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The World Bank's 'Doing Business' should pick a methodology and stick with it

By Dalibor Rohac
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In some media outlets, the publication of the 2015 Doing Business report by the World Bank gave birth to exuberant headlines. Russia Today, for example, reported jubilantly: "Russia jumps record 30 places in Doing Business ranking". The sentiment was echoed by the Wall Street Journal's Emerging Europe blog, which reported that the report "showed Russia moved up 30 places to 62nd compared with its 92nd position last year and number 111 two years ago."

Has Russia's business environment taken a radical turn for the better over the past year? Probably not. The truth is that constant revisions to the Doing Business report risk making it useless.

What has changed is the report's methodology. The most important change is to the way its overall ranking is arrived at. In the past, a simple average was taken of each country's percentile ranks in different areas such as paying taxes, getting credit, registering property and so on. Instead, this year's edition uses an average 'distance to the frontier' calculated by comparing the performance of a country in a given area with the best performance recorded by any country in that area.

Other changes involve the introduction of new measures of regulatory quality. One example is the extent to which insolvency legislation reflects the World Bank's Principles for Effective Insolvency and Creditor/Debtor Regimes and the UN's Legislative Guide on Insolvency Law. This shift in methodology is not uncontroversial, as the report partly acknowledges.

First, the qualitative measures will reward economies that "follow some good practices even if they may face challenges in implementing those laws" (p. 27 of the report). Second, this change may be seen as caving in to pressures to punish economies with light-touch regulatory frameworks: "In general, economies with less regulation or none at all will have a lower score on the new indicators" (also p. 27). And third, the new indicators – referencing the frequently changing views of 'best practice' in regulatory practice – represent a departure from what has traditionally been the main virtue of the Doing Business report: its reliance on simple, objective, clearly defined attributes of legal rules and their enforcement.

Last year, the World Bank conducted a high-level review of its report led by Trevor Manuel, a former South African finance minister. The review gave rise to rumours that the rankings would be ditched altogether and to the widely reported news of political pressures from China to water down the report. If anything, it is almost a surprise that this year's edition of Doing Business has escaped the more serious threats it faced in 2013.

Interestingly, the changes did little to help China's ranking. Under the old methodology, the country ranked 96th. Last year's score, recalculated under the new methodology, places it 93rd in the world in 2014 and 90th in 2015. Neither have the changes affected the top performers – Singapore, New Zealand, Hong Kong and Denmark – or the bottom of the rankings, occupied by economies such as Eritrea, Libya and the Central African Republic.

However, the changes have induced some major reshuffles in the middle of the rankings, exemplified by the sudden 'success' of the Russian economy. Puzzlingly, Mexico is now ahead of Chile. Under the previous methodology, it lagged firmly behind, consistent with the fact that six out of ten Mexicans work in the shadow economy, while Chile seems to have one of the smallest shadow economies in the world. The change in methodology made the Czech Republic jump 31 places relative to last year's edition – whereas a comparison of scores recalculated under the new methodology makes it climb just three places, from 47th position to 44th.

What is more, further changes – which will add to the report's measures of regulatory quality – are scheduled for next year, making direct comparisons across editions invalid. True, this year's report recalculates last year's scores to render them comparable. And, presumably, a thorough revision of scores for all the years could be done next year, following the inclusion of new indicators, although the World Bank has not promised to do so.

However that may be, such changes – even if well-justified and transparent – can disrupt the usefulness of the Doing Business report as a benchmarking tool that would allow one to compare the relative performance of economies over time. The quest for a more thorough and more encompassing metric of the business environment thus risks turning the perfect into an enemy of the good.

Unfortunately, all this may have an even more sinister side. Given the pressure to eliminate the rankings altogether, it is possible that one of the purposes of phasing in the methodological changes over several years is precisely to muddy the waters, make such comparisons difficult and ultimately weaken Doing Business as a useful benchmarking tool. That would be unfortunate for scholars and policy makers alike.

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