Independent Panel Review of the Doing Business report

June 2013
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## CONTENTS

EXECUTIVE SUMMARY ............................................................................................................... 1

- The report’s role and reputation ........................................................................................... 3
- Recommendations ................................................................................................................. 4

### A. PURPOSE OF THE REVIEW ......................................................................................... 7

- Review scope and timeline .................................................................................................... 7
- Rationale of the *Doing Business* report .............................................................................. 7
- The need for a review ............................................................................................................ 10

### B. OVERVIEW OF THE *DOING BUSINESS* REPORT ...................................................... 13

- Structure of the *Doing Business* report ............................................................................ 13
- Research topics .................................................................................................................... 14
- Data-collection methods ...................................................................................................... 15

### C. THE INDEPENDENT REVIEW PANEL’S EVALUATION .................................................. 18

- Analytical framework ........................................................................................................... 18
- The overall impact of the *Doing Business* report ............................................................. 18
- The use of aggregate rankings ............................................................................................. 20
- Methodologies ..................................................................................................................... 22
- Effectiveness and appropriateness of public messaging ....................................................... 26
- Suggestions for a way forward ............................................................................................ 27

### D. ANNEXURES .................................................................................................................... 31

- Annexure 1: Terms of reference for the *Doing Business* review panel ............................. 31
- Annexure 2: The Paying Taxes and Employing Workers indicators .................................... 34
- Annexure 3: The main criticisms of the *Doing Business* report ....................................... 42
- Annexure 4: Acronyms ........................................................................................................ 56
EXECUTIVE SUMMARY

In October 2012, the President of the World Bank Group appointed an independent panel of experts ("the Panel") to review a broad range of issues surrounding the Doing Business report, which is now in its tenth year of publication.

The Doing Business report attempts to provide a wide-ranging assessment of the business climate in 185 countries, primarily through the lens of formal regulations and procedures. It focuses on de jure (according to law) aspects of the business environment as they apply to small and medium-sized enterprises, with limited attention paid to implementation and customary practice.

The report ranks economies on 10 areas of regulation, which the report calls “topics” – starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. There is no other comparable project in terms of scale or scope.

The Doing Business report is a flagship knowledge product of the World Bank (the Bank). As such, it needs to be an authoritative, scientifically rigorous and well-crafted publication that provides meaningful input into policy discussions on how to improve the legal and regulatory climate for business around the world.

The Panel has analysed the publication’s contents over time and suggests that the Bank should continue publishing it, but that certain key considerations around its reliability and validity should be revisited.

While the Doing Business report has played a role in conveying new information relevant to monitoring aspects of the business climate on a timely and internationally comparable basis, there are many challenges associated with it. Key among these are the relevance of the information gathered, the aspects being measured, the spectrum of businesses being analysed (currently only small and medium-sized enterprises), and the basis of its comparability across economies with different needs and at differing stages of development.

The Panel is concerned about the following:

- The Doing Business report has the potential to be misinterpreted. It should not be viewed as providing a one-size-fits-all template for development. Empirical evidence on the results of business-regulation reforms captured by the report is mixed and suggestive at best. Correlations between the report’s topics and developmental
outcomes often do point to a negative association between the regulatory burden and economic development and growth. However, such correlations do not justify a causal interpretation: it is notoriously difficult to establish a causal relationship between such variables at country level. Moreover, any correlation would only point to what is true “on average”. The evidence in favour of specific country reforms is contingent on many auxiliary factors not captured by Doing Business report topics.

- **The report relies on a narrow information source.** While there is no obvious alternative to the report among existing global data-collection exercises and its results are generally in line with other business-environment studies that survey firms and experts, it makes far-reaching observations based on data gathered from sources with a relatively narrow perspective on the business environment. The abiding question is whether the experts – primarily lawyers – are the best source for the requisite primary data. A related consideration is whether the questions posed are appropriate given what they are intended to measure.

- **The report only measures regulations applicable to categories of business that can be captured through its methodology.** The representativeness of such businesses, and the relevance of these regulations, varies greatly from country to country. The report does not indicate how far its conclusions extend to firms outside its frame of reference. In addition, the real business world is very different to the one “on paper”. Triangulation of the investment/climate survey may provide a better starting point for measurement and comparison.

- **The report’s data-collection methodology can be improved.** Some of these improvements require additional resources, while others – like revisiting the Independent Evaluation Group’s recommendation to focus the measure of taxes on the administrative burden of paying taxes rather than the tax rates – can be implemented at little cost. This review identifies these improvements without making detailed recommendations, because this would require a governance process that draws on lessons learnt and considers feedback and criticism from various sources.

- **The report’s ability to enable countries to respond appropriately.** For example, India’s government has focused on the small and medium-sized enterprises sector to stimulate industrial growth and employment. Several grassroots studies in India have revealed that companies of this size struggle with the availability and cost of credit. However, the Doing Business report ranks India 23rd on the Getting Credit indicator (but 132nd in the world overall). This provides an obscure picture of the real constraints faced by small and medium-sized enterprises in India. If the Indian
government were to be guided by *Doing Business* rankings, it would focus on constraints that pull down the country’s overall ranking and not on the availability of credit. The report is therefore not an accurate instrument for broader policy considerations.

- **The perspectives offered by the Paying Taxes and Employing Workers topics.** The latter has already been excluded from the report’s rankings. While there is a persuasive case for paying attention to these aspects of doing business, the Bank will need to carefully consider the correct way to assess the regulation and legal environment of these areas if these indicators are to be retained.

- **The governance of the project.** There is no regular formal external review of the *Doing Business* report and internal communication between the Bank’s different units could be strengthened.

- **The use of aggregate rankings.** The aggregation of indicators to produce the “Ease of Doing Business” rankings table has been a contentious issue since the *Doing Business* report started carrying them in 2006. Rankings are challenging because they involve aggregating across indicators (topics) – a process that explicitly or implicitly involves a value judgment of what is “better” for doing business and how much better it is – and because small revisions or inaccuracies in primary data can significantly change a country’s rankings.

**The report’s role and reputation**

The World Bank’s views on the objectives of economic growth and development, and the best way to attain these objectives, are continuously evolving. For example, in its *World Development Report 2013*, the Bank puts forward a nuanced view on labour regulations, suggesting that governments should strive for a balanced combination of labour regulation and management practice that is unique to their country’s stage of development. This message differs markedly from the perspective associated with the report in its earlier years.

Ideally, the Bank’s various knowledge products should align with its stated objectives and each other. The *Doing Business* report’s aim should therefore be to provide each country with the ability to measure itself against its own stated “ease of doing business” and economic growth objectives.

*Doing Business* users should fully understand the report’s sphere of relevance and, importantly, its limitations. These caveats, which do appear in the small print on page 17 of
the 2013 Doing Business report, should be emphasised more prominently within the first few pages, and throughout the supporting communication strategy.

Furthermore, the report’s title, Doing Business, implies that it provides a comprehensive measure of the business environment, rather than just a measure of business regulations. Changing the report’s name would go some way towards addressing this problem and signalling a commitment to transparency. One simple option would be to revert to the 2004 title, Doing Business: Understanding Regulations, and brand it as such.

Recommendations


2. Remove the aggregate rankings. The decision to retain or drop the aggregate rankings table is the most important decision the Bank faces with regard to the Doing Business report. Removing it would defuse many of the criticisms levelled against the report, but would diminish the report’s influence on policy and public discussion in the short term. In the long term, however, doing so may improve focus on underlying substantive issues and enhance the report’s value.

It is important to remember that the report is intended to be a pure knowledge project. As such, its role is to inform policy, not to prescribe it or outline a normative position, which the rankings to some extent do.

The Panel recommends that the Bank continue to publish the report but without the overall aggregate rankings (the Ease of Doing Business index). Rather, the scores (cardinal values) for each of the indicators should be emphasised. The country rankings (ordinal values) for each indicator could be maintained, although the Panel regards the cardinal scores as being more informative. Scores have the advantage of showing where a country is located in the world distribution of an indicator. Ordinal rankings cannot signal such absolute performance. Moreover, there is no strong justification for the current simple averaging across indicators to produce the Ease of Doing Business index.

Even without the aggregate ranking, reform-minded countries would still be able to benefit from the primary data collected in the report. Parties interested in the rankings would still be able to use the report’s primary data to generate their own rankings without exposing the report to criticism, because such rankings would not implicitly be endorsed by the Bank.

3. Group by topic or shift to categories. The Bank should explore either grouping the “doing business” aspects into core topical areas, or shifting to categories of business endeavour as an alternative to ranking.
4. **Change the report’s title.** This is one way the report can clarify its limitations and be more clearly understood.

5. **Implement a peer-review process.** This would improve the report’s quality and provide a much-needed safety net. The Panel recommends forming a single body with external representation in this regard.

6. **Increase the report’s level of transparency.** Publishing all related information online, including contributors’ submissions, would increase the validity of the data and the credibility of the *Doing Business* project. It would also allow for possibly calculating a measure of uncertainty in scoring. Measurement errors are an enormous concern and the report would benefit if it was clear about the quality of the data, especially since the *Doing Business* data has been used for conditional lending practices (for example, the Millennium Challenge account) and for measuring the performance of various ministries.

7. **Reform the report’s methodology.** This review makes suggestions to improve the methodology used in compiling the report, with the understanding that it is the role of a robust governance process to remain responsive to new methods and feedback.

8. **Align the report with the World Bank’s mandate and other flagship publications.** Moving the report team to the Research Department would optimise use of the Bank’s economic analysis and research capacity, and help ensure that the message contained in the report synchronises with the Bank’s other flagship products.

9. **Relocate the *Doing Business* report in the World Bank.** The Panel recommends transferring the report team to the Bank’s Research Department and tasking the Development Economics Vice-Presidency with overseeing the methods and analysis used in compiling the report. The Panel also recommends improving the report’s governance framework, specifically with regard to operational design. It recommends that a senior Bank management group be tasked with approving the report before it is publicly released and ensuring that all necessary risk-mitigation steps have been taken.

10. **Improve the report’s communication strategy.** The Bank should consider whether to include a “health warning” about its limitations at the beginning of the report, rather than later in the publication, and whether to include a formal definition of the Ease of Doing Business index (if it is maintained despite the Panel’s recommendation to drop it).

11. **Ensure the use of complementary information available in enterprise surveys.** *Doing Business* currently measures only the regulation of the “formal” economy. The gap between the written law and the day-to-day practice can be significant, especially in developing countries with large informal sectors. The *Doing Business* report may benefit from supplementing its information with other sources, such as the enterprise surveys, to better
guide readers about the need to strengthen how the law is implemented or to signal which regulations in a given country are poorly designed.

The Bank is urged to consider these points when deciding on the path ahead.

The role and purpose of the World Bank

The role of the World Bank Group, as defined in the Bank’s 2012 annual report, is to work with country members to achieve equitable and sustainable economic growth in their national economies, taking into account other factors such as environmental sustainability. To this end, the Bank provides loans, risk-management products and expertise on development issues. The high-quality publications, data and analytical tools produced by the Bank have, over the past few decades, positioned it as the premier “knowledge bank”.

The Bank is aware that countries’ needs differ. For low-income countries, it has established the International Development Association. It offers middle-income countries competitive financial products, knowledge and learning services.

While the Bank does not present private-sector development and doing business as the ultimate goal of its activities, it does regard them as essential tools and intermediate objectives to achieve broader objectives. The International Finance Corporation (IFC), where the Doing Business project is located, explicitly seeks to enable conditions that are conducive to the flow of private capital, domestic and foreign, into productive investment in member countries.
A. PURPOSE OF THE REVIEW

In 2012, World Bank Group President Dr Jim Yong Kim appointed an independent panel of experts to review a broad range of issues around the Doing Business project (see “The Independent Review Panel”). The formal terms of reference for the review were finalised on 1 October 2012 (see Annexure 1, “Terms of reference for the Doing Business review panel”), and the Panel was publicly announced on 19 October 2012.

Review scope and timeline

The terms of reference (see Annexure 1) tasked the Panel with assessing and making recommendations on:

- The use of aggregate rankings in presenting data.
- The methodologies used in compiling the report’s indicators and the techniques used in gathering data, including possible areas for improvement.
- The effectiveness of public messaging linked to the report, including the effect of its title and communications about its limitations.
- Options for the way forward.

It was agreed with President Jim Yong Kim that the draft Doing Business Panel report would be submitted in June 2013.

Rationale of the Doing Business report

The World Bank’s mandate is to promote economic development as a means of reducing poverty. It achieves this primarily through lending. The Bank also contributes to the global debate on what kind of policies best support economic development by providing commentary and analyses through its four flagship knowledge products – the Doing Business report, the World Development Report, the Global Monitoring Report and Global Economic Prospects.
The Independent Review Panel

The \textit{Doing Business} report Independent Review Panel consisted of:

- **Trevor Manuel (Chairperson)**, Minister in The Presidency: National Planning Commission, South Africa
- **Carlos Arruda**, Associate Dean of Business Partnership and Director of Innovation and Entrepreneurship Center of Fundação Dom Cabral, Brazil
- **Dr Jihad Azour**, Vice-President at Booz and Company, former Minister of Finance, Lebanon
- **Chong-en Bai**, Professor of Economics and Chairperson of the Economics Department, Tsinghua University, Beijing, China
- **Timothy Besley**, Professor of Economics and Political Science at the London School of Economics, United Kingdom
- **Dong-Sung Cho**, Professor of Strategy and International Business at Seoul National University, Korea
- **Sergei Guriev**, Professor of Economics and Rector at the New Economic School in Moscow, Russia (appointed to the Panel in 2013)
- **Dr Huguette Labelle** (Canada), Chairperson of the Board of Directors, Transparency International
- **Jean Pierre Landau**, Visiting Lecturer of Public and International Affairs at Sciences Po, Paris, and former Deputy Governor of Banque de France
- **Arun Maira**, Member of the Planning Commission (minister level) of the Government of India and former Chairperson of the Boston Consulting Group in India
- **Hendrik Wolff** (Germany), Assistant Professor of Economics, University of Washington.

The Panel appointed the following as advisers:

- **Dr Jeffrey Owens**, Professor at the Institute of Austrian and International Tax Law, Vienna
- **Peter Bakvis**, Director of the International Trade Union Confederation.

The Panel is grateful to those who rendered administrative support and wishes to single out **Hanief Ebrahim** for a special note of appreciation.

\textit{Meetings and stakeholder interactions}

The Panel had an extensive global public outreach and engagement process. It also called for written email submissions and held a series of contact sessions. This was followed up with extensive correspondence and teleconferences. The Panel held four meetings – three in Washington, D.C. (4 December 2012, 4–5 March 2013 and 17–19 April 2013) and one in Paris, France on 17 May 2013. On these dates the Panel also met with a range of internal and external stakeholders, specifically:

- The Legal Vice Presidency Unit, represented by Anne-Marie Leroy
- The Independent Evaluation Group, represented by Mark Sundberg
- The World Bank’s executive directors
- The Chief Economist and Development Economics Vice-Presidency, represented by Dr Kaushik Basu
- The IFC, represented by Dr Jin-Yong Cai
- The International Chamber of Commerce, represented by Jean-Guy Carrier and Stephen Donnelly
- The civil society/non-government organisation sector, including the Catholic Agency for Overseas Development, International Advocacy, Center for Strategic and International Studies, Heritage Foundation, American Enterprise Institute, Cato Institute, Center of Concern, Center for International Private Enterprise, Global Unions, Techno Serve and United States Council for International Business.
The *Doing Business* report’s purpose is to support the global business environment by highlighting successes and failures in regulation and the legal system in 185 countries. Effective legal and regulatory systems are required for an economy to function properly. Laws are needed to establish property rights, facilitate contracting and regulate business. A poor regulatory and legal environment depresses and distorts returns on investment, which in turn lowers levels of investment and results in capital misallocation (where capital does not flow to its most productive uses). Conversely, a healthy regulatory and legal environment promotes potential economic growth by helping small and medium-sized enterprises and business to flourish.

Private capital, whether supported by capital inflows or domestically generated savings, dwarfs aid and lending by institutions like the Bank in encouraging investment and economic growth. It is thus the central pillar for creating prosperity, which in turn supports job creation and contributes to poverty reduction.

Despite the importance of an effective regulatory and legal system for economic growth, it is only recently that aspects of this environment have started to be measured and their consequences examined. The *Doing Business* report contributes to this growing body of knowledge, casting light on the costs, requirements and procedures facing small and medium-sized businesses around the world.

The *Doing Business* project is backed by a broad communications effort and aims to promote the idea that growth of private-sector businesses is required for economically sustainable employment growth, and that the quality of the business regulatory environment is a determinant of the ease of establishing and growing businesses.

These propositions are widely accepted, but there are sharp differences over what makes for a “good” regulatory environment for business (see “The need for a review”). Having a strong institutional and regulatory framework for private business cannot be taken for granted. And there is scope for knowledge-sharing to create an appreciation of best practice. A balanced, intelligent discussion about best practice and how it can be approached has a role to play in policy dialogues.

The *Doing Business* project is based at the IFC, a member of the World Bank Group, which collects annual data from a wide collection of countries on a range of indicators.
The need for a review

The first *Doing Business* report was published in 2003. It was based on five indicator sets from 133 countries. Since 2006, the report has been ranking countries in terms of various indicators, the most prominent being the aggregated Ease of Doing Business indicator. The latest report, published in 2013, covers 11 indicator sets from 185 economies.

The report is widely known and referred to by academics, the media, business and civil society. It has been the subject of much criticism from stakeholders, both within and outside the Bank. The key criticism was that the structure and publication of the report focused the reader’s attention primarily on the indicator rankings, to the exclusion of the report’s remaining content.

In response to this criticism, in 2008 the Bank asked the Independent Evaluation Group to assess the methods used in compiling the *Doing Business* report, the relevance of the indicators used for the desired intermediate outcomes, and the intended or unintended purposes for which the report was used.

### Comparing the *Doing Business* report with other flagship knowledge products

The World Bank is committed to remaining the premier source of development knowledge by producing high-quality publications, data and analytical tools. The *Doing Business* report is an essential part of this effort.

The publications highlighted below either share the same broad-based public recognition as *Doing Business*, or a similar purpose.

The annual *World Development Report* enjoys the same level of readership and visibility as the *Doing Business* report, but strikes a different tone and offers a different perspective on how the Bank approaches important policy issues. Although the *Doing Business* report is viewed as a useful measurement and quantification tool, the concept of regulatory benchmarking is not given the same weight in the *World Development Report*.

The Bank also publishes 56 *world development indicators*, which are easily accessible on the Bank’s website. Some indicators are outcome-orientated and do not provide immediate guidance for policy action (examples include fertility rates, total births per woman, school enrolment rates and life expectancy). Others are instrumental and can be directly used to inform policy-making (examples include the percentage of the population with access to water, sanitation facilities and cellphones). Unlike the *Doing Business* report, these indicators are not aggregated to produce a composite index of development. The *Doing Business* report is the only Bank publication that produces a composite index of policy measures.

**Enterprise surveys** are conducted triennially by different units of the Bank, according to a coordinated methodology. The surveys cover 12 sets of indicators, some of them similar to those used by the *Doing Business* report, and use very large sample sizes (currently more than 70,000 firms in 120 countries). Although the enterprise surveys and the *Doing Business* report share the same purpose and both benchmark countries against regional and world averages, the surveys rely on “soft” as opposed to statistical data — that is, interviews with managers and business owners — and provide rich data sets. The surveys are only available on the Bank’s website and do not receive as much dedicated communications support as the *Doing Business* report.
The group found three key weaknesses:

First, because most of the indicators presume that less regulation is better, it is difficult to tell whether the top-ranked countries have good and efficient regulations or simply inadequate regulation. Second, the small informant base makes it difficult to measure confidence in the accuracy of the individual indicator values, and thus in the aggregate rankings. Third, changes in a country’s ranking depend importantly on where it sits on the distribution: small changes can produce large ratings jumps, and vice versa. These factors contribute to anomalies in the rankings. These issues alone may not jeopardize [the Doing Business report’s] indicators’ reliability. But the lack of transparency about them undermines [the Doing Business report’s] credibility and goodwill. [The Doing Business report’s] documents and presentations should include full explanations and cautions on these points.

The group’s complete findings were published in a report titled Doing Business: An Independent Evaluation – Taking the measure of the World Bank-IFC Doing Business indicators, which is available online. The debates about Doing Business, however, continued.

In its discussions with the Doing Business team, Bank representatives and external stakeholders, the Panel found that there was consensus on the view that private-sector development is the key to economic growth and poverty reduction. The stakeholders recognised that these goals could not be achieved without a strong government to provide regulation, legislation and infrastructure, but that developing the private sector was the most important and cost-efficient way to promote economic growth and reduce poverty.

The Panel found that the main disagreement was whether the Doing Business report measured the correct indicators, in the correct way. In other words, the debate was about whether a higher ranking implied that a country was on the right track for private-sector development.

The other point of contention was what the Doing Business report implicitly defined as a “good” regulatory and legal environment. One view that has become strong is that minimal regulation and very low taxes create the most attractive environment for business. However, regulation is necessary to protect societal and environmental interests, and taxes are necessary to provide public services and build infrastructure.

The Doing Business project has, rightly or wrongly, been associated with a broad deregulation agenda. Some academics argue that seven of the 10 indicators imply that less
regulation is unambiguously better – which may be the case for individual firms, but certainly not for a country from a macroeconomic point of view.¹

In response to this claim, the *Doing Business* team says the report’s aim is to provide governments with an array of measures of business regulations, and it was up to each country to find its own balance between the social, environmental and economic costs and benefits of regulation and deregulation. However, the Panel’s discussions with civil society and labour stakeholders showed that the perceived contention about the underlying “model” of good regulation used in the *Doing Business* report, particularly as expressed by the aggregate rankings, continued.

The report’s indicators aim to highlight conditions that are conducive to business. These conditions may be improved either by deregulation or by more focused regulation. For example:

- **Regulation of entry.** Reducing the amount of time and money spent on starting a business can be important. However, doing so is not in any way enough to guarantee economic success. Here, deregulation would generally be viewed as worthwhile.

- **Protecting investors.** Finding ways to better protect private investors is not about deregulation but about improving regulation to encourage outside investment.

- **Protecting workers.** Issues of labour market flexibility are highly contentious. Organised labour in particular argues against measures such as reducing the cost of hiring and firing workers, and in favour of regulations to improve job security. No matter how accurately this indicator is measured, a near-term consensus is unlikely.

In all cases, it is important to consider a given country’s starting point, as this will affect the debate about reform. Particularly where the report touches on issues that are highly contested, few would argue against the idea of a balanced approach.

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B. OVERVIEW OF THE DOING BUSINESS REPORT

The Doing Business report is part of a series that includes:

- A range of sub-national Doing Business studies (for example, Doing Business in Italy 2013 and Doing Business in Kenya 2012).
- Special reports on regions (for example, Doing Business in the Arab World 2012 and Doing Business in Landlocked Economies 2009).
- Special reports on relevant topics (such as Paying Taxes 2013 and Getting Electricity).

The report is compiled using data gathered from about 10 000 respondents worldwide. Each year, the report is given a subtitle that reflects the themes that run through it. For example, the first report (2004) was titled Doing Business: Understanding Regulations, while the latest report (2013) is called Doing Business: Smarter Regulations for Small and Medium-Size Enterprises.

While the structure of the report has changed over the years, for most of its history its centrepiece has been the Ease of Doing Business index, a table that ranks economies according to how easy (or difficult) the regulatory and legislative environment makes it to do business. This index is the most well-known, published and debated aspect of the report; it provides a springboard for the report’s commentary on the most highly ranked economies on the index and how the regulatory environments in different countries compare.

Structure of the Doing Business report

In recent years, the Doing Business report has broadly been structured as follows:

- The executive summary concentrates primarily on the results of the Ease of Doing Business index, highlighting the highest- and lowest-ranked countries, and significant changes in the rankings. It includes the Distance to the Frontier metric.
- About Doing Business: measuring for impact critically examines the report’s measures and limitations.
- The country tables and Doing Business reforms list all data by country.
- Topic chapters go through each of the indicators, highlighting significant changes in country rankings and outlining general trends emerging from the data.
- Country case studies examine the regulatory and legislation environment in specific countries and regions. In 2013, for example, there were case studies for Colombia, Latvia and Rwanda, as well as one for the Asia-Pacific Economic Cooperation region.
• The report concludes with a special discussion chapter that reviews an issue of contemporary interest. In 2013, the issue was whether the Doing Business report affects foreign direct investment.

Research topics

The Doing Business report collects data on a number of topics and presents this data in ways that are simple for researchers to understand.

The Ease of Doing Business index is an aggregate of the following topics. Each topic is itself an aggregate of a variety of indicators:

• **Starting a Business** is a measure of the procedures, time, cost and minimum capital required to start a new business.

• **Dealing with Construction Permits** is a measure of the procedures, time and cost required to build a warehouse.

• **Getting Electricity** is a measure of the procedures, time and cost required for a business to obtain a permanent electricity connection for a newly constructed warehouse.

• **Registering Property** is a measure of the procedures, time and cost required to register commercial real estate.

• **Getting Credit** assesses the strength of the Legal Rights index, which measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders, and the depth of the Credit Information index, which measures the sharing of credit information.

• **Protecting Investors** measures the extent of disclosure and director liability, and the ease of shareholder lawsuits.

• **Paying Taxes** measures the number of taxes paid, hours per year spent preparing tax returns and the total tax payable as a share of gross profit.

• **Trading Across Borders** is a measure of the number of documents, cost and time required to export and import goods.

• **Enforcing Contracts** is a measure of the procedures, time and cost required to enforce a debt contract.

• **Resolving Insolvency** is a measure of the time, cost and percentage recovery rate involved with bankruptcy proceedings.

The report continues to gather and publish data on employing workers (the Employing Workers index), which is a measure of the ease with which workers can be hired or made redundant and the rigidity of working hours. For now, however, this topic is no longer used to calculate the Ease of Doing Business ranking.
There are a number of concerns relating to the selection and naming of indicators, and the data from which they are generated. For example, the Getting Credit indicator measures the legal rights of borrowers and lenders with respect to secured transactions through the “strength of legal rights” index, and the sharing of credit information through the “depth of credit information” index. A high ranking in the Getting Credit indicator therefore indicates that the country has a well-functioning credit bureau system that collects and distributes fundamental information about credit and a secured transactions legal regime that allows entrepreneurs access to credit using movable property. It does not, however, directly measure what the indicator claims to address.

Also concerning is the aggregation of data in compiling the prominent Ease of Doing Business ranking. These and other concerns are discussed in detail in Section C, “The Independent Review Panel’s Evaluation”.

**Data-collection methods**

What makes the *Doing Business* report unique is that the data for these topics is not based on large surveys of private firms’ behaviour. Rather, it is based on the opinions of a much smaller sample of experts, often lawyers, who interact with multiple companies over the course of a year. Data collection currently involves about 10 000 interviews with experts from the 185 countries. To collect the data, the *Doing Business* report creates a hypothetical company with precisely defined characteristics, tailored to suit each topic. This form of data collection has the following advantages:

- The number of respondents per country can be much smaller (compared to a firm survey).
- The resulting data is thought to be more comparable over multiple countries and years.

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2 The hypothetical company has at least 60 employees and is located in the country’s largest business city. It is a private, limited-liability company and does not operate in an export-processing zone or an industrial estate with special export or import privileges. It is 100 percent domestically owned and exports constitute more than 10 percent of its sales. For every topic researched, additional relevant information is provided. For example, for the Trading Across Borders topic the following characteristics also apply: the traded product travels in a full 20-foot dry-cargo container, it weighs 10 tons and is valued at US$20 000. The product is not hazardous, does not include military items, does not require refrigeration or any other special environment, does not require any special phytosanitary or environmental safety standards other than accepted international standards, and is one of the economy’s leading export or import products.
An example of data collection

The following example demonstrates the challenge of collecting internationally comparable data. In collecting data for the Getting Electricity topic, the Doing Business researchers create a hypothetical company with a warehouse that requires a permanent electricity connection. Several very specific assumptions about the warehouse and the electricity connection are made. (For example, the warehouse is a double-storey structure used to store refrigerated goods and is being electrified for the first time. It requires a permanent, three-phase, four-wire, 140 kilovolt-ampere (kVA) electricity connection that is 150 metres long and will have to cross one road but has no other obstacles like railroads in its way.) The specificity of the example is beneficial in that it allows for comparison between countries, but, as discussed in greater detail later, it does narrow the validity of the data to companies with comparable characteristics and needs.

The survey divides the process of getting an electricity connection into distinct, extensively defined procedures, which are then assessed in terms of how much time they take and how much they cost the company. Time is measured in terms of calendar days (with each procedure taking at least one day). Costs include those related to obtaining government clearance, applying for the connection and inspecting both the site and the internal wiring. These are recorded exclusive of value-added tax (VAT).

Data on this hypothetical situation is then gathered from an electricity distribution utility that services areas where warehouses are located. If there is a choice of distribution utilities, the one serving the largest number of customers is selected. This data is then verified and completed by electricity regulatory agencies and independent professionals such as electrical contractors and construction companies.

Despite the effort to which the report goes to ensure that the hypothetical case study’s characteristics remain the same in all economies, it fails to account for variations between different countries’ (and companies’) procedures, practices and general conditions. For instance, not all utilities treat the security deposit for a new electrical connection in the same way. The Doing Business report usually records the security deposit in terms of the present value of losses in interest earnings experienced by the customer due to the utility holding the security deposit until the contract ends (presumably five years). Where the security deposit is returned with interest, the difference between the lending rate and the interest paid is used to calculate the present value.

However, in some economies the security deposit can take the form of a bank or insurance company’s guarantee or bond, issued on the assets it holds with that institution. In this

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3 Adapted from “Getting Electricity methodology”. Available at: [www.doingbusiness.org/methodology/getting-electricity](http://www.doingbusiness.org/methodology/getting-electricity).
instance, the company does not lose ownership over the deposit amount and can continue using it, although it has to pay the bank a commission. This can significantly affect the total cost of a security deposit. To demonstrate: in Honduras in June 2012 a customer requesting a 140kVA electricity connection would have had to put up a security deposit of 126,894 Honduran lempiras (L) in cash or cheque. The deposit would have been returned only at the end of the contract. Had the customer invested this money at the prevailing lending rate of 18.56 percent, this would translate to a present value of lost interest earnings of L72,719 over the five-year period. By contrast, if the customer chose to settle the deposit with a bank guarantee at an annual rate of 2.5 percent, the amount lost over the five years would be L15,862. It is doubtful that the Doing Business report’s methodology would reflect such a difference.
C. THE INDEPENDENT REVIEW PANEL’S EVALUATION

Analytical framework

The Panel analysed and discussed macro- and micro-level issues facing the report. Its analysis process was guided by a framework that considered the report’s conceptual, technical, managerial, ethical and political dimensions.

This section presents the Panel’s analysis in terms of the focus areas set out in the terms of reference: the report’s overall impact, the use of aggregate rankings, the methodology used, the effectiveness and appropriateness of public messaging, and suggestions for the way forward.

The overall impact of the Doing Business report

The Panel’s first task was to determine the report’s purpose, and what constituencies or interest groups the Bank seeks to address or influence through the publication.

The Panel discovered that there is a tension between the different constituencies the Doing Business report addresses. A clear sense of what the Bank wishes the Doing Business project to do will go some way towards helping it resolve these tensions.

The written submissions received revealed a wide range of opinion on the report, from strong support to strong criticism. Many organisations find the indicators useful for influencing policy debates and encouraging reforms that support the business climate; others criticise the report’s methods and perceived biases.

The Panel believes that a balanced assessment of the report’s strengths and weaknesses is needed to defuse what has become a polarised debate.

While the World Bank’s enterprise surveys are useful and more extensive than the Doing Business report, they are also expensive to conduct and rarely provide a timely assessment of what, in some countries, is a quickly changing area of policy. Since the Bank itself undertakes these surveys, there is a strong argument in favour of cross-checking and sharing the information contained in these various reports to ensure mutual and maximum benefit. At present there is little, if any, interplay between the aspects contained in the surveys and those in the Doing Business report. There is certainly no point at which the Bank tests these outcomes, or compares them for rigour and coherence of message across all flagship products.

The Doing Business report is less resource-intensive than an enterprise survey and provides timely data on aspects of the international business climate that were previously poorly
understood. For example, before 2004 little was known about the regulation of entry, formal creditor rights or property registration on an internationally comparable basis. Bringing these indicators to light has inevitably raised debate about their validity and suitability for purpose. But without the Doing Business report, there would have been little basis for such debates to take place.

The Doing Business report has influenced academic research and thinking. A number of academic papers in leading peer-reviewed journals quote the report. More importantly, many use the indicators as data. Researchers take the data seriously and go to lengths to interpret its findings and effects. Most of the resulting literature acknowledges that any correlation found between Doing Business data/rankings and subsequent policy reforms does not necessarily imply causality, and that the report’s indicators are often irrelevant when comparing countries with different circumstances and starting points.

However, not all Doing Business users are so rigorous. Many institutions simply refer to the Doing Business report without taking stock of its limitations. While this general approach raises the report’s profile, the Bank must work to ensure that the report is an incontrovertible, well-crafted and accurate statement of facts. This is especially true since the Bank itself uses the Doing Business indicators for internal purposes in country policy and institutional assessments, and in setting terms and conditions for its lending strategy. The Panel also found evidence that some international aid agencies use the report and its indicators in their approach to official development assistance. Currently, the report is open to challenge and there are no alternative knowledge sources to verify or dispute its statements.

The Panel’s review of empirical data on business regulation reforms covered in Doing Business found that it is difficult to explain an economy’s overall economic performance in terms of the narrow scope of the report’s measures. Any correlation between changes in Doing Business indicators and changes in an economy is necessarily tenuous, as economic changes are likely to be the result of a complex interaction of variables over time that may or may not include the indicators presented in the report. Any correlation between economic outcomes and Doing Business variables would be a poor guide for policy-making.

That said, there is little doubt that the Doing Business report does play some role in policy-making. The pressing questions, then, are how governments (and multilateral institutions such as the Bank itself) can help grow an economy, and whether the report contributes to that goal. These remain highly contested issues.

To be consistent with the Bank’s overall philosophy, the Doing Business project needs to empower and enable countries in their quest to develop their own reform programmes. The report has the potential to serve as an important catalyst in encouraging such reform.
The use of aggregate rankings

Various methods can be employed when ranking items in statistical analyses. Two techniques frequently used are ordinal ranking (for example, “first”, “second” and “third”) and forced ranking (for example, “best”, “good”, “average”, “bad” and “worst”).

The Doing Business report uses the “converted ordinal ranking” method, which converts the number of items in a group of items into a ranking (for example, four runners in a race may be ranked as first place, second place, third place and fourth place). To obtain these rankings, it combines quantitative data and data from surveys (which use ratings to assess non-quantitative aspects of a national economy) to generate a metric for 10 main topics per country. It then calculates a percentile for each country in each of the topics. These percentiles are aggregated to obtain the Ease of Doing Business ranking.

This example from the Doing Business website demonstrates how cardinal data is converted into the aggregate ordinal ranking:

In Finland it takes three procedures, 14 days and 4% of property value in fees to register a property. On these three indicators, Finland ranks in the 6th, 16th and 39th percentiles. So on average Finland ranks in the 20th percentile on the ease of registering property ... It ranks in the 30th percentile on starting a business, 28th percentile on getting credit, 24th percentile on paying taxes, 13th percentile on enforcing contracts, 5th percentile on trading across borders ... The simple average of Finland’s percentile rankings on all topics is 21st. When all economies are ordered by their average percentile rankings, Finland stands at 11 in the aggregate ranking on the ease of doing business.

Inevitably, aggregation relies on strong built-in assumptions, making it an inherently value-laden practice. The act of ranking countries may appear devoid of value judgement, but it is, in reality, an arbitrary method of summarising vast amounts of complex information as a single number. Changing the weight accorded to a particular indicator can easily change an item’s ranking. These concerns are not unique to summarising data as rank scores: any method of aggregation is open to similar criticisms.

The composite measures used in the Doing Business report are also misleading because they are only partial measures that ignore the social benefits of regulation. Moreover, rescaling cardinal ratings to aggregate (ordinal) ratings and then collapsing them into one single composite index has the potential to skew results. The Doing Business rankings are also

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volatile over time in ways that do not always relate to real changes in the cardinal values of
the indicators. These changes are not transparent and are hard to justify.\textsuperscript{5} For instance,
Italy’s ranking jumped significantly without any correlated improvement in business or
economic performance.\textsuperscript{6} Such a vast change in ranking undermines the index’s credibility.
And in Saudi Arabia, which ranks fairly high in the Registering Property indicator, there are
actually substantial problems in the legal configuration of the registry and the protection it
affords.

By ranking indicators that purport to measure aspects of business performance, the Doing
Business report is inadvertently creating an incentive for those being ranked to manipulate
the indicators by altering the proxies that are the focus of the rankings, instead of changing
the underlying factors that the proxies are attempting to assess. This effect, which tends to
vary depending on how much the rankings are perceived to affect the interests of the
ranked, is ubiquitous. This outcome is undesirable because it results in misallocation of
resources and in dissipation of the rankings’ informational value.

If the Doing Business report continues to be published, the Bank has several options:

\begin{itemize}
  \item Continue using aggregation and converted ordinal ranking to rank the surveyed
countries from 1 to 185. This is the simplest path to choose and, according to the
Doing Business team, provides similar results to more sophisticated methods. However, this is not consistent with academic critiques. The Panel does not
recommend this cardinal ranking method.
  \item Use the forced ranking method, that is, categorise 185 countries into categories such
as:
    \begin{itemize}
      \item A: Extremely easy to do business
      \item B: Moderately easy to do business
      \item C: Not too easy, not too difficult to do business
      \item D: Moderately difficult to do business
      \item E: Extremely difficult to do business.
    \end{itemize}
  \item Use the cardinal scoring method, that is, publish the raw data (collected using the
same methodology) and the composite index in percentage points, as is currently
the case with the Distance to Frontier metric.
  \item Publish only the raw data (time and cost of each procedure).
\end{itemize}

\textsuperscript{5} Thomas, V & Luo, X (2012). \textit{Multilateral Banks and the Development Process: Vital Links in the Results Chain}. Rutgers, New

\textsuperscript{6} Italy and Guyana changed by 40 and 33 rank positions respectively simply because of two data revisions. These data
changes occurred in 2007 and are summarised in Table 2.2 of the 2008 Independent Evaluation Group’s 2008 report.
At the very least, as an interim measure, the Panel suggests that the *Doing Business* report should retain the rankings in terms of the indicators examined, but exclude the overall aggregate ranking. In other words, there would be no Ease of Doing Business ranking.

When the *Doing Business* report was first published, there was no aggregation of indicators. The aggregation of diverse data will always be contested. If the Bank chooses to continue with this practice, it must recognise that the arbitrariness of the weighting will inevitably attract criticism, which may detract from the report’s positive contributions. Dropping aggregate rankings could, therefore, improve the discussion of underlying substantive issues. However, doing so may compromise the report’s short-term effect and messaging.

The case for aggregation at topic level is more compelling, and there is a case for exploring improved methods for measuring specific aspects of the legal and regulatory environment as captured by the report.

**Methodologies**

**Data collection**

Section B, “Overview of the *Doing Business* report”, described the report’s basic data-collection methodology.

By creating a hypothetical business with set characteristics as a way to establish international comparability, the *Doing Business* report has, in effect, limited its applicable domain. Criticisms of the report concern the tendency to project the report’s findings beyond this specified frame of reference. The typical *Doing Business* firm – being one that has 60 employees, is based in the country’s largest business city and exports more than 10 percent of its sales, among other characteristics – may be more common in some countries than others.

Basing the report’s hypothetical business in a country’s largest business city makes sense in many countries and may accurately capture the effect of national laws and regulations. However, this narrow focus has the potential to create a distorted picture in larger countries and those with a federal system. The *Doing Business* team acknowledges this and has started studying variations of the legislative and regulatory environment within countries in its sub-national reports. However, this aspect is often lost in the project’s greater focus on national performance.

Using law firms as the main source of data for the report has drawbacks. Law firms may be more aware of the most pressing issues businesses face in some countries than in others. This practice also limits the report to aspects of the business environment that relate to
laws or legal statutes, and their enforcement. Factors that fall outside this narrow range – even those that are very important for doing business – are not measured. For example, the methodology does not measure corruption, and the way it impedes the application of laws and regulations, which is an important concern for many businesses around the world. The Doing Business team has attempted to assess these aspects by expanding the set of indicators. However, there are inherent limits to what their methodology can achieve.

The report’s methodology simplifies much of the qualitative diversity and nuance at work in different legal systems into a very basic, often confusing rendering of (apparently) quantifiable measurements that cannot credibly claim to reflect legal reality to any significant degree. It takes “a one size fits all” approach. The report’s approach simply asks whether one specific rule does or does not exist in different countries. This effectively disregards other legal solutions that achieve the same goal.

The data-gathering method must extend beyond purely legal devices, because a specific function may be performed by a legal rule in one country and by an extra-legal process in another country.

The report does not acknowledge the possibility that its prescriptions might not be universally appropriate. There is no recognition of contextual sensitivity, and scant reminder of the importance of ensuring that reforms should adhere to and complement a jurisdiction’s broader legal, social and economic systems.

**Selection and construction of indicators**

There appears to be no scientific evidence to support the report’s current selection of indicators. In addition, many important indicators are not included. For example, there is no measurement of the safety or reliability of electricity supply. Moreover, there is a compelling argument to include a gender component in the report, but no indicator addresses this feature.

The Panel’s view is that the Doing Business indicators need to be objectively reviewed to avoid unintended bias of selection, and updated on a regular basis to ensure their continued relevance, comparability and applicability.

The terms of reference asked the Panel to review two indicators in particular: the Employing Workers indicator (EWI) and the Paying Taxes indicator.
### The Employing Workers indicator

The EWI has been one of the most controversial indicators in the *Doing Business* series. In October 2009, the Bank suspended the EWI and advised staff to stop referring to it when formulating policy advice or as a monitoring indicator for loans. The *Doing Business* report stopped publishing EWI country rankings and using it to calculate the Ease of Doing Business indicator. However, the project continued gathering the raw data used to calculate the EWI. This data is published, together with an analysis, as an annexure to the *Doing Business* report.

The Bank’s decision to suspend the EWI acknowledged the problems inherent in measuring only the costs of labour-market regulation and not the benefits. The Panel agrees with the Bank’s reasoning that “a comprehensive approach in advice on labour market policies is needed”, and that the EWI “presents a measure of flexibility in employment regulations, but does not capture other key dimensions of employment policies, such as worker protection measures”.

The Panel recommends that the Bank continue the work it started in 2009 on developing a comprehensive approach to labour-market policy, based on a quantification of the costs and benefits.

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benefits of a comprehensive range of labour laws and regulations. Additional indicators such as prescribed hours of work, rest and leave provisions, minimum wages, protections against dismissal, occupational health and safety requirements, social protection and respect for basic labour standards could be considered. The Bank could fruitfully carry out this work in consultation with the International Labour Organisation and other stakeholders.

This new approach would recognise that appropriate levels of regulation can be, as the Bank’s 2013 World Development Report points out, within a “plateau” (range) of levels and types of regulation. It would also align with the importance the World Development Report 2013 places on the need to comply with the International Labour Organisation’s core labour standards, which include the elimination of discrimination in the workplace, elimination of forced or child labour, freedom of association and the right to collective bargaining.

A detailed explanation of the Panel’s view on the EWI, along with references, is provided in Annexure 2, “The Paying Taxes and Employing Workers indicators”.

**The Paying Taxes indicator**

A country’s tax system reflects its political, social and economic environment, and tax systems vary widely between countries.

While tax is an important topic for the Doing Business report, the Panel recommends that the methods used to collect data and calculate this indicator be reviewed with an eye to providing governments with more reliable and robust guidelines on how to ease the tax burden on small and medium-sized enterprises, although this is naturally not the only consideration when designing a tax system.

The Paying Taxes indicator currently measures the total number of tax payments and contributions paid per year, the number of hours required to comply with these taxes per year, and the total tax rate as a percentage of profit before all taxes. The indicator could be enhanced by dropping the “tax rate” and “number of payments” measurements and refining the time indicator. This would provide a more accurate assessment of the compliance burden for small and medium-sized enterprises.

The Panel favours removing the tax rate indicator because, apart from the conceptual issues, a tax rate indicator is not a relevant measure of the ease of doing business in a country (although it does provide an imperfect indicator of the amount of tax paid by businesses).

To improve data reliability, each country could establish a small task team, consisting of private-sector and government representatives and led by the World Bank’s local representative, to collect and verify information. The Bank should also consider whether it
wants to continue the joint presentation with PricewaterhouseCoopers (PwC), especially if the data-collection method is modified.

The *Doing Business* project might also want to consider moving away from the hypothetical firm approach to one that develops broader measures of the complexity of tax legislation, the nature and scale of the administrative burden facing small and medium-sized enterprises, and ways tax administrations can alleviate this. The data for such measures could be collected in partnership with other international organisations such as the International Monetary Fund (IMF), the Organisation for Economic Cooperation and Development or the Forum on Tax Administration, which have considerable experience in these areas.

A more detailed explanation of the Panel’s position on the Paying Taxes indicator, along with references, is provided in Annexure 2. The Panel suggests that the Bank create an expert group to examine how the suggestions set out in this annexure could be developed.

**Effectiveness and appropriateness of public messaging**

The *Doing Business* report’s public messaging starts with its title, which the Panel regards as misleading as it implies that the report offers a broad, comprehensive perspective of what it takes to “do business” in 185 countries. It is only within the report that the reader gets some sense of its limitations, as discussed in “Limitations of the *Doing Business* report”.

Modifying the report’s title would represent its content more accurately. This could be done in such a way that the *Doing Business* brand continues – for instance, by adding a subtitle that reads, *A Guide for Governments to Improve Business Regulation for Small and Medium-sized Enterprises*, which would better reflect the Bank and publication’s intent.

The descriptions of topics (indicators) contained in *Doing Business* are, like the title of the report itself, catchy and easy to remember. However, they often make the indicators sound more comprehensive than they are, given their well-defined (and therefore limited) scope of measurement. For example, the Getting Credit indicator comes across as a comprehensive indicator of the ease with which small and medium-sized enterprises can obtain credit. Yet it only examines two specific legal structures in credit markets and ignores others – such as the level of competition in the banking sector and the ability to enforce debt payments – that a balanced assessment of access to credit would have to consider. A good Getting Credit ranking does not imply that small firms get the credit they need.

Although there is scope for improvement in the *Doing Business* report’s public messaging, the fact that the project makes its methodology and data available for download from the Internet adds to its transparency and credibility, and should be commended.
Limitations of the *Doing Business* report

The *Doing Business* report is transparent about its scope, methods and limitations. Despite the fact that its indicators are sometimes described in overly general terms, it makes no misrepresentations about what they measure. For example, the 2013 report clearly states that the “*Doing Business* data have key limitations that should be kept in mind by those who use them”, and that the “indicators are limited in scope”. The report goes on to state that:

Doing Business does not measure the full range of factors, policies and institutions that affect the quality of the business environment in an economy or its national competitiveness. It does not, for example, capture aspects of security, the prevalence of bribery and corruption, market size, macroeconomic stability (including whether the government manages its public finances in a sustainable way), the state of the financial system or the level of training and skills of the labour force.

Even within the relatively small set of indicators included in Doing Business, the focus is narrow. The Getting Electricity indicators, for example, capture the procedures, time and cost involved for a business to obtain a permanent electricity connection to supply a standardized warehouse. Through these indicators, Doing Business thus provides a narrow perspective on the range of infrastructure challenges that firms face, particularly in the developing world...

Doing Business does not attempt to measure all costs and benefits of a particular law or regulation to society as a whole. The Paying Taxes indicators, for example, measure the total tax rate, which in isolation is a cost to the business. The indicators do not measure, nor are they intended to measure, the benefits of the social and economic programs funded through tax revenues.\(^8\)

The report is not a tool that should be routinely used to shape policy reforms. Policy-makers and regulators should – and do – consider a wide range of information well beyond what the report can capture.

The well-designed *Doing Business* website makes it easy to access the *Doing Business* indicators, historic data and related academic papers. The fact that the project has used the same methodology for the past decade also means that country-level performances can be tracked over time.

**Suggestions for a way forward**

The *Doing Business* report has played an important role in drawing together new information relevant to monitoring aspects of the business climate in a timely and internationally comparable basis. However, it needs to consider and clarify a number of aspects if it is to become less controversial and better able to serve its purpose as a flagship knowledge product.

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**Mandate and alignment with other knowledge products**

The key question in deciding the way ahead is what the World Bank wants the report to achieve. Once this is resolved, the tool must be unimpeachable in terms of its accuracy and scientific value.

The Bank’s views on the objectives of growth and development, and the best approach to attain these objectives, are evolving – and with it, the approach the Doing Business report will have to adopt. Increasingly, the Bank seems to regard its main role as being one that enables governments to find their own solutions. The Doing Business report can support this goal by providing each country with the ability to measure itself against its own stated ease of doing business and economic growth objectives.

For example, the World Development Report of 2013, with its emphasis on job creation and its nuanced views on labour regulations, suggests that governments would do well to discover the “plateau” on which labour regulations, institutions, and management practices operate in balance, and that this point of balance will be unique to each country’s conditions and stage of development.

This message is markedly different from that traditionally associated with the work of the Doing Business report on labour regulation. The view of the panel is that in the same institution there must be some relation between outputs that deal with different issues but must, in the end, “talk together” to the Bank’s mission/mandate/objectives.

The Bank is working to position itself as a seminal source of knowledge in world economics. It is therefore crucial that its four flagship knowledge products, which include the Doing Business report, convey messages that are in accord with one another and the Bank’s stated objectives.

**Selection and construction of indicators**

The Doing Business report provides a specific view of the business climate and the factors that shape investment. It pays attention to specific sets of indicators that focus on regulatory and legal aspects of the business environment, and pay little or no attention to how these aspects are implemented.

Finding ways to capture the investment climate and general business environment is challenging, especially when the cost of such exercises are factored in. To be meaningful and comparable, measures have to be representative of a country and the types of businesses that operate there. For the purposes of international benchmarking and monitoring progress, measures also have to be comparable over time and across countries.
The challenge, then, lies in selecting and constructing the most meaningful indicators, given the report’s inherent limitations of scope and resources.

The Panel recommends that the Bank engage with the relevant experts to ascertain the most appropriate benchmarks and refresh the economic thinking behind its indicators. These indicators should provide a balanced perspective that captures both the positive and negative aspects of regulation.

In refining the indicators, it should be remembered that two of the report’s strengths are that it is timely and uses less resources than more comprehensive studies. It is unlikely that the report will be able to include all the identified relevant variables while retaining these strengths. That said, there is certainly room to expand its scope beyond surveying legal firms about a country’s laws and regulations.

Involving the Development Economics Vice-Presidency in the report’s design and application would be one way to ensure that *Doing Business* takes greater cognisance of the costs and benefits of different forms of regulation.

Publishing relevant information online, including contributor’s submissions, would increase the validity and credibility of the data and the *Doing Business* project. It would also allow for possibly calculating a measure of uncertainty in scoring. Measurement errors are an enormous concern. It is critical that the report is clear about the quality of its data, particularly because this data has been used for conditional lending practices (for example, the Millennium Challenge account) and for measuring the performance of various ministries. Suggestions for calculating measures of uncertainty are provided in Annexure 3 of this report in “Critique by Academics”.

The Panel was also tasked with discussing whether individual indicators should be added to or dropped from the report. Any such consideration should take into account the following:

- Adding or removing indicators may change the report’s focus
- Any change in indicators will affect the stability of data over time. Even if an indicator is excluded from the aggregate ranking, it may be useful to continue measuring it for possible future analysis.

Further analysis into the correlative objectives and consequences of indicator choices is required before the Bank can make these decisions. The Panel understands that it will take time for the Bank to reach agreement on these recommendations, and that its suggestions are only likely to be considered for the 2015 edition of the *Doing Business* report.
\textbf{Ranking}

The ranking of countries, especially the Ease of Doing Business index, is a matter of controversy. The Panel believes the Bank should make a clean break with this practice. It should retain the rankings for each item, ranking each country separately in terms of contract enforcement, ease of resolution and so on, but it should not provide an overall or aggregate ranking. While the data on the 11 individual indicators should continue to be collected, aggregated into 11 cardinal scores, ranked and disseminated, the overall Ease of Doing Business index ranking should be dropped.

\textbf{Governance}

Independent commentary of the kind undertaken by the \textit{Doing Business} report requires robust oversight, governance and review. These tasks should not be left to the \textit{Doing Business} team as it cannot operate as both principal and agent.

An appropriate governance structure would oversee the technical dimensions of the project and ensure that sufficient care is taken in presenting its findings, with an eye on their political consequences.

The following principles may help guide decisions on the future governance of the \textit{Doing Business} report and its home in the World Bank:

- Adopt a basic stance of “do no harm” when establishing and reviewing indicators and assessment measures.
- Ensure that the underlying premise of the report aligns with Bank policy and programmes, and its other major knowledge products.
- Distribute the report widely within the Bank and urge the staff to refer to it for programme development and in dialogue with countries.
- Ensure that the Bank’s legal experts regularly assess the legal risks associated with the report.
- Work regularly with a body of external reviewers.

The Panel recommends that the Bank establish a special oversight committee drawn from senior management. It should meet at least once a year to ensure that the \textit{Doing Business} report’s goal, indicators and methodology align with Bank policy and the principles listed earlier. The Bank should also review where the \textit{Doing Business} team is based to ensure that its location facilitates coherence with the Bank’s other major surveys.
D. ANNEXURES

Annexure 1: Terms of reference for the Doing Business review panel

October 1, 2012

**Independent panel to review the Doing Business project/report**

The President of the Bank, as discussed with the Board of Executive Directors, will appoint an independent panel of experts ("the Panel") to review a broad range of issues around the Doing Business report, as it marks its 10th year. These terms of reference share background information, lay out the scope of the review, note the main criteria for the selection of Panel members, and outline a timeline for reporting back to the President.

**Background**

Since its first publication in 2003, the annual Doing Business reports have received much attention. Doing Business indicators were conceived to help catalyse reforms of business regulations and track progress on the implementation of the reforms measured by the indicators. Policy-makers, academics, civil society organisations and international development agencies use the indicators and the underlying data in research, in monitoring and evaluation programmes, and as a reference point in gauging private-sector development.

The 10-year point is a good time to conduct a thorough review, taking stock of the experience to date, analysing results, distilling lessons learned, and mapping the way forward. Given the issues that have been raised by policy-makers, executive directors and other stakeholders, as well as the public attention that the Doing Business indicators attract and their use in policy-making and research, a close and independent review will be of great value. Key aspects in this regard are the impact of Doing Business on policy-making, the use of country rankings, the methodology applied, the messaging of the product, and options on the way forward. These issues have been the subject of discussions and debate during the past several years, both within the World Bank Group among staff and the Executive Board, as well as externally with representatives of client countries, civil society and other stakeholders.
Scope of review

The Panel will assess and make recommendations regarding:

- The overall impact of the *Doing Business* project on regulatory reform, private-sector development, and economic performance, including:
  - Reviewing the empirical evidence on the results of business regulation reforms captured by *Doing Business* on the real economy.
  - Considering the scope for adjusting the dimensions of the business environment captured in the *Doing Business* indicators, and any trade-offs between a possible adjustment of the focus of *Doing Business* and the benefits of stability in the data over time.\(^9\)
  - Looking at linkages between *Doing Business* and other related global studies.

- The use of aggregate rankings in the presentation of the data collected by the *Doing Business* project, including:
  - The conditions under which the rankings provide appropriate incentives to World Bank Group clients to focus reform efforts.
  - Whether the rankings reflect the variability of business regulations within a country.
  - The methodology of the aggregate ranking, its strengths and weaknesses, and alternative ways to enable comparison across countries at different stages of development, including considering appropriate World Bank Group engagement.

- The methodologies used in building the *Doing Business* indicators and the techniques used in gathering data, including possible areas for improvement.

- The effectiveness of the public messaging of *Doing Business*, covering the scope and aims, the title, and the limitations and appropriate use of the data.

- The options on the way forward.

All parts of the World Bank Group will cooperate actively with the Panel and will provide all information that it may need to formulate recommendations around these questions. The Panel will also have access to staff, documents, analysis, and other information that could help inform its deliberations (the Panel will respect confidentiality of information where

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\(^9\) The Panel will give due consideration to the findings of the on-going review of the Paying Taxes indicator and Employing Workers indicator.
relevant). As it proceeds with its work, the Panel is expected to undertake wide-ranging and open consultations, internally with members of the Executive Board and staff, and externally with stakeholders at the country level, including consumers and contributors to Doing Business.

**Composition of the Panel**

Members of the Panel will be reputable professionals with distinguished careers in their fields of expertise, and familiarity with international benchmarking studies and/or regulation of small and medium-sized enterprises. Reflecting the multilateral nature of the World Bank Group, it is expected that the Panel will have a diverse representation, including from advanced and developing countries and from the private and public sectors. The Panel will be comprised of 10 members, led by a Chair who will have overall responsibility for ensuring the smooth functioning of the Panel’s deliberations, the development of needed content, and the timely delivery of the Panel’s recommendations.

**Timeline**

A preliminary draft report is to be presented to the World Bank Group President for feedback by March 31, 2013, and the final report is to be provided by May 15, 2013.
Annexure 2: The Paying Taxes and Employing Workers indicators

Analysis of the Employing Workers indicator

In analysing the Employing Workers indicator (EWI), the Panel examined the work carried out by a consultative group on the EWI created by the Bank in 2009.

The consultative group’s final report was issued in April 2011. The bulk of the report concerned the group’s suggestions for methodological changes to the indicator. Aspects such as the indicator’s parameters for annual leave, length of the working week and the minimum wage were discussed in detail and recommendations for modifying some of the parameters provided.

In its terms of reference, the consultative group was tasked with providing “advice concerning the development of a new worker protection indicator…”. Its final report notes that there was no consensus within the group on the way to move forward and that “the proposed approach was a tentative first step as a foundation for a [Worker Protection indicator]”. It also added that some group members did not see the “utility or value in any further work on measuring worker protection arising from the [consultative group] process … substantial methodological and normative difficulties [are] likely to make any further work by the Bank on measuring worker protection protracted and unproductive”.

The consultative group’s work ended in early 2011 and the Bank has done no further work on a Worker Protection indicator. (A half-day consultation on the Paying Taxes indicator was held with interested stakeholders in June 2011.) The Bank did begin discussions with the International Labour Organisation around collaborative work to measure workers’ protection but this was suspended after the announcement of the creation of the Independent Panel to review Doing Business in July 2012.

The Panel believes that the Bank made a wise decision in 2009 when it suspended use of this indicator. It believes that the one-sided view of labour market regulations embodied in the indicator parameters could encourage governments, especially those that are World Bank clients, to engage in major deregulatory reforms. These would be based on expected positive outcomes but would perhaps not sufficiently consider the cost of depriving workers of protection. For example, Georgia’s substantial improvement in the Ease of Doing Business index in 2007 was, in part, the result of far-reaching labour law reform that was criticised for contravening International Labour Organisation conventions, which the country had ratified.

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11 Ibid, pp 10, 12, 13.
Despite this, *Doing Business 2008* singled out Georgia as a country where workers “have the best protection”.\(^\text{12}\)

The effects of the EWI may have been particularly strong in countries where it was used for loan benchmarks or monitoring indicators. An example of the latter was a loan agreement with Burkina Faso in 2007. The loan document stated that the *Doing Business* “rigidity of employment index” would be one of the monitoring indicators used to determine whether the objectives of a poverty reduction support credit loan had been achieved.\(^\text{13}\)

Fortunately, the indicator’s use in loan conditionality seems to have ended after its suspension in 2009.

The problems of this indicator have been compounded by unsubstantiated assertions made by *Doing Business* that countries that improve their indicator ranking through deregulatory measures obtain superior economic outcomes. The Bank’s own Independent Evaluation Group found no evidence of such a relation, advising “a need to be cautious in attributing economic outcomes to changes in [Doing Business] indicators”. In particular, the group found that “no significant association emerged between [the] employing workers [indicator] and employment”.\(^\text{14}\)

The *World Development Report 2013: Jobs* states that properly designed labour market regulations contribute to reducing inequality, an issue to which the Bank and other institutions are, appropriately, paying greater attention than they have in the past. The report’s findings corroborate those of recent important studies published by the Organisation for Economic Cooperation and Development and the International Labour Organisation blaming a weakening of labour market institutions and social protection mechanisms, along with several other factors, for the growth of inequality in most countries over the past two to three decades.\(^\text{15}\)

Claims that the World Bank needs to focus on labour market regulations because enterprises in the Bank’s client countries tend to consider these major obstacles to investment and job creation are not borne out by evidence. The *IFC Jobs Study*, which surveyed 45 000 firms in 106 developing countries in early 2013, revealed that only 3 percent of firms surveyed regarded labour market regulations as obstacles to job creation.


Factors such as deficient infrastructure, lack of access to finance and poor skills training were considered more important.\textsuperscript{16}

\textbf{Recommendations}

In addition to making permanent the decision it took in 2009 when it suspended the EWI and removed it from the Ease of Doing Business indicator, the Panel recommends that the Bank renew its commitment to adopt “a comprehensive approach in advice on labour market policies”. The Panel recommends that the Bank’s new approach on labour market policy should be developed outside the Doing Business project.

Such an approach would recognise that appropriate levels of regulation can be, as the \textit{World Development Report 2013: Jobs} states, within a range of levels and varieties of regulation: “Excessive or insufficient regulation of labour markets reduces productivity. But in between these extremes is a plateau where effects enhancing and undermining efficiency can be found side by side and most of the impact is redistributive.”\textsuperscript{17}

The Panel recommends that the Bank continues the work of quantification that takes cognisance of both the costs and benefits of a comprehensive range of labour laws and regulations. The quantification should comprise conditions such as hours of work, rest and leave provisions, minimum wages, protection against dismissal, occupational health and safety requirements, social protection and respect of core labour standards. The Bank should carry out this quantification work jointly with the International Labour Organisation and through consultations with interested stakeholders.

\textit{Analysis of the Paying Taxes indicator}

The Paying Taxes indicator has been one of the most controversial indicators constructed by the \textit{Doing Business} team, in part because it is used extensively in country-level political debates.

The 2013 \textit{Doing Business} report’s Paying Taxes rankings demonstrate the shortcomings of the indicator. For instance, countries that perform the best on the Paying Taxes indicators tend to either have no traditional taxes on income and profits (the case in most of the oil-rich states), or low levels of taxes because of political decisions to limit the role of the state.\textsuperscript{18}


Even so, the importance of this indicator has been recognised by the global tax community. This is why, in 2008, the tax departments of major international and regional organisations decided to launch a review of the tax indicators used by the Doing Business report under the auspices of the International Tax Dialogue. The Panel draws on this review – together with the internal papers produced by different parts of the World Bank and its consultations with governments, business, academics and non-governmental organisations over the last six months – in making this analysis.

**Sub-indicators**

The Paying Taxes indicator is derived from three sub-indicators: the total tax rate, the frequency of filing and payment, and the time taken to complete tax returns.

*The total tax rate*

The total tax rate is taken to represent the taxes that are borne (not paid) by a limited liability company. It includes the corporate tax, taxes on property, transfer taxes, employer social security contributions and other payroll taxes, taxes paid on dividends, taxes paid on financial transactions and road taxes. It also includes compulsory fees that firms have to pay to non-governmental entities.

This definition goes beyond the definition of taxes used by the System of National Accounts, the IMF and the Organisation for Economic Cooperation and Development, which refers only to mandatory payments to government. In the context of the Doing Business study, this extension seems justified. Taxes at central, regional and local levels are all covered. Regional and local taxes are presumed to be those in the largest city, normally the capital. All of these taxes are aggregated and expressed as a percentage of the commercial profits of the model company to achieve a total tax rate. As a result of the International Tax Dialogue review, in 2012 the Doing Business team introduced a threshold for the total tax rate indicator (at present: 25.7 percent) so that any country with a tax rate below this would not have their total tax ranking affected.

The relative importance of these taxes differs between countries. The total tax rate will be influenced by decisions made on the tax structure and, in particular, how the tax base is divided between households and firms. The total tax rate does not take into account the possibilities that companies have to engage with tax planning.

It also does not consider who finally bears these taxes, since the costs of taxes paid by corporations are usually carried by employees in the form of lower wages, passed on to

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consumers in the form of higher prices, or transmitted to shareholders through lower dividends. Care has to be exercised when aggregating the taxes covered because they are levied on different bases and have different economic effects.

The Panel favours removing this indicator because, apart from the conceptual issues referred to above, a tax rate indicator is not a relevant measure of the ease of doing business in a country (although it does provide an imperfect indicator of the amount of tax paid by businesses).

**The frequency of filing and payments indicator**

This indicator covers all the taxes referred to above as well as taxes that are collected but not borne by corporations, such as employee’s social security contributions and VAT. These indicators are intended to measure the administrative burden placed on corporations and also indirectly provide some measure for the impact of taxes on the cash flow of small and medium-sized enterprises – an issue of particular importance when credit is tight.

The number of tax payments a business has to make is a poor measure of the ease of doing business. Some corporations may prefer to file and pay on a monthly basis rather than on a once-off annual basis. Furthermore, taxes like VAT are structured in a way that requires periodic rather than once-off payments. It is also relatively easy to affect this indicator by artificially amalgamating the payments of different taxes into one payment schedule.

For the purposes of this indicator, countries with provisions for electronic filing and payment of tax automatically receive a measure of one transaction per year. The Panel questions this assumption because providing an option for electronic filing and assessment does not mean that the majority of firms will use it. This is why many countries have felt the need to make electronic filing mandatory.

**The time taken to complete tax returns**

This sub-indicator is measured as hours per year and focuses on three taxes: the corporate income tax, VAT and payroll tax. It looks at the preparation time (collecting information, computing the tax), the filing time (how long it takes to complete and file the return), and the payment time (how long it takes to pay online or at the tax authority).

As an indicator of the ease of doing business, this will only apply to firms that have the specific characteristics of the hypothetical company. It ignores the time taken to comply with other taxes paid by companies. It also provides little guidance on how business-friendly a tax administration is, or how effective it is at minimising and resolving tax disputes. The indicator therefore does not build in any measure of the time that firms may spend in resolving tax disputes or on the time taken to get refunds, especially of VAT. This is the most
subjective of the three indicators, since it depends on the experience and appreciation of the correspondents in each country.

The three tax sub-indicators used in the Doing Business study are therefore very different. This creates a conceptual problem with aggregating them into one overall, unweighted tax indicator.

Data-collection methodology

The basic data-gathering methodology employed by the Doing Business report involves the taxes that a hypothetical incorporated company with certain characteristics would have to pay. The problem is that this hypothetical company would be classified as medium-sized in some economies and large in others. In many developing countries, a company of this size is also likely to be unincorporated. These definitions would all affect the number and kind of taxes that companies are expected to pay. This lack of representativeness makes it difficult to generalise from the case study to an economy as a whole, or even to the small and medium-sized enterprise community within a country.

Tax information is collected by means of a questionnaire, developed in cooperation with PwC. Respondents in each country are selected by the Doing Business team. Originally, almost all respondents were from PwC. Today, PwC accounts for less than a third of respondents. The remaining respondents are primarily drawn from the other large accountancy firms, law firms and smaller accountancy firms.

The surveys and PwC’s inputs are provided on a pro bono basis. The information is collated by the Doing Business team, after which there is a consultation process to verify the accuracy of the information. Then PwC and the Doing Business team analyse the information.

Reliance on pro bono correspondence significantly reduces the cost of data collection. However, it may lead to lack of transparency and potential conflicts of interest.

Presentation

The simple, clear manner in which the Doing Business report presents its indicators – including the Paying Taxes indicator – is both a strength and a weakness: it makes it easy for the media to understand and report on, but it also increases the risk that the media will ignore the limitations clearly stated in the report and focus on the overall rankings. This is a particular concern if the rankings are misused to promote questionable tax policies or if administrative decisions are driven by a desire to improve a country’s position in the overall rankings, rather than by ensuring that the tax system meets the country’s real needs.
The tax results are presented in two parallel publications. There are the official tax indicators published in the annual *Doing Business* publication, and a dedicated joint publication between the World Bank team and PwC, which runs to over 100 pages and is published at the same time as the *Doing Business* report. One advantage of the longer format is that more information is given on how the aggregated indicators are made up and how they vary within regions and on the structure and level of tax systems. The information collected from the correspondents is supplemented by an extensive commentary by PwC staff on developments in selected countries.

**Recommendations**

The Panel accepts the need for tax indicators as a measure of the ease of doing business for small and medium-sized enterprises. It also notes that there have been examples of where the indicators have helped governments identify and implement best practices. For this reason, the Panel supports continuing the tax indicator in a modified form, either in the context of the present framework but with a different approach, or in the context of a new framework (discussed below).

The proposals set out below will require substantial development before they can be implemented. The Panel does not underestimate the difficulties of achieving internationally comparable results that are relevant to both developed and developing economies.

*Working within the existing framework*

If the existing framework is maintained, the Panel suggests that:

- **The total tax rate indicator is eliminated**, although the Bank could continue to collect the raw data and perhaps explore the possibility of developing more sophisticated measures of effective average and marginal tax rates faced by small and medium-sized enterprises.

- **The number of tax payment indicators is eliminated** and more sophisticated measures of the tax compliance burden placed on small and medium-sized enterprises developed. The *Doing Business* team could draw on the work on benchmarking tax systems and developing new diagnostic tools already done by the IMF, the World Bank, the Forum on Tax Administration and the Inter-American Centre of Tax Administrations.

- If the existing sub-indicators are retained, particularly the total tax rate indicator, the Panel recommends that there be **no aggregation of sub-indicators** and that only rankings/ratings for each indicator should be presented.

- **The collection methodology is refined.** Resources permitting, the Bank should consider using its own in-country staff to lead the collection of the information needed to construct the revised tax indicators. Much of this information is
publically available. The Bank staff could continue to draw on private-sector inputs, but would be responsible for collecting raw data and consulting more broadly with the business community. Governments and tax administrations should be more involved in verification of the data. A small advisory team could be created in each country. It would be important to maintain the timeliness of the data collection.

- **The limitations of the comparisons should receive greater emphasis** than at present in the publication. Numerical examples of the impact of these limitations on the compared outcomes should be given. In particular, the publication needs to renew its efforts to show the reader that the indicators should not be taken as a measure of the competitiveness of a country, and that they only apply to companies with the specified characteristics.

- **The joint presentation of the results with PwC should be reviewed**, especially if there is a broader consultation with the private sector.

- **There should be a clearer distinction** between who decides on the methodology, who collects the data, and who analyses and presents the information.

- **There should be an external tax panel** that periodically reviews the methodology and presentation.

*Working outside the existing framework*

An alternative would be to create a new, more sophisticated set of tax sub-indicators for small and medium-sized enterprises. This could require, for example, moving away from a single case study to multiple case studies and developing indicators that measure the complexity of tax legislation, the nature and scale of the administration burden and the effectiveness of tax administrations in their interaction with these enterprises.

It might be useful for the Bank to work closely with other interested organisations, for example the International Tax Dialogue and the Forum on Tax Administrations, to jointly develop a methodology for collecting and analysing this information.

The recommendations about working within the old framework could be incorporated into this new framework.

Whichever course the *Doing Business* report adopts, there needs to be a fundamental shift in the approach to the tax indicators. This will take time and it is unlikely that any revisions will be completed before the next round of data collection. A dedicated multi-stakeholder group could be mandated to develop the Panel’s recommendations in the tax arena.
Annexure 3: The main criticisms of the *Doing Business* report

The main criticisms of method and the indicators are:

- The focus on formal and legal requirements gives a partial and potentially misleading picture of the situation faced by firms on the ground. The *Doing Business* report indicators are poorly correlated with form-level surveys that ask similar questions.
- The collection of data looks at a very specific type of firm and samples the situation in the largest city. Both limit the usefulness of the *Doing Business* project to provide a satisfactory picture of the situation. This is a particular issue in large countries where experiences may vary geographically. The extent to which the particular type of firm whose experience is tracked is relevant and representative varies enormously from one country to another.
- The *Doing Business* report indicators are weakly correlated with broad measures of economic performance at the country level.
- The small sample sizes (limited numbers of firms and contributors).
- The *Doing Business* report is unclear about how much its indicators are affected by subjective judgements and adjustments versus *pro forma* processing of received data.
- Some indicators do not measure those policy aspects most relevant to economic performance in particular domains.
- The method of data collection is inherently incapable of capturing the complexities of the legal system. This crude measurement risks being a poor reflection of formal statutes and the way in which they influence economic performance.
- The indicators have a deregulation bias.

The main criticisms of the aggregate rankings are:

- Arbitrariness of the aggregation method. Any aggregation method is questionable, and every method is explicitly or implicitly based on a value judgement.
- Movements of ranking over time are not a good reflection of policy change.

The main criticisms of practice are:

- The use of rankings is problematic as a method of aggregation and as a means of communication.
- The poor process of scrutiny of methods and internal feedback in the Bank.
- Difficulties of expanding changing methods without losing comparability over time tend to lock in poor practice.
Over the years many different organisations/sources have provided various critiques of the *Doing Business* project. These different sources can be categorised as:

- Internal critique by members/associates of the Bank
- Critique by academics
- Critique by non-governmental organisations.

**Internal critique by members/associates of the Bank**

The *Doing Business* programme has been extensively criticised by internal members and associates of the Bank, including executive directors, the Independent Evaluation Group and an internal Bank unit. Eight executive directors (roughly representing one third of the Bank’s board of executive directors) submitted a critique of the report, which is quoted from below (excerpts are taken from the executive directors’ letter of 10 February 2012 to then President Zoellick, managing directors Sri Mulyani, Mahmoud Mohieldin and Caroline D Anstey, and Lars Thunell, the IFC’s executive vice president).21

**The Independent Evaluation Group**

An assessment of the *Doing Business* report was published in the 2008 Independent Evaluation Group report. The report finds that the indicators have been highly effective in drawing attention to the burdens of business regulation, but cannot by themselves capture other key dimensions of a country’s business climate, the benefits of regulation, or key related aspects of development effectiveness. Thus, the World Bank Group and stakeholders need to consider the *Doing Business* indicators in a country context and interpret them accordingly. Excerpts from the report are listed below with pertinent critiques of the programme from several of the World Bank’s executive directors and an internal Bank unit.

**The underlying framework of the Doing Business indicators**

The Independent Evaluation Group commented on the underlying framework of the *Doing Business* indicators.

> The *Doing Business* exercise is anchored in research that links characteristics of a country’s business environment to firm performance, and thence to macroeconomic outcomes. The regulatory framework – the part of the business environment that *Doing Business* measures – has been shown to be associated

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20 The drafting executive directors were Dyg Sadiah Binti Abg Bohan, Hekinus Manao, Renosi Mokate, Alberto Camarasa, Rogerio Studart, Mukesh N Prasad, Javed Talat and Shaolin Yang.

21 Most of this critique was reiterated during the Panel’s meeting with the executive directors on 17 April 2013. However, at this meeting, only four of the executive directors harshly criticised the *Doing Business* report.
with firm performance, but its association with macroeconomic outcomes is less clear. Many other factors affect macroeconomic outcomes, and the direction of causality between regulation and economic outcomes is very difficult to isolate. Since regulations generate social benefits as well as private costs, what is good for an individual firm is not necessarily good for the economy or society as a whole. Therefore, policy implications are not always clear-cut, and the right level and type of regulation is a matter of policy choice in each country. The [Doing Business] exercise reflects the limitations inherent in the underlying research. As an exercise in cross-country comparison, [Doing Business] is not intended to, and cannot, capture country nuances. Firms’ investment decisions also depend on variables not measured by the indicators, such as the cost and access to finance and infrastructure, labor skills, and corruption. Different aspects of regulation have varying degrees of economic importance depending on countries’ income levels, legal regimes, and other characteristics.

Seven of [Doing Business’s] 10 indicators presume that lessening regulation is always desirable, whether a country starts with a little or a lot of regulation. Reform as measured by the [Doing Business] indicators typically means reducing regulations and their burden, irrespective of their potential benefits. The evaluation confirmed that the [Doing Business] indicators primarily measure laws and regulations as they are written. But the relevance of each indicator in a given country depends on the extent to which the law is actually applied, which [Doing Business] does not aim to measure. Likewise, the pay-off of a particular regulatory reform will depend on how significant a burden the regulation poses in practice. These limitations underscore the need for [Doing Business] to be interpreted cautiously and used in conjunction with complementary tools such as Investment Climate Assessments. Overall, the indicators objectively and reliably measure what they set out to measure, with a few qualifications.

The controversial employing workers indicator is consistent with the letter of relevant International Labor Organization … conventions, but not always their spirit, insofar as it gives lower scores to countries that have chosen policies for greater job protection. Systematic differences in the country rankings for a few indicators are associated with countries’ legal origins in civil or common law, but these patterns have little impact on the overall rankings or the validity of the exercise. The paying taxes indicator includes an anomalous sub indicator – the total tax rate – which does not simply measure administrative burden to firms, but rather reflects a country’s overall fiscal policy derived from social preferences. Finally, inaccurate nomenclature and overstated claims of the indicators’ explanatory power have provoked considerable criticism from stakeholders.
Several World Bank executive directors have commented on the underlying assumptions that have shaped the methodology of the *Doing Business* report. Their comments are outlined below.

- “The report is fundamentally biased. It assumes that deregulation is the more appropriate approach to follow and limited liability companies are the more appropriate business form to take. It also expects meaningful changes every year regardless of whether these changes fit into the long-term and more consistent reform program and regulatory framework of countries. Yet the regulatory function of the procedures and the standards of implementation and enforcement of regulations, which are equally if not more important, are not taken into consideration ... These doubtful and biased assumptions made the report weak from the very beginning and vulnerable to challenges of its impartiality.”

- “The indicators selected do not seem to be aligned with the objective of the report, which is supposed to make a statement about the ease of doing business in a country. The report merely focuses on the existence of certain rules and the length of time needed for and the cost of business registration or other regulatory procedures. It runs the risk that policymakers will attempt to focus narrowly on changes closely related to the indicators included in the report, losing sight of the big picture in the long run. The net result of the exercise is shifting focus to a set of narrow indicators that do not reflect the reality of the world today.”

- “The report is misleading as it fails to tell the whole and true story of the business environment in countries. Particularly, if investors do take it as reference when making decisions on investment, there is a danger of distorting global capital flow. Besides, it also fails to fully associate the Regulators into the entire exercise.”

- “For the client countries, there is no incentive for the countries to make material and far-reaching changes for a better business environment other than those selective indicators that can help them move up in the ranking, which would endanger the long-term healthy development of the economy.”

An internal Bank unit recommends that the assumptions underlying policy prescriptions should be made explicit in the report as well as the fact that they are contested prescriptions; this would enable policy-makers to make more informed decisions about whether and how to implement some or all of them.
Methodology and data reliability

The Independent Evaluation Group report also comments on the methodology used in compiling data and how this could affect the final country ranking in the Doing Business report.

[Doing Business] collects its information from expert informants in each country, mostly lawyers, who provide information free of charge. This process can generate reliable data, but three areas of vulnerability need to be addressed.

First, the data are provided by few informants, with some data points for a country generated by just one or two firms. Of particular concern is the paying taxes indicator – [Doing Business] relies exclusively on a single firm to provide both the underlying methodology and the data for 142 countries. The number and diversity of informants for all indicators need to be increased and their information validated more systematically. An increase in the informant base will require a systematic vetting process to reduce self-selection bias. Simplifying the questionnaire may also help to encourage more informants to contribute.

Second, although [Doing Business] makes available a great deal of information about its data and methods, it remains insufficiently transparent about the number and types of informants for each indicator, the adjustments its staff make to the data received from informants, and the changes made to previously published data and their effects on the rankings. [Doing Business] needs to adequately explain to users the possibilities for errors and biases.

Third, [Doing Business] makes much of its country rankings. The rankings entail three weaknesses. First, because most of the indicators presume that less regulation is better, it is difficult to tell whether the top-ranked countries have good and efficient regulations or simply inadequate regulation. Second, the small informant base makes it difficult to measure confidence in the accuracy of the individual indicator values, and thus in the aggregate rankings. Third, changes in a country’s ranking depend importantly on where it sits on the distribution: small changes can produce large ratings jumps, and vice versa. These factors contribute to anomalies in the rankings. These issues alone may not jeopardize the [Doing Business] indicators’ reliability. But the lack of transparency about them undermines [Doing Business’s’s] credibility and goodwill. [Doing Business’s’s] documents and presentations should include full explanations and cautions on these points.
Comments from the Executive Directors confirm these critiques. Excerpts are listed below.

- “We find the report generally misleading in several instances due to use of unscientific methodology which has led to very controversial conclusions in many cases. These problems have resulted in many countries viewing the results as causing more harm than good.”
- “In any case, the consolidated indicator (‘Ease of doing business’), which is based on the simple average of ‘rankings, has serious methodological issues. This process of ‘no weights’ has received considerable criticism, in particular from the research area of the World Bank.”
- “The source of data is questionable, seriously undermining the accuracy and reliability of any assessment made thereof. Contrary to the claim of the [Doing Business] team, we are of the view that the indicators collected by them are not free from sampling errors ... In addition, data collection methodology is weak. These characteristics, amongst others, make it impossible to assess the accuracy of the estimations ... Random, ad-hoc additions or alterations to the already questionable indicators further devalue the report significantly.”

The internal unit recommends that the Doing Business team discontinue the use of aggregate rankings in light of the methodological and substantive policy weaknesses identified in the various indicators. The unit notes the absence of adequate justification for using the 10 indicators as a proxy for good regulatory policies and the possibility of policy distortions arising from “game” reforms associated with the use of rankings. It recommends the addition of a more detailed risk analysis section dealing with the limitations of rankings, moral hazard and gaming. Specifically, that the report outline the measures that it has or will implement to minimise or eliminate these risks. The unit also notes that independent researchers should be allowed access to the questionnaire responses to independently verify data. In this way, the research process would be transparent, augmenting the report’s credibility and solidifying its perceived utility for policy-makers.

The executive directors also commented on the Doing Business ranking system.

- “[The Doing Business report] focuses on inadequate regulations that could hamper the business environment, especially for small and medium enterprises, and therefore generate an incentive towards the informal economy. Without questioning this statement, which is controversial to say the least, the process of ranking the indicators makes this objective inconsistent.”
- “The approach of ranking members is in itself inappropriate and does not generate its intended result. For example, a country could improve its business climate,
alleviating the constraints over [small and medium-sized enterprises], but nevertheless fall in the ranking. On the other hand, a country can improve its ranking, simply because others ranked closely have done worse.”

Motivating and designing reforms

It is noted in the Independent Evaluation Group report that the Doing Business exercise has proved a useful tool, despite methodological limitations, but that these should be examined and rectified where possible. Comments from this report are listed below.

The Doing Business indicators have motivated policy makers to discuss and consider business regulation issues. Its active dissemination in easy-to-understand language permits widespread press coverage and generates interest from businesses, nongovernmental organizations (NGOs), and senior policy makers. Doing Business has had less influence on the choice, scope, and design of reforms. Most Bank Group staff and country stakeholders interviewed for this evaluation report that they draw on a range of analytical material to determine the nature, sequence, and direction of reforms; the Doing Business indicators have limited use in this regard.

As a cross-country benchmarking exercise, Doing Business cannot be expected to capture the country specific considerations involved in prioritizing, sequencing, and designing policy reforms. Each year Doing Business spotlights countries that have demonstrated the largest gain in the overall ranking and an improvement on at least three indicators. Such an approach, while transparent, does not capture the reforms’ relevance and their potential impact on the binding constraints to the investment climate in the country. [The Independent Evaluation Group] did not find evidence that the Doing Business indicators have distorted policy priorities in the countries or in the Bank Group’s programs, or that countries have made superficial changes for the sole purpose of improving their rankings. In summary, Doing Business measures the costs but not the benefits of regulation.

Despite its methodological limitations, it has contributed to development by providing countries with a basis for international comparisons of their regulatory regimes. It has helped to catalyze debates and dialogue about investment climate issues in developing countries. For the Bank Group, it is a key global knowledge product. Most of the methodological limitations can and should be addressed promptly, lest they undermine its credibility. Inaccurate nomenclature should be rectified and the Doing Business reports should not overstate claims of causality and the indicators’ explanatory power.
Implications for the World Bank Group

The Independent Evaluation Group report notes the broader implications of these critiques for the World Bank Group:

First, the Bank Group, by prominently recognizing [Doing Business] highly ranked countries, may inadvertently be signaling that it values reduced regulatory burdens more than other development goals. The Bank Group’s approach entails helping countries achieve a wide range of objectives, yet it has no comparable way of celebrating improvements in other important development outcomes. Second, the [Doing Business] exercise has demonstrated that cross-country ranking can be effective in spurring dialogue and motivating interest and action. It could potentially be applied to other development issues – those for which actionable indicators can serve as proxies for the target outcomes and for which the direction of improvement is uniform for all countries.

Several World Bank executive directors concur with the first of these implications. The excerpts below expand on this.

- “The vocation of the [World Bank Group] to become a ‘bank of knowledge’ is not consistent with the strong flaws the [Doing Business project] has, in particular on methodological issues: the Bank is exposed to a serious reputational risk.”
- “Though questioned and repeatedly seriously challenged by many of us and others outside the Bank, the report continues to be published each year. Minor adjustments have not made a difference and are not acceptable. Therefore, strongly concerned with its counter-productivity, we feel we cannot wait any longer and we urge Management to take every possible measure to protect the reputation of the [World Bank Group].”
- “The rationale for ranking member countries in terms of business environment, in our view, is in contradiction with the development democratization trend. It is based primarily on the belief that there are superior development models and practices which could be used as benchmarks to rank every country. While in reality, development paths will vary in scope and timing in different countries and reform plans need to be rolled out according to the priorities of individual countries. The report implicitly directs countries to carry out certain reforms. This puts the Bank in a risky position of being criticized as dictating the direction and pace of member countries’ development.”
- “As countries are at different development stages, it is inappropriate to adopt a one-size-fits-all approach to compare and rank the countries on the same basis across the board. Reforms are tailored to country circumstances and take place at a pace which suits that particular context. Therefore, trying to quantify reform initiatives and then
rank countries can lead to deceptive results. In addition, we are of the view that it is not the Bank’s business whatsoever to rank its shareholders. We, therefore, request the management to stop this practice.”

The internal unit notes that the annual nature of the publication narrows the decision and action horizons of national policy-makers while giving the impression that reform can be quickly and easily implemented in an isolated manner. The context-insensitivity of the report in effect prescribes a one-size-fits-all reform solution. However, legal reform requires consensus, the balancing of competing interests and values as well as careful integration into existing systems – it can rarely, if ever, be implemented in a short period of time. The unit recommends consideration is given to an extended publication cycle of three to five years.

**Specific recommendations by the Independent Evaluation Group**

Given this above assessment, the specific three major recommendations by the Independent Evaluation Group are as follows:

- **To improve the credibility and quality of the rankings, the [Doing Business] team should:**
  - **Take a strategic approach to selecting and increasing the number of informants:**
    - Establish and disclose selection criteria for informants.
    - Focus on the indicators with fewest informants and on countries with the least reliable information.
    - Formalize the contributions of the supplemental informants by having them fill out the questionnaire.
    - Involve Bank Group staff more actively to help identify informants.
  - **Be more transparent about the following aspects of the process:**
    - Informant base: Disclose the number of informants for each indicator at the country level, differentiating between those who complete questionnaires and those who provide supplemental information.
    - Changes in data: Disclose all data corrections and changes as they are made. Explain their effect on the rankings, and, to facilitate research, make available all previously published data sets.
    - Use of the indicators: Be clear about the limitations in the use of the indicators for a broader policy dialogue on a country’s development priorities.
  - **Revise the paying taxes indicator** to include only measures of administrative burden. Since the tax rate is an important part of the business climate, [Doing Business] should continue to collect and present simple information on
corporate tax rates, but exclude it from the rankings (as it does for information on nonwage labor costs in the employing workers indicator). A wider range of informants should also be engaged for the paying taxes indicator.

- To make its reform analysis more meaningful, the [Doing Business] team should:
  - Make clear that [Doing Business] measures improvements to regulatory costs and burdens, which is only one dimension of any overall reform of the investment climate.
  - Trace the impact of [Doing Business] reforms at the country level. The [Doing Business] team should work with country units to analyze the effects of implementing the reforms measured by the [Doing Business] indicators (such as revised legislation or streamlined processes) on: (i) firm performance, (ii) perceptions of business managers on related regulatory burdens, and (iii) the efficiency of the regulatory environment in the country.

- To plan future additions or modification to the indicators, the [Doing Business] team should:
  - Use Bank analyses to drive the choice of [Doing Business] indicators. Business Enterprise Surveys, Investment Climate Assessments, and other work can help determine stakeholders’ priorities for domestic private sector growth. The [Doing Business] team should use such analyses to determine the choice of new indicators and periodically reassess its current set of indicators.
  - Pilot and stabilize the methodology before including new indicators in rankings. Frequent changes in methodology make comparison across time less meaningful. New indicators should be piloted (that is, data collected and published for comment, but not factored into the rankings) until the methodology is validated and stabilized.

Critique by academics

Within the 10 years of Doing Business, hundreds of academic papers have been written using the Doing Business report data. Not surprisingly, an increasing number of papers criticise the Doing Business report methodology. The Panel asked the Doing Business team to respond to each of the academic critiques that they were aware of. The team responded with various documents of over 260 pages, out of which an annex of 96 pages, titled
“Response to Academic Critiques” responds in detail to each of the critiques summarised in the 18 academic studies handed to the Panel by the Doing Business team.


The Panel came to the following conclusions in this regard:

The first concern is that these papers are not cited/addressed in either of the 260+ pages by the Doing Business report Team. In the light of this finding, the Panel underlines the issue of the governance structure: with a proper internal and external “review” of the Doing Business Report, the Team should have been meanwhile confronted with these kinds of critiques and addressed them properly. If the World Bank sees itself as a scientific institution, this sort of refereeing process is fundamental to the publication of a ‘flagship’, or any other “knowledge product” such as the Doing Business report.

The second concern is that the above two cited papers show that rankings (such as the Doing Business ranking as well as other country rankings such as the Human Development index) can be misleading and are subject to data uncertainty. Very minor changes in the underlying data can vastly change the position of a country within the ranking.

The Panel recommends that these methods, which reveal “rank uncertainty”, be replicated. If the Doing Business team can show that their rank methodology is in fact robust, that would make their data production more highly regarded.


24 To the credit of Doing Business, these are 2011 and 2012 publications, although the papers were already published and available online from 2008 as an IZA discussion paper and 2010 working paper respectively.

25 For example, Italy and Guyana changed by 40 and 33 rank positions, simply because of two data revisions in their countries. These data changes occurred in 2007 and are summarised in the Table 2.2 of the Independent Evaluation Group 2008 report.

26 The 2011 paper by Wolff et al. proposes a very simple method to compute the uncertainty of the distribution of ranks. See Figure 6, p 858. This measure can also be computed using the variation of responses to the same question by multiple interviewees within a country. For example, the answer to the question, “how many days does it take to connect to electricity?”, is answered by five respondents within a country. Then the calculation of the standard error for these five answers can be directly used to calculate the uncertainty within this variable (which contributes to the uncertainty in rank).
The figure that follows clearly shows that moving up or down 10, 20, or 30 ranks may take place simply due to measurement error, given the enormous data uncertainty that underlie these statistics.

In the figure above, the black circle indicates the median ranking, and the grey line indicates the ranking interval for which the country is more than 95 percent certain to be located within. Source: Høyland et al (2012).

**Critique by non-governmental organisations**

In recent years a large number of non-governmental organisations have expressed deep concerns with the *Doing Business* project. These organisations have been particularly vocal in their critique of the Employing Worker and the Paying Taxes indicators, which they have
argued should be dropped from the *Doing Business* report. Multiple non-governmental organisations (representing civil society)\(^{27}\) sent a joint letter to the Panel, recommending the following areas of reform:

- **Doing Business must be reformed to better fulfil the World Bank’s mandate to eradicate poverty and the IFC’s development goals.**
  - The Doing Business indicators do not represent or serve well the needs and priorities of the majority of poor micro and small-scale entrepreneurs (MSEs). The “model” firm on which Doing Business is based is a medium-sized formal business operating in an urban setting. This is not the reality of the majority of businesses in developing countries.
  - Many of their priorities for being able to “do business” identified in research by CAFOD and others, and indeed reflected in the World Bank’s own enterprise surveys are not featured in Doing Business. For example, corruption has a real impact on risk and competitiveness, but is not considered by Doing Business.
  - For example, Zambia ranks well on the Access to Credit indicator, whilst the majority of firms cite this as their major constraint when surveyed. In order to improve the relevance of Doing Business to poor small business owners, the World Bank should:
    - Broaden consultation to specifically get viewpoints of [micro and small-sized enterprises], and firms in rural areas
    - Tackle topics that matter to these groups, including corruption
    - Address reforms that suit them.

- **Doing Business must be used in an appropriate way in policy formulation.** As recognized by the Doing Business team, the project is not intended to provide a blueprint for regulatory reform. It is poorly designed for such a purpose. It captures what is easily measurable, without any deeper analysis and in a relatively unscientific way. Consequently, the World Bank recognises that the reforms listed might not be appropriate in all contexts, might not be the most important reforms in those economies, or might not highlight important trade-offs between “Doing Business” and other objectives. For these reasons, it is important that the Doing Business indicators are not used inappropriately to

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\(^{27}\) Statement on behalf of the following organisations: Coalition of the Flemish North-South Movement, Belgium Bretton Woods Project, UK CAFOD, UK Center of Concern, USA Christian Aid, UK CNCD, Belgium Cordaid, Netherlands Debt and Development Coalition, Ireland Diakonia, Sweden Eurodad, Europe Fundar, Analysis and Research Center, Mexico Integrated Social Development Centre (ISODEC), Ghana International Trade Unions Confederation, Jesuit Centre for Theological Reflection, Zambia K.O.O, Coordination Office of the Austrian Bishops’ Conference for International Development and Mission, Norwegian Debt and Development Forum, Oxfam International, Save the Children UK, Urgewald, Germany.
guide regulatory reforms, as they do not provide the necessary complexity of information, the full picture of what reforms are needed or the different implications of choices that should guide such decisions. Therefore, it is inappropriate to promote Doing Business reforms in countries as being the “right” thing to do or to set direction of regulatory reform. To avoid such incentives arising, the World Bank should:

- Not use Doing Business in [Country Policy and Institutional Assessment].
- Recommend that Doing Business is not used by donors as benchmarks in aid programmes.
- Not rank countries according to their Doing Business “scores”.

- **Doing Business must not be promoted inappropriately.** The reforms promoted in Doing Business are only a small part of what needs to be done to achieve successful, inclusive private sector development in developing economies. It is inappropriate, therefore, that Doing Business should be subject to such a disproportionate promotional effort, compared to – for example health or education indicators or other private sector development tools, such as enterprise surveys.
**Annexure 4: Acronyms**

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>EWI</td>
<td>Employing Workers indicator</td>
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<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>kVA</td>
<td>Kilovolt-ampere</td>
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<td>L</td>
<td>Lempiras</td>
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<tr>
<td>PwC</td>
<td>PricewaterhouseCoopers</td>
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<tr>
<td>VAT</td>
<td>Value-added tax</td>
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