Investment Climate: A Definition

A menu of policy, regulatory and institutional factors that provide incentives sufficiently robust to induce the private sector to invest in socially desirable projects…
(Weingast, 1992)
Annual average *actual vs. potential* GDP growth rate, 92-98

- **Good and best climate states**
  - Potential: 8.7%
  - Actual: 7.2%

- **Poor climate states**
  - Potential: 8.0%
  - Actual: 4.8%

- **All India**
  - Potential: 8.4%
  - Actual: 6.3%
Growth & Poverty Reduction

Average annual change in log (per capita income in poorest quintile)

\[ y = 1.185x - 0.0068 \]

\[ R^2 = 0.4935 \]

Source: Dollar and Kraay, “Growth is Good for the Poor”
World Bank, March 2001
Investment Climate Constraints

General Constraints to Enterprises, by size

- Taxes & Regulations
- Financing
- Policy Instability
- Inflation
- Exchange Rate
- Corruption
- Street Crime
- Anti-competitive Practices
- Organized Crime
- Infrastructure
- Judicial System

% of Group Identifying Constraint as "Moderate" or "Major"
Example: Business Start-up
(Regulation of Entry)

- **Time**
  - 89 days in the 45 sample IDA countries
  - 32 days in OECD countries
  - 183 in Mozambique, 177 in Indonesia, 146 in Honduras, 121 in Belarus

- **Cost**
  - 86% of GNP per capita in sample IDA countries
  - 17% of GNP per capita in OECD countries
  - 427% in Ethiopia, 256% in Nicaragua, 220% in Yemen, 184% in Nepal
Regulation of Entry & Corruption