ELEPHANTS IN THE ROOM

The World Bank's Doing Business Indicators Still Work

They are among the institution's most powerful tools — heed not the critics.

BY DANIEL RUNDE | FEBRUARY 23, 2018, 3:39 PM

The World Bank's Doing Business indicators are one of the institution's greatest contributions of the past 50 years. I first described them here in 2013. The United States, as the institution's largest shareholder, should be proud of what these indicators have accomplished. Their incredible success in the past 15 years in particular has given rise to critics who would shutter them if an opportunity presented itself. Shareholders such as the United States need to be vigilant about the health of Doing Business and ensure that it remains the important and vibrant instrument that it has become.

The Doing Business indicators measure the costs and the number of steps for starting a formal business — for example, a car dealership. If one were to open a car dealership in Madagascar, it would take eight days and cost 35.8 percent of the average annual income (this cost includes official fees and fees for legal or professional services). If one wanted to open a car dealership in Malaysia, it would take 18 to 19 days and cost 5.4 percent of the average annual income. Contrast this with opening a car dealership in United States, where it would only take around four days and cost 1.3 percent of the average annual income. The steps and costs reflect rules, and sometimes the corruption, in a system. The Doing Business indicators show these differences and shine a light on potential problems. The easiest number of steps and lowest cost reflects a frontier for what is possible. Most countries will never reach that frontier, but the Doing Business indicators help set a direction for progress.

The existence of Doing Business has brought about thousands of reforms across the world over the last 15 years. They have led to job creation and improved access to credit and business registration, enhancing competition and investment opportunities worldwide.

The United States and many other governments use ease of doing business rankings and the indicators as a policy dialogue icebreaker. Moreover, Doing Business uses country pride and even national chauvinism as a form of jiu jitsu to get countries to reform policies that impact business regulations.

Doing Business doesn't tell the whole story. The indicators should be considered alongside many others. In an annual physical, one undergoes a number of tests to determine one's health. Doing Business is a sort of economic cholesterol check — important, even critical, but not the whole story.

The Doing Business indicators have generated criticisms for a variety of reasons. Some of the controversies are related to the changes in methodology: The indicators have been revised several times to improve their measurements and to respond to the latest trends arising in the business environment so that the tool remains current and useful (for example, the number of procedures for obtaining a landline telephone connection is not relevant anymore). The World Bank has been transparent about revisions and has made them after consultations with a variety of stakeholders. In turn, as with any other index and ranking, certain countries have disagreed with their assessment, especially when compared to some of their neighbors. The indicators have generated criticism because they assume that the private sector plays a vital role in the development of an economy. That criticism is no longer valid: A variety of United Nations processes — including the Sustainable Development Goals and the Addis Ababa development financing conference — have recognized the leading role that the private sector plays in an economy. Finally, some critics perceive Doing Business as a libertarian argument against the collection of taxes. On the contrary, Doing Business facilitates the participation of companies in the formal economy, including the payment of taxes and respect for the legal framework. Therefore, this argument has no basis. Doing Business has played a positive role in encouraging all types of entrepreneurs to do business formally and generate employment around the world.

Many critics dislike Doing Business even though it helps accomplish many of the goals of what we might call the international development consensus. For example, members of this consensus often want to see the World Bank focus on "global public goods." Doing Business is an important public good that the World Bank provides. Others who are part of the international development consensus talk about the importance of making decisions about development based on evidence and data. Doing Business is by its very nature evidence-based and data-driven. The international development consensus would like to see an increase in taxpayers (so-called domestic resource mobilization) in developing countries, in line with the Addis Ababa Action Agenda.

Making it easier for enterprises to participate in the formal economy means that they pay taxes. The consensus, quite reasonably, calls for more women's economic empowerment in the developing world. If we want to see empowerment, that generally means women participating in the formal economy, accessing loans from banks, and participating in global supply chains. Any business that seeks bank loans or seeks to participate in supply chains needs to be a formal business. Making it easier for anyone to start a business also has a positive impact on women's economic empowerment.

Doing Business faced heavy questioning a few years ago. An outside review committee gave the indicators serious attention in 2013. The U.S. government — both Congress and the executive branch — weighed in favorably on behalf of the project. In some ways, this major review was a good thing. After the institution's recent controversy over charges of political bias, management and the board reviewed Doing Business extensively and correctly decided to continue backing it.

The specifics of the controversy are as follows: The Doing Business indicators have been subject to a number of methodological adjustments. These have been relatively minor in impact on most countries' rankings. In the case of Chile, for a variety of reasons, the rankings swung more wildly, in such a way that the center-left Michelle Bachelet administration accused the World Bank and the rankings of being politically motivated. To make matters worse, Paul Romer, then the chief economist of the World Bank, in response to a question from the *Wall Street Journal* about the possibility of the the ranking being "tainted by the political motivations of bank staff" seemed to imply that he found the rankings unfair and misleading, and he said he would "recalculate national rankings of business competitiveness." This caused a furor. Romer retracted his statement within 72 hours, the World Bank board reviewed the indicators, and management formally responded. The chances of the World Bank adjusting the metrics to influence the Chilean elections given that there are 190 countries measured is preposterous. Also, the Center Right government of Sebastián Piñera won by 9 points. It is very hard to believe that the average man or woman on the street of Santiago made their voting decision based on the relative swings of the Doing Business indicators. More likely, the voters of Chile made their decision about the presidency based on promises of economic growth and increased spending on infrastructure and hospitals. The complaints of the outgoing Bachelet government seem truculent and petty in search of a scapegoat. Regardless, the negative attention on the Doing Business indicators caused some (hopefully short-term) damage to the Doing Business brand.

In the future, the World Bank's money will be less and less important. Instead, its analytics, data, and ability to share lessons across countries are going to be increasingly valued. The World Bank imprimatur also matters more than we appreciate in the United States. The Doing Business indicators should be a big part of the World Bank's future. Countries that seek to make improvements in their rankings of Doing Business are countries that seek to have better governance and have reform-minded governments. After 15 years of effort, Doing Business has improved with time and is one of the most valuable assets of the World Bank Group.

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