world development report

A Better Investment Climate for Everyone

Contents

Foreword xiii
Acknowledgments xv
Abbreviations and Data Notes xvi
Overview 1
The investment climate is central to growth and poverty reduction 1
Tackling costs, risks, and barriers to competition 4
Progress requires more than changes in formal policies 5
A process, not an event 7
Focus on delivering the basics 9
Going beyond the basics involves additional challenges 12
The international community can lend a hand 14
PART I
Improving the Investment Climate 17
The investment climate, growth, and poverty 19
Understanding the investment climate 20
How investment climate improvements drive growth and reduce poverty 24
Sharpening the focus on poverty reduction 31
Creating a better investment climate for everyone 35
Confronting the underlying challenges 36
The basic tension: Firm preferences or the public interest? 37
Restraining rent-seeking 40
Establishing credibility 45
Fostering public trust and legitimacy 50
Ensuring policy responses reflect a good institutional fit 53

3 Tackling a broad agenda 56

The investment climate as a package 56
Setting priorities 58
Managing individual reforms 68
Maintaining momentum 71
Strengthening capabilities 74

PART II Delivering the Basics 77

4 Stability and security 79

Verifying rights to land and other property 80

Facilitating contract enforcement 84

Reducing crime 89

Ending the uncompensated expropriation of property 92

5 Regulation and taxation 95

Regulating firms 95
Taxing firms 106
Regulating and taxing at the border 111

6 Finance and infrastructure 115

Financial markets 115
Infrastructure—connecting firms and expanding opportunities 124

7 Workers and labor markets 136

Fostering a skilled and healthy workforce 137 Crafting interventions to benefit all workers 141 Helping workers cope with change 151

PART III Going Beyond the Basics? 157

8 Selective interventions 159

The allure—and traps—of selective interventions 159 Experience in specific areas 163

9 International rules and standards 175

International arrangements and the investment climate 175

Enhancing credibility 176

Fostering harmonization 180

Addressing international spillovers 182

Future challenges 184

PART IV

How the International Community Can Help 187

10 How the international community can help 189

Removing distortions in developed countries 189

Providing more, and more effective, assistance 190

Tackling the substantial knowledge agenda 195

Bibliographical note 198

Endnotes 199

References 210

Background papers for the WDR 2005 241

Case studies commissioned by the U.K. Department for International Development for the *World Development Report 2005* 242

Selected Indicators 243

Measuring the investment climate 244

Challenges in measuring the investment climate 244

The World Bank's new measures 245

Technical notes 250

Selected world development indicators 253

Data sources and methodology 253

Changes in the System of National Accounts 253

Classification of economies and summary measures 254

Terminology and country coverage 254

Technical notes 265