

Approach Paper
The World Bank and IFC *Doing Business* Indicators:
An Independent Evaluation Group Review
May 2007

Investment Climate in the World Bank's Strategy

1. The World Bank's 2001 poverty reduction strategy includes as one of its pillars "building the climate for investment, jobs, and sustainable growth".¹ As noted in the 2005 *World Development Report*, improving the opportunities and incentives for firms of all types to invest productively, create jobs, and expand should be a top priority for governments (World Bank 2004).² As part of its focus on investment climate issues, the Bank conducts analytical and advisory work that includes two standardized diagnostic tools, Investment Climate Assessments and the more recent *Doing Business* project. The Independent Evaluation Group's (IEG) 2006 evaluation of the World Bank Group's assistance to improving the investment climate (see Box 1) found that Investment Climate Assessments need to focus on specific country needs, take into account the heterogeneity of investment climate conditions, and balance business perspectives with broader economic and social concerns. IEG is now launching, at the request of several Board members, an evaluation of the *Doing Business* project, which has grown to be a large and highly visible part of the Bank Group's analytical work on the investment climate.

Box 1. Improving Investment Climates: An Evaluation of World Bank Group Assistance

The 2006 evaluation found that the objective of improving investment climates in client countries has recently moved to center stage in the World Bank Group's approach to sustainable growth and poverty reduction. To date, the Bank Group's research and economic and sector work have provided insufficient guidance to client governments and staff. Institutions are key to the quality of the investment climate, but strategies for improving the investment climate have suffered from a lack of knowledge about what kinds of institutional arrangements will work in different environments. When establishing strategies for improving the investment climate, the Bank Group needs to understand country-specific constraints and opportunities as well as country-specific institutional designs. It is critical to build this understanding using local knowledge and expertise. The evaluation also recommended the Bank do a better job of prioritizing and packaging reforms in its lending operations, and integrating its microeconomic and macroeconomic reform agendas.

*Source: IEG 2006.*³

The *Doing Business* Project

2. The *Doing Business* project's stated objective when it commenced in 2004 was to "advance the World Bank Group's private sector development agenda" in four ways (World Bank and IFC 2003)⁴:

- Motivating reforms through country benchmarking
- Informing the design of reforms
- Enriching international initiatives on development effectiveness
- Informing theory.

3. The project gathers, reports, and ranks, annually, cross-country indicators on business regulations and the protection of property rights. A basic underlying assumption is that “the quality of business regulation and the institutions that enforce it are a major determinant of prosperity” (World Bank and IFC 2003).⁵ The first annual report of the *Doing Business* project, in 2004, analyzed five topics covering basic aspects of a firm’s life cycle in more than 130 countries. The project has expanded every year, and, in 2007, reported on 10 dimensions in 175 countries (see Chart 1). The project has also prepared eight regional and four sub-national reports, and three special studies on taxes, trade and the Dutch reform model, with eight sub-national reports in the pipeline.⁶

Chart 1. Topics Reported on in *Doing Business* Indicators

<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Starting a business	Starting a business	Starting a business	Starting a business
Hiring and firing workers	Hiring and firing workers	Hiring and firing workers	Employing workers
Enforcing contracts	Enforcing contracts	Enforcing contracts	Enforcing contracts
Getting credit	Getting credit	Getting credit	Getting credit
Closing a business	Closing a business	Closing a business	Closing a business
	Registering property	Registering property	Registering property
	Protecting investors	Protecting investors	Protecting investors
		Dealing with licenses	Dealing with licenses
		Paying taxes	Paying taxes
		Trading across borders	Trading across borders

Source: World Bank and IFC 2003, 2004, 2005, and 2006.⁷ New topics introduced in the year are shown in **bold**.

4. The *Doing Business* indicators consist of data for each country across the 10 dimensions and an aggregated ranking of countries’ “ease of doing business.” The reports also draw on the data, the rankings, and on country case studies to comment on who is reforming (for example, China, Eastern Europe in 2007) and who is not (for example, Eritrea in 2007), to make associations between reform and economic and social outcomes (“poor countries regulate business the most”), and to give recommendations on how to reform (“cut unnecessary procedures reducing the number of bureaucrats entrepreneurs interact with”).

5. The *Doing Business* project gathers data on measures of regulation (for instance, the number of procedures to register a business) and on outcomes (the time and cost to register a business). It does this by defining a hypothetical case with specific assumptions (say, a small limited-liability business operating in the capital city with a given level of start-up capital), reading the applicable laws in that country, estimating the data from the laws, and then verifying the data with the relevant legal or other professionals in the country. “Doing Business” seeks to differentiate its data from those reported in other investment climate surveys as being “objective” or “hard” data rather than “perceptions-based” data, derived from polls of experts.⁸

6. The *Doing Business* project has been a high-profile effort. The *Doing Business* unit claims that the 2007 report has received more than nine times as many media citations as the *World Development Report 2007*, that the project has inspired or informed 53 completed and 54 ongoing reforms, and that eight countries approached the unit for reform advice during a period

of 10 days in November 2006.⁹ Two of its indicators on starting a business are also being used to measure results under IDA 14.¹⁰

7. The project has been welcomed in many quarters for providing valuable quantitative information that can help policy makers design reform and for stimulating vigorous discussion and action among regulators and academics.¹¹ Several of the Bank's Executive Directors have lauded the project for spurring competition among countries to reform. But the project is not without its detractors. Critics, including some Bank Directors, have expressed concerns about the quality of the data and the rankings, and that an improvement on certain indicators may detract from social goals.¹²

Scope and Methodology of the Evaluation

8. IEG intends to evaluate the effectiveness of the *Doing Business* indicators. The evaluation seeks to assess the quality and reliability of the data, the relevance of the indicators to desired intermediate outputs and outcomes, and their use and usefulness to policy makers. The evaluation will rely on cross-country data and analysis as well as case studies in five to seven countries. The case studies will supplement quantitative data with qualitative information drawn from interviews with Bank staff, private sector representatives, government officials and donors. The team will seek to answer the following evaluative questions.

9. **Quality and Reliability:**

- **Data:** To what extent does the method of collecting the underlying data used to arrive at each country's indicator (reading of laws, selecting cases and survey respondents, conducting surveys, validating data, calculating scores, etc.) represent good statistical practice? Are the data derived from sources that can be validated and do the legal readings accurately capture the reality (accuracy)? To what extent do they track the same things across countries and over time (reliability and comparability)? How are missing data treated?
- **Ranking:** Is the method used to weight, aggregate, and rank the indicators appropriate?¹³ How robust are the rankings to changes in weighting, and to the assumptions in the cases?

10. To assess *quality and reliability*, the evaluation will assess the process for collecting *Doing Business* data in the case study countries, and one or two of the 10 dimensions on the basis of established methodological frameworks for constructing indicators.¹⁴ The team will include an expert in data measurement and the construction of composite indicators.

11. **Relevance:**

- **Underlying Assumptions:** Why have these specific indicators been selected? What are their theoretical underpinnings? What outputs and outcomes do they seek to help explain (for instance, growth, firm creation, etc.)?
- **Appropriateness of Chosen Indicators:** To what extent do the indicators actually explain the variation across countries in desired/hypothesized outputs/outcomes? Are the indicators complete (for what they seek to explain)? To what extent do improvements on

these indicators lead to the desired outputs/outcomes? Does their explanatory power vary depending on other factors (such as the context, the type of country)?

- **Consistency with Other Analysis:** How do priority areas for reforms identified in *Doing Business* compare with those identified in other Bank analytical work and lending? To what extent are the relative rankings and their changes over time consistent with other ratings of investment climate?

12. This part of the evaluation will rely on a review of the literature on investment climate, and cross-country econometric research to assess both the *relevance* and the *usefulness in cross-country analysis* (below in paragraph 13). The evaluation will conduct statistical analysis within an analytical framework to assess the consistency of the indicators with other indicators of investment climate and business regulation, and with the Bank's other analytical work in investment climate in the case study countries.

13. **Use and Usefulness:**

- **In Policy Reform:** How effective have the indicators been in achieving their stated objectives? Have they, for instance, motivated reforms through country benchmarking? Have they informed the design of reforms, including through Bank policy advice and loan conditionality?
- **In Cross-Country Analysis:** How useful are the indicators in informing theory by facilitating cross-country analytical work?

14. To assess the *use and usefulness* of the indicators, the evaluation will interview private sector representatives identified through the Chambers of Commerce, government officials, donors and Bank staff working on private sector development and economic policy in the case study countries, as well as review the *Doing Business* database, Bank loan documents, conditionality, country assistance strategies, and analytical work.

15. The evaluation is assembling a group of advisors who are experts in this field to guide the evaluation and review the background papers and final report. The panel currently includes Professor Steve Golub, Swarthmore College, and Dr. Güven Sak, Economic Policy Research Foundation of Turkey.

Team and Timeline

16. The evaluation will be conducted by the Corporate Evaluation and Methods unit of IEG under the overall guidance of Victoria Elliott, Manager. The evaluation is expected to be delivered to CODE in FY08.

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- ¹ World Bank. 2001. *Strategic Framework*. Washington, DC.
- ² World Bank. 2004. World Development Report 2005. *A Better Investment Climate for Everyone*. World Bank and Oxford University Press. New York.
- ³ Independent Evaluation Group. 2006. *Improving Investment Climates: An Evaluation of World Bank Group Assistance*. Washington, DC.
- ⁴ World Bank and IFC. 2003. *Doing Business in 2004: Understanding Regulation*. Washington, DC.
- ⁵ Ibid.
- ⁶ See <http://www.doingbusiness.org/downloads/>.
- ⁷ World Bank and IFC. 2003. World Bank and IFC. 2004. *Doing Business in 2005: Removing Obstacles to Growth*; World Bank and IFC. 2005. *Doing Business in 2006: Creating Jobs*; World Bank and IFC. 2007. *Doing Business in 2007: How to Reform*.
- ⁸ Business Environment Risk Intelligence is a perceptions-based survey that provides international investors with risk ratings for 50 countries based on assessments by in-house experts, drawing on previous ratings and outside experts and then evaluated by a panel of about 100 external experts. The World Competitiveness Yearbook analyzes the international competitiveness of 49 countries on the basis of hard data from international organizations (on economic performance, international trade and investment, public finance and fiscal policy, education, productivity, and infrastructure quality) and perception surveys of enterprise managers (on institutional frameworks, business legislation, management practices, and the impact of globalization).
- ⁹ Cited in an informal presentation to Board of Executive Directors of the World Bank, "New Initiatives in Measuring Reforms – Getting Finance, Doing Business, Enterprise Surveys," World Bank and IFC Finance and Private Sector Development Networks, December 12, 2006. Estimate of completed and ongoing reforms is as of May 3, 2007.
- ¹⁰ IDA 2005, Report from the Executive Directors of the International Development Association to the Board of Governors, *Additions to IDA Resources: Fourteenth Replenishment, Working Together to Achieve the Millennium Development Goals*, p. 52. (Available at http://siteresources.worldbank.org/IDA/Resources/14th_Replenishment_Final.pdf).
- ¹¹ See, among others, Schoar, A., "Evaluation of Doing Business (2004, 2005 and 2006 Reports)", *An Evaluation of Bank Research, 1998 – 2005*, 2006 (available at <http://siteresources.worldbank.org/DEC/Resources/84797-1109362238001/726454-1164121166494/3182920-1164133928090/Antoinette-Schoar.pdf>); Harford, T., "What Really Counts," *Financial Times Weekend Magazine*, January 28, 2006; and "Unblocking business – The World Bank's "Doing Business" report," *The Economist*, September 17, 2005;
- ¹² More specifically, critics have noted that the "hiring and firing" indicators could encourage countries to violate core ILO standards for worker's rights. See Bakvis, P., "How the World Bank and IMF Use the Doing Business Report to Promote Labour Market Deregulation in Developing Countries," ICFTU/Global Unions, Washington DC; and Bretton Woods Project, "Bank, Fund Sidestep Labour Standards; Promote Violation of Worker's Rights," Update 53, November 23, 2006.
- ¹³ The evaluation will draw on the note by the *Doing Business* unit (available at http://www.doingbusiness.org/documents/how_to_aggregate.pdf) explaining their aggregation methodology.
- ¹⁴ See, for example, Nardo, M. et al., 2005, "Handbook on Constructing Composite Indicators: Methodology and User Guide," OECD Statistics Working Paper, and Freudenberg, M., "Composite Indicators of Country Performance: A Critical Assessment," OECD Science, Technology and Industrial Working Papers, 2003/16.

