The Investment Climate in Countries of the Organization of the Islamic Conference (OIC)

Slide 1. Title Slide

Chairman, Excellencies, Ladies and Gentlemen. Good afternoon.

- The global economic downturn and financial turmoil mean that **economic growth will slow down in many OIC countries. There will be lower income growth, less job growth, and a major challenge for economic and social policies. This is a short point of context I am going to make this morning.**

- **My second point is this: while dealing with the effects of the crisis is urgent and important, a conducive investment climate remains crucial for long-term growth, and it remains a priority—especially now.**

Let's now first look at the current global context.

Slide 2. Growth slide

Even before the current turmoil, **economic growth was already slowing down**.

- **Since 2000 developing countries have outpaced high-income countries**
- but the year on year changes of the two groups still track each other…
- … and growth is now slowing down in both groups of countries
- So there is ***some*** de-coupling of levels of growth, but no de-coupling of the rates of change and the trends in growth.

Slide 3. Commodity prices

- **Weakening global demand will affect OIC countries' growth performance**
- **Growth will likely remain most resilient in commodity-exporting countries** that have **built fiscal and external buffers**.
- This slide shows that, despite some recent easing, **commodity prices remain much higher in real terms** than at any time in the past 20 years.
- **Therefore, OIC oil producing countries, such as Saudi Arabia and other Gulf countries, and other commodity producers, will continue to grow, even if a bit more slowly.**

- **By contrast, growth with strong trade links with the United States and Europe will likely slow markedly.** One example is **Turkey,** which will likely see much lower growth. Not a recession, but much lower growth. .
- Countries that have relied on bank-related inflows to expand domestic credit (**Kazakhstan**) may be hit hard by an abrupt tightening of external financing.

Slide 4. Spreads since 1997

As investors' **appetite for risk declined**, the cost of funding has surged globally.

The **simplest indicator** of the effect on emerging markets is **sovereign spreads**. This chart shows that sovereign **spreads in emerging markets overall (the EMBI+ line) have widened—and that Turkey's spreads have moved closely in line with overall emerging markets**

- **Since early September the EMBI+ has risen by over 300 basis points**. Currently spreads are in the 600s.
- That's quite a big swing—the biggest and most rapid since 1999-2002.
- However, so far we are nowhere near the effects on emerging markets of the Asian crisis and its aftermath: in 1998 the EMBI+ widened by over 800 bps in a month and got close to 1700 bps.

Slide 5. Capital flows

As spreads are widening, capital flows to emerging markets are declining.
- Flows fell by about 1/3 in the first 3 quarters of 2008 compared with 2007.
- And this fall will likely worsen in the near term.

This matters, for example, for countries such as Turkey whose private sector depends on access to external finance. **And this will affect investment. And the investment climate will be all the more important. So let me turn to the investment climate in OIC countries.**

My main message here is that, creating a conducive investment environment —regulatory, legal, economic, and financial— **where productive businesses can thrive—is key for enhancing growth prospects in the longer term. And there are some specific actions and strategies to help achieve this.** A vibrant private sector creates jobs, expands opportunities, and increases incomes for **all people, including especially for poor people**.

Slide 6. Ease of Doing Business ↑ => Growth ↑

Making it easier to do business means on average higher economic growth

- A comparison of the economic growth performance across countries and over time, for example, shows this: an **improvement** **on all aspects of the Doing Business indicators to reach the level of the top quartile of countries** would be associated **with an estimated additional 1.4 to 2.2 percentage points** in annual economic growth.

Slide 7. Ease of Doing Business ↑ => Unemployment↓

Making it easier to do business also means on average lower unemployment

- One illustration: a study in **Indonesia** found that, if Indonesia had enjoyed the **same flexibility in labor regulations as Finland**, its unemployment rate **might have been 2.1 percentage points lower** and, **among young people, 5.8 percentage points lower**.

Slide 8. Ease of Doing Business ↑ => Informality ↓

And making it easier to do business means on average less informality

- A recent study found that in **India**, for example, greater flexibility of labor regulations would reduce informality in the retail sector by a third.
- Where **regulation** is particularly **onerous**, levels of **informality** are **higher.**
- **Informality comes at a cost**: firms in the informal sector typically grow more slowly, have poorer access to credit and employ fewer workers—and their **workers remain outside the protections of labor law**.
- Reducing informality is important to create a level playing field for large firms and foreign investors, which are a source of growth, technology transfer and know-how, and foreign finance.
- It is important so workers have social protection.
- And it is important as a source of revenues and **aggregate savings**.

Slide 9. Best Places for Doing Business

- **Several OIC countries have already made significant progress in improving their regulatory environment as noted in the World Bank Group's Doing Business publication**.

- **This slide shows that the 20 leading places to do business in the world now include 3 OIC countries**: **Saudi Arabia, Bahrain, and Malaysia** rank 16th, 18th, and 20th, respectively, in the World Bank's DB rankings.
- **There are good examples that Doing Business reforms can quickly yield results on the grounds—including good examples in OIC countries: In Egypt, s**ix months after reforms of its property registry, title registration increased and revenue rose by 39%. In **Saudi Arabia**, a reduction in the minimum capital requirement was followed by an increase in new company registrations of 81% in Saudi Arabia.

Slide 10. Best OIC Places for Doing Business

- **Other OIC countries among the top 50 countries** include **Azerbaijan (33), Qatar (37), and UAE (46)**.
- **Turkey, our host country, now ranks 59th,** and its rank has been moving up over the last years. Specifically, significant progress has been achieved in recent years in the areas of: protecting investors; paying taxes; and trading across borders. Moreover, recently introduced labor market reforms have improved hiring conditions.
- **Nevertheless, there are some policy areas where future reforms will be especially important in Turkey**.
- Turkish businesses continue to face serious constraints **in dealing with licenses** and permits, **employing workers**, and closing a business. For example, it still takes 188 days and 25 procedures to obtain an operating license in Turkey. Also, **firing costs** remain **exceptionally high** at the equivalent of 95 weeks of salary.

Slide 11. Top reformers in 2007/08

- **In 2007-2008 six OIC countries were among the top 10 reformers. This is worth highlighting.**
- **Azerbaijan was the top reformer. It rose g from 97th place to 33d place.**
- **Other top 10 reforms include: Albania**, the **Kyrgyz Republic**, **Senegal**, **Burkina Faso** , and **Egypt**. These improvements represent significant achievements.

Slide 12. Bottom Countries in Ease of Doing Business

- **However: …. The average unweighted rank for all OIC countries is 116. A large share of the OIC countries—the poorer ones—remains in the bottom third in the Doing Business rankings**

Nevertheless, among all countries, even among top performers, there is some room for improving the investment climate, and there are challenges.

Slide 13. Employment rates

- As this slide shows, many OIC countries face a particular challenge in **increasing female employment**.

Slide 14. Employment rigidity

- **Rigid labor markets are a major reason for low job creation, and for particularly low job creation for women.**
- **Labor market rigidities are a particular challenge in Turkey.**
  - **The Turkish authorities did enact the first phase of a labor market reform in the summer, which is noteworthy and will help.**
  - **At the same time, the big prize will be further improving labor market flexibility—in particular, liberalizing short-term and part-time work and shifting from severance pay, which protects jobs, to improved unemployment insurance, which protects workers.**

Let me also mention 4 other areas where critical reforms are needed to help growth and generate jobs. The first two—enforcing contracts and closing a business—relate to reforms that tend to be long-term in nature because they usually involve changes in the judicial and legal systems, which need significant consensus-building efforts.

Slide 15. Enforcing Contracts

- The primary role of the judiciary is to enhance justice, fairness and equity. But **efficient courts** do much more—they **help the economy grow**.
- **What do countries do that score well on the ease of enforcing contracts?** They keep courts efficient. How do they do so? For example, by introducing **strict procedural time limits** and **specialized commercial courts or e-courts**; by **streamlining appeals**; and by making enforcement of **judgments faster and cheaper**.

- **As this slide shows, several large OIC countries rank below 100th place in enforcing contracts**. It takes close to **1,500 days in Bangladesh to resolve a commercial dispute**. By contrast, enforcing contracts is reasonably easy in Turkey. In Singapore it **takes only 150 days to resolve a commercial dispute**—faster than anywhere else in the world.

Slide 16. Closing a Business

- The freedom to fail, and to do so through an efficient process, puts people and capital to their most effective use. **The result is more productive businesses and more jobs**.
- That's not all. **A functioning bankruptcy system** reassures creditors that if things go wrong, they stand a good chance of getting their money back**.**
- **Colombia**'s new insolvency law is a good example of **streamlining bankruptcy procedures**. Before, a debtor could object to every claim from any creditor, greatly delaying the court process. Now all objections must be resolved in **one court hearing**. The new law also tightens procedural time limits.

The final two reform areas I would like to focus on can, for the most part, be realized through administrative changes: improvements in the ease of getting credit and tax administration.

Slide 17. Getting credit

- **In the top 10 countries credit to the private sector exceeds 130% of GDP.** In the **bottom 10** countries, it **averages 8% of GDP**.
- Among the OIC countries, **getting credit is very easy in Malaysia. But it is hard in Egypt, and it is even hard in much wealthier countries, such as Bahrain.**
- Banks make more loans where there are **credit registries** and **effective collateral laws. Hong Kong** (China), **Singapore and Kenya** facilitate access to credit through laws that allow all types of assets to be used as collateral. They also **have unified collateral registries.**

Slide 18. Paying taxes

- **Paying taxes is administratively easy and fast in Saudia Arabia. It is difficult and time-consuming in Azerbeijan and Egypt**.

- **Why is tax administration so important?** Of course, in order to collect revenues. But there is a second important reason: countries that make it **easier to pay taxes** also have **higher rates of workforce participation**, and **lower rates of unemployment, especially among women**.
- The reason is simple: a **burdensome tax system** disproportionately **hurts smaller businesses**, especially in the services sector, and this is **where most women work**.
- A recent study **in Uganda** shows that e**nterprises headed by women perceive a greater regulatory burden**—and more harassment from public officials—than those headed by men.

We have talked much about the investment climate. I would like to close with a slide that draws attention to another crucial challenge, which—some may argue—is even more important and even more difficult, for OIC countries, indeed for the whole world. This challenge is the **physical climate—and climate change**. **This is both an urgent priority and a long-term priority, just like the investment climate.**

Slide 19. The Physical Climate is also a Priority

- **Turkey and many other OIC countries are vulnerable economically to the effects of climate change. Many have begun taking serious steps to help combat climate change. But there is much more to do, for all of us.**
- **I would like to congratulate all those countries that have already ratified the Kyoto protocol and thank Turkey for submitting a law for ratification to Parliament –ratification of the Kyoto Protocol will help Turkey and will help the world.**

Let me summarize and share with you some closing thoughts:

- During the past few years, **Turkey and many other OIC countries** have made considerable **progress** in improving their business environment.
- At the same time, **many challenges remain for OIC countries to compete effectively in foreign markets**. **OIC countries have the opportunity to advance major investment climate reforms to unleash the full potential of their private sectors**.
- The World Bank looks forward to continuing our strong partnership with OIC countries on this agenda.

Slide 20. **Thank you!**