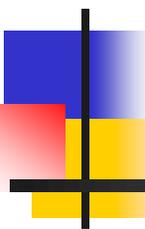


Private Sector Round Table at the Egyptian Center for Economic Studies (ECES)



Michael U. Klein

Vice President, Private Sector Development,
Bank-IFC and Chief Economist, IFC

February 11, 2004

Investment climate reform: “What works and what doesn’t”



Engineers

Policymakers

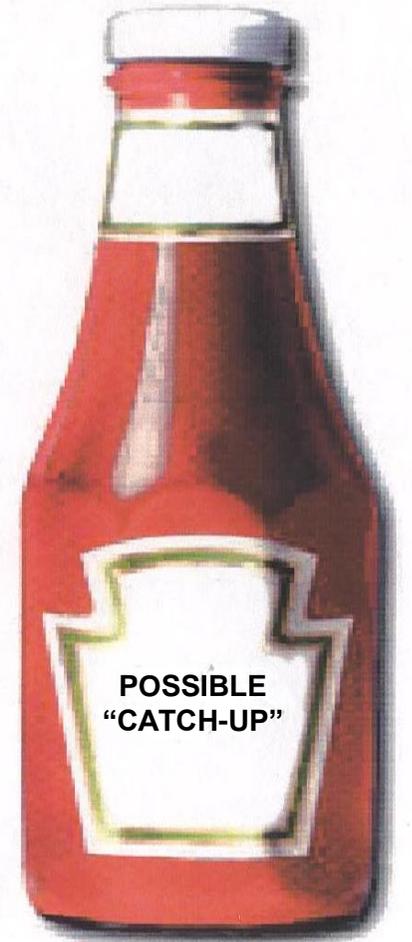


Market-friendly growth – The hope for poverty reduction

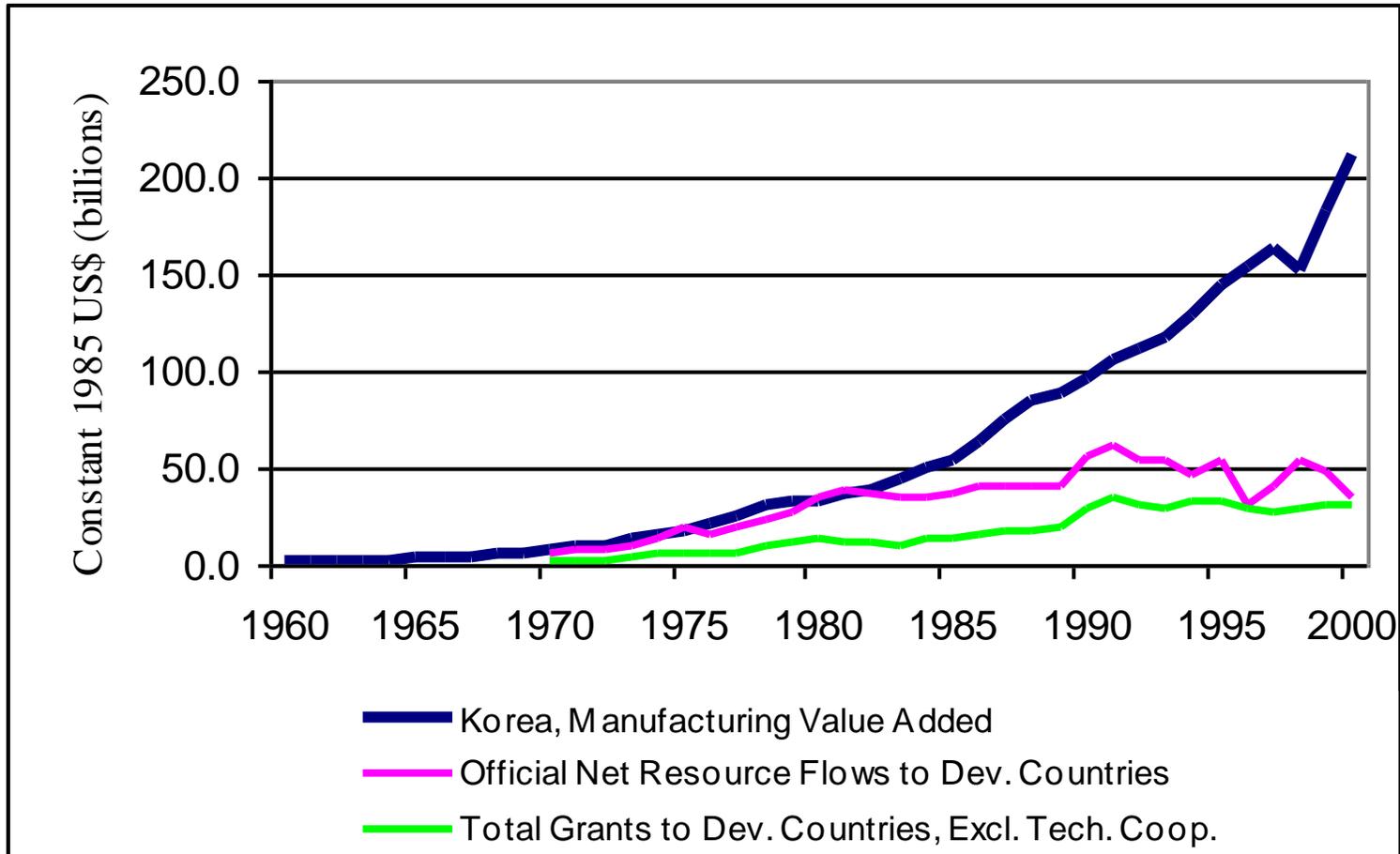
— Catch-up is possible —

Time to double income:

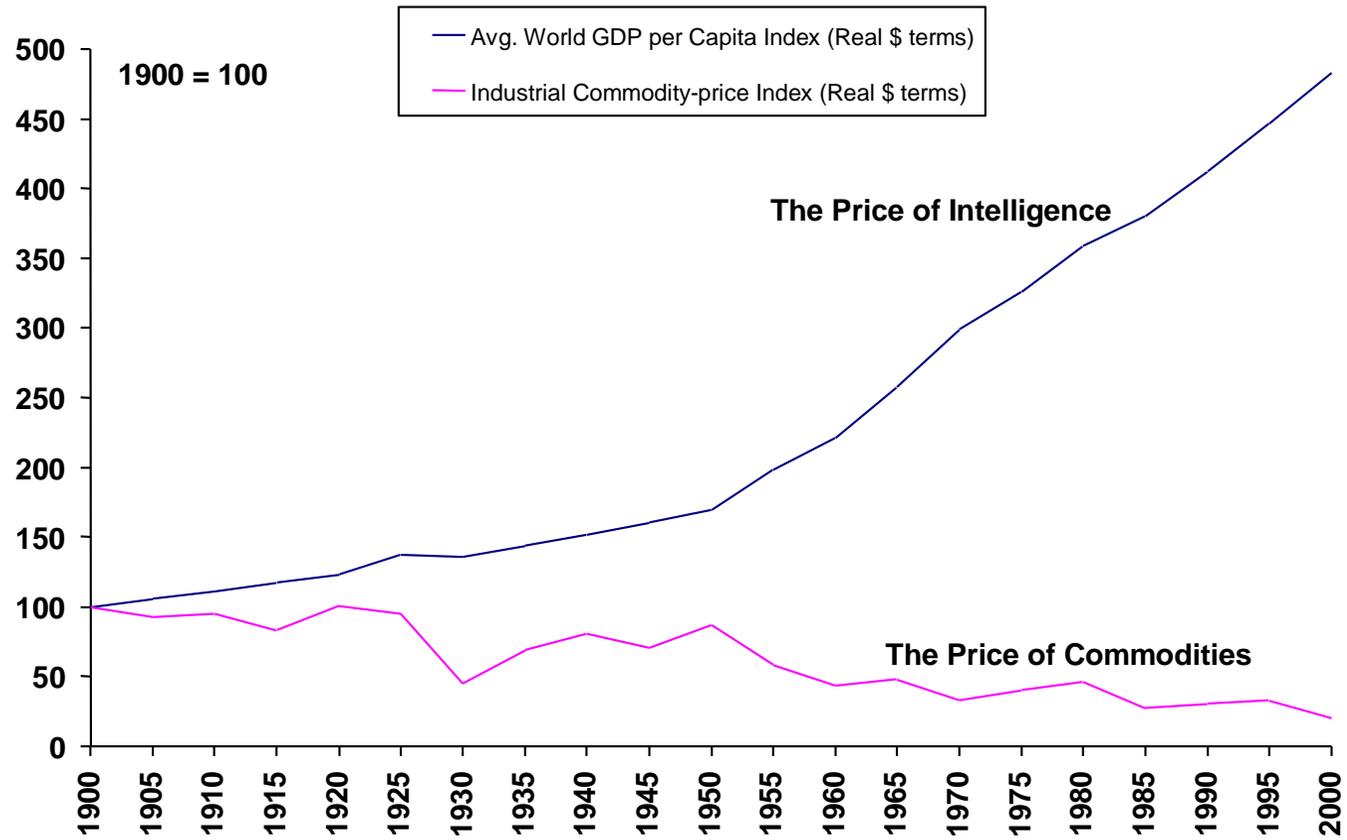
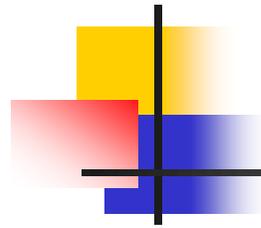
Pre-industrial:	350 years
Britain (1780-1830)	175 years
Britain in 19th century	65 years
Fast growers since WWII (Japan, China, Thailand, Botswana, Ireland, Chile....)	10 years or less



Growth achieves more than redistribution

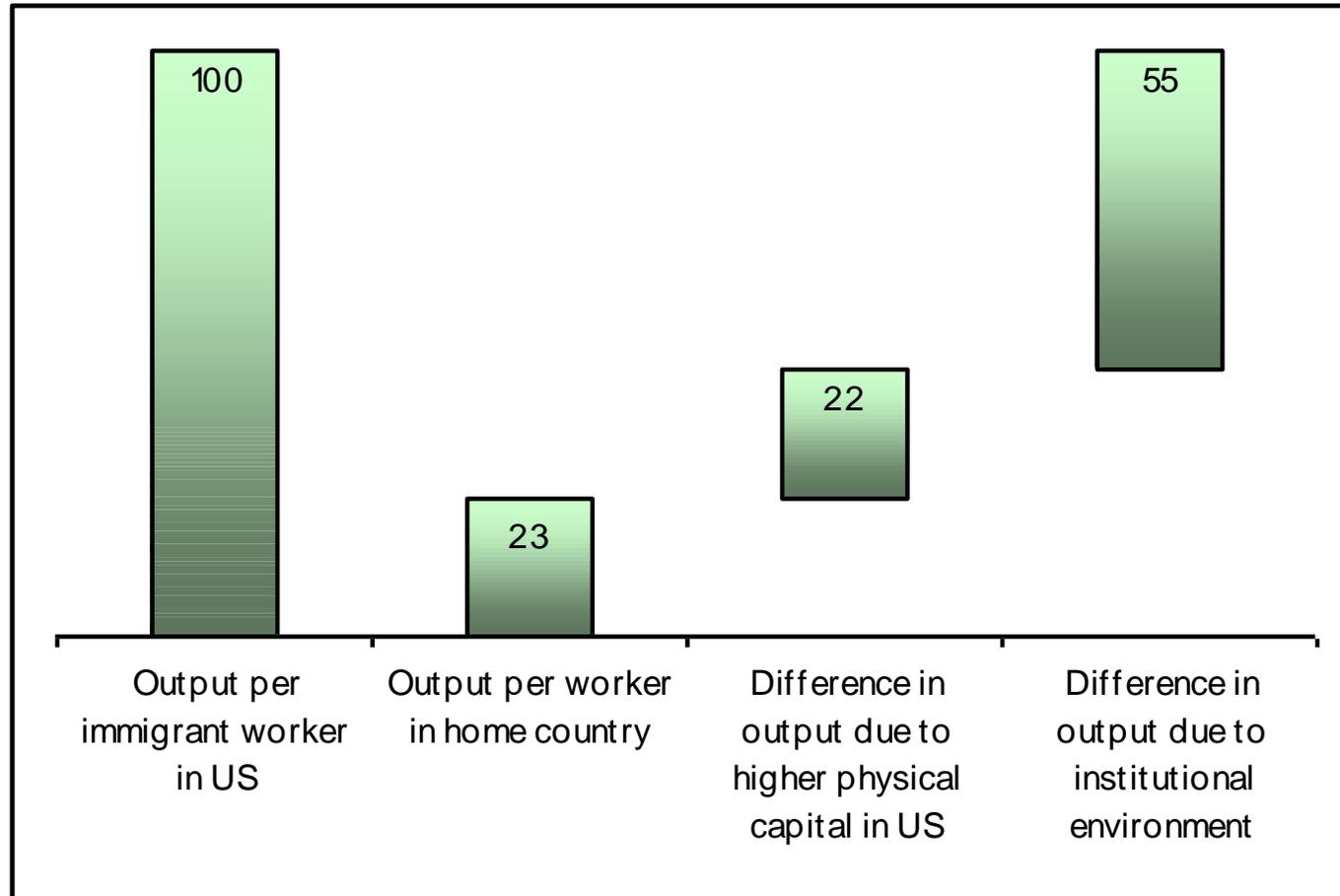


Source: World Bank WDI Database.



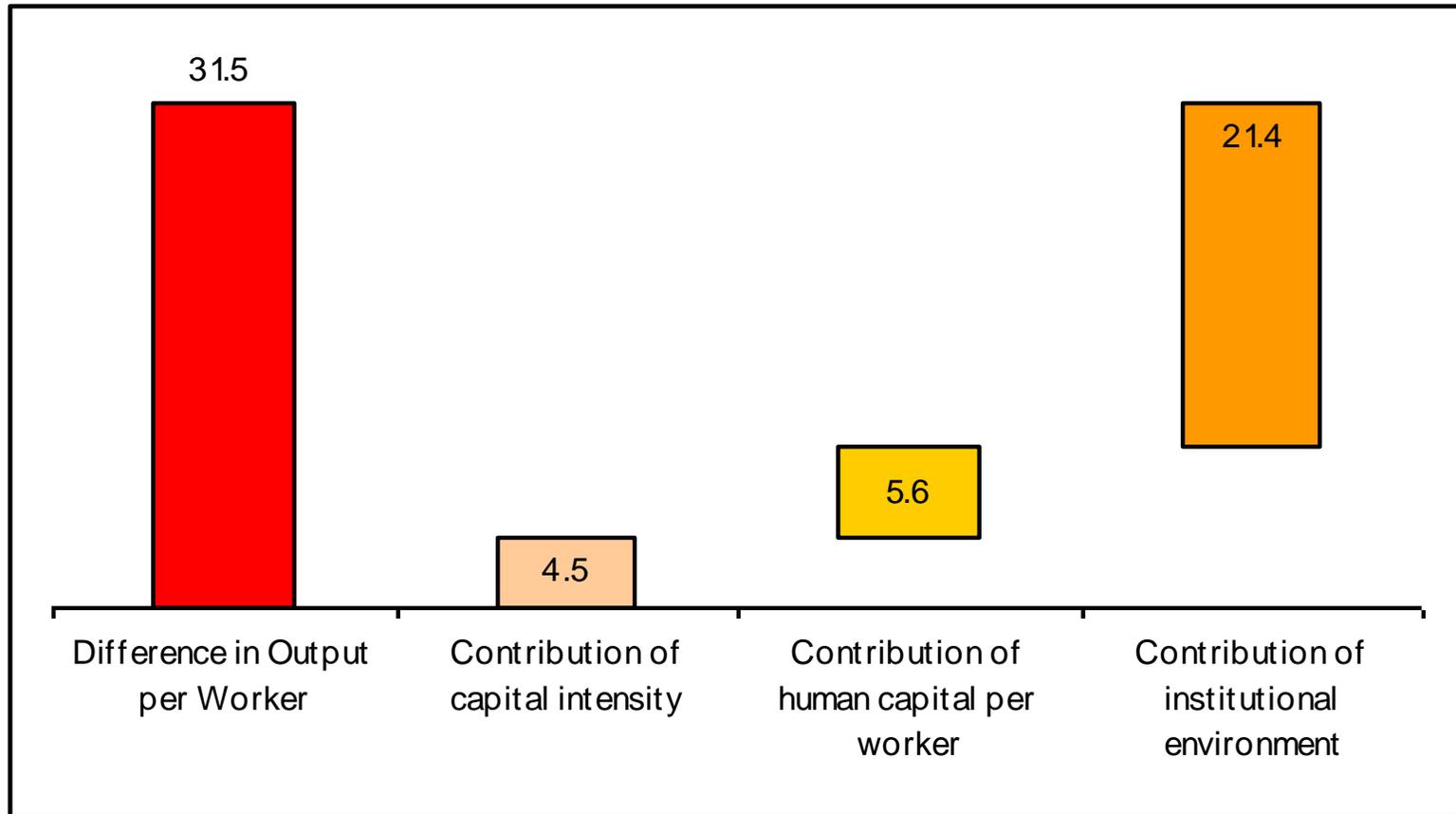
Source: *The Economist* (Commodity Price Index); World Bank WDI Database.

Factor accumulation accounts for only a fraction of income differences (in percent)

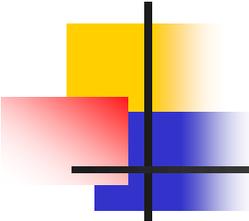


Source: Calculations based on Hendricks (2002).

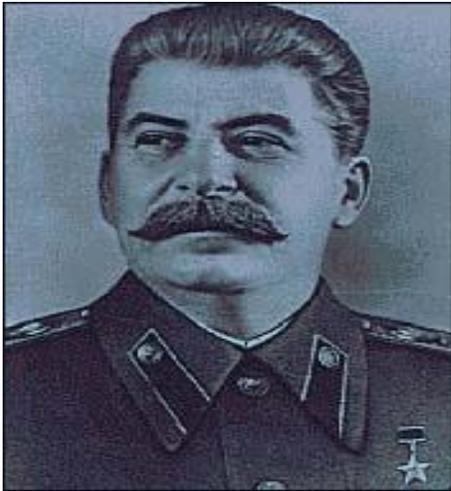
The difference in output per worker is due to difference in institutional environment (ratio of the 5 richest to the 5 poorest countries)

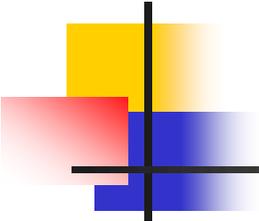


Source: Calculations are based on Hall and Jones (1999).



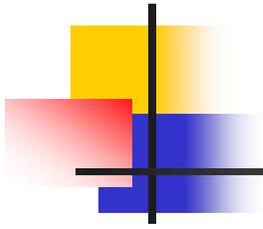
The public face of lasting contributions...





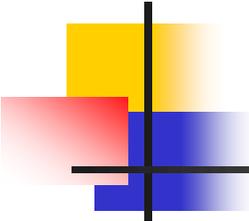
Heavier-than-air flying machines
are impossible.

- Lord Kelvin, President, Royal Society, 1895



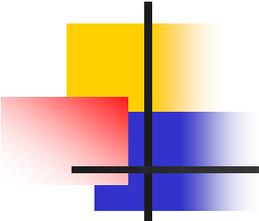
I have traveled the length and breadth of this country and talked with the best people, and I can assure you that data processing is a fad that won't last out the year.

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



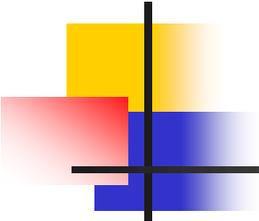
Learning is more than simple adoption (Hyundai's first car)

- 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



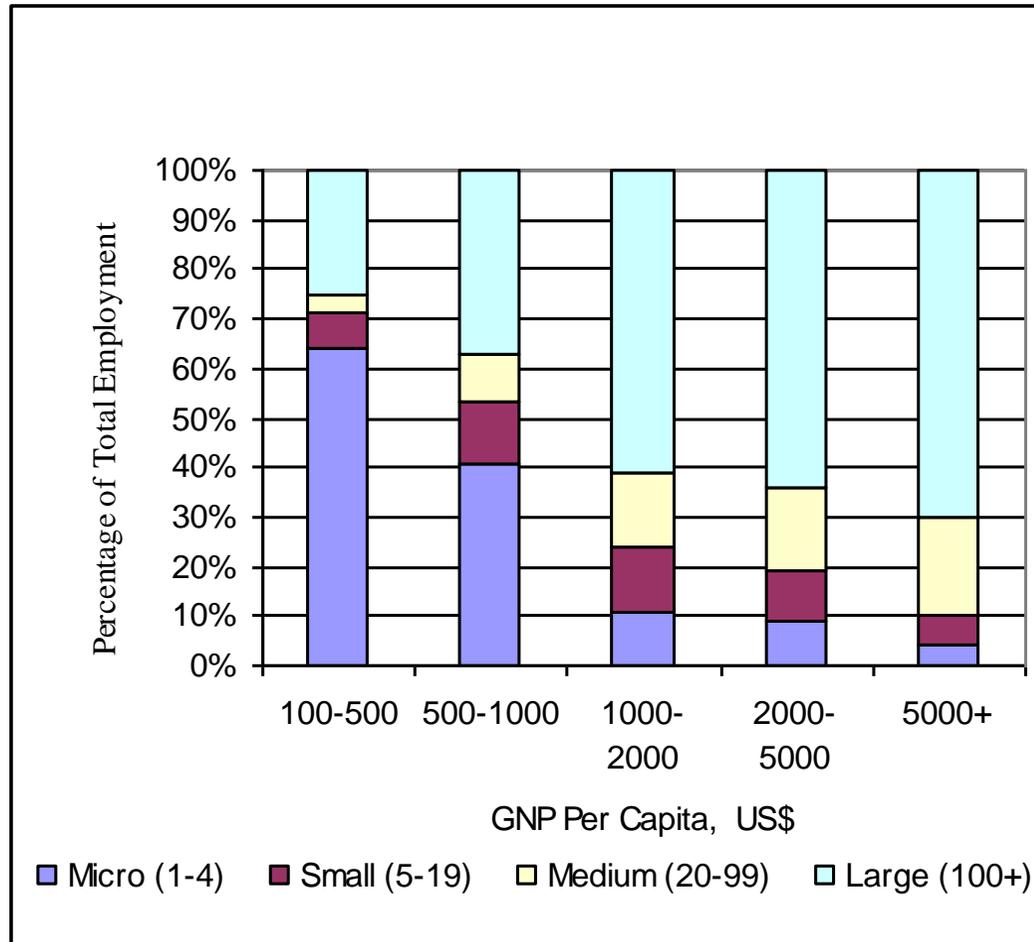
The ecology of firms – basic principles

- 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)

- 
-
- “... a nation’s economic growth and competitive strength rest on more than natural resources, labor and managerial skills, available capital or even the size of internal markets. The wealth of nations during the past hundred years has been based more on the ability of industrial enterprises to adopt and to develop ... technologies and to devise administrative structures to co-ordinate the ... processes of production and distribution...”

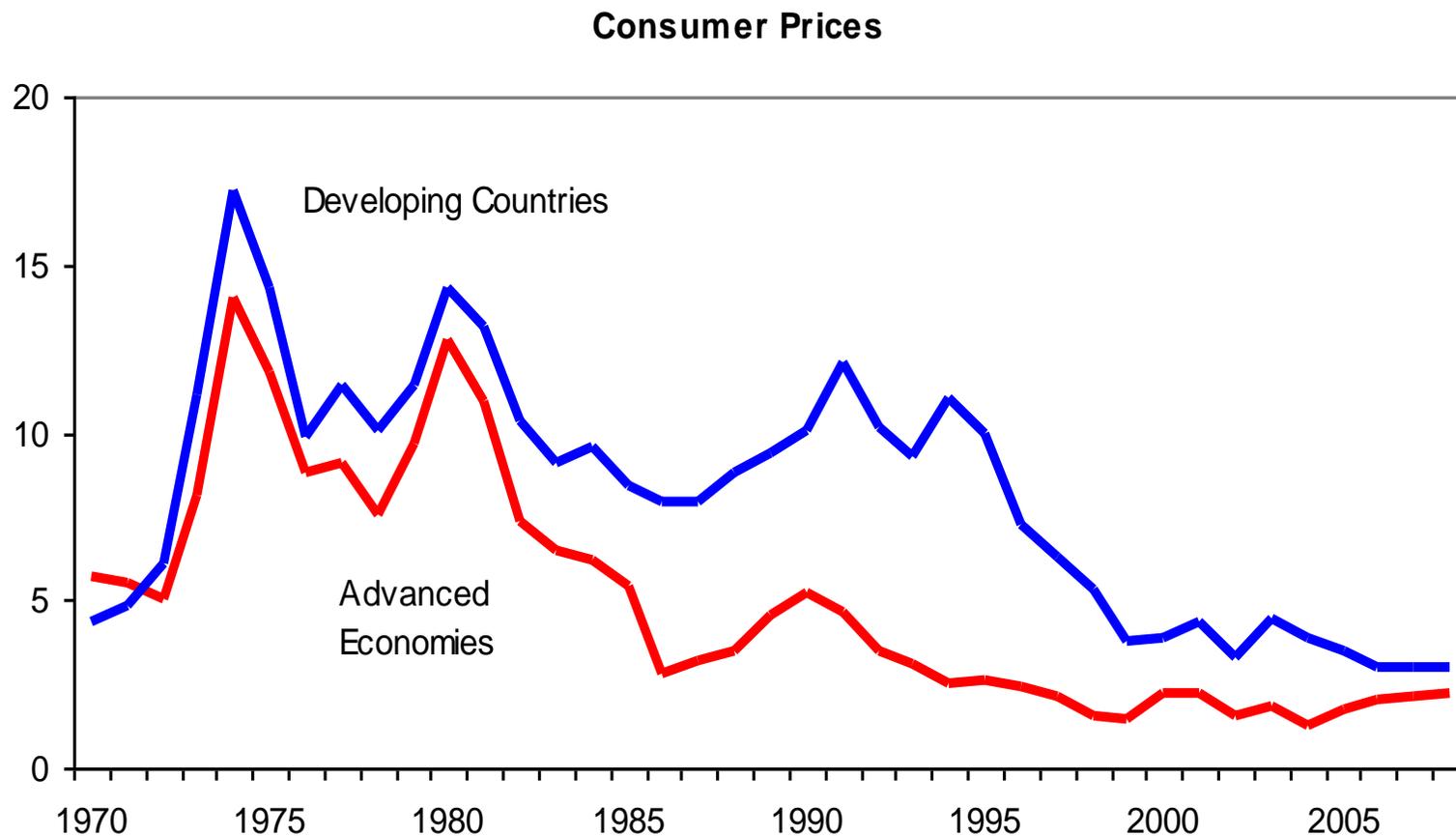
Alfred Chandler. 1997. *Big Business and the Wealth of Nations*

Distribution of employment by firm size



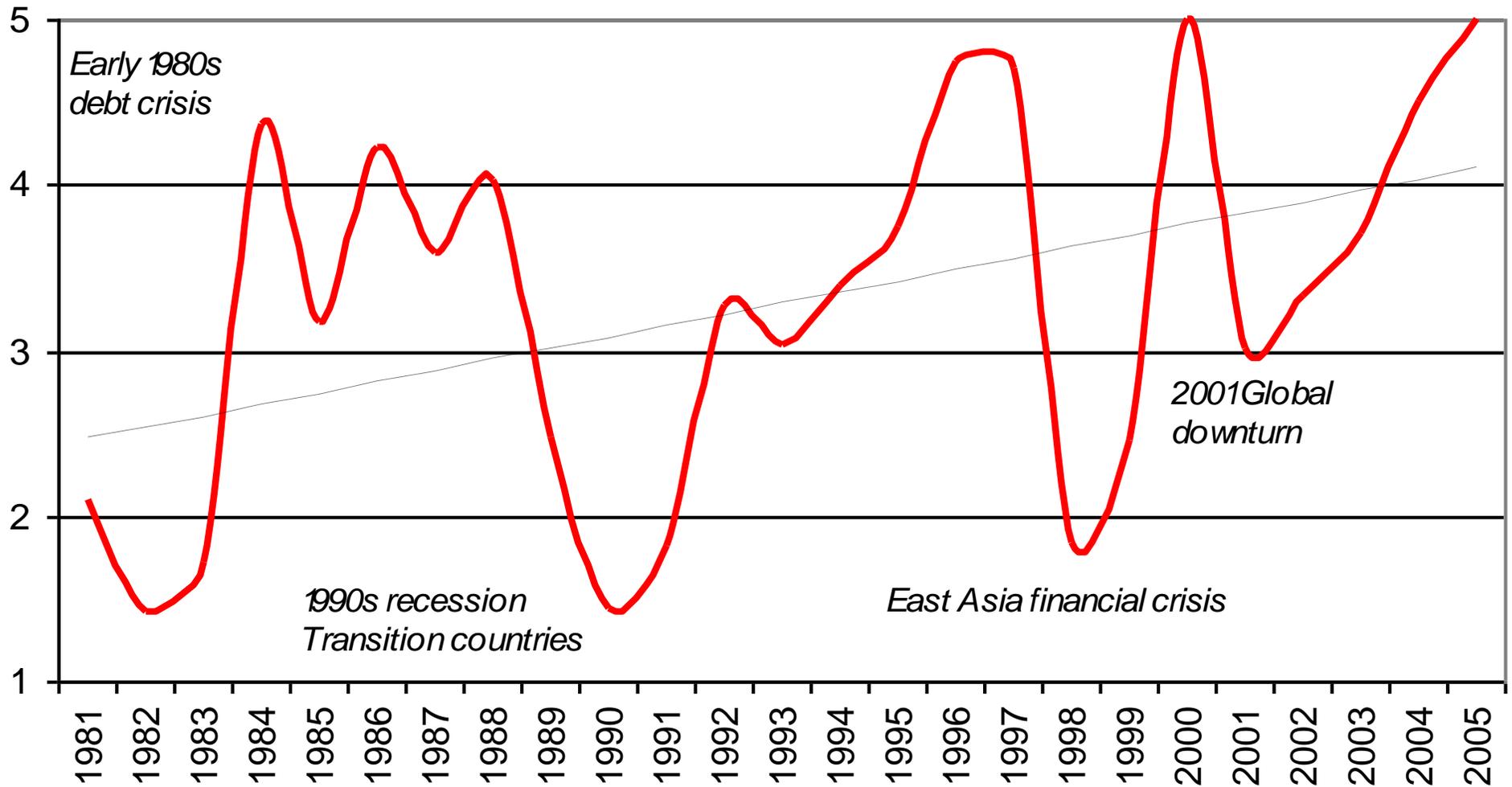
Source: Snodgrass and Biggs (1996).

Macroeconomic prudence has returned

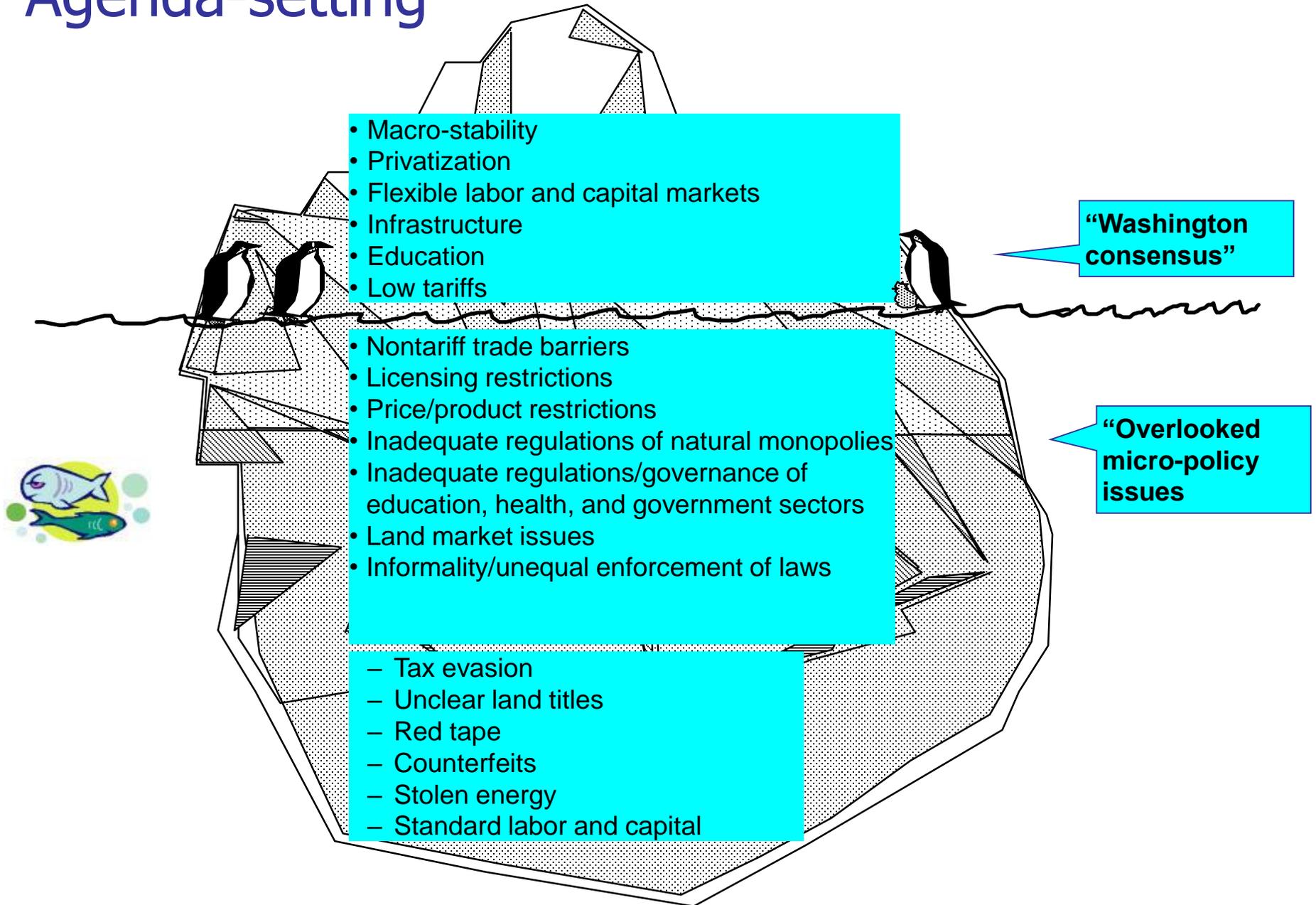


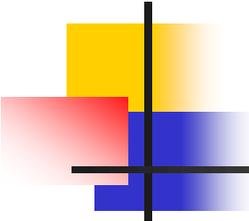
Source: IMF, September 2003, *World Economic Outlook*.

Developing countries on the track to long-term trend growth (GDP growth, percent per annum)



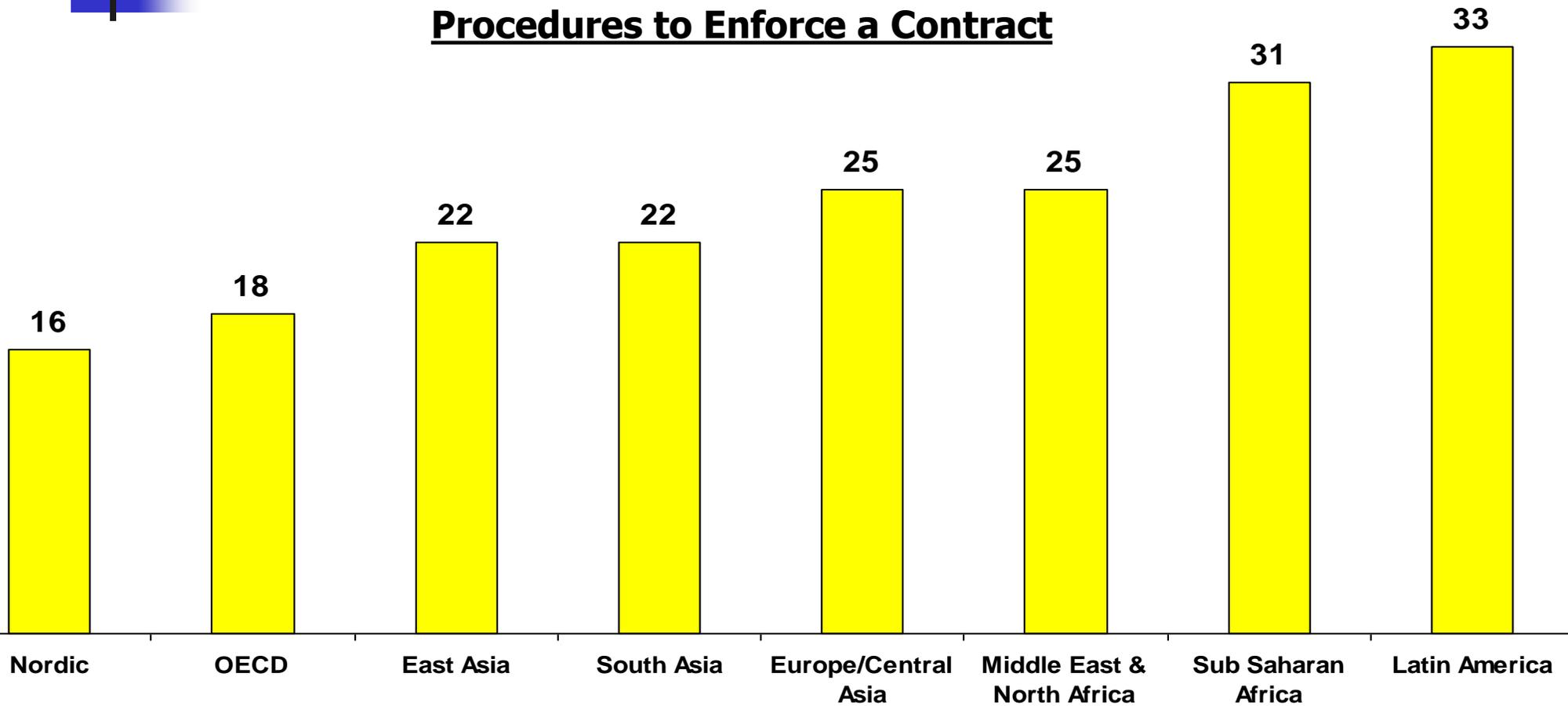
Agenda-setting

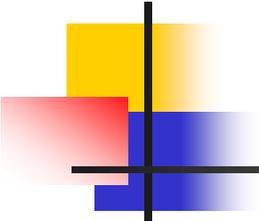




A New Swedish Model?

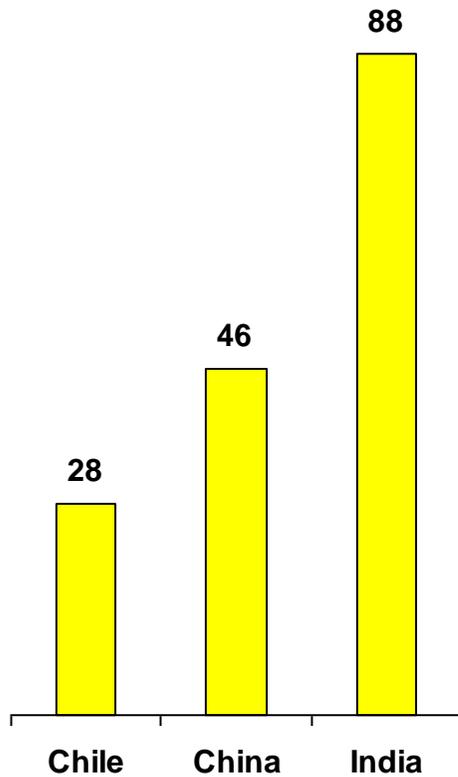
Procedures to Enforce a Contract



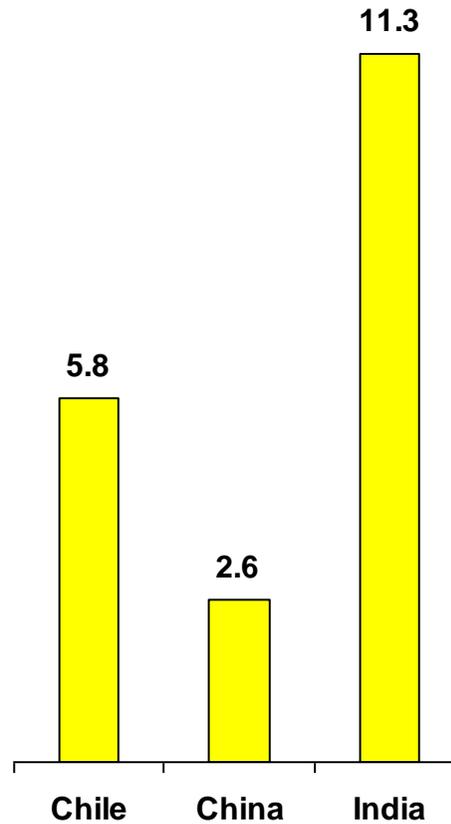


China vs India?

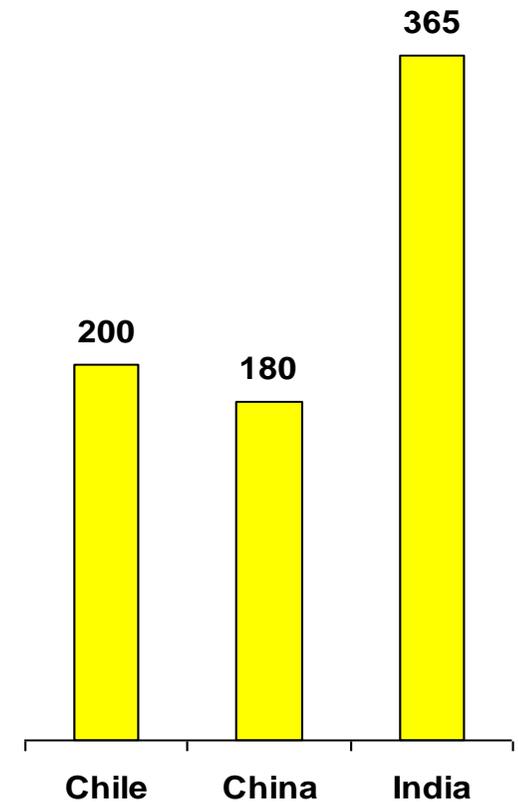
Days to Start a Business



Years to go through Bankruptcy

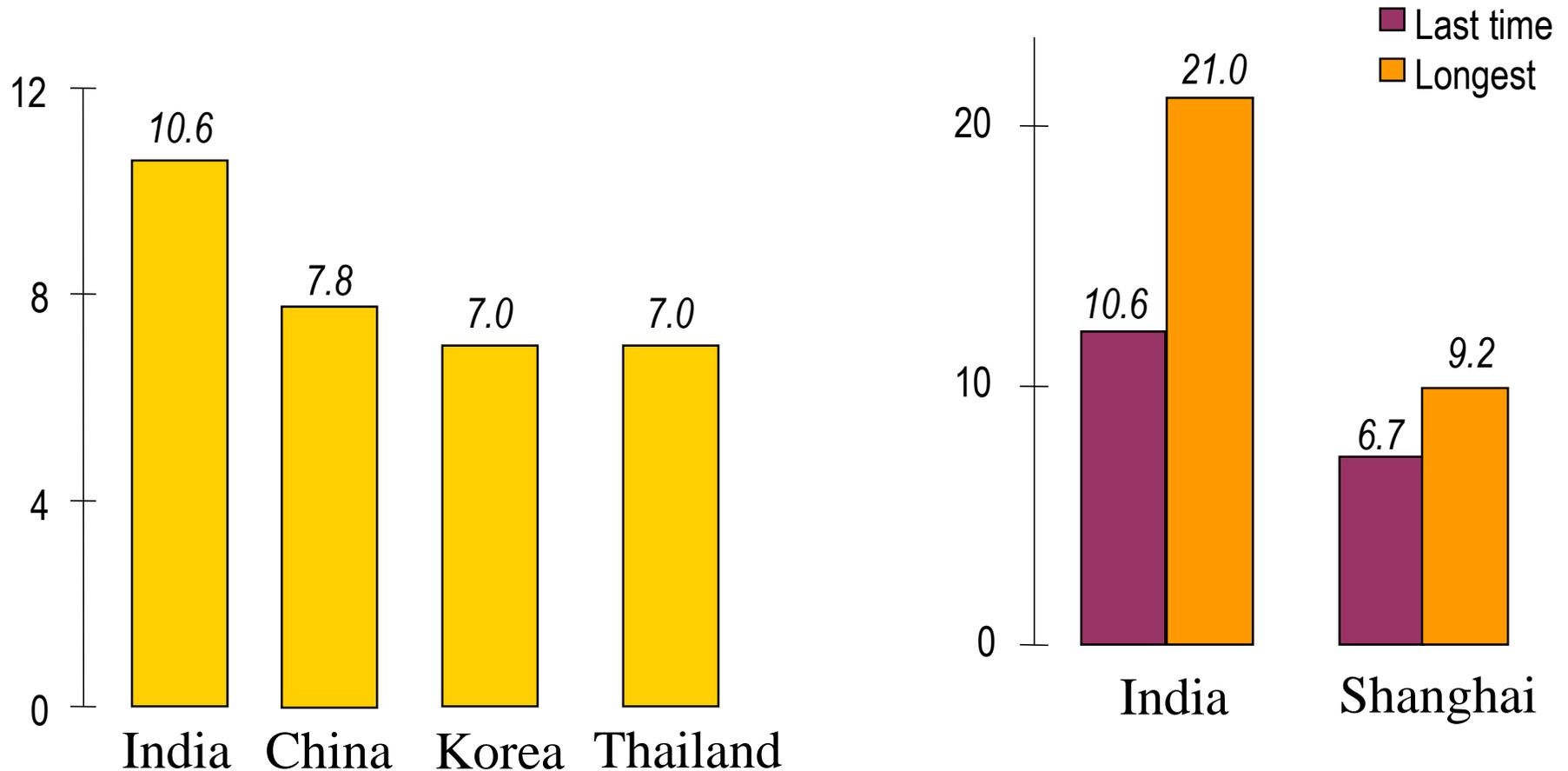


Days to Enforce a Contract

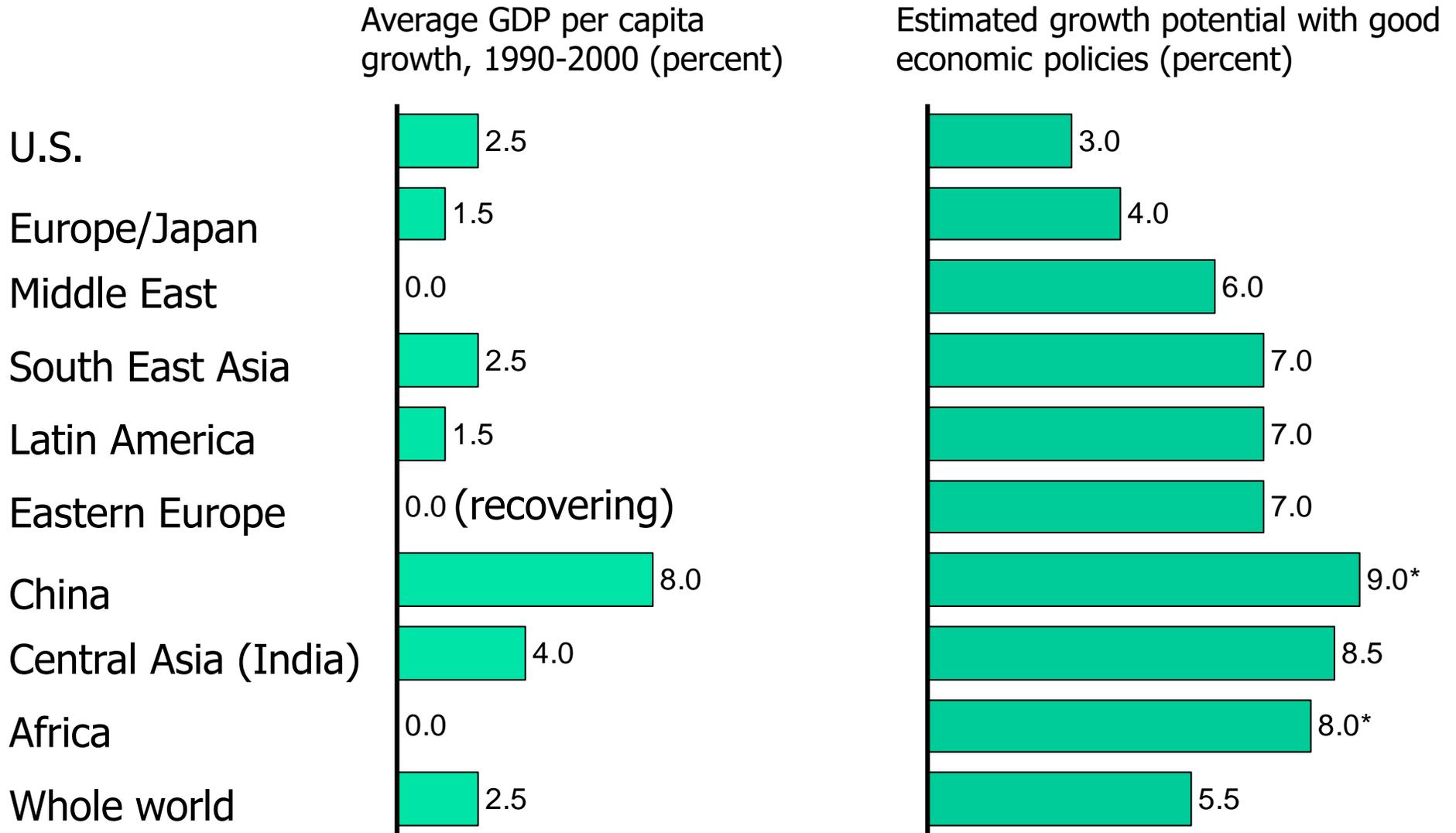


“I want to be reborn as a customs agent”:

Days to clear imported inputs through customs



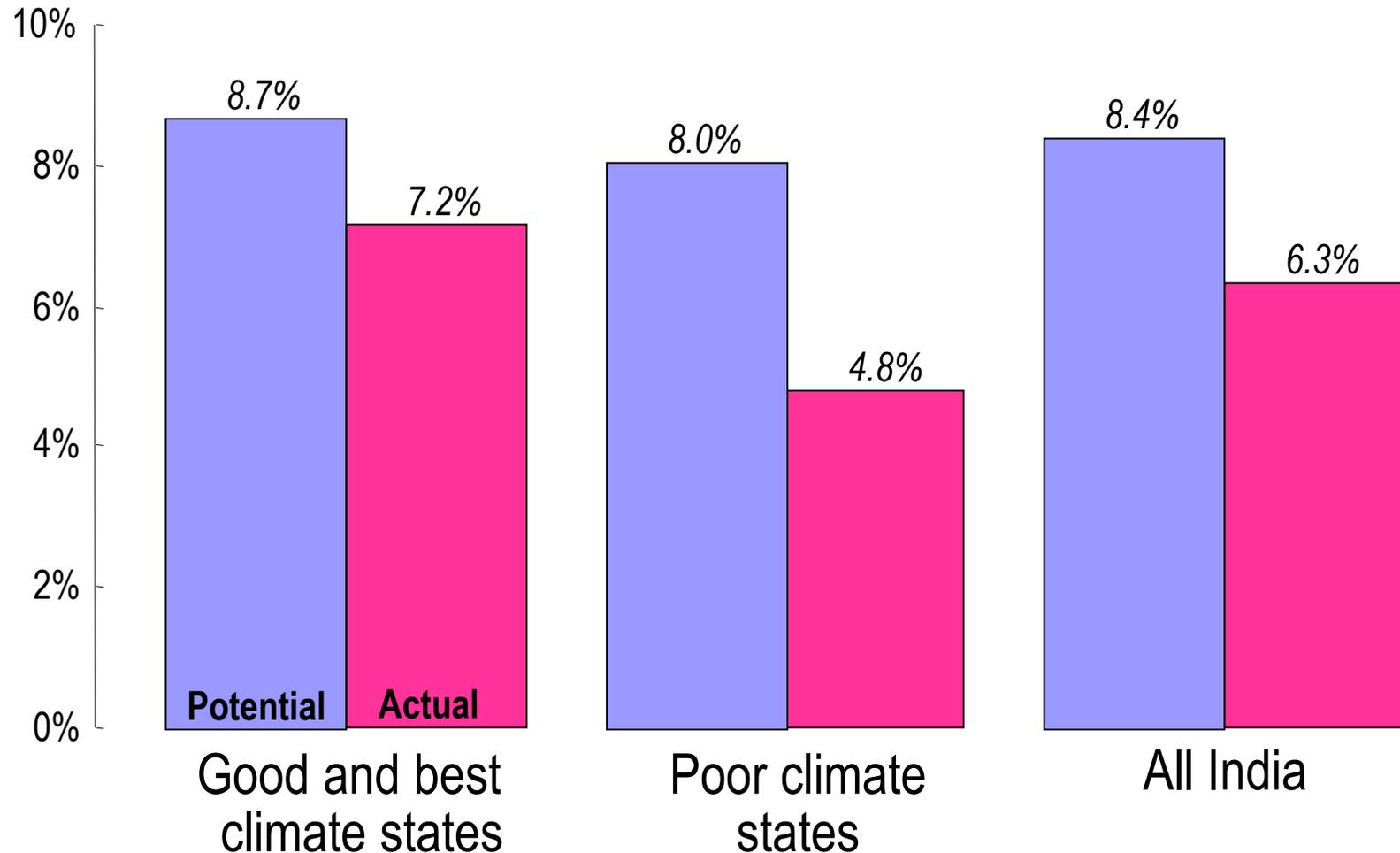
Growth significantly below potential



*Not studied yet – estimate extrapolated from other studies
Source: EIU; McKinsey Global Institute

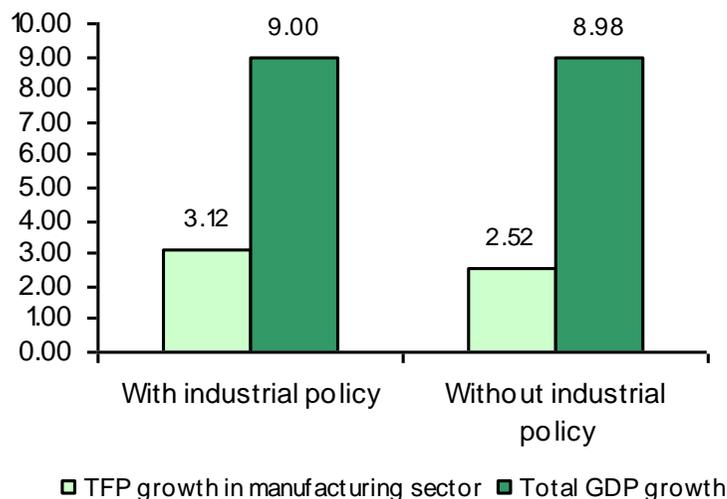
Estimated growth rate gains from improvement in investment climate

Annual average GDP growth rate, 1992-98

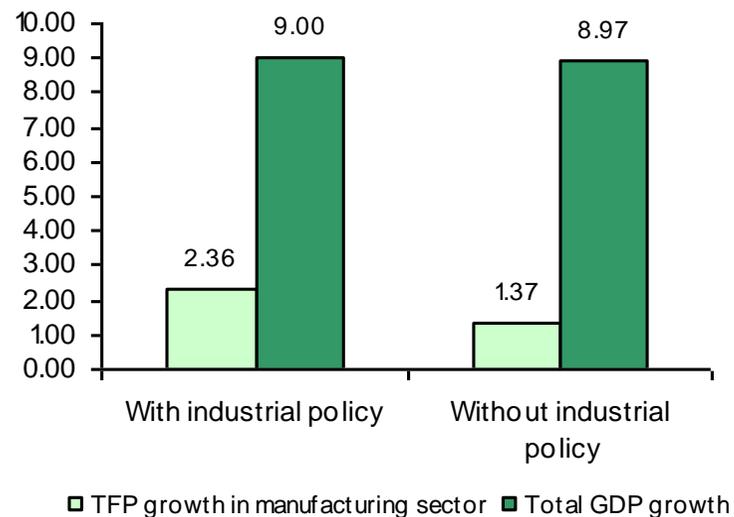


Effect of industrial policy on growth

Korea - 1966-1985

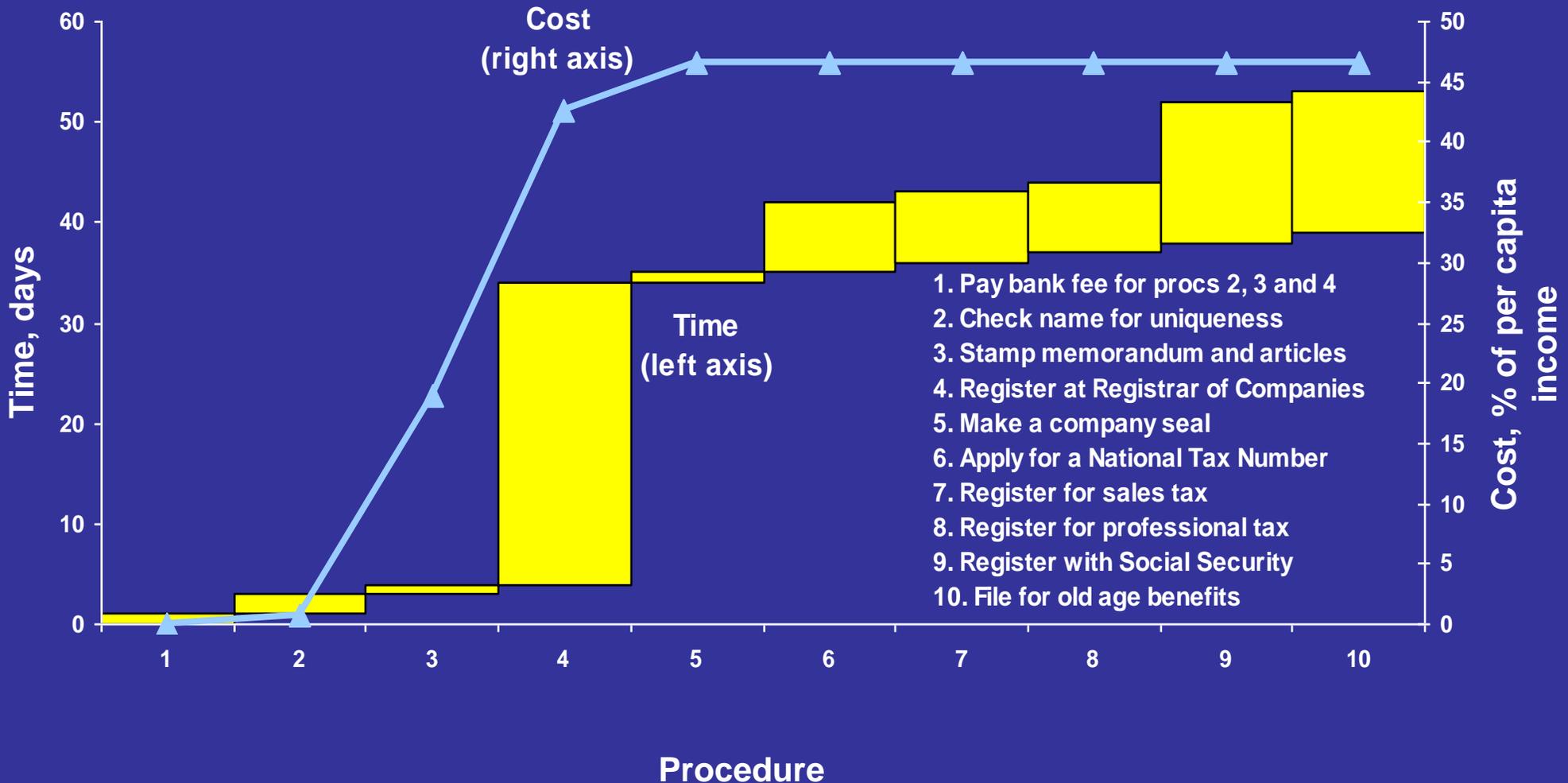


Japan - 1960-1979

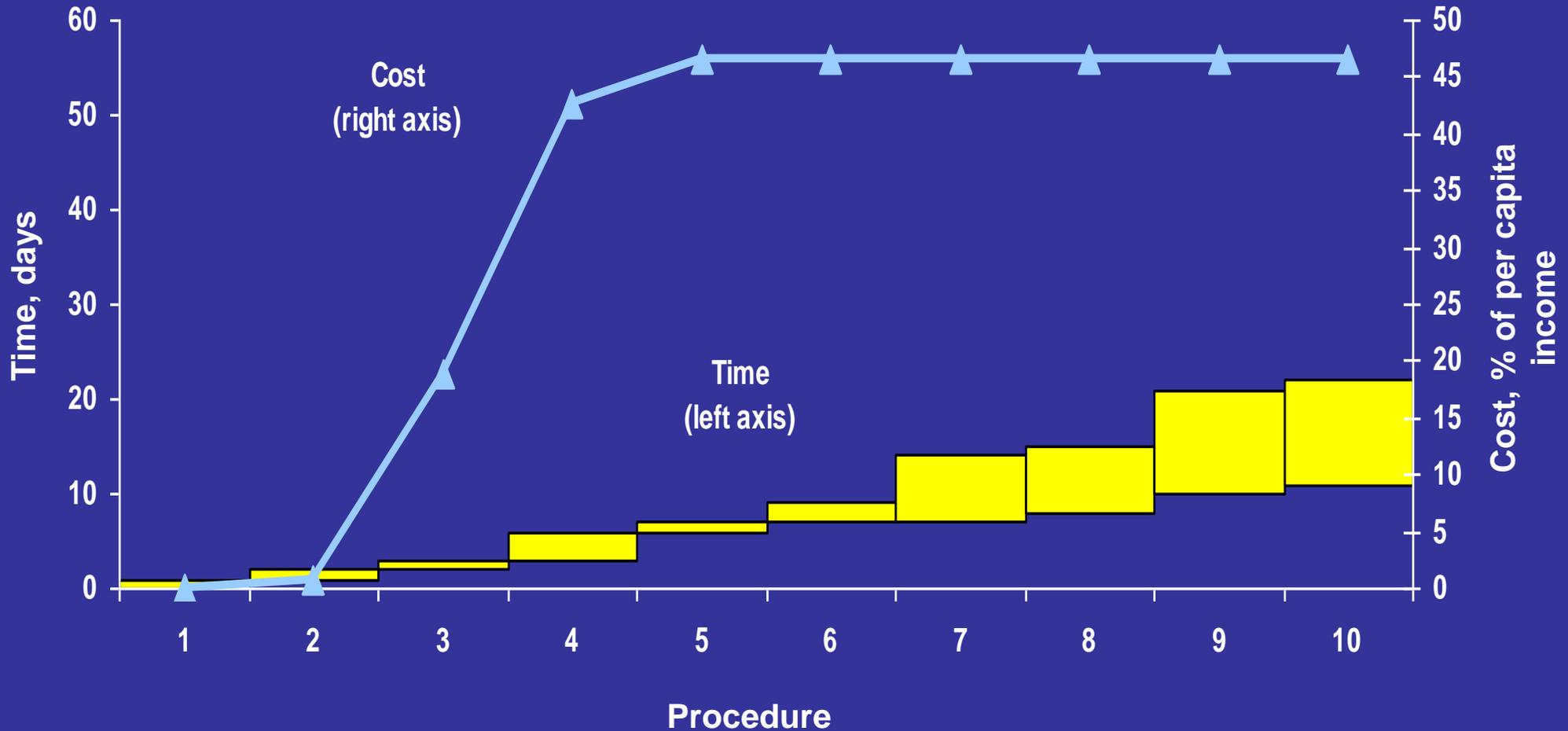


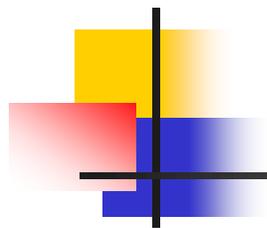
Source: Howard Pack. 2000. "Industrial Policy: Growth Elixir or Poison?" *The World Bank Research Observer* 15(1): 59.

Benchmarking: Pakistan (Jan. 1, 2002)



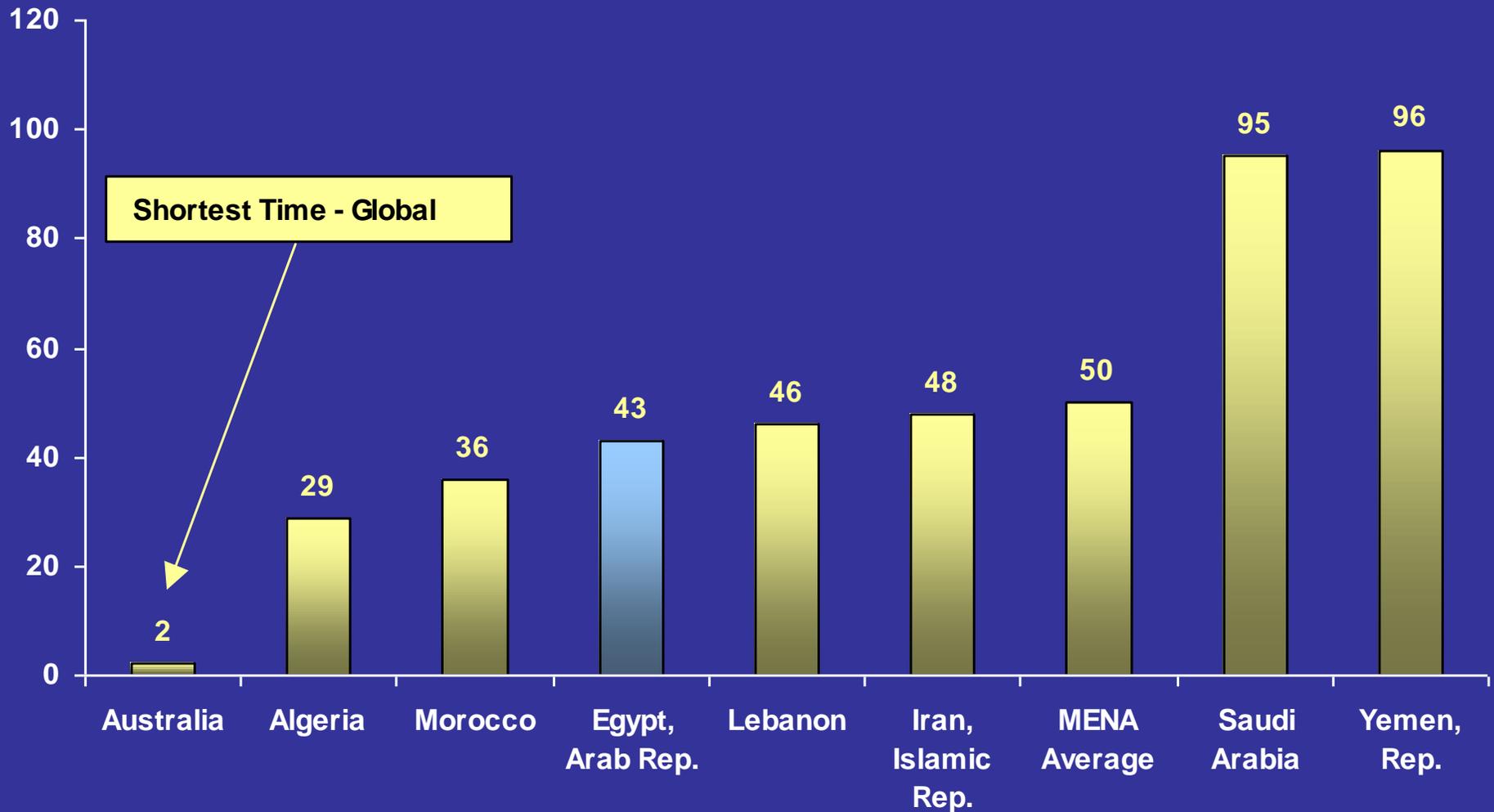
Tracking reform: Pakistan (Jan. 1, 2003)



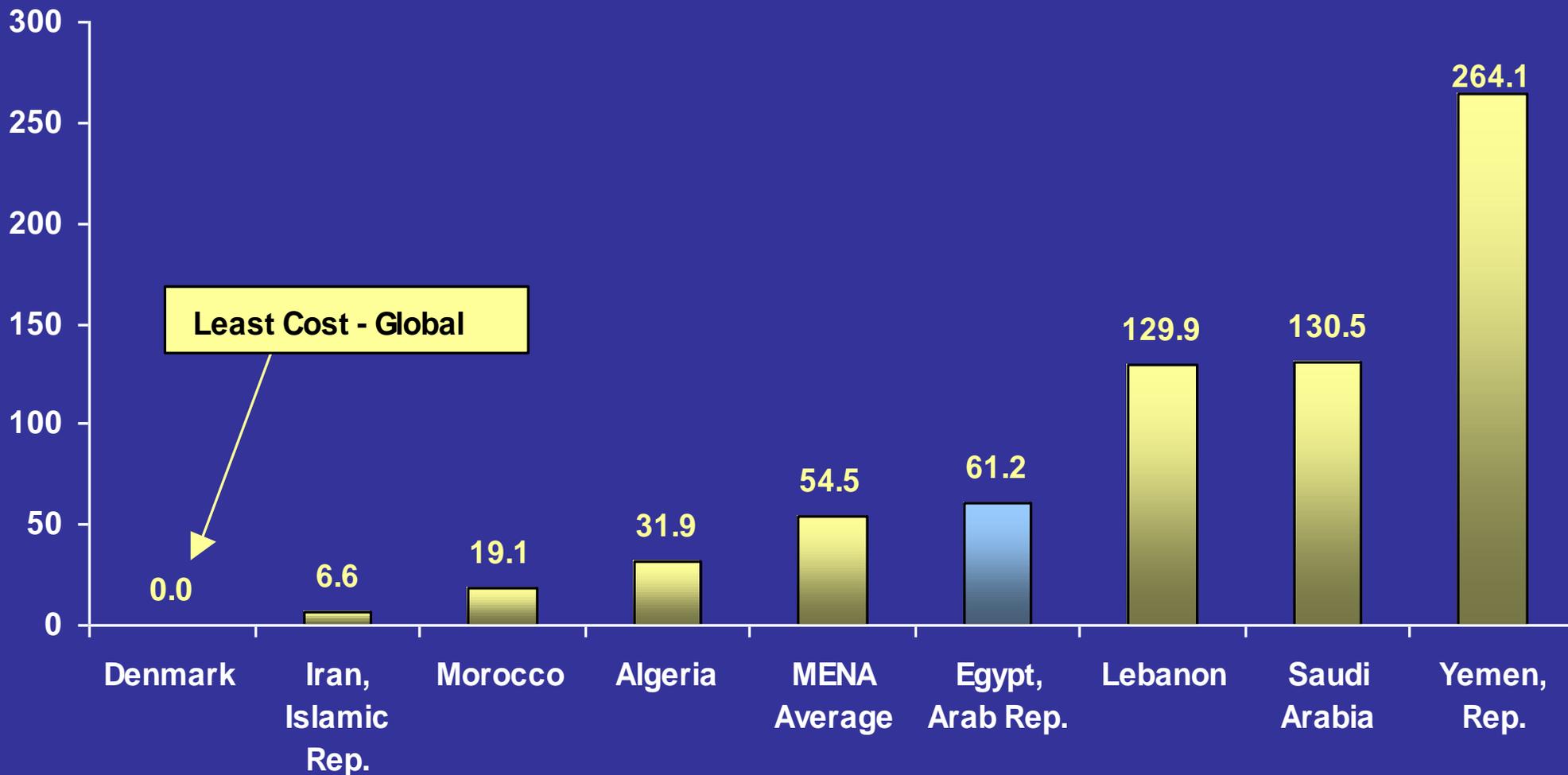


Doing Business Indicators: Egypt, Arab Republic

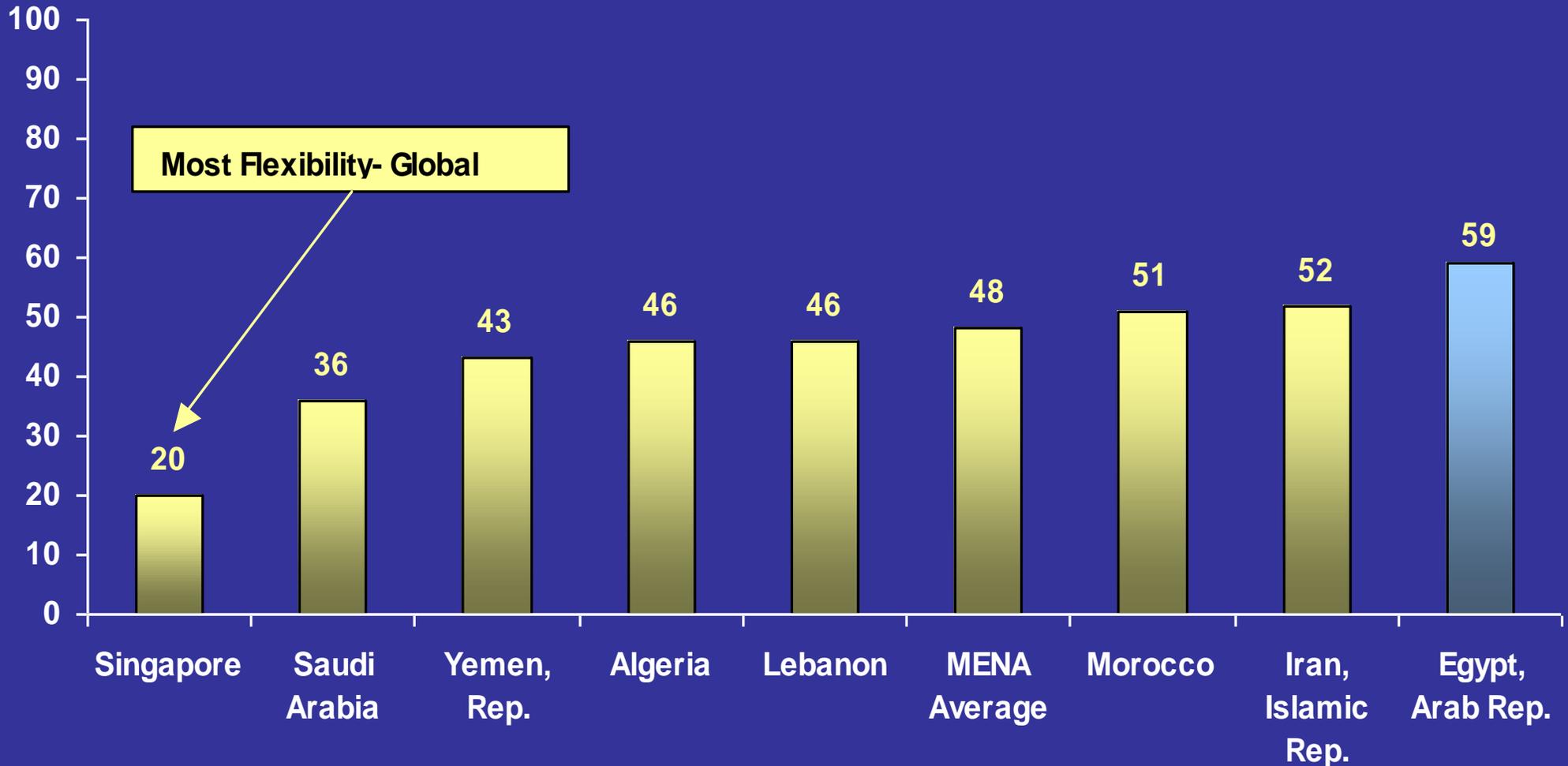
Time to Start a Business (days)



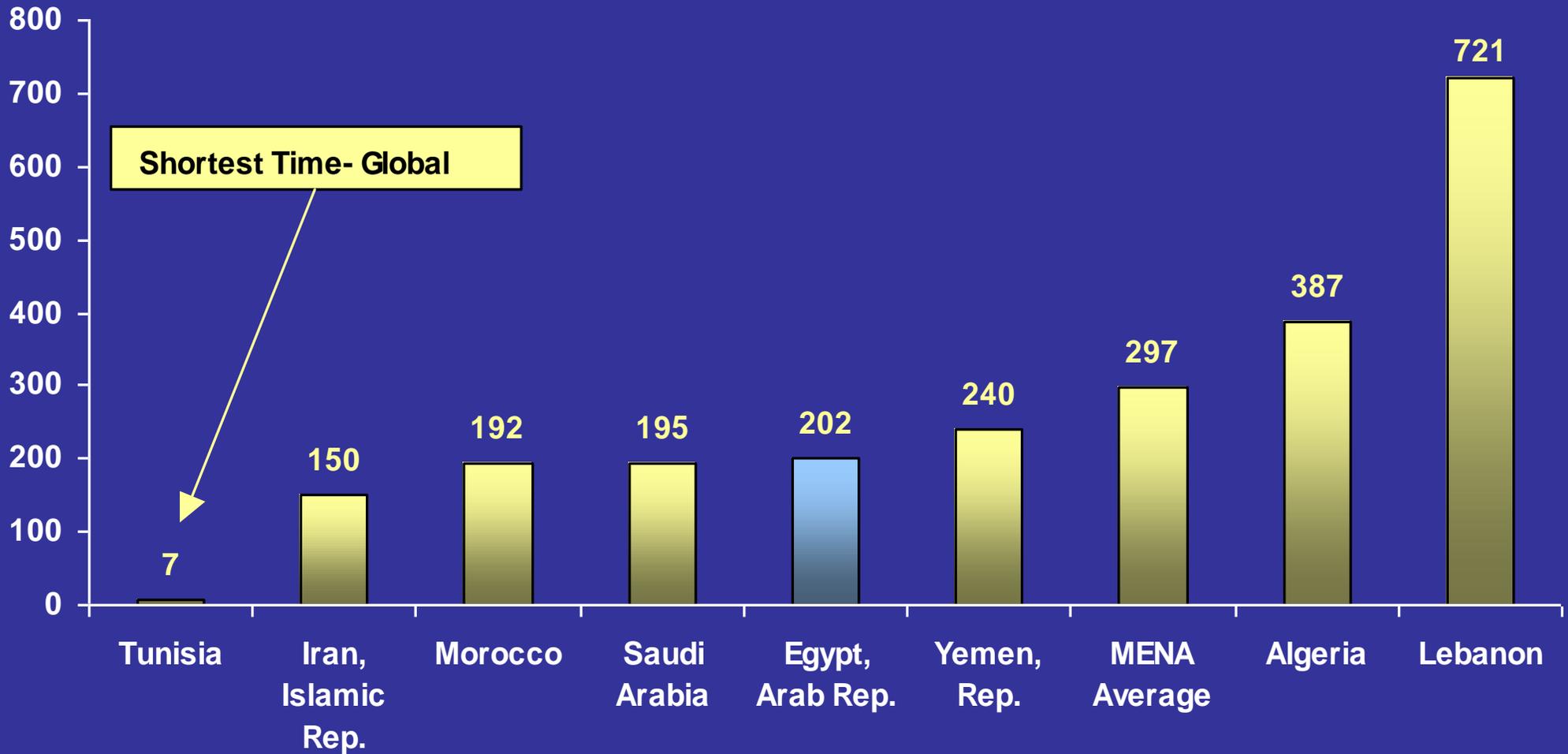
Cost to Start a Business (% of income per capita)



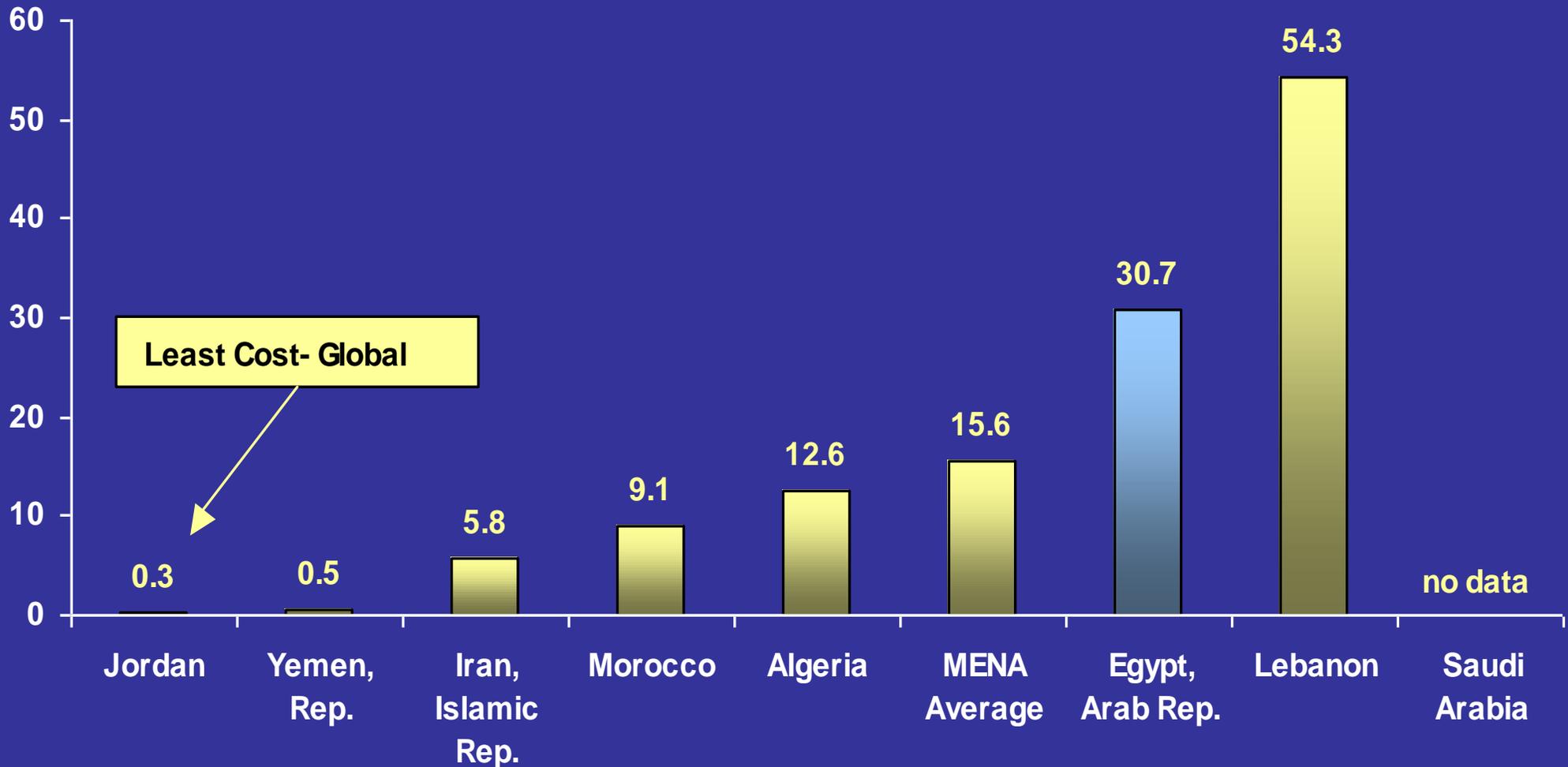
Employment Laws Index



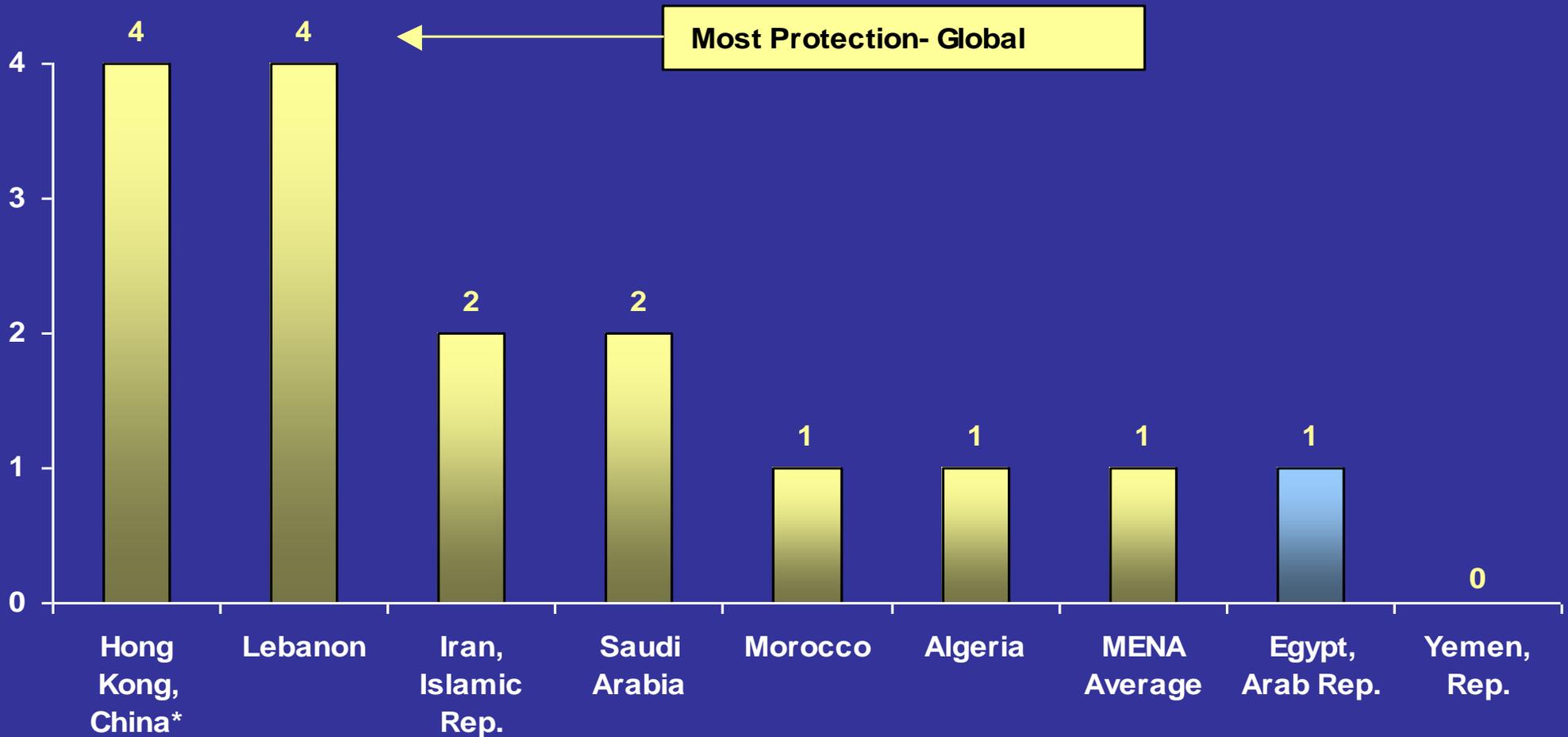
Time to Enforce a Contract (days)



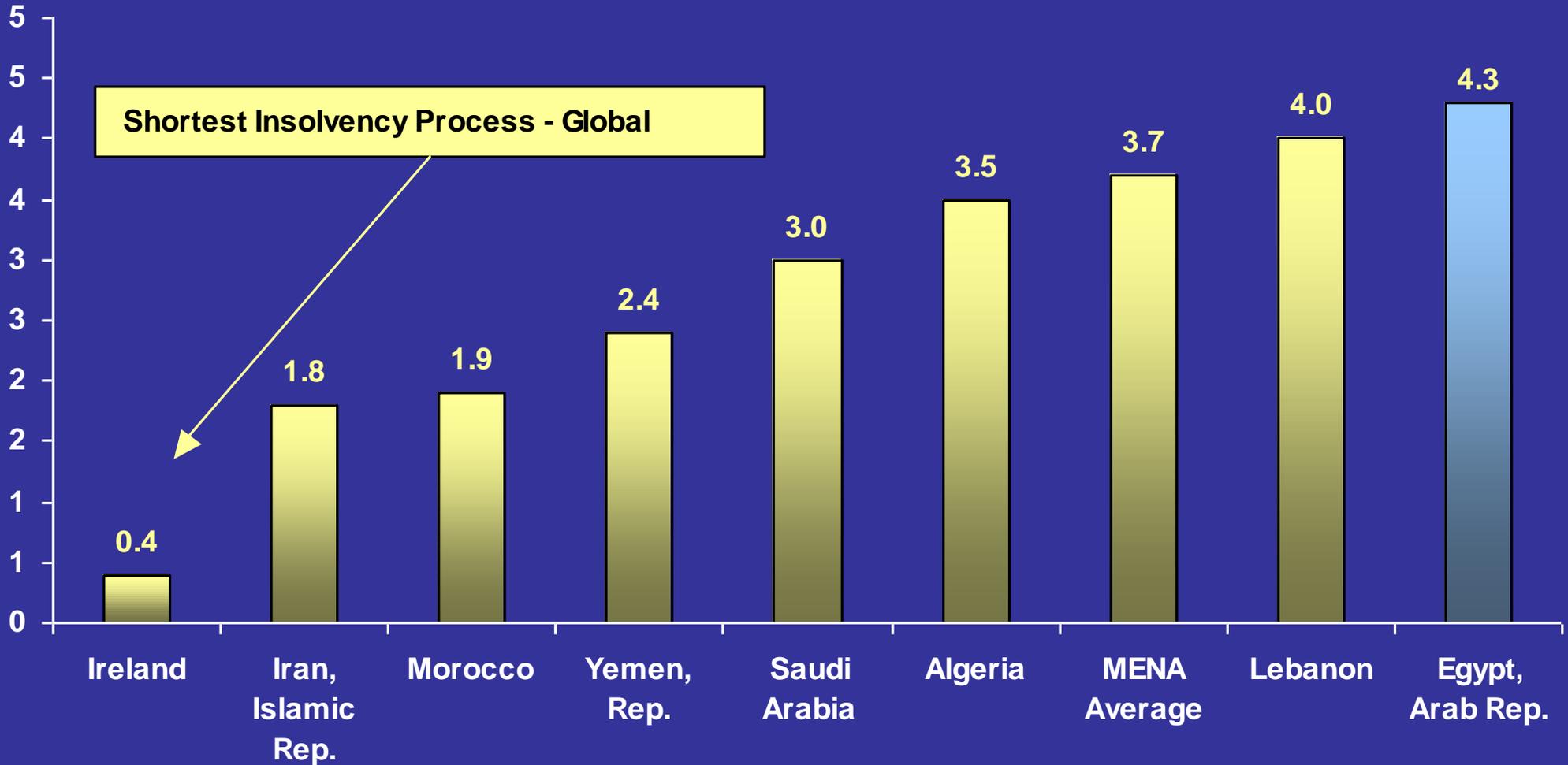
Cost to Enforce a Contract (% of income per capita)



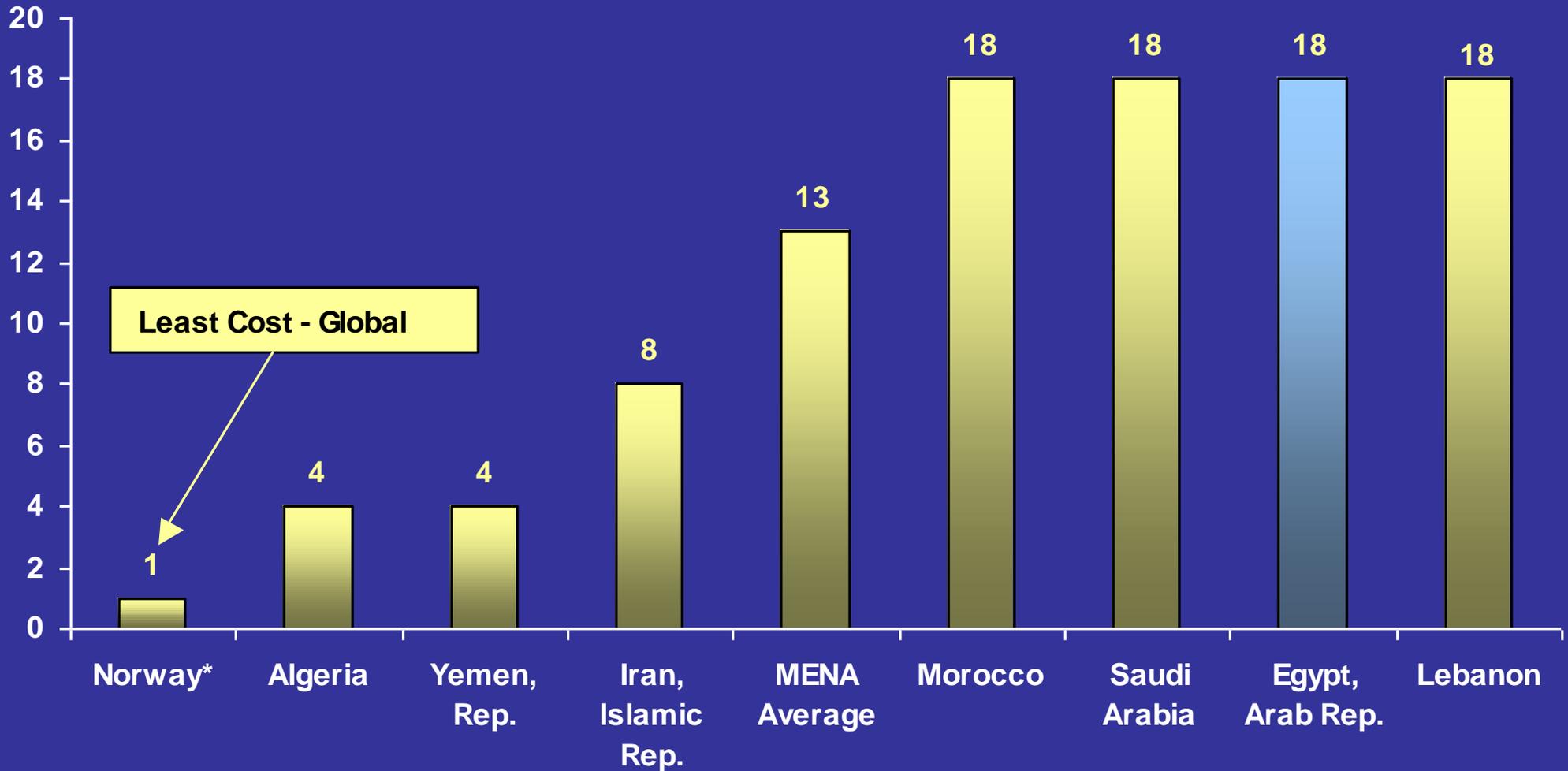
Legal Creditor Rights Index



Time to go through Insolvency (Years)



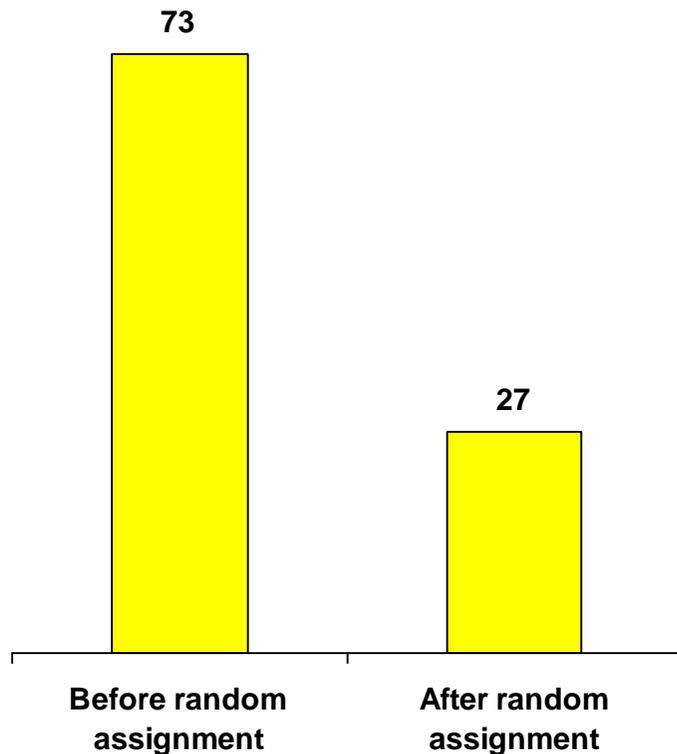
Cost to go through Insolvency (% of Estate)



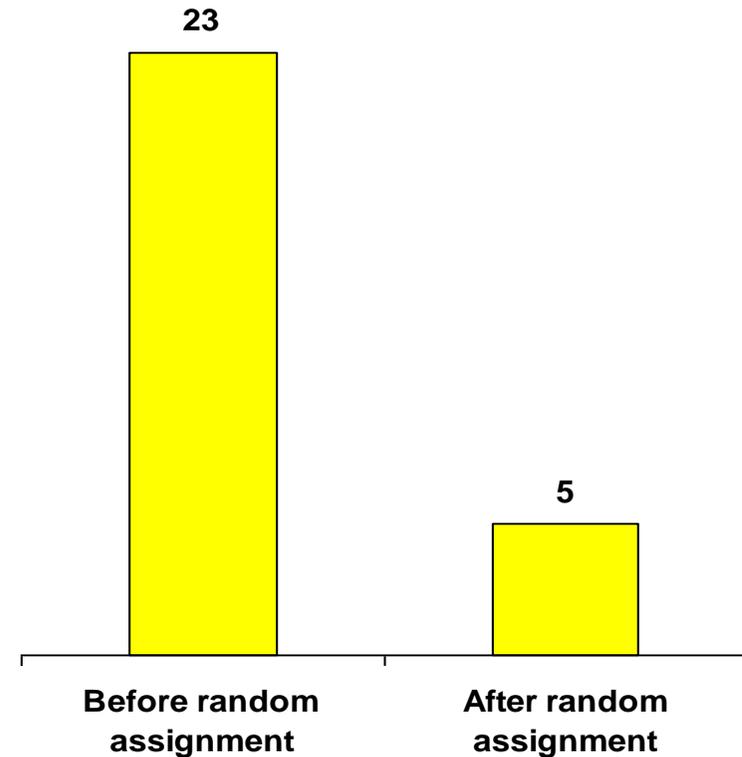
A lesson for everyone: random case assignment

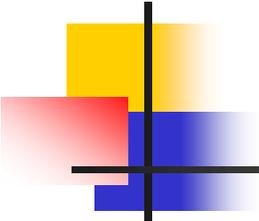
Example: Slovakia

Days between filing and first hearing



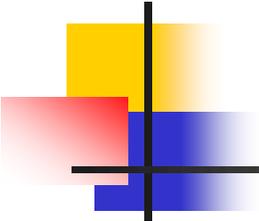
Procedures between filing and first hearing





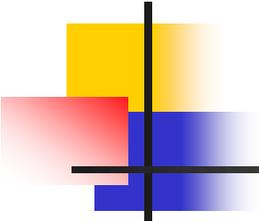
Some reforms in business registration

- Single registration forms and single registration number, e.g. France, Finland, Slovak Republic, Turkey
- Eliminating court and notary involvement, e.g. Honduras, Italy, Nicaragua



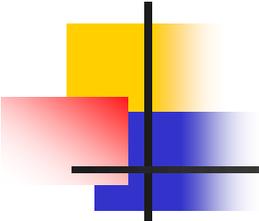
Some reforms in labor regulation

- Different minimum wage criteria for new entrants and workers with experience, e.g., Chile, Colombia
- Flexibility in peak vs slow periods, e.g., Czech Republic



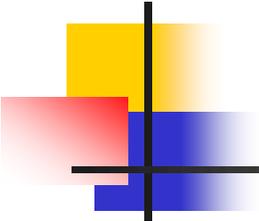
Some reforms in contract enforcement

- Simplify court procedures, for example:
 - Introducing oral procedures, e.g. Paraguay, Italy, Mexico
 - Reducing notifications, e.g., Bulgaria, Estonia
 - Not suspending enforcement upon appeal, e.g., Tanzania
- Specialized courts, e.g. Netherlands, Tanzania, or specialized judges within general courts, e.g. Uganda



Some reforms in credit market institutions

- Establish credit information registries. Public credit registries can work in poor countries, e.g., Mozambique, Malaysia
- Private out of court enforcement of collateral agreements, e.g. Albania , USA, and summary proceedings, e.g. Moldova

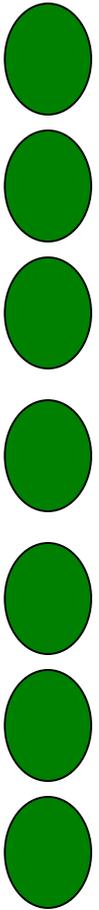


Some reforms in insolvency systems

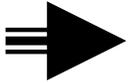
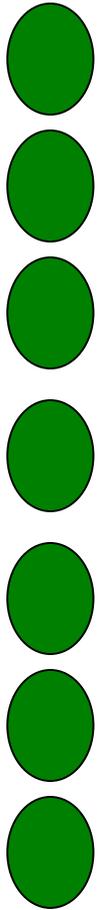
- Creditor involvement in appointment, replacement and work of bankruptcy administrator, e.g. Papua New Guinea
- Mandatory continued education for bankruptcy practitioners, e.g., Germany
- Focus on out of court collateral enforcement

PROCESS

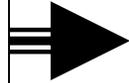
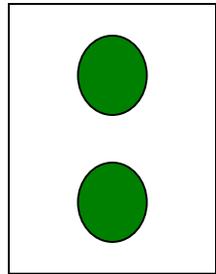
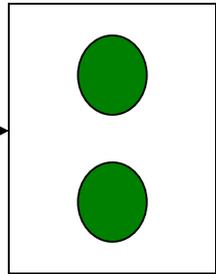
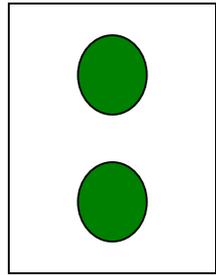
**Grassroots
input
Issues &
solutions**



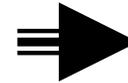
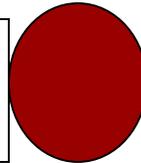
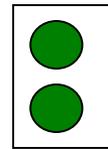
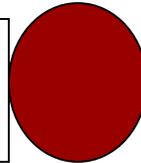
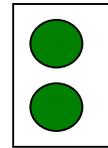
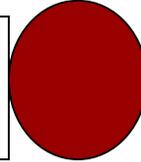
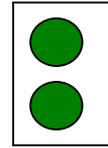
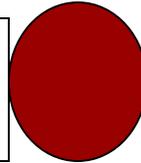
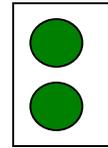
**Periodic meetings
score progress &
priorities**



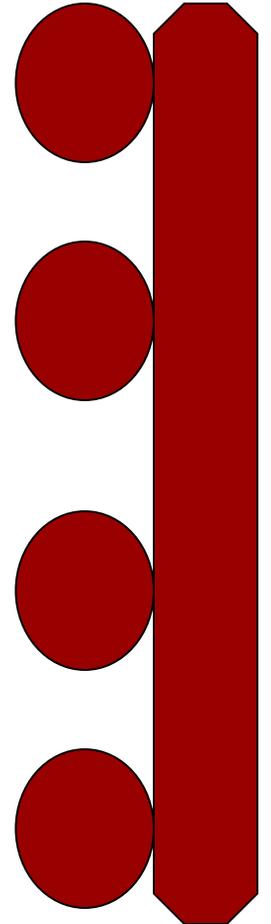
**Champions lead
work teams and
position papers**

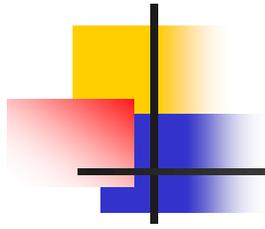


**Work teams
meet
government
counterparts**



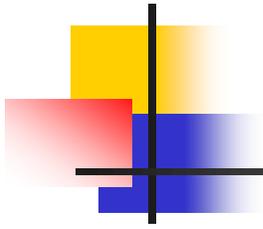
**Government
processes
information**





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

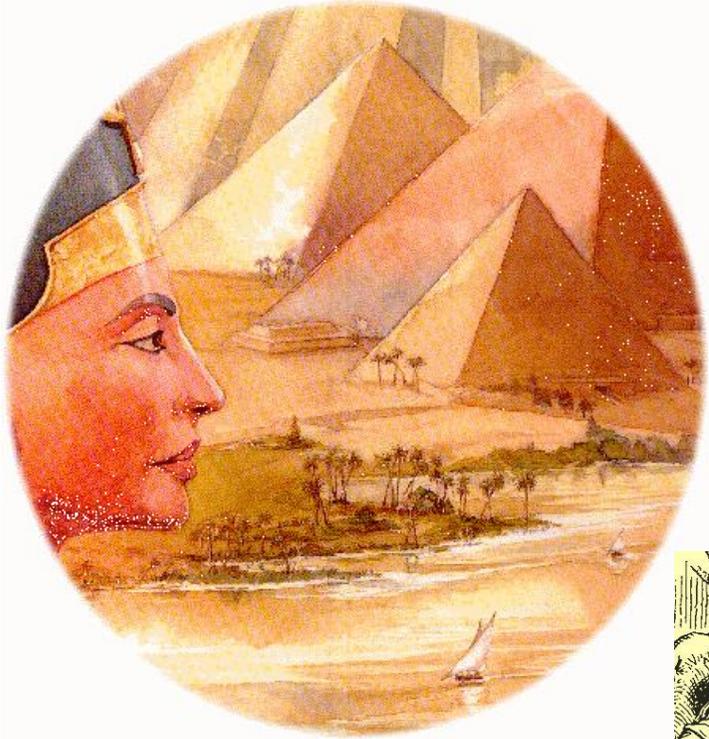
A saying by Den Xiao-Ping



Credibility

Legitimacy

Efficiency



*Alice in
Wonderland*