**WORLD DEVELOPMENT REPORT 2002** 

# Building Institutions for Markets



Published for the World Bank Oxford University Press

## Contents

1	Building Institutions: Complement, Innovate, Connect, and Compete  How do institutions support markets?	
	How do institutions support growth and poverty reduction?	
	How do you build effective institutions?	1
	Organization and scope of the Report	2
	Conclusions	2
PΑ	RT II FIRMS	
2	Farmers	3
_	Building more secure and transferable rural land institutions	3
	Building effective and accessible rural financial institutions	3
	Building effective institutions for agricultural technology and innovation	4
	Conclusions	5
3	Governance of Firms	5
	What firms around the world look like	5
	Private governance institutions for firms	5
	Laws and formal intermediaries	6
	Conclusions	7.
4	Financial Systems	7
	Should policymakers promote bank-based or market-based financial systems?	7
	What form should financial regulation take?	7
	Enhancing efficiency in the financial sector: the role of ownership and competition	8
	How foreign entry and e-finance can change the nature of financial markets	8
	How to enhance access to financial services	9
	' Conclusions . y	9

## PART III GOVERNMENT

5	Political Institutions and Governance	99
	Political institutions and policy choices	101
	Corruption	105
	Politics, institutions, and taxation	110 115
	Conclusions	11)
6	The Judicial System	117
	Comparison of legal and judicial systems	120
	New evidence on two aspects of judicial efficiency: speed and cost	121
	Judicial reform efforts	124
	Fairness	129
	Conclusions	131
7	Competition	133
•	Domestic competition ————————————————————————————————————	135
	International competition.	142
	Conclusions.,	149
8	Regulation of Infrastructure	151
	Competition in infrastructure sectors	154
	Structure of the regulatory system	158
	Designing infrastructure regulation to deliver services to poor people	161
	Conclusions	166
PA	RT IV SOCIETY	
9	Norms and Networks	171
	Informal institutions in markets: their utility and shortcomings	172
	Building and adapting formal institutions	176
	Integrating informal and formal institutions	178
	Conclusions	179
10	The Media	181
10	Independence	183
	Quality	188
	Broadening the media's reach	190
	Institutions to complement the media	192
	Conclusions ,	192
		-,-
Bibl	iographic Note	195
Sele	ected World Development Indicators	229
D		
<b>Box</b> 1.1	A poem on the problems of trade	5
1.1	What are institutions?	6
1.3	Institutional evolution and economic development: private traders and public rulers	7
1.5	Courts and the expansion of trade	9
1.4	Weak institutions hurt poor people	9
1.7	weak institutions that poor people	,

IX

1.6	Who builds institutions?	11
1.7	Human capital and institutional design	13
1.8	Computerization and land registration in Andhra Pradesh, India	14
1.9	Private innovation supported by formal institutional change	15
1.10	Distributional effects of innovation depend on who innovates: bankruptcy law in two countries	16
1.11	Experimentation and adaptation: bankruptcy institutions in Hungary	17
1.12	Trade and institutional change in Thailand	17
1.13	Institutional evolution of rice markets and standardization in Japan, 1600–1920s	18
1.14	Role of the news media in fighting corruption in Kenya	19
1.14	Competition and the evolution of corporate law	20
1.16		
	The interplay of social, political, and economic forces in the reform of land institutions in China	22
1.17	Applying the lessons to the social sectors	24
1.18	Crises and institutional change in Malaysia	25
2.1	Agricultural marketing institutions	33
2.2	Early institutions of land ownership in Mesopotamia and Egypt	34
2.3	Quilombos in Brazil: infrastructure, social change, and a new demand for land registration	34
2.4	Examples of policy barriers to the operation of land markets	35
2.5	Informal collateral transactions using land titles in Thailand	37
2.6	Do indigenous land rights constrain agricultural investment and productivity in Africa?	37
2.7	A transparent and accessible institutional framework for granting land rights in Mexico	38
2.8	The intersection of formal and informal lending: marketing agents in the Philippines	41
2.9	Livestock as savings: contrasting evidence from India and Burkina Faso	43
2.10	Creating an information-sharing network for the poor: SRISTI in India	47
2.11	Private sector extension services in Argentina	47
2.12	Increasing information flows between farmers and researchers in Ghana	51
2.13	International spillovers and the CGIAR	51
3.1	Business groups and restrictions on competition in Kazakhstan	62
3.2	Business associations and trade credit	63
3.2 3.3	The need for formal laws: the development of corporate law	65
		65
3.4	Measuring the strength of legal protections for shareholders	
3.5	Legal and regulatory change in Brazil	66
3.6	Limitations to private governance in accounting	71
3.7	Evolution of international accounting standards	72
4.1	The financial revolution versus the industrial revolution	76
4.2	Financial structure varies across countries: better information and legal systems that protect	
	property rights play a role	78
4.3	Promoting stock markets in developing countries	78
4.4	Designing a bank safet net: the role of deposit insurance	81
4.5	The role of subordinated debt in establishing credibility: the case of Argentina	82
4.6	Institutional design for bank supervisors	83
4.7	The political economy of banking reform	87
4.8	Strengthening bank exit mechanisms: lessons from Latin America	89
4.9	The effects of foreign ownership of banks in Hungary	91
4.10	Technology and provision of financial services	92
4.11	Credit registries	95
5.1	Political institutions, property rights, and fiscal outcomes in 17th century England	100
5.2	Packaging trade reforms	105

х

5.3	Political connections and firm value in Indonesia	106
5.4	Discretion and truck inspection in Gujarat, India	107
5.5	Constitutional reform for anticorruption in Thailand	108
5.6	Business taxation in Uganda	111
5.7	Market discipline versus state discipline: municipal bankruptcy in Hungary	113
5.8	Tax sharing with weak tax administration: the case of Russia	114
7.0	Tax sharing with weak tax administration. the ease of Russia	117
6.1	How mediation resolves disputes	118
6.2	Who benefits from better courts?	119
6.3	Surveys on judicial performance.	120
6.4	Comparing judicial efficiency	121
6.5	Index of the complexity of litigation	122
6.6	Debt recovery in Tunisia	123
6.7	The creation of a specialized commercial court in Tanzania	126
6.8	Alternative dispute resolution in Bangladesh	127
0.0	The state of the second of the state of the	,
7.1	Adam Smith on competition, 1776	134
7.2	Measuring competition	134
7.3	Labor regulations and rigidities in the labor market: the example of India	136
7.4	Increased product market competition and increased labor market flexibility in India	137
7.5	Differences between the United States and the EU on competition law and its enforcement	141
7.6	Open trade and institutional change: product markets in India	143
7.7	Benefits of liberalization of industrial country markets for agriculture and textiles	144
7.8	Lack of competition in services restricts gains from merchandise trade liberalization	145
7.9	Weak IPR systems promoted access to technology and growth in East Asia	147
	7 1 0/ 0	
8.1	Private provision: recent evidence from concession arrangements	153
8.2	Vertical integration and discrimination in the provision of Internet services	157
8.3	Water concession in Tucumán, Argentina	163
8.4	Targeting subsidies: Chile's approach	165
9.1	Exclusion in trading in African history	
9.2	Tiripur in Tamil Nadu (India): insiders and outsiders in the use of informal institutions	175
9.3	The influence of formal institutions on norms: colonial Uganda	177
9.4	Islamic banking: informal and formal approaches	
9.5	Education among the Orma in Kenya: adapting well-established norms	178
		•
10.1	The media's role in reducing corruption in Peru	182
10.2	Improving education through the media in Panama	182
10.3	Measuring media independence through data on media ownership	183
10.4	Media ownership Influences content: Ukraine	185
10.5	Controlling news on the Internet	187
10.6	Improving access to information in Thailand	190
, 10.7	Increasing access to the media: wall newspapers in Nepal	192
Figur		
1.1	The concentration of ownership varies tremendously across countries	8
1.2	Financial depth generates growth	10
1.3	Complexity of procedures in debt collection.	12
1.4	Cost of business registration across countries	12

ΧI

1.5 1.6	Greater openness and quality of institutions	18 19
2.1	Poverty headcounts, urban versus rural, selected countries, 1990s	32
2.2	Evolution of formal institutional borrowing of farm households, selected Asian countries	39
2.3	Financial performance of generalized agricultural insurance programs	44
2.4	Median rates of return on agriculture research and extension by region	45
2.5	Agricultural research intensity, public and private, 1993	48
3.1	Flows of new investment are insensitive to value added in developing countries	56
3.2	Proportion of assets in publicly traded firms accounted for by group-affiliated firms	61
3.3	Shareholder rights and stock market development	66
3.4	Accounting standards across countries	70
3.5	Capital raised through new depository receipt programs	73
4.1	Financial system development across income groups	77
4.2	State ownership in banking; 1998–99	85
4.3	Evolution of the Hungarian banking sector	86
4.4	Increase in the market share of majority foreign-owned banks, selected countries, 1994 and 1999	89
5.1	Variation in the quality of policies around the world	101
5.2	Divided governments have difficulty with fiscal adjustments.	103
5.3	Governments with fewer checks and balances than others are less likely to enforce banking regulations	
5.4	during crises	104 110
6.1	(a) Procedural complexity reduces efficiency	122
	(b) Rich countries also have complex regulations, but	122
	(c) They have more efficient systems because of complementary institutions and capacity	122
6.2	Excessive written procedures limit access to justice	124
6.3	The independence of the judiciary enhances property rights	129
7.1	The size of the unofficial economy rises with the number of procedures required to start up	
	new-business	138
7.2	Corruption rises with the number of procedures required to start a new business	139
7.3	Effectiveness of competition law increases with per capita income	141
7.4	Openness reduces price-cost margins	143
7.5	Patent strength rises with per capita income	147
10.1	Who owns the media?	184
10.2	State media ownership and low competition are associated with poor outcomes	185
10.3	Media penetration rates by region and by OECD compared with non-OECD countries	191
Tabļe		40
2.1 2.2	Types of rural lending institutions	40 46
3.1	Share of small formal sector firms in selected economies, selected years	57
3.2	Financial statements do not disclose useful information for resource providers	70
5.1	Inputs into the judicial system for selected countries 1995	120

WORLD DEVELOPMENT REPORT 2002

XII

7.1

9.1

8.1	Investment in infrastructure projects with private participation in developing countries
	by sector and region, 1990–99
8.2	Strategy for vertical separation or integration
8.3	Access to electricity, water, sanitation, and telephone services in 22 Latin American countries,
	1986–96

Types of informal sanctions in contract-enforcement mechanisms.....