

# Endnotes

## Overview

1. For further details on these data sources, see Box 1.2 and Tables A1 and A2 in the Selected Indicators section at the back of the book.

2. See Box 1.5.
3. Johnson, McMillan, and Woodruff (2002b).
4. Hall and Jones (1999); Parente and Prescott (2000); Easterly and Levine (2001); and Bosworth and Collins (2003).
5. Schumpeter (1942).
6. See Figure 1.13.
7. OECD (2002b); Carlson and Payne (2003).
8. Dollar, Hallward-Driemeier, and Mengistae (2003a).
9. Minot and Goletti (2000) and Winters, McCulloch, and McKay (2004).
10. Hoekman, Kee, and Olarreaga (2001).
11. See Box 6.12.
12. Field (2002).
13. See Figure 1.18.
14. World Bank (2004b).
15. See Figure 1.4.
16. See Table 2.1.
17. World Economic Forum (2004).
18. Londoño and Guerrero (2000).
19. Box 5.13.
20. Bartelsman and others (2004).
21. World Bank (2004d).
22. Migliorisi and Galmarini (2004).

## Chapter 1

1. Chermak (1992).
2. Acemoglu, Johnson, and Robinson (2002); Levine (1997); Kaufmann, Kraay, and Mastruzzi (2003); La Porta and others (1999); Glaeser and Shleifer (2002); and Glaeser and others (2004).
3. Acemoglu and Johnson (2003); Rodrik, Subramanian, and Trebbi (2002); and Knack and Keefer (1995a).
4. Burgess and Venables (2003).
5. Pritchett (2004).
6. World Bank (2004b).
7. Erb, Harvey, and Viskanta (2000).
8. Calculated from the World Business Environment Survey data.
9. World Bank (2004b).
10. Malthus (1798).

11. Maddison (1995).

12. De Long (2000). In terms of pure purchasing parity, and looking at how large a bundle of 1900 era goods could be bought with today's incomes, Thailand's per capita income is 50 percent greater than that of the U.S. in 1900, and Mexico and Uruguay not quite double it.

13. Pritchett (1997).
14. Pritchett (2002) and Hausmann and Rodrik (2003).
15. Easterly (2001); Aghion and Durlauf (2004); and Hausmann, Pritchett, and Rodrik (2004).
16. Tanzi and Davoodi (1998).
17. Sala-i-Martin and Vila-Artadi (2002) and Easterly, Devarajan, and Pack (2001).
18. Bosworth and Collins (2003).
19. Krugman (1997).
20. Barro and Sala-i-Martin (2003); Bosworth and Collins (2003); Easterly and Levine (2001); Hall and Jones (1999); Klenow and Rodríguez-Clare (1997); and Young (1995).
21. Solow (1957); Jones (2002); and Barro and Sala-i-Martin (2003). More recent work still acknowledges the importance of technology, but broadens the view of total factor productivity to include concepts of institutions and social capital, concepts closely related to the investment climate. See Hall and Jones (1999) and Acemoglu and Johnson (2003).
22. Jovanovic (1995).
23. Parente and Prescott (2000).
24. Hall and Jones (1999) and Acemoglu, Johnson, and Robinson (2001).
25. Hicks (1935).
26. Baumol (2002).
27. Schumpeter (1942).
28. A similar result was found in Carlin and others (2001) using an earlier round of survey data in the same countries. See also Bastos and Nasir (2003).
29. Haltiwanger (2000) and Bartelsman, Scarpetta, and Schivardi (2003).
30. Scarpetta and Bartelsman (2003).
31. Potential endogeneity is controlled for using lagged values.
32. Desai and Mitra (2004) and Caballero, Engel, and Micco (2004).
33. World Bank (2002d).
34. Kraay (2003).

35. While the overall trends are undisputed, the exact levels of poverty are a matter of some debate due to differences in methodologies in calculating them. For example, household surveys or national accounts, expenditure or consumption-based measures, and the challenge of measuring nonmonetary transactions. See Chen and Ravallion (2004); Ravallion (2003a); and Deaton (2002).
36. Bourguignon (2004).
37. Dollar and Kraay (2002).
38. Bourguignon (2004).
39. World Bank (2003m); Midlarsky (1999); and Fearon and Laitin (2003).
40. Fields and Pfeffermann (2003).
41. OECD (2002b); Carlson and Payne (2003); and India National Sample Survey Organisation.
42. World Bank (2004i).
43. Dollar, Hallward-Driemeier, and Mengistae (2003a) and Hallward-Driemeier, Iarossi, and Sokoloff (2002).
44. Lanjouw and Stern (1998).
45. United Nations (2002b).
46. ILO (2002b).
47. Schneider (2002); Chen, Jhabvala, and Lund (2002); Charmes (2000); Mead and Liedholm (1998); Jhabvala, Sudarshan, and Unni (2004); and ILO (2002b).
48. Minot and Goletti (2000).
49. Winters, McCulloch, and McKay (2004).
50. Despite these benefits for poor people, many countries restrict the sale of second-hand clothing. See Dougherty (2004) and Tranberg Hansen (2000).
51. Hoekman, Kee, and Olarreaga (2001). Country-level studies provide additional evidence that greater competitive discipline reduced markups in Chile, Colombia, Côte d'Ivoire, Mexico, Morocco, and Turkey. See Roberts and Tybout (1996); Harrison (1994); and Levinsohn (1993).
52. ESMAP (2002).
53. Field (2002).
54. Palmade (2004). For further discussion of taxes in developing countries see chapter 5.
55. World Bank (2003p).

## Chapter 2

1. Appearing before the U.S. Senate Armed Services Committee in 1953, Wilson—a former president of GM—actually said, “[F]or years I have thought that what was good for our country was good for General Motors and vice versa.”
2. Litvin (2003).
3. Hufbauer and Goodrich (2003a) and Hufbauer and Goodrich (2003b).
4. Rajan and Zingales (2003) cite examples in Mexico, Brazil, and Japan.
5. Stigler (1971) and Peltzman (1976).
6. Sutton (1976).
7. World Bank (1997).
8. Murphy, Shleifer, and Vishny (1993).
9. Klitgaard (2000).
10. Reinikka and Svensson (1999) and Transparency International Bangladesh (2002).
11. Adserà, Boix, and Payne (2003).

12. Klitgaard (1998).
13. Van Rijckeghem and Weder (2001).
14. Laffont and Tirole (1991).
15. Hellman and others (1999).
16. Wintrobe (1998).
17. Robinson and Verdier (2002); Robinson (1998); Herbst (2000); and Bates (1981).
18. On poorly defined property rights, see Barzel (2002); on red tape, see De Soto (2000); on labor markets, see Golden (1997); on finance, see Rajan and Zingales (2003); on infrastructure, see World Bank (2003p).
19. Patronage and clientelism are often associated with “personal voting,” whereby promises made by policymakers may only be credible to groups with whom they have personal relationships: Keefer (2002).
20. See, for example, Morris and Shepsle (1990) and Keefer and Khemani (2003).
21. Khemani (2004) and Desai and Olofsgård (2003).
22. Faccio (2003).
23. Fisman (2001).
24. Hellman and Kaufmann (2003).
25. For a review of the effects of political finance on state capture, see Kaufmann (2002). For evidence of efforts to reform campaign finance laws in transition economies, see World Bank (2000c).
26. Keefer (2002) and Keefer (2003).
27. Mukherjee (2002) and World Bank (2000a).
28. Dixit and Pindyck (1994). The option theory of investment highlights how uncertainty raises the threshold value a project must meet before firms will be willing to commit due to the loss of the option of waiting. However, uncertainty does not necessarily always decrease investment. Uncertainty that raises the probability of a bad outcome will lower the expected benefits. But if increased uncertainty rises with the marginal revenue product of the investment, then the expected profitability can increase. See Serven (1997) and Caballero (1991).
29. Pattillo (1998) and Darku (2001).
30. Smith (1997a).
31. Gaston and Wei (2002).
32. Keynes (1936).
33. Thaler (1993); Thaler (2000); Rabin (1998); Kagel and Roth (1995); Camerer, Loewenstein, and Rabin (2003); and Kahneman and Tversky (2000).
34. Henisz and Delios (2003) review investment patterns by Japanese firms in 49 countries and find that market entry strategies were heavily influenced by perceptions of policy uncertainty.
35. Hnatkovska and Loayza (2004) and Ramey and Ramey (1995).
36. Svensson (1998); Paunovic (2000); and Rodrik (1991).
37. North (1993).
38. North and Weingast (1989).
39. See, for example, Henisz (2000); Stasavage (2002); and Falaschetti (2003).
40. Cukierman (1992); Majone (1996); and Levy and Spiller (1994).
41. Olofsgård (2004). Also see McCubbins and Lupia (1998).
42. Haber, Razo, and Maurer (2003).
43. Perkins (2000).

44. On the various definitions of trust and social capital, see Fukuyama (2001); Coleman (1988); and Putnam, Leonardi, and Nanetti (1993).

45. It is also not inevitable that communal, family- or kinship-based relationships will instill trust and create the basis for richer civic-associational life. In post-World War II Italy, citizens were unwilling to coordinate in establishing businesses, schools, hospitals, or other voluntary organizations. Organized life tended to depend on the initiative of centralized, distant authority: the church and the state. Banfield (1958); Piore and Sabel (1984); and Fukuyama (1995).

46. Olivier de Sardan (1999).

47. Alesina and others (2003b).

48. Henisz and Zelner (forthcoming) and Kubler (2001).

49. Kay (2003).

50. For experience in the transition economies, see Center for Policy Studies (2003) and *The Economist* (2003b).

51. The Pew Global Attitudes Project (2003).

52. Muller (2002).

53. Examples include proposals to abolish joint-stock companies in England after the bankruptcies of 1860s and to nationalize large parts of corporate America by the New Dealers, see Micklethwait and Wooldridge (2003).

54. Micklethwait and Wooldridge (2003).

55. Stiglitz (1989).

56. OECD (2003g).

57. Stiglitz (1999b).

### Chapter 3

1. Maloney (2004).

2. Johnson, McMillan, and Woodruff (2002b).

3. Reid and Gatrell (2003).

4. Rodrik and Subramanian (2004).

5. Cao, Qian, and Weingast (1999).

6. Saavedra (2003). See also Blanchard and Giavazzi (2003); Bineswaree and Freund (2004); and Klapper, Laeven, and Rajan (2003).

7. World Economic Forum (2004).

8. World Bank (2004b).

9. World Bank (2002c) and Commonwealth Secretariat (2003).

10. Blanchard and Giavazzi (2003).

11. ILO (2002b).

12. Chen, Jhabvala, and Lund (2002).

13. ILO (2002b) and Ellis (2003). See also box 1.12.

14. Galal (2004).

15. Hallward-Driemeier and Stone (2004).

16. Mitullah (2004); Lund and Skinner (2004); and Chen, Jhabvala, and Lund (2002).

17. Field (2002) and Bannock and others (2004).

18. Stern, Dethier, and Rogers (2004).

19. Lanjouw and Stern (1998).

20. Reardon and others (1998).

21. Lanjouw and Shariff (1999).

22. Foster and Rosenzweig (2004).

23. World Bank (2004k) and Chandra and Rajaratnam (2004).

24. Similar results are found in EBRD (1999) and Batra, Kaufmann, and Stone (2002).

25. Christianson (2004).

26. Despite the attention to this issue, credit is not always the binding constraint on small and medium enterprises: McMillan and Woodruff (2002).

27. Baldwin (2003) provides a recent survey of the large literature on growth and openness.

28. Aitken, Hanson, and Harrison (1997).

29. The copious literature on this topic is summarized in Tybout (2003) and Keller (2001).

30. Hoekman, Kee, and Olarreaga (2001); Roberts and Tybout (1996); Harrison (1994); and Levinsohn (1993).

31. For a recent illustration see Hufbauer and Goodrich (2003b).

32. Bayoumi, Coe, and Helpman (1999) and de Ferranti and others (2003).

33. Tybout (2003).

34. Fernandes (2003) for Colombia; Muendler (2002) for Brazil; and Pavcnik (2003) for Chile. Using industry-level data for India, Aghion and others (2003) find similar results for India.

35. Fernandes (2003).

36. Aghion and others (2003).

37. Hu and Jefferson (2002); Aitken and Harrison (1999); and Djankov and Murrell (2002).

38. Blalock and Gertler (2003); Smarzynska (2002); and Kugler (2001).

39. Görg and Strobl (2001) and Blomström and Kokko (1998).

40. For countries with low skill levels, the returns from acquiring foreign technology are higher. In India returns from technology purchase are 44 times higher than the rate of return of domestic R&D; in scientific sectors the rate of return for technology purchase is 166 percent, but for domestic R&D the rate is 1 percent. See Basant and Fikkert (1996).

41. Coe and Helpman (1995) and Coe, Helpman, and Hoffmaister (1997).

42. The level of absorption may depend on human capital and the stock of domestic R&D. See, for example, Crespo, Martin, and Velazquez (2002).

43. Lederman and Maloney (2003).

44. UNCTAD (2003c) and de Ferranti and others (2003).

45. Fernandez and Rodrik (1991).

46. Krueger (2000); Tommasi (2002); and Hausmann, Pritchett, and Rodrik (2004).

47. Woo-Cumings (2001).

48. Parente and Prescott (2000).

49. Berglof and Roland (2000).

50. Cao, Qian, and Weingast (1999) and Yeung (2003).

51. North and Weingast (1989).

52. Boix (2003).

53. Kingdon (1995).

54. Consumers International ([www.consumersinternational.org](http://www.consumersinternational.org)) and Transparency International ([www.transparency.org](http://www.transparency.org)).

55. Cabanero-Verzosa and Mitchell (2003).

56. Georgian Opinion Research Business International (GORBI) (2002)

57. Yufei and others (2004).

58. Smith (1997a).

59. Sidak and Baumol (1995) and Hempling, Rose, and Burns (2004).

60. Kostrzeva (2003).
61. Wedel (2002).
62. OECD (1999a).
63. Argy and Johnson (2003).
64. OECD (1999b) and OECD (2002c).
65. OECD (2000b) and OECD (2002c).
66. Kirkpatrick and Parker (2003) and Lee (2002).
67. Stanchev (2003).
68. Regobeth and Ahortor (2003).
69. Stanchev (2003).
70. Zeruolis (2003) and Vilpisauskas (2003).
71. Environmental Resources Management (2004).

#### Chapter 4

1. Murdoch and Sandler (2002).
2. World Bank (2003m).
3. Johnson, McMillan, and Woodruff (2002b).
4. Besley (1995) and World Bank (2003f).
5. Erb, Harvey, and Viskanta (2000).
6. Torstensson (1994) and Knack and Keefer (1995b).
7. Keefer (2004).
8. World Bank (2003n).
9. Jimenez (1984).
10. Lanjouw and Levy (2002).
11. Friedman, Jimenez, and Mayo (1988).
12. Feder and others (1988).
13. Do and Iyer (2003).
14. Base line data from Bank project cited in Baharoglu (2002).
15. Feder and others (1988).
16. Field (2002).
17. World Bank (2003n).
18. Macours (2003).
19. World Bank (2003n).
20. Adlington (2002).
21. Deininger (2002).
22. International Institute for Environment and Development (2001).
23. Siamwalla (1993) and Stanfield and others (1990).
24. United Nations–Habitat (2003) and Baharoglu (2002).
25. Yahya (2002) and Botswana–Ministry of Lands (2002).
26. Fleisig and De la Peña (2003).
27. IFC and CIDA (2001).
28. World Bank (2002b).
29. Greif (1989) and Fafchamps (2004).
30. Klein (1992).
31. World Bank (2003a) and Jappelli and Pagano (1999).
32. Jappelli and Pagano (1999).
33. Fafchamps (2004).
34. Milgrom, North, and Weingast (1990).
35. Mnookin and Kornhauser (1979).
36. Galanter and Krishnan (2003).
37. Williamson (1996).
38. Cristini and Moya (2001) and Castelar-Pinheiro and Cabral (2001).
39. Laevan and Woodruff (2003).
40. Castelar-Pinheiro (1998); Sereno, de Dios, and Capuano (2001); and Herrero and Henderson (2001).
41. Johnson, McMillan, and Woodruff (2002a) and Broadman

- and others (2004).
42. Bigsten and others (2000) and Fafchamps and Minten (2001).
  43. Djankov and others (2003b).
  44. Djankov and others (2003b).
  45. World Bank (2003f).
  46. Messick (1999) and Burki and Perry (1998).
  47. Chengappa (1999).
  48. On Tanzania, see Kahkonen and others (2001). On Bolivia, see Fleisig and De la Peña (2003).
  49. Inter-American Development Bank (2002).
  50. Ahmadi (1999).
  51. UNCTAD (2003a). See also chapter 9.
  52. World Bank (2003d).
  53. Volkov (2002).
  54. Polinsky and Shavell (2000).
  55. Stone and Ward (2000).
  56. Schärf (2001).
  57. Greenwood and others (1998) and Waller and Sanfacon (2000).
  58. McDonald (1994).
  59. Sherman and others (1998).
  60. Villadeces and others (2000) and Mockus (2002).
  61. Buvinic and Morrison (2000).
  62. Frye and Zhuravskaya (2000).
  63. Rossiter (1961).
  64. Mattei (2000) and Shavell (2004).
  65. Chifor (2002).
  66. Vernon (1971).
  67. Wells Jr. and Gleason (1995).
  68. West (2001).
  69. For a review of strategies employed by investors in private infrastructure projects, see Smith (1997a).
  70. Van der Walt (1999).
  71. Stephenson (2003).

#### Chapter 5

1. Coase (1960) and Pigou (1932).
2. Acemoglu, Johnson, and Robinson (2001).
3. Pistor and others (2003).
4. Pistor and others (2003).
5. Pistor (2000).
6. Berkowitz, Pistor, and Richard (2003).
7. Alesina and others (2003a) and Nicoletti and Scarpetta (2003).
8. Numbers based upon estimates presented in Alesina and others (2003a).
9. World Bank (2003a).
10. Costs are median costs for each group, calculated for firms that report applying for basic activity license in the past three years. Data is from the Investment Climate Survey for Tanzania.
11. World Bank (2003g).
12. Schneider (2002).
13. Flores and Mikhnew (2004).
14. OECD (2003a).
15. World Bank (2004b).
16. Winston (1993) and OECD (1997b).
17. Guasch and Hahn (1999) and Guasch and Spiller (1999) summarize studies for developing countries.

18. Fernandes (2003) for Colombia; Muendler (2002) for Brazil; Pavcnik (2003) for Chile; and Aghion and Burgess (2003) for India.
19. Bartelsman and others (2004). The countries were Brazil, Chile, Colombia, Hungary, Latvia, Mexico, Romania, Slovenia, and Venezuela. Increases exceeded 10 percent in Brazil, Chile, and Mexico and exceeded 20 percent in Colombia, Hungary, and Venezuela.
20. Akiyama and others (2003).
21. Akiyama and others (2003).
22. See, for example, McMillan, Rodrik, and Welch (2002).
23. Lawson and Meyenn (2000) describe the program. Data are from Grameen Telecom's Web site ([www.grameen-info.org/grameen/telecom/](http://www.grameen-info.org/grameen/telecom/)) from February 2004.
24. La Porta and López-de-Silanes (2001).
25. World Bank (2004d).
26. Evenett (2004).
27. These are based upon the recommendations in UNCTAD (2003d).
28. See [www.internationalcompetitionnetwork.org](http://www.internationalcompetitionnetwork.org), "Advocacy and Competition Policy" ICN Conference, Naples, Italy, 2002.
29. Khemani (2002) and Kovacic (1997).
30. Kee and Hoekman (2003).
31. The Economist (2002c).
32. The U.S. did, however, levy a temporary income tax in 1862 during the civil war. See [www.irs.ustreas.gov/](http://www.irs.ustreas.gov/).
33. Ebrill and others (2001).
34. Lewis (2004).
35. For a review of efficiency arguments in taxation, see Diamond and Mirlees (1971); Stiglitz and Dasgupta (1971); Ebrill and others (2001); Sandmo (1976); and Slemrod (1990). For a discussion of the pragmatic considerations driving tax system design in developing countries, see Tanzi and Zee (2001).
36. In 2000/01, corporate income taxes accounted for 14 percent of tax revenues in low-income countries, 12 percent of revenues in lower middle-income countries, and 9 percent of revenues in upper middle-income countries. Direct taxes on goods and services accounted for 41 percent, 42 percent, and 37 percent of revenues respectively. Taxes on international trade accounted for 18 percent, 14 percent and 8 percent of revenues respectively. Data are averages for 60 developing countries for which comparable data were available and calculated based on data from IMF (2003); OECD (2002d); and Dobrinsky (2002).
37. Mitra and Stern (2003) discuss corporate tax revenues in the transition economies.
38. Gauthier and Gersovitz (1997) and Gauthier and Reinikka (2001).
39. Taxes on goods and services increased on average as a percent of GDP between the mid-1990s and 2000-2001 among all income groups, while taxes on international trade fell among all groups. Calculations were based upon data from IMF (2003); OECD (2002d); and Dobrinsky (2002).
40. Elstrodt, Lenero, and Urdapilleta (2002).
41. Djankov and others (2002).
42. Ebrill and others (2001) show that the largest 10 percent of firms account for about 90 percent of turnover in Georgia, Pakistan, Sri Lanka, and Uganda.
43. Das-Gupta, Engelschalk, and Mayville (1999).
44. Taliercio Jr. (2003b).
45. Bird and Engelschalk (2003) discuss this in greater detail.
46. In practice, the autonomy of an agency depends upon many factors, including the agency's legal position, its governance structure, and its financing mechanisms. For further details, see [www1.worldbank.org/publicsector/tax/autonomy.html](http://www1.worldbank.org/publicsector/tax/autonomy.html).
47. Bird (2003).
48. Taliercio Jr. (2003b).
49. Taliercio Jr. (2003b).
50. Taliercio Jr. (2001).
51. Taliercio Jr. (2001); Taliercio Jr. (2003a); and Taliercio Jr. (2003b).
52. See Das-Gupta, Engelschalk, and Mayville (1999) and Bird (2003).
53. Das-Gupta, Engelschalk, and Mayville (1999).
54. Taliercio Jr. (2003b).
55. Fjeldstad (2002) and World Bank (2004e).
56. Gill (2003) and Engelschalk, Melhem, and Weist (2000).
57. Bird and Engelschalk (2003).
58. Bird (2003); Engelschalk, Melhem, and Weist (2000); and Bird and Engelschalk (2003).
59. Gill (2003).
60. Bird (2003).
61. APEC Committee on Trade and Investment (2003).
62. World Bank (2004d), Table 2.9.
63. World Bank (2004d), Table 1.9. The gains are estimated to be between \$114 billion (in 1997 US\$) and \$265 billion depending upon assumptions about the dynamic effects.
64. Dollar, Hallward-Driemeier, and Mengistae (2003a).
65. Engelschalk, Melhem, and Weist (2000) discuss computerizing customs and tax administration in greater detail.
66. De Wulf (2003).
67. De Wulf and Finateu (2002).

## Chapter 6

1. Rajan and Zingales (2003).
2. Harris (2003); World Bank (1994b); World Bank (2004j); and World Bank (2003p).
3. King and Levine (1993); Levine, Loayza, and Beck (2000); Beck, Levine, and Loayza (2000); Bandiera and others (2000); and Demirgüç-Kunt and Maksimovic (1998).
4. Caprio and Honohan (2003).
5. Li, Squire, and Zou (1998).
6. Rajan and Zingales (2003).
7. Easterly, Islam, and Stiglitz (2000).
8. Dehejia and Gatti (2002).
9. Stiglitz and Rothschild (1976) and Stiglitz and Weiss (1981).
10. Rajan and Zingales (2003).
11. Barth, Caprio Jr., and Levine (2001); Clarke and Cull (2002); La Porta, López-de-Silanes, and Shleifer (2002); and Sapienza (2004).
12. Beck, Cull, and Afeikhena (2003); Beck, Crivelli, and Summerhill (2003); and Omran (2003).
13. Berger and others (forthcoming); Demirgüç-Kunt and Maksimovic (forthcoming); and Berger, Hasan, and Klapper (2004).
14. Schreiner and Yaron (2001).
15. Townsend and Yaron (2001).
16. Harvey (1991) and World Bank (2001f).
17. World Bank (1994a).
18. Vittas and Je Cho (1995).
19. Klapper and Zaidi (2004) and World Bank (1989).
20. Caprio and Demirgüç-Kunt (1998) and World Bank (1989).

21. In Nigeria, for example, 15 percent of guaranteed loans were reported to be in arrears; see Njoku and Obasi (1991).
22. Management Systems International (1996) and Magno and Meyer (1988).
23. Graham Bannock and Partners Ltd (1997).
24. Black and Strahan (2002); Cetorelli and Strahan (2002); Beck, Demirgüç-Kunt, and Levine (2003); Cetorelli (2003); and Berger, Hasan, and Klapper (2004).
25. Demirgüç-Kunt, Laeven, and Levine (2003).
26. Berger and others (forthcoming).
27. Barth, Caprio Jr., and Levine (2004) and Demirgüç-Kunt, Laeven, and Levine (2003), respectively.
28. Unite and Sullivan (2003).
29. Clarke and others (2003); Clarke and others (forthcoming); and Escude and others (2001).
30. Faulkender and Petersen (2003).
31. Carmichael and Pomerleano (2002).
32. Impavido (2001) and Impavido, Musalem, and Tressel (2003).
33. Ekmekcioglu (2003).
34. Shah (1997) and Srinivas, Whitehouse, and Yermo (2000).
35. Impavido (2001).
36. Deepthi and others (2003).
37. Black, Jang, and Kim (2003); Johnson and others (2000); La Porta and others (1997); La Porta and others (1998); and Stiglitz (1999a).
38. Shleifer and Wolfenzohn (2002).
39. Demirgüç-Kunt and Maksimovic (1998); Demirgüç-Kunt and Maksimovic (1999); Giannetti (2003); Claessens and Laeven (2003); Allayanis, Brown, and Klapper (2003); and Esty and Megginson (2003).
40. Bae and Goyal (2003).
41. For example, in Mexico domestic credit to the private sector as a percentage of GDP was only 12.6 percent in 2002, as compared to 35 percent in Brazil and 141 percent in the U.S. (IMF-IFS statistics).
42. Berkowitz and White (2002).
43. Pistor, Raiser, and Gelfer (2000).
44. Claessens and Laeven (2003).
45. Durnev and Kim (2003); Gompers and Metrick (2001); Joh (2003); Klapper and Love (forthcoming); and La Porta and others (1998).
46. McKinsey & Company (2002) and Aggarwal, Klapper, and Wysocki (2003).
47. Levitt (1998); Frost, Gordon, and Hayes (2002); Hail and Luez (2003); and Lee and Ng (2002).
48. Rajan and Zingales (2003).
49. Glaeser, Johnson, and Shleifer (2001).
50. Miller (2003).
51. Galindo and Miller (2001) and Love and Mylenko (2003).
52. World Bank (2003a).
53. A recent cross-country study finds that about 50 percent of small firms report financing constraints in countries without a credit bureau as compared to 27 percent in countries with a bureau, and that 28 percent of firms are able to obtain a bank loan in countries without a bureau versus 40 percent of firms in countries with a bureau. Love and Mylenko (2003).
54. Barron and Staten (2003); Bailey, Chun, and Wong (2003); Padilla and Pagano (2000); and Castelar-Pinheiro and Moura (2003).
55. Chami, Khan, and Sharma (2003).
56. Barth, Caprio Jr., and Levine (2004) and Beck, Demirgüç-Kunt, and Levine (2003).
57. Stigler and Becker (1977); Stigler (1975); and Rajan and Zingales (2003).
58. Stigler (1971).
59. Barth, Caprio Jr., and Levine (2001) and Barth, Caprio Jr., and Levine (2004).
60. Martinez Peria and Schmukler (2001).
61. Calomiris and Powell (2001).
62. Saunders and Wilson (2002).
63. Caprio and Honohan (2003).
64. Stiglitz and Yusuf (2001).
65. Caprio and Honohan (2003).
66. Levy-Yeyati, Martinez Peria, and Schmukler (2004).
67. Beck, Demirgüç-Kunt, and Levine (2003).
68. See, for example, Tanzi and Davoodi (1997); Tanzi and Davoodi (1998); and Devarajan, Swaroop, and Zou (1996).
69. For discussions of the problem and the history of private infrastructure, see Gómez-Ibáñez (2003); Gómez-Ibáñez and Meyer (1993); Klein and Roger (1994); Levy and Spiller (1994); Levy and Spiller (1996); Smith (1997b); Spiller and Savedoff (1999); and Willig (1999). The problems are greatest when investors are asked to make large one-off investments and smaller when a series of small investments creates a "repeated game" that encourages the government not to expropriate the investor.
70. See Wodon, Ajwad, and Siaens (2003). See also Clarke and Wallsten (2003); Estache, Foster, and Wodon (2002); and World Bank (1994b).
71. For empirical evidence of the effect of various features of the investment climate on infrastructure, see Bergara, Henisz, and Spiller (1998); Henisz (2002); Henisz and Zelnor (2001); Weder and Schiffer (2000); and Zhang, Parker, and Kirkpatrick (2002).
72. See Lamech and Saeed (2003) for selected evidence on priorities of investors in electricity in developing countries.
73. Phillips (1993); Smith (1997a); and Smith (1997b).
74. For a collection of published contracts, see <http://rru.worldbank.org/contracts/>.
75. See, for example, Klein and Hadjimichael (2003).
76. Dollar, Hallward-Driemeier, and Mengistae (2003a). Time to get a new telephone connection is used as a proxy for the quality of telecommunications services generally.
77. Röller and Waverman (2001).
78. Calderón and Servén (2003).
79. International Telecommunication Union data from SIMA database for 2001.
80. World Bank Investment Climate Surveys.
81. Rossotto and others (2003) citing Telegeography, and International Telecommunication Union data.
82. Wallsten (2001); Wallsten (2003); Bortolotti and others (2002); Boylaud and Nicoletti (2001); Galal and others (1994); Ramamurti (1996); Ros (1999); Wellenius (1997b); Winston (1993); and Fink, Mattoo, and Rathindran (2002).
83. Komives, Whittington, and Wu (2003) and Clarke and Wallsten (2003).
84. World Bank Investment Climate Surveys.
85. World Bank Investment Climate Surveys and Batra, Kaufmann, and Stone (2002).

86. World Energy Council (2001).
87. Reinikka and Svensson (2002).
88. Dollar, Hallward-Driemeier, and Mengistae (2003a).
89. Calderón and Servén (2003).
90. Hunt and Shuttleworth (1996).
91. See, for example, Besant-Jones and Tenenbaum (2001).
92. Pollitt (2003); Newbery and Pollitt (1997); and Galal and others (1994).
93. World Bank (2004j), citing Spiller in Gilbert and Kahn (1996).
94. Zhang, Parker, and Kirkpatrick (2002).
95. Limão and Venables (2001).
96. Clark, Dollar, and Micco (2002).
97. Limão and Venables (2001).
98. Radelet and Sachs (1998).
99. Limão and Venables (2001). Infrastructure includes telecommunications as well as paved roads, unpaved roads, and railways—each having a weight of 25 percent in an index.
100. Limão and Venables (2001).
101. World Bank (2004j).
102. Clark, Dollar, and Micco (2002).
103. Inter-American Development Bank (2001).
104. Estache and Carbajo (1996) and Gaviria (1998), for example.
105. Estache and Carbajo (1996); Trujillo and Serebrisky (2003); and Gaviria (1998).
106. World Bank and PPIAF (2003) discusses these options.
107. Galal and others (1994).
108. Gaviria (1998).
109. Trujillo and Serebrisky (2003).
110. Calderón and Servén (2003).
111. Fernald (1999).
112. Gómez-Ibáñez and Meyer (1993) and [www.worldbank.org/html/fpd/transport/roads\\_ss.htm](http://www.worldbank.org/html/fpd/transport/roads_ss.htm).
113. Tanzi and Davoodi (1997) and Tanzi and Davoodi (1998).
114. Liautaud (2001).

## Chapter 7

1. ILO (2004).
2. Schneider (2002). See also ILO (2002a).
3. Pritchett (2001); Easterly (2001); and Topel (1999).
4. One more year of schooling is estimated to raise wages by 7–10 percent in many countries. See Psacharopoulos and Patrinos (2002).
5. Recent studies focusing on OECD countries—where differences in the quality of education are relatively smaller than across developing countries—suggest strong positive effects of enhancement of human capital on GDP per capita growth. See Bassanini and Scarpetta (2002) and De La Fuente and Doménech (2002).
6. Rosenzweig (1995) shows for India that schooling returns are high when the returns to learning are also high.
7. Pritchett (2001) and Pissarides (2000).
8. Acemoglu and Shimer (1999). For empirical evidence for the United States, see Abowd and others (2001) and Nestoriak (2004).
9. Bresnahan, Brynjolfsson, and Hitt (2002).
10. Van de Walle (2003).
11. Nicholls (1998).
12. World Bank (2003e).
13. IFC (2001); World Bank (2002a); World Bank (2003e); and El-Khawas, DePietro-Jurand, and Holm Nielsen (1998).

14. Tooley (1999).
15. IFC (2001).
16. Data are from the U.S. Department of Education.
17. While one might expect a positive relation between the level of mandated labor protection and income across countries (that is, labor protection is a normal good), the relationship is, in fact, negative across a large group of countries.
18. Bourguignon and Goh (2003); de Ferranti and others (2000); Gill, Maloney, and Sanchez-Paramo (2002); Devarajan, Dollar, and Holmgren (2001); Rodrik (1997); Freeman (1994); Matusz and Tarr (1999); Rama (2003); and World Bank (2002d).
19. For a review of the role of unions see Aidt and Tzannatos (2002); Brown (2000); and Boeri, Brugiavini, and Calmfors (2001).
20. Aidt and Tzannatos (2002) and Forteza and Rama (2002).
21. Calmfors (1993).
22. Haltiwanger, Scarpetta, and Vodopivec (2003).
23. Eslava and others (2003).
24. In Colombia, for every percentage point rise in the minimum wage, employment falls by 0.15 percentage points: Maloney and Núñez (2004). For Indonesia, see Alatas and Cameron (2003).
25. This is possible because of noncompliance in the informal economy and exemption for certain workers.
26. The relationship between compliance and the level of the minimum wage is not one-to-one, and depends on the overall institutional climate and respect for laws.
27. In Poland the national minimum wage accounts for over 80 percent of the going market wage in less developed areas, contributing to high unemployment among low skilled workers, World Bank (2001b).
28. For more details on the role of the minimum wage as a price signal for the informal sector in Latin America, see Maloney and Núñez (2004), and World Bank (2004g).
29. See Feliciano (1998) for Mexico, and Gill, Montenegro, and Dömeland (2002) for the experience of Latin American countries that have introduced apprentice wages.
30. The index of condition of employment reported in figure 7.5 is the normalized sum of maximum number of hours in the work-week, overtime work, night shifts, holidays, hours of work, vacation days, and whether paid time off for holidays is mandatory. For more details, see Djankov and others (2003a) and World Bank (2003a).
31. The 39 days in Sierra Leone refer to a worker with 20 years of service.
32. Heckman and Pagés (2004) estimate that workers absorb between 52 and 90 percent of the cost associated with nonwage benefits in Latin America. Mondino and Montoya (2004) for Argentina, and MacIsaac and Rama (1997) for Ecuador suggest that compliance with labor regulations implies an increase in labor costs with possible disemployment effects.
33. In most countries, worker turnover is even larger than job turnover, because workers not only move directly from one job to another, but also between employment and unemployment and inactivity. See Alogoskoufis and others (1995).
34. Heckman and Pagés (2004), using an alternative measure of job security that takes into account the monetary transfer to be paid to dismissed workers, confirm that such transfers tend to be larger in Latin America than in industrial countries.
35. The synthetic indicator of employment protection for workers with permanent contracts is the normalized sum of: (a) procedural

inconveniences; (b) notice and severance payments; (c) standards of and penalties for “unfair” dismissals; and (d) procedures for collective dismissals. Indicators of employment protection for temporary contracts refer to: (a) the “objective” reasons under which they could be offered; and (b) the maximum cumulated duration of the contract. See Djankov and others (2003a) and World Bank (2003a).

36. World Bank (2003j).

37. World Bank (2002a).

38. These results are from econometric analyses based on industry-level data and controlling for other main drivers of productivity or entry rates. In particular, see Nicoletti and others (2001) for the evidence on the relationship between R&D and labor regulations, and Scarpetta and others (2002) and Scarpetta and Tresselt (2004) for evidence of the impact of employment protection on productivity and entry rates.

39. Görg (2002) and Dewit, Gorg, and Montagna (2003) for evidence of the effects of employment protection on FDI.

40. See Nicoletti and others (2001) on self-employment; Nicoletti and others (2001) for the evidence on firm size; and Scarpetta and others (2002) for the evidence on size of entrant firms and post-entry expansion. Christianson (2004) suggests strict labor regulations in South Africa push small and medium size firms toward more capital-intensive technologies.

41. Nonpayment of contractual obligations, or wage arrears, spread to nearly 60 percent of all workers in Russia in 1998 and, despite declining, continued to affect a significant share of the workforce in the following years, see World Bank (2003j).

42. See Pagés and Montenegro (1999) and Montenegro and Pagés (2004) for Latin America. Djankov and others (2003a) suggest that an increase of 1 point in the employment laws index (ranging from 0.76 to 2.40) is associated with an increase in the share of the unofficial economy in GDP of 6.7 percentage points and an increase in the share of unofficial employment of 13.8 percentage points.

43. Addison and Teixeira (2001) and Nickell and Layard (1999).

44. Cavalcanti (2003) and Mondino and Montoya (2004).

45. Besley and Burgess (2004).

46. Kugler and Pica (2003) for evidence in Italy.

47. Pierre and Scarpetta (2004). Evidence from South Africa also suggests that more than 90 percent of large firms are reported to make greater use of temporary workers to increase flexibility of the workforce: see Chandra and others (2001). See also Saavedra and Torero (2004) for Peru, and World Bank (2003a) for other countries.

48. Dolado, García-Serrano, and Jimeno (2001); Blanchard and Landier (2001); and Hopenhayn (2004).

49. Agénor (1996) argues that the effectiveness of structural adjustment programs in developing countries is affected by the specific characteristics of their labor markets.

50. Goldberg and Pavcnik (2003) for Colombia, and Aghion and others (2003) for India.

51. Winter-Ebmer (2001).

52. Kikeri (1998).

53. Winter-Ebmer (2001) and Kikeri (1998).

54. See Holzmann and Jorgensen (2001) and World Bank (2001c). See also World Commission on the Social Dimension of Globalization (2004).

55. de Ferranti and others (2000) suggest that had Latin Amer-

ica and the Caribbean been able to diversify their idiosyncratic aggregate volatility in the 1990s, they would have enjoyed a 7 percent higher consumption.

56. Bigsten and others (2003) suggests that in African countries with underdeveloped credit and insurance markets, firms cannot insure against temporary demand shocks and have to adjust wages and employment.

57. Acemoglu and Shimer (1999) suggest that moderate levels of unemployment benefits help improve job matches, with positive effects on productivity and output growth.

58. Tanzanian households with limited liquid assets (livestock) tend to grow proportionally more sweet potatoes, a low return and low risk crop, than wealthier households, see Dercon (1996). In the Indian ICRISAT villages, reducing rainfall timing variability (through some mechanism of insurance) is estimated to have a large effect on farm profits of the poor households, see Rosenzweig and Binswanger (1993).

59. See, for example, Ravallion (2003b) and World Bank (2002d).

60. Klasen and Woolard (2001) suggest that the absence of unemployment benefits in South Africa forces the unemployed to base their location decisions on the availability of economic support—generally available in rural areas, often in parental households—rather than on the availability of job openings.

61. de Ferranti and others (2000) suggest that trade liberalization and greater competition in Latin American countries have reduced the possibility of de facto pooling unemployment risk via severance pay over a greater population by subsidizing potentially bankrupt firms through higher prices.

62. In Slovenia, unpaid claims amount to more than one-third of total severance pay provisions: Vodopivec (2004). In Peru, poor workers are less likely to be entitled to severance pay, and also less likely to receive it in case of dismissal: MacIsaac and Rama (2001).

63. Gruber (1997) finds that in the absence of unemployment insurance, average consumption expenditures would fall by 22 percent.

64. More than two-thirds of the households with at least one unemployed worker received such benefits in Hungary and Poland in the mid-1990s, see Vodopivec (2004).

65. Martin and Grubb (2001).

66. Mazza (1999).

67. World Bank (1995b).

68. Tabor (2002).

69. Cox, Jimenez, and Jordan (1994) estimate that poverty incidence would be 25 percent higher among those receiving transfers had they not received them.

70. Informal transfers are estimated to offer less than 10 percent of the size of typical income shocks in bad periods in India; and less than 3 percent in the Sahel region, following the 1984 drought, Morduch (1999a).

71. Ravallion (2003b), Ravallion and Datt (1995); Subbarao (1997); Teklu and Asefa (1999); Jalan and Ravallion (2003); and Chirwa, Zgovu, and Mvula (2002).

72. Gaiha (2000).

73. Subbarao, Ahmed, and Teklu (1995) for the Philippines and World Bank (2002d) for African countries.

74. Haddad and Adato (2001) find little relationship between the district level share of public works activity and the relative poverty, unemployment, and infrastructure need in a sample of 101 public works projects in the Western Cape of South Africa.



75. Rawlings, Sherburne-Benz, and Van Domelen (2003).  
 76. The percentage of beneficiaries beneath the national poverty line ranged from 71 percent in Zambia to 55 percent in Nicaragua.  
 77. Rawlings and Rubio (2002).  
 78. Sedlacek, Ilahi, and Gustafsson-Wright (2000) and Bourguignon, Ferreira, and Leite (2002).

### Chapter 8

1. Chang (2002).
2. Taylor (1996).
3. Recent publications show that the debate continues. Skeptical views on the role of industrial policy in East Asian growth include Noland and Pack (2003); Pack (2000); and Smith (2000). More positive views are expressed in Lall (2003); Lall (2000); and Amsden and Chu (2003). Wong and Ng (2001) stand somewhere in between. See also Hernandez (2004).
4. The potential for positive spillovers from FDI, exporting and R&D provides an economic rationale for selective interventions in favor of these activities. Proponents of selective interventions also point to other possible market failures that might justify special treatment: different learning economies for each technology, see Lall (2000); coordination of competing investments, see Chang (1999); and helping latecomers achieve economies of scale in mature industries, see Amsden and Chu (2003).
5. Lipsey and Lancaster (1956).
6. Reid and Gatrell (2003); Wolman (1988); and Kokko (2002).
7. Hausmann and Rodrik (2003).
8. References on Bangladesh, Colombia, and India are from Hausmann and Rodrik (2003); on Japan from World Bank (1993); and on Kenya from English, Jaffee, and Okello (2004).
9. Noland and Pack (2003).
10. WTO (2003) reviews literature on government efforts to restrict competition in East Asia and concludes that cartelization did not improve economic performance in Japan, and had negative consequences in Korea.
11. For example, see World Bank (2004d); Noland and Pack (2003); Mody (1999); Wong and Ng (2001); and Lall (2000).
12. Irwin (2004).
13. Rodríguez-Clare (2001).
14. Greenstone and Moretti (2003).
15. Reid and Gatrell (2003) describe the case of an automotive company that threatened to relocate to a different U.S. city unless it received various incentives—which led an incentive package of \$322.5 million. While 4,900 jobs were promised in 1997, in 2001 the company announced that it would reduce the number of employees to 3,600. The authors suggest the threat to relocate was motivated by opportunism.
16. Thaler (1993).
17. The technology policy in India's ninth five-year plan (1997-2002) included the following objectives: (a) optimal utilization of science and technology to control population growth, improve food security, literacy, and so forth; (b) support best scientists and be at the forefront of selected research fields; (c) concentrate on technological capabilities that can be commercially successful; (d) promote environmentally friendly technologies and the like; (e) develop innovative capabilities in education system; (f) increase resources for R&D in private firms; (g) promote strategic sectors such as atomic energy and space. Cited by Mani (2001b).
18. Cardenas, Ocampo, and Thorp (2003) mention how notions of performance-based and time-bound support were absent from the post-World War II import substitution strategies in Latin America.
19. Jones and Sakong (1980).
20. Shah (1995a).
21. OECD (2003c). Non-OECD countries include Argentina, Bolivia, Cambodia, Chile, Kenya, and South Africa.
22. UNCTAD (2002a) and Noland and Pack (2003).
23. OECD (2003e).
24. Chen and others (2004).
25. ILO (2002b).
26. PPIAF and World Bank (2002).
27. World Bank (2003i).
28. Charitonenko and Campion (2003) and Yaron, Benjamin, and Piprek (1997).
29. Morduch (1999b).
30. Adams (1988).
31. Yaron, Benjamin, and Piprek (1997).
32. World Bank (2003i).
33. Anderson and Feder (2003).
34. Alex, Zijp, and Byerlee (2002) and Anderson and Feder (2003).
35. Glaeser (2001).
36. Batra and Mahmood (2003).
37. Klein and Hadjimichael (2003).
38. Nugent and Yhee (2002).
39. Johnson, McMillan, and Woodruff (2002a).
40. Hallberg (2000) and Batra and Mahmood (2003).
41. Hallberg and Konishi (2003).
42. Batra and Mahmood (2003).
43. Scott and Storper (2003).
44. Porter (1998) discusses the cluster literature. Clusters are defined as "geographically proximate group of interconnected companies, suppliers, service providers and associated institutions in a particular field, linked by externalities of various types." Porter (2003).
45. Sölvell, Lindqvist, and Ketels (2003).
46. World Bank (2003b).
47. For example, Altenburg and Meyer-Stamer (1999) identify three types of clusters in Latin America: "survival clusters of SMEs, more advanced and differentiated mass production clusters, and clusters around transnational corporations."
48. Altenburg and Meyer-Stamer (1999).
49. The Mitchell Group Inc. (2003).
50. The Mitchell Group Inc. (2003).
51. Includes workers in export processing zones, special economic zones, economic and technological development zones, and maquiladoras (firms in Mexico that process or assemble imported components that are then exported).
52. Madani (1999) mentions at least 18 Sub-Saharan African countries with some type of EPZ initiative. Political unrest halted the development of EPZ in Togo, and civil war in Liberia and Sierra Leone. Macroeconomic distortions hindered EPZ development in Kenya. Infrastructure and bureaucratic burden posed obstacles to the development of EPZ in Senegal and Ghana. The success stories of Mauritius and Madagascar are anomalies in the region.
53. Subramanian and Roy (2003).

54. Jenkins and Kuo (2000); Panagariya (2000); Radelet (1999); and Harrold, Jayawickrama, and Bhattasali (1996).
55. English and De Wulf (2002).
56. UNCTAD (1996); Christiansen, Oman, and Charlton (2003); and Easson (2001).
57. UNCTAD (2000c).
58. Morisset (2003b).
59. Fletcher (2002).
60. UNCTAD (2002b).
61. Wells and others (2001) and Bergsman (1999).
62. MIGA (2002).
63. Wunder (2001b).
64. In Thailand a 1984 study from the Ministry of Finance found that, in aggregate, the share of investment that would have taken place even in the absence of incentives was 70 percent. Cited by Halvorsen (1995).
65. Zee, Stotsky, and Ley (2002) and Shah (1995a).
66. Wells and others (2001).
67. UNCTAD (2002b).
68. Morisset (2003a).
69. Morisset and Andrews-Johnson (2003).
70. Morisset and Andrews-Johnson (2003). The authors measure the investment climate using the Heritage Foundation's Index of Economic Freedom, a composite measure that aggregates measures of macroeconomic stability, openness, taxation, and other factors.
71. UNCTAD (2003b).
72. Pursell (2001) and UNCTAD (2003b).
73. Moran (2001).
74. Moran (2001).
75. Battat, Frank, and Shen (1996).
76. Zee, Stotsky, and Ley (2002).
77. Hall and Van Reenen (1999).
78. Shah and Baffes (1995) and Shah (1995b) found R&D incentives cost effective in Pakistan and Canada, respectively. However, Hall and Van Reenen (1999) review the literature of tax incentives in the OECD and are more skeptical. Their review of studies of tax credits in the U.S. concludes that on average it produced roughly a dollar-for-dollar increase in reported R&D spending since their introduction in 1981.
79. OECD (2003f).
80. Kim (1997) and Yusuf (2003). Yet heavy regulation and government funding may have constrained the development of private venture capitalists. Israel is a counter-example; jump-starting a venture capital sector that was successful enough in attracting private capital to render public support unnecessary. Trajtenberg (2002).
81. David, Hall, and Toole (2000).
82. Wallsten (2004) mentions that in the U.S. alone, there were 135 science parks in 1998. He finds that they are not a major source of high-tech employment. Literature evaluating science parks is not very developed, and few studies look at their cost-effectiveness. de Ferranti and others (2003).
83. Feser (2002).
84. Yusuf (2003).
85. de Ferranti and others (2003).

## Chapter 9

1. Braithwaite and Drahos (2000) and Dollinger (1970).
2. For example, in 1928 the Permanent Court of the International Court of Justice ruled that compensation was payable for the expropriation by Poland of private property belonging to a German firm in the Chorzow Factory Case. The court stated that "there can be no doubt that the expropriation . . . is a derogation from the rules generally applied in regard to the treatment of foreigners and the principle of respect for vested rights."
3. Putnam (1988); Ederington (2001); Staiger and Tabellini (1999); and Conconi and Perroni (2003).
4. Dixit and Nalebuff (1991); and Persson and Tabellini (2000).
5. Under the auspices of the joint World Bank-IMF initiatives on the Observance of Standards and Codes (ROSC), the OECD Principles are used as a benchmark in assessing corporate governance institutional frameworks and practices.
6. Shihata (1986) cites the example of the "Jecker" claim, when an investment dispute was used by France for armed conflict in Mexico in 1861–62.
7. For example, UNCITRAL Arbitration Rules, the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, and the International Court of Arbitration of the International Chamber of Commerce. For a review of international commercial arbitration, see Paulsson (1996).
8. For background on ICSID, see Shihata (1986). Information on ICSID can be found on its Web site ([www.worldbank.org/icsid/](http://www.worldbank.org/icsid/)) and in ICSID Review-Foreign Investment Law Journal, published by the Johns Hopkins University Press.
9. ICSID (2003).
10. Recent cases have been based on interpretations of NAFTA, rather than BITs, although similar issues can arise. The cases are discussed in UNCTAD (2003e) and Hallward-Driemeier (2003). For those considered under ICSID jurisdiction, see also [www.worldbank.org/icsid/cases/awards.htm](http://www.worldbank.org/icsid/cases/awards.htm).
11. Weingast (1995). For a skeptical view on the benefits of harmonization relative to competition, see Stephan (1999). For a review of the tradeoffs in the area of financial services, see White (1996).
12. Putnam (1988); see also Maggi and Rodríguez-Clare (1998).
13. The International Chamber of Commerce dates from 1919, and has been involved in promoting harmonization of various contractual terms to facilitate international trade ([www.iccwbo.org](http://www.iccwbo.org)).
14. UNCITRAL is a subsidiary body of the General Assembly of the United Nations, and was established in 1966 with the general mandate to further the progressive harmonization and unification of the law of international trade. UNCITRAL has since prepared a wide range of conventions, model laws, and other instruments dealing with the substantive law that governs trade transactions or other aspects of business law having an impact on international trade ([www.uncitral.org](http://www.uncitral.org)).
15. Hoekman and others (2004); Schiff and Winters (2003); and Bhagwati (2002).
16. Multilateral arrangements on environmental issues date from the 1972 U.N. Stockholm Conference.
17. Siebert (2003).

18. World Bank (2003b); WTO (2003); and Clarke and Evenett (2003b).

19. Hoekman and Mavroidis (2002) and Clarke and Evenett (2003a).

20. The tax harmonization debate in the EU has been ongoing for many years. Recent analytical work suggests that the benefits from tax coordination in the EU may be negligible, see Mendoza and Tesar (2003).

21. For example, although the national government in Brazil prohibited the states from exempting firms from the value-added tax, the states were able to get around this using various mechanisms, including lending enterprises amounts equal to the tax they owed on highly subsidized terms, see Tendler (2002).

22. OECD (2003d) and OECD and WTO (2003).

### Chapter 10

1. World Bank (2003b).

2. The G7 (Group of 7) has also endorsed the importance of investment climate improvements; see communiqué issued in September 2003. The importance of investment climate improvements in achieving the Millennium Development Goals is also highlighted in the report of the United Nations Commission on the Private Sector and Development (2004).

3. United Nations (2002b).

4. World Bank (2004d); UNCTAD (2000a); and UNCTAD and WTO (2000).

5. IMF estimations from OECD PSE (Producer Support Estimate); OECD (2002a); and OECD DAC (2003).

6. Estimates based on dynamic gains in real income (relative to base year of 1997) using the Global Trade Analysis Project (GTAP) database. They are based on a “pro-poor” scenario in which high income countries reduce tariffs and eliminate tariff peaks. 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. See World Bank (2004d).

7. Hoekman (2000).

8. Development assistance data is based on OECD DAC (2004) and includes support provided as Official Development Finance (ODF). For this Report, Official Assistance provided to the subset of more advanced developing countries and territories has been excluded. Commitment data in the OECD Creditor Reporting System (CRS) was mapped to specific categories of assistance (policy-based support, capacity building, and infrastructure). For a discussion of the methodology and associated caveats see Migliorisi and Galmarini (2004).

9. World Bank (1998a).

10. World Bank (2004a).

11. The approach piloted by the EU (for example, in Burkina Faso) is based on outcome indicators that are agreed beforehand with the recipient government; see Zongo and others (2000). The approach adopted under the Millennium Challenge Account focuses on country selectivity based on three main criteria: ruling justly, encouraging economic freedom, and investing in people; for more details see [www.mca.gov](http://www.mca.gov).

12. For a discussion of output-based aid and its applications see Brook and Smith (2001).

13. 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.

14. An evaluation of World Bank adjustment lending shows that between 1996 and 1999 about 40 percent of investment climate conditionality related to business environment, a third to privatization and public enterprise reforms, and one-quarter to supporting private participation in infrastructure. World Bank (2001a).

15. Devarajan, Dollar, and Holmgren (2001) and World Bank (1998a).

16. McMillan, Rodrik, and Welch (2002).

17. World Bank (2003k) and Wolfensohn (1998).

18. IDA and IMF (2003) and World Bank (2003l). The experience has not been uniformly adopted across all countries preparing PRSPs; see World Bank (2004h).

19. Pistor (2000).

20. Technical Assistance is not subject to the 2001 OECD Development Assistance Committee recommendation for its members to untie Official Development Assistance to Least Developed Countries; see OECD DAC (2001). However, countries including the United Kingdom have already untied the provision of all development assistance, and similar proposals are being discussed in the EU and by the OECD. See European Commission (2004a) and United Kingdom - DFID (2001).

21. Batra and Mahmood (2003).

22. A recent review of donor support for private sector development observed: “One may question the sincerity of those donors who claim to be working towards [private sector development] in developing countries, but whose instruments in the main center on the promotion of exports and investments by their own private sectors. This is not to say that the involvement of the donor’s private sector should be condemned by definition, but rather that it is facile to claim that investments and exports contribute by definition to recipient country PSD, let alone to poverty reduction.” See Schulpfen and Gibbon (2002).

23. In particular, the Partnership in Statistics for Development in the 21st Century (PARIS21), ([www.paris21.org](http://www.paris21.org)).

24. United Nations (2002a).

25. World Bank (2004c).