THE WALL STREET JOURNAL.

A Flawed 'Doing Business' Report

By: Aldo Caliari – May 15, 2013

Every year the World Bank publishes the Doing Business report and the Doing Business rankings which measure countries' performance in what it considers good "investment climate" reforms.

Because the World Bank is a public institution, we believe that open and participatory debate on the suitability of the Doing Business project for such an institution is of the utmost necessity. As the World Bank happens to also be a lending institution, the message and direction of reforms that its rankings suggest are bound to significantly influence public policies in member countries, especially those that depend, or may depend in the future, on its credits or grants. Year after year, in fact, we find evidence that countries, willingly or as a way to access grants or loans, introduce reforms promoted in the Doing Business report. In 2004, a World Bank document reported that 20 developing countries and 12 members of the International Development Association had made reforms spurred by the Doing Business findings.

Therefore, we were surprised our interest in promoting such debate is attributed to, as put by a recent columnist in this newspaper, "interests that do not benefit from scrutiny." We simply believe that a review of the Doing Business report is overdue. One criticism we raised is that the Doing Business numerical indicators for a number of variables it associates with good firm performance inspire the belief that they are an objective measure of the business climate in ranked countries.

Defenders of the Doing Business project confirm our critique when they equate business climate with the Doing Business Indicators. Not even the World Bank goes that far. Every year the report comes with a disclaimer that it "does not measure the full range of factors, policies and institutions that affect the quality of the business environment in an economy" and, moreover, that within its small set of indicators "the focus is deliberately narrow."

The implications of this fine print are quite material, especially if that "small set" of narrow indicators is used by policymakers to drive reforms, thus skewing priorities. Unfortunately, it is not that fine print, but the numerical ascent or descent that makes headlines and is most likely to inspire politicians and policymakers.

The success of institutional reforms is strongly conditioned by the indigenous environment where they are implemented, an environment which varies country by country. So it is not thoughtless harmonization but attention to the particular requirements and nuances needed in each country and region which will make reform programs successful. The conceptual flaw Doing Business suffers from is the illusion that a universal numerical ranking can capture the evolution of variables whose significance for development (and even for businesses themselves) are bound to be quite different country to country. This is true whether we are talking about tax rates, licensing requirements, labor protection policies or access to credit.

It would not be so bad if, at least, the reductionist set of indicators Doing Business equates with a good investment climate were unequivocally positive, or neutral, for development and the well-being of the population.

But we cannot assume that. While Doing Business poses a tangible threat to benefits of those regulations or protections that it discourages, no significant statistical correlation exists, beyond the anecdotal, between high scores on Doing Business and economic growth. Since correlation is absent, no need to get ahead of ourselves and discuss causality, which would be the natural next question. Similarly, Cato Institute researchers contend that "most economists" would expect a strong correlation between lower worker protection legislation and employment or growth. But a survey by the World Bank recently found that "most estimates of the impacts on employment levels tend to be insignificant or modest."

The World Bank has other tools to promote a good investment climate, such as its country by country policy dialogue and advice, without relying on cross-country comparisons that give the illusion of an accurate measurement. The Doing Business rankings are a liability that has tarnished the Bank's image long enough. The Bank will better serve the interests of its members without them.