Insights on the Relevance of World Bank Doing Business Reports and the Recommendations for Improvement

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The Doing Business Project, launched in 2002, aspires to provide facts based objective measures of regulations applied to small and medium enterprises through their life cycle. As Doing Business report explains in self-description “By gathering and analyzing comprehensive quantitative data to compare business regulation environments across economies and over time, Doing Business encourages countries to compete towards more efficient regulation; offers measurable benchmarks for reform<…>”.

Since its launch, Doing Business report has undoubtedly became an important measure with economic and political consequences. On the economic side, Doing Business report has become one of the important indicators for companies choosing countries to invest. On the political side, this has become an index on which countries compete, and against which success of governments is measured.

Growing importance of Doing Business index has also attracted criticism. It is sometimes suggested that Doing Business should dismiss the ranking of countries. Some criticize the validity of indicators or even the construct of the whole Doing Business indicators approach.

There is an obvious difference between criticism aimed to improve Doing Business reporting, and criticism aimed at dismantling it, or making it irrelevant. Indiscriminate criticism of the concept of Doing Business is not grounded and fails to recognize practical value it provides. We have a strong belief and first-hand experience that Doing Business reporting is able to provide communication platform and progress monitoring for very important economic reforms. Some reforms would not have been implemented without it or would have been delayed indefinitely.

We agree that Doing Business indicators can be improved, fine-tuned, their scope expanded to more areas which have stake in “ease of doing business”. We understand that Doing Business team is very much aware of the need to constantly improve the report and this is obvious with methodological changes introduced every year. Thus, in combining the efforts Norway Registers Development AS, private company which helps governments in developing world to implement economic reforms in business registration, business inspections, state owned enterprises, etc., together with Uganda Technology and Management University, which is poised to grow next generation technology aware leaders, on the basis of first-hand experience in Lithuania and Uganda, prepared their insights into the value of Doing Business reports in shaping policy making and some recommendations on further improvement.

I. Doing Business reports are a very valuable instrument to initiate and support economic reforms

It is no doubt that Doing Business reports structure otherwise very vague field of "business environment" into a set of indicators which can be acted upon and influenced. When these indicators are recognized by political establishment and public as relevant, it creates powerful momentum for change.

This was witnessed first-hand in Lithuania by one of the authors of this paper. Hit by Global financial crisis Lithuania lost almost 15 per cent of GDP in 2009. That year bold fiscal austerity measures were taken, equivalent to almost 12 per cent of GDP. Newly appointed Government put in place a plan to stimulate the economy. One of the goals was to put Lithuania, at that time No.28, among the first 15 countries ranked in the Doing Business report, by specifying areas and measures needed to be taken. That was a very ambitious goal. But during the economic downturn it allowed the Government to signal its commitment nationally and internationally to facilitate the business environment, to regain competitiveness, to search for paths out of the recession. This allowed the society in large, the business community and media to monitor and evaluate the results. Based on this goal the government implemented a number of reforms and these definitely contributed to the resulting growth in the country. Doing Business report became a permanent media topic and was published and discussed with attention comparable to GDP figures.

It is important to note that the subsequent Government, though not so focused on business environment, kept Doing Business report indicators in its priority agenda as society remained strongly aware of them. This would have not been the case if clear-cut indicators and countries' rankings were not available.

We strongly believe that the ranking of countries is important for initiating such positive dynamics. Due to competitive motive embedded in the ranking itself (No. 1 is better than No. 2) it is suitable for media coverage. Ranking of neighboring countries or countries otherwise perceived as competitors, though is a simplification, but allows escalating discussion, fueling ambitions and communicating importance of the concept of business environment.

Therefore, for the Government which wants to push reforms forward these indicators and rankings give a momentum and provide a very clear and easy way to communicate the motivations behind these changes.

For the governments that are not keen for change, ranking serves as a somewhat humiliating indicator which creates discomfort and pushes them to look for remedies.

Recommendation

Nevertheless ranking of countries is probably the most criticized aspect of Doing Business reports; our recommendation is that ranking of the countries must be continued. Limitations of the ranking methodology should be improved and some of the critique addressed. Further in our insights paper, we present possible ways to improve rankings' validity and acceptance.

II. Clearer attribution of the reforms would serve the political cycle better

Since the end of 2008, the Government of Lithuania has taken a large number of reforms to improve business environment but saw a very small progress of indicators during its 4 years in the office. Major jump (10 steps forward) occurred after the new Government was elected, in Doing Business report 2014. Analysis shows clearly that all of the reforms which made the impact had been implemented by the

Government of 2008-2012 but the progress in Doing Business report was recorded and published in 2013 fall, i.e. in Doing Business report 2014.

It is very understandable why Doing Business report indicators lag and team's conservative approach to indicators is well founded – it is not the legal changes that counts but how actual procedures are implemented.

This comment is just a note that to make Doing Business report more valuable for policy makers as their platform for communicating progress and aligning their actions, it is necessary to attribute the reforms more clearly (it is every time the same discussion explaining that a reform made in 2011 or 2012 is published in 2013 under the title of Doing Business 2014).

Recommendation

It is very welcome that Doing Business report team plans more engagement through external consultations, namely with country governments. We expect that this will allow for a shorter lead time before the reforms are recognized in Doing Business reports. External consultations should increase the quality of the evaluations as well as allow avoiding some of the mistakes and misinterpretations.

III. Limiting competition through ranking of indicators could encourage engagement in less visible but more important reforms

Currently Doing Business report adopts a ranking scheme for virtually unlimited competition. Namely, if we consider starting a Business indicator, it creates the rank from several variables:

- Procedures (number)
- Time (days)
- Cost (% of income per capita)
- Paid-in Minimum Capital (% of income per capita)

Mathematically countries will be ranked until they reach the following limit: 1 procedure, 1 day, 0 cost and 0 paid in capital. Until this level, countries will be ranked in some order.

Purely mathematically this is correct, but if we consider the true value of these procedures for the business environment, they are not valuable to such extent. NRD AS was a solution provider in Viet Nam Business Registration Reform 2008-2013. Independent Evaluation team of the project found that "The burden and cost to register a business is only one of many factors determining entrepreneurship and the willingness to start a business, and in the case of Viet Nam after 2007, probably a quite minor factor."[1] NRD AS long term experience in modernizing business registers also confirms this insight.

It makes no difference whether pay-in capital is 3%, or 3.4%. It does not make much difference if there are 2 procedures rather than 1, if it takes 3 days to register rather than 1 day. No doubt, instant procedure is more convenient, but we would argue that it makes no difference in any relevant way. Starting a business is about taking long term commitment rather than instant gratification.

[1] http://www.unido.org/fileadmin/user_media_upgrade/Resources/Evaluation/VIE_BRR_TFVIE08001-plus-Final_rep_2013.pdf

We believe that much more important is straightforwardness and determined outcomes. How many applications are rejected for whatever reason? Is there arbitrary decision making involved in the process? How many applications are lost during processing? These are the problems which practically bother businesses in Tanzania, Uganda, and were bothering businesses before reforms in many other countries.

We believe that on a big scale ranking fuels motivation for reforms, but after improvements are achieved it can derail Doing Business report from targeting the most important challenges of business climate. If a government is hooked on Doing Business report improvement, this tends to channel government's attention to easily manageable, though only marginally important reforms. E.g. in order to improve Doing Business report indicator it makes more sense to invest into shortening business registration days from 3 to 1 day, instead of engaging in business inspection reform which is less visible (and not measured in Doing Business reports) but more important to the business environment and which would have broader impact to the economy.

Recommendation

We would like to suggest applying some sort of a "reaching target". This approach would rank countries as it did so far, but it would establish limits of "good enough" indicators. E.g. it would define that if a country reaches all of these indicators as a minimum (for explanation and discussion purposes: Starting Business "good enough" limit would be 2 procedures, 5 days, 3% cost, 10% paid in capital), it will be ranked as No.1 in the indicator. This way at the end of the day all countries can be No.1 in starting a business ranking.

It is important to note that minimum requirements for "good enough" must be supported by research data and must have face validity.

This would achieve very significant results. Countries would be relieved from competing on all indicators all the time. After improving Starting a Business indicator they would be encouraged to move on to other areas, rather than to spend additional resources to get marginal improvements.

Criticizing of Doing Business report ranking would be relieved as Doing Business report ranking would become a mixed ranking of competing with oneself and others (with unlimited number of seats in No.1 place).

IV. Introduction of Delivery of Regulation index could provide a more comprehensive view of practical burden on businesses

Currently Doing Business report focuses on the efficiency of regulation. We are aware that Doing Business report team is considering adding quality of regulation indicators and some very practical performance indicators, such as reliability of power supply. Efforts of Doing Business report team to expand their focus from formal regulation to practical issues are very appropriate and should be encouraged.

Reports mostly deal with regulations which are transactional in their nature. Starting a business, getting electricity, getting a permit are onetime events in the lifecycle of most businesses. Therefore, we tend to argue that clear procedures and definite results are more important than particular cost or time of a procedure (though for sure they are important).

On the other hand, delivery of regulation is not reflected in the report. From our experience we see that regulatory environment of day-to-day business and burden of regulation is what constitutes major cost for small businesses, rather than the named once-in-a-lifetime transactional costs of getting electricity.

How business inspections deliver regulations to businesses? How helpful they are in explaining application of regulations? How accessible are the regulations? These are the questions which increase or decrease the costs of doing business very significantly.

As delivery of regulation is not taken into account in Doing Business index, it often does not enter the policy debate, which is so successfully fueled by the next Doing Business report. Indicators would put these relevant measures on the "to do list" and this could initiate reforms.

Recommendation

We kindly suggest starting an index of Delivery of Regulation which would contain indicators of practical burden on businesses. The starting indicators could be formulated from current tested practices of Lithuania, UK, Netherlands and insights of the World Bank team working on delivery of regulation and then developed over time, for example:

- Number of business inspectorates in the country which have a mandate to inspect businesses;
- Availability of binding ruling (after giving consultation to business on particular question inspection is bound by this consultation);
- In the fields where most inspections are done (food, non-food, tax, etc.) – if inspectorates use some kind of risk assessment system for determining the areas of main risk and companies (inspection objects) for planning of inspection activities;
- Overall number of inspections carried out in relation to overall number of registered businesses.

V. About the Authors

Rimantas Žylius, Managing Director, Norway Registers Development AS. He served as Minister of Economy of the Republic of Lithuania until the end of 2012. He started to work in the Government as vice-minister of Economy in January 2009 and was responsible for reducing red tape, improving business environment, reforming public procurement and led other successful reforms which improved competitiveness of the country. Under his leadership there was a significant improvement in financial performance of State Owned Enterprises and their contribution to the total state budget.

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VI. About Norway Registers Development AS

Norway Registers Development AS (NRD) has been established in 1995 and has been specializing in helping governments and institutions in all continents to build vital economy facilitating infrastructure and achieving relevant, measurable results. Norway Registers Development provides solutions and tested know how for expansion of tax payers base and motivations to pay taxes. We focus in areas of Business registration, licensing and reforming of Business inspections; modernization of Public procurement, modernization of Tax collection with eFilling, etc.

NRD works on creating a secure digital environment for states, governments, corporations and citizens in East Africa and South East Asia, among other regions. It is closely engaged with several national and regional level cyber security initiatives working with telecommunication regulatory authorities, national and regional CERTs and Cyber Security Strategy stakeholders. Furthermore, together with ISACA Tanzania Chapter, NRD is currently developing a consultative Tanzanian National Cyber security framework.

VII. About Uganda Technology and Management University

Uganda Technology and Management University, dedicated to grow new generation of business, public sector and political leaders with deep understanding of technologies and their impact to human behavior, etc. UTAMU is committed to achieving it through an enriched learning experience that blends a variety of teaching and learning methods. It is very satisfying to the founders of UTAMU to have established a University that has great focus on the quality of teaching and research, engagement and innovation.

UTAMU Programmes are housed in two Schools: The School of Computing and Engineering has been carefully developed and equipped with the most experienced human resource that can be found in the region. This School is meant to nurture innovative minds in Computing and Engineering disciplines for tomorrow. The School of Business and Management has been established to produce entrepreneurs with best practice skills in business. Students in this school will undertake a big part of their studies through experiential learning to equip them with all the necessary skills and values of the work place.

VIII. Memorandum of Understanding between UTAMU and NRD AS

In October 2013 Norway Registers Development AS (NRD AS) has partnered with Uganda Technology and Management University (UTAMU) in a bid to address challenges of sustainable development in the East African Region. The parties signed a Memorandum of Understanding (MoU) to work together in order to support economic reforms in the region by promoting strategic ICT investment and contributing evidence based research, impact assessment reports and policy advice on specific subjects of interest, such as: investment strategy, industrial policy, business environment improvement, better regulation and public procurement, among many others.

The MOU particularly emphasized the potential of information and communication technologies or e-governance to decrease red tape, increase transparency and improve public service. UTAMU will integrate the special focus areas of the MOU into its curricula and develop academic and applied research in these areas.