

## **MAKING REFORM HAPPEN - Progress and Ways Forward -**

### **1. Why MRH and where are we**

Structural reforms are at the heart of OECD work. The OECD horizontal project Making Reform Happen is a reflection of the increasing importance the OECD places in these efforts. Launched in 2008, MRH was undertaken in response to OECD Ministers' mandates that the OECD needs to intensify its work on the political economy of reform (PER) and increase its support to governments in their reform efforts (Ministerial Meetings in 2006, 2007 and 2008). The underpinning factors are twofold. First, realising appropriate policy reforms is critical to support growth and sustainable development. However, many reform attempts may end up being less successful due to constraints in the capacity to design, adopt, and implement reforms properly and on time. Second, the OECD has the comparative advantages of sound data, evidence-based analysis and a wealth of reform experiences in member countries. On this basis, the Organisation can improve its understanding of factors behind successful and not-so-successful policy reforms and better support member and non-member countries in this area.

Already a large and growing proportion of the OECD work, well epitomized by successive editions of *Going for Growth* publications, has highlighted the importance of structural reforms and provided recommendations for main reform agendas and directions. Buttressing these efforts, but aiming at a more systematic, and integrative treatment of this issue across the OECD, MRH was constructed as OECD's horizontal project, with focus given to exploring "how-to" dimensions of reform-making, looking beyond the issues of "what-to". Through extensive reviews via a number of OECD bodies, such as the Economic and Development Review Committee (EDRC) and the Network of Senior Members of Centres of Government (CoG), the project was shaped up so as to proceed along two mutually reinforcing strands, analysis and action:

- **An analytical strand** to identify and better understand the factors behind successful reforms for numbers through systematic analysis of the OECD countries' experiences in a number of priority public policy areas; to develop a comprehensive report that can help strengthen OECD analytical capacity on MRH; and to promote its activities along this line through Committee discussion and international conferences and workshops.
- **An Action Strand (Member country support)** to provide direct demand-driven/proactive support to member countries in their domestic reform efforts; and to foster more proactive support, including country-specific reports, seminars and projects on the realisation of reforms.

The framework and work plan of MRH was set forth in the concept paper *MRH: Framework and Plan* (2008), and MRH has made steady progress on both strands, with DSG Aart de Geus at the helm for steering and coordinating. Most notably, years long concerted efforts along the analytical strand led to the publication of a comprehensive report *Making Reform Happen – Lessons from OECD Countries* (2010 May). For the Action Strand, several special country reports have been published in the way of OECD's establishing a new model of serving country's policy needs better. As the current financial crisis has underscored the relevance of governments' capacities to realise structural reforms, the MRH project was well tapped to prepare the OECD *Strategic Response to the Crisis* (Dec. 2009) and to produce the interim synthesis paper, *Reforms beyond Crisis*, around the occasion of CoGs meeting in Paris (Oct. 2009), rendering MRH pertinent and reflective to moving global and country-specific policy challenges.

MRH has managed to yield notable added value in process as much as in outcome. One important "process objective" of MRH is to mainstream both its analysis and support to member countries across the organisation. In this regard, the OECD managed to shore up ground for more MRH supportive context both inside and outside the OECD. Consequently, in the course of undertaking various activities of MRH, we witnessed a growing general awareness for the MRH dimension in OECD work in member countries and with the OECD.

OECD Country reviews, for example, as well as thematic work, increasingly focus on how to implement the reforms recommended.

Pivotal to the successful progress of MRH so far were the continued support and contributions of member countries. In this regard, MRH itself turned out a useful vehicle to cultivate new channels and forms of partnership and collaboration with member countries. New project-oriented partnership to expressly promote MRH has developed with some countries like Korea and the Czech Republic. Intricate collaboration among various Directorates of the OECD was indispensable, and it was secured through effective operation of the internal MRH operating body, the MRH Network. Completing the current phase of MRH since 2008, culminating with this High-Level Conference, the OECD expects a set of new opportunities to unfold in a way which will reinforce a variety of activities undertaken until now under the banner of MRH.

## **2. What has been attained so far and how - major output and process outcomes**

### **The Analytical Strand**

Year long efforts to identify and better understand the factors behind successful reforms from a comprehensive, cross-cutting perspective spanning various policy domains and countries have brought about three key studies.

- **MRH Analytical Report:** presents cross-country lessons about the conduct of reforms in nine key policy areas: fiscal consolidation, tax, environment, labour market (pensions included), health, education, public administration, competition and regulation. For this, seven OECD Directorates contributed, with several leading outside experts engaged on some subjects. All draft chapters have been reviewed at the individual Committees/WPs and/or at the MRH Network Meeting. Added by the synthesis chapter, the report was produced in May 2010, together with the Policy Brief *MRH: Structural Priorities in Times of Crisis*. In reform-making literature, the MRH report is truly unique not only in terms of policy areas covered (10) and countries (all OECDs plus), but also in that it provides a structure to motivate highly integrated work to explore the key drivers of reforms such as communication, evidence, institutions, timing, costs and benefits, and engaging stakeholders. The Policy Brief has been translated into 23 languages of Members and Accession/Enhanced Engagement countries for maximum international diffusion.
- **ECO's PER study:** *Political Economy of Reform: Lessons from Pensions, Product Markets and Labour Markets in Ten OECD Countries* (2009) is another major OECD output in MRH area. This has been undertaken under the auspice of the EDRC as a parallel, slightly foregoing project of MRH. This study investigates 20 reforms cases (both successful and less successful) of 10 countries over three policy domains: pensions, product markets and labour. The final output of this study was launched in October 2009. This study served as the key reference work of the MRH study above, with its main messages well integrated into the main findings of MRH study.
- **MRH in Korea:** This is the outcome of a parallel MRH research of Korea, undertaken by the Korea Development Institute (KDI) on its own initiative since 2008 but in close collaboration with the OECD. This work investigates Korea's reform experiences since late 1980s in prominent reform areas such as labour, education, health, pension, corporate and SME sectors, public investment, housing finance. Its findings at the moment of this Conference are available in the form of the preliminary report MRH in Korea, together with its Policy Brief. The final report is scheduled to be released in mid 2011 via another high-level collaborative effort between Korea and OECD. Well matching the above two OECD MRH studies, this work is the first systematic and full-scale country analysis of MRH issues illustrating important country-specific dimensions of MRH.

### **The Action Strand**

The action strand efforts aim to better "connect" the OECD with the current needs of member countries, by providing timely policy advice. The efforts progressed steadily, taking more diversified forms and with some conceptual foundation work done in parallel.

- **Special full-scale country reports (general and thematic):** Though not under the banner of MRH yet, special country reports on Mexico, France, and Hungary were produced during 2007-08 (*Getting it Right - OECD Perspectives on Policy Challenges in Mexico*, 2007; Attali Commission on *Economic Growth Report Reforms for Stability and Sustainable Growth in France*; *An OECD Perspective on Hungary*, 2008). These reports provided important policy suggestions and were very well received by host countries. Partly encouraged by the success of these exercises, the OECD subsequently stepped up its efforts to work on specific theme-oriented country reports: Mexico (Education, Regulation, and Competition), Portugal (Education) and Greece (Public Administration). These thematic exercises have been led by the responsible Directorates at the OECD, but extra impetus came from the integrating framework of MRH. In efforts to provide “timely”, sometimes proactive policy advice to member countries, OECD also delivered strategic policy notes (U.S. and Japan), mostly on the occasion of new government cycles.
- **Extended activities related to EDRC and others:** OECD Country reviews, as well as thematic work, increasingly focus on how to implement the reforms recommended. MRH turns out to be a good vehicle to systemize OECD services in this vein. MRH focus is reinforced in published documents, but we also have an increasing number of special high-level or technical seminars aiming to increase awareness and support a more effective implementation of reforms in host countries. These efforts became more common among the member countries,
- **Joint activities abroad:** We participated in various overseas MRH-related events in Korea (June 2009), Hungary (June 2010), Sweden (June 2010), and the ANZSOG 2010 Conference in Australia (Aug. 2010). Overall, these activities relied heavily on the findings of the MRH study and the OECD expertise, and helped launch new collaborative work by the OECD and member countries in both the analytical and action strands. We are considering a special MRH seminar in the Czech Republic in early 2011.

### Process

- **Internal MRH Network:** Upon launching the MRH in 2008, we formed a new internal consultative/coordinating body, the MRH Network. The Network consists of managerial level representatives from relevant directorates, BIAC and TUAC. The network, meeting every other month (13 meetings so far), steered and reviewed the work in both the analytical and action strands. The Network served as an effective coordinating vehicle for MRH. We see a potential for the Network to serve as a clearinghouse of ideas and experiences from thematic work with MRH components done in the various OECD Directorates and bodies.
- **Committees:** Various Committees including the EDRC were involved in the design and implementation of the MRH project since 2008. For instance, the MRH project was discussed and reviewed in about 20 Committees in the course of 2009.
- **CoGs (Centre of Governments):** CoGs have been instrumental in the design of the MRH project from the outset. The 2007 CoG working group meeting in Bern discussed the value and agendas of the MRH project at its initial stage. The 2008 meeting in Mexico further encouraged the OECD to look systematically at the political economy of reform. This meeting also reviewed a draft concept paper of MRH under way that time, and came to affirm its role as the advisor of the MRH project. In the following Paris meeting in 2009, the interim findings of the MRH analytical work were discussed with very positive feedback.

### **3. Where are we heading – MRH’s ways forward**

Reform efforts are intensifying around the world, reflecting the more challenging nature of today’s policy environments. On the one hand, the current financial crisis has underscored the relevance of governments’

capacities to realise structural reforms. Accordingly, the underlying mandate of the MRH project for the OECD to identify and better understand the factors behind successful reforms and provide direct support to member countries in their domestic efforts is reinforced. On the other, many emerging economies are faced with another dimension of challenges, in the process of transition to a more democratic, evidence-based model of reform making. The first phase of the MRH work over the past three years indicates that the OECD can meet and serve its mandate well, but also that the OECD can do better and more based upon what was achieved so far. We foresee a set of new opportunities to unfold and reinforce all activities undertaken in the context of the MRH project.

### **MRH in developing countries**

In line with its role as “pathfinder” and “advisor” in global policy making, the OECD is working more closely with non-member countries, while intensifying its work with its members. Demands for OECD services to support successful reforms are very high in non-member countries, and MRH will be a very timely and appropriate vehicle to meet such demands. With its two major MRH studies and its Korean parallel study at hand now, the OECD is well prepared to extend the scope of the MRH initiative to developing countries.

In this regard, the collaboration with Korea helped design new initiatives. We are in the course of preparing a sequel of MRH work in 2011, specifically geared to address MRH issues in developing countries. Such an initiative would be highly consistent with OECD efforts to develop an enhanced strategy for development (DevGoals). This effort aims to strengthen policy/knowledge sharing with developing countries drawing on OECD’s multidisciplinary expertise and wide ranging experience on identifying and sharing good practices. It may be relevant to explore how the DevGoals initiative and MRH in developing countries can be complementary and mutually reinforcing. At present, we foresee that this endeavour will revolve around the 2011 High Level Forum on Aid Effectiveness (HLF-4) in Korea, which will be complemented by two other preceding high-profile events to be hosted by the World Bank -OECD and the Korean government.

- **The World Bank-OECD ABCDE Conference (Paris, May 30-June 1 2011):** In partnership with the World Bank and Korea, we will have a session on MRH in developing countries, where we will introduce the OECD and Korea’s MRH studies at hand, ‘testing out’ their applicability and relevance to non-Member countries. Background papers on MRH in developing countries will be prepared by the OECD.
- **Korea-OECD Conference (Korea, June 2011):** On this high-level occasion, which is part of the OECD 50<sup>th</sup> Anniversary celebrations, we will discuss the future partnership between the OECD and Korea. It will also encompass a special session on MRH in developing countries. As a sequel to the ABCDE Conference above, the conference will build on a partnership with development banks and will examine a number of country-specific and background papers from OECD, KDI and partner organizations.
- **2011 HLF-4 Meeting (Korea, Nov 29- Dec. 1):** We plan to hold a special session and complementary side events on MRH in developing countries. The underlying logic is that the policy capacity of recipient countries is critical for the effectiveness of official development assistance (ODA) programmes, and thus MRH, as a special area of technical assistance, is an important dimension to consider. We will introduce all major MRH studies together with new work on MRH in developing countries available by that time (country case studies and overview studies). The initiative was favourably received at the Ex-Com meeting of HLF4 in Oct. 2010, and is in the course of shaping up for a full review at the next Ex-Com meeting in March 2011.

### **Issues to discuss: Continuing and Extending the Ongoing MRH initiatives**

- **Comprehensive country MRH studies:** The KDI report *MRH in Korea*, the first comprehensive MRH country study, is very valuable and complementary to general OECD studies on MRH. The added value of this type of exercise could be very high, especially as it helps identify and address country-specific factors of MRH, supporting evidence-based reforms. Of course, work along this line needs to be demand-based in principle. Do we have the rationale and groundwork to extend this type of exercise to other countries,

including in member, accession and enhanced engagement countries? If so, what will be the appropriate channels?

- **Comprehensive sectoral MRH study by policy areas:** Two OECD studies (PER and MRH) set the tone for full-scale analytical work of MRH, but leave ample room for further exploration along the individual policy areas. For instance, each of the policy areas covered by the MRH and PER volumes may deserve full-fledged, separate analysis, covering a more complete set of sub-sectors, themes and countries. We already have a wealth of related work, for instance, in regulation, education, innovation, and governance. These could constitute an excellent departure point for in-depth sectoral MRH studies. Is the value of these studies properly recognized and defined? What further groundwork is necessary to make this exercise feasible?
- **Work related to the Lisbon Agenda of the EU:** As a part of the overhaul of the Lisbon Agenda in mid-2000, each Member Country was asked to produce a national reform plan, focusing on key reforms related to Lisbon: employment and growth, innovation, social inclusion and environment. In this respect, the OECD can be expected to play a substantial role in designing and supporting a post-2010 mechanism, either by providing assistance to individual countries in updating or implementating their national reform plan or by being involved in the evaluation of national reform plans for the Commission. MRH would be an effective vehicle for such work. How to design and pursue this work?