

# Chairperson's Summary: Committee on Development Effectiveness (CODE)

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**B**ackground. The *Doing Business* (DB) report measures the burden of business regulation and ranks countries on 10 dimensions. The objective is to advance the private sector development agenda by motivating reforms via benchmarking; inform the design of reforms; enrich international initiatives on development effectiveness; and inform theory. This evaluation of the DB report takes an independent look at how indicators are constructed and what they measure.

**IEG Main Findings.** The evaluation finds DB indicators have been effective in drawing attention to the burdens of business regulation, but cannot capture other important dimensions of a country's business climate, the benefits of regulation, or related aspects of development. This underscores the need for DB to be interpreted cautiously and used in conjunction with complementary tools such as Investment Climate Assessments. The number and diversity of DB informants need to be increased and their information better validated. The DB should take a strategic approach to selecting and increasing informants; define and publish informant selection criteria; and be more transparent about its informant base and changes in data. DB assesses regulations as they are written, not the extent or way in which they are applied. The DB reports should not overstate the indicators' explanatory power. The total tax rate subindicator goes beyond administrative burden to also reflect a country's fiscal policy choices. Thus IEG recommends that the DB exclude it from the calculation of the aggregate ranking but continue to collect and publish this important information. The DB team routinely changes a large share of the data after it has been published and

posted on the Web site; it should acknowledge that its published data are subject to change and make available to researchers all versions of the data set. The DB makes much of annual changes in country rankings, but these need to be understood in context. The DB team should make clear that DB measures reductions in regulatory costs and tracks reforms at the country level, but is not a general indicator of investment climate quality. Lastly, the DB team should use Bank analyses to inform the development of further DB indicators, and should pilot and stabilize methodology before including new indicators.

**Draft Management Response.** Management welcomed the evaluation of the DB report, noting its acknowledgement that the DB exercise has been highly effective in spurring dialogue and action on reforms, and the recommendation that similar benchmarking be applied to other development issues. Management highlighted three issues in the IEG recommendations. IEG recommends that DB revise the *paying taxes* indicator to include only administrative burden measures and continue to collect and present information on the tax rate but exclude it from the rankings.

However, management finds that this is not consistent with IEG's recommendation on use of Enterprise Surveys and Investment Climate Assessments to determine regulatory reform priorities, as Enterprise Surveys regularly identify the tax burden as a major concern to entrepreneurs. IEG recommends making available all previously published data sets to facilitate research, which in management's view would be unorthodox; in this context management also notes that back-calculated data series, adjusted for methodology changes and correction, are made available on the DB Web site. Management agrees with IEG's recommendation to increase DB informants, and is actively engaged in this area.

**DGE Statement.** DB is a widely recognized product of the World Bank Group (WBG) and a prominent part of its work on private sector development. Being a rating exercise, DB has also generated important questions and concerns. Just as it is important to disseminate what the DB indicators do, it is important to note what the DB indicators do not do. While measuring the regulatory burden that some firms in the formal sector face, it does not capture some of the most crucial variables affecting the investment climate of a country, such as macroeconomic stability, labor skills, access to credit, infrastructure, or corruption. Going further, they do not touch on the social or economy-wide benefits that regulations yield, such as safety, environmental protection, or worker protection. While a useful measure of the burden of legal regulations, they are not and should not be used as an index of the quality of a country's business climate.

**Overall Conclusions and Next Steps.** CODE members welcomed the IEG evaluation of the DB report as well as the Draft Management Response. Overall, members welcomed the IEG review of the DB indicators and commended the quality of the report. While noting that the DB report cannot capture all dimensions of a country's business climate, some members acknowledged its contributions in promoting reforms in some countries. Members raised a wide set of comments—among them: DB is work in progress; the DB report

should clarify what indicators are *not* intended to measure; DB can help governments improve their investment environment; DB needs a clear communication strategy to the public and use of disclaimers; the indicators may promote regulations but do not capture effective enforcement of the rules; there was recognition that DB indicators help to highlight the importance of regulations; IEG found some weaknesses in DB methodology that management should address; avoid using DB as ranking of countries that may have an impact on resource allocations; and take note that benchmarks and regulations are not unique to DB—as well as questions on how functional equivalence can be taken into account across common-law countries versus civil-law countries.

Most members agreed with IEG's recommendations for DB to take a strategic approach to selecting and increasing the number of informants. There were other comments on the methodology of DB: the need to look not only at what the DB indicators do not do, but rather focus on what they do; there should be emphasis on reliability of indicators; and the indicators should capture country advances or effective reforms. Some members cautioned against the use of DB indicators to top-rank countries. They questioned how to look at rankings. One member suggested including cost of regulations of FDI and DB indicators and to consider subnational governments' regulations. Another member felt the DB indicators do not lead to necessary reform and do not consider the political economy, and questioned the work of the DB indicators. On the *paying taxes* indicator, there were diverse views expressed by speakers, as some do not agree with IEG's recommendations to exclude tax rate from the indicator. Others questioned the rationale for including the tax rate as part of the *paying taxes* indicator. On the *employing workers* indicator, some speakers noted that it may overstate what it measures.

One member suggested disclosing the DB report together with the IEG review. Management stated that it has taken note of comments and suggestions raised during the meeting.

The following main issues were raised at the meeting:

**IEG Evaluation and DB Report.** Several members welcomed the IEG evaluation of the DB indicators. A member suggested it be published as part of, or alongside, the DB report. *Management commented that publishing the evaluation with the report, and doing so annually, would not be the most practical approach.* A speaker proposed that the IEG evaluation be featured on the DB Web site. *IEG confirmed that there would be active dissemination of the DB evaluation.* Several members noted DB had spurred debate and has been helpful in improving regulatory environments. At the same time, some members remarked that the DB report had shortcomings and that it was a work in progress. A member wondered how DB had become a flagship document if so many shortcomings existed, while a speaker queried as to the quality checks needed to launch a WBG product. One member noted that for small states, this was a very good tool, allowing countries to assess their business environment. A speaker added that DB was a product that people wanted to read, understand, and apply.

**DB Indicators.** A member stated that the methodology behind the DB indicators needed clarification, while the indicators had to be simple and easy to understand. *Management noted that one of the fundamental objectives of DB was to continuously improve indicators to make them relevant and accurate.* Another member made the case that there was no need to continue to produce DB and suggested that comparative studies on regulation issues be emphasized. A speaker commented that DB needed to be clearer as to how an indicator reflects specific outcomes (i.e., registering a business vs. number of licenses), as some indicators have issues related to health and safety. *Management noted that the indicators do not claim to measure all aspects of the business environment, and that the decision to keep DB relatively focused was in keeping with an earlier Board discussion.* *Management agreed that it is important to keep improving the description of what the indica-*

*tors measure. The DGE commented that the DB indicators had sparked constructive debate among country authorities and business interests, while also provoking fears that it may distort policy priorities among country authorities and in the WBG by emphasizing the private costs of regulation at the expense of social benefits.*

A member noted that perhaps the IEG report was underestimating DB users (i.e., policy makers), as they do not necessarily read DB as a document that promotes “no regulations.” In that sense, he added that policy makers use the DB report when developing policy and can compare with countries that have implemented similar regulations. *Management agreed that policy makers are faced with a wide range of stakeholders they have to respond to and should not be underestimated.* *IEG noted that the evaluation finds that policy makers used DB as one tool among others in developing policy reforms. The DB reports should avoid claiming that specific reforms were directly stimulated by the DB indicators.* *IEG further recommends that the DB team work with country teams to trace the impact of country-level reforms measured by the DB indicators.* One member asked that the DB indicators not be used in Bank operations, particularly resource allocation, while another member noted that since these are partial indicators they should be used with prudence. A member noted that Operations Policy and Country Services should look into how IEG’s evaluations can affect the use of the DB indicators in the CPIA exercise. *Management noted that for background information, the CPIA draws on a number of data sets, each of which covers only some aspects of economic performance.*

**Regulation vs. Deregulation.** A member commented that improved indicators may not necessarily lead to correct reforms since they are designed with the assumption that the lighter the regulation, the better. *Management clarified that the DB report does not reject regulation; instead it is the issues of quality and efficiency of rules that are the focus of the DB report.* *IEG noted that their evaluation supports*

that policy makers use the DB indicators sensibly and in tandem with other data. One member observed that the tension that exists with regulations that can either be promoted by rent-seekers or to protect the public interest is always present. *The DGE observed that the WBG has the responsibility to emphasize both the importance of efficiency in implementing regulations as well as their potential value added.*

**Disclaimer and Transparency.** Several members noted the importance of communicating what the DB report measures. A member remarked that DB was not a business-climate ranking or indicator and that it was important to communicate (i.e., disclaimer) the meaning of these regulatory indicators. *Management added that it was very important for the Bank to communicate what it is that we are measuring and what we are not.* Some speakers noted that they would like clear disclaimers and comments on the social value of good regulation. *Management remarked that the DB report has a “health warning.” It added that it would look to further explain that deregulation is not the main purpose of the DB report.*

**Regulation Enforcement and Impact.** A few members commented that indicators measuring regulation effectiveness must also measure impact on the ground. *Management noted that the DB report not only looks at the level of regulation but also at the compliance cost and how this affects local entrepreneurs. It also added that there is a dimension of enforcement and implementation that is being observed by comparing DB data with data from the Enterprise Surveys, which capture the experience of actual business owners.*

**Country Rankings.** Some members noted that country rankings needed further work, as a change in rankings does not necessarily improve the regulatory environment, thus making the exercise arbitrary. *Management commented that in some cases the DB indicators look for more regulation (i.e., protecting investors); while other indicators will give the lowest*

*ranking if you have no regulation (i.e., property registry). IEG pointed out that the introduction of the “Reformer’s Club” in the DB marketing clearly signals a normative interpretation to the rankings.* A member added that countries have varied constraints (e.g. scarce resources, limited capacity), and these may be exacerbated by competition to improve rankings. He further added that the Bank is not in a position to rank its members. *Management noted that countries have used the indicators constructively, while also taking into account quality issues and country-specific limitations.*

One member asked that the request to withdraw the rankings should be seriously considered. Another member suggested that a best practice component could be added, while another member noted that benchmarks are not unique to DB and are part of a wave of international standards. A speaker observed that measurements for these rankings change after the release of the DB report. *Management added that when comparing the exercise to a similar evaluation at the OECD (i.e., Product Market Regulation for OECD Countries), in the case of regulatory complexity and costs, the OECD and DB rankings are highly correlated. IEG noted that improvement in DB country rankings should not be characterized as improvements in the business climate; rather, they should be interpreted as a partial indicator of a reduction in the regulatory burden.*

**Paying Taxes Indicator.** A few members noted that the tax rate issue was an important one to flag and should be considered. A member noted that it would be useful to retain the tax rate as part of the *paying taxes* indicator, while another member commented that the term “total tax” was misleading. *IEG noted that the reliance on a sole source for information underlying the paying taxes indicator is risky. IEG recommends that DB continue to gather and publish important information about taxes that firms pay, but discontinue factoring this into the overall rankings. IEG commented that depending on a country’s resources and fiscal requirements,*

lowering taxes could prove to be negative for the investment climate, and indirectly for individual firms. A member stressed that the tax system should be taken in its totality to evaluate the associated burden or ease for undertaking business in a country. A speaker disagreed with the proposed changes to the *paying taxes* indicator, as tax remains one of the major business constraints for business development (i.e., in the Africa Region) and argued that focusing only on the administrative burden of paying taxes will weaken the DB methodology. Another speaker noted that the issue was not the tax rate per se, but at which threshold it became a burden to business activity. *Management noted that it did not agree with excluding the tax rate. It noted that in the Enterprise Surveys, one of the issues most raised by business owners is the tax burden.*

**Employing Workers Indicator.** A few speakers thought that the WBG should encourage countries to guarantee internationally recognized worker rights and that DB should look to reflect certain labor standards (e.g., collective bargaining, forced labor). *Management noted that the employing workers indicator is consistent with ILO standards. IEG noted that there are anomalies in the employing workers ranking, as the top country is Singapore, with very good regulations, while the Marshall Islands, with no regulations, is second.* A speaker commented that no one would confuse Singapore with the Marshall Islands when it comes to labor market regulation. *Management noted that by focusing on the regulatory costs associated with employing workers, this indicator provides a basis for analysis of how regulation relates to important outcomes such as informality or higher levels of women or youth employed. In that sense, a DB indicator triggers a conversation about a range of issues related to it. Management added that*

*ongoing DB work is focusing on issues related to potential gender discrimination.*

**Increasing Informants.** Members noted that management should use a strategic approach to selecting and increasing the number of informants (e.g., accounting, tax experts) for DB. A few speakers added that these should include relevant stakeholders (e.g., employers, consumers). *IEG commented that DB should disclose how many informants are the sources for each indicator, and that the reliability of the ratings would improve if this number were increased.*

**Nomenclature.** Speakers noted that titles for DB indicators should more clearly reflect what they are measuring. *IEG recommended that the DB report be precise in the language used to describe what is being measured, as the names of the many indicators may overstate the scope of their coverage. In the case of employing workers, it covers specific rules about the hiring and firing of workers and hours of work, but does not cover other critical areas (e.g., union rights, child labor).*

**New Indicators and Subnational Regulation.** A member suggested including the cost of regulations on foreign direct investment within DB. *Management noted that it was in the early stages of piloting a foreign direct investment indicator. IEG and management agreed that it is important to pilot-test and validate new methodologies before introducing any new indicators.* A member proposed that subnational government regulation be looked into. *Management agreed with the idea of looking into subnational-level regulation (i.e., across cities) and noted that it already has such a program and now covers over 200 cities globally with subnational reports.*

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Giovanni Majnoni  
Acting Chairman