

IEG

INDEPENDENT EVALUATION GROUP



**Taking the measure of the
Doing Business Indicators:**

An Independent Evaluation

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Rankings are the essence of DB



- **DB's main value proposition**
- **DB ranks countries on each of 10 indicators**
- **The 10 rankings are averaged to generate an overall ranking for Ease of Doing Business**

Ranking drives design



- ▶ RANKINGS require linear and monotonic measurements
- ▶ RANKINGS CHANGES define „reforms“

Fewer regulations => a higher ranking



On seven of the 10 indicators....

- Starting and closing a business
- Enforcing contracts
- Trading across borders
- Registering property
- Protecting investors
- Dealing with construction permits

..... **the top-ranked countries are those with the fewest steps or the fewest rules**

Does top-ranked imply **well** regulated... or **un**regulated?



Singapore

Marshall Islands

Prohibition of Forced or Compulsory Labor

The law prohibits forced or compulsory labor, including by children.

No specific prohibition of forced and compulsory labor by children.

Prohibition of Child Labor and Minimum Age for Employment

The law prohibits the employment of children under 12 and restrictions on employing children between 12 and 16 are rigorous and strictly enforced.

No law or regulation setting a minimum age for employment of children.

Acceptable conditions of work

The law sets the standard legal workweek at 44 hours and one rest day for each week.

No legislation concerning maximum hours of work or occupational safety and health.

'Paying Taxes' rewards tax havens



- ▶ “Total tax rate” on business reflects national fiscal policies -- not ‘red tape’ or ‘regulatory burden’ .
- ▶ Top-rated countries include tax havens and oil states
- ▶ Recommendation: Exclude ‘tax rate’ from the ranking

‘Employing workers’: not consistent with the spirit of some ILO provisions



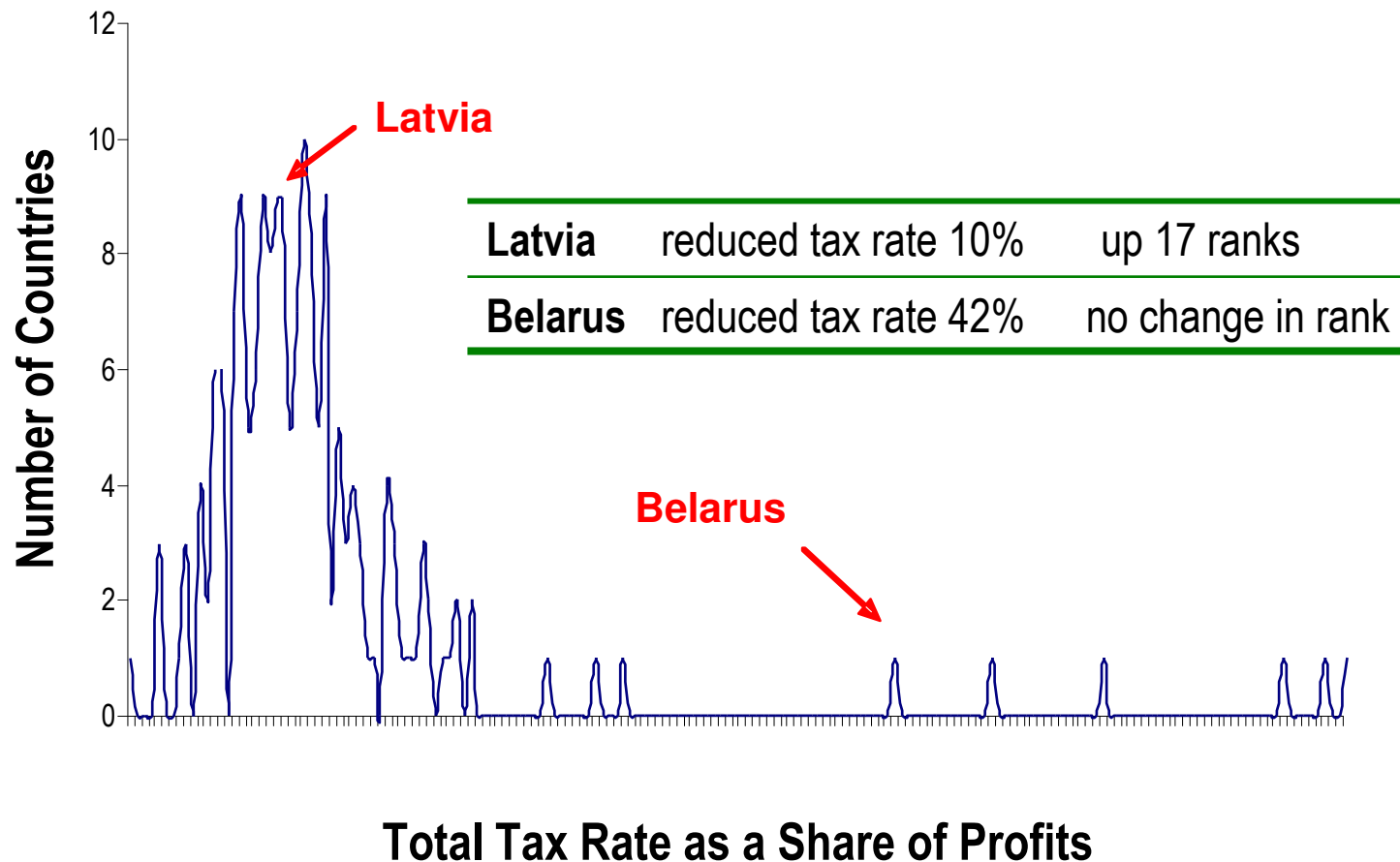
- ▶ ‘Ease of hiring’ and ‘Rigidity of hours’ – Consistent
- ▶ ‘Firing cost’ and ‘Ease of firing’ – 6 questions are consistent; **4 questions are consistent with the letter but not the spirit**

<i>Reassignment or retraining activities before layoffs?</i>	ILO does not require but asks for such consideration DB ranks countries higher who have no such requirement
<i>Clearly established criteria applying to redundancies?</i>	ILO does not require but recommends criteria DB ranks countries higher who have no such requirement
<i>How much severance pay must a redundant worker get?</i>	ILO does not set a specific severance scale but stipulates pay should be based on seniority, wage level, etc. DB ranks countries higher if less than 8 weeks pay given
<i>Notification of a third party for terminating a group of workers?</i>	ILO does not specify a cut-off number or percentage of workers to qualify as a group DB specifies cut-off as a group fewer than 25 workers

A change in ranking doesn't necessarily signify 'reform'



A major reform might generate no change in ranking. And a small reform might deliver a big change in ranking.



Do DB 'reforms' affect outcomes ?



- ▶ Evidence hasn't been presented. Cross-country comparisons are not a proxy for within-country changes
- ▶ DB should analyze effects of its rankings changes on firm performance, perceptions of business managers, and efficiency of regulatory environment

Average number of informants is low



	DB DIMENSIONS					
	<i>Employing Workers</i>	<i>Enforcing Contracts</i>	<i>Getting Credit</i>		<i>Paying Taxes</i>	<i>Starting a Business</i>
			<i>Legal Rights</i>	<i>Public/Private Credit Bureau</i>		
Average number of <u>questionnaire</u> informants (per country)	1.7	1.8	1.5	1.5	1.0	3.5

Using DB data for research: a cautionary note



- ▶ DB retroactively changes many of the data points after publication – 40% in 2007.
- ▶ The changed numbers are not indicated
- ▶ The reason for each change is not explained
- ▶ The supplanted data are removed and not made available anywhere

Should DB remain a World Bank Group 'flagship' ?



- ▶ DB measures only the private costs – and not the social benefits -- of regulation.
- ▶ What does the present crisis tell us about optimal regulation ?
- ▶ Where does the World Bank Group really stand ?

Learn more at....

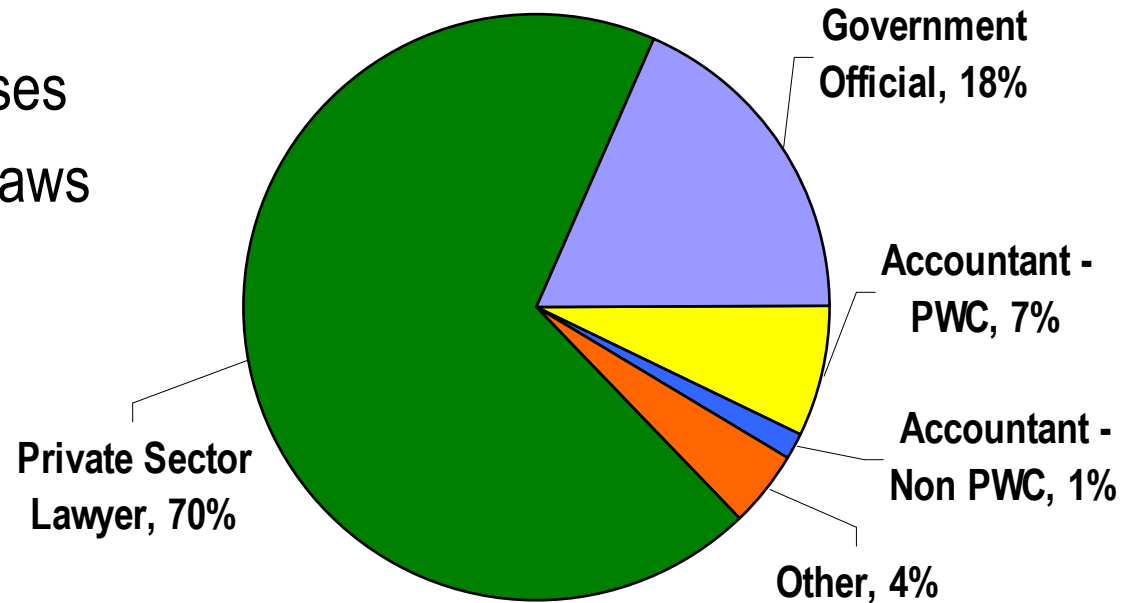


www.worldbank.org/ieg/doingbusiness

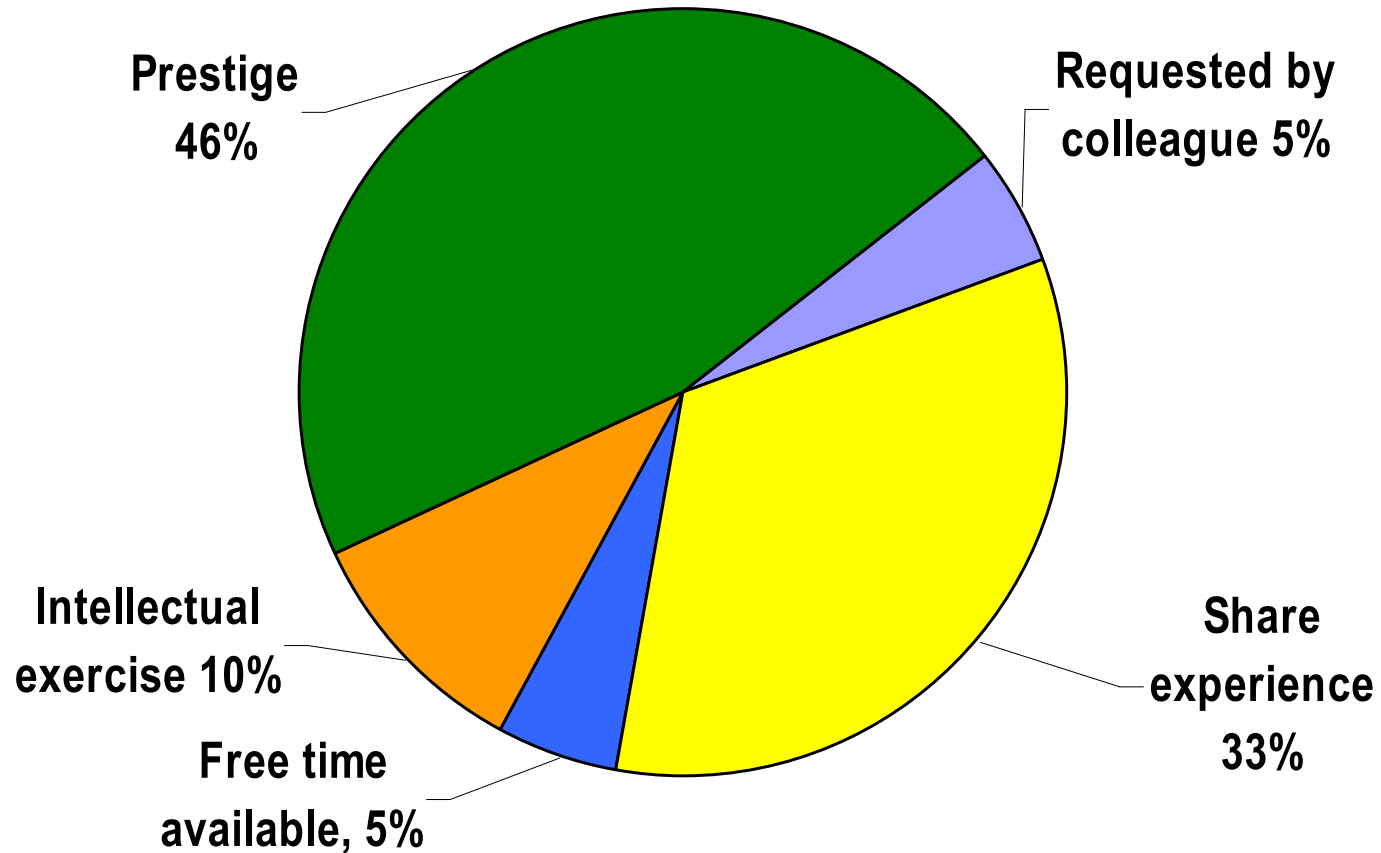
Where DB gets their data



- ▶ Who they are
- ▶ Uses standard cases
- ▶ Ask about formal laws



Why do they participate?



Standard cases



include...

Small and medium firms

Enterprises in the formal sector

Domestically owned firms and investors

Official and legal transactions and processes

Firms in the capital city

Limited liability companies

exclude...

Micro enterprises and state-owned enterprises

Enterprises in the informal sector

Foreign owned firms and foreign investors

Illegal, corrupt, informal and out-of-court transactions and processes

Firms outside the capital city

Sole proprietorships

Is DB rule-based?



- ▶ Ratings and rankings are grounded in written laws and estimates of practice. Opinions are collected but do not feature in the rankings
- ▶ 87 questions generate data for the Ease of Doing Business (EODB) ranking

Question type	No. of questions
Written law	70
Written law and estimates of practice	17
Opinion	188

Special problems with *Paying Taxes*



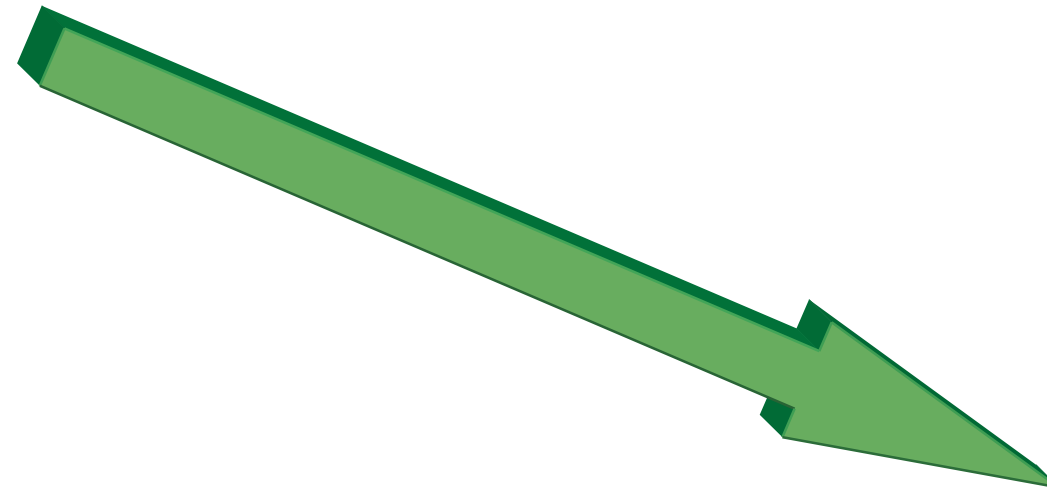
- ▶ Just one firm provides data for 142 countries
- ▶ Complex and murky calculations
- ▶ “Total tax rate” reflects fiscal policy not administrative burden

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			<i>Legal Rights</i>	<i>Public Private Credit Bureau</i>		
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Usefulness of the DBI



Catalyst for
Dialogue



Research Tool

Guide for
Policy Reform

DB measures only a few aspects of the overall business climate



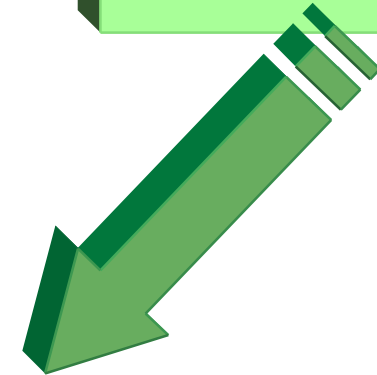
Stability &
Security

Regulation &
Taxation

Finance &
Infrastructure

Workers &
Labor Markets

- education - access and quality
- social insurance
- wage setting process
- **regulation of working conditions and hiring and firing of workers**



DB covers less than half of businesses' top constraints



1. Access and/or cost of financing	7. Anticompetitive or informal practices
2. Corruption	8. Restrictive labor regulations
3. Inefficient government bureaucracy	9. Political instability
4. Infrastructure (e.g. electricity, transportation)	10. Macroeconomic instability
5. Tax rates	11. Skills and education of workers
6. Tax administration	12. Economic and regulatory policy uncertainty

Shaded items are covered by DB

REC: Reveal and track changes in data



- ▶ Disclose all data corrections and changes as they are made, explaining their effect on the rankings
- ▶ To facilitate research, make available all previously published datasets