

World Bank Doing Business Rankings: Why investment climate reform should not be a beauty parade

The Doing Business indicators are a set of guidelines for governments setting up their investment climate.

They cover a variety of topics that are potentially useful to help start a broad debate in developing countries in order to identify necessary reforms and reduce the administrative burdens for businesses.

However, rather than fostering broad-based economic development, following the checklist of reforms that make up the doing business rankings can be harmful to countries for four main reasons, outlined below.

Further, in practice the act of scoring and ranking countries against each other can also distort and inhibit the important debate surrounding how a country should regulate its economy and promote an enabling environment that works for all.

Therefore we are calling on the World Bank to:

- stop ranking countries against an inappropriate check-list of reforms;
- work with other relevant institutions to examine which reforms work best in practice and to develop more balanced tools and advice in these areas;
- stop promoting the rankings in the media and in countries, which creates pressure on governments and stymies debates;
- and instead promote a broader dialogue on appropriate context-specific reforms at a national level.

Four reasons why we think a new approach to investment climate reforms is needed:

- 1. The rankings skew government incentives away from the needs of the majority of poor, most of whom are women engaged in informal, micro and rural enterprises.**

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
- Discriminatory land inheritance practice, despite good laws on paper.

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

Small, rural, informal firms are not involved in consultations around the rankings, their views are not taken into account in their construction and many of the reforms promoted by the rankings favour foreign, larger firms. The rankings are gender blind and do not address particular problems that face women entrepreneurs – the majority in many poor countries. They only look at reforms on paper, not on the ground, which are more relevant to these firms.

2. The rankings discourage governments from doing what is needed to help small firms

The rankings focus on cutting red tape, not active interventions or programmes to support small firms. These kinds of investment climate reforms are not prioritised in the rankings, although they can matter more to the success of small businesses.

The rankings also discourage innovative policies that can favour small firms, particularly in areas such as procurement, investment and taxation.

3. In some critical areas, rankings promote reforms that are harmful

Land reforms: Formal land titling can sometimes help poor men and women have successful businesses by giving them greater security. However, it can also lead to harmful speculation, undermining of customary rights, and concentration of land in hands of few wealthy individuals.

Taxation: 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, decided through a democratic process. The tax indicator also fails to consider the many reasons why it is in a country's interest to tax corporate profits.

Labour rights: 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.

4. The rankings do not consider the balance of policy goals. The aim is minimal regulation, not optimal regulation.

It is unlikely that any one blueprint is appropriate in all contexts, but what is particularly worrying is that the rankings favour reducing regulation, regardless of the purpose of the regulation or whether the existing level of regulation is high or low.

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.

Problems with how the rankings are used

The World Bank/IFC defence against many criticisms is that the rankings are not intended to be prescriptive; they are to kick start a debate and there is nothing preventing governments from doing things that are not in the rankings.

But the broader debate does not happen 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. This is compounded by the fact that much of the analysis behind the rankings remains secret.

Much of the construction of the rankings depends on the work of a few consultants who base their conclusions often on an incomplete and inaccurate picture of the

business environment generated by data and which only reflects what is on paper, rather than the realities faced by domestic firms.

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. Several developing countries have actively allocated government staff to the task of increasing their standing in the DBR, diverting resources from pressing development priorities.

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. For Zambia moving from position 100 to 50 is one of the pillars of its private sector development strategy and it has an inter-ministerial committee to work on the rankings.

This year there is a real need and opportunity for change

- An anniversary research conference on the impacts of the rankings should be an opportunity to reflect and to begin a process for reform.
- There is a new leadership and potential for new direction from an incoming World Bank President.

There are plans to launch a “Doing Agriculture” index which could repeat the mistakes of the current rankings, if lessons are not learned.

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Supporting organisations:

11.11.11- Coalition of the Flemish North-South movement.

ActionAid International

Attac Norge

Bretton Woods Project

CAFOD, UK

Centre national de coopération au développement, CNCD-11.11.11

Christian Aid

Christian Confederation of Trade Unions (ACV-CSS)

Eurodad

Global responsibility – Austrian platform for development and humanitarian aid

IBIS, Denmark

ISODEC, Ghana

International Trade Union Confederation (ITUC)

KOO- Koordinierungsstelle der Österr. Bischofskonferenz f. internationale
Entwicklung und Mission

Oxfam International

