



A Better Investment Climate for Everyone



The investment climate

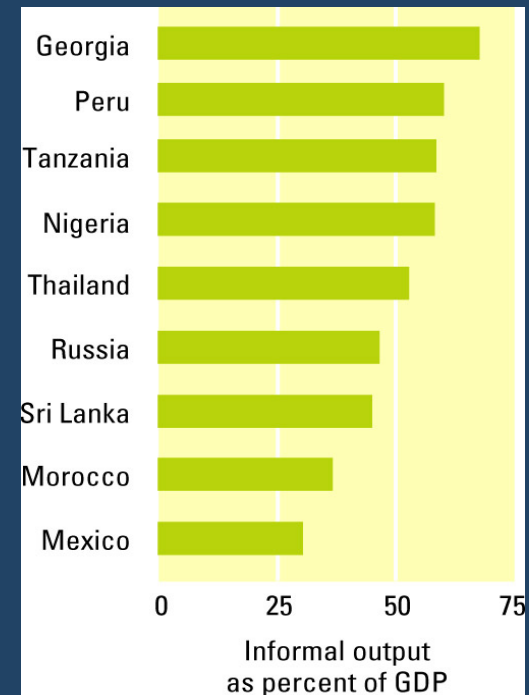
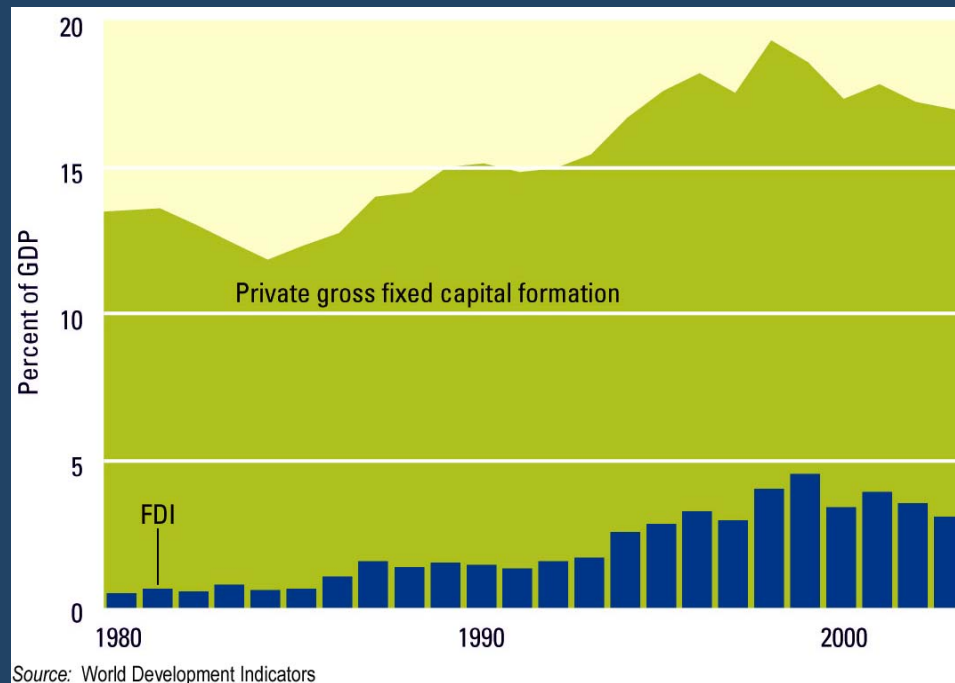


- *Private firms of all types are key actors in growth and poverty reduction*
 - ◆ Create more than 90 percent of jobs.
 - ◆ Provide most of the goods and services consumed in society.
 - ◆ Pay most of the taxes needed for public funding of health, education, and other services.
- *Size of contribution depends largely on how governments shape the investment climate*
 - ◆ The opportunities and incentives for firms to invest productively, create jobs, and expand.

A better investment climate *for everyone*



- *Better for society as a whole, not just firms*
- *Better for firms of all types.*



- ◆ WDR draws on new data:
 - Surveys of 30,000 firms in 53 developing countries, including 3,000 micro and informal firms in 11 countries.
 - *Doing Business* database, covering >140 countries

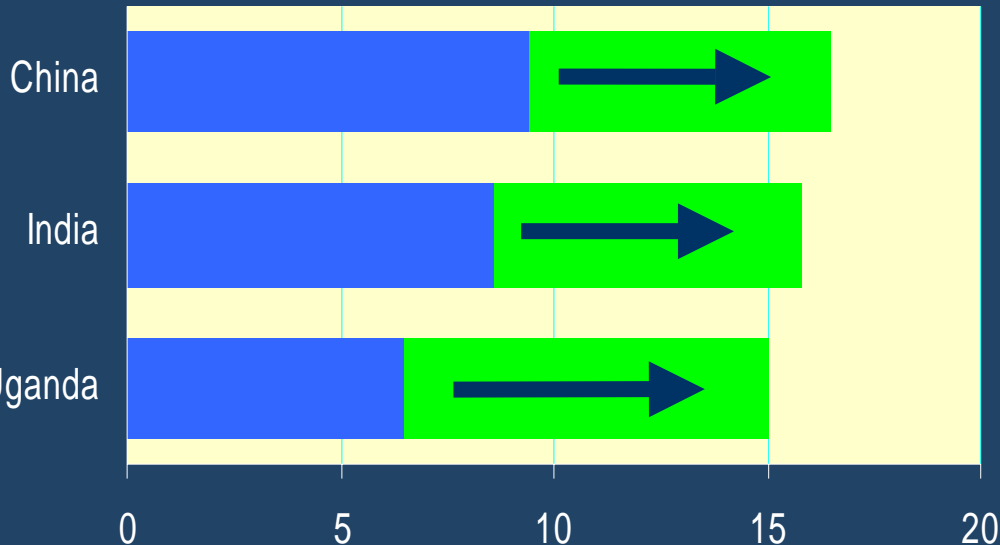
Driving growth



- *Main sources of long-term growth are investment and productivity improvements*
 - ◆ A good investment climate drives both, while protecting other social interests.
- *China, India & Uganda illustrate power:*

Private investment as % of GDP

Growth experiences



China – Ave. nearly 10% p.a.

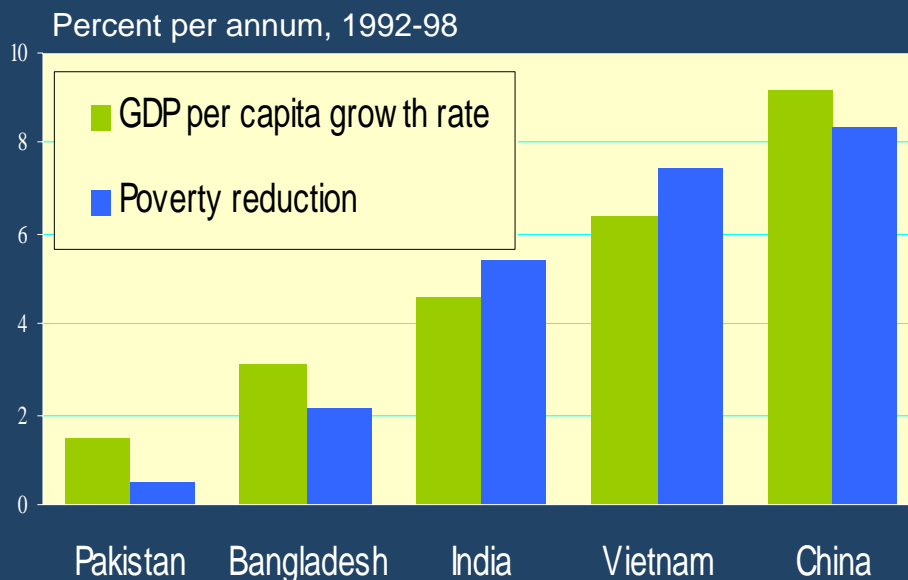
India – Doubled rate since 1970s.

Uganda – 8 times ave. rate in sub-Saharan Africa.

Reducing poverty



- *Growth closely associated with poverty reduction.*

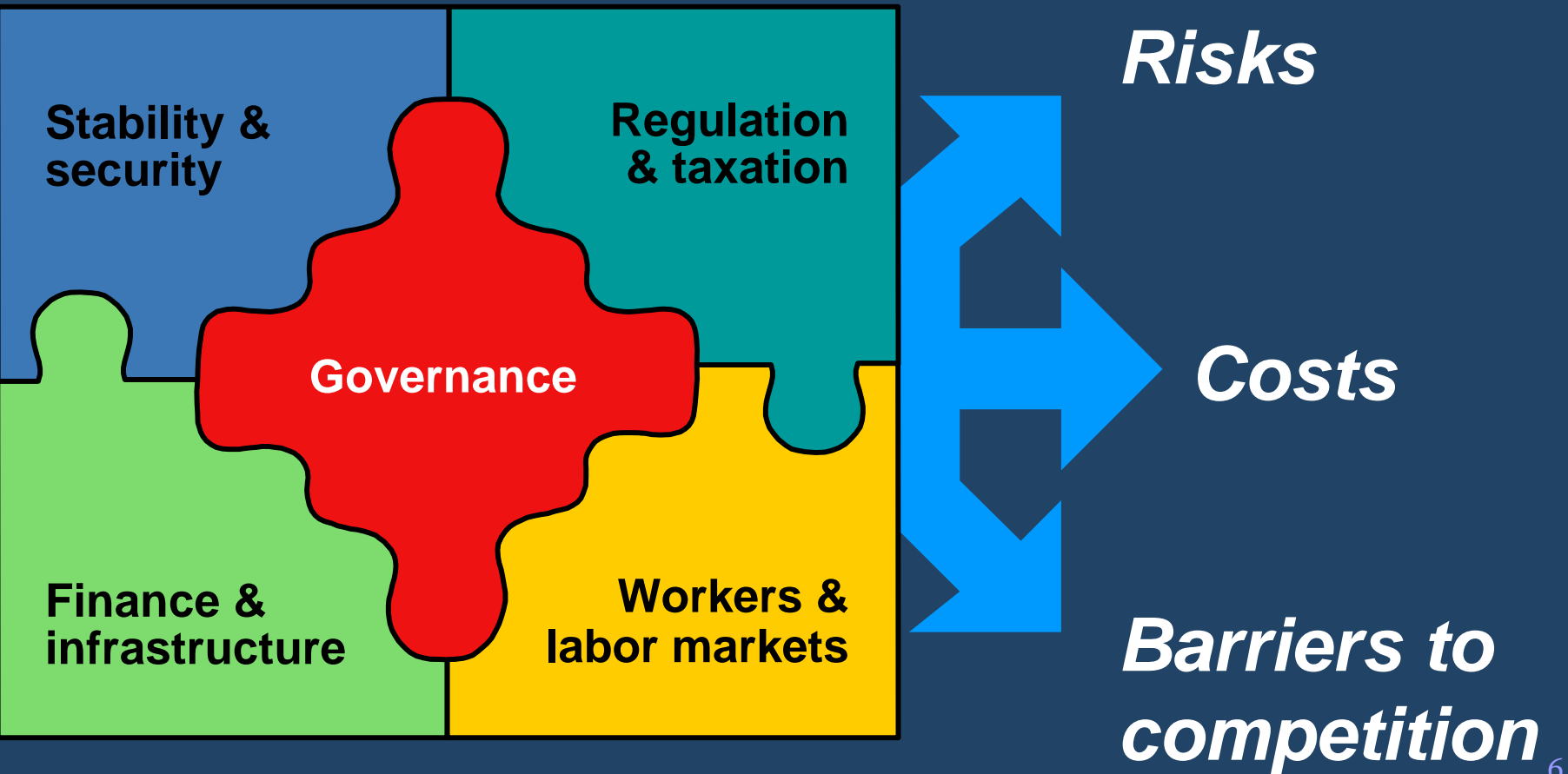


- *But also need to understand direct impacts*
 - ◆ Jobs and self-employment are main paths out of poverty
 - ◆ Consumers; Users of property, infrastructure and finance; Potential recipients of tax-funded services.
- *“Pro-poor” IC reform strategies*
 - ◆ Where poor people live, and activities poor benefit from.

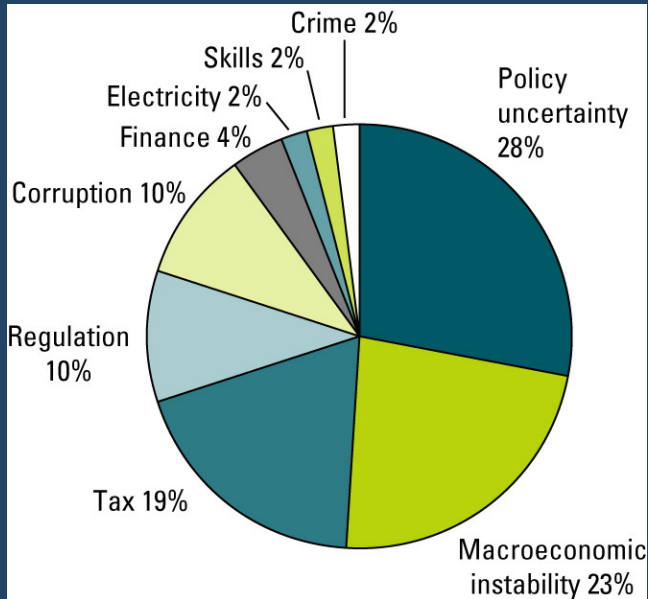
Risks, costs, & barriers to competition



- Firms evaluate government policies & behaviors across a range of areas as part of a package.*

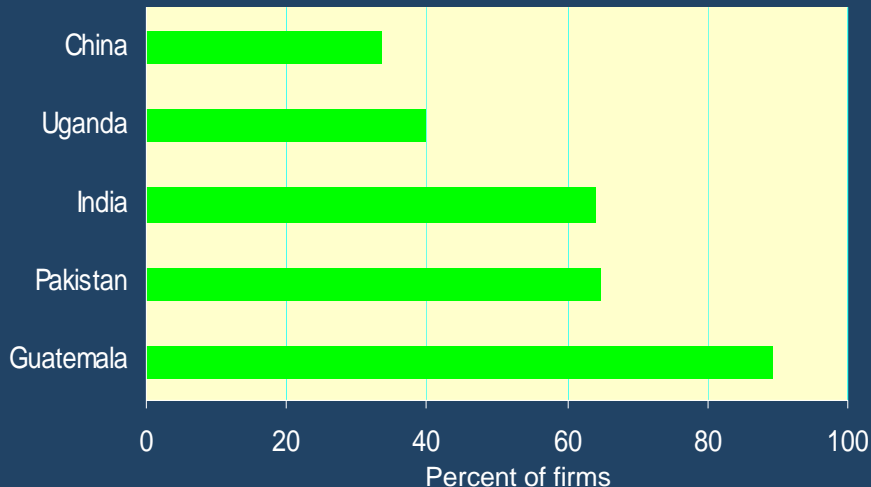


Policy-related risks

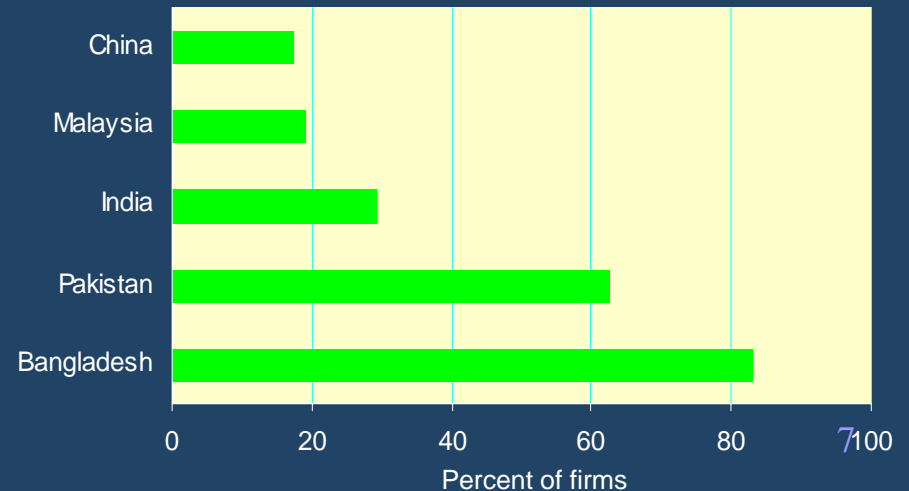


- *Dominate concerns of firms.*
- *Improving policy predictability can increase likelihood of new investment by over 30%.*

Interpretation of regulation is unpredictable



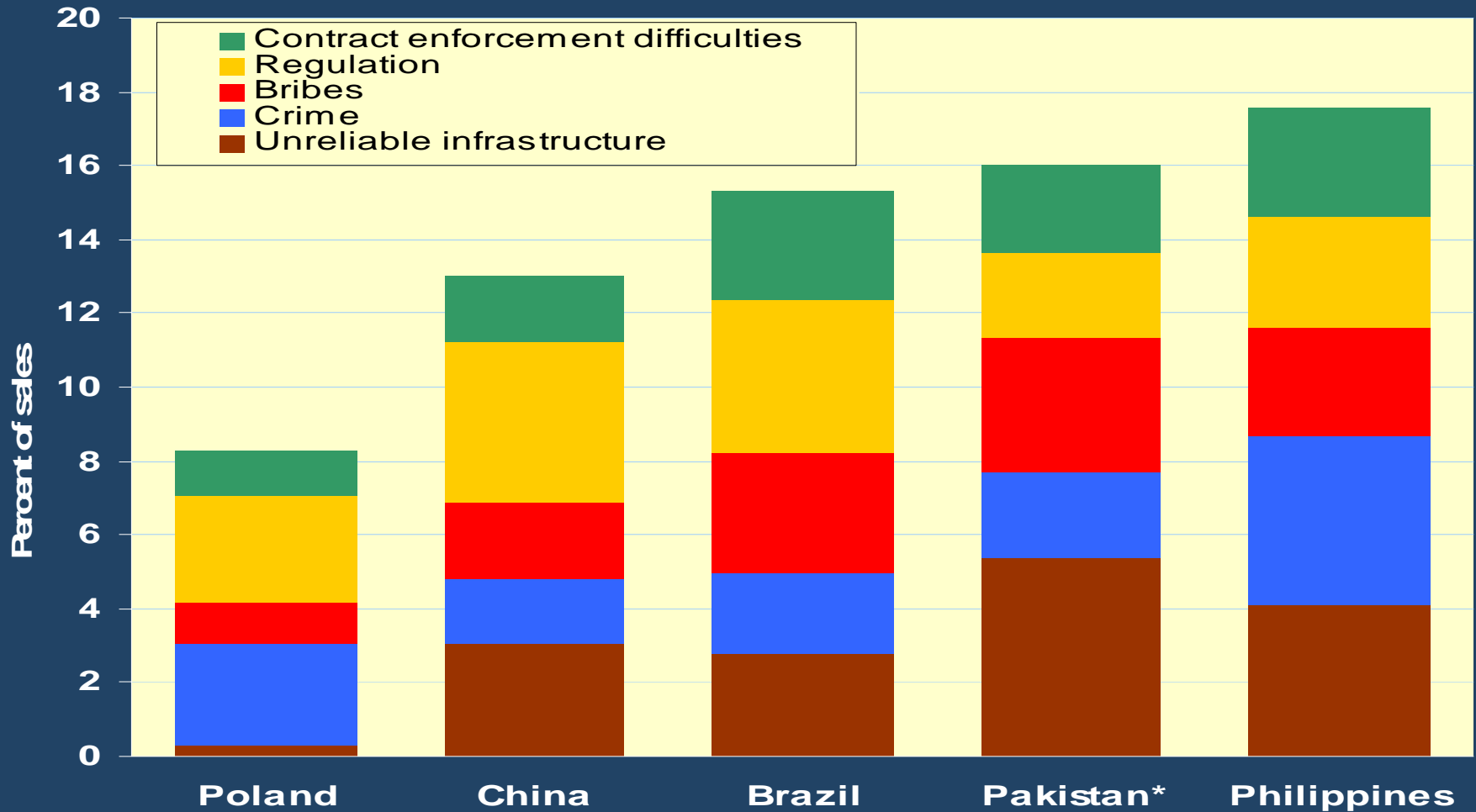
Lack confidence in courts



Policy-related *costs*



- *Taxes are rarely the biggest burden.*

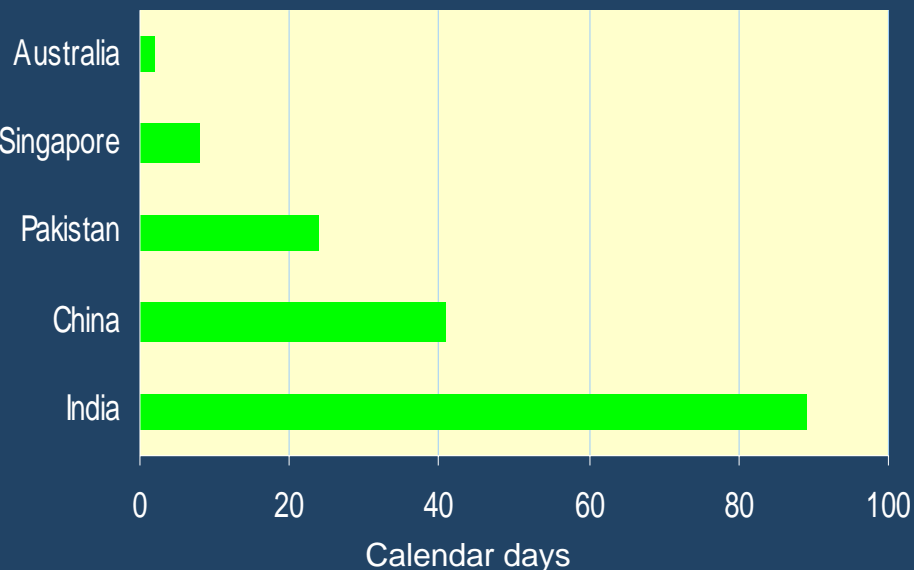


Policy-related costs (2)



- *Costs also have a time dimension*
 - ◆ > 10% of management time often spent with officials.
 - ◆ Burdensome procedures can have big impacts.

Starting a new business



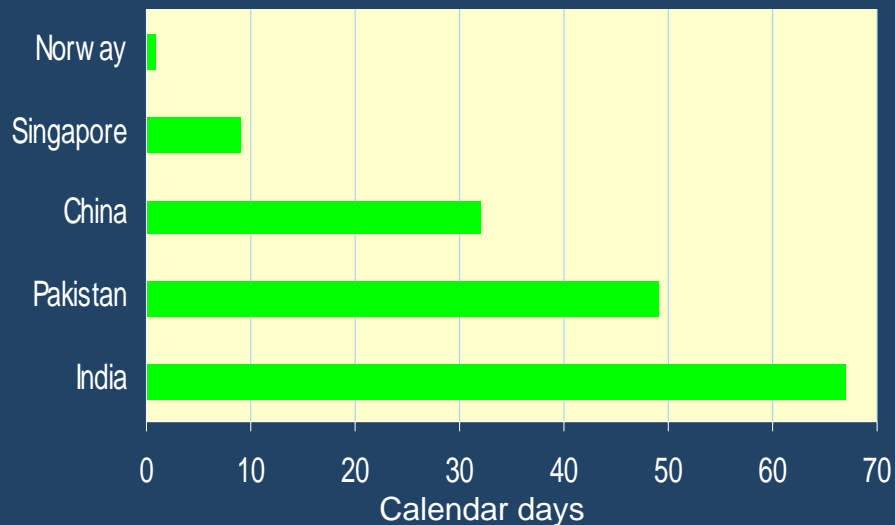
Enforcing a contract



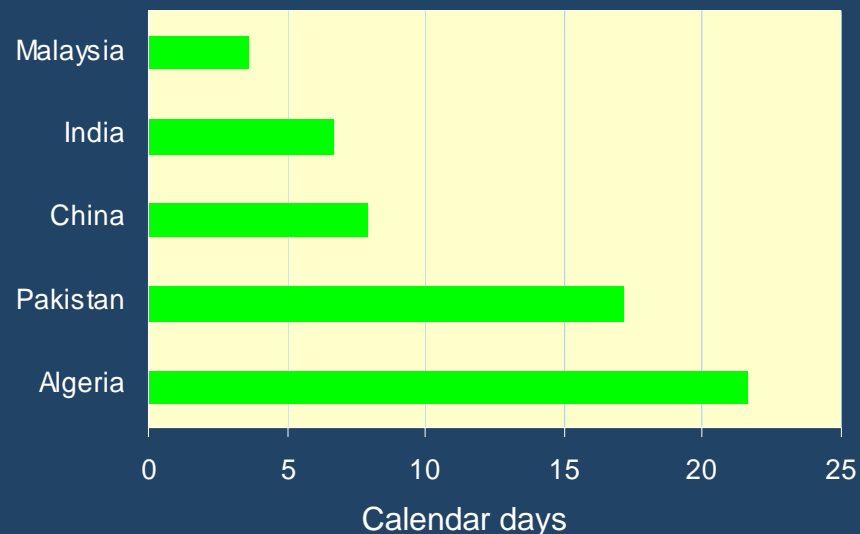
Policy-related costs (3)



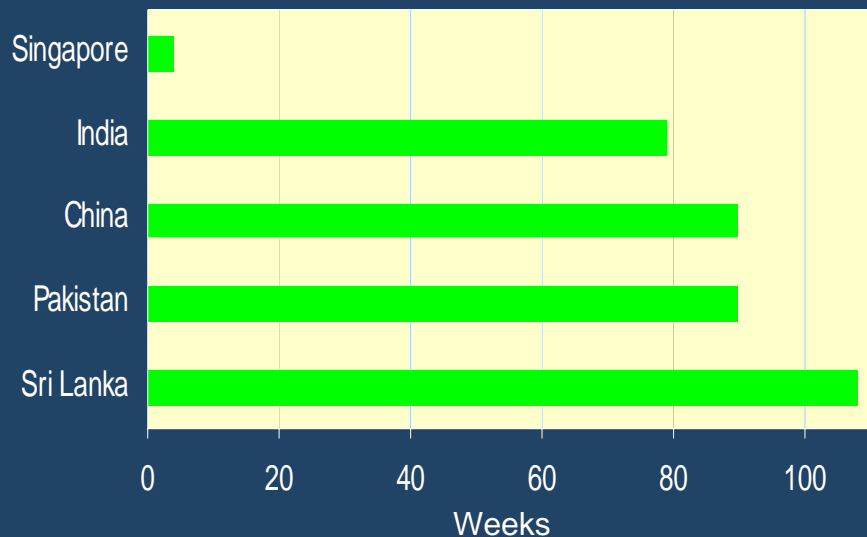
Registering property



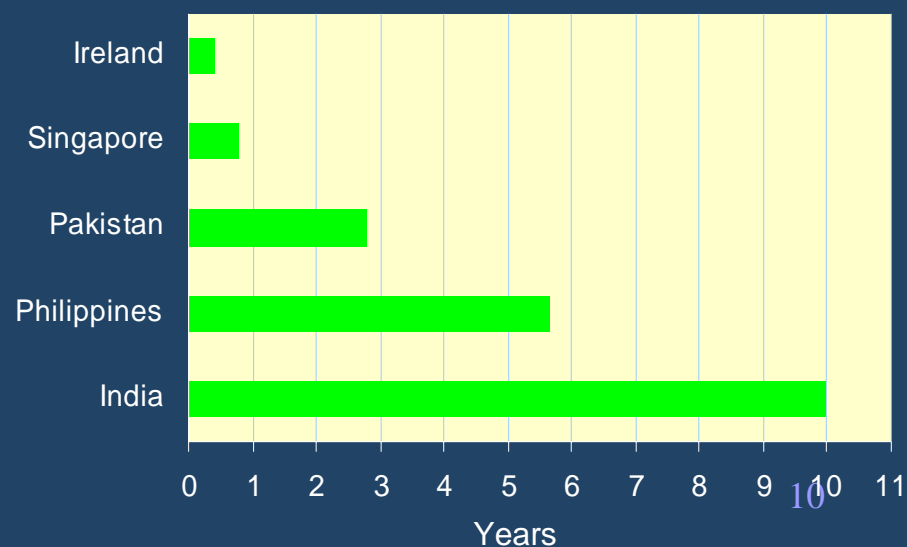
Clearing imports through customs



Firing staff



Closing a Business

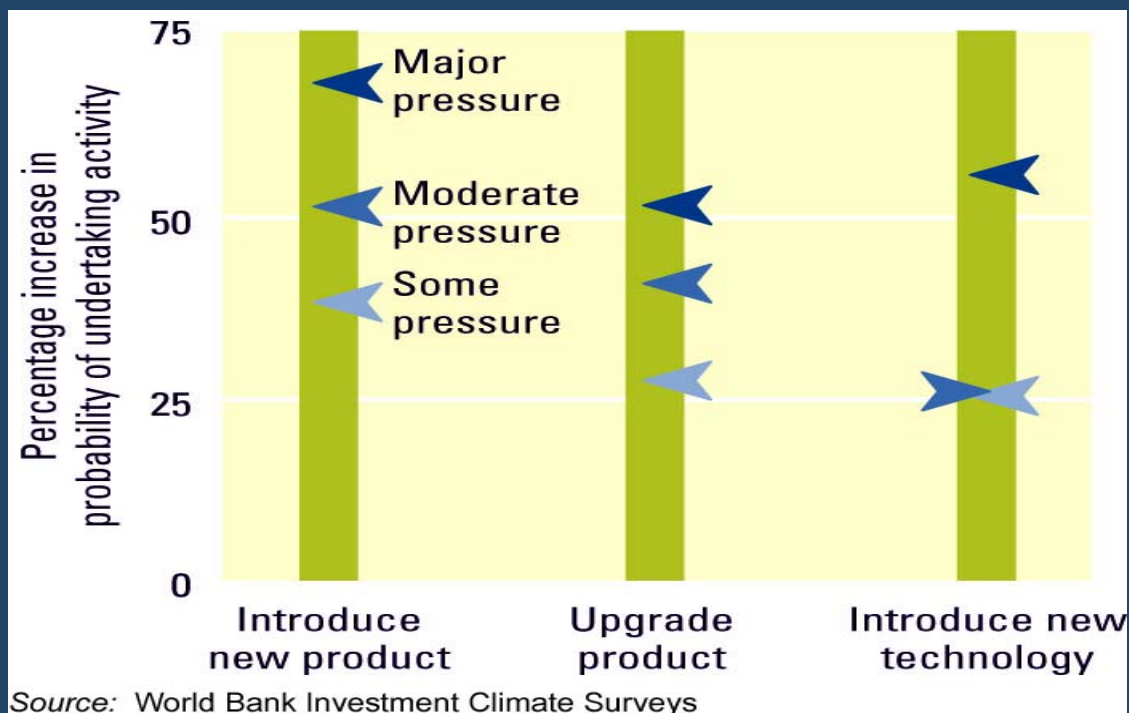


Policy-related *barriers to competition*



- *Restrict opportunities, increase prices for consumers, and weaken incentives to innovate and boost productivity.*

More competitive pressure, more innovation



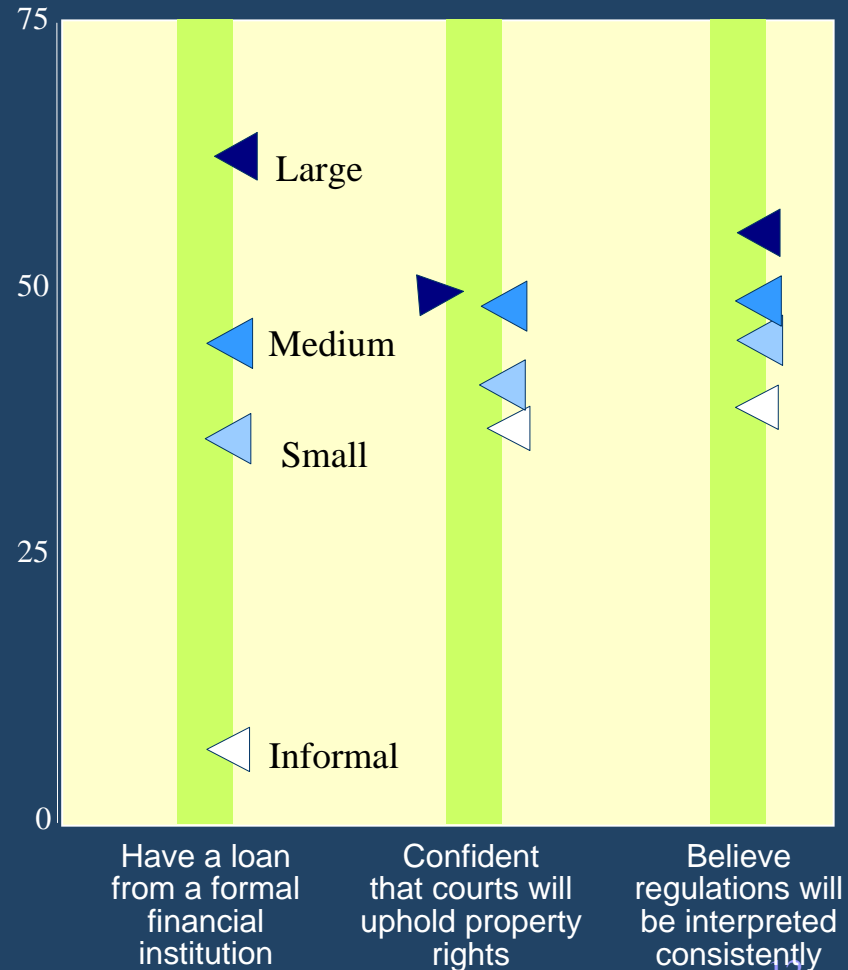
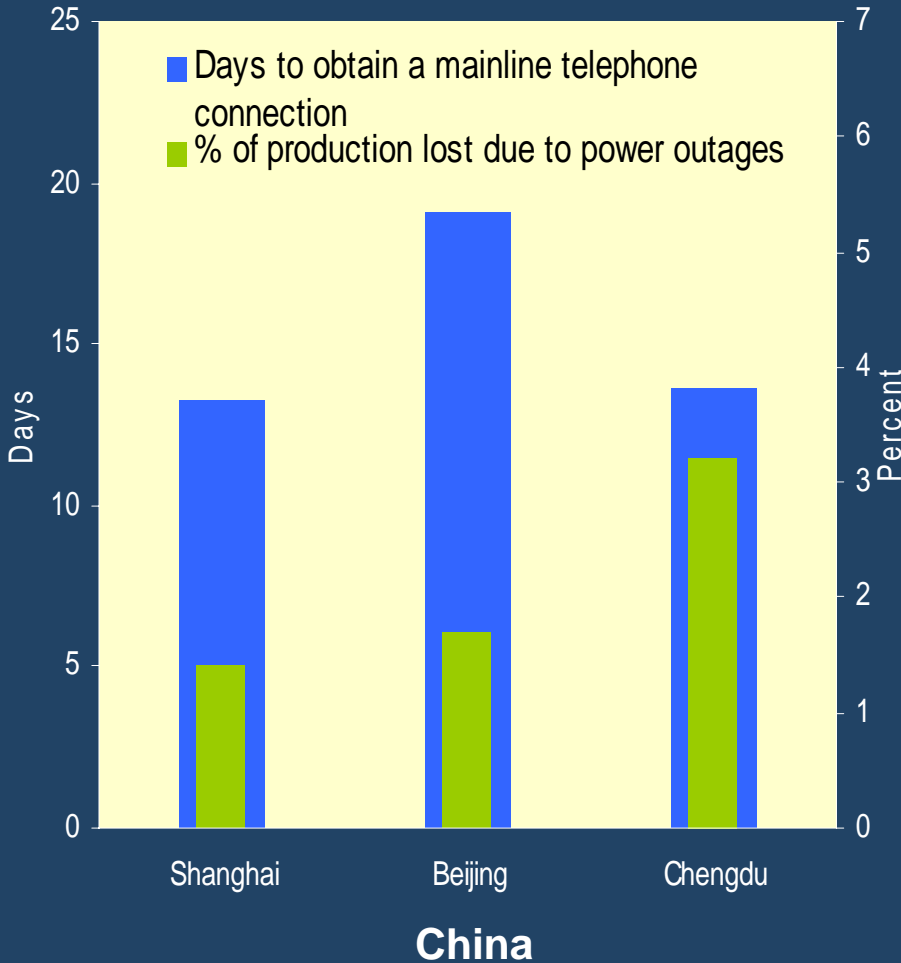
Variations within countries & across firms



Conditions vary within countries

Small firms often suffer most

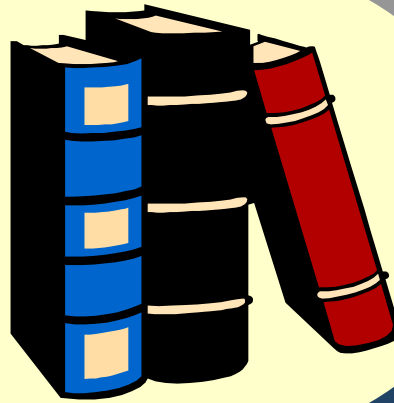
Percentage of firms



More than changes in formal policies



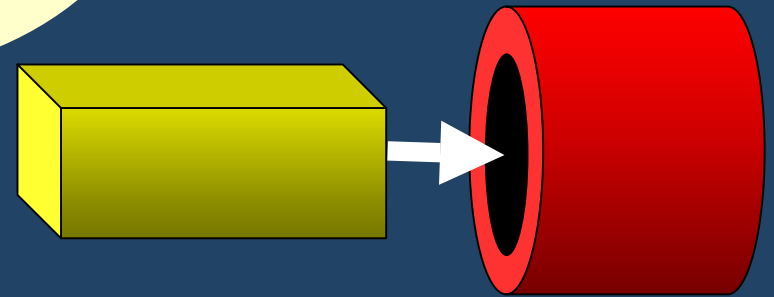
Corruption & rent-seeking



Credibility gaps



Public trust & support



Fit with local conditions

Persistence, not perfection, is key



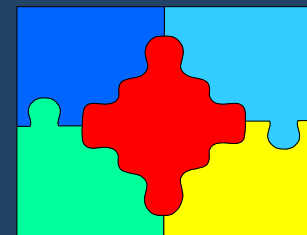
- *No country has a perfect investment climate.*
- *Focus on important constraints, and sustain a process of ongoing improvements.*
 - ◆ Priorities need to be determined in each case
 - Big differences across, and within, countries.
 - ◆ Maintaining momentum is essential
 - Public communication
 - Consultation bodies
 - Mechanisms to review *existing* constraints
 - Processes to review *new* regulatory proposals.



Focus on delivering the basics



- *Benefit all firms and activities in the economy*
 - ◆ **Stability and security**
 - Peace and macroeconomic stability are fundamental.
 - Secure property rights link effort to reward.
 - ◆ **Regulation and taxation**
 - Balancing social goals.
 - Goal is better regulation and taxation, not necessarily less.
 - ◆ **Finance and infrastructure**
 - Traditional approaches have poor track-record.
 - Improve investment climate for service providers.
 - ◆ **Workers and labor markets**
 - Skilled and healthy workforce.
 - Regulate to benefit all workers.
 - Help workers cope with change.



Going beyond the basics?



- *Selective interventions?*
 - ◆ Many rationales, but no sure-fire strategies.
 - ◆ More ambitious the goal, and the weaker the governance, the longer the odds of success.
 - ◆ Not a substitute for broader improvements.
 - Can be a distraction
 - Can go spectacularly wrong.
 - ◆ **Exercise caution!**
 - Clear objective and rationale
 - Focus on source of problems rather than symptoms
 - Match the instrument to the rationale
 - Maintain discipline
 - Be transparent
 - Review schemes regularly.



Going beyond the basics? (2)



- *International rules and standards?*
 - ◆ **Committing to enhance credibility**
 - Forgone flexibility; Possible legitimacy concerns.
 - ◆ **Harmonizing to reduce costs**
 - Institutional fit; competition between standards.
 - ◆ **Cooperating to address policy spillovers**
 - Common priorities; capacity constraints.

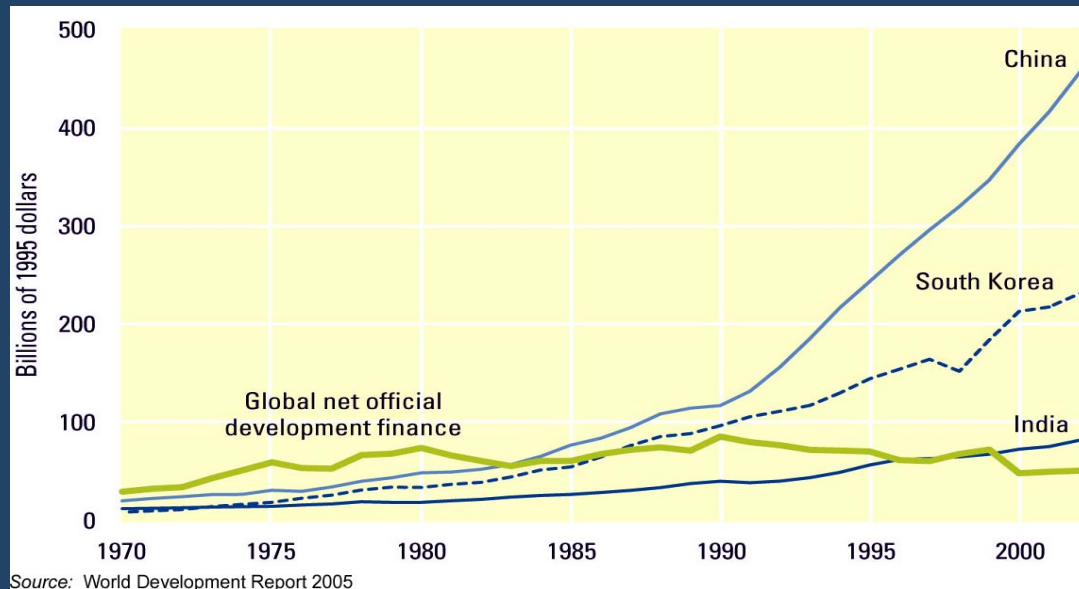


The international community can help



- *Growth from better investment climate can dwarf value of aid flows*

Manufacturing value-added vs. global aid flows



- *International community should do more*
 - ◆ Reduce distortions in developed countries
 - ◆ Strengthen aid for investment climate improvements
 - ◆ Tackle substantial knowledge agenda.

Main messages



- *Improving the investment climate is critical to faster growth and deeper poverty reduction.*
- *Reduce policy-related risks, costs, and barriers to competition.*
- *Requires more than changes in formal policies.*
- *Persistence, rather than perfection, is key to progress.*
- *Focus on delivering the basics.*
- *International community should do more to help.*



Tacking a broad agenda



- *Setting priorities*
 - ◆ Potential benefits, including spillovers.
 - ◆ Links with national or regional goals
 - Integrating firms in the informal and rural economies
 - Unleashing growth potential of smaller firms
 - Taking advantage of international openness
 - Climbing the technology ladder.
 - ◆ Implementation constraints
 - Financial
 - Technical
 - Political.

Tackling a broad agenda (2)



- *Managing individual reforms*
 - ◆ Catalyzing change
 - ◆ Communicating to build support
 - ◆ Engaging stakeholders
 - ◆ Compensating when appropriate.
- *Maintaining momentum*
 - ◆ Consultation bodies
 - ◆ Coordination mechanisms
 - ◆ Review mechanisms for existing constraints
 - ◆ Review mechanisms for new policy proposals.
- *Strengthening capabilities*
 - ◆ Expertise
 - ◆ Learning and information