

Evaluation of Doing Business (2004, 2005 and 2006 Reports)

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A. Objectives

The Doing Business reports aim to document differences and similarities in how private businesses are regulated across a large number of countries. The objective was to develop a new set of detailed benchmarks that measure the existing regulations in a country and the costs of these regulations to the business community. The dimensions of business regulation that the reports focus on are:

1. Business entry
2. Employment regulation
3. Contract enforcement
4. Creditor rights and credit information sharing
5. Bankruptcy proceedings

The overarching objectives of the Doing Business research team are fourfold: (1) The Doing Business report first goal is to document in a systematic manner the regulatory environment across countries. (2) It encourages reforms that help business development by providing systematic information on the regulatory environment across countries and by raising awareness about these issues. (3) It aims to inform the design of new regulations through providing benchmarks on best practices around the world. (4) It intends to stimulate future research on the topics. In the following I will combine that assessment of the three so far available doing business reports in one integrated article, since they are tightly linked and build on each other.

I believe that the topics and objectives of the Doing Business reports are of crucial importance for policy in the developing economies and post-socialist countries. The areas of business regulation that the report identifies are central to the development of financial markets and entrepreneurship. Most academics and policy makers alike would agree that the regulation of private businesses can play a major role in facilitating or impeding a country's economic development. By creating detailed benchmark measures of regulations within a country the research team provides very valuable information for regulators and academics around the world. Even though some of the implicit policy suggestions that the report proposes might not be uncontested among academics and policy makers, I will discuss some of these issues in the section on methodology. But the data collection itself has had tremendously positive impact on the policy debate and has changed the landscape dramatically and to the better.

Therefore, this work is focused on an extremely important area of policy research that had not received sufficient research coverage by academics and international institutions up to that point. While there have been a myriad of studies analyzing the impact of individual regulatory changes on business outcomes, most of these studies focused either on a detailed analysis of an individual regulation within a specific country. The problem of this approach is that the results often cannot easily be compared across studies and that it lacks the systematic approach to carry out the analysis for a meaningful number of

countries. The second approach compares regulatory changes across a cross section of countries but often without paying enough attention to the details of the regulatory framework.

In fact, I believe that Doing Business is one of the most influential research initiatives that the IFC and the World Bank have ever undertaken. It has put the focus on improving the efficiency of government policy and ignited a vigorous discussion in emerging markets. This cannot only be seen by the fact that the first three entries under “doing business” (which is even an extremely generic word combination) on Google link to the Doing business website at the World Bank. Moreover, literally at any policy forum in developing countries I have heard reference to the reports.

B. Design and Implementation

Research Methodology. The methodology used by the researchers in the Doing Business report has two distinct parts. The first part is the creation and collection of the benchmark measures for the regulatory environment of a country. The second part is the analysis of the how these indicators correlate with outcome variables in the cross section of countries, for example access to bank finance, corruption, number of new businesses and other. I will focus most of my evaluation on the first part of the methodology since I consider it the major contribution and innovation of the Doing Business Reports. But I will also discuss some of the critical aspects of the analysis conducted in the second part. From the start I want to highlight that we need to draw a sharp distinction between the actual data generation undertaken by the research team and some of the analysis that the data has been used for in later studies (by the authors themselves and by a number of follow-on researchers).

a. Data Collection

The methodology to collect data on the business regulations which was developed by the Doing Business research team is highly innovative. The researchers set up a systematic procedure to survey professionals that are familiar with the details of the regulations in their country. The center piece of this survey procedure is to develop a number of cases that are general enough so that they can be applied across a large number of countries but are specific enough to allow the professionals to give concrete estimates of the specific costs, procedures and time delays that a business would have to face to deal with the regulation. For example to estimate the cost of registering a business the research team simulates the case of a specific company which is a limited liability entity with up to 50 employees, located in the country’s largest city, fully domestically owned and so on.

While the idea of using a survey of professionals to efficiently generate detailed information about business regulations across countries might seem almost obvious ex post, it is indeed the first time that this methodology was applied to collect information on the regulations. The detailed data generation process is structured as follows:

1. The researcher first collect information on local laws and regulation

2. Design questionnaire for local professionals to assess the impact of different aspects of the regulation at hand
3. A questionnaire is structured around a hypothetical case to ensure comparability
4. Local professionals interact with doing business team to assess the case and provide information, for example lawyers within the “Lex Mundi” network
5. Robustness checks with other organizations and data sources.

Overall the implementation and execution of the data collection was very carefully conducted and has undergone several refinements and improvements. The Doing Business reports have created a very robust and reliable set of benchmark measures on regulation which are being used world wide by practitioners and academics alike. They have become a major source of country indicators on the regulatory environment of businesses in world wide. Moreover, by engaging a cadre of first rate academics (such as Oliver Hart, Andrei Shleifer and others) the World Bank team ensured that the data collection would be guided by the latest theory and empirical research in economics and finance.

Furthermore, I want to mention that the organizational structure of the Doing research project is quite unique among the research projects I have seen at the World Bank. By creating a dedicated team of researchers inside and outside of the IFC who accompany the project over several rounds of the report, the Doing Business research team has established a template for doing long run research initiatives. I think it would be highly encouraged if other research projects at the World Bank would adopt a similar institutional set up, since it will allow the World Bank to expand and institutionalize the knowledge gained from research projects more effectively.

b. Analysis

Second, the methodology to analyze the data uses straight forward OLS regressions to estimate the correlation between the type and number of regulations and selected outcome variables. For example, in the case of entry regulations for firms the authors first show the time and cost for each of the regulatory requirements. They then correlate the number of regulations and cost of starting a business to the number of businesses started in a given country per year and finds a negative relationship.

While overall the reports try to be careful in avoiding a too causal interpretation of the relationship between these regulations and outcomes, implicitly there is a clear message that excessive regulations affect outcomes in the described way. The reports do not present a careful exogenous identification of these causal relationships. I think there are some dimensions where this is not a serious concern. For example, identifying the regulations that produce the highest costs and create the longest delays are meaningful even without a well crafted identification strategy. However, I would like the reports to be a little less sweeping in attributing the lack of entrepreneurship or access to credit solely to the regulatory environment.

C. Accessibility

The Doing Business Reports are well written and easily accessible to a wider policy audience. The country level benchmarks are extremely well documented and presented in much detail. The academic output from the project has been very successfully published in several of the top journals in finance and economics. Also by making the data sets accessible on a dedicated website researchers and practitioners alike can download detailed information on any country they are especially interested in.

One suggestion concerning accessibility of the data is that the Doing Business team could make the underlying micro-data available through their website. This would mean to put up the original responses from the survey, which could be made available in anonymous fashion so that respondents' privacy would be maintained. The benefit of making this data available would be that it would allow researchers to get more information about heterogeneity in the assessment of a country's regulation across the surveyed practitioners within a country. This can also be informative about how homogeneous is the perception of the regulations within a country.

D. Results

Overall the key findings of the reports are that there is tremendous heterogeneity in the regulatory environment across countries. For example the time to exit a business ranges from several days to 2500 days. Environments where regulations tend to be more complicated and costly, where hiring and firing of works is restricted are associated with lower numbers of business entry and job creation. Similarly, better creditor rights and contract enforcement, such as being able to seize collateral, as well as more efficient bankruptcy processes tend to be associated with more active capital and lending markets.

The Doing Business reports have had a very significant impact on focusing the attention of policy makers and academics alike on the role of the regulatory environment for creating active capital markets and facilitating entrepreneurship. In my opinion this is as major a contribution as the actual results in the report. By focusing on the five key regulatory dimensions which I discussed above and providing very detailed examples of best practices in regulation, it provides very practical help to policy makers around the world. Moreover, there is now an extremely large and active literature focusing on the role of law in economics or finance, which was inspired by some of the work in these reports. The indicators for business regulations are widely used for academic studies.

Going forward I think that Doing Business could provide a very important role by documenting the changes in specific business regulations which were described in the earlier reports. The systematic evaluation of reforms across countries would be a logical next step in the research agenda. The accumulation of this knowledge would provide very valuable lessons for policy makers. The Doing Business team could support in-depth country level studies about the impact of changes in regulation on the relevant outcome variables. Moreover, from a methodological perspective it would also allow us to move closer to assessing the causal impact of reforms.

Research Quality Indicator Form: Doing Business Reports
Evaluator: Antoinette Schoar, MIT

S	Superior
AA	Above Average
A	Average
BA	Below Average
U	Unacceptable

	S	AA	A	BA	U
Topics					
Importance of the issues addressed	S				
Clarity of the project focus and stated objectives	S				
Analysis					
Theoretical/conceptual framework	S				
Empirical application		AA			
Statistical and econometric methods		AA			
Use of existing knowledge and resources	S				
Data					
Awareness of other data sources	S				
Data compilation, cleaning and cataloging	S				
Survey design and sampling	S				
Output Quality					
Writing quality (clarity, organization, etc.)	S				
Clarity of conclusions and recommendations	S				
Extent to which conclusions are based on analytic evidence		AA			
Appropriateness of the recommendations	S				
Appropriateness of output form (working paper, book, database, etc.) for intended audiences	S				
Availability of translated outputs where appropriate	S				
Extent to which research:					
Increases knowledge and understanding of the issues	S				
Provides a sound basis for policy	S				
Actual or likely impact of research on:					
Government policy	S				
Future analysis	S				
The development community in general	S				
Overall Quality of Research	S				

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