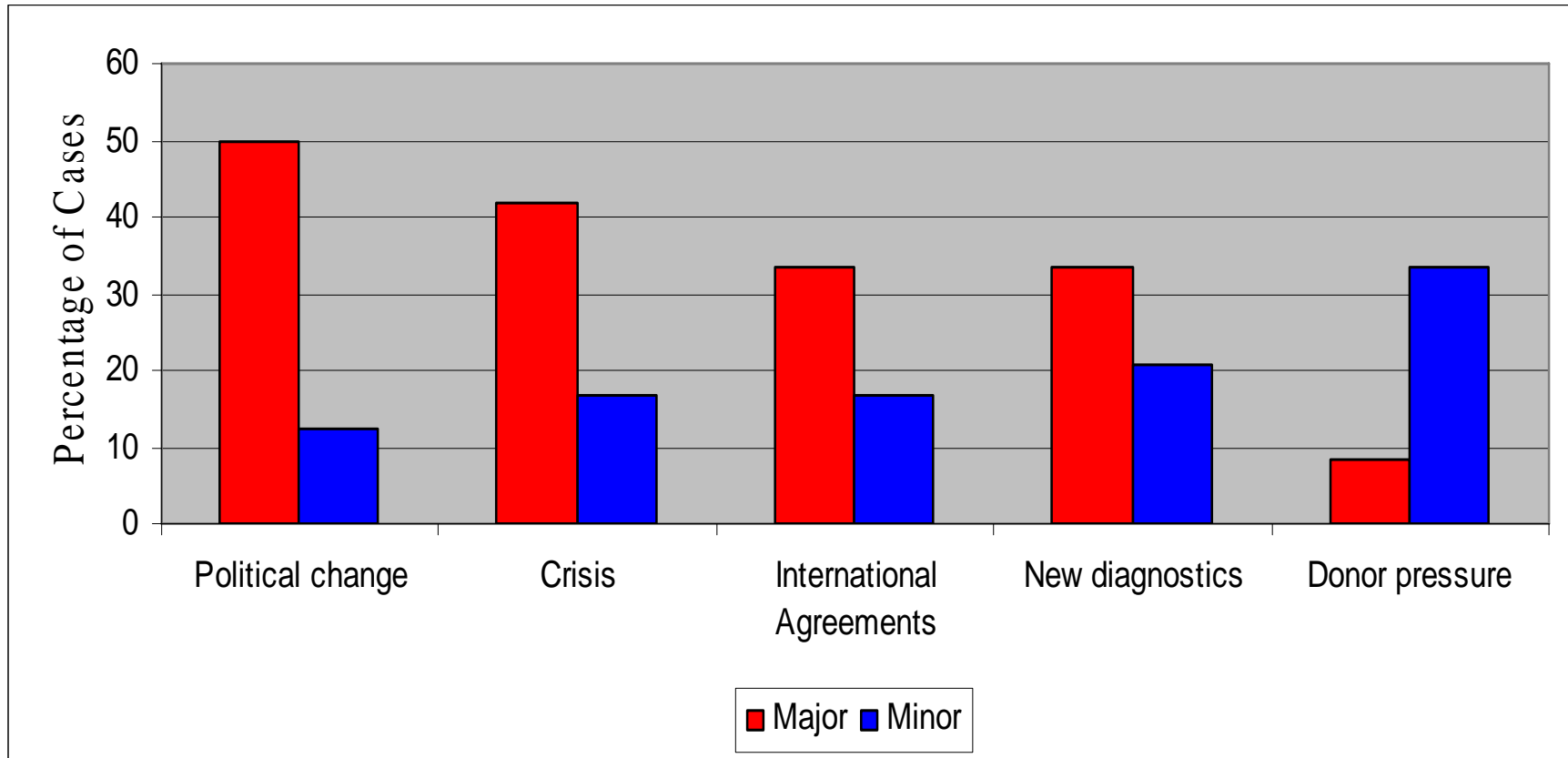


- Change top management of problematic institutions?
- How to align incentives with reform objectives?
- How to involve private sector?
- How to leverage new IT solutions?
- What and how to monitor?

# Identifying reform priorities

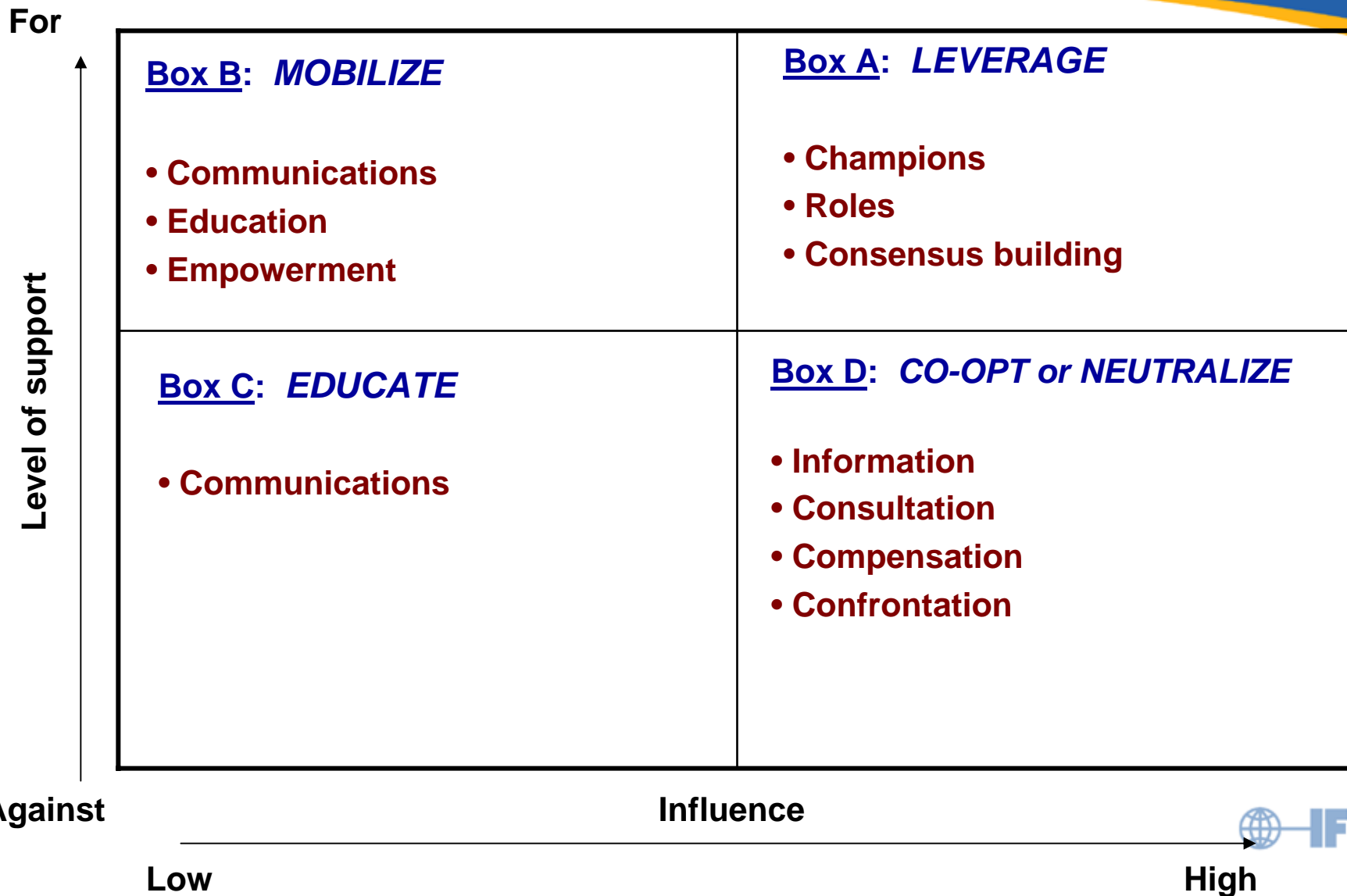
- Powerful role of diagnostics/benchmarking in:
  - Identifying binding constraints, reform priorities
  - Creating demand for change
- Growing body of tools and information:
  - Investor surveys
  - Benchmarking data/country rankings – e.g. Doing Business
  - New “growth diagnostics”, problem decision trees
  - In-depth industry analyses
- Understanding complementarity between reforms
- Through learning and experimentation

# Seizing reform opportunities



- Using crisis and political change for bold reform:
  - Fiscal/financial crisis: Slovakia, Hungary
  - Corruption scandals: Korea, Italy
  - Major safety violations: Netherlands
- Pilots as learning and demonstration tools:
  - Land – all cases
  - China, Vietnam
- Leveraging of good practice: majority of all cases
  - Previous reforms
  - International experience
  - Experts in reform teams

# Building coalitions for reform



- Radical reform of existing institutions:
  - SECP in Pakistan
  - Customs in South Africa
- New oversight mechanisms – 60% of all cases:
  - Facilitate policy coordination – SGELI in Vietnam
  - Review existing and new policies – COFEMER in Mexico
  - Implementation and reform development – COFOPRI in Peru
- Key features:
  - Credible mandates and objectives
  - Transparency and accountability mechanisms
  - Integration with finance and planning authorities

# Implementation and monitoring

## ■ Main levers:

- Political leadership
- Dedicated reform teams
- 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 often underemphasized
- Coordination challenges between different levels of government
- Monitoring – in less than half of cases, no feedback loop

- Big opportunities to do more:
  - Continued role for diagnostics/analysis, good practices
  - Be strategic and realistic in what can be achieved
  - Start with reforms that are both credible and feasible
  - Support pilots selectively
  - Leverage and empower stakeholders
  - Promote change management in existing institutions
  - Measure results on the ground
- Getting reform process right is just as important as ensuring sound policy content