

# How the International Community Can Help

## PART IV

IMPROVING INVESTMENT CLIMATES IN DEVELOPING COUNTRIES can deliver huge development dividends for the countries concerned, and contribute to a more inclusive, balanced, and peaceful world.

*Chapter 10—How the international community can help* suggests three things that the international community can do to help developing countries improve their investment climates.



# How the international community can help

## chapter 10

Improving the investment climates of their societies is first and foremost the responsibility of host governments, both at the national and subnational levels. They hold the levers—through their policies and behaviors—to make a huge difference in the opportunities and incentives that firms have to contribute to growth and poverty reduction. But the international community can lend a hand.

The case for providing that help is compelling. There is the imperative of improving the conditions of nearly half the world's people that live on less than \$2 a day—and the 1.2 billion that barely survive on less than \$1 a day.<sup>1</sup> 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 halve by 2015 the proportion of people living on less than \$1 a day.<sup>2</sup> There are also more pragmatic

motives. Demographic changes over the next 30 years will add nearly 2 billion more people to developing countries, which will become home to 7 billion of the world's 8 billion people.<sup>3</sup> Improving the opportunities for young people is fundamental to creating a more peaceful and balanced world—to addressing the roots of political instability and conflict, and to addressing the pressures for migration.

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

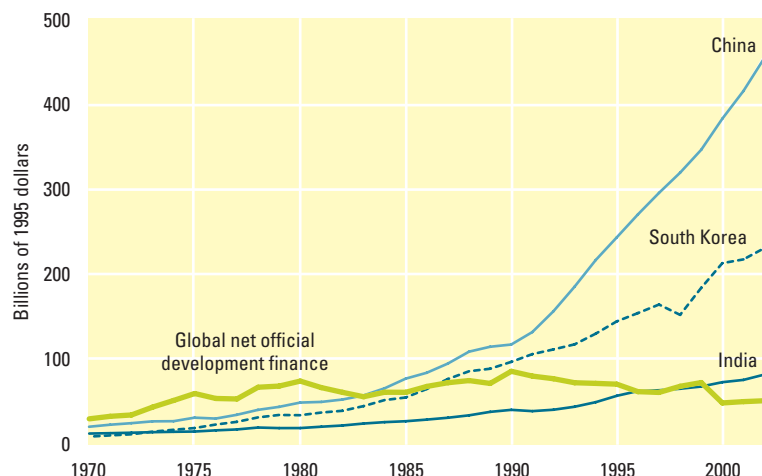
This chapter highlights three ways the international community can help improve the investment climates in developing countries:

- By removing policy distortions in developed countries that harm the investment climates in developing countries
- By providing more, and more effective, assistance to the design and implementation of investment climate improvements, and better leveraging support provided directly to firms and transactions
- By tackling the substantial knowledge agenda to help policymakers broaden and accelerate investment climate improvements.

### Removing distortions in developed countries

Developing countries are not alone in grappling with investment climate improvements. Developed countries have distorted their own investment climates, imposing significant costs on their societies but often

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



Note: Data for China, India, and South Korea show manufacturing value added. Source: OECD online database and World Bank (2004k).

also harming the investment climates of developing countries. Why? Because of the same clientelist politics that can plague developing countries. They maintain tariff and nontariff barriers to trade and provide support and export subsidies to their industries that distort incentives in their domestic markets and reduce opportunities for productive investment in developing countries.

The magnitude of these distortions can be staggering. While average import tariffs have been declining as a result of successive rounds of multilateral trade negotiations, tariffs on individual products can still exceed 100 percent—and in some cases reach 500 percent. Tariffs also tend to escalate on semi-processed and fully processed products, contributing to effective rates of protection that can far exceed the nominal tariffs involved.<sup>4</sup> Nontariff barriers and other distortions are also pervasive. In agriculture, for example, OECD countries provided \$311 billion of subsidies to their farmers in 2001—nearly four-and-a-half times the amount allocated to official development finance.<sup>5</sup>

The impact of these distortions on developing countries is substantial. Tariff escalation is particularly harmful because it reduces opportunities for developing countries to diversify away from commodities by expanding into higher-value-added products. It has been estimated that removing the various distortions imposed by developed countries could deliver gains to developing countries of \$85 billion in 2015—or more than four times the development assistance currently provided for investment climate improvements.<sup>6</sup> Expanding market access opportunities for products from developing countries would be especially beneficial for poverty reduction because agricultural and labor-intensive goods usually face import tariffs twice as high as those for other products.

The benefits are not limited to trade in goods. Service trade is a growing source of opportunities for many people in developing countries—and is delivering benefits to firms and consumers in developed countries as well. Service industries in OECD countries already benefit from protection

equivalent to tariffs of 10 to 30 percent.<sup>7</sup> The mutual gains from trade make a strong case for removing these restrictions—rather than responding to protectionist urges that penalize developing countries for progress.

### **Providing more, and more effective, assistance**

As highlighted throughout this Report, improving the investment climates of their societies involves many challenges for governments. The international community can help by providing development assistance to help design and implement those improvements. Those efforts can be complemented by support provided directly to firms and transactions. The international community has long been active in both areas, but there are opportunities to do better.

Development assistance to support the design and implementation of investment climate improvements can take many forms. According to estimates prepared for this Report, assistance provided by major bilateral and multilateral donors for investment climate improvements averaged \$21.1 billion per year between 1998 and 2002—or about 26 percent of all development assistance.<sup>8</sup> The bulk of that assistance went to infrastructure development, followed by policy-based support and technical assistance. Most of that support was provided in the form of loans (table 10.1).

Support provided directly to firms and transactions also has the potential to contribute to or complement investment climate improvements. That support accounted for an average of \$3.1 billion per year of development assistance between 1998 and 2002, and a further \$26.4 billion of support in other forms.

### ***Supporting investment climate improvements***

Assistance for the investment climate has benefited from recent improvements in the planning and delivery of development assistance generally. There is a growing emphasis on improving the effectiveness, not just the volume, of assistance. There is a sharper

**Table 10.1 Support for investment climate reforms and to firms and transactions: annual averages 1998–2002 (billions of 2001 dollars)**

	Development assistance			Other assistance	
	Grants	Concessional loans	Total grants and loans	Non-concessional loans	Guarantees
<b>Support to investment climate reforms</b>					
Policy-based support	1.5	5.5	7.0	n.a.	n.a.
Technical assistance	1.7	1.0	2.7	n.a.	n.a.
Investment in infrastructure	1.7	9.7	11.4	3.2	3.0
	4.9	16.2	21.1		
<b>Support to firms and transactions</b>					
Development assistance	1.1	2.0	3.1	n.a.	n.a.
Other support	n.a.	n.a.	0.0	13.4	6.8
	6.0	18.2	24.2	16.6	9.8

*Note:* n.a. = not applicable. “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. “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. “Infrastructure” includes physical investments in energy, telecommunications, and transport. “Development assistance to support firms and transactions” includes financial (such as lines of credit) and nonfinancial support (such as business development services) provided directly or indirectly to small private firms. “Other support” includes non-concessional loans and guarantees provided by international development finance institutions and export credit agencies for periods exceeding one year.

*Source:* Authors’ calculations using OECD CRS data, data gathered by IFC using the methodology defined in IFC (2002) and Migliorisi and Galmarini (2004).

focus on poverty reduction, as reflected in commitments to the Millennium Development Goals. There is greater recognition of the key role of government policy in ensuring that aid is effective, leading to greater selectivity across countries.<sup>9</sup> There are greater efforts to ensure country ownership, putting governments in the driver’s seat through Country Development Strategies and Poverty Reduction Strategies.<sup>10</sup> There is a greater focus on results, which has led to new initiatives that link support to demonstrated performance. These initiatives include efforts to link support to performance at the country level, such as the outcome-oriented benchmarks for budget support piloted by the EU and the Millennium Challenge Account initiative launched by the United States.<sup>11</sup> Results-focused efforts also include initiatives at the program or project level, such as linking the disbursement of support to the actual delivery of outputs rather than the financing of inputs.<sup>12</sup> Finally, there is a growing emphasis on development knowledge, including research on global public good issues, knowledge sharing, and more rigorous impact evaluation.

Development assistance to support investment climate reforms can cover the full gamut of issues discussed in this Report, from improving governance to supporting developing country participation in the negotia-

tion of new international rules and standards. Many of the lessons of experience in managing reform processes—including in relation to priority setting and consensus building—and in designing particular interventions are as relevant to donors as they are to developing country governments. The key is thus to focus on addressing important constraints, which need to be identified in each case, and to support a process for ongoing improvements (chapter 3). The international community can also draw on a growing body of experience in designing and implementing assistance in each area of support.

**Policy-based support.** Support to policy reforms can take many forms. Policy-based or programmatic support can play an important role, and accounted for an average of \$7 billion per year during 1998–2002—or 33 percent of development assistance for investment climate improvements.<sup>13</sup>

The focus of this support has changed over time, reflecting the evolution of important constraints and the emergence of new issues. In the 1980s the main focus was on macroeconomic stability, reducing price and exchange rate controls, liberalizing financial sectors, and reforming public enterprises. By the 1990s emphasis began to shift to microeconomic and institutional reforms to build or improve markets. By the end of the 1990s the priority areas were improving the business

environment, establishing the conditions for private participation in infrastructure, and helping to support global integration.<sup>14</sup>

Investment climate improvements are, at their heart, about improving the quality of governance and policymaking, and often need to confront resistance from those who benefit from the status quo (chapters 2 and 3). 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, it proved useful on occasion and indeed was sometimes sought by governments to lock in policy commitments and deal with resistance from local interest groups.<sup>15</sup> Too often, however, external actors were perceived to be driving country strategies, and when the government was not fully committed, the promised reforms often never materialized. New laws were passed to meet conditionality requirements but not implemented. New regulatory agencies were established on paper but not staffed or given political support. When the sustainability of reforms was in doubt, they lacked credibility to firms, and so elicited a limited investment response.<sup>16</sup>

Drawing on this experience, new approaches—among them the Comprehensive Development Framework—consider that the way aid is delivered can be as important as the content of aid in determining its effectiveness. More emphasis is being placed on ensuring country ownership and engaging a broader group of actors in society to help build consensus for better policy approaches<sup>17</sup>—processes especially important to the effectiveness and sustainability of investment climate improvements. As part of this effort, the consultative processes that have proven effective in supporting investment climate improvements (chapter 3) are increasingly being integrated into the process of formulating and implementing Poverty Reduction Strategies and donor Country Assistance Strategies.<sup>18</sup> Further progress in this direction holds great promise.

**Technical assistance.** Technical assistance can be one of the most potent ways of helping governments improve their investment climates. In its many forms it can help cat-

alyze policy improvements, bring world-class expertise to bear on the design of particular reforms, and strengthen the capabilities of policymakers and regulators. While some technical assistance may be embodied in other forms of support, estimates prepared for this Report suggest that technical assistance for investment climate improvements averaged \$2.7 billion per year from 1998 to 2002—or just 13 percent of development assistance for investment climate improvements over that period. The support ranged from around \$200 million a year in East Asia and Pacific to \$600 million per year in the regions of Sub-Saharan Africa, Europe and Central Asia, and Latin America and Caribbean.

As with any form of assistance, the quality, not the volume, determines effectiveness. In this context donor agencies have been grappling with three main challenges in increasing the effectiveness of technical assistance for investment climate improvements.

- *Supply- vs. demand-driven approaches.* Donors eager to support reforms can easily fall prey to supply-driven approaches. Indeed, the bookshelves of many ministries in developing countries are lined with reports presenting detailed proposals for the design and implementation of reforms never implemented. To counter this tendency, more donors are testing demand for assistance and requiring beneficiaries to cofinance or otherwise provide evidence of serious commitment to reform.
- *Specialist expertise and scale.* Technical assistance on many investment climate issues involves the mobilization of expertise on highly specialized topics—from the design of land registries and corporate governance regimes to the regulation of ports. Many technical assistance projects in this area are also relatively small in size, averaging \$1.1 million each between 1998 and 2002. Both factors can increase the design and supervision costs of technical assistance projects relative to other forms of assistance.
- *Institutional fit.* When recommending the design of particular policy frameworks or regulatory regimes, too little emphasis can be given to questions of institutional fit—

ensuring that proposals are well adapted to local conditions. Indeed, advisers from donor countries very often propose solutions that bear a striking resemblance to those adopted in their home country—regardless of where they are recommending them.<sup>19</sup> It may be understandable that advisers will be influenced by the approaches they are most familiar with, but the uncritical transplant of models from other countries can lead to poor or perverse results (chapter 2).

One practical response to all three challenges is to rely more heavily on multidonor technical assistance facilities, which already play an important role in several areas of the investment climate (box 10.1). Concerns about institutional fit can also be addressed by expanding the analysis and dissemination of alternative policy approaches with an emphasis on underlying design principles and trade-offs. Ensuring that advisors engage effectively with local stakeholders who would be involved in administering and complying with the policy framework can also help. Ending the tying of aid for technical assistance could also play a role by expanding the pool of expertise available and reducing concerns that advice might be tainted by the commercial interests of firms from the donor country.<sup>20</sup>

**Public investment in infrastructure.** Public investment in infrastructure can improve the investment climate, and the international development community has long been an important source of external financing for these investments. Support in this area accounted for an average of \$11.4 billion per year from 1998 to 2002, or around 54 percent of development assistance for the investment climate.

To deliver sustainable benefits, however, investments have to be made in the context of a sound policy framework—often difficult when the government is both the regulator and the service provider. Reflecting this, strategies for improving infrastructure 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 com-

### BOX 10.1 *Multidonor technical assistance facilities and the investment climate*

Multidonor facilities for technical assistance leverage resources and expertise and facilitate learning by participating donors, especially important where the frontiers of knowledge are moving quickly, as with the investment climate. They can bring specialist expertise to bear on the design and implementation of projects. They can also reduce sensitivities associated with technical advice coming from donor governments whose firms may have an interest in any resulting commercial opportunities. Examples in the investment climate area include the Foreign Investment Advisory Service, the Global Corporate Governance Forum, and the Public–Private Infrastructure Advisory Facility (PPIAF).

PPIAF, established in 1999, illustrates the approach. PPIAF aims to improve the quality of infrastructure in developing countries through private sector involvement. Its main products include technical advice, capacity building, and the identification and dissemination of good practices. Participating donors include the Asian Development Bank, Canada, France, Germany, Italy, Japan,

the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, United States, United Nations Development Programme (UNDP), and the World Bank.

By the end of March 2004, PPIAF had provided grants of more than \$70 million for 310 activities in 88 countries. It supported the drafting of 32 sets of laws and regulations, the execution of 45 transactions, the formulation of 14 sector reform strategies, the establishment or strengthening of 28 institutions, and the training of more than 1,500 regulators and officials. It also supported 80 international and national workshops with over 9,000 participants, along with the preparation of numerous toolkits and case studies to assist in the dissemination of emerging lessons of experience. To ensure that assistance is demand-driven, PPIAF requires recipients of country-specific assistance to provide some cofinancing or other credible evidence of commitment to the project.

Source: PPIAF (2003) and World Bank staff.

munity's role in supporting public sector investment, particularly with shifting boundaries between public and private provision of a range of services.

Experience shows that when governments create an effective policy and regulatory environment, many infrastructure services can be provided better by private firms. Indeed, engaging private participation in infrastructure provision has been an important part of investment climate improvement strategies in most countries. The international development community thus has to ensure that proposed public investments complement rather than distract attention from efforts to create a better investment climate for infrastructure providers. 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.

### *Supporting firms and transactions*

In addition to helping governments improve their investment climates, bilateral and multilateral agencies provide substantial support

directly to firms and transactions. When that support takes the form of grants or concessional loans, which is often the case with schemes aimed at helping smaller firms, it is treated as a form of development assistance. Far more substantial support is provided to the execution of particular transactions through commercial loans and guarantees that are not treated as forms of development assistance. How might both types of direct support contribute to investment climate improvements?

*Development assistance to support smaller firms.* The main forms of support to firms funded from development assistance are financial services (lines of credit or microfinance) and business development services, both of which tend to be directed to small firms and microenterprises. Bilateral and multilateral agencies provided an average of \$3.1 billion a year for this support from 1998 to 2002—or more than the amount allocated to technical assistance to improve the broader investment climate.

There are two main debates in this area. The first is whether small firms in the formal economy merit special attention in this way. As discussed in chapter 3, while many of the bolder claims linking small firms to economic growth are difficult to substantiate, small firms do tend to face disproportional

burdens in a poor investment climate, and have more difficulty obtaining access to finance.

The second debate is whether the support provided is actually cost-effective. As discussed in chapter 8, schemes aimed at providing special support to small firms have tended to have disappointing results. The first generation of schemes for delivering business development services used substantial donor funds with little impact. Newer, more market-friendly approaches might avoid some of these pitfalls, but have not yet been fully evaluated. The provision of subsidized or directed credit for small firms has also had mixed results, whether implemented by national governments or by international donors.<sup>21</sup> Schemes tend to be difficult to sustain, retard the development of credit markets, and crowd out commercial providers. That is why governments (and donors) are shifting their emphasis from the provision of financial services to creating a better investment climate for commercial providers of these services (chapter 6). This applies to schemes directed to small firms in the formal sector, and increasingly even to microfinance (box 10.2).

The guidelines suggested in chapter 8 for selective interventions by governments are equally applicable to schemes funded by donors and international agencies: Have a clear objective and rationale, focus on the sources of the problems rather than the symptoms, match the instrument to the rationale, impose discipline, be transparent, and review regularly.

*Other support provided to firms.* Developed countries and international agencies provide substantial support to firms and transactions on nonconcessional terms that is not regarded as development assistance. This includes private sector lending by international financial institutions and loans and guarantees provided by national export credit agencies. Support of this kind averaged \$26.4 billion per year between 1998 and 2002. While there are difficulties comparing the value of grants, concessional loans, nonconcessional loans, and guarantees, the nominal value of this support was nearly ten times the amount of development assistance provided for tech-

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

Microfinance is important for poor households and entrepreneurs. Early ventures, subsidized by governments, donors, and NGOs, provided important demonstration effects. There is now a growing consensus that for microfinance to be sustainable and achieve its full potential, it needs to be commercial. This means that donors and NGOs need to be careful not to unwittingly hinder development of a commercial market. UNDP's experience in Bangladesh epitomizes a donor knowing when to stop.

The microfinance sector in Bangladesh 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.

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

Source: Brusky (2003).



nical assistance for investment climate improvements.

Support in this area is often justified by deficiencies in the investment climates in developing countries—and by the benefits that investment can bring through jobs and the transfer of expertise and technology. Such support can also complement broader investment climate improvements when it helps to mobilize a supply response and tests and demonstrates investment climate improvements. Transactions that support the provision of better infrastructure, financial, or education services can also contribute directly to investment climate improvements.

The criteria applied when providing this support vary among agencies. In addition to commercial criteria, they typically focus on the direct impact of the project on the local economy and, in the case of bilateral agencies—which account for almost two-thirds of this support—the benefits to their national firms.<sup>22</sup> One way to strengthen the development impact of this support is to more fully recognize the potential contribution to the broader investment climate. For example, transactions can be used to create precedents for applying transparent competitive bidding arrangements, for clarifying policy frameworks, and for supporting a more competitive business environment. International financial institutions and a growing number of bilateral agencies apply tests of this kind, but there is scope for broadening the approach.

## Tackling the substantial knowledge agenda

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

Understanding the microeconomic determinants of growth and productivity has garnered much interest in recent years. There is growing acknowledgment of the limits of cross-country regressions and generic char-

acterizations of “institutions.” The emphasis is moving to 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.

There is progress. New instruments—including the ones drawn on in this Report—quantify an increasing range of costs, risks, and barriers facing firms. A wider range of policy areas and corresponding institutions is being examined to understand their impact on incentives. 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, and warrants priority attention as an integral part of efforts to accelerate and broaden improvements to investment climates in developing countries.

### *Better data*

Analysis, understanding, and appropriate policy responses depend first on reliable information. Yet policymakers in developing countries are often operating in the dark when it comes to their investment climates. There are opportunities to help in three main areas: national statistics, cross-country data, and synergies with poverty assessments.

*National statistics.* As noted in chapter 3, substantial efforts are required to improve national statistical systems including on such basic measures as the share of private investment in GDP. Work on building the capacity of statistical agencies in developing countries has increased in recent years, including through multipartner initiatives.<sup>23</sup> These and related initiatives need to give due weight to investment climate issues to help governments monitor the performance of their private sectors, identify emerging trends and problems, and evaluate the impact of alternative policy approaches.

*Cross-country data.* The international community is well placed to develop more standardized measures of the investment climate to facilitate comparisons across countries. Recent developments in quantifying many

aspects of the investment climate—including the Bank’s Investment Climate Surveys and the Doing Business Project—are important steps forward in understanding how investment climate policies and behaviors influence growth and poverty. In addition to informing analysis, these measures provide a useful tool for governments to benchmark performance and monitor progress. They can also act as catalysts for reform.

Building up a body of consistent data over time can provide insights into the critical links between policy settings and growth processes. Many of the measures are new, however, so changes from a baseline cannot yet be measured. As they build up over time, their explanatory power will increase. Of particular promise is the ability to test more rigorously the impact of different policy approaches. Being able to better evaluate the impact of policies should encourage more experimentation and competition between approaches. Evaluations of pilot programs can identify the ones succeeding—the ones to be scaled up.

There are also benefits in expanding the coverage of these data across several dimensions:

- To include the impact on a broader range of firms, including those in the informal and rural economies
- To include the impact on particular sectors and on particular supply chains
- To grapple with the measurement of critical but hard-to-quantify variables, such as policy uncertainty and competitive pressure.

*Synergies with poverty assessments.* There are opportunities to build synergies between approaches for assessing investment climates and for assessing poverty. For example, questions on access to infrastructure and finance, and the security of property rights can be included more systematically in household surveys. The sampling strategies for household and firm surveys might also be linked.

Better data of this kind can advance understanding of many key areas of economic policy. But care needs to be taken not

to focus policy discussions only on topics or measures most easily quantified. There is the old joke about the person looking for his lost keys under the streetlight, not because he dropped them there, but because that was where he could see.

### *A large research agenda*

A field as broad as the investment climate generates a huge research agenda, but four larger themes warrant close attention.

#### *The ecology of firms and growth processes.*

There is growing understanding of the processes by which firms are born and evolve, including creative destruction, based mostly on experience in developed 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.

*The design of regulatory strategies.* Regulation plays a central role in addressing market failures, reconciling the interests of firms with broader social goals, and shaping the investment climate. To date most of our understanding of regulatory policies and strategies is based on experience in developed countries, and most of that work focuses on regulation within relatively narrow fields, such as infrastructure, finance, product safety, or the labor market. Much less attention has been given to how regulatory strategies might be tailored to different institutional environments, particularly those in low-income countries. There are also opportunities to explore lessons of experience on this question that cut across fields of regulation.

#### *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 from one country to another. Today the world’s

migrants from developing countries total nearly 175 million.<sup>24</sup> The \$90 billion or more in remittances they send to their families every year is now the second largest source of private capital (after FDI) for poor countries.<sup>25</sup> Understanding the linkages between investment climate conditions and migration flows will become more important as the world deals with major demographic shifts over the coming decades.

*The political economy of investment climate improvements.* This Report has highlighted the importance of understanding the political economy considerations that influence investment climate policies. While the subject has attracted significant attention, little 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 strategies for controlling rent-seeking and on the dynamics of reform processes more generally.

### *Beyond data and formal research*

Even within the bounds of current data sources, there are opportunities to advance understanding of many areas of the investment climate. Country studies can help illuminate many important design and implementation details that remain beyond the reach of cross-country analyses. Country studies can also include more rigorous evaluations of recent policy experiments to understand their impacts on firm performance, productivity, growth, and poverty. There are also opportunities to expand recent efforts to identify and disseminate emerging lessons of experience in the design and implementation of investment climate improvements. This can help policymakers understand the rich menu of options they can choose from in a field as broad—and central—as the investment climate.

Working together on these themes, the international community can do much to create a better investment climate—for everyone—and so contribute to a more balanced, inclusive, and stable world.