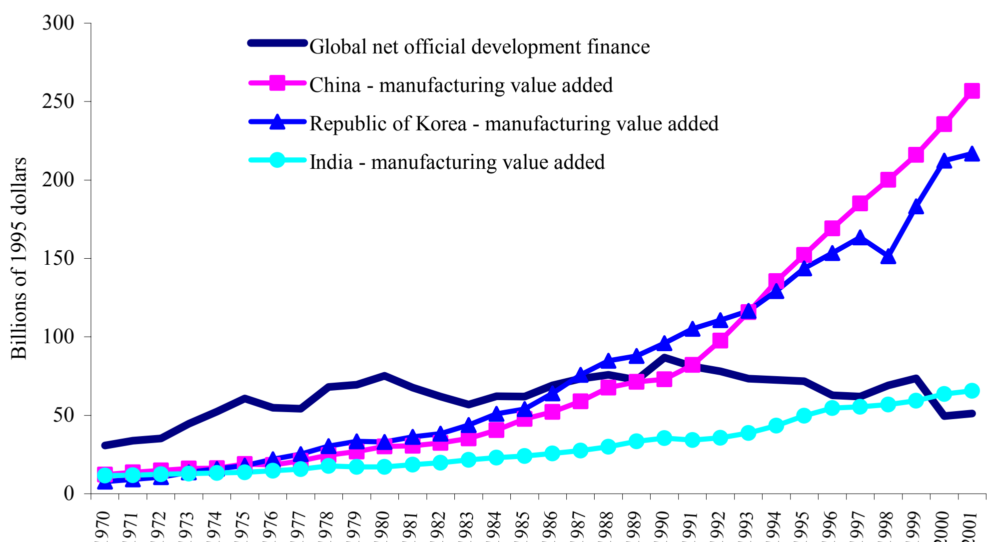
# Chapter 10 How the international community can help

10.1 Improving the investment climates of their societies is first and foremost the responsibility of governments. They hold the levers—through their policies and behaviors—to make a big difference in the opportunities and incentives that firms have to contribute to growth and poverty reduction. But the international community can help developing countries make progress.

10.2 The case for providing that help is compelling. There is the imperative of improving the conditions of half the world's people living on less than $2 a day—and the 1.2 billion that barely survive on less than $1 a day.[1] Indeed, recognizing the importance of growth in developing countries, the international community has committed to the Millennium Development Goals—the first of which is to reduce by half the percentage of people living on less than $1 a day by 2015. There are also more pragmatic motives. Demographic changes over the next 25 years will add 2 billion people—all but 50 million of them in developing countries, which will become home to 7 billion of the world's 8 billion people.[2] Improving opportunities for youth is fundamental to creating a more peaceful and balanced world—in addressing the roots of political instability and conflict, and in addressing the pressures for migration.

10.3 The development payoffs from supporting investment climate improvements can also be particularly strong. For example, the manufacturing value added unleashed by investment climate improvements in even a single country can substantially exceed the development assistance provided worldwide (figure 10.1).

**Figure 10.1 Manufacturing value added in a single country can far exceed net global official development finance**




*Source*: OECD and World Bank (2003c).

10.4 This chapter argues that the international community can help improve the investment climates in developing countries in three main ways.

- By removing distortions in the investment climates of their own societies—including market restrictions and trade distortions—that limit the opportunities and incentives for firms to invest productively in developing countries.

- By providing development assistance to support the design and implementation of investment climate improvements.

- By helping to tackle the substantial knowledge agenda to provide practical guidance to policymakers on ways to broaden and accelerate improvements to the investment climates of their societies.

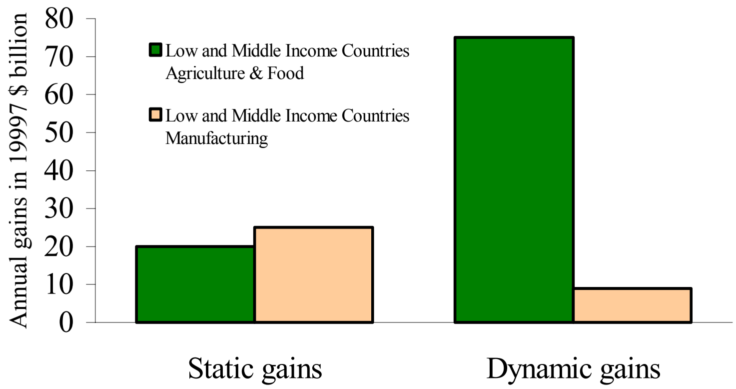
## Removing distortions that harm investment climates in developing countries

10.5 Developing countries are not unique in grappling with investment climate distortions. Developed countries have also distorted their investment climates, imposing costs on their own societies and but often also harming the investment climates of developing countries. Why? Because of clientelistic politics. They maintain tariff and nontariff barriers to trade and provide support and export subsidies to their domestic industries in agriculture, manufacturing, and services that not only distort incentives in their domestic markets, but also reduce the opportunities for productive investment in developing countries. The magnitude of these distortions: staggering. In 2001 OECD countries provided $311 billion of subsidies to their farmers—nearly four and a half times the $68.3 billion allocated to official development finance.[3]

10.6 The impact of these distortions in high-income countries on low and middle-income countries is also substantial. It has been estimated the static and dynamic gains from removing those distortions could deliver benefits to low and middle-income countries of $129 billion by 2015 (figure 10.2).[4] This is equivalent to more than two percent of today's gross national income of all low and middle income countries, or almost twice the current level of official development assistance. Improving market access opportunities for products from developing countries would be especially beneficial for the poor in developing countries, because agricultural and labor-intensive goods usually face tariffs twice as high as those for other products.

10.7 Nor are the benefits limited to trade in goods. Services trade is a growing source of opportunities for many people in developing countries[5]—and is delivering benefits to firms and consumers in industrialized countries. Services industries in OECD countries already benefit from protection equivalent to tariffs of 10-30 percent. The mutual gains from trade make a strong case for reducing these restrictions—rather than responding to protectionist urges that penalize developing countries for making progress.

**Figure 10.2 Removing trade distortions in high-income countries can deliver annual gains for developing countries almost twice development assistance**




*Note*: Estimates based on a "pro-poor" scenario in which high-income countries reduce tariffs and eliminate tariff peaks. Results are presented for a scenario where, by 2015, agriculture has a maximum tariff of 10 percent, with an average tariff of 5 percent; and manufacturing has a maximum tariff of 5 percent with a 1 percent average tariff. Further, export subsidies are eliminated, domestic subsidies decoupled, and specific tariffs, tariff rate quotas, and antidumping duties and sanctions eliminated.

*Source*: World Bank (2004c).

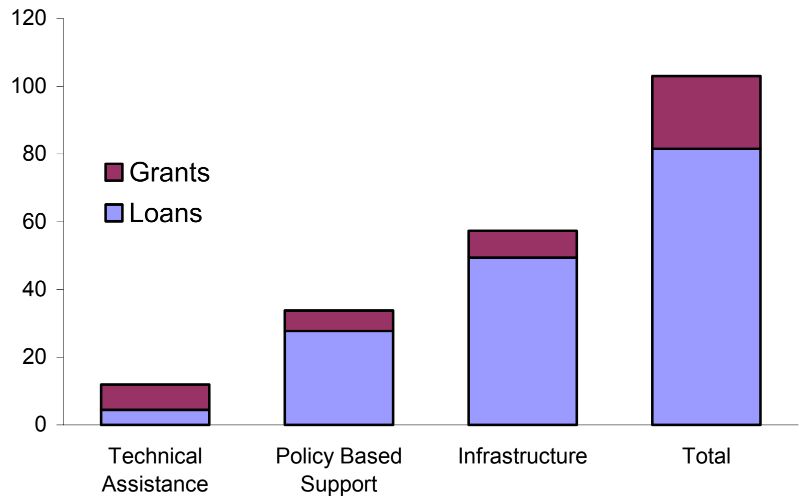
## Providing development assistance

10.8 As highlighted throughout this Report, governments in developing countries face many challenges in improving the investment climates of their societies. Developed countries can help them meet these challenges in three main ways: helping to support policy reforms; helping with technical assistance and capacity building; and helping to mobilize the financial resources required to support infrastructure development.

10.9 The international community has long provided assistance in all three areas. According to estimates prepared for this Report, assistance provided by major bilateral and multilateral donors for investment climate improvements between 1997 and 2001 amounted to around $103 billion (in 2001 dollars)—or about 27 percent of total development assistance.[6] The bulk of the assistance (56 percent) went to infrastructure development, followed by policy-based support (33 percent), and technical assistance and capacity building (11 percent) (figure 10.3).[7]

10.10 The main form of assistance was loans (79 percent), with grants contributing the remaining 21 percent. This is higher than the overall ratio of loans to grants in development assistance—reflecting that multilateral agencies provide more than half the assistance in this area. It also reflects the significance of infrastructure, which some bilateral donors support with loans because of the potential for cost-recovery. However, this average masked substantial regional variations; in Africa, loans constituted only 42 percent of assistance whereas in LAC and East Asia, loans constituted 92 and 94 percent respectively.

**Figure 10.3 Development assistance for the investment climate: Commitments during 1997-2001**




*Note*: a. "Technical assistance" includes projects providing technical assistance, training, and other capacity building assistance for legal reform, privatization, research and scientific institutions and employment policy and administration; finance and banking, trade and tourism and industry, export promotion, mining and construction; and infrastructure policy, administration and regulation.
b. "Policy-based support" includes quick disbursing operations such as structural adjustment, balance of payment and general and sectoral programmatic assistance; policies supported under such operations may have been from several sectors.
c. "Infrastructure" includes energy, telecommunications, and transport.

*Source:* World Bank Staff calculations, using OECD CRS data and Migliorisi and Galmarini, Background paper for the World Development Report 2005.

*Improving development assistance for the assistance for the investment climate*

10.11 Providing assistance for improving the investment climate raises many of the issues associated with development assistance generally. There is a growing emphasis on improving the effectiveness, not just the volume, of development assistance. There is also a sharper focus on poverty reduction (as reflected in commitments to the Millennium Development Goals). There is greater understanding of the key role of government policy in ensuring that aid is effective, leading to greater aid selectivity across countries. There have also been greater efforts ensure country ownership, putting governments in the driving seat through Country Assistance Strategies and Poverty Reduction Strategies.[8] And there has been a new emphasis on development knowledge, including research on global public good issues, knowledge sharing, and more rigorous impact evaluation.

10.12 Development assistance to support investment climate improvements can draw on each of these broader lessons of experience. But there is also a growing body of experience specific to the investment climate in supporting policy reforms, supporting public investment, and providing technical assistance.

10.13 *Supporting policy reform*. Investment climate improvements are, at their heart, about improving the quality of governance and policymaking. In the 1980s and 1990s the international development community used conditionality attached to international assistance as a way to encourage policy reforms. While often controversial, particularly with regard to the conditionality attached to such assistance, it proved useful on occasion and indeed was sometimes sought by governments to lock in policy commitments and to deal with resistance from those who benefited from the status quo.[9]

10.14 Too often, however, external actors were perceived to be driving country strategies, and the promised reforms often never materialized. New approaches place more emphasis on ensuring country ownership, engaging a broader group of actors in society to help build consensus for better policy approaches—processes especially important to the effectiveness and sustainability of investment climate improvements. Poverty Reduction Strategy Papers (PRSPs) increasingly focus on investment climate issues, and PRSP formulation processes include private sector participation.[10]

10.15 Support to policy reforms can also involve a broader set of strategies. As highlighted in chapter 2, the combination of information and institutional competition often play an important role in catalyzing reforms and in helping to build consensus for change. Efforts by the international community to facilitate the dissemination of information on lessons of experience elsewhere, and in supporting the benchmarking of policy performance across countries, can thus play an important role.

10.16 *Providing technical assistance*. Technical assistance can be one of the most potent ways of helping governments improve their investment climates. Technical cooperation in its many forms can help catalyze policy improvements, help bring world-class expertise to bear on the design of particular policies, and help build the capacity of policymakers and regulators. While some technical assistance may be embodied in other forms of intervention, estimates prepared for this Report suggest that technical assistance accounted for only 11 percent of total development assistance provided for investment climate improvements between 1997–2001. On a regional basis, this support ranged from around $200 million per year in South and East Asia to around $550 million in Europe and Central Asia and Africa.

10.17 But as elsewhere with development assistance, it is the quality, not just the volume, that determines effectiveness. In this context donors have been grappling with several challenges that can limit the impact of effective assistance.

10.18 First, donors eager to support reforms can often fall prey to supply-driven responses. Indeed, the bookshelves of many ministries in developing countries are lined with reports presenting detailed proposals for the design and implementation of particular reforms that are never implemented. Or even if laws are passed they are never implemented. To counter this tendency, more donors are placing emphasis on testing demand for assistance, including requiring beneficiaries to co-finance or otherwise provide evidence of serious commitment to reform.

10.19 Second, when recommending the design of particular policy frameworks or regulatory regimes too little emphasis is sometimes given to questions of institutional fit—or ensuring proposals are adapted to local conditions, capacities, and priorities.

Indeed, advisors from particular donor countries very often recommend proposals that bear a striking resemblance to the approach adopted in their home country—regardless of where the proposal is being made.[11] While it is understandable that advisors will be influenced by the approaches they are most familiar with, the uncritical transplantation of models from other countries often results in approaches that fail to take account of local realities, and so leads to poor results (chapter 5).

10.20 One way to address this phenomenon is to expand the analysis and dissemination of alternative policy approaches. Multidonor facilities that pool expertise can identify and disseminate emerging notions of good practice, and are playing an increasingly important role in supporting the delivery of technical assistance in many areas of the investment climate (box 10.1). Ensuring that advisors engage effectively with local stakeholders who would be involved in administering and complying with the proposed policy framework can also help. And ending the tying of aid can expand the pool of experts available to provide assistance.

**Box 10.1 Multidonor facilities: improving the quality of technical advice**

Multidonor technical assistance facilities leverage donor resources. But they also provide two other benefits. They facilitate learning by participating donors, especially important where the frontiers of knowledge are moving quickly, as with the investment climate. They may also help to reduce sensitivities associated with technical advice coming from donor governments whose firms may have an interest in any resulting commercial opportunities. Examples of such facilities in the investment climate area include the Foreign Investment Advisory Service, the Global Corporate Governance Forum, and the Public-Private Infrastructure Advisory Facility (PPIAF).

The PPIAF, established in 1999, has a mandate to improve the quality of infrastructure in developing countries through private sector involvement. Its main products include technical assistance, capacity building, and the identification and dissemination of good practices. Participating donors include the Asian Development Bank, Canada, France, Germany, Italy, Japan, Netherlands, Norway, Sweden, Switzerland, United Kingdom, Unites States, UNDP and the World Bank Group.

By the end of 2003 the PPIAF had provided grants of more than $67 million for 295 activities in 130 countries. It has supported the drafting of 25 sets of laws and regulations, 30 transactions, the formulation of 14 sector reform strategies in 11 countries, the establishment or strengthening of 20 institutions, and the training of more than 1,500 regulators and officials. It also supported 30 international and 150 national workshops and the preparation of toolkits and case studies to assist in the dissemination of emerging lessons. To ensure assistance is demand-driven, PPIAF requires recipients of country-specific assistance to provide some form of co-financing or other credible evidence of commitment to the project.

*Source*: PPIAF (2003), World Bank staff.

10.21 *Supporting public investment*. Public investments in infrastructure and other public services can improve the investment climate, and the international development community has long been an important source of external financing for these investments. Indeed, lending for infrastructure development dominates development assistance provided for investment climate improvements.

10.22 But international experience shows that investments have to occur in the context of a sound policy framework—often difficult when the government is both regulator and service provider. Reflecting this experience, strategies for improving infrastructure, finance, and other services are shifting away from an exclusive focus on public sector providers to creating an effective investment climate for commercial providers of those services (chapter 6). This has important implications for the international donor community's role in supporting public sector investment, particularly with shifting boundaries between public and private provision for a range of services.

10.23 In infrastructure, for example, experience shows that when governments create an effective policy and regulatory environment, many services traditionally provided by governments can be provided more effectively by private firms. Indeed, engaging private participation in infrastructure provision has been an important part of investment climate improvement in countries as diverse as China, India, and Uganda. The international development community thus has to assess whether proposed public investments will complement or crowd out potential private investments. Although the appetite for private infrastructure investment in developing countries has fallen from its peak in the late 1990s, the challenge of striking an appropriate balance remains, particularly for telecommunications, ports, and power supply.

10.24 Similar issues arise in finance, where subsidized or directed credit—while always popular with beneficiaries—has a poor track record in most developing countries (chapter 6). In addition to the tendency for such support to be channeled disproportionately to politically influential players, schemes tend to be difficult to sustain, distort the efficient development of credit markets, and crowd out potential commercial providers. Reflecting this, governments (and donors) are shifting from the direct provision of financial services to creating a better investment climate for commercial providers. This applies to large-scale lending and even for microfinance (box 10.2).

**Box 10.2 Knowing when to stop: UNDP's microfinance activities in Bangladesh**

Microfinance is now an important source of finance for poor households and entrepreneurs. Early ventures, subsidized by governments, donors, and NGOs, provided important demonstration effects. But there is a growing consensus that for microfinance to be sustainable, and achieve its full potential, services need to be commercial. This means that donors and NGOs need to be careful not to unwittingly impede the development of a commercial market. UNDP's experience in Bangladesh illustrates a donor knowing when to stop.

The microfinance sector in Bangladesh is relatively advanced and serves more than 10 million clients in roughly 70 percent of poor households. Of the many microfinance institutions in the country, only the two largest are fully self-sufficient. Most of the others are small, highly subsidized and poorly performing programs supported by the government, NGOs, and donors.

UNDP Bangladesh implemented 14 empowerment projects with microfinance components between 1996 and 2001. Low interest rates were set without regard to financial sustainability. While the scheme attracted many clients, this was at the expense of other microfinance providers. When these and other problems in the program's administration were revealed through a review of the program in 2002, UNDP Bangladesh took swift action to close down all 14 projects. While shutting down programs is not easy for donors, UNDP Bangladesh demonstrated that good donor practice involves making such decisions.

*Source*: Brusky (2003).

*Leveraging support to firms and transactions*

10.25 In addition to efforts to improve the investment climate facing firms, developed countries and international agencies provide substantial support directly to firms or transactions. When that support takes the form of grants and concessional loans it is treated as a form of development assistance. During 1997-2001, some $13.9 billion of development assistance was provided as direct support (financial and non-financial) to firms. Over the same period developed countries and international agencies provided support to firms and transactions through loans ($83.6 billion) and through guarantees ($50.1 billion), that are not counted as development assistance. There are difficulties comparing the value of grants, concessional loans, nonconcessional loans, and guarantees.[12] But the nominal amount of support to firms and transactions is around 1.5 times that for broader investment climate improvements (table 10.1).

**Table 10.1 Commitments for direct support to firms: 1997-2001**

| | **Support (in 2001 $ bn)** |
|---|---|
| Grants | 4.7 |
| Loans | 90.9 |
| Guarantees | 50.1 |

*Note*: a. Data from OECD CRS and data gathered by IFC per methodology detailed in IFC (2002).
b. Grants include $4.1 billion of non-financial support to firms for provision of business services and SME development and $0.7 billion of direct and indirect financing (through the financial sector) provided for use by private firms.
c. Loans include concessional and non-concessional loans from OECD CRS ($7.9 billion) and loans from international development finance institutions and export credit agencies from IFC ($83.6 billion). Loans include direct and indirect financing (through the financial sector) provided for use by private firms.
d. Guarantees from international development finance institutions and export credit agencies.

10.26 Providing support to firms and transactions can contribute to the investment climate indirectly. It can complement investment climate improvements by helping to mobilize a supply response and testing and demonstrating investment climate improvements. But there is potential to do more than that, with the potential for further leveraging depending on whether the support is targeted at specific transactions (usually through commercial loans or guarantees) or supports firms more broadly (such as financing facilities and capacity building).

10.27 *Support to specific transactions.* Developed countries and international development finance institutions support specific transactions in developing countries through commercial loans and guarantees. The amounted of that support averaged around US$20 billion per year during 2000-2001.

10.28 One way to broaden the development impact of this support is to ensure the transactions are appraised not only for commercial criteria, and for possible benefits to firms from the home country of bilateral agencies, but also for their contribution to the broader investment climate. For example, transactions that give due attention to environmental and other social concerns can create precedents for other firms to follow—and reduce the sensitivities sometimes associated with foreign investment. Transactions can also provide precedents for applying transparent bidding arrangements and supporting more competitive business environments. While international development finance institutions and a growing number of agencies in developed countries are applying higher standards of this kind, in some cases there can be tensions with the goal of advancing the commercial interests of national firms.

10.29 *Other kinds of direct support to private firms.* Developed countries and international agencies also provide support direct to firms—mostly small and medium enterprises (SMEs)—through lines of credit and capacity building schemes. They accounted for an average of US$5 billion per year during 2000–2001.

10.30 Schemes involving directed or subsidized credit for SMEs and others have had disappointing results—whether funded by host governments or the international donor community.[13] A second form of support for SMEs involves business development services (chapter 8). The first generation of these schemes, delivering subsidized services, used substantial donor funds with little impact. The current generation might avoid some of the pitfalls, but have not yet been fully evaluated.

10.31 The guidelines suggested in chapter 8 for evaluating selective interventions are equally applicable to schemes funded by donors: have a clear objective and rationale, separate the sources of problems from the symptoms, match the instrument to the rationale, impose discipline, be transparent, and review things regularly.

## Tackling the knowledge agenda

10.32 The last 50 years saw tremendous progress in our understanding of macroeconomics, both theoretically and empirically and a growing consensus on a limited number of macro indicators that indicate the health of the economy. The challenge now to make similar progress on the microeconomic determinants of economic performance—to provide practical guidance to policymakers.

10.33 Understanding the microeconomic determinants of growth and productivity has garnered much interest in recent years. There is growing acknowledgement of the limits of cross-country regressions and generic characterizations of "institutions." The new emphasis is on understanding the different experiences between and within countries and how various factors influence the performance of different types of firms—a challenge, given the lack of comparable data on key microeconomic measures.

10.34 There is progress. New instruments—including those drawn on in this Report—quantify an increasing range of costs, risks and barriers faced by firms. A wider range of policy areas and corresponding institutions are being examined to understand their impact on incentives. And new firm-level data are providing fresh insights into firm dynamics. Early results from this work are encouraging, suggesting great promise for ongoing work in this direction. But a huge knowledge agenda lies ahead. It warrants priority attention as an integral part of efforts to accelerate improvements to investment climates in developing countries.

*Better data*

10.35 Analysis, understanding, and appropriate policy responses depend first on reliable information. Yet policymakers in developing countries are often working in the dark when it comes to key elements of their investment climates.

10.36 *National statistics*. As noted in Chapter 3, substantial efforts are required to improve national statistical systems. Work on building the capacity of statistical agencies in developing countries has increased in recent years, including through multi-partner initiatives.[14] These and related initiatives need to due weight to investment climate related issues to help governments monitor the performance of their private sectors, identify emerging trends and problems, and evaluate the impact of alternative policy approaches.

10.37 *Investment climate conditions*. The international community is uniquely placed to facilitate the development of more standardized measures of the investment climate to enable comparisons across countries. Recent developments in quantifying many aspects of the investment climate—including the Bank's Investment Climate Surveys and the Doing Business Database—are important steps forward in understanding how government policies and behaviors influence growth and poverty. In addition to informing analysis, they provide a useful tool for governments to benchmark performance and monitor progress.

10.38 Building up a body of consistent data over time can provide important insights into the critical links between policy setting and growth processes. But many of the measures are new and so exist only in cross-section. As they build up over time, their explanatory power will be even greater. Of particular promise is the ability to test more rigorously the impact of different policy reforms. Being able to better evaluate the impact of policies should encourage more experimentation and competition between approaches. Evaluations of pilot programs can identify which ones are successful and should be scaled up.

10.39 There are also benefits in expanding the coverage of this data across multiple dimensions.

- To include the impact on a broader range of firms, including those in the informal and rural economies.
- To include the impact on a broader range of economic activities.
- To include the impact beyond individual firms to understand the impact across particular value chains.
- To grapple with the measurement issues associated with critical but hard to quantify variables such as uncertainty and competitive pressure.

10.40 *Synergies with poverty assessments.* There are also opportunities to build synergies between approaches for assessing investment climates and for assessing poverty. For example, questions on access to infrastructure and the security of property rights can be added to household surveys. And the sampling strategies for household and enterprise surveys could be linked.

10.41 While improved data of this kind can help advance understanding on many key areas of economic policy, care needs to be taken not to focus policy discussions only on topics or measures that can most easily be quantified. There is the old joke about the economist looking for his lost keys under the streetlight, not because that is where he dropped them but because that is where he could see. Quantification and impact evaluation are important. But some variables are inherently difficult to measure.

*A large research agenda*

10.42 A field as broad as the investment climate generates a huge research agenda. But three larger themes warrant close attention.

10.43 *The ecology of firms and growth processes*. There is a growing understanding of the processes through which firms are born and evolve, including the processes of creative destruction, based mostly on experience in industrialized countries. Early research provides insights into how similar processes play out in developing countries. But there is a need to deepen and broaden understanding of these dynamics, including the important role of firms in the informal and rural economies, and the impact of international economic integration.

10.44 *The linkages between the investment climate and migration*. The quality of a country's investment climate not only affects flows of capital—it can influence flows of people, too. The movement can be from rural areas to urban, from one city to another, or across borders. Today, the world's population of migrants from developing countries totals nearly 175 million.[15] The $90 billion in remittances they send to their families every year is now the second largest source of private capital (after foreign direct investment) for poor countries and poor people.[16] Understanding the linkages between investment climate conditions and migration flows will be become more important as the world deals with major demographic shifts over the next 25 years.

10.45 *The political economy of investment climate improvements*. This Report has highlighted the importance of understanding the political economy considerations that drive investment climate policies. While the subject has attracted significant attention, less is known about the conditions under which governments choose to pursue sound policies in these areas, including the implications of alternative political structures and processes. There are also opportunities to deepen understanding on the dynamics of reform processes.

*Beyond data and formal research*

10.46 Even within the bounds of current data sources, there are opportunities to advance understanding of many areas of the investment climate. Country case studies can help illuminate many important design details that remain beyond the reach of cross-country analyses. This includes more rigorous evaluation of recent policy experiments to understand their impacts on firm performance, productivity, growth, and poverty.

10.47 There are also opportunities to expand efforts to disseminate emerging lessons of experience in these areas to help policymakers understand the rich menu of options they can choose from in a field as broad—and central—as the investment climate.

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## Endnotes

[1] World Bank (2003a).

[2] United Nations (2002b).

[3] IMF estimations from OECD PSE (Producer Support Estimate),OECD (2002) and DAC OECD (2003).
[4] This comes from estimating the total gains from high-income countries liberalization for developing countries ($129 bln, in base 1997 dollars), and its share in the 2001 GNI of all low and middle countries ($6032 billion, in base 1997 dollars). Source: World Bank (2004c), World Bank (2003c).
[5] Hoekman (2000).
[6] Development assistance in this report has been aligned with the OECD Development Assistance Committee (DAC) definition of total Official Development Finance (ODF). ODF with a grant element of at least 25 percent is classified as Official Development Assistance (if provided to developing countries and territories) or Official Aid (if provided to countries and territories in transition). For this Report, Official Assistance provided to the subset of more advanced developing countries and territories has been excluded. ODF also separately includes Other Development Finance, where the grant element is lower than 25 percent or aid is not aimed primarily at development.
Bilateral donors and multilateral agencies report aid *disbursements* to the Development Assistance Committee (DAC) database and aid *commitments* to its Creditor Reporting System (CRS). To map the assistance provided under the major categories of development assistance for investment climate improvement, the disbursement data in the OECD DAC database cannot be used because they are at an aggregate level. It was thus necessary to use commitment data in the CRS system and map relevant codes (at a five digit level of detail) to specific categories of assistance (policy-based support, capacity building, and infrastructure) and reconstruct data for the last five years.
The data need to be approached with some caveats. Each project in the CRS is attributed to only one primary activity; this may result in some misallocation for projects with more than one component. Further, 20 percent of aid is classified as multisectoral or is unclassified; this reflects, in part, the increasing trend towards the provision of budget support or multisectoral programmatic support discussed later. Similarly, capacity-building figures do not capture expenditures from the administrative budgets of multilateral agencies. *Source*: OECD DAC and CRS; Migliorisi and Galmarini, Background paper for the World Development Report 2005.
[7] About one-third of the policy-based support during the period was for financial sector related operations, reflecting responses to financial crises. The crises also explain the increase in policy-based lending, which had been trending downward.
[8] World Bank (2004a).
[9] Devarajan, Dollar, and Holmgren (2001); World Bank (1998).
[10]IDA and IMF (2003);World Bank (2003b).
[11] Pistor (2000).
[12] In addition to development assistance to improve the investment climate, developed countries and international agencies provide direct support to firms in three main ways: (a) development assistance includes financial (such as lines of credit) and nonfinancial support (such as business development services or SME support) provided directly or indirectly to private firms; (b) loans with concessionality of less than 25 percent and guarantees are made by international development finance institutions; (c) Medium to long-term export-related loans and political risk insurance and guarantees are provided to firms in developed countries by national export credit agencies. Data on development assistance are from the OECD CRS system. Data on the other sources of direct support are compiled by IFC from a core group of international development finance institutions and export credit agencies. The IFC database records financial support exceeding one year but excludes financing for aircraft purchases and data coverage is limited to about 80 percent of activities of all development finance institutions and export credit agencies. Grants, concessional and nonconcessional loans, and guarantees cannot be added without conversion to a common value, and there is no commonly accepted method for this purpose. OECD DAC computes the grant equivalent value of concessional loans allowing comparison between grants and concessional loans. However, the valuation of guarantees varies considerably with no specific industry standards, fluctuating according to guidelines of individual institutions and range from 25 to 100 percent of the loan or equity value.

[13] Batra and Mahmood (2003).
[14] In particular, the Partnership in Statistics for Development in the 21st Century (PARIS21); see http://www.paris21.org/.
[15] United Nations (2002a).
[16] World Bank (2004b).