



private sector | development

**India**



# ***PERSPECTIVES ON INVESTMENT CLIMATE REFORM***

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**Chief Economist - IFC**

**Vice President, Private Sector Development**

**The World Bank Group**

**April 2005**

# Global Population Statistics

**1900**

**Population: 1.8 billion**



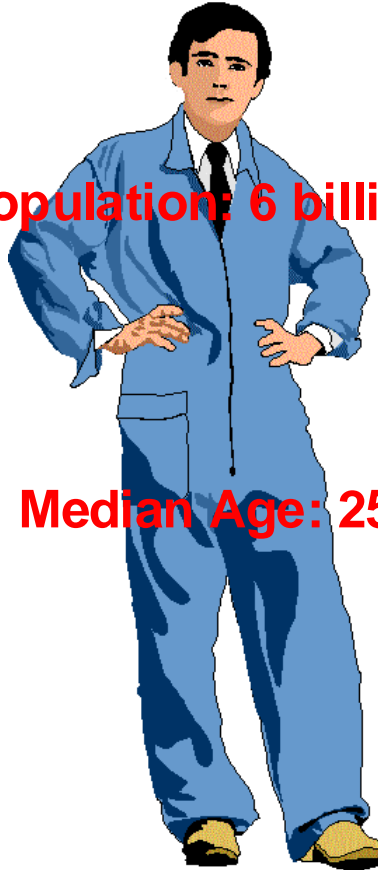
**Median Age: 20**

**Average Income:  
\$1,200**



**2000**

**Population: 6 billion**



**Median Age: 25**

**Average Income:  
\$6,000**



**2100**

**Population: 5 billion**



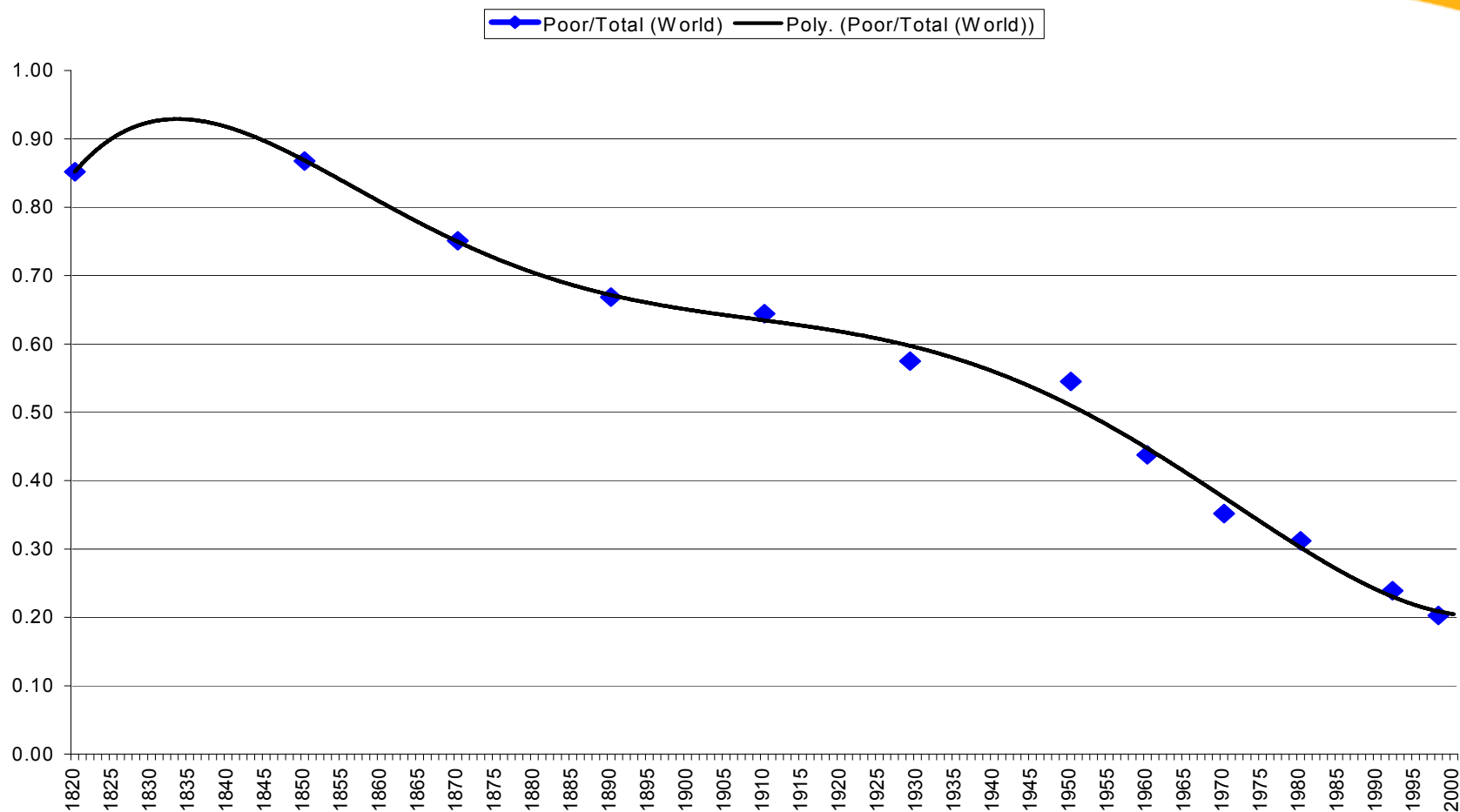
**Median Age: Approx. 50**

**Average Income:  
\$40,000**



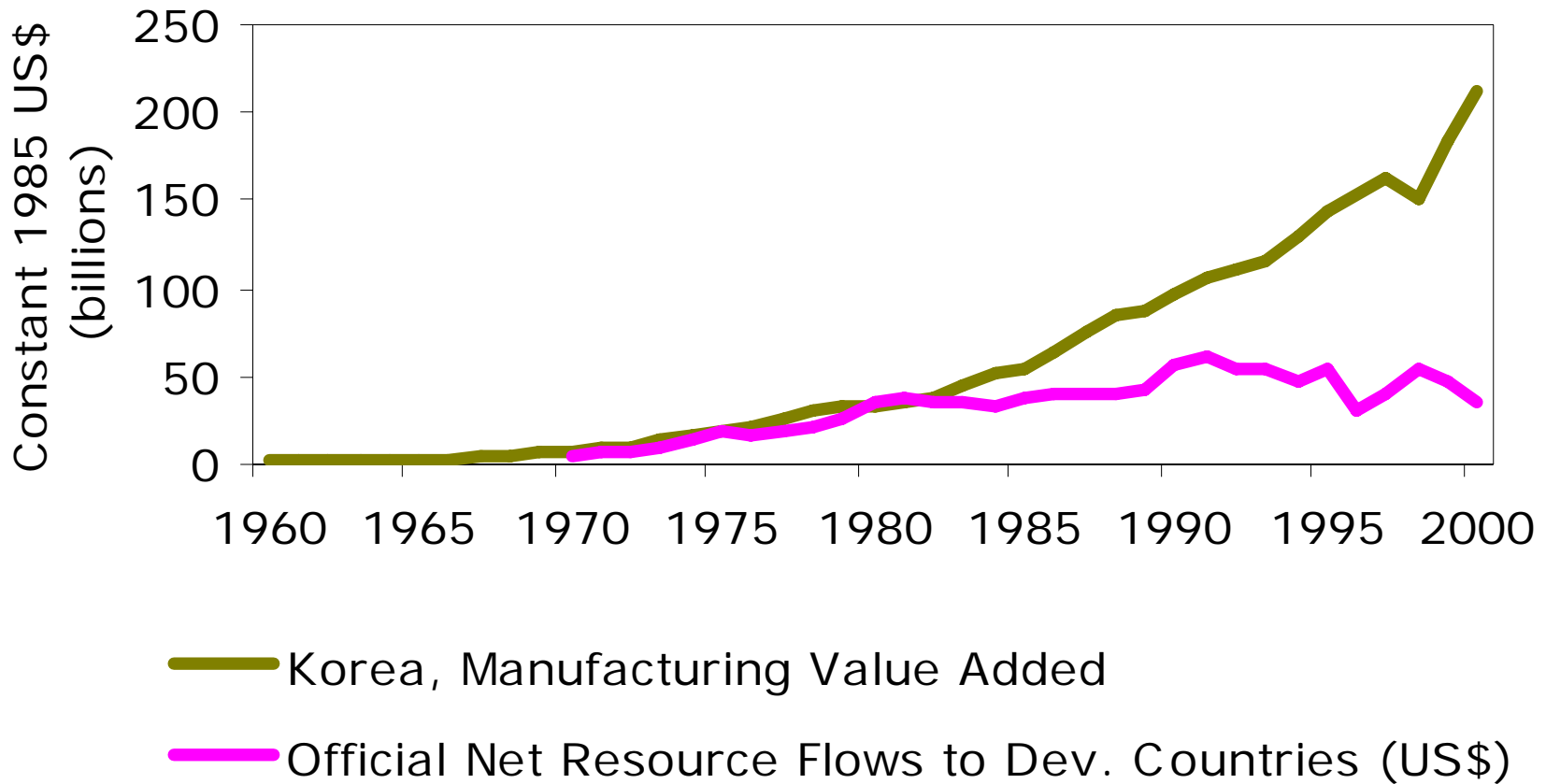
# A world free of poverty?

## Share of world population living in poverty, 1820-2000

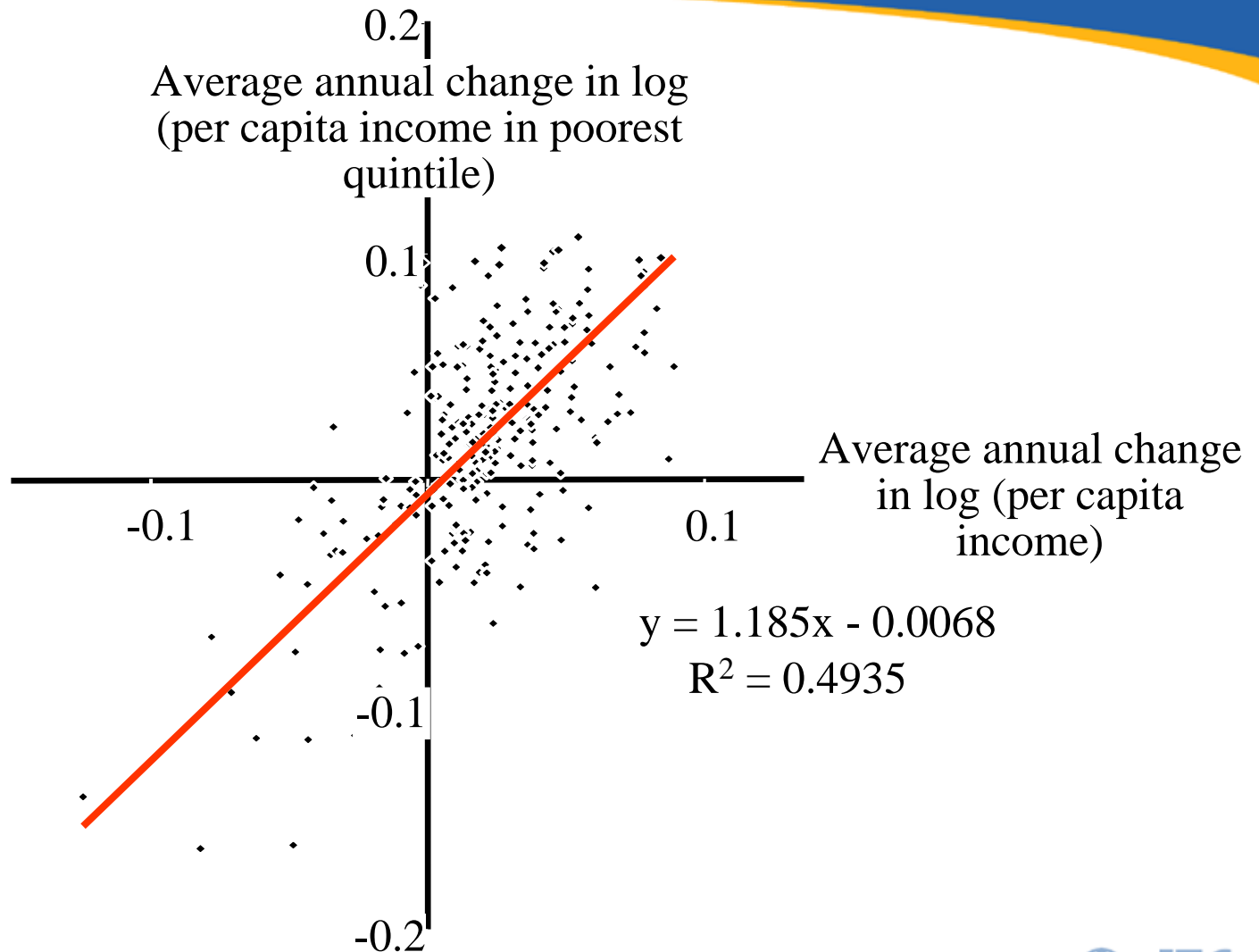


Source: David Dollar, Frank Lysy and Guy Pfeffermann.

# Growth achieves more than redistribution



# Growth reduces poverty



# Catch-up is possible

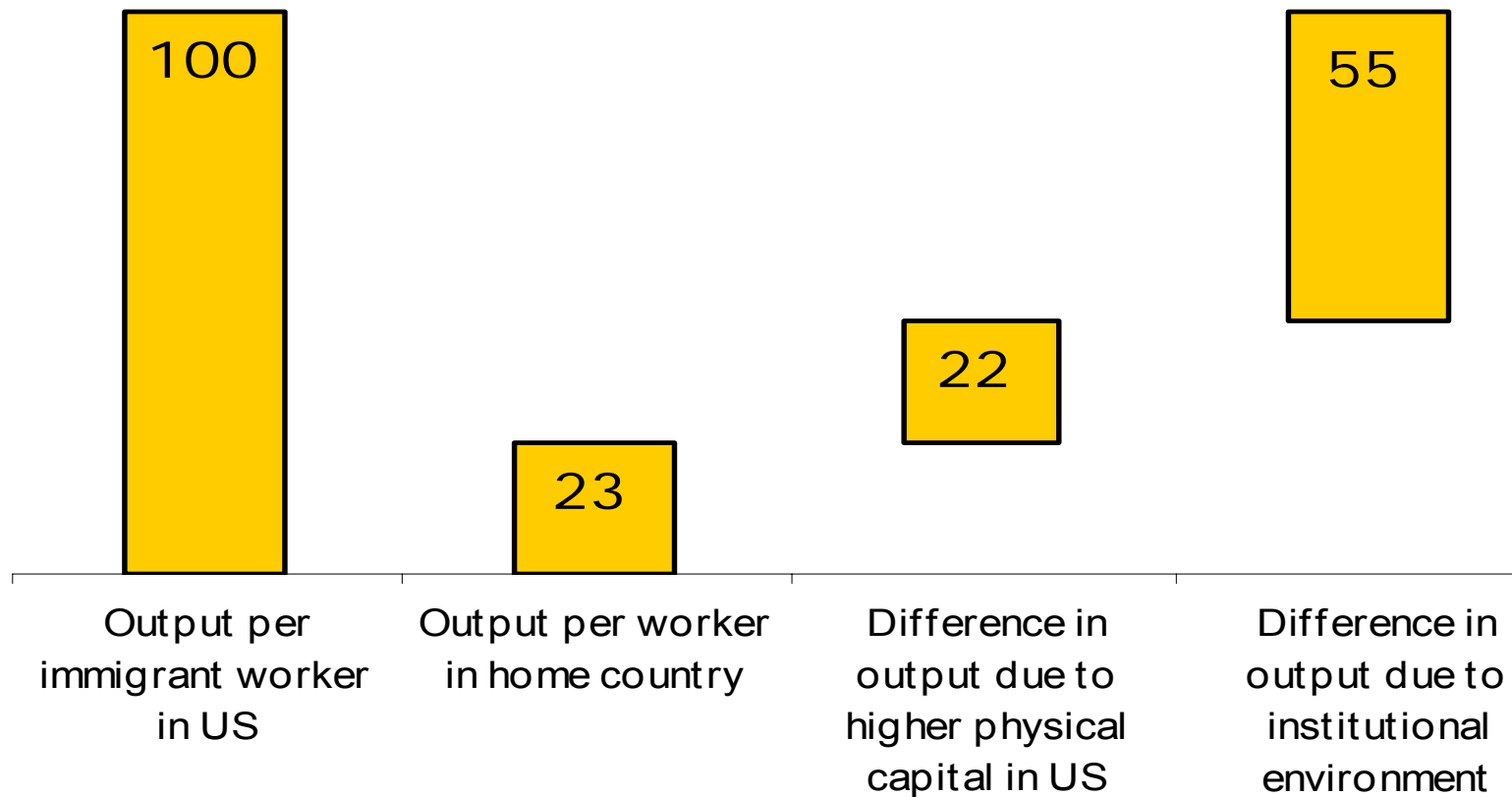
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## Time to double income:

Pre-industrial:	<b>350 years</b>
Britain (1780-1830)	<b>175 years</b>
Britain in 19th century	<b>65 years</b>
Fast growers since WWII (Japan, China, Thailand, Botswana, Ireland, Chile....)	<b>10 years or less</b>



# Institutions are more important than capital...



Source: Calculations based on Hendricks (2002)

# The public face of lasting contributions... private sector | development



**“Heavier-than-air flying machines are impossible.”**

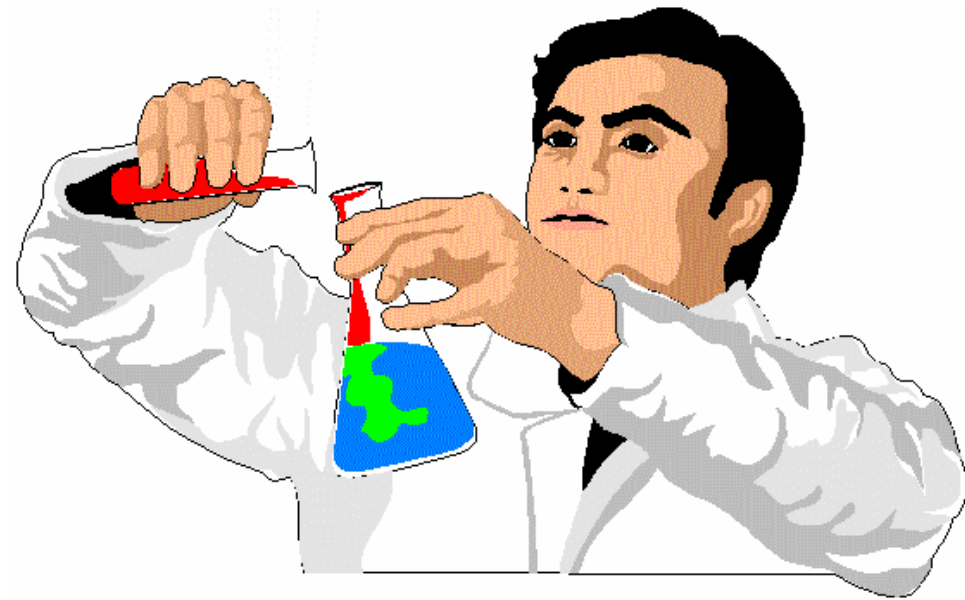
- Lord Kelvin, President, Royal Society, 1895

I have traveled the length and breadth of this country and talked with the best people, and I can assure you that data processing is a fad that won't last out the year.

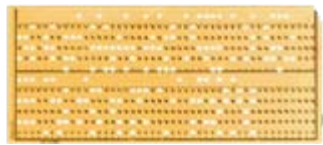
- The editor in charge of business books for  
Prentice Hall, 1957

# Worker and Parasite?

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# The Nature of the Growth Process



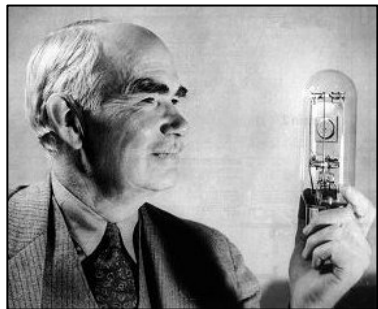
**Punch Card (1890)**



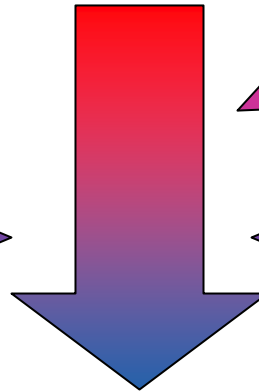
**Calculating Machine (1642)**

IF X>10 AND Y<4  
THEN GOTO Z

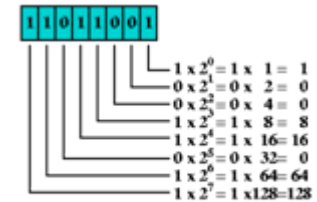
**Symbolic Logic (1847)**



**Audion Tube (1906)**



**Computer (1946)**



**Binary System (1941)**

# The innovation challenge

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## 1900

Building Blocks = 1  
Permutations = 1



# The innovation challenge

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## 1900

Building Blocks = 1  
Permutations = 1



## 2000

Building Blocks = 4  
Permutations = 24



# The innovation challenge

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## 1900

Building Blocks = 1  
Permutations = 1



## 2000

Building Blocks = 4  
Permutations = 24



## 2100

Building Blocks = 16  
Permutations = **20.9 trillion**



# Learning is more than simple adoption (Hyundai's first car)

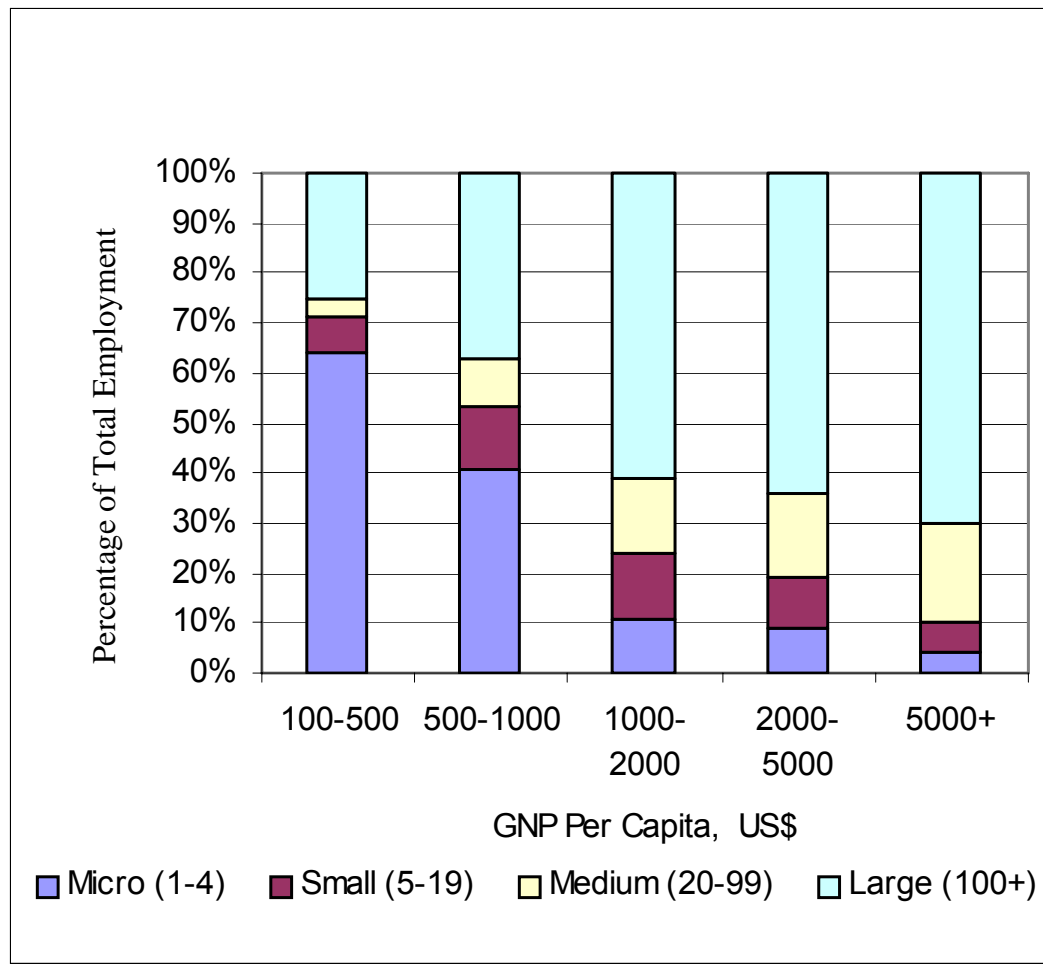
- 14 months of trials before creating the 1st prototype
- 11 more prototypes before one survived the test
- 2,888 engine design changes
- 97 test engines
- More than 200 test transmissions and 150 test vehicles
- First car in 1992

# The ecology of firms – basic principles

- Uncertainty and bounded rationality entail need for experiments and routines
- A selection mechanism is needed to sort out good experiments and routines from bad ones (entry, incentives to change, exit)
- The selection mechanism is based on rules for all (property rights, contracts, price formation processes...)
- Competition and co-operation are in symbiosis (also for government: balance of power, elections)

- New firms constantly enter the market
- Most firms exit again within five years
- Good firms become large
- Large firms are most productive and long-lived
- Firm size does not cause productivity
- A good selection and incentive mechanism leads to high productivity

# Distribution of employment by firm size

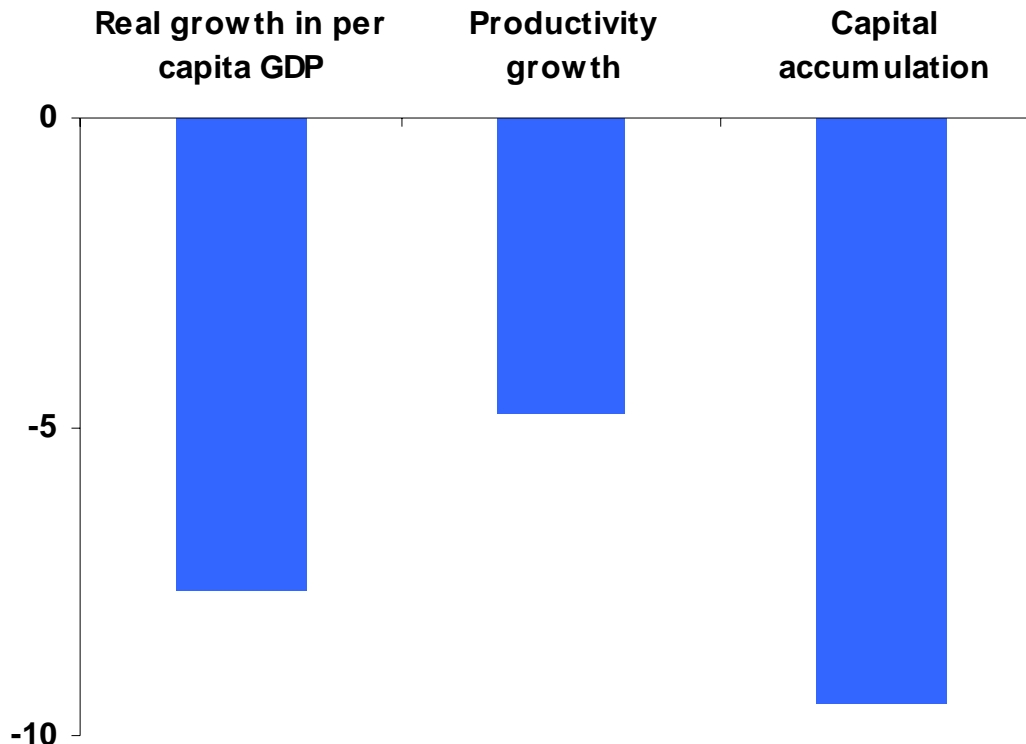


Source: Snodgrass and Biggs (1996).

# Stability in a country's list of established firms is associated with slower economic growth

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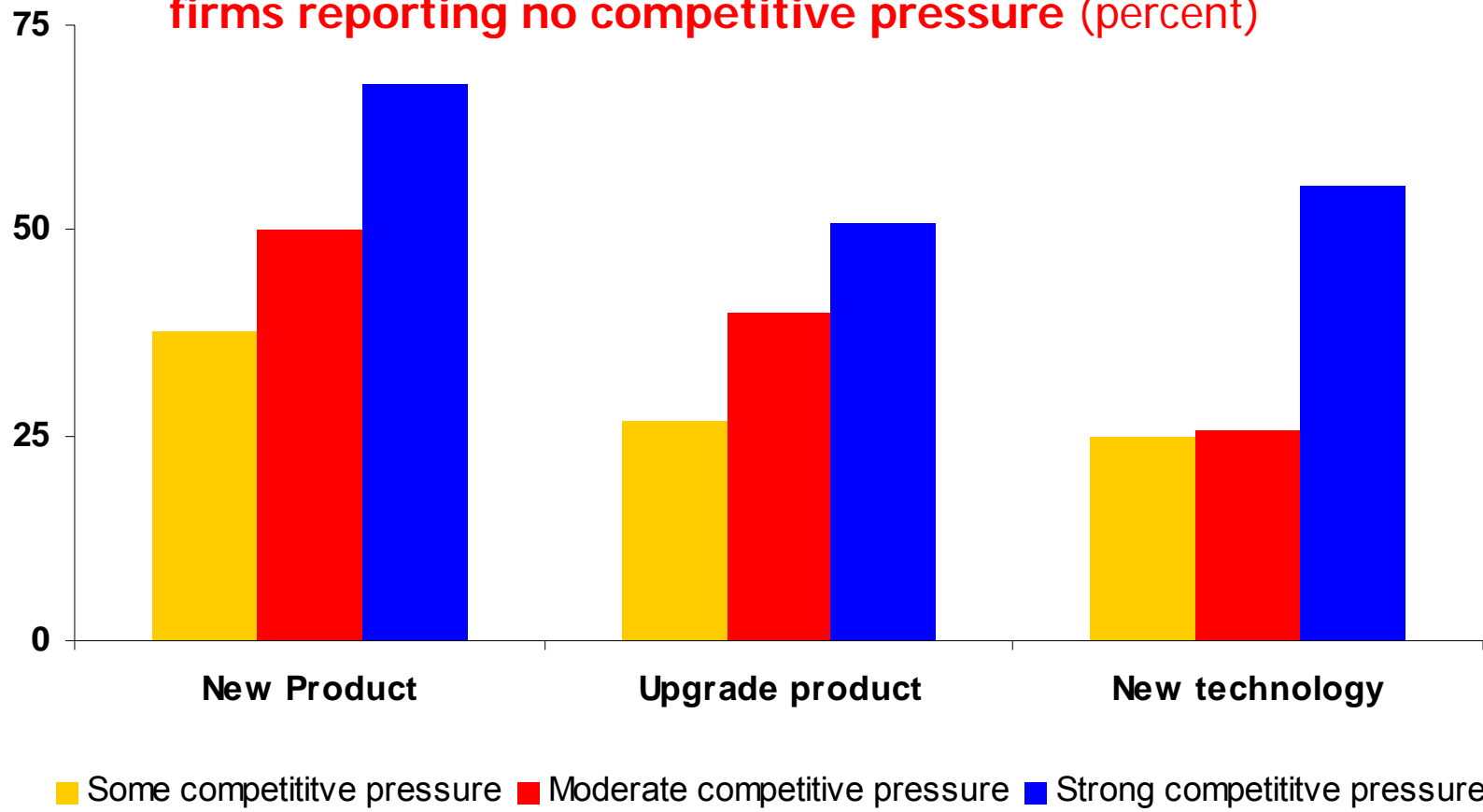
**Reduction in economic growth associated with one standard deviation increase in the corporate stability index (percent)**



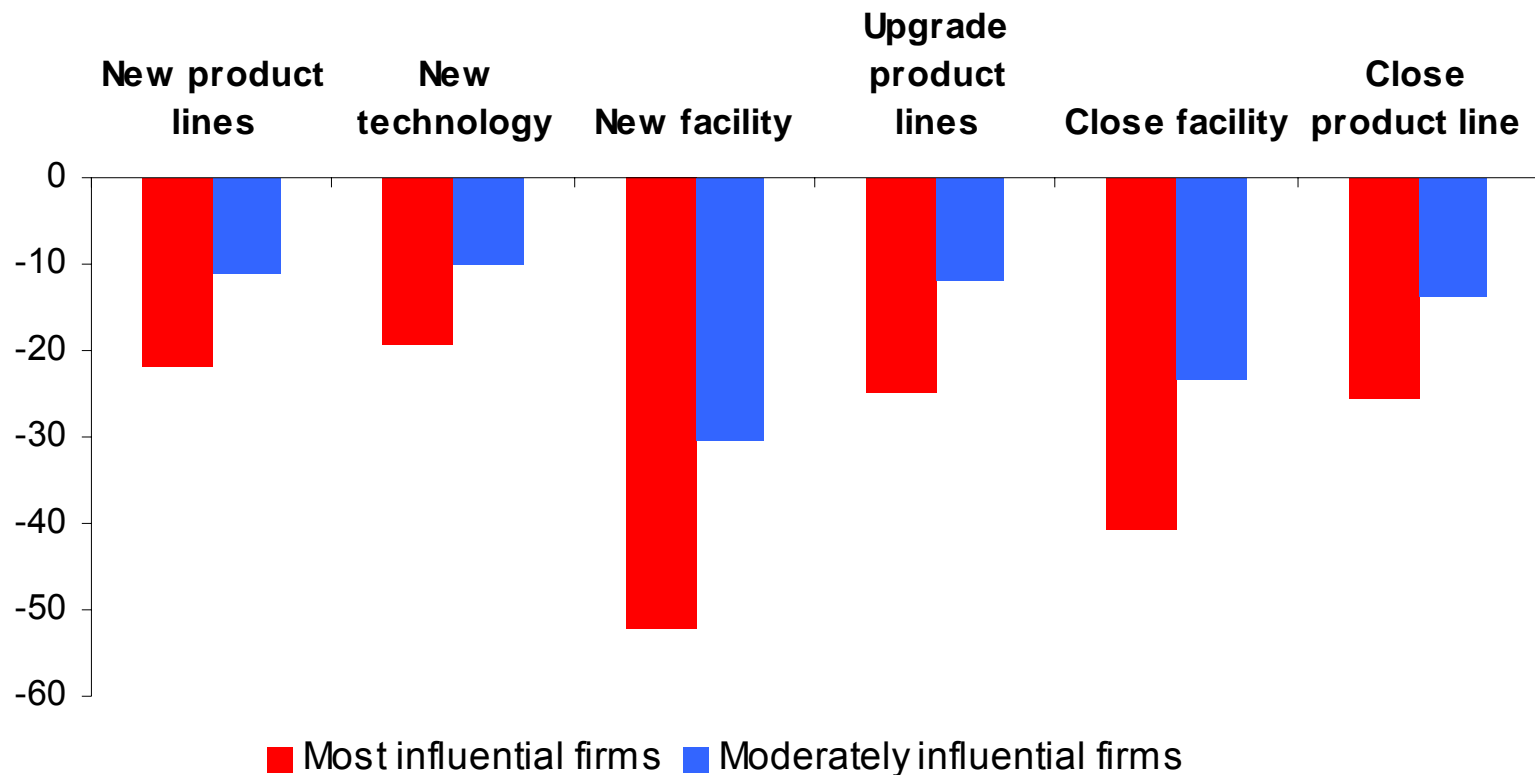
Source: Kathy S. He, Randall Morck and Bernard Yeung. 2003. "Corporate Stability and Economic Growth." William Davidson Working Paper No. 553.

Note: Corporate stability indices are the fraction of the top ten firms, by employees, in each of the 52 countries in the study in 1975 that were still in the top ten in 1996, weighted by each firm's 1996 labor force.

## Change in probability of undertaking innovation relative to firms reporting no competitive pressure (percent)



## Change in probability of undertaking innovation relative to least influential firms (percent)



# Doing business indicators

## 2004



## 2005



## 2006

- Regulation of Entry
- Labor Regulations
- Contract Enforcement
- Credit Markets
  - Credit information
  - Collateral
- Bankruptcy

- Bureaucratic Hassle
  - Business licenses
- Corporate Governance
- Property registration

• *Updates of '04 topics*

- Taxation
- Trade Infrastructure
  - Transport
  - Customs
  - Standards

• *Updates of '04 and '05*

# Time-and-motion study: registering property

## Case facts

- Limited liability
- Domestic SME
- Largest business city
- Wants to purchase land and warehouse in peri-urban area
- Value of property= 50 x GNIpc
- Property is registered and free of title dispute, etc

## Indicators

- Procedures
- Time
- Cost (% Value)
- Documentation

How to transfer ownership?

# 3,300 Local partners

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World Bank  
Confidential

[LAW FIRM - ATTORNEY]

## Enforcement

8. Who enforces the final judgment? (Circle one)
- An officer of the court
  - A police officer
  - A private bailiff
  - Other (describe)
9. The most common way to remunerate the person enforcing the judgment at lower-level civil trial courts in your country is (circle only one):
- Hourly rate
  - A percentage of the judgment (contingent on outcome of enforcement)
  - A lump sum (regardless of the outcome of enforcement)
  - Other (describe): a fixed sum
10. How would you rate the efficiency of enforcement services in terms of time (circle only one):
- Quick
  - Reasonable
  - Slow
  - Very slow
11. How would you rate the efficiency of enforcement services in terms of cost (circle only one):
- Very expensive
  - Expensive
  - Reasonable
  - Cheap

## Part 3. Photocopies of applicable law

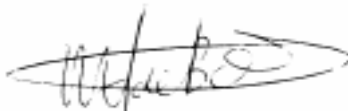
Please attach photocopies of specific articles and sections of statutes or codes mentioned in parts 1 and 2 above. If possible, please provide copies in English.

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E-mail: [peter.vanschilfgaarde@debrauw.com](mailto:peter.vanschilfgaarde@debrauw.com)  
Contact: Mr P. van Schilfgaarde



Ms J.J. van Haersolte-van Hof / Ms M.H. de Boer  
ATTORNEY - LITIGATION DEPARTMENT

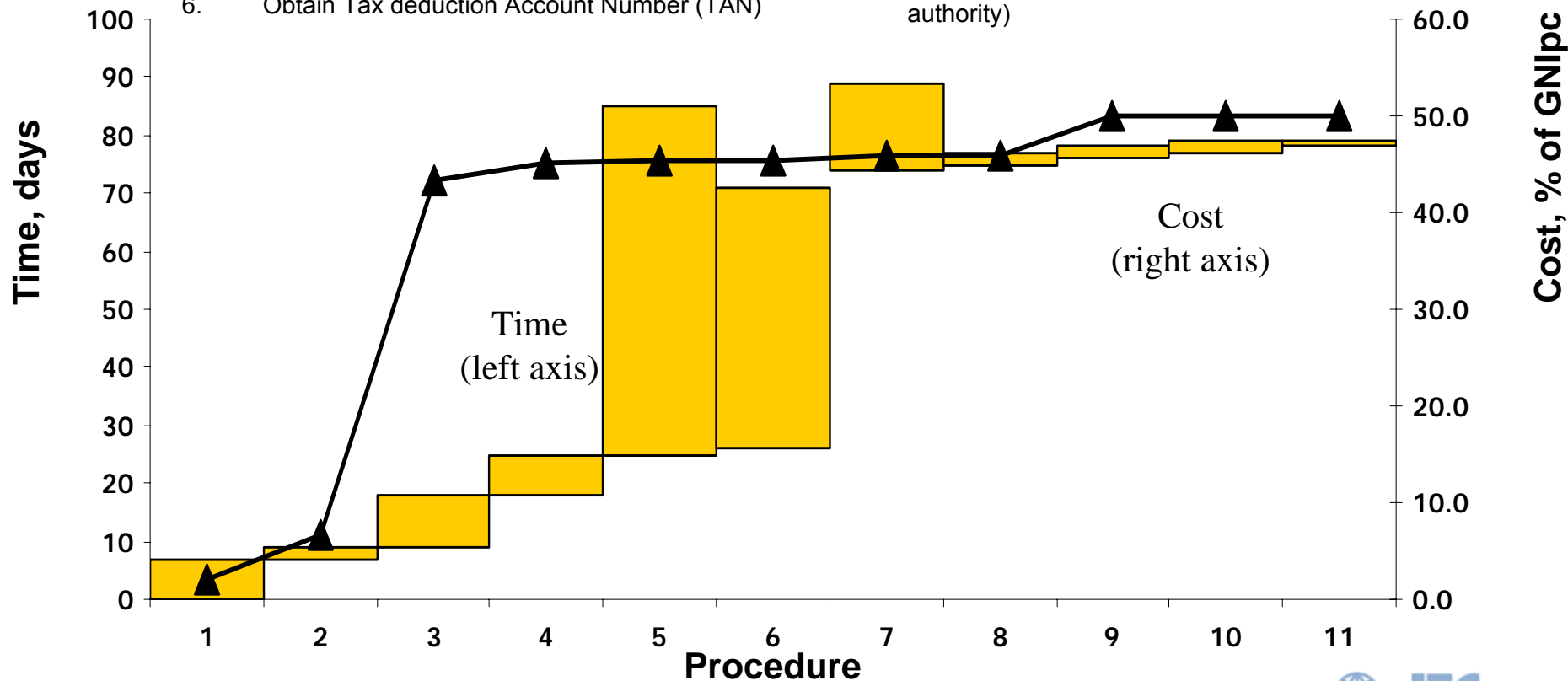


Mr P. van Schilfgaarde  
ATTORNEY - CORPORATE COMMERCIAL DEPARTMENT

# Starting a business: India (Jan 2004)

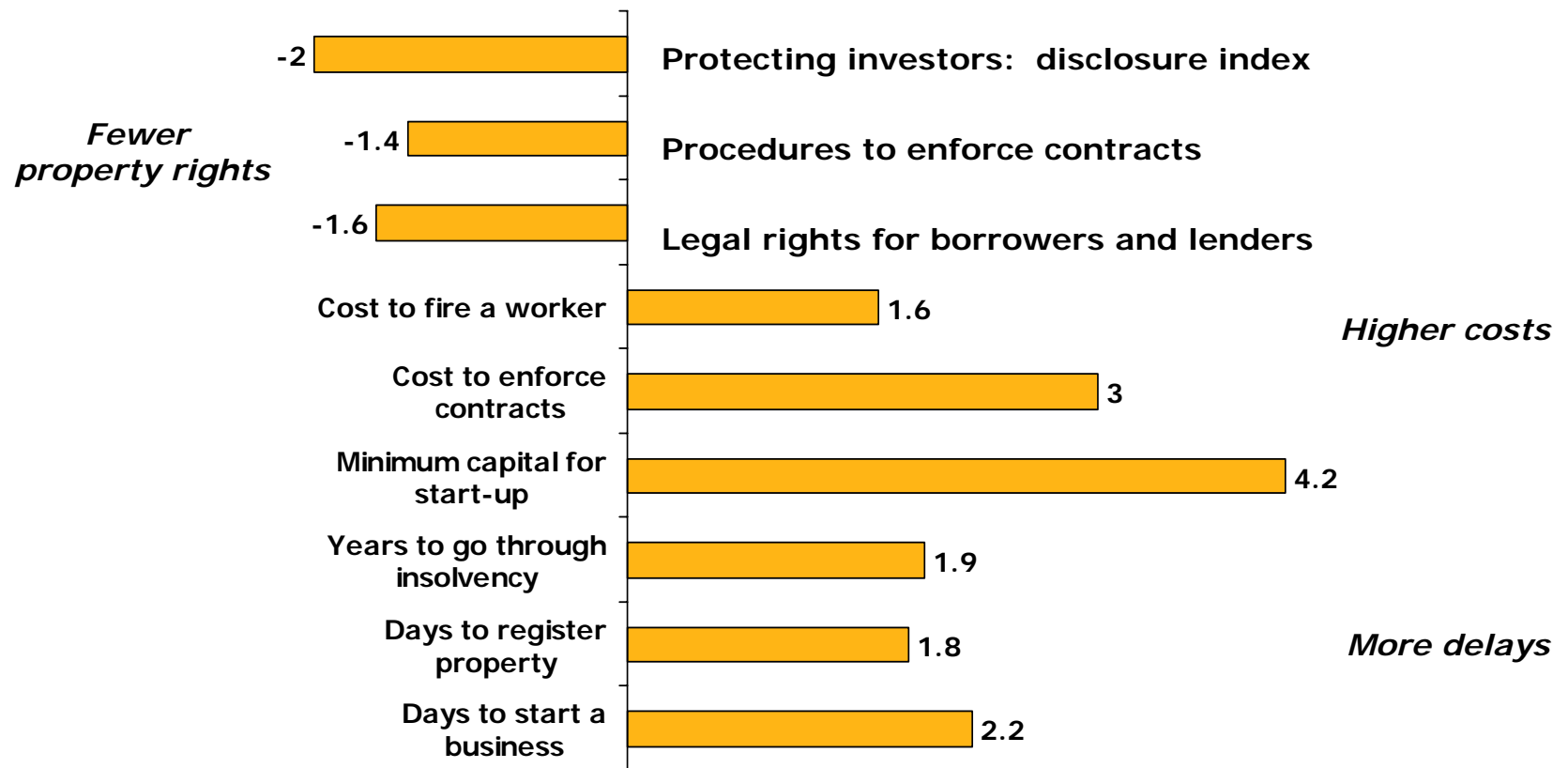
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1. Have name pre-approval and documents vetted
2. Stamp memorandum and articles of association
3. File for registration
4. Make a seal
5. Obtain Permanent Account Number (PAN) for income tax
6. Obtain Tax deduction Account Number (TAN)
7. File for sales tax
8. Register for profession tax
9. Register with Mumbai Shops and Establishment Act
10. File with Employee's Provident Fund (EPF)
11. File for medical insurance (ESIC / local labor authority)



Source: Doing Business Project

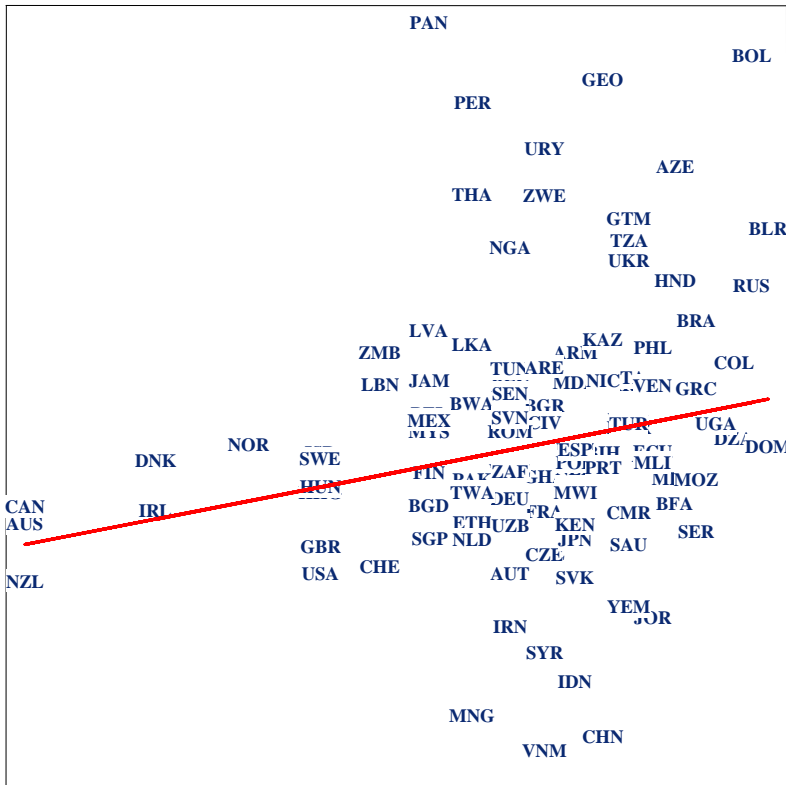
# There are more burdens in poor countries...



# ... to the detriment of the poor & disabled

## A Larger Informal Sector

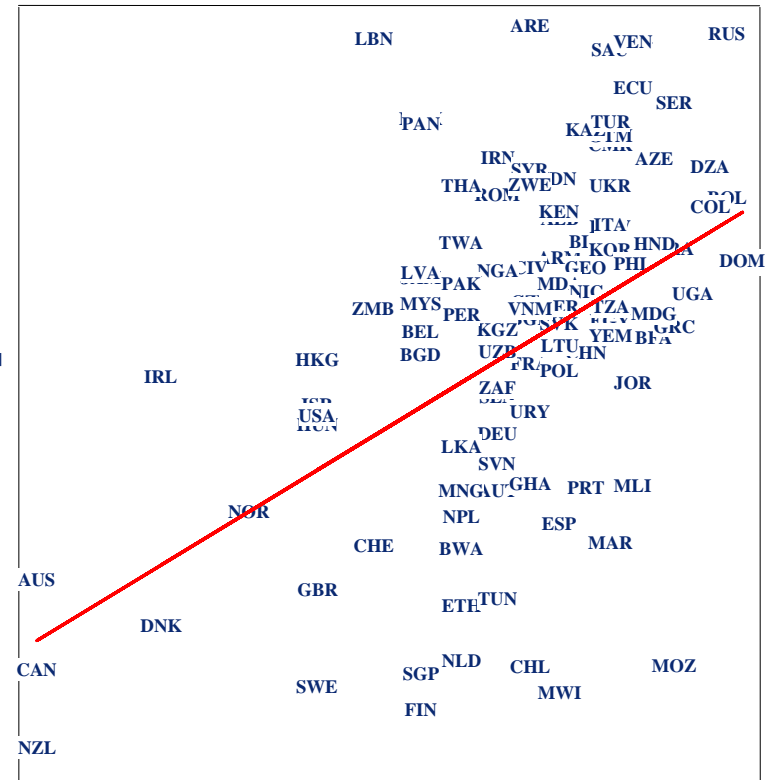
Informal Employment



Procedures to Start a Business

## More Corruption

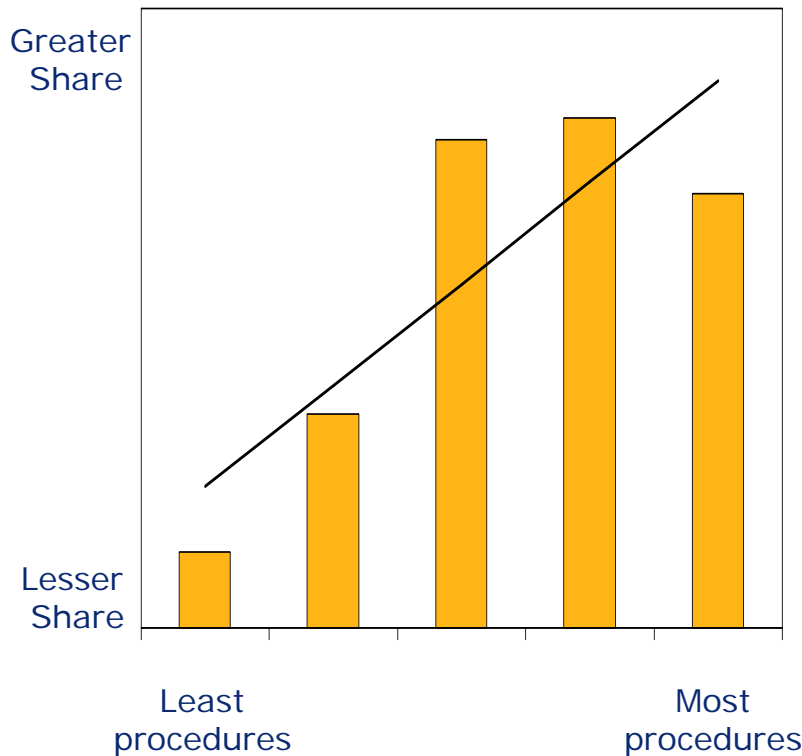
Corruption



Procedures to Start a Business

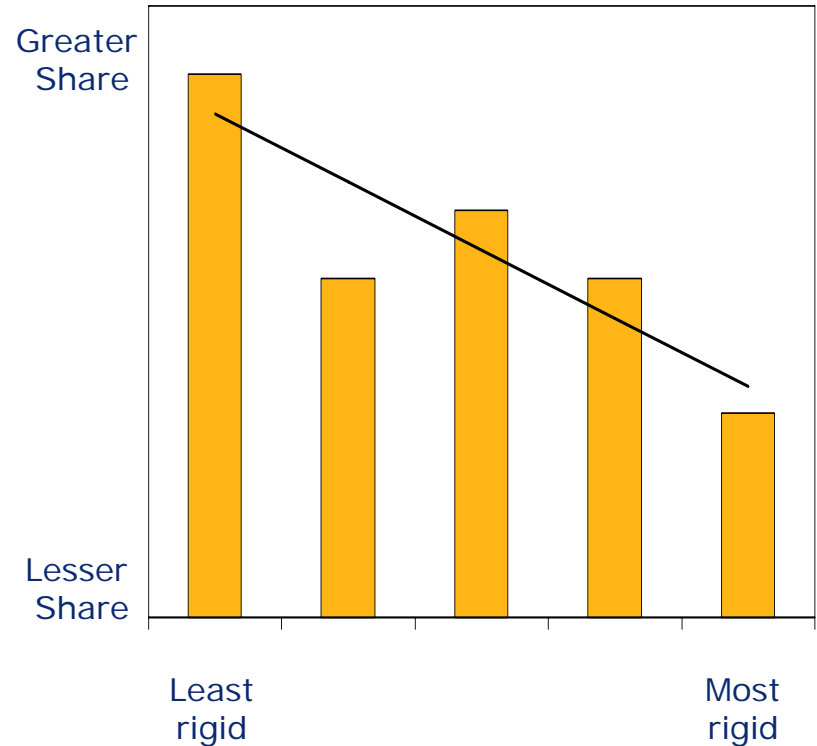
# Heavy regulations exclude the vulnerable

### Greater Informal Sector to GDP



Countries ranked by procedures to register property, quintiles

### Lesser Women's Share of Private Employment

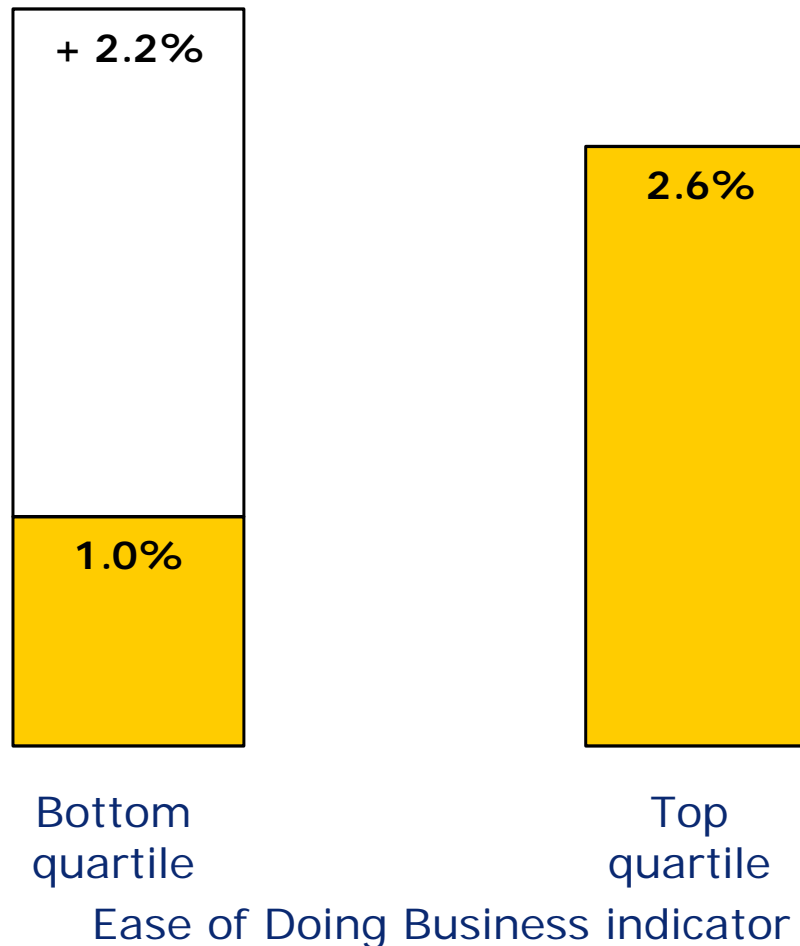


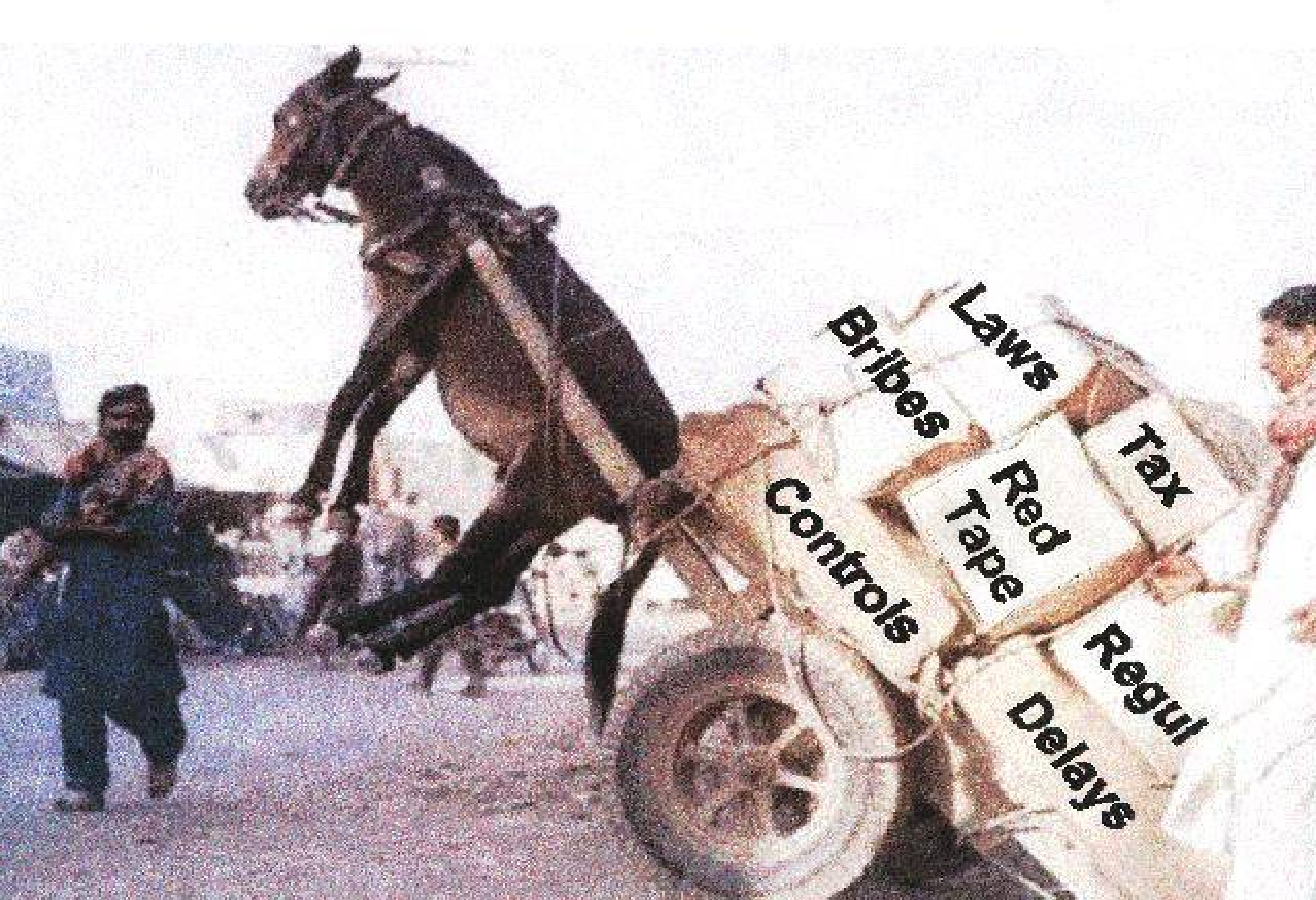
Countries ranked by rigidity of employment index, quintiles

# Reform pays off

Reforms to reach the top quartile of countries would add 2.2 percentage points annual growth

**Actual Growth**

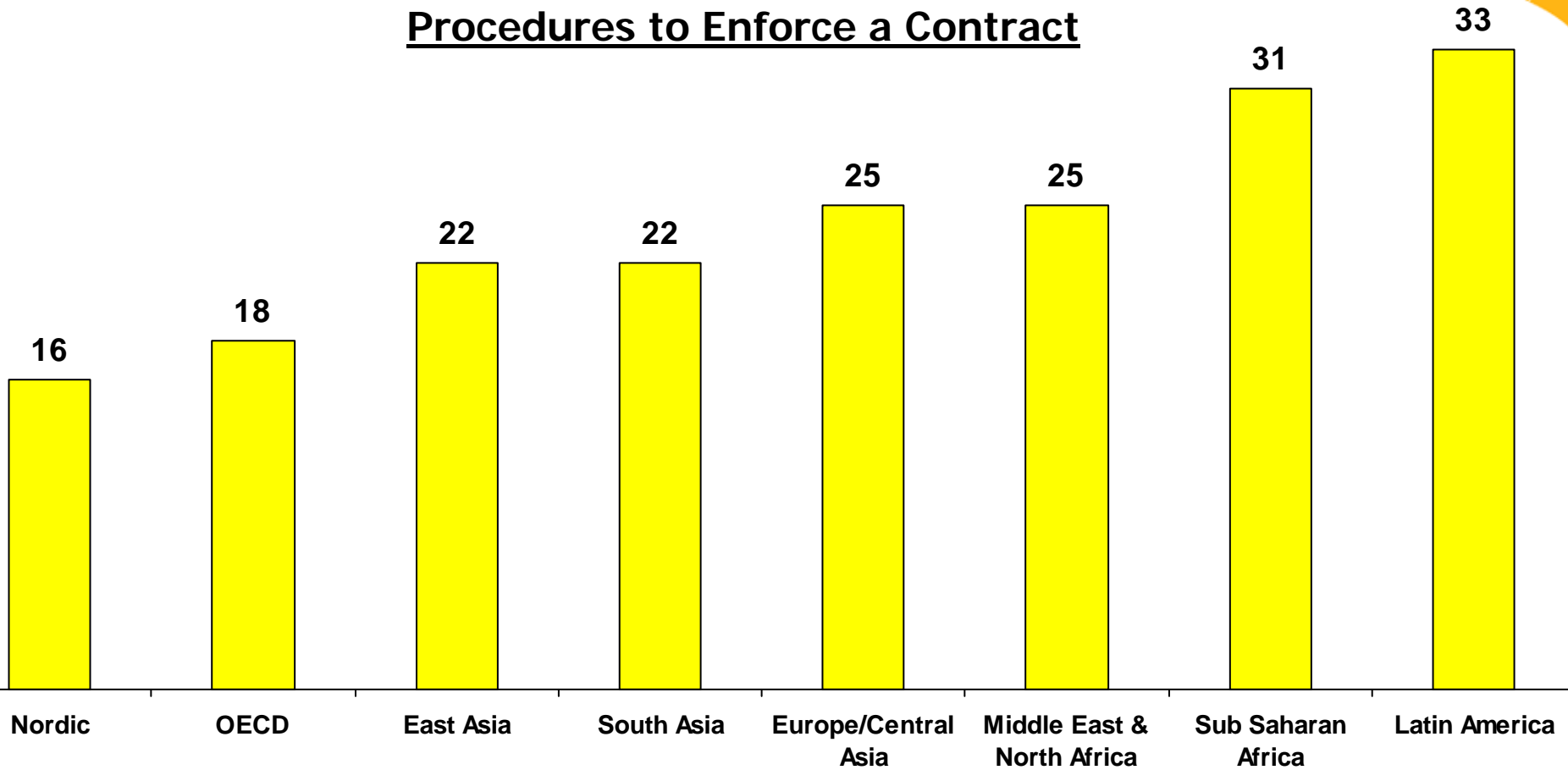


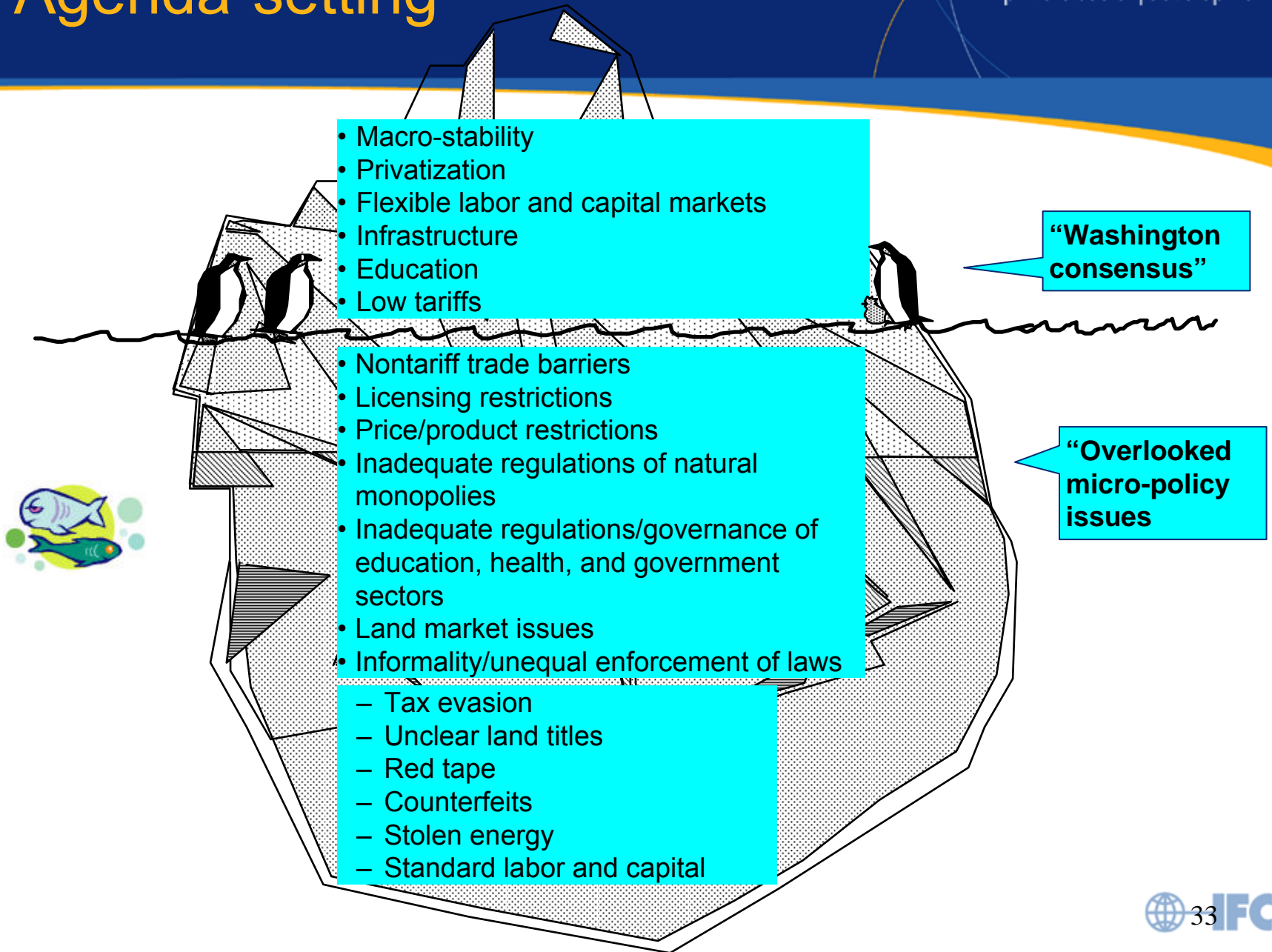


Source: Chris Darroll. 2004. "The Investment Environment in Africa: Cutting Red Tape for Business in Africa Initiative." 

# A New Swedish Model?

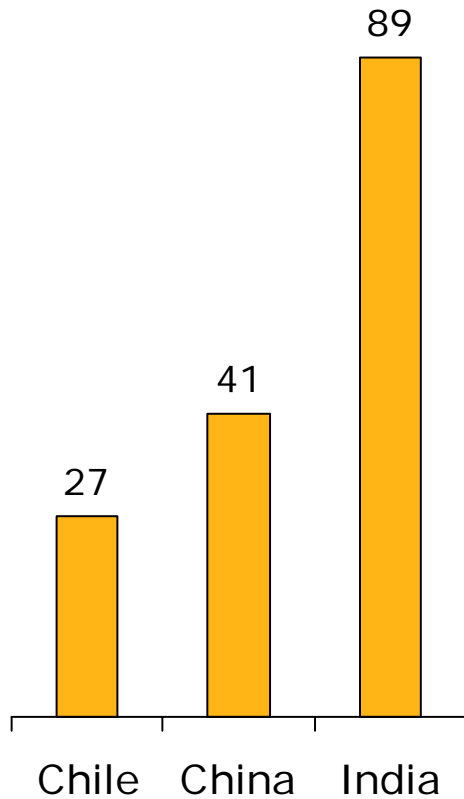
## Procedures to Enforce a Contract



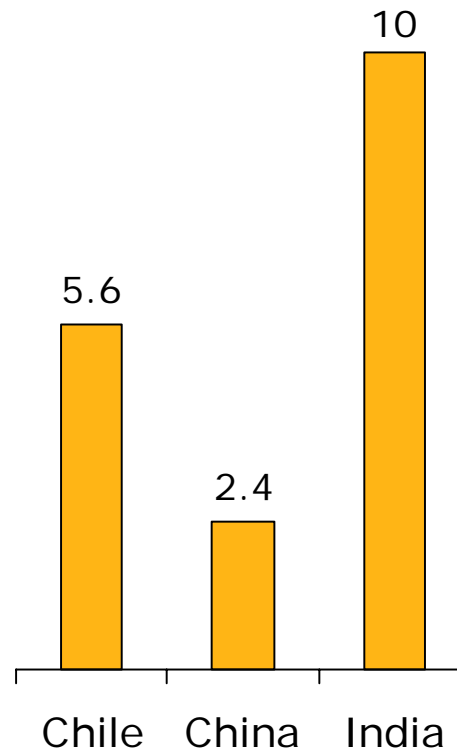


# China vs India?

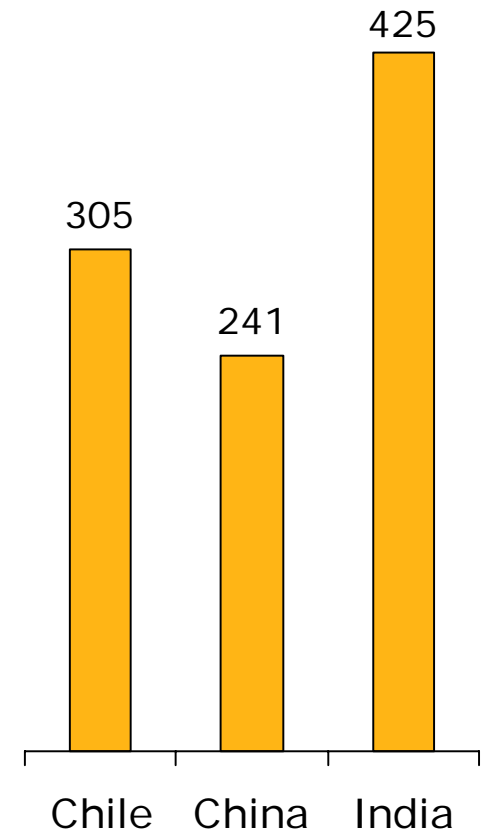
Days to Start a Business



Years to go through Bankruptcy



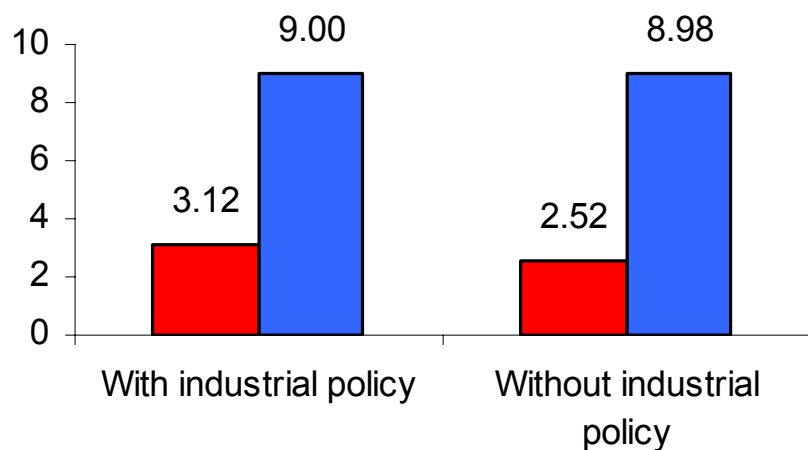
Days to Enforce a Contract



# Effect of industrial policy on growth

## Korea

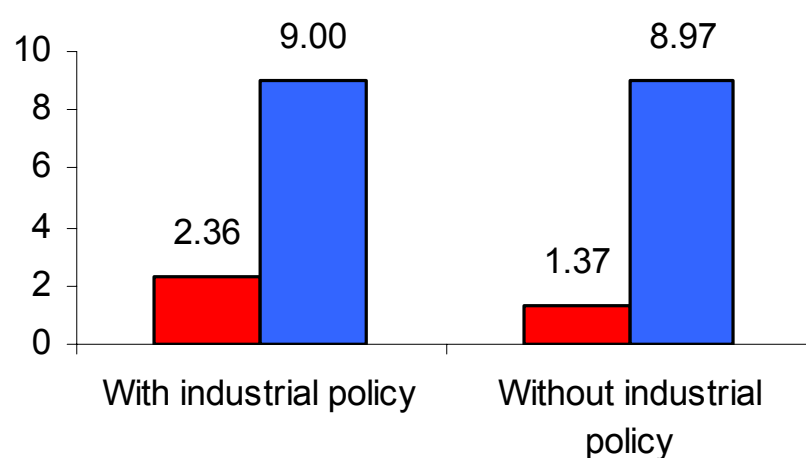
Average annual growth rate (percent)



■ Total factor productivity growth ■ GDP growth

## Japan

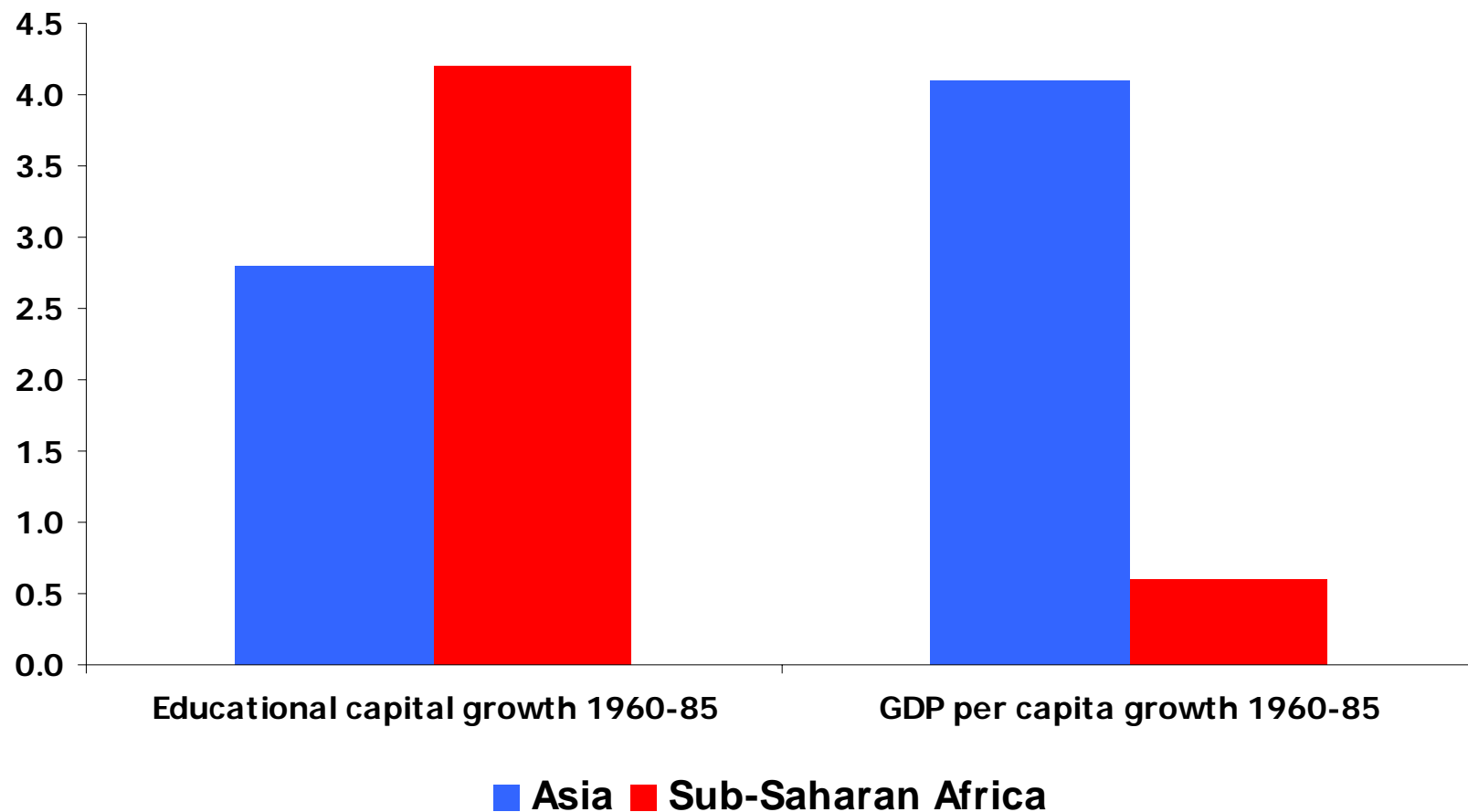
Average annual growth rate (percent)



■ Total factor productivity growth ■ GDP growth

Source: Howard Pack. 2000. "Industrial Policy: Growth Elixir or Poison?" *World Bank Research Observer* 15(1): 47-67.

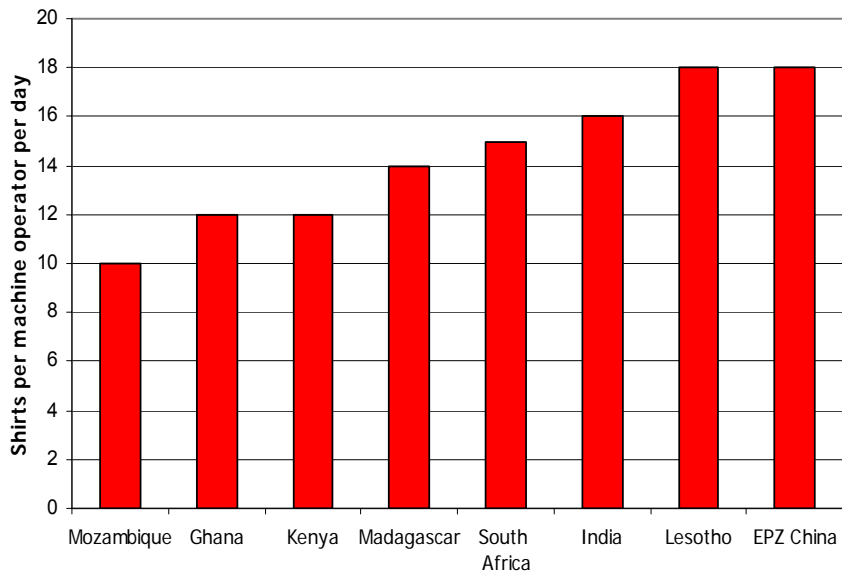
# Education and per Capita GDP growth rate, 1960-85 (percent)



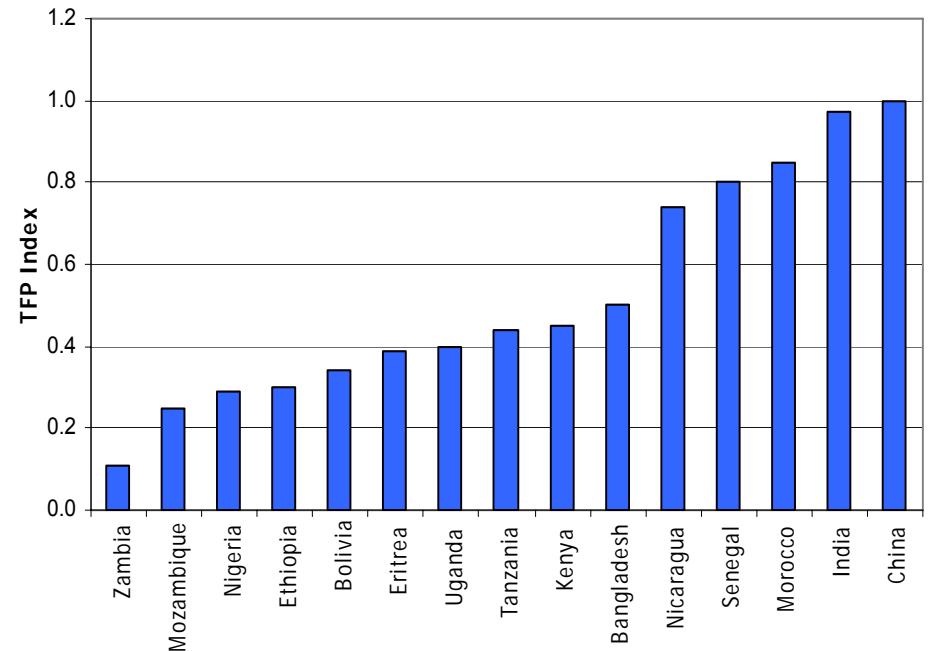
Source: Lant Pritchett. 1996. "Where Has All the Education Gone." *Policy Research Working Paper 1581*. World Bank.

# Critical constraints to growth in Africa

**Factory-floor labor productivity accounts for at most a two-to-one productivity gap**

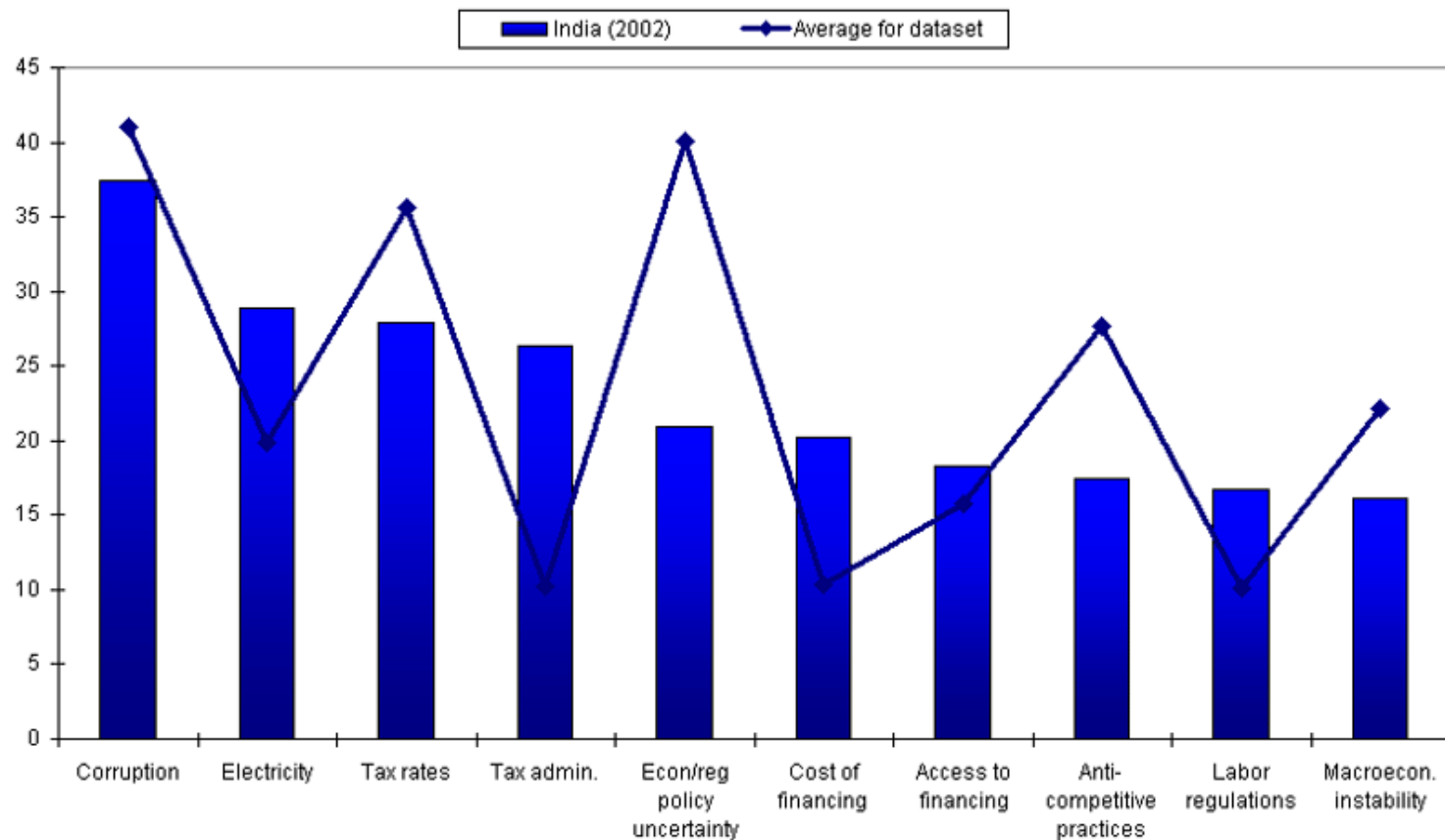


**The total factor productivity gap is considerably higher (ten-to-one between average Zambian and average Chinese firm)**



# India: Top 10 constraints on private enterprise

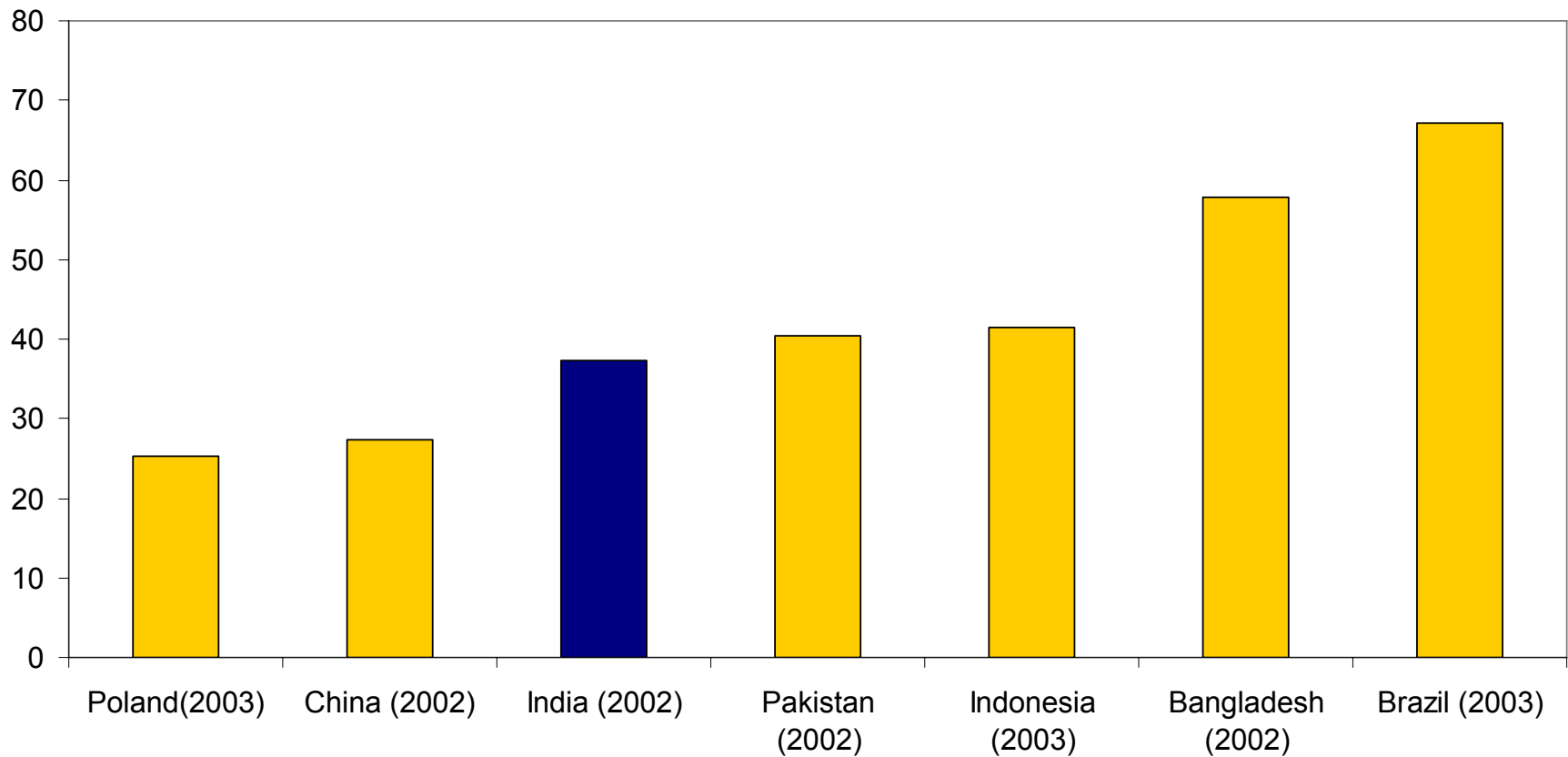
(% firms identifying problem as 'major' or 'very severe' obstacle)



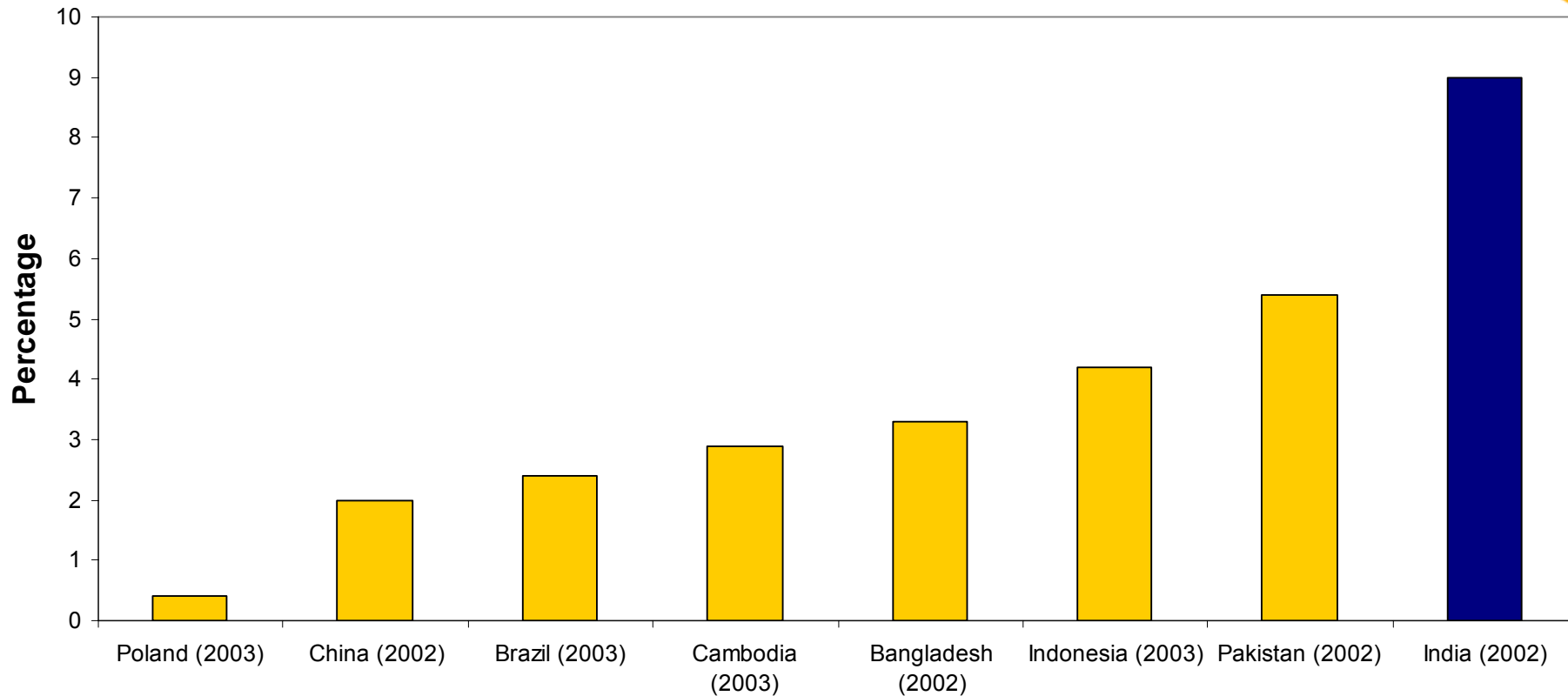
Source: WBG Investment Climate Surveys

# Corruption

Percentage of firms identifying corruption as a “Major” or “Very Severe” problem



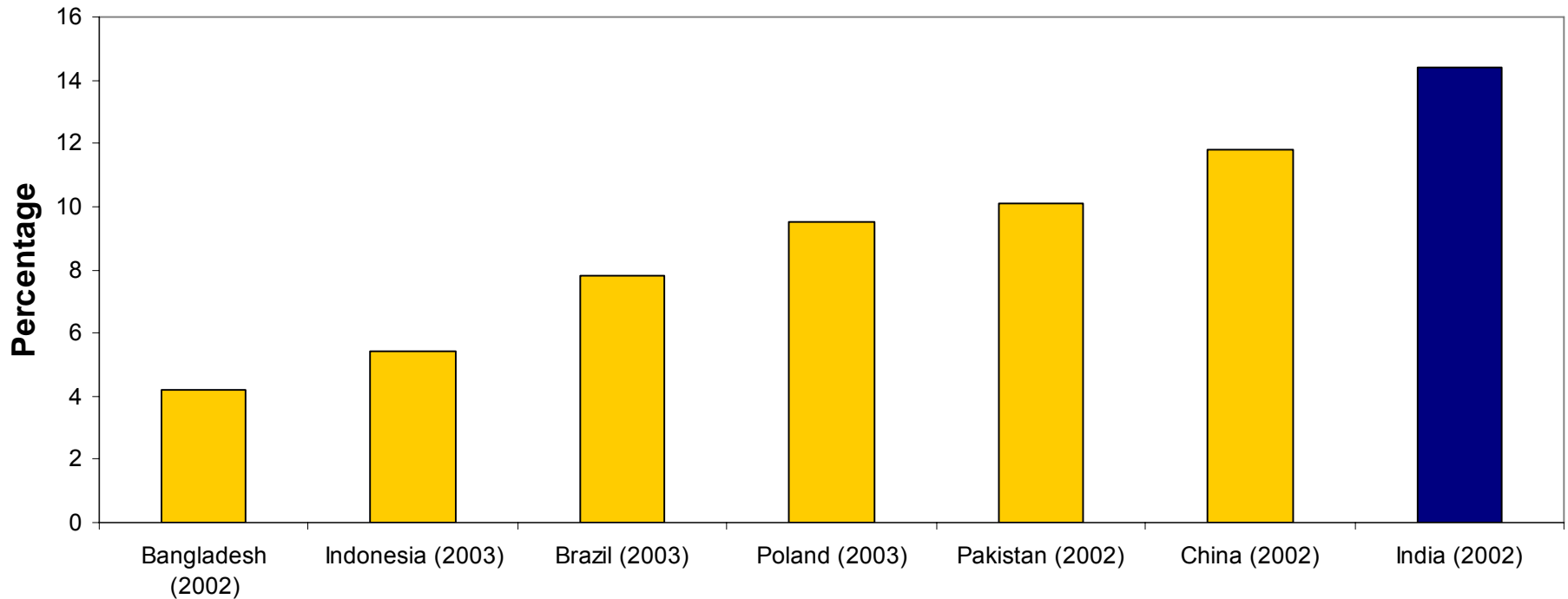
# Value lost to electrical outages (% of sales)



Source: ICS survey data

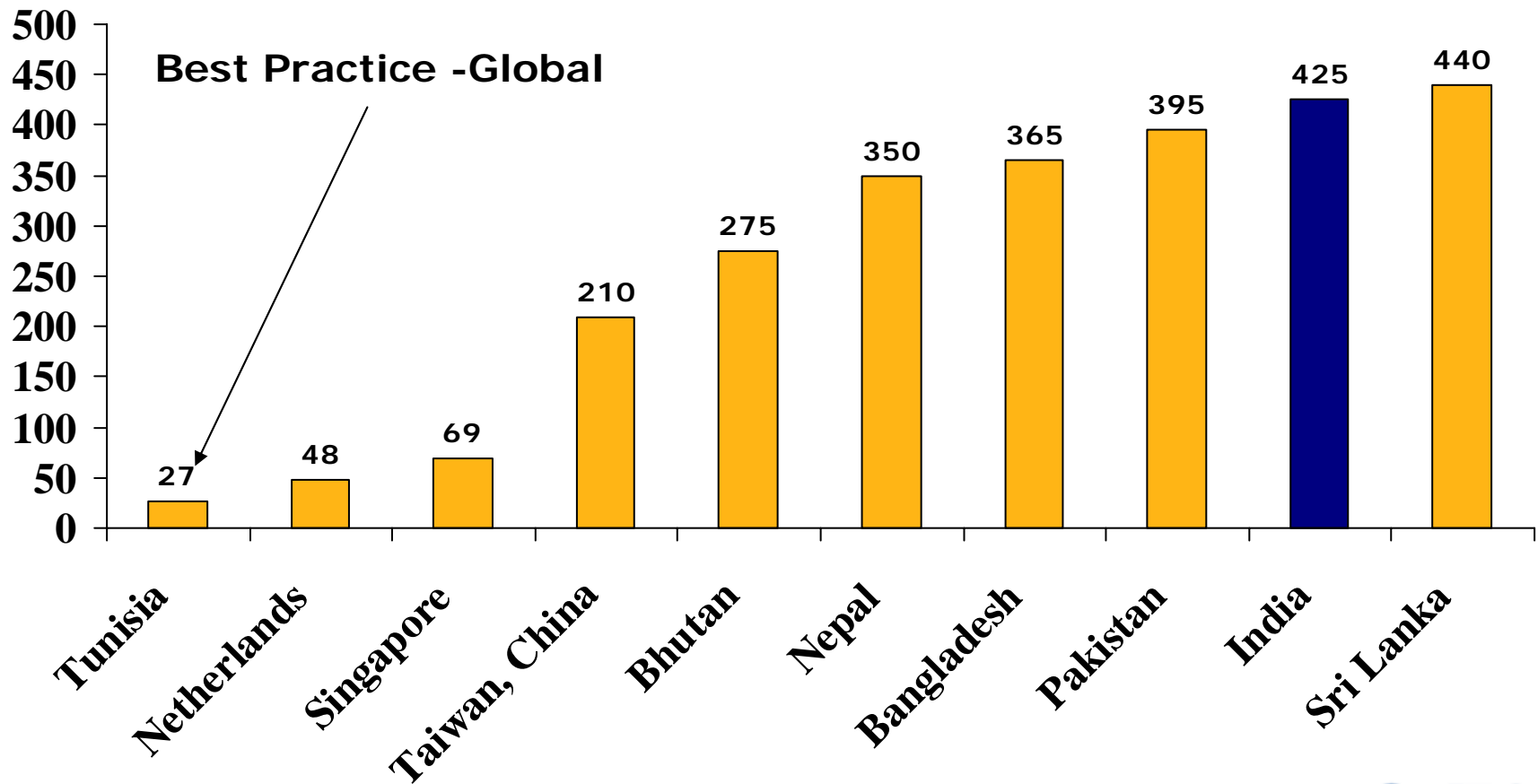
# Senior management time spent dealing with requirements of regulations (%)

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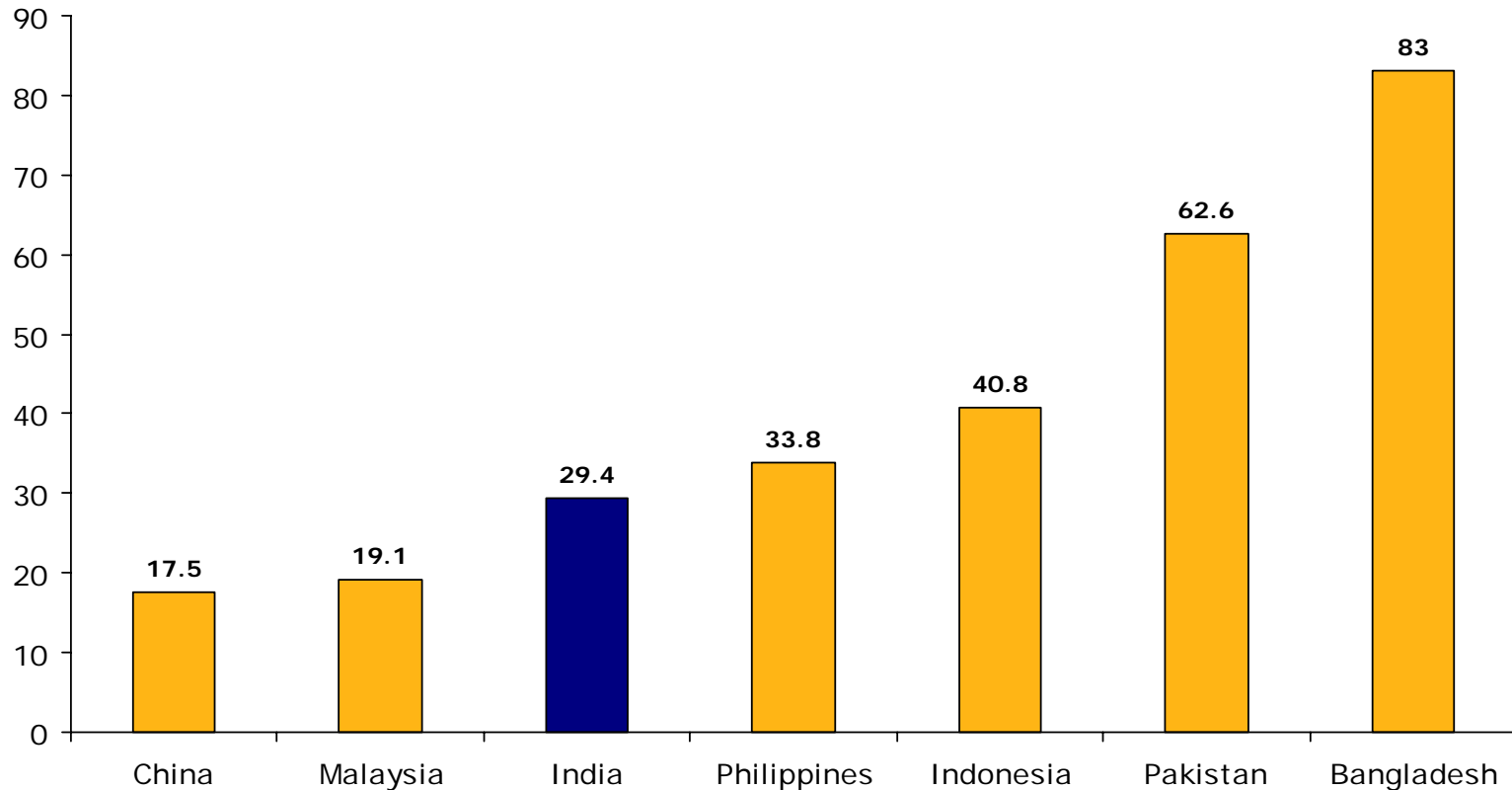
Source: ICS survey data

# Time to enforce a contract (Days)



# Firms who do not believe the courts will uphold their rights (%)

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Source: World Bank Investment Climate Surveys, World Development Report 2005.

# Top 10 reformers in 2003

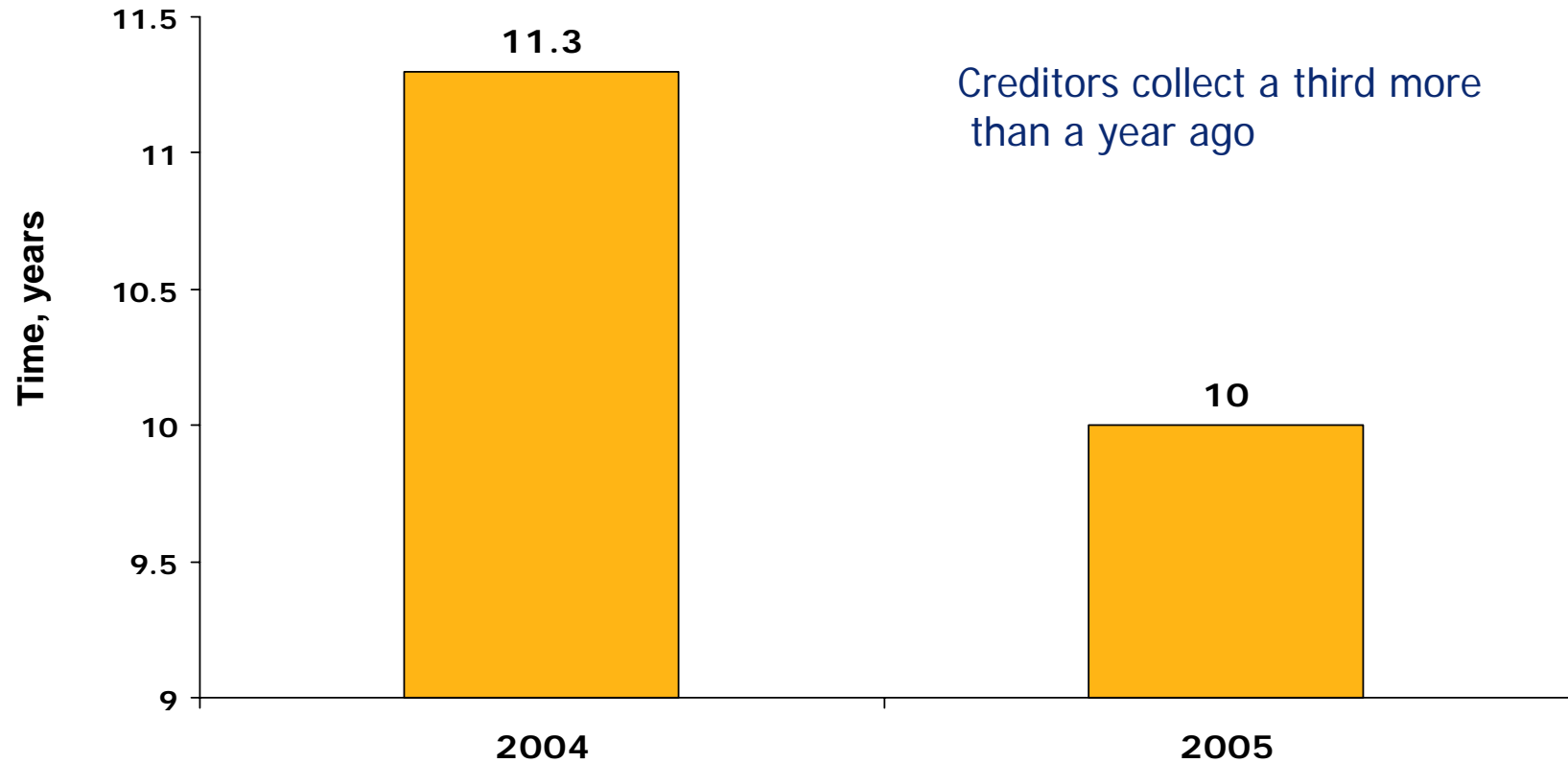
## Reforms affecting Doing Business indicators on:

Country	Starting a business	Hiring and firing	Enforcing contracts	Getting Credit	Closing a business
Slovakia	✓	✓	✓	✓	
Colombia	✓	✓	✓		
Belgium	✓	✓		✓	
Finland	✓		✓		✓
India			✓	✓	✓
Lithuania	✓		✓		✓
Norway		✓	✓		
Poland	✓	✓			✓
Portugal		✓	✓	✓	
Spain	✓			✓	✓

- Introduced specialized bankruptcy courts
- Launched a private credit registry
- Introduced judicial case management

## Reform

## Introduced specialized bankruptcy courts



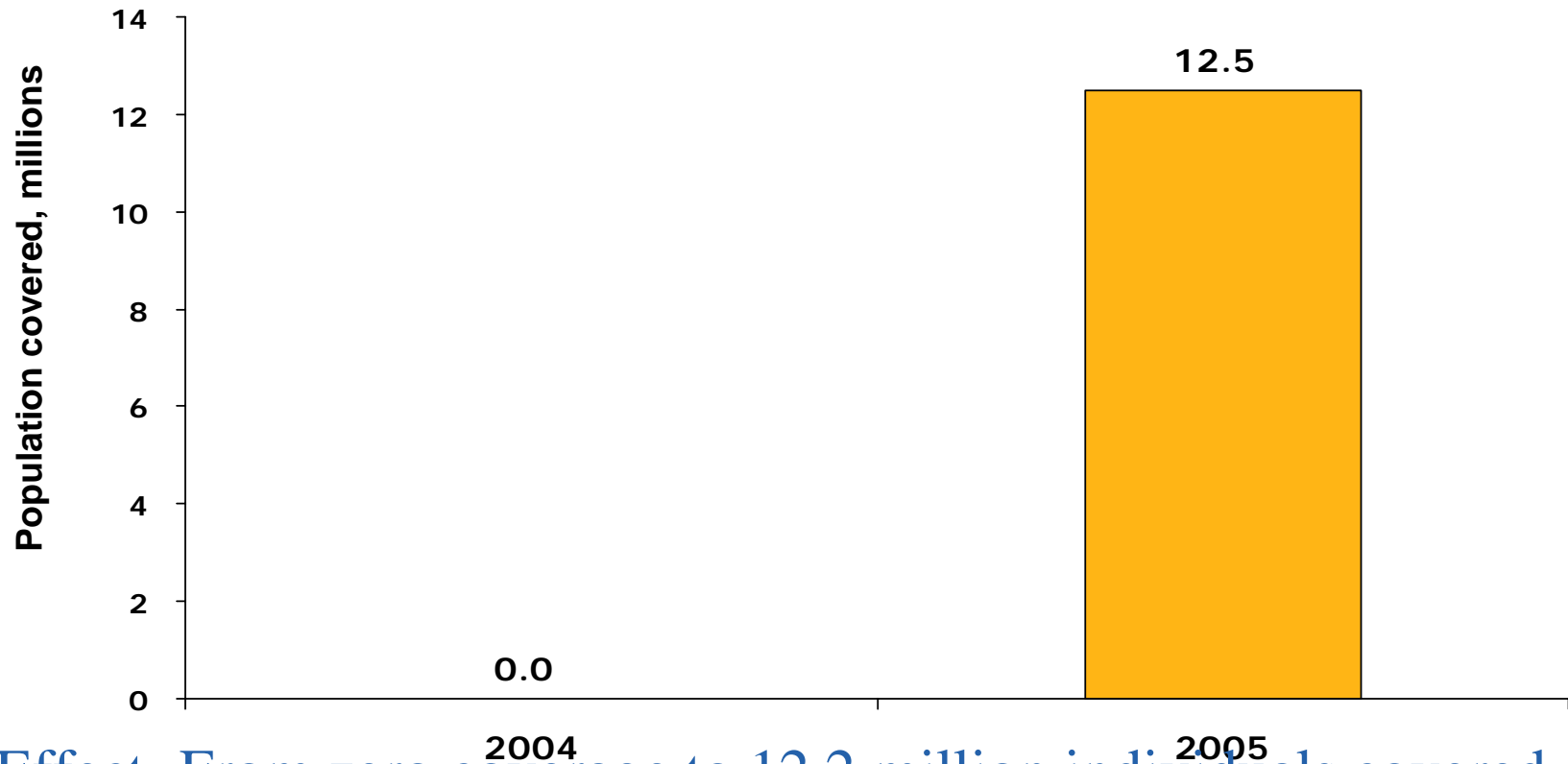
Effect Time to go through insolvency reduced

# India improves on getting credit

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Reform

Launched a private credit registry



Effect From zero coverage to 12.2 million individuals covered



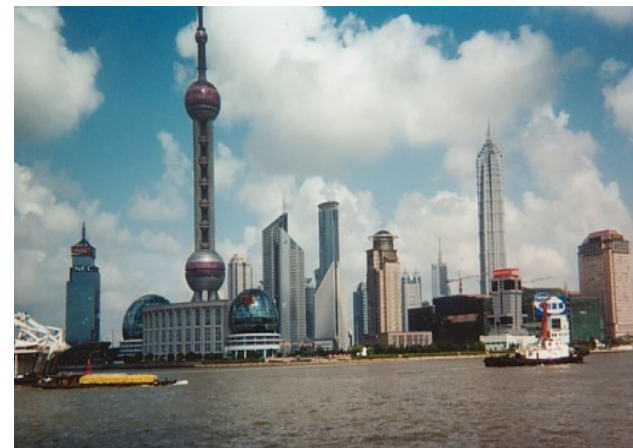
**C**redibility

**L**egitimacy

**E**fficiency

“...Feeling the riverbed one-step at a time  
when crossing the river...”

A saying by Den Xiao-Ping



*Alice in  
Wonderland*