What kind of review do we need of the Doing Business rankings?

Getting the investment climate right is an important challenge in all countries particularly because of its implications for job creation. It is especially important in developing countries where low incomes and low economic prospects affect the majority of the population.

The Doing Business project has been instrumental in raising the profile of the importance of investment climate reforms. They very often tackle critical topics. For example the Doing Business team recently added access to electricity to their analyses in response to enterprise survey results.

The Doing Business rankings have helped to encourage some useful reforms, encouraging governments to cut the red tape, time and cost it takes to register a new business. In 2005 it was possible to start a business in under 21 days in only 41 economies, in 2012 that figure was 103.

So why do governments, civil society, trade unions, academics and new World Bank President Jim Yong Kim want a review?

The rankings skew vital resources away from small and micro-enterprises which account for the vast majority of jobs and are critical in reducing poverty.

According to an analysis of a varied sample of developing countries commissioned by CAFOD, up to 90% of jobs and around 50% of GDP in those countries are accounted for by small businesses. These firms are generally small, informal, rural and very often run by women.

Their needs are not well catered for by the Doing Business rankings.

For example, women entrepreneurs in Ghana identified as key constraints to their businesses:

- Lack of education;
- Need to be able to manage their own time flexibly;
- Lack of access to start up capital and credit because of discrimination;
- Discriminatory land inheritance practice, despite good laws on paper.

The Doing Business rankings would not help with ANY of these problems.

This is not an isolated case. Based on a review of surveys and analyses of these firms' needs, as well as CAFOD's own experience of and interaction with poor small business owners, we came up with the following shortlist of priority reforms that are not addressed in Doing Business studies:

- Lack of business skills and education;
- Corrupt and inefficient business environment;
- Lack of market information;
- Lack of access to technology;
- Poor rural infrastructure and lack of access to local markets.

In some cases topics do correspond to those highlighted in the Doing Business topics. However, this does not mean that the rankings are necessarily helping in practice.

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This is demonstrated by the case of Zambia which ranks sixth globally on the 'getting credit' indicator but where 98% of small businesses that responded to the recent Zambia Business Survey lacked access to credit and ranked it the mostpressing problem that they faced. Clearly the Doing Business rankings are not helping Zambian small businesses.

This is because of two main failings of the rankings:

- They do not focus sufficiently on the context and reality of the business environment. For example, discrimination and a lack of information are frequent barriers to access to credit, regardless of the state of the regulatory system.
- They promote one preferred reform – usually deregulation, even though other actions might be more appropriate or pressing. For example, Zambian businesses often lack access to credit, because of lack of skills to draw up business plans and accounts. The Doing Business rankings do not encourage proactive measures to address this problem and certainly do not encourage alternative regulatory approaches – for example requiring financial institutions to serve small business better.

Arguably the Doing Business rankings are not designed to do everything to resolve all the problems of the local business-enabling environment. They are just part of a bigger picture of reform. This is only a valid justification if two conditions apply: first, that they do not demand significant resources – so that there is limited opportunity cost and other arguably more meaningful measures are not neglected; and, second, that they do no harm. That the Doing Business rankings can sometimes promote harmful reforms is dealt with in more detail subsequently, but there is clear evidence that they distort government efforts, including in the most difficult economic environments.

The Zambian government devotes a significant amount of its limited government capacity to moving up the Doing Business rankings. The government's principal scheme to promote the private sector – the Private Sector Development Reform Programme (PSDRP II), launched in 2009 – has five key result areas, one of which is to improve Zambia's Doing Business ranking from 100 to 50.[i] The government's PSRDP II website states:

> 'In the 2010 Doing Business Report Zambia moved up ten places and is ranked 90. This is an improvement of 10 places. In the next five years the target is to move further up and be ranked among the top 50 counties in the world, among the top three in Africa and receive recognition as a top reformer.'[ii]

Zambia is one of 20 countries that have formed committees to promote Doing Business at inter-ministerial level.[iii] The government is operationalising Doing Business reforms in technical committees involving a number of government departments.

The Zambia Development Authority does have a Micro and Small Enterprises Division which undertakes a range of capacity-building, technical support, and market access activities to help micro and small businesses, and provides training to around 1,500 small businesses a year. It has, however, only a relatively small budget, of around ZMK 8 billion (£960,000).

On the other hand donors are increasingly directing efforts and resources to Doing Business reforms, despite the lack of evidence of benefits for poverty reduction. Several bilateral donors provide significant support to Doing Business and use the rankings as performance benchmarks. USAID uses the rankings as benchmarks to assess the performance of its programmes in this area. The UK's DFID sees country improvements in the Doing Business rankings as a specific goal of some of its aid, including in the Caribbean and the Democratic Republic of Congo. Many European Commission Country Strategy Papers, covering 2008-13, also mention the Doing Business indicators as legitimate indicators of progress or failure in promoting private sector development.

The Doing Business Project needs to work for poor, small-scale entrepreneurs if it is to contribute to job creation and inclusive growth. It will be essential that the

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planned review assesses how small businesses can be better helped by Doing Business.

This is especially true as the Doing Business concept is expanded to the rural economy, where the majority of such businesses operate, through the Doing Business in Agriculture pilot. Although the needs of smallholder farmers are frequently cited in the World Bank's plans for this initiative, there are some worrying indicators, for example obstacles to seed imports tend not to be as important as the existence of seed banks in helping smallholder farmers have better access to quality seeds.

Some Doing Business indicators promote harmful reforms

It is not just that some reforms promoted by the Doing Business rankings might be irrelevant for the majority of businesses in developing countries, in some instances they are harmful to poor men and women.

The highest profile example of this is the now-suspended Employing Workers Indicator which has been criticised for undermining labour rights and standards. The rankings encourage "flexibilisation" of labour standards and do not promote social protection. For example, Brazil moved down the rankings when the minimum wage was increased.

The Paying Taxes Indicator has been similarly controversial. Countries are scored according to their rate of taxation, with low corporate tax regimes ranking highly. This does not respect that the tax rate applied to business profits is part of a country's fiscal policy with broader objectives, and fails to consider the many reasons why it is in a country's interest to tax corporate profits.

Again, the case of Zambia provides a telling example. Zambia ranks 37th on the Paying Taxes Indicator. Zambia is being rewarded for having a total tax rate of just 16%, that is less than half the average (of 43%) of much-wealthier OECD countries. Indeed, Zambia has been widely criticised for low taxes and fiscal concessions given to mining companies, depriving the government of much-needed revenues for public spending and placing a disproportionate tax burden on SMEs.

The Doing Business rankings are increasingly coming under attack for their approach to land reforms. Formal land titling can sometimes help poor men and women have successful businesses by giving them greater security and facilitating access to credit. However, poorer groups can lose out in land-titling processes and customary rights can be undermined. Reforms can result in increasing land market activity and Doing Business and other advisory processes are being criticised for their role in facilitating land grabs in Sierra Leone, Liberia and Ethiopia.[iv]

The review of the Doing Business rankings needs to look at the substance of specific indicators to ensure that they do not promote reforms that might indeed make a favourable investment climate, particularly for foreign investors, but which are potentially damaging to the interests of poor men and women.

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The rankings may incentivise reform but they also close down vital debates

One of the positive aspects of the Doing Business rankings is their ability to draw attention to the need for regulatory reform and the investment climate, especially in developing countries. In fact, one of the World Bank/IFC defences against many criticisms of the reforms promoted is that the rankings are not intended to be prescriptive; they are to kick start a debate of what reforms are needed.

But the broader debate has not been happening and the Bank's approach does not support such a discussion.

In fact, the portrayal of the rankings as a technical and statistical exercise promotes their judgement as an "objective truth" rather than as the start of a debate.

The rankings create strong norms of the "right" things to do. The fact of being scored against other countries creates strong pressure on governments to do what is advised in the rankings. This is especially true in poor client countries, where the intellectual and financial weight of the World Bank is most keenly felt.

The Bank still makes overly strong claims about the rankings. Under pressure, because of the lack of proven links to economic or other improvements, the Bank has acknowledged the limitations of the rankings to an extent. However, this is not highlighted in the significant marketing, in-country promotion and media coverage of the rankings that the Bank invests in. Despite their weaknesses, the rankings are very influential. According to an IEG survey, 85% of policy makers take them into account.

The need for a debate is critical as there is no blueprint for an investment climate that works in all contexts. Regulatory reforms are not just about doing what is best for business – other objectives are often in play. Yet any regulation can cause a drop in rankings even if it is for a legitimate purpose – for example social or environmental objectives – as the assumption is that these are bad for investors. Moreover, there are different roads to private sector development and different regulatory and investment climate choices to go along with these. Many countries have taken different tax, investment and other choices than those promoted by Doing Business.

Yet there is very little evidence of efforts to stimulate the broader debate needed to inform these difficult choices. Business fora have been set up in some countries, but the majority of small businesses are not represented. In Liberia, the reforms supported by the IFC were explicitly focused on regulatory changes that could be made without legislative approval. A World Bank study drew the same conclusion that a key issue deserving more discussion concerning Doing Business is 'how to make the transition from an in-house, donor-supported programme to one that countries fully own, maintain, and finance'.[v]

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Conclusion

The decision to review the Doing Business Rankings is a welcome one. As outlined in this brief, the review needs to:

- Look at a broad range of impacts, including on poverty, inclusive growth and small businesses;
- Look at the substance of specific indicators that can promote harmful reforms; and
- Look at how the Doing Business Indicators are promoted and used in countries.

The review needs to be independent and to include a broad participation of points of view and representation from those directly affected by investment climate reforms in developing countries.

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[i] 'About PSDRP', http://psdzambia.org. The other areas are: 'Business compliance costs reduced by 30%, MSMEs operating in the formal sector increased by 200%, Increased number of employees on permanent employment in the private sector, at least 5 PPPs operational and providing improved infrastructure and services'.
[ii] http://psdzambia.org/Default.aspx?ID=doingBusReforms
[iii] World Bank-IFC, 'About Doing Business: Measuring for Impact', 2011, www.doingbusiness.org
[iv] See Oakland Institute, *(Mis)investment in Agriculture: The Role of the International Finance Corporation in Global Land Grabs*, 2010
[v] Caralee McLiesh and Pedro Arizti, 'The Doing Business Project', in OECD, *MfDR Principles in Action: Sourcebook on Emerging Good Practices*, 2006, p.111

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