

## World Bank Publications

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### Doing Business 2008

Doing Business 2008 — the fifth in an annual report series issued by the World Bank and IFC — finds that countries in Eastern Europe and the former Soviet Union reformed the most in 2006/07 — along with a large group of emerging markets, including China and India. Croatia is the region's top reformer. Along with three other countries in the region, it also ranks among the top 10 reformers worldwide. Those top 10 are, in order, Egypt, Croatia, Ghana, FYR Macedonia, Georgia, Colombia, Saudi Arabia, Kenya, China, and Bulgaria. Reformers made it simpler to start a business, strengthened property rights, enhanced investor protections, increased access to credit, eased tax burdens, and expedited trade while reducing costs. Eastern Europe and Central Asia, as a region, surpassed East Asia this year in the ease of doing business. Several of the region's countries have even passed many economies of Western Europe on this score.

Doing Business 2008 ranks 178 economies on the ease of doing business based on 10 indicators of the time and cost to meet government requirements in business startup, operation, trade, taxation, and closure. Singapore, for the second year, tops the aggregate rankings. The most business-friendly country in Eastern Europe and Central Asia is Estonia (ranked 17), followed by Georgia (18), Latvia (22), Lithuania (26), Slovakia (32), and Armenia (39). For more information on Doing Business 2008 and detailed country reports, please visit: <http://www.doingbusiness.org>.

### Development Results in Middle-Income Countries: An Evaluation of World Bank Support

The 86 middle-income countries (MICs), including powerhouses such as Brazil, China and Russia, form a diverse group of considerable global importance. As a group, these countries have raised average real incomes by 4% a year since the mid-1990s, and now account for one-fifth of world output, yet they are home to one-third of the world's poor. The World Bank has lent US\$163 billion to MICs since 1995 — nearly two-thirds of its total lending to all developing countries — and allocates about half of its administrative budget to work with this group. The new report released by the Independent Evaluation Group (an independent unit within the World Bank Group charged with evaluating its activities) makes a clear, two-fold recommendation: that the Bank should continue to engage with the important group of MICs, but depart from business as usual for a greater impact. The Bank must become more effective on issues where its work has not yielded pronounced advancements, notably dealing with inequality, combating corruption, and protecting the environment. To produce greater development benefits the Bank has to become more agile in response to rapidly changing client needs; draw upon MICs' own capacity

more systematically; and more clearly demonstrate best practice to deliver impact beyond the Bank's limited direct role. To download the report or order hardcopies, please visit: <http://www.worldbank.org/ieg/mic>

## World Bank Working Papers

<http://econ.worldbank.org/>

Ana M. Fernandes

### Structure and Performance of the Service Sector in Transition Economies

WPS4357, September 2007

The paper examines the structure and performance of the service sector in Eastern Europe and Central Asia during 1997-2004. Services represent an increasing share of total value added and employment, with the major sub-sectors being wholesale trade, retail trade, inland transport, telecommunications, and real estate activities. A clear divide separates EU-5 countries from South Eastern European countries and Ukraine in terms of service labor productivity. Although a large gap in productivity also separates EU-8 countries from EU-15 countries, that gap was reduced from 1997 to 2004 as most services sub-sectors experienced fast productivity growth. High skill intensive sub-sectors and information and communications technology producers and users have exhibited higher productivity levels and growth rates relative to other sub-sectors since 2000. The author finds a positive effect of service liberalization on the productivity growth of service sub-sectors and downstream manufacturing.

Shahid Yusuf and Kaoru Nabeshima

### Strengthening China's Technological Capability

WPS4309, August 2007

China's spending on R&D rose from 1.1% of GDP in 2000 to 1.3% of GDP in 2005. On a purchasing power parity basis, China's research outlay was among the world's highest, far greater than that of Brazil, India, or Mexico. The paper considers two questions that are especially important for China. First, how might China go about accelerating technological development? Second, what measures could most cost-effectively deliver the desired outcomes? It concludes that although the level of financing for R&D is certainly important, technological advancement is closely connected to absorptive capacity, which is a function of the volume and quality of talent and the depth and the heterogeneity of research experience. It is also a function of how companies maximize the commercial benefits of research and development, and coordinate research with production and marketing.

Betina Dimaranan, Elena Ianchovichina, and William J. Martin

### China, India, and the Future of the World Economy: Fierce Competition or Shared Growth?

WPS4304, August 2007

Although both China and India are labor-abundant and dependant on manufactures, their export mixes are very dif-

ferent. Only one product — refined petroleum — appears in the top 25 products for both countries, and services exports are roughly twice as important for India as for China, which is much better integrated into global production networks. Even assuming India also begins to integrate into global production chains and expands exports of manufactures, there seems to be an opportunity for rapid growth in both countries. Accelerated growth through efficiency improvements in China and India, especially in their high-tech industries, will intensify competition in global markets leading to a contraction of the manufacturing sectors in many countries. Improvement in the range and quality of exports from China and India has the potential to create substantial welfare benefits for the world, and for China and India, and to act as a powerful offset to the terms-of-trade losses otherwise associated with rapid export growth. However, without efforts to keep up with China and India, some countries may see further erosion of their export shares and high-tech manufacturing sectors.

Neeltje Van Horen

**Customer Market Power and the Provision of Trade Credit: Evidence from Eastern Europe and Central Asia**  
*WPS4284, July 2007*

Statistics show that the sale of goods on credit is widespread among firms even when they are capital constrained and thus face relatively high costs in providing trade credit. This study provides an explanation for this by arguing that customers who possess strong market power are able to increase their customer surplus by demanding to purchase the goods on credit. This gain in customer surplus increases with the degree of asymmetric information between buyer and seller with respect to product quality. Therefore, firms that are perceived as risky are especially subject to the market power of the customer and have to sell their goods on credit. Using detailed firm-level data from a large number of firms in Eastern Europe and Central Asia, the study finds a strong positive correlation between customer market power and trade credit provision. Furthermore, this relationship is especially strong in countries with limited financial sector development or a weak legal system.

## UCL School of Slavonic and East European Studies

<http://www.ssees.ac.uk/economic.htm>

Andrei Vernikov

**Corporate Governance and Control in Russian Banks**  
*WP 78, July 2007*

The paper examines peculiarities of the Russian model of corporate governance and control in the banking sector. The authors focus on real interests of all stakeholders, namely bank and stock market regulators, Russian commercial bank owners, investors, top managers and other insiders. The Anglo-American concept of corporate governance, which implies outside investors' control over banks through the stock market, has a limited relevance in Russia. Instead, Russia's strategy regarding banks resembles China's in that core banks will firmly remain in the public sector, with the state exerting decisive influ-

ence. The current ownership structure is likely to lead to the crowding out of domestic private banks and their replacement by foreign and state-controlled ones. If the authorities prefer to see a substantial portion of financial assets in domestic ownership, they have to implement far-reaching measures to convert Russian banks into genuine corporations, including introducing a cap on the size of any stake held by one beneficiary.

Ruta Aidis, Saul Estrin, and Tomasz Mickiewicz

**Institutions and Entrepreneurship Development in Russia**  
*WP 79, August 2007*

The authors use a comparative perspective to explore the ways in which institutions and networks have influenced entrepreneurial development in Russia. They utilize Global Entrepreneurship Monitor (GEM) data to study the effects of the weak institutional environment in Russia on entrepreneurship, comparing it with all available GEM country samples and, in more detail, with Brazil and Poland. The results suggest that Russia's institutional environment is important in explaining its relatively low levels of entrepreneurship development, where the latter is measured as both the number of startups and existing business owners. In addition, Russia's business environment contributes to the relative advantage of entrepreneurial insiders (those already in business) to entrepreneurial outsiders (newcomers) in terms of new start-ups.

Tullio Buccellato and Tomasz Mickiewicz

**Oil and Within-Region Inequality in Russia**  
*WP 80, September 2007*

Building on earlier work on regional inequality in Russia the authors investigate whether regional oil and gas abundance is associated with high within-region inequality. They argue that this phenomenon is amplified by the monopsonistic position of the extracting companies on the local labor markets coupled with geographical relocation of rents via transfer pricing from the extracting regions to the companies' headquarters and central government bureaucracy. At the same time, within-region inequality is intensified by reduction in financial support for local communities offered by the extracting companies and by inadequate and ill-targeted transfers by the government.

## Other Publications

Christopher Gerry and Carmen Li

**Consumption Smoothing and Vulnerability in Russia**  
*July 2007, the William Davidson Institute WP No. 885*  
<http://www.wdi.umich.edu/Publications/WorkingPapers/>

The authors examine the channels through which individuals experience and seek to cope with changes in consumption. They find that married individuals living in small households, with educated heads in urban areas are better equipped to smooth consumption. Furthermore, the labor market is an important transmission mechanism allowing households to smooth their consumption but also exposing them to risk, mainly through job loss. Outside of pension payments the formal social safety net does not facilitate consumption smooth-

ing, thus heightening the importance of informal coping institutions. It transpires that both support from relatives/friends and home production act as important insurance mechanisms for the most vulnerable.

Simeon Djankov, Yingyi Qian, Gerard Roland, Ekaterina Zhuravskaya

**What Makes a Successful Entrepreneur? Evidence from Brazil**

*CEFIR/NES WP 104, July 2007, [www.cefir.org](http://www.cefir.org)*

The authors report the results of a new survey on entrepreneurship in Brazil. In September 2006, they interviewed 400 entrepreneurs and 550 non-entrepreneurs in 7 Brazilian cities, who were matched with regard to age, gender, education and location. The authors test three competing hypotheses on entrepreneurship: the role of economic and legal institutions (security of property rights; access to credit); the role of sociological characteristics (family background, social networks); and the role of individual features (attitude towards risk, I.Q., self-confidence) in becoming an entrepreneur. In line with the previous research in China and Russia, they find that sociological characteristics have the strongest influence on becoming an entrepreneur. In contrast, success as an entrepreneur is primarily determined by the individual's smartness and higher education in the family. Entrepreneurs are not more self-confident than non-entrepreneurs; and overconfidence is bad for business success.

Robert Poppe

**The Matching Approach on Expenditure Patterns of Migrant Households: Evidence from Moldova**

*Kiel Advanced Studies Working Paper No. 444, July 2007*  
*<http://www.ifw-kiel.de/asp/aspwp/2007/aspwp444.pdf>*

Today workers' remittances are recognized as an important and stable source of development finance. The paper examines the effect of temporary and permanent migration on household expenditures and on asset/durables ownership. Using household survey data from Moldova, the paper compares expenditure patterns of non-migrant and migrant households, distinguishing between temporary migrant and permanent migrant households. The remittance behavior of temporary and permanent migrants is likely to be different, with permanent migrants remitting less as community and family ties become weaker. The paper finds that temporary migrant households have additional expenditures for food compared to non-migrant households. Further, non-migrant and temporary migrant households have higher expenditures for the repayment of loans than permanent migrant households. Concerning the ownership of goods or assets in 2006 compared to the regional crisis in 1998, temporary migrant households are more likely to own more assets or goods than non-migrant households.

Jan Hoem, Aiva Jasilioniene, Dora Kostova, Cornelia Muresan  
**The Second Demographic Transition in Selected Countries in Central and Eastern Europe: Union Formation as a Demographic Manifestation**

*Max Planck Institute for Demographic Research WP 2007-026, August 2007*  
*[www.demogr.mpg.de/papers/working/wp-2007-026.pdf](http://www.demogr.mpg.de/papers/working/wp-2007-026.pdf)*

Using data from the first round of the national Gender and Generations Surveys in Russia, Romania, and Bulgaria, and from a similar survey for Hungary, the authors study the growth of nonmarital cohabitation as a competitor to conventional marriage in the first union formed. The issue is considered within the framework of the so-called Second Demographic Transition theory of value change in the direction of increasing tolerance in family matters and of women's autonomy. Among the findings is a strong drop in most marriage-for-formation risks from 1980 to 2001-2005 (depending on the sample) in all four countries and an increase in risks of entry into nonmarital unions in Russia, Romania, and Hungary, but surprisingly not in Bulgaria. It is also evident that this demographic change did not start simultaneously in all countries, and above all it began well before the fall of communism.

William Pyle

**Organized Business, Political Regimes and Property Rights across the Russian Federation**

*BOFIT Discussion Paper No. 18, August 2007*  
*<http://www.bof.fi/bofit>*

The paper explores the inter-relationship of collective action within the business community, the nature of the political regime and the security of firms' property rights. Drawing on a pair of surveys recently administered in Russia, the author presents evidence that post-communist business associations have begun to coordinate business influence over state actors in a manner that is sensitive to regional politics. A firm's ability to defend itself from government predation and to shape its institutional environment as well as its propensity to invest in physical capital is strongly related to both its membership in a business association and the level of democratization in its region. Of particular note, the positive effect of association membership on securing property rights increases in less democratic regions. The evidence, that is, suggests that collective action in the business community substitutes for democratic pressure in constraining public officials.

Balazs Egert and Dubravko Mihaljek

**Determinants of House Prices in Central and Eastern Europe**  
*The Bank of International Settlements Working Paper No. 236, September 2007*

*<http://www.bis.org/publ/work236.pdf>*

The paper studies the determinants of house prices in eight transition economies of Central and Eastern Europe and 19 OECD countries. Although house prices in the CEE countries remain on average far below western European levels, they have been catching up rapidly, with sustained real annual increases into double-digits not uncommon. The main question addressed is whether the conventional fundamental determinants of house prices, such as GDP per capita, real interest rates, housing credit and demographic factors, have driven observed house prices in CEE. The authors show that house prices in CEE are indeed determined to a large extent by these fundamentals, as well as some transition-specific factors, in particular institutional development of housing markets and housing finance. Countries that have implemented greater and faster improvements in housing market and housing finance institutions have also experienced faster growth of house prices.

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