



CENTER FOR INTERNATIONAL PRIVATE ENTERPRISE

STEPS IN DESIGNING A REFORM AGENDA

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The development of the Monterrey Consensus on Financing for Development in 2002 by the United Nations was a landmark event. For the first time, heads of state were able to agree on the key pillars of political and economic reform, including a democratic form of government, private property rights, the rule of law, and the other essential institutions that form what US President Ronald Reagan called the infrastructure of democracy. The Consensus recognized that the key driver in attracting investment and development finance is a sound business climate coupled with a democratic system of government.

Now the UN is holding a series of meetings in preparation of the 2008 review of the Monterrey Consensus to be held in Doha. One point that can be brought up for discussion is that the Monterrey Consensus clearly identifies the goals to be accomplished but it doesn't include a road map on how to implement these reforms. Naturally, every country will have to develop its own approach – its own unique roadmap – for reform. However, there are some lessons to be learned from experience. This short presentation is a summary of some of the lessons we've learned at CIPE from our 23 years of working with the private sector in emerging markets and developing countries around the world.

First, a good business climate does not appear in a vacuum – it arises as the result of comprehensive reforms in both the political and economic arenas. Effective business associations as agents of change can help facilitate the reform process on the one hand while

political agents open to transparent policymaking can aid it on the other. CIPE has identified seven key steps in designing a reform program.

Steps in Building a Reform Agenda¹

1. Identify the initial conditions – what are the most important barriers to market entry and what are the true costs of doing business? Publicize these findings in both the financial and popular press.
2. Locate the key points of change – what are the institutional reforms that will generate a private sector supply response? Demonstrate the benefits to business, to the economy, and to society as a whole.
3. Mobilize business associations, think tanks, and other civil society organizations to join in a collective action program to advocate for institutional reforms.
4. Generate specific policy recommendations such as reductions in entry barriers, reform of customs procedures, or simplification of tax administration. Be as specific as possible; general ideas such as "reduce tax rates" are rarely addressed.
5. Manage expectations by setting out achievable goals that can demonstrate to the business constituencies and to the public that reforms can be achieved.
6. Mount an aggressive advocacy campaign that effectively communicates complex ideas in simple and attractive ways to build the case for policy reforms.
7. Recognize the government officials, political leaders, and businesspeople who act upon the reform agenda.

Identify the initial conditions in the investment climate

The first step deals with identifying the initial conditions in the investment climate in a country. Publicizing those initial conditions through media; town hall meetings; and other activities carried out by private sector associations, think tanks, universities, and government agencies, is also a key step in building and sustaining public interest. There are many good sources for information on these initial conditions, especially the World Bank's analysis of key business factors such as days needed to register a firm, days need to settle contract disputes, the

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<http://www.isnie.org/ISNIE06/Papers06/08.2/sullivan.pdf>

degree of investor protection, and other key measures. These can all be found at www.DoingBusiness.com. The International Finance Corporation's Investment Climate surveys and analysis also provide very valuable insights into the initial conditions. These and other valuable investment climate information can be found at www.IFC.org.

Identifying key points of change

The second step in the reform process, identifying the key points of change, may be the most strategically important step. When there is a crisis, as in the early days of transition or in the midst of a financial meltdown, it is possible to take a holistic approach by targeting fundamental reforms and galvanizing support for these reforms. Shock therapy in the case of Poland is a familiar example. Another would be the comprehensive system overhaul undertaken by the well-known Estonian reformer Mart Laar. Estonia is an excellent example of a country that implemented fundamental reforms that transformed the system through a currency board, privatization, comprehensive tax reform, and, interestingly, supplying free internet to the entire population. Conversely, János Kornai's recent work shows that sequential reforms in countries like Hungary had the same cumulative effect through a process of incrementalism.² Lacking the clear and present effect of a crisis, reformers were not able to mount a holistic set of major reforms. Rather, a series of reform packages were put into place that created major changes and built the institutions of a market system.

Fundamental reforms can work in times of crisis because the choices are limited and the need for action is clear. Absent a crisis, the incentives and choices facing political leaders are very different. In these instances, it is important to identify institutional changes that are feasible and that will actually benefit entrepreneurs, workers, and citizens. Further, it is important to be able to show success in order to maintain credibility. Whether the issue is reducing corruption, simplifying the customs regime, or streamlining business licensing and procedures, the private sector and the general public has to believe that it is possible to spearhead reform, to generate change, and to have a positive effect. Success breeds success.

² János Kornai, "Presidential Address," delivered at the 14th World Congress of the International Economic Association in Marrakech, Morocco, on August 29, 2005.

Key Features of Successful National Business Agendas

Several CIPE-funded projects have assisted various groups – businesses associations, coalitions of think tanks and associations, and other private sector organizations – to formulate policy positions, represent a unified voice before the government, and educate their members on policies that affect them by helping them develop a national business agenda. The key to any national business agenda is participation. For example, the Montenegro Business Alliance National Business Agenda for 2005 contained the following steps:

- Analyzing policies and forming recommendations;
- Meeting with members in open forums to discuss alternatives;
- Publishing in the media to gain input from concerned parties;
- Formulating policy reform programs;
- Publicizing the agenda; and
- Engaging in advocacy directed at the government, including the executive and the legislative branches.

These activities strengthen democracy by giving the private sector a greater role in shaping economic reform and commercial policies. In the next section, you will find examples of how business associations in different countries contributed to reducing barriers to formality and high business costs by developing national business agendas as a basis for advocating for market-oriented policy reform.

CIPE's National Business Agenda Handbook is available at www.cipe.org

One way of identifying small changes that will produce systemic change is to determine the facts on the ground – the issues and barriers being experienced by the entrepreneurial sector. There are a number of useful techniques that can be used to identify barriers and to demonstrate their impact on businesses. One technique that has been used in a number of countries is known as the national business agenda (NBA). Building an NBA actually follows all of the steps outlined above. The crucial strategic step of locating the key points of change is accomplished through focus group meetings held with small representative groups of businesspeople throughout the country. CIPE has worked with groups in countries as diverse as Russia, Peru, and Egypt to carry out such programs.³

³ The "National Business Agenda Guidebook: The Voice of Business," is a handbook on how to develop a business agenda and includes case studies. Go to: <http://www.cipe.org/publications/papers/pdf/NBAGuidebook.pdf>

Mobilizing for Collective Action

The third point, mobilizing business associations, think tanks, and other groups to advocate for institutional reform, can differ markedly from country to country. In some countries, the principal business associations, often including the chamber of commerce, are under the direct or indirect control of the government. This can be the case when the national law on associations is modeled on the Continental European system of mandatory membership, resulting in a corporatist form of associations. In other cases, the control can be more indirect, such as when the associations are controlled by a handful of firms with close ties to government or even rent-seeking organizations.

However, it is possible in nearly every country to identify countervailing associations that represent the interests of smaller firms, firms with an interest in access to the international system, and others who want to see a free-market economy develop. In addition, think tanks or public policy institutions that aim to develop democratic, market-oriented economies have developed in many countries around the world. How these organizations develop and the techniques that they use to advocate for change has become a major focus of new thinking in the multilateral development agencies, in the Organisation for Economic Co-operation and Development (OECD), and for organizations like CIPE.⁴ The most important criterion in putting together an effective coalition for reform is to ensure that all of the individual members demonstrate an understanding and a commitment to market economics and democratic practices.

Policy Recommendations

Generating specific policy recommendations is the fourth step. The focus group approach mentioned above, as well as a larger survey of the investment climate, can help identify the barriers and the issues. However, actually formulating specific reforms that can address these issues requires both creativity and some degree of expertise in policy analysis. The next

⁴ For a collection of essays on the rise and effectiveness of think tanks see James G. McGann and R. Kent Weaver (eds), *Think Tanks And Civil Society* (New Brunswick: Transaction Publishers, 2000).

section of the paper will present some case studies that will illustrate the types of specific reforms that tend to be most useful. One of the key points to recall in this step is to resist the temptation to simply say, for example, that the tax system needs to be *fundamentally reformed*. Policymakers, legislators, the media, and others need to know what specific reforms are most important. Is it a reduction in the level of taxes, a simplification of the tax payment system, or the outright elimination of some portion of the types of taxes? The beauty of the flat tax, which was part of the reforms used by Mart Laar in Estonia, is that it is simple to explain, easy to administer, and generates the necessary revenues. The challenge is that it is difficult to mobilize sufficient support, absent a crisis, to overcome the resistance to such a major change. In cases where a crisis is occurring or a political leader is willing to undertake such a major reform, the flat tax is clearly an excellent choice. In other cases, it might be better to attempt a simplification of the administration or reductions in the numbers of taxes.

Managing Expectations

Managing expectations is also a key part of the reform process as shown in step number five. The key point to recall here is that holding the coalition of associations, think tanks, and others together requires a sense of momentum. People need to feel that their efforts are having an effect and that further progress is possible. Certainly, the most committed members will be willing to persevere over a long stretch of time. However, gaining enough support to be effective in the public policy arena also requires that all actors involved gain a sense of accomplishment. In times of normal politics (absent a crisis or change of system), setting some specific but important goals for reforms helps maintain this momentum. It is also important to manage the expectations of the coalition members and the general public by promising progress but being realistic about what it will take to accomplish the coalition's goals.

The Advocacy Campaign

Designing and launching the advocacy campaign is also a blend of art and science. It is vital that each of the policy reforms are well-researched and fully developed to be able to demonstrate to the policymakers, the technocrats, and the international community that the

reforms are viable and in the best interest of the country. In some cases, this may involve some sophisticated economic research and analysis. In other cases, the issue may be so clear cut that research is not entirely necessary, but the analysis and presentation still must be completed and made available to the public. However – and this is absolutely vital – the actual advocacy campaign has to take these analytical materials and transform them into simple public policy messages that take into account the practical politics of decision-making. In those countries in the process of building a democratic system, this is obviously easier since access to the media and to the political process is more or less open. However, even in many authoritarian regimes, substantial progress in advocacy is possible, albeit much more difficult.⁵

Perhaps the most well-known example of a brilliant reformer who took very complicated institutional and economic analysis and transformed it into a simple and powerful public policy message is Hernando de Soto. De Soto's think tank, the Institute for Liberty and Democracy asked a powerful question about Peru. The question was, "why do average Peruvians succeed in developed countries but cannot succeed in Peru?" As de Soto himself attests, he put down his books and opened his eyes by visiting the shanty towns and talking with street vendors, backyard manufacturers, and others in the underground economy. What he found and documented brilliantly was a vast informal economy comprising some thirty to forty percent of the economic activity in the country. The analysis stage of this argument produced several insightful books, including *The Other Path* and *The Mystery of Capital*. In addition, de Soto's communications strategy was to create a new awareness that informal entrepreneurs were blocked out of the system by a wall of red tape. He created the famous saying that 'it takes 289 days to legally register a small business in Peru.' That one sentence galvanized a coalition and created a process of change. Interestingly enough, the World Bank's "Doing Business" indicators cited earlier are based on de Soto's early work.

Recognition

⁵ Hernando de Soto, *The Other Path*, Harper and Rowe, 1989 and *The Mystery of Capital*, Basic Books, 2000. For an interview with de Soto on "The Economic Answer to Terrorism," see CIPE's *Overseas Report*, Fall 2002, at: http://www.cipe.org/publications/overseas/pdf/CIPE_HDSinterview.pdf

It is also vital to recognize those who assist the campaign by actually implementing the policy reforms as noted in step 7. While this may seem obvious, it is often forgotten that politicians, government officials, the media, and others need public acknowledgement of the roles they played. In both new and established democracies, the incentives for policymakers to advance reforms are to garner votes, funding, and publicity.

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