

Creating Incentive Structures for Good Governance and Institutional Reform

JVI Policy Research Conference

Vienna, Austria

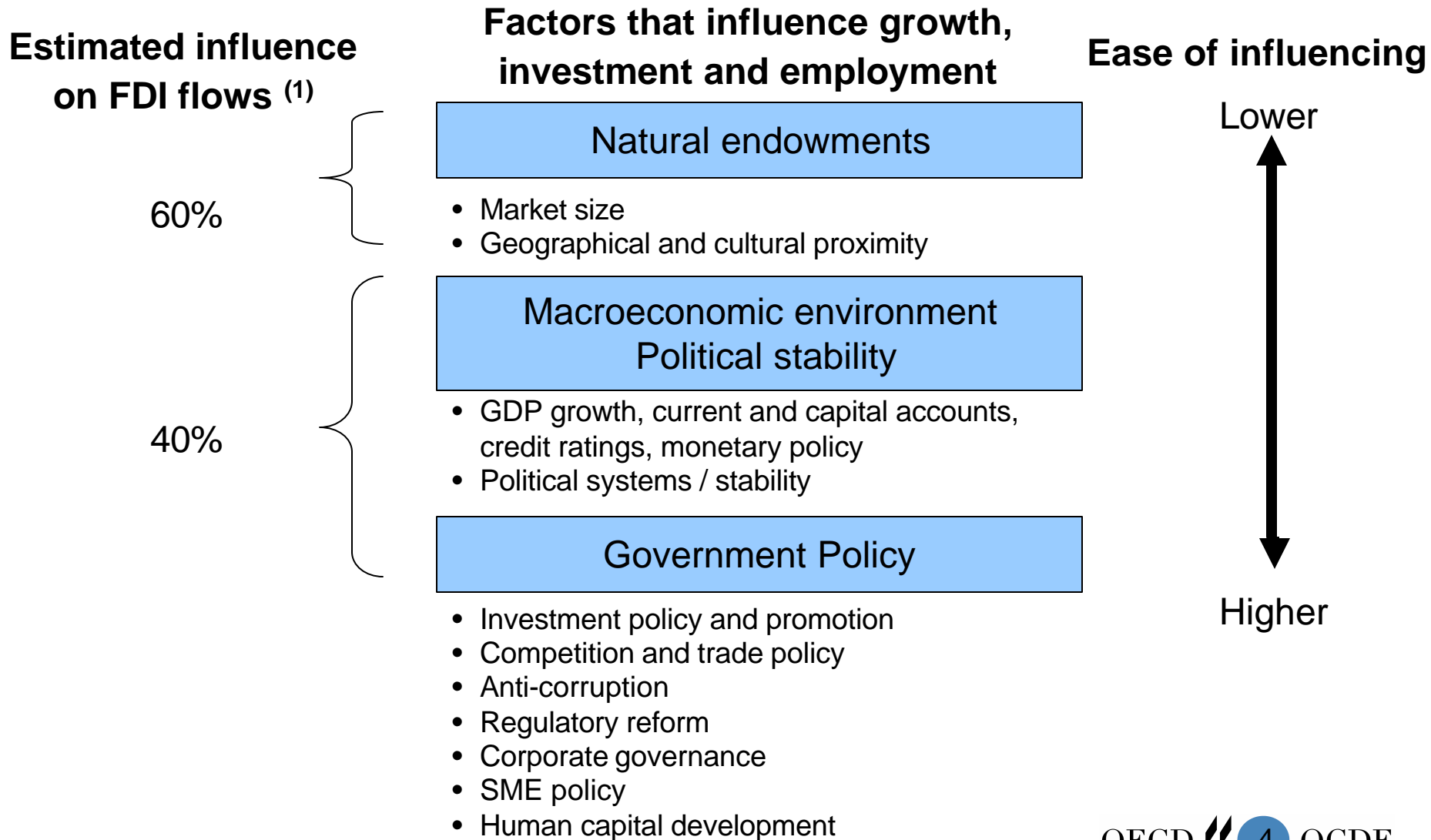
15 March 2007

Agenda

1. The Role and Weight of Policy in Investment and Growth
2. What shapes the design and implementation of reforms in government policy
3. Tools to support policy reform: The Investment Reform Index

The role of Government Policy in Investment and Growth

The potential to attract more investment depends on a set of interdependent factors some of which are easier to influence than others

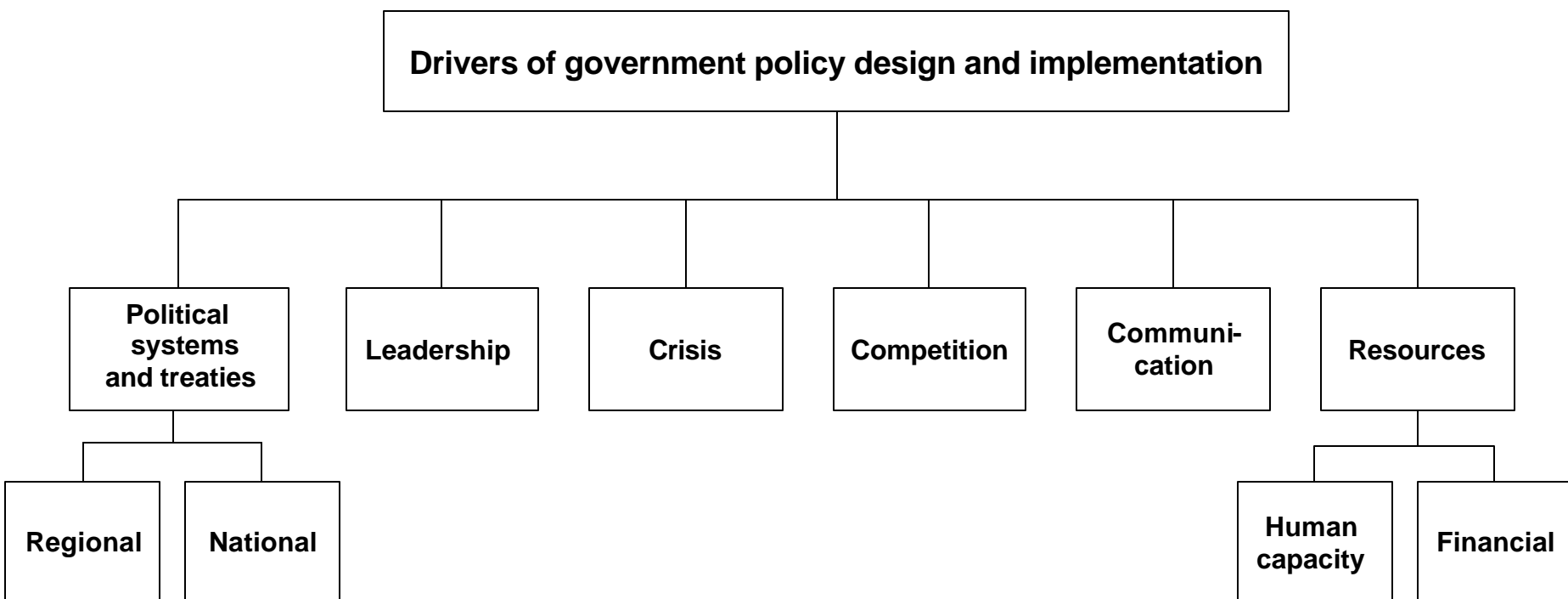


Note: (1) Based on 'Foreign Investment in SE Europe: How (and How Much) Can Policies Help?' IMF WP/05/110.

Source: OECD analysis, IMF

What shapes the design and implementation of reforms in government policy

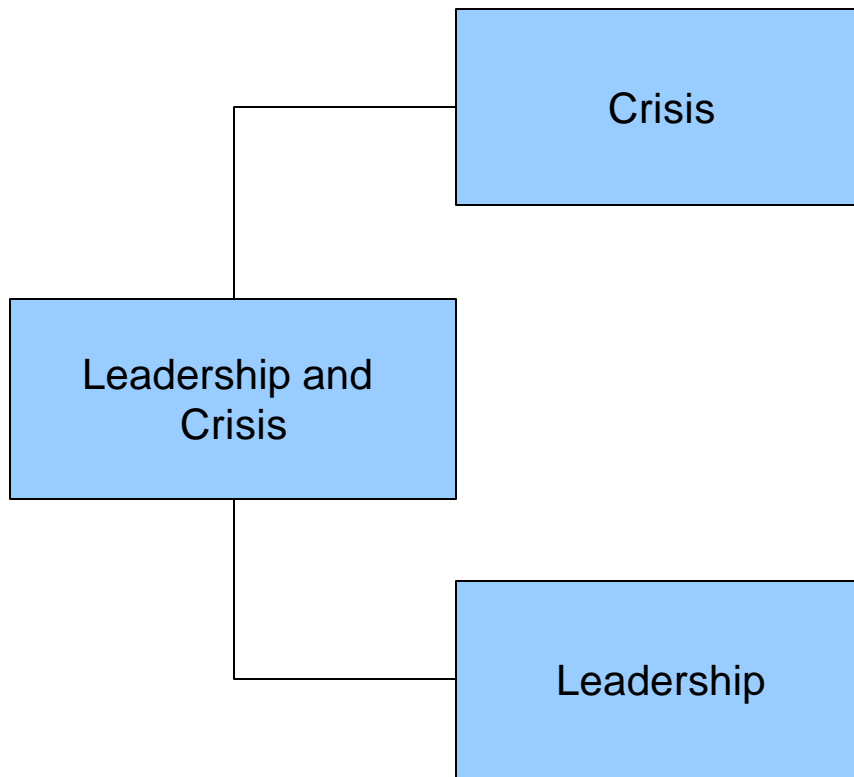
What shapes the design and implementation of structural reforms in government policy ?



Breakdown of drivers for policy reform : Political Systems and Treaties

	Description	Examples
<pre>graph TD; A[Political Systems and treaties] --- B[Regional Political Institutions and Treaties]; A --- C[National Political Systems];</pre>	<ul style="list-style-type: none">• Prospect and criteria for accession can act as a strong political incentive for reform.• Reform can be further supported by the commitment to fulfil specific requirements for members	<ul style="list-style-type: none">• EU accession process for Romania and Bulgaria• Stability Pact• Regional trade agreements• Membership to OECD
	<ul style="list-style-type: none">• Instability of government prevents continuity of reform process	<ul style="list-style-type: none">• Five changes in government in the last 5 years in Macedonia• 10 coups d'Etat in Benin between 1963 and 1995

Breakdown of drivers for policy reform : Leadership and crisis



Description

- Times of political, economic or social upheaval.

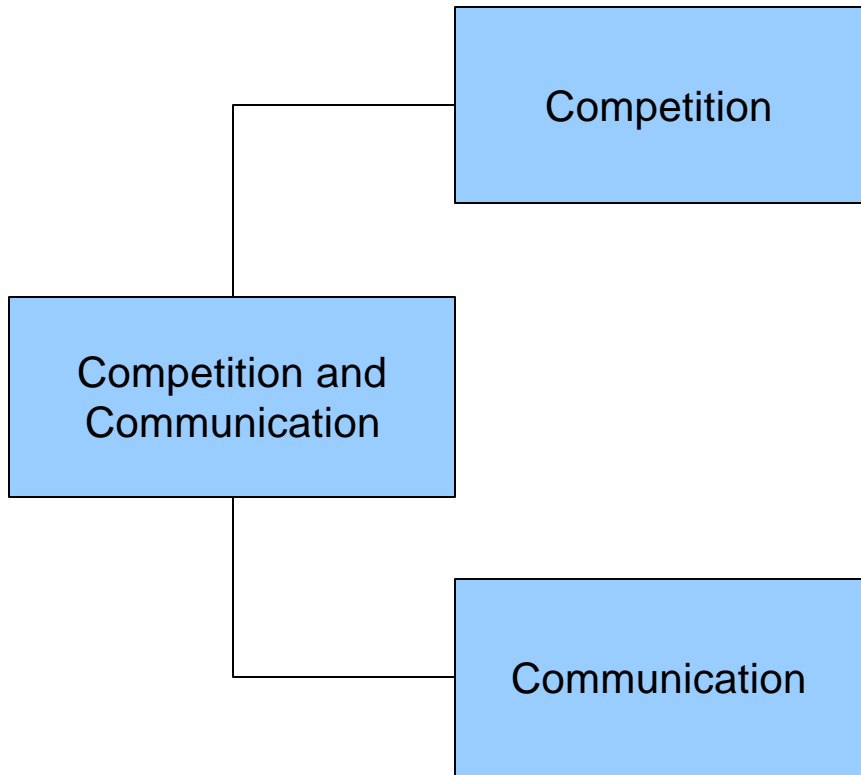
Examples

- Japan in the nineteenth century
- The Irish potato famine
- Deep recession in UK early 1980s

- Strong leadership can ensure that difficult and politically sensitive reforms are completed.

- Thatcher in the UK in the 80's
- The Meiji leadership in XIX Japan
- Richard Cobden and John Bright

Breakdown of drivers of policy reform : Competition and Communication



Description

- Increased global competition between countries is a strong driver for policy reform.
- The role played by competition depends on the establishment of a liberal economic system

Examples

- Korea in the 1990s
- UK in the 1980s
- Japan in the last five years

- Targeted communication to different stakeholders is important to ensure support from key constituencies.

- Positive example: Euro campaign
- Negative example: Failure of labour reform with Contrat Premiere Embauche (CPE) in France

Tools to support Policy Reform

Comparative benchmarking can help provide impetus for reform through competition, communication and skills development



The IRI is a comparative benchmarking tool that supports good practices implementation through peer pressure mechanisms

Structured Evaluation

- Allows SEE countries to gauge their reform process amongst themselves
- Demonstrates the “Best Practice” country in Central Europe and the Baltic States with respect to a particular reform category

Targeted Support in Implementation

- Identifies areas where reform has been successful
- Identifies areas where more reform is needed
- Comparing the degree of reform success between countries
- Strengthens the reform momentum in SEE countries

Regional Collaboration and Peer Review

- Encourages SEE countries to examine each others’ reform progress
- Strengthens co-operation between SEE countries to ensure stability and economic growth in the region
- Promotes dialogue between countries on successful reform and best practices

Public and Private Sector Involvement

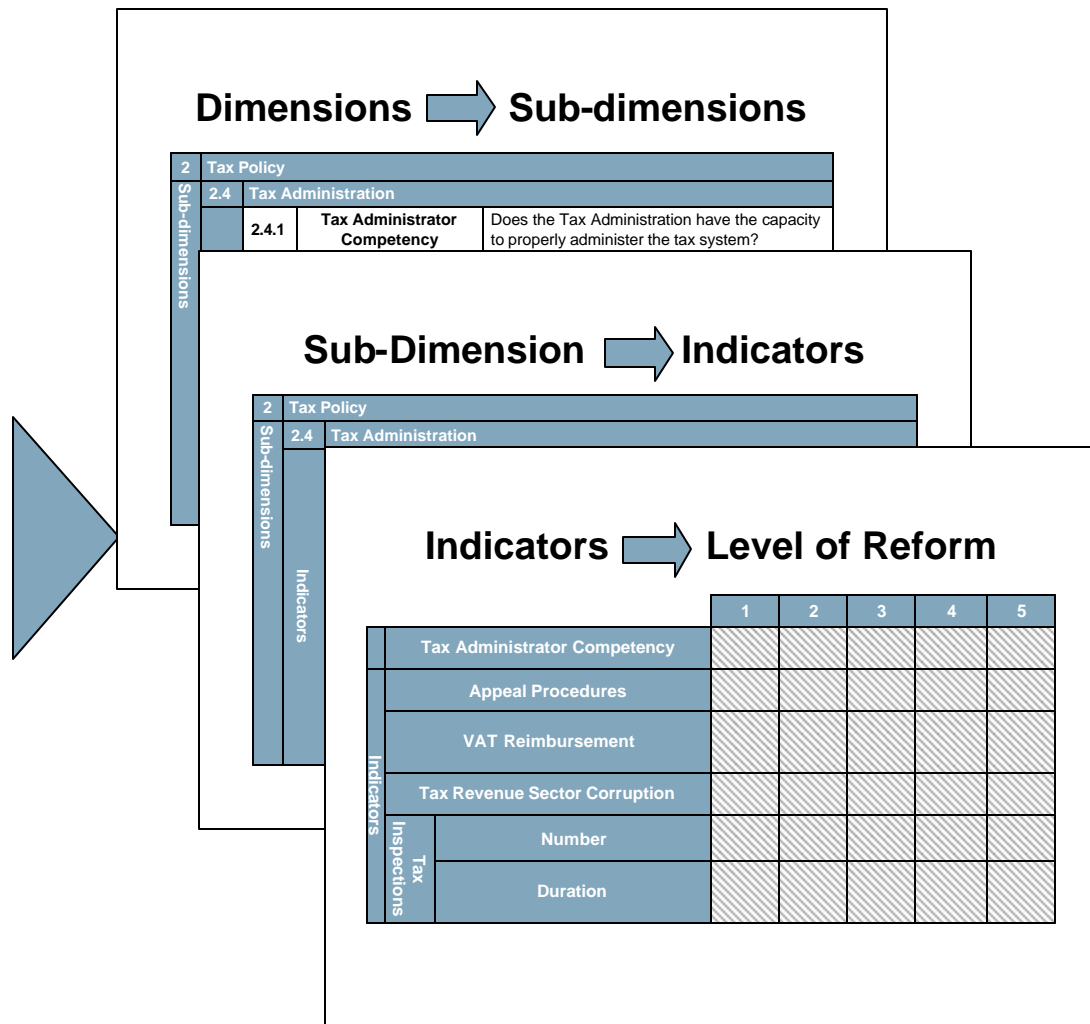
- Reinforces policy consultation mechanisms with the private sector
- Encourages the growth of new outlets for public/private dialogue
- Provides a simple and transparent communication tool to potential investors

Investment Reform Index

The IRI is structured around 10 policy dimensions with 50 indicators per dimension for a total of 500 indicators

Main focus of evaluation in 2006

IRI Dimensions	
1.	Investment policy
2.	Investment promotion and facilitation
3.	Tax policy
4.	Anti-corruption and Business Integrity
5.	Competition policy
6.	Trade policy
7.	Regulatory reform
8.	Human capital and Employment
9.	Corporate Governance
10.	SME policy*

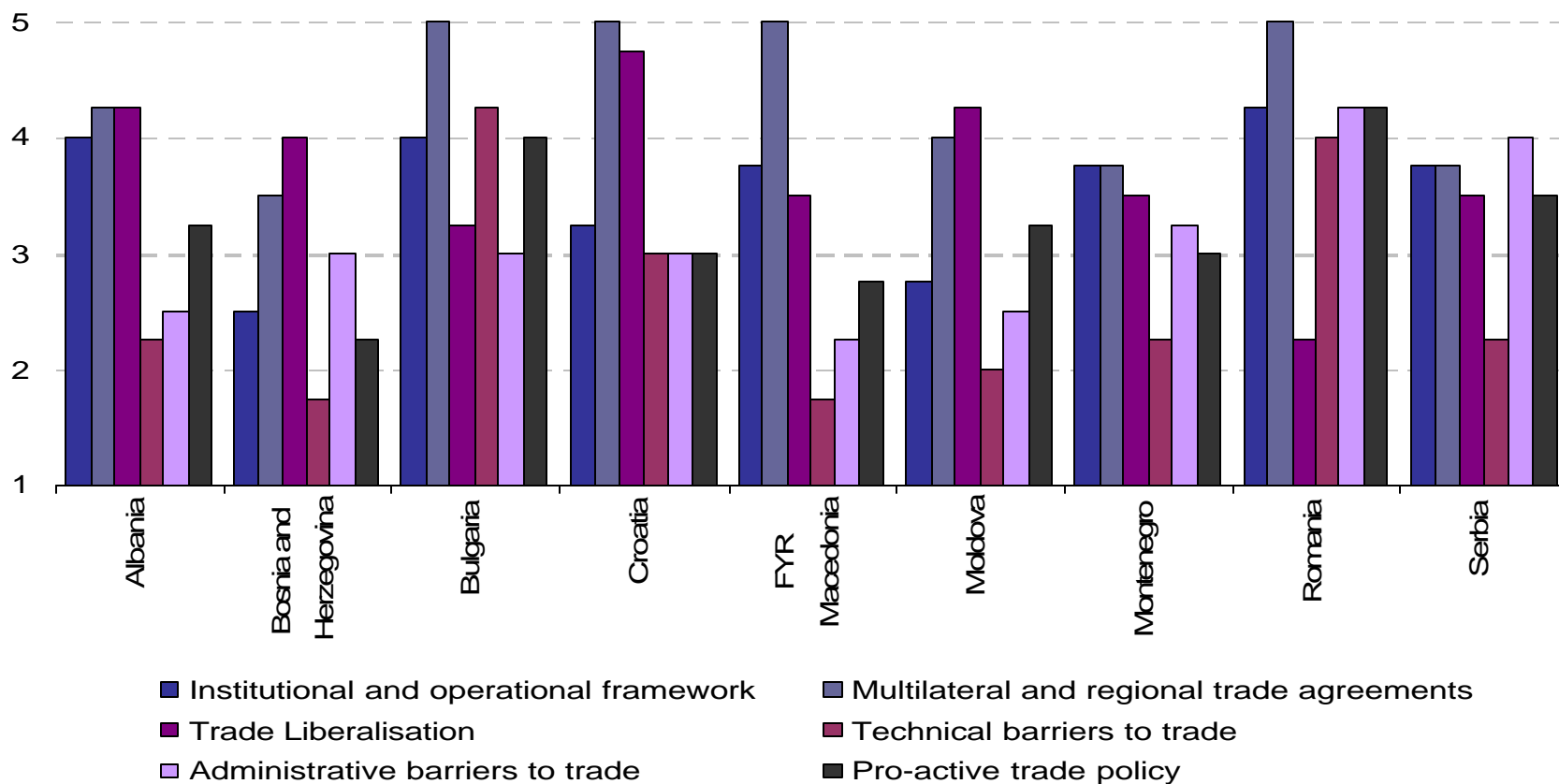


*Part of a separate process conducted in cooperation with the EC in the framework of the European Charter for Small Enterprises

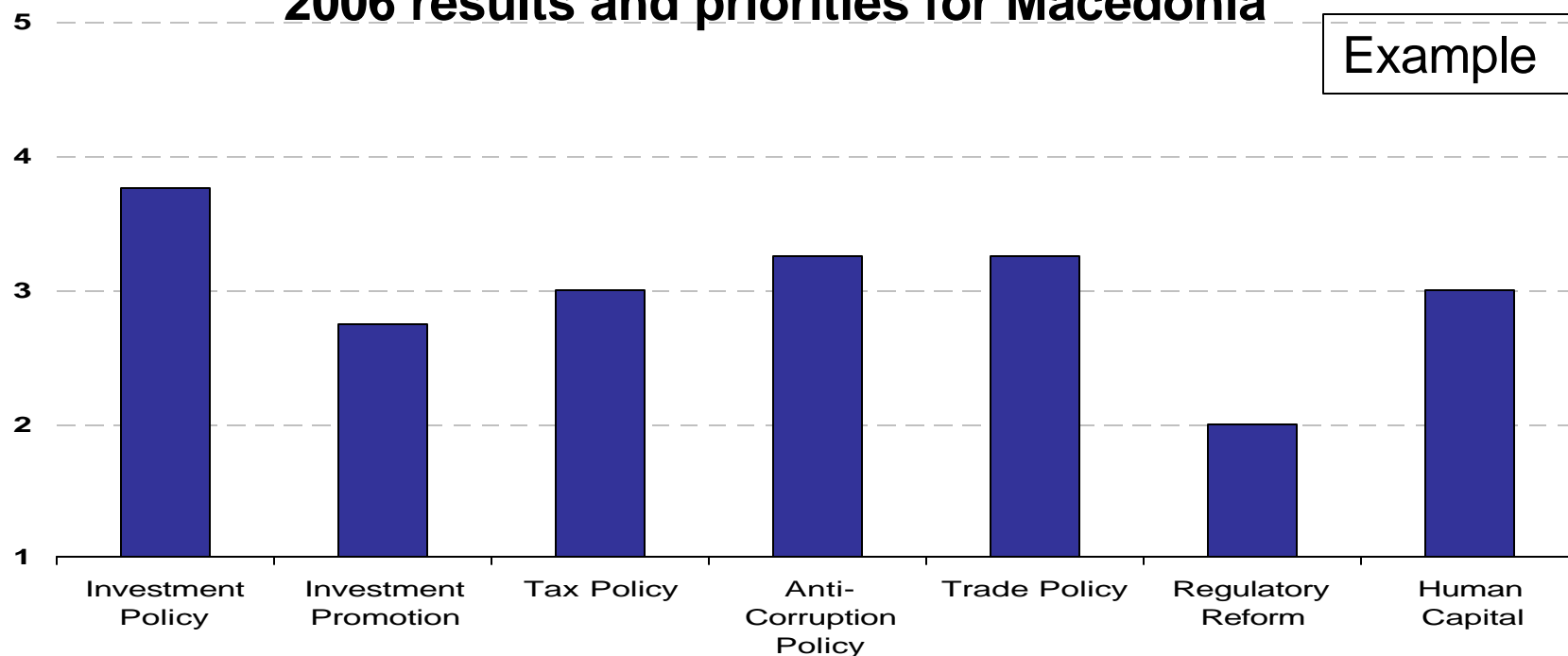
Measurement of Policy reform can help Governments identify Strengths and Weaknesses

Example

IRI 2006 scores for trade policy in South East Europe



Policy measurement help Governments set national Priorities: IRI 2006 results and priorities for Macedonia



OECD IC Recommended Country Priorities

1. Investment Promotion: Adopt an investment promotion strategy that reflects government and private sector consensus on the country's investment promotion activities.
2. Regulatory Reform: Create a comprehensive regulatory reform policy and strategy incorporating a RIA programme which systematically evaluates new legislation
3. Tax Policy: Ensure that VAT reimbursement is systematically monitored and that VAT is reimbursed within 30 days, as stated in the law
4. Competition Policy : Strengthen the competition authority powers to impose sanctions
5. Human Capital: Reduce the wage wedge which is one of the highest in the region
6. Human Capital: Develop and implement a comprehensive workforce skills development strategy

How tools such as the IRI support policy reform

1. Encourages competition through comparative benchmarking and measurement.
2. Increases public and internal pressure for reform through open and transparent communication.
3. Increases accountability through definition of policy priorities in collaboration between the OECD and governments.
4. Optimises limited resources through the prioritization of policy reforms that will achieve results.
5. Delivers guidance on how to reform effectively through OECD good practices for each policy area.
6. Increases motivation of reformers to act in order to achieve results through communication of success stories and best practices from OECD countries with similar cultural / historical experience.

Anthony O'Sullivan (anthony.osullivan@oecd.org)

www.investmentcompact.org