

# Contents

<b>Foreword</b>	vii
<b>Acknowledgments</b>	viii
<b>Abbreviations and Acronyms</b>	ix
<b>1 The Private Sector and Poverty Reduction</b>	<b>1</b>
A New Swedish Model?	1
Openness and Competition	4
Individual, Institutional, and Social Capability	7
Market-Type Disciplines for Tax and Donor-Funded Assistance	9
Winners, Losers, and Markets	9
Notes	15
<b>2 The Investment Climate</b>	<b>17</b>
The Engine of Growth and Poverty Reduction	17
Establishing Competitive Markets: Entry, Choice, and Exit	33
Institutional Infrastructure for Markets	42
Notes	69
<b>3 Public Intervention to Promote Supply Response</b>	<b>71</b>
Market Failure and Information Asymmetries	71
Public Financing for Private Firms	74
Public Support to Business Development Services for Private Firms	80
Overall Implications for Special Public Support Schemes to Private Firms	83
Note	86
<b>4 Private Participation and Markets for Basic Services</b>	<b>87</b>
Private Participation and Markets in Infrastructure	87
Private Participation and Markets in the Social Sectors	109
Notes	125
<b>5 Private Sector Development and Pro-Poor Policy Design</b>	<b>127</b>
Mechanisms to Promote Diffusion of Best Practice	127
Mechanisms to Enhance Service Delivery	128
Subsidies and Choice	129
Provision of Subsidized Service and Competition	131
Contracts for Efficient Service and Subsidy Delivery	132

<b>6 Private Sector Development and Sustainability</b>	135
Private Markets and the Environment	135
Private Markets and the Social Fabric	141
Notes	153
<b>7 Policy and the Country Context for Reform</b>	155
Basic Thrust for a Private Sector Development Policy	155
A Taxonomy of Private Sector Development Interventions	156
Timing and Sequencing	157
No Cookbook	159
Establishing Credibility	160
Policy Dilemmas	161
Disciplines on Aid Agencies	161
Note	166
<b>8 Conclusions</b>	167
<b>References</b>	171
<b>Index</b>	211
<b>Boxes</b>	
1.1 Market Systems and Income Distribution	12
1.2 Poverty's Many Dimensions and Its Measurement	14
2.1 Financial Sector Development and Poverty Reduction	21
2.2 The Process of Innovation	22
2.3 Markets, the State, and Innovation	27
2.4 Foreign Direct Investment in Africa	34
2.5 Corruption	37
2.6 The Emergence of Market Institutions	44
2.7 Privatization and Employment	52
2.8 Privatization and the Cost of Capital	54
2.9 Fiscal Space	57
2.10 Private Security	62
3.1 Facilitating Access to Markets: The Example of Microfinancing	84
4.1 Market Design	91
4.2 California Electricity Market	92
4.3 Contracting Out Public Services	93
4.4 Private Participation in the Water Sector: Results from Selected Countries	96
4.5 Disciplines for Contracting Out Public Services	101
4.6 Regulatory Risk and Project Financing	106
4.7 Public Health Workers in Uganda	115
6.1 Windfall Gains and Sustainable Development	137
6.2 The Price of Everything and the Value of Nothing	143
6.3 The Business Case for Corporate Responsibility	147
6.4 Racing to the Bottom	150

## Figures

1.1	Number of People Living on Less than US\$1 a Day, 1987 and 1998	3
1.2	Number of People Living on More than US\$1 a Day, 1987 and 1998	3
1.3	In Whom Do We Trust? Survey of Opinion Leaders on Three Key Issues	4
1.4	Convergence and Divergence in the 1990s: Per Capita GDP Growth Rates	5
1.5	Growth Is Good for the Poor	6
1.6	Education and per Capita GDP Growth Rate, 1960–85	7
1.7	Shocks and Stresses Causing Downward Mobility, by Gender	10
1.8	Factors Leading to Upward Mobility, by Gender	11
2.1	Financial Depth Generates Subsequent Growth	21
2.2	Mechanisms to Enhance State Capability: Three Drivers of Governance Reform	25
2.3	The Rate of Investment Is Higher in Indian States with the Best Investment Climate	26
2.4	Firm Size and Total Factor Productivity, Percentage Gain in Productivity as Firms Grow in Size	30
2.5	Distribution of Employment by Firm Size	30
2.6	Foreign Direct Investment in Sub-Saharan Africa, 1991–2000	34
2.7	Corruption Is a Regressive Tax: Results from Ecuador	37
2.8	Regulation of Business Entry	39
2.9	Global Privatization Proceeds	50
2.10	Privatization in Developing Countries, by Sector and Region, 1990–99	50
2.11	Protection of Property Rights and per Capita GDP	66
3.1	The Effect of Subsidized Long-Term Debt on Enterprise Growth	74
4.1	Investment in Infrastructure Projects with Private Participation in Developing Countries, 1990–2001	88
4.2	Welfare Effects of Selling State-Owned Enterprises	89
4.3	Effects of the Reforms on Access to Water: Change in Coverage, by City	97
4.4	Welfare Gains from Reform of Water Systems, by City	98
4.5	The Privatization Wheel	108
4.6	Use of Private versus Public Facilities by the Poor for Treatment of Acute Respiratory Infections	117
4.7	Private Expenditure on Education, by Country, as a Percentage of Total Education Expenditure	118
4.8	Enrollment in Private Schools, by Country, as a Percentage of Total Enrollment, 1996	119
4.9	Private Schools Can Deliver Better Education at Lower Cost: Ratio of Private to Public Cost and Test Score Achievement, by Country	123

6.1	Intelligence Is Scarce: Natural Resources Are Abundant, 1900–2000	139
6.2	Real Consumer Fuel Prices in the United Kingdom, by Year	140
6.3	Air Pollution in Metropolitan Areas of the United States, 1988–97	150
6.4	Urban Air Pollution and Foreign Direct Investment in Brazil, China, and Mexico, 1985–97	151
7.1	Credibility and per Capita GDP Growth, Percent per Year	160
7.2	The Cost of Capital and the Role of Direct Financial Support to Private Firms by Development Banks	163

### Tables

1.1	Growth in Sub-Saharan Africa in Four Environments, 1995–96	8
1.2	Relative Income Mobility in Peru and the United States	13
2.1	Private Firms as a Source of Job Creation, Selected Developing Countries, 1987–98	18
2.2	Foreign Direct Investment Flows in Selected Fast-Growing African Countries, 1991–94 and 1995–2000	35
2.3	Poverty Is Bad for Business: Obstacles to Doing Business in Transition Economies and Developing Countries, 1997	36
4.1	Estimated Gains from Deregulation of Infrastructure Sectors in the United States	88
4.2	Performance Indicators in Colombian Water Utilities Operated by the Private Sector	99
4.3	Percentage of Total Health Expenditures that Are Private	110
4.4	Demand for Private Sector Health Care in Five Indian States	110
7.1	Taxonomy of Private Sector Development Interventions	156