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INDEPENDENT EVALUATION GROUP ASSESSES DOING BUSINESS INDICATORS

Washington DC, June 12, 2008. "Doing Business" (DB), an annual World Bank-IFC exercise that ranks 178 countries on selected indicators of the business climate, has been highly effective in drawing attention to the burdens of business regulation, according to a new study released today by the Independent Evaluation Group (IEG). Yet the select features of these indicators stress too partial a picture of the considerations regarding policy reforms applicable to a country's business climate.

According to IEG, the DB Indicators have opened up a productive dialogue about the business climate among policy makers, businesses and NGO communities. In Moldova and the Netherlands, for example, the DBI raised awareness of regulatory issues and increased the pressure for further changes. But the DB indicators do not cover, nor purport to cover, crucial factors on which investment decisions depend, such as infrastructure, labor skills, or corruption and macroeconomic stability. Nor do they consider the range of regulatory impacts. "Regulatory frameworks involve costs as well as potential benefits, both to businesses and to society," said Vinod Thomas, IEG's Director General. "DB's approach tallies a part of these costs to business and not the benefits of regulation, which are also important for policy making."

DB ranks countries on 10 indicators of business regulation – for example, the time and cost to meet government requirements in business registration, operation, trade, taxation, and bankruptcy. The data are comparable across countries, although by their nature they leave out many country-specific factors. On seven of the ten indicators, less regulation generally gets a higher score, whether a country starts with a little or a lot of regulation. The evaluation underscores that this feature makes it difficult to tell whether DB's top-ranked countries have regulations that are good and efficient or simply insufficient or inadequate from a socio-economic viewpoint.

DB's indicator about 'employing workers' measures the burden of selected regulations governing hiring, firing and working conditions. The evaluation finds that the indicator is consistent with the letter of the relevant provisions of the International Labor Organization (ILO), but not always with their intent. For example, it generally gives worse scores to countries that have greater job protection than the ILO baseline -- and it gives high scores to some countries with insufficient labor regulation (for example the Marshall Islands) similar to others with strong regulations (Singapore, for example).

The evaluation also finds that the lower the total taxes on firms, the higher a country scores on the total tax rate sub-indicator, which is one element of the paying taxes indicator. In the 2008 report, for example, Vanuatu, Maldives, Kuwait, and United Arab Emirates were DB's four top-ranked countries on the total tax rate indicator. Each of them has a special characteristic that enables firms to avoid taxes. Vanuatu, a small Pacific island that has set itself up as a tax haven, does not impose personal or corporate income taxes. Maldives, too, has no income tax. These top-ranked countries would not be models for those seeking an optimal level of corporate taxation. The evaluation recommends reporting the total tax rate separately but not including it in the paying taxes indicator.

To establish its annual rankings, the Bank Group collects information from unpaid expert informants in each country. This process can produce reliable data, but the evaluation identifies shortcomings that will need to be addressed to strengthen DB's credibility. In the evaluation's case study countries only two informants on average – mostly lawyers – and only informants in each country's largest city provide the data underpinning each indicator. "DB needs to rely on more informants, with more diverse expertise, and they need to be more up front about how many sources they actually have for each rating by country", said Victoria Elliott, lead author of the evaluation. "A more systematic selection process and simpler questionnaires could help build the DB informant base," she noted.

The evaluation notes that the DB website is widely used and central to its communications efforts. However, IEG found that around 40% of the data points used for construction of the 2007 Ease of Doing Business Ranking were changed after they were posted, without making note of the changes and their effects on the country rankings. "For the sake of transparency, and especially to help the many researchers who use these data, the website should disclose all data corrections and changes as they are made and explain their implications for the rankings," proposed Victoria Elliott.

The IEG evaluation concludes that DB can be a useful tool for sparking debate, but the World Bank Group needs to make clear what the DB indicators measure and what they do not. Policy use of the indicators for reform must be informed by the knowledge that they partially measure the costs to business of certain regulations, and not any benefits, and that factors not measured by DB are essential to the investment climate in a country. IEG further suggests tracing the impact of DB indicators on three outcomes: efficiency of the regulations; perceptions of the regulatory burden; and firm performance.

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To view World Bank Senior Management's response to the evaluation: Please visit
http://www.worlbank.org/ieg/doingbusiness/man_response.html

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