

# Getting the Basics Right for Private Sector Development

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# First and Second generation reforms

	<b>First generation reforms</b>	<b>Second generation reforms</b>
<b>Objectives</b>	<ul style="list-style-type: none"> <li>✓ Restoring growth</li> <li>✓ Reducing inflation</li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Sustaining growth</b></li> <li>■ Maintaining macroeconomic stability</li> <li>■ <b>Increasing international competitiveness</b></li> <li>■ Fostering social development</li> </ul>
<b>Reform strategies</b>	<ul style="list-style-type: none"> <li>✓ Changing macroeconomic rules</li> <li>✓ Reducing the scale and scope of the state</li> <li>✓ <b>Reducing protectionism and statism</b></li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Strengthening the institutional infrastructure of a market economy</b></li> <li>■ Reforming education, health, social security and other public services</li> <li>■ <b>Building strategic coordination mechanisms for competitiveness of the private sector</b></li> </ul>

# Contentious reform areas

Contentious issues which are more complex and relatively untouched before 2008

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## First generation reforms

## Second generation reforms

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### Reform areas

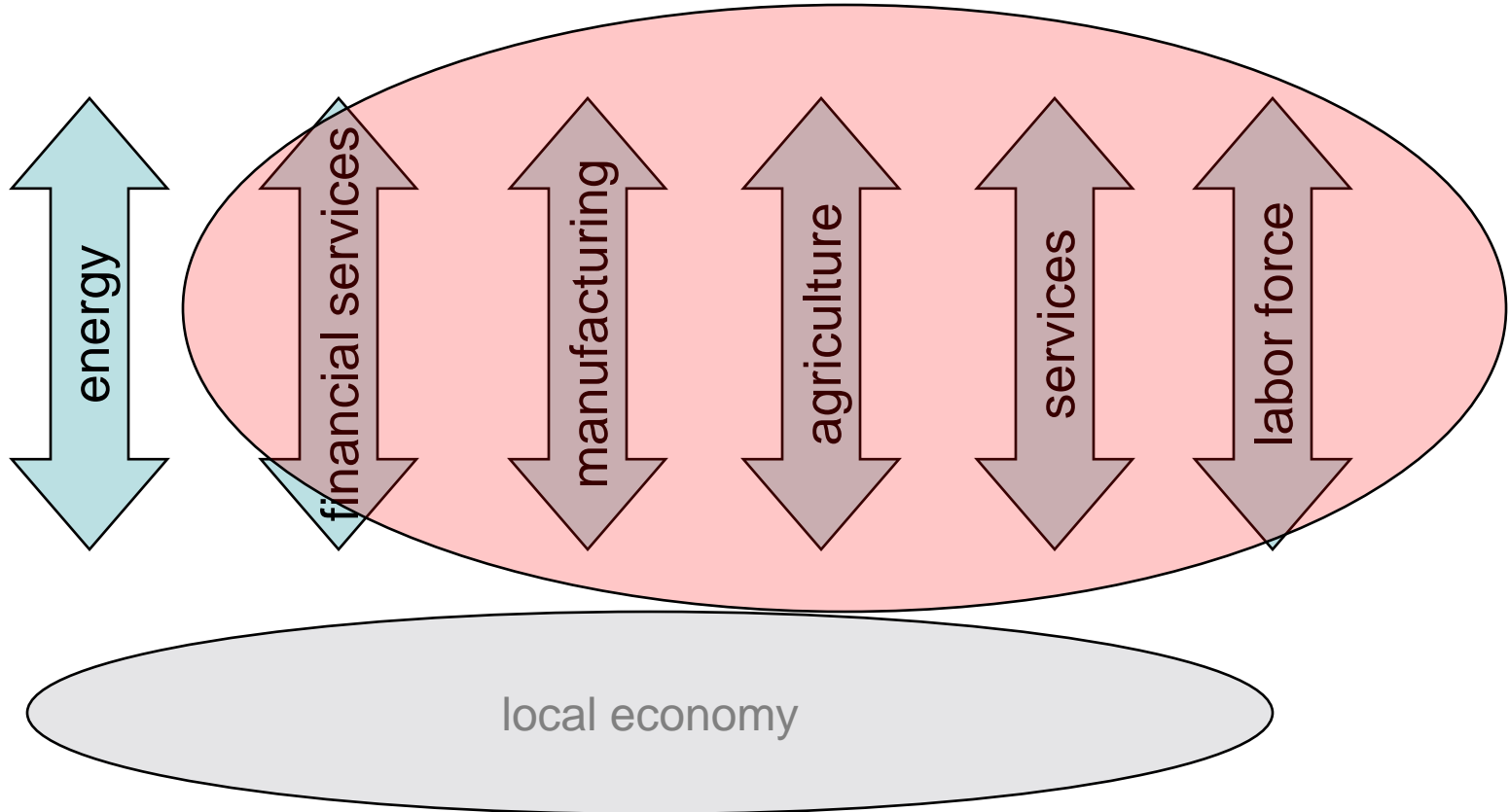
- ✓ Drastic budget cuts and tax reform
- ✓ Price liberalization (including Exchange rate)
- ✓ **Trade and foreign investment liberalization**
- ✓ **Private sector deregulation**
- ✓ **Privatization**

- Labor market reform
  - Public administration reform
  - Decentralization
  - Judicial reform
  - **Upgrade regulatory capacities**
  - **Sectoral restructuring**
  - Education reform
  - Health reform
  - Social security reform
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# Private Sector Development (PSD)

- Sustainable economic growth is a challenging issue for all LDCs.
- Key issues in first and second generation reforms are totally directed to private sector development
- Success stories of sustainable economic growth with one common characteristic:
  - ***Private sector development***
- Key question is:
  - ***Dynamics of private sector development***

Private sector development (PSD) is needed to foster the linkages between local and global economy



# How does TEPAV approach PSD?

- PSD should be the key policy perspective
  - Private sector actors as the vehicles of partnership
  - Political support matters
  - Need for an incentive compatible concrete project
- Two different approaches to PSD
  - ① Big and ambitious projects. Aimed to resolve root-causes and allocate big resources
  - ② Profit-seeking. Creative shortcuts for doing business. Finding political support
    - Well-functioning public-private dialogue mechanisms
    - Incorporate trade and industrial policy with PSD



Approach of  
international  
organizations

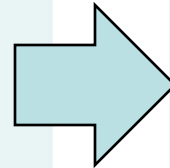


Our Approach

# TEPAV's approach to PSD

## Cooperation to foster Private Sector Development

- A stability-enhancing process
- On the ground small projects to ease binding constraints on local growth
- Consideration of the political and administrative constraints



## Favorable Investment Climate

- Human capital: *Capacity building programs*
- Favorable local microclimate: *Focus on special economic areas / industrial estates / Alternative sources of finance / FDI policies*
- Legal framework: Focus more on PPP, governance

# Complex issues; new actors in the picture: coordination need

- Today's coordination problem is much more complex
- More parties and greater role for private sector, especially when regional development is a priority

	<b>First generation reforms</b>	<b>Second generation reforms</b>
<b>Main government challenge</b>	<ul style="list-style-type: none"> <li>✓ Macroeconomic management by insulated technocratic elites</li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Institutional development that requires intense coordination of public sector management with private sector</b></li> </ul>
<b>Principal actors</b>	<ul style="list-style-type: none"> <li>✓ Prime Minister</li> <li>✓ Council of Ministers</li> <li>✓ Central Bank</li> <li>✓ Multilateral financial institutions</li> <li>✓ Private financial groups and foreign investors</li> </ul>	<ul style="list-style-type: none"> <li>■ Presidency, Prime Minister</li> <li>■ Council of Ministers</li> <li>■ <b>Bureaucracy</b></li> <li>■ Judiciary</li> <li>■ <b>Private sector support institutions</b></li> <li>■ Labor unions</li> <li>■ Political Parties</li> <li>■ <b>Municipalities and line ministries</b></li> </ul>



# Sustaining productivity growth for PSD

- The challenge is to identify the priorities
- Detect and promote sectors which have the potential to be globally competitive.
- R&D and FDI Strategy embedded in industrial policy
- Rethinking the SME strategy and growth of firms
  - Access to finance
  - Fighting informality
  - Less bureaucracy; more transparent tax codes
- Education reform
  - Massive scale. Skills conversion. Skills mismatch.
- Institution building
  - Investment climate reform; Judicial system reform