Section 1
Enabling Environment

1

Enabling Environment

An economy's enabling environment encompasses both formal and informal institutions; utilities and infrastructure such as transport, energy, water and telecommunications; as well as the framework conditions set by monetary and fiscal policy, and more broadly, public finances.

With worsening social and economic polarization and the looming threat of climate change, the economic foundations created by well-functioning institutions, a stable macroenvironment and high-quality infrastructure will be critical. However, the quality of a country's enabling environment will not only have to be assessed on its ability to support growth and productivity, but also on the ability to transform the economy to achieve environmental and shared prosperity targets.

This section lays out key trends in institutions, infrastructure and the macro environment, and proposes emerging priorities for short- and longer-term policy interventions to direct the economy towards productive, sustainable and inclusive outcomes.

Section 1.1 uses historical data to highlight trends in the institutional environment, infrastructure (both physical and ICT) and macro environment, and identifies vulnerabilities for future prosperity. Section 1.2 provides a set of priorities for policy interventions over the next two years, to set up the type of governance structures and incentives that could revive sustainable and inclusive growth past the COVID-19 crisis. Section 1.3 offers policy recommendations for the longer run (3-5 years) to hardwire social and environmental targets into governance structures, macro-economic policies and infrastructure development.

1.1 What are the enabling environment-related priorities that emerged in the past decade?

The following trends emerge for the enabling environment from the data collected since the Global Financial Crisis of 2007–2009.

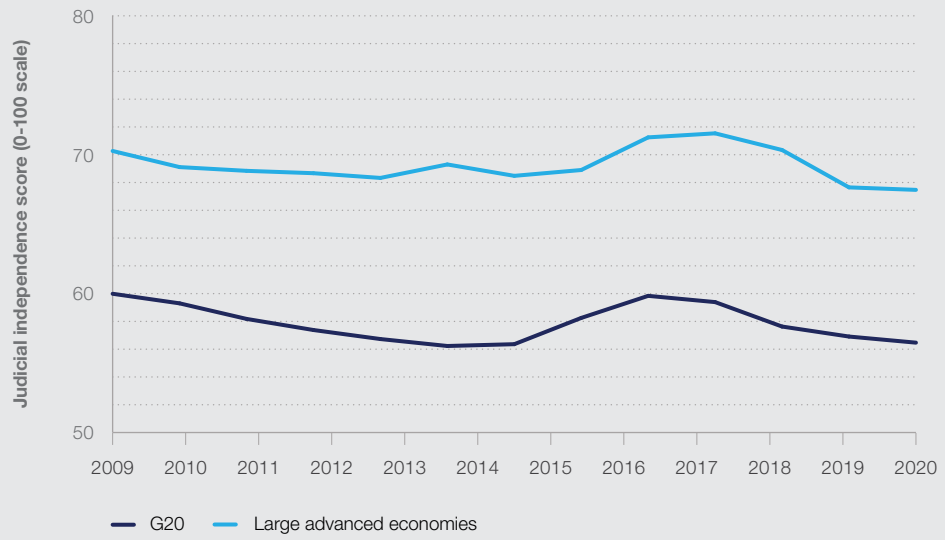
There has been a consistent erosion of institutions across regions, including weaker checks and balances and less transparency.

Well-functioning formal and informal institutions are critical, both for guiding long-term economic progress and ensuring effective short-term crisis responses. The data from the Executive Opinion Survey suggests that business leaders see significant deterioration in important features of institutional quality over the past decade.

The perception of judicial independence declined by about 4.6% in G20 economies since the Global Financial Crisis (Figure 1.1). Similarly, the efficiency of legal framework in challenging regulations indicator, which measures the extent to which companies can effectively settle disputes with public authorities, declined by 7.9% in G20 economies from 2009–2020 (Figure 1.2).

FIGURE 1.1

Trends in judicial independence in G20 economies and in large advanced economies, 2009–2020



Source

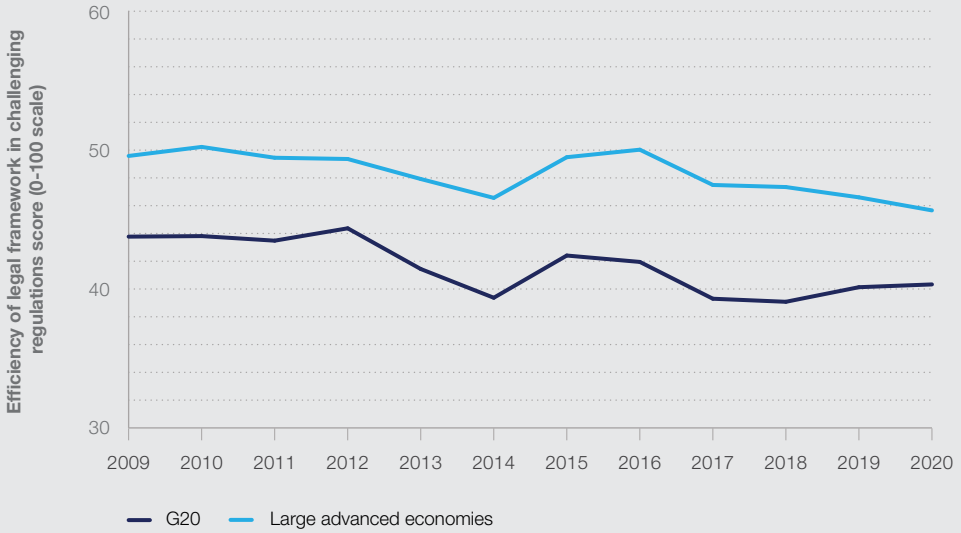
World Economic Forum, Executive Opinion Survey (various editions). See Appendix B for details.

Note

Large advanced economies Include Australia, Canada, Germany, France, United Kingdom, Italy, Japan, Republic of Korea and United States. The G20 economies included in the data set are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russian Federation, Saudi Arabia, South Africa, Turkey, United Kingdom and United States. The Judicial independence indicator corresponds to the response to the survey question "In your country, how independent is the judicial system from influences of the government, individuals, or companies?" [0 = not independent at all; 100 = entirely independent].

FIGURE 1.2

Trends in the efficiency of legal frameworks in challenging regulations in G20 and in large advanced economies, 2009–2020



Source

World Economic Forum, Executive Opinion Survey (various editions). See Appendix B for details.

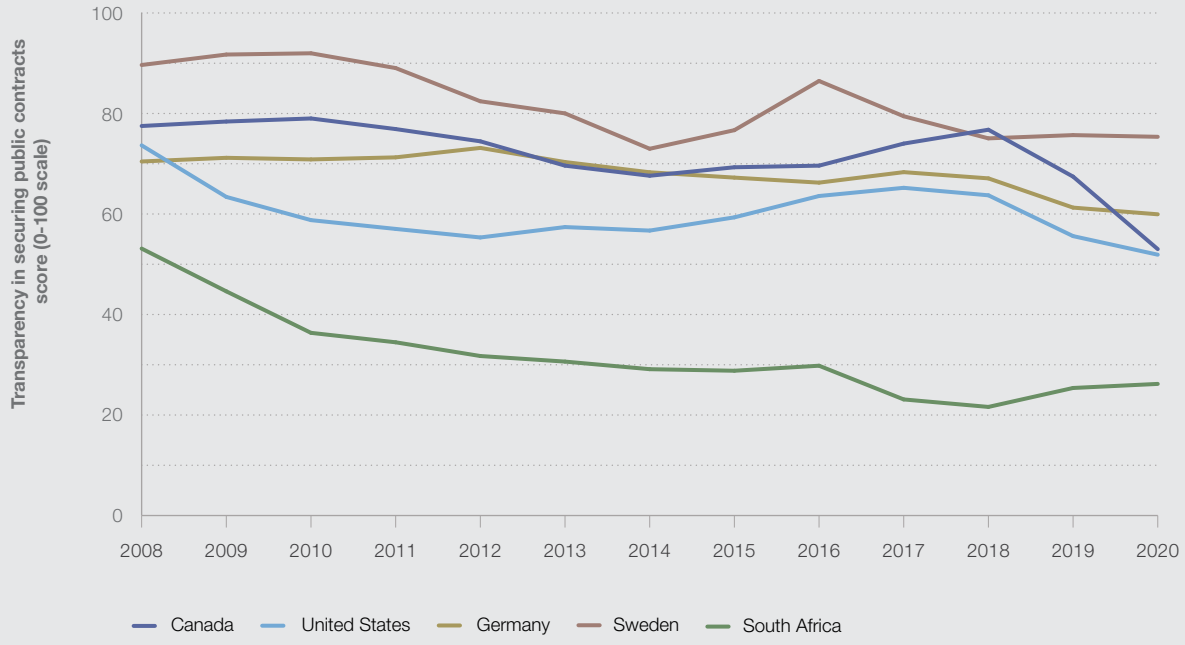
Note

Large advanced economies include Australia, Canada, Germany, France, United Kingdom, Italy, Japan, Republic of Korea and United States. The G20 economies included in the data set are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russian Federation, Saudi Arabia, South Africa, Turkey, United Kingdom and United States. The Efficiencey of legal framework in challenging regulations indicator corresponds to the response to the survey question "In your country, how easy is it for private businesses to challenge government actions and/or regulations through the legal system?" [0 = extremely difficult; 100= extremely easy].

The second aspect of institutional quality where business leaders' perceptions have remained persistently low globally or declined is transparency. For instance, in some advanced and emerging countries, transparency in securing public contracts has been on a declining trend (Figure 1.3). More generally, the transparency gap—as measured by the Corruption Perception Index (CPI)—between the best and the lowest performers is large: to date, 31 points (on a 0–100 scale) separate the average score of the 10 most transparent countries from the average of the least transparent ones, and 10 points separate the average score of advanced economies from the average score of emerging and developing countries.

Persistent transparency gaps affect citizens' trust in institutions. As shown in Figure 1.4, public trust of government and transparency go hand in hand in the majority of OECD countries. The COVID-19 crisis happened at a moment when, in several economies, trust in the credibility of political leaders was already low. However, the pandemic has also offered an opportunity for governments to regain trust by implementing emergency measures in speedy and transparent ways, and public policies that set countries on a new trajectory of shared prosperity.

FIGURE 1.3 **Trends in transparency in securing public contracts, selected economies, 2008–2020**



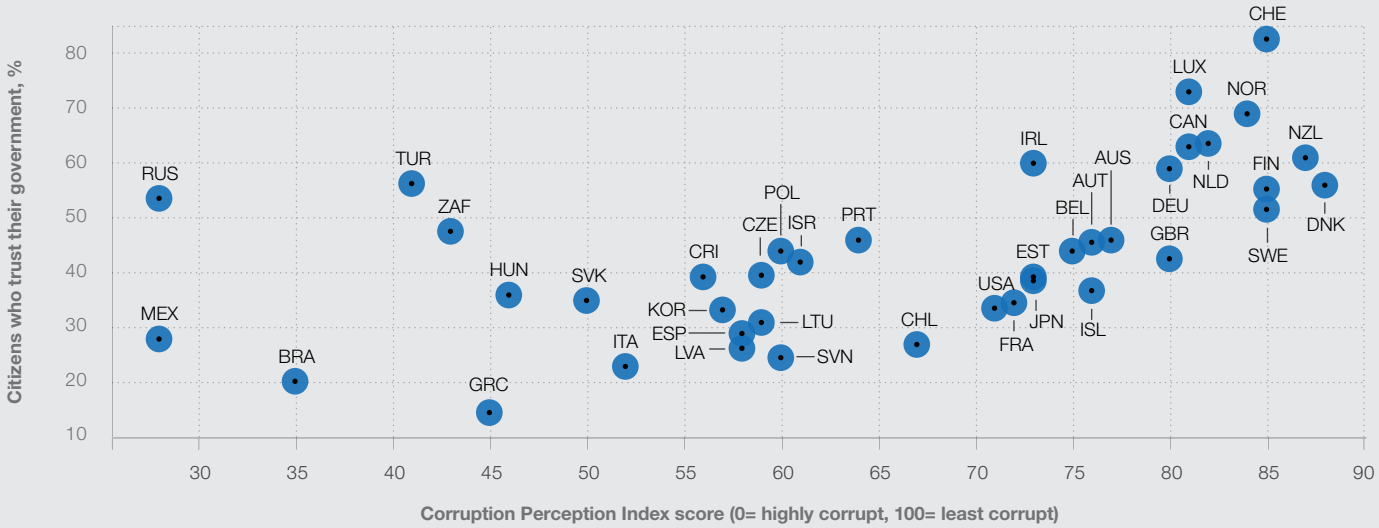
Source

World Economic Forum, Executive Opinion Survey (various editions). See Appendix B for details.

Note

The Transparency in securing public contracts indicator corresponds to the response to the survey question "In your country, how common is it for companies to make undocumented extra payments or bribes in connection with awarding of public contracts and licences? [0 = very common; 100 = never occurs]".

FIGURE 1.4 **Trust in government and Corruption Perception Index, selected economies**



Source

Author calculations based on OECD, OECD Data, "Trust in government" indicator, https://data.oecd.org/gga/trust-in-government.htm, accessed 25 September 2020; and Transparency International, Corruption Perception Index (2019).

Notes

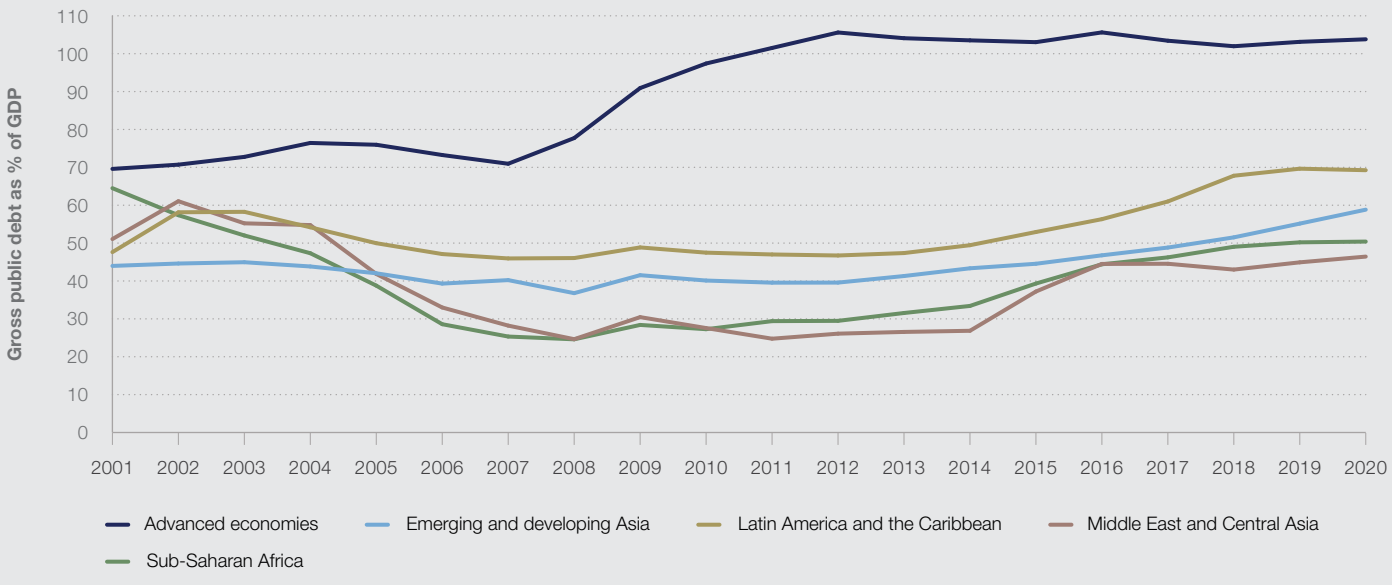
Data set includes the following economies: Greece, Chile, Spain, Brazil, Finland, Slovenia, Mexico, United States, Australia, Belgium, Italy, South Africa, Denmark, France, Costa Rica, Luxembourg, Turkey, Sweden, United Kingdom, Estonia, Austria, Latvia, New Zealand, Canada, Netherlands, Russia, Republic of Korea, Hungary, Czech Republic, Portugal, Israel, Lithuania, Japan, Ireland, Iceland, Germany, Slovakia, Switzerland and Poland.

Emergency and stimulus measures have pushed already high public debt to unprecedented levels, against a backdrop of shifting tax bases.

The importance of maintaining budget discipline and macro-economic resilience during boom years becomes evident during crises, when public sector expenditure is crucial to keep the economy afloat.

Debt levels were already high before the crisis, relative to past decades. In advanced countries, efforts to respond to the 2008 global financial crisis and slow growth have kept debt levels to GDP 20% higher than pre-2008. In developing countries, debt-to-GDP ratios increased by 10-15% since the end of the commodity super-cycle in 2014 (Figure 1.5).

FIGURE 1.5 **Gross public debt-to-GDP ratios by region, 2001–2020**



Source

International Monetary Fund, *World Economic Outlook Database*, October 2019.

Note

Advanced economies as well as regional groups are defined according to International Monetary Fund *World Economic Outlook Database* classification.

In the wake of the COVID-19 crisis and the subsequent, necessary policy responses, advanced economies' debt-to-GDP ratios are expected to surge from 105.2% in 2019, to 122% by the end of 2020; in emerging G20 countries, from 54.2% to 63.3%; and in low-income, developing countries, from 43% to 47.4%.[3] As some countries entered the health crisis with already high debt levels and slowing growth, fiscal space has partially reduced the size of deficit-spending programmes. This has been further exacerbated by shifting and partially shrinking tax bases due to slower growth, profit-shifting by multinational firms, and relatively low levels of progressivity in households' taxation compared to the past.[4]

An increasing public-debt burden presents new challenges for future growth, potential debt sustainability challenges and financial instability, especially in developing countries. It also challenges current tax systems and calls for a review of tax structures. Further, in countries where trust in institutions is declining, there may be doubts about the efficacy of public spending of the large amounts being mobilized to stabilize the economy in th current crisis.

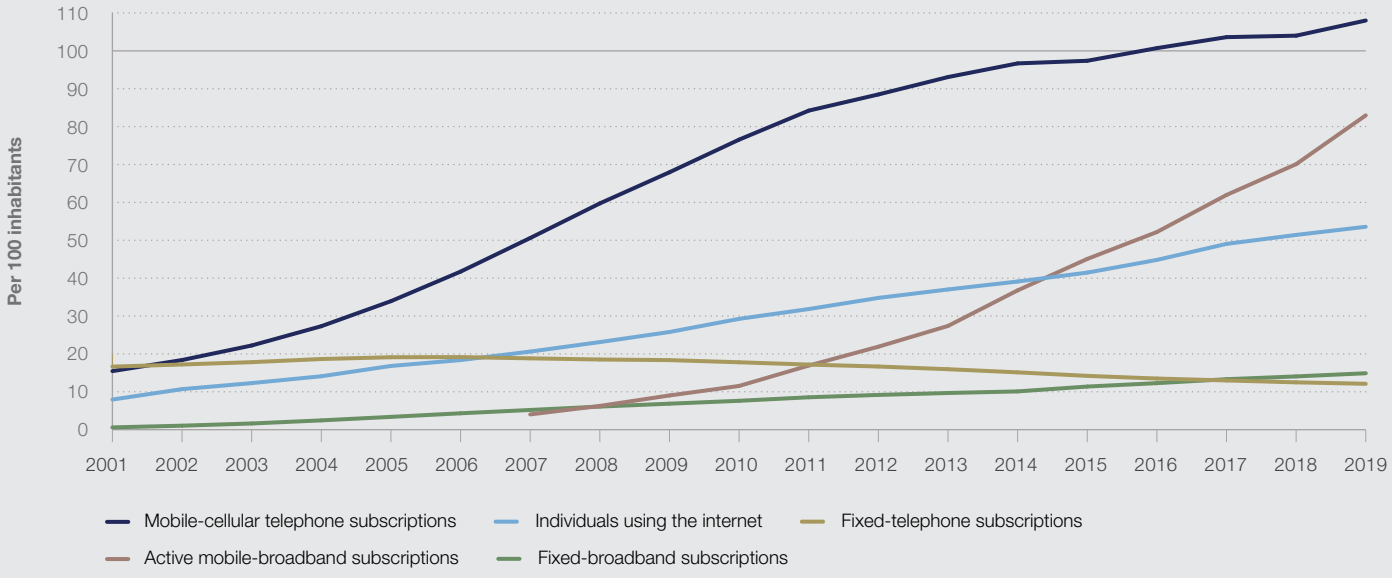
ICT access and use have been improving globally but remain far from universal, and the COVID-19 crisis has made catching up has become more difficult for developing economies while deepening advanced economies' digitalization.

Digitalization has advanced at a fast rate in the past decades. Globally, internet users doubled since 2010, surpassing 50% of the world population[5]; and every sector of the economy has seen a fast uptake of digital technologies (Figure 1.6). Despite this progress, however, large gaps in ICT adoption remain, and the digital divide—the disparity between those who have adequate access to ICT and those who do not—is still on the rise. Only 53.6% of the global population is using the internet and only 14.9% of the population has an active fixed-broadband subscription.[6]

Digital divides also persist within countries. Large shares of households or companies have not yet integrated into the digital economy. In the United States and Europe, 10% of fixed broadband subscribers can only use low-speed (below 10 Mbps) internet service and 30% of broadband subscriptions can use only internet connections below 30 Mbps.[7] In emerging and developing countries, digital exclusion is extreme: 95% of the offline population lives in these countries. Households that can access fixed broadband subscriptions are a minority (11.2%), and over one-half of all households can only use basic fixed-broadband connections, where speed is below 10 Mbps. In addition, electricity access in low-income countries is limited or unstable, further reducing the possibility to build a digital economy.[8]

With the outbreak of the COVID-19 pandemic the expansion of the digital economy has further accelerated in both advanced and emerging economies. Notably, the volume of e-commerce transactions has fast-tracked in several countries.

FIGURE 1.6 **Trends in Global ICT development, global average, 2001-2019**



Source

ITU World Telecommunication /ICT Indicators database (http://www.itu.int/ict/statistics).

For instance, in the United States, e-commerce has climbed by 24% in one year (July 2019-July 2020), after having increased by an average of 10% per year from 2010 to 2019. Globally, the number of e-learning courses has risen steeply, as over 1.2 billion children are out of schools due to COVID-19 measures this year.[9] Remote working, telemedicine, videoconferencing and online entertainment have all been on the rise since the beginning of the pandemic.

These trends are expected to continue in the next years, widening the gaps between digitalization leaders and followers, both across and within countries and across and within industries or companies.

1.2 What are the priorities for the enabling environment to lead to the revival of economies?

Improve the long-term thinking capacity within governments and mechanisms to deliver public services and support policy interventions digitally.

Perceptions by business leaders of forward-thinking and future preparedness by governments have been on an improving trend in a number of countries before the pandemic, but have flattened out this year, and overall their level remains low. There has been progress by governments in creating the frameworks for the private sector to advance the adoption of digital technologies and to implement environmental, social and governance standards; yet, overall, the preparedness and long-term vision of governments must improve to prepare for new challenges and proactive efforts at transformation towards more productivity, shared prosperity and sustainability.

Governments will also need to upgrade their own processes and services. It became apparent during the crisis that governments which had built out the digital delivery of public services were much better placed to disburse emergency funding to distressed companies and households. The Chinese government, for example, was able to build on Ant Financials' vast network to support millions of SMEs through the first wave of lockdowns.[10]

Long-term thinking by governments will further need to involve a deliberate shift to measuring economic success beyond GDP growth. A dashboard that considers people, planetary (environmental) and institutional targets on a par with growth objectives will need to be anchored in budget processes and become an integral part of a new narrative of economic performance.[11]

Prepare support measures for highly-indebted, low-income countries and plan for future public debt deleveraging.

The management of macro-economic sustainability in the recovery phase and in the next few years will determine if the growth trajectory will be burdened by debt and vicious cycles marked by public finance weakness and slower growth. Among most advanced countries, debt affordability is currently not at risk; but it seems inevitable that to finance COVID-19 policy responses related to taxation will have to increase in the future. Long-term prosperity will significantly depend on how public budget and fiscal policies are managed (e.g. how efficiently recovery packages are implemented and the maturity structure and composition of public debt) as well as on the structural capacity to grow more rapidly.

Developing countries, however, are in a significantly weaker position as some of them are already highly indebted—and highly-indebted countries tend to attain lower investment and productivity levels during recovery periods.[12] These countries will need the support of the international community and multilateral financial institutions to prevent defaults or situations where the cost of debt service diverts significant resources from economic and social policies budgets.[13] For instance, debt standstill arrangements that flatten the curve of debt rescheduling can help.[14]

Upgrade utilities and other infrastructure.

In order to close existing gaps, the world will need to invest $3.7 trillion, or 4.1% of global annual GDP a year, into infrastructure from 2017 to 2035—and 54% of this funding can be attributed to the needs of Asia. However, there is a projected shortfall of $5.5 trillion of infrastructure spending globally between 2017 and 2035, and this further varies regionally.[15]

The IMF estimates that allocating an additional 1% of GDP to public investment could create approximately 7 million jobs directly, and 20 million jobs indirectly worldwide. Maintaining and, where possible, expanding investments in transport, healthcare, housing, digitalization and energy transition would not only improve competitiveness, but also create more employment while preparing countries to become more resilient and sustainable.[16]

Effective infrastructure governance and management will be key to improving the efficiency of fund disbursement. To date, inefficient planning, allocation and implementation of infrastructure projects account for 30%-50% of expenditure losses; thus, countries could maintain their infrastructure budgets by streamlining and improving these processes.[17] Similarly, stronger frameworks for project selection, fiscal planning, comprehensive budgeting, fair procurement practices, project oversight and monitoring of public assets may contribute to building better infrastructure at a lower cost.

Prioritize closing the digital divide within and across countries for both firms and households

The impact of the pandemic crisis should serve as a wake-up call for countries that need to embrace the digitalization process, incentivize companies to move towards digital business models, and invest in ICT development and digital skills.

Two immediate implications follow for reviving economies. First, the technology frontier will move ahead faster than before: private sector spending on technology is only momentarily retracting in 2020, but it is expected rebound strongly in 2021 and companies are expected to almost double their investments dedicated to digital transformation initiatives in the next three years.[18] Economies that have been able to upgrade their ICT infrastructure and expand the adoption of digital technologies will be better equipped for the recovery phase, and those that are lagging behind could allocate parts of stimulus packages and policy action to this domain.

Second, digital transformation must occur hand in hand with human capital and legal framework developments. As technological advancements proceed, an economy's productivity gains rest upon the capacity of companies and households to take advantage of the opportunities offered by new technologies. At the same time, legal codes need to catch up with the digital world and provide certain and simple rules for digital business models (e.g. e-commerce, sharing economy, fintech).

Few countries are already advanced on all aspects (Table 1.1), and even countries where ICT is broadly diffused (e.g. Korea and Japan) may need to adapt their business organizational models accordingly in the next phase of economic revival.

TABLE 1.1

Top ten countries on ICT adoption, flexible work arrangements, digital skills and digital legal framework

	ICT adoption		Flexible work arrangements		Digital skills		Digital legal framework	
1	Korea, Rep.	93.7	Netherlands	82.7	Finland	84.3	United States	78.0
2	United Arab Emirates	92.3	New Zealand	77.7	Sweden	79.5	Luxembourg	77.4
3	Hong Kong SAR	90.2	Switzerland	75.8	Estonia	77.9	Singapore	76.5
4	Sweden	89.7	Estonia	75.0	Iceland	77.6	United Arab Emirates	72.5
5	Japan	88.3	United States	74.2	Netherlands	77.3	Malaysia	70.0
6	Singapore	88.1	Luxembourg	73.6	Singapore	77.3	Estonia	69.3
7	Iceland	87.8	China	73.6	Israel	76.5	Sweden	67.9
8	Norway	84.7	Australia	72.9	Denmark	74.7	Finland	67.7
9	Qatar	83.9	Finland	72.5	Saudi Arabia	74.1	Germany	67.3
10	Lithuania	83.8	Denmark	72.4	Korea, Rep.	73.0	Netherlands	65.5

Source

World Economic Forum, Executive Opinion Survey 2019-2020 and International Telecommunication Union (ITU), WTDS 2020 database.

Note

All scores are expressed on a 0-100 scale. ICT adoption is the average of the following indicators obtained from ITU: "Internet users% of adult population"; "mobile-cellular telephone subscriptions per 100 pop"; the ratio of "Fibre internet subscriptions per 100 p." to "Fixed broadband Internet subscriptionsper 100 pop."; the ratio of "Mobile-broadband subscriptions per 100" to "mobile-cellular telephone subscriptions per 100 pop". Flexible work arrangements: Response to the survey question "In your country, to what extent do companies offer flexible working arrangements (e.g., virtual teams, remote working, part-time employment)? 1=Not at all; 7=to a great extent. Digital skills refers to the response to the survey question "In your country, to what extent does the active population possess sufficient digital skills (e.g., computer skills, basic coding, digital reading)? 1=Not at all; 7=To a great extent. Digital legal framework refers to the response to the survey question "In your country, how fast is the legal framework of your country adapting to digital business models (e.g. e-commerce, sharing economy, fintech, etc.)?" [1 = not fast at all; 7 = very fast].

1.3 What are the priorities for the transformation of enabling environments?

Ensure public institutions embed strong governance principles and regain trust by serving their citizens.

Reform will need to go further than simply re-establishing more efficient versions of earlier frameworks for the institutional environment. For example, some historical institutional structures were deeply unfair to certain groups and need to be reformed more fundamentally in addition to improving overall institutional quality, legal certainty and judicial independence. Substantive institutional improvements will also go some way towards re-establishing trust between citizens and governments. The crisis has opened up an opportunity for governments to strengthen trust further. Those that acted swiftly and transparently to protect their populations, such as New Zealand, saw significant improvements in trust levels, while those which mismanaged the crisis lost credibility and the trust of their citizens.

Upgrade infrastructure to accelerate the energy transition and broaden access to electricity and ICT.

Infrastructure development in the future will need to embed sustainability and broad-based access criteria. For example, climate change mitigation requires rapid shifts in energy mix towards renewable energy sources. This not only requires stronger and wider political commitment (both in terms of funds and regulations), but also involves changes to urban planning, broadening access to green public spaces and upgrading public transport, as well as greater protection of biodiversity and natural habitats outside of urban spaces.

Similarly, wider access for all members of society to infrastructure will in some cases require longer term changes to enhance inclusion, including changes in market structure to expand competition. For example, the average price of the fixed-broadband basket (5 GB) is at least 20 times higher in emerging market and developing economies than in advanced economies, and the price that customers pay for a fixed-broadband basket is more than one-sixth of their salary.[19] More efforts are needed to improve affordability, expanding inclusion of companies and households into the digital economy.

Shift to more progressive taxation, rethinking how corporations, wealth and labour are taxed, nationally and in an international cooperative framework.

Discussions over changes to national and international tax architectures have gained a new urgency in the post-COVID economy, which is marked by significantly higher public debt levels and exacerbated historical inequalities. The crisis presents an opportunity to fundamentally rethink both tax structures and the set-up of social welfare, and adapt both to the realities of the Fourth Industrial Revolution.

Such a shift entails an international agreement on the taxation of digital activity as well as new approaches to addressing gains in wealth at the top end of the distribution by means of more progressive marginal income, wealth or capitals gains taxes. The nature of public spending on social security systems, too, will have to be upgraded from providing intermittent support to individuals in times of crisis to fostering capabilities and connections across and within communities over the lifecycle.