

Chapter 4

Evaluation Highlights

- DB's simple and bold communication is integral to the product, but at times simplicity comes at the expense of rigor.
- DB has successfully spurred debate and motivated dialogue and additional analyses on regulatory burdens and investment climate issues in developing countries.
- As a cross-country benchmarking tool, the DB indicators cannot fully capture country-specific nuances and policy idiosyncrasies. Thus they have had less influence on designing reforms than on spurring debate.
- The DB indicators' utility for research could be enhanced by explaining the extent of data changes and making available previously published data sets.
- The DB indicators are an important addition to the Bank's knowledge toolkit: they introduced benchmarking based on actionable indicators.
- The DB indicators appropriately do not drive the Bank's operational or resource-allocation decisions.



Women pack table grapes for export, South Africa. Photo reproduced by permission of Kip Ross/National Geographic Image Collection.

Communicating and Using the Indicators

The DB indicators are designed to encourage policy makers to use them as an aid to decision making. Accordingly, DB makes communication and dissemination part and parcel of the core product. This chapter reviews how the DB indicator team communicates with audiences and how the DB indicators have been used in a variety of settings.

Presentation Style

DB reports are presented in commendably simple and straightforward terms. For example, “Egypt’s reforms went deep” and “Thirty-nine countries made start-up simpler, faster or cheaper” (World Bank-IFC 2007b, pp. 2, 3). A Foreign Investment Advisory Service (FIAS) official said that countries become interested in the DB issues because “at last they can understand a Bank report. Everybody understands a ranking.”¹ A former prime minister interviewed for the evaluation said: “The World Bank is in the stone age. The public relations techniques are primitive. But IFC [International Finance Corporation] has done well with DB.” But the drive for simplicity sometimes results in inaccuracies or statements that are inadequately supported by evidence. For example:

- Simple causal relationships are asserted where the evidence supports only association and where the causal factors are complex. For example, *Doing Business 2008* states, “Countries that make it easier to pay taxes have lower rates of unemployment among women. The reason is simple: a burdensome tax system

disproportionately hurts smaller businesses, especially in the services sector where most women work.”² Inter-country differences in female unemployment rates actually reflect many social, macroeconomic, and business factors; the ease of paying corporate taxes plays only a small part. Another example: “Each additional day that an export product is delayed reduces exports by more than 1 percent” (World Bank-IFC 2007b, p. 44). No source is cited for this statement, which in any case should be expressed as an association, since there are many other variables that affect differences in export volumes.

- The reports present information correlating performance on an indicator with broad economic outcomes such as increased foreign direct investment, although such links have not been fully documented in literature.

Lack of rigor in presenting information needlessly risks undermining DB’s credibility. The DB data and messages can and should be presented readably without sacrificing rigor.

The DB reports are admired for their simplicity, but this sometimes undermines rigor.

Communications Strategy

A media strategy of maintaining high visibility to promote debate and action is integral to DB.

Doing Business stands out among Bank Group products for the variety and innovativeness of the communications tools it uses, as illustrated in box 4.1. The aim of the media strategy is to promote action through increased public debate and competition among countries based on DB's annual benchmarking exercise. To achieve this, the primary effort of the communications strategy is simply to increase media coverage and maintain a high and visible international profile for the product.

The DB Web site is central to its communications efforts.

Three stages of communication activities carried out following each year's publication are:

- Global and Regional pre-launch and post-launch virtual press conferences
- Road shows involving media events and presentations to domestic policy makers and a diverse group of stakeholders (organized and sponsored in large part by Bank Group country offices)³
- Two-day workshops on DB findings and methodology and local media events in 40 countries.

Communications are primarily targeted to the 10 top reformers identified each year. In other countries, road shows are held on the basis of demand from Bank and IFC country offices. An additional key part of the communications strategy is the development and maintenance of an updated and interactive Web site. In fiscal 2007, the DB team reported spending approximately \$1,000,000 for dissemination events led by DB team management and members, support from a communications team, and maintenance of the Web site.⁴ Not included in these estimates are the time and costs incurred by country units in (a) reviewing the DB reports and providing

comments, (b) explaining and addressing government comments on the DB data and methodology, and (c) technical assistance/training related to the DB indicators paid for by the country teams. The DB team receives revenue

from the sales of its reports, estimated at \$100,000 per annum.

The DB team monitors and reports on a range of outputs from its communications program, including its press citations, media events, Web site hits, downloads, and citations. The research papers that are the basis for the DB indicators have been cited in 676 academic papers, according to DB's count (World Bank-IFC 2007a). In June 2007, the DB Web site was the World Bank Group's most visited online database, with over 120,000 hits. The results of this monitoring effort attest to DB indicators' high media coverage and public awareness. But the monitoring does not ascertain systematically what results are achieved in changed public opinion and/or country policies.

DB is effective in reaching audiences. Stakeholders in 6 of 12 countries mentioned the DB indicators unprompted when asked to recall economic and sector work that had been helpful or influential.⁵ Bank Group staff noted that the DB indicators' extensive press coverage attracts the interest of senior policy makers, government officials, and the business community in its messages.

Box 4.1: Key Features of DB Communications

- Messages expressed in straightforward style
- Report translated into up to 5 other languages^a
- High-quality Web site with interactive capabilities
- In-person and video presentations to country stakeholders and decision makers
- Road shows and media presentations hosted by Bank Group country offices
- Customized country reports
- Launches of spin-off publications, translations, and topical reports
- Innovative approaches using social media
- Active participation of product team in marketing and communication.

a. *Doing Business* has been translated into French, Spanish, and Portuguese (2005, 2006, and 2007); Russian (2004, 2005, and 2006); Arabic (2004 and 2005); and Chinese and German (2005).

The communications outputs are monitored, but not their influence on public opinion or policies.

How does this intensive dissemination translate into practical use? Six ways in which DB has been used are reviewed below, along with the strengths and risks of each.

A Tool for Regular Cross-Country Benchmarking

Stakeholders in all 13 countries reviewed⁶ consider the chance to benchmark their country against neighbors, peers, or competitors to be a main motivator for dialogue about the business environment. Country policy makers and stakeholders use the DB indicators to compare aspects of their regulatory framework with those of neighboring or competitor countries and to diagnose their weaknesses. This was the most frequently and favorably cited use of DB indicators noted by the evaluation. Seventeen of 29 stakeholders (59 percent) interviewed in the 13 countries as well as 24 of 42 Bank Group staff (57 percent) interviewed ranked the DB indicators “very useful” in enabling cross-country benchmarking,⁷ as box 4.2 illustrates.

Bank staff working in the Africa Region commented that the aggregate ranking may motivate governments to reform because they perceive it as a signaling device for potential investors, especially foreign investors. The risks

of an overly simplistic connection between DB indicator ranking and foreign investment may be greater in countries with very limited capacity to undertake reform.

The DB provides countries with a cross-country benchmarking tool. Its comparative nature spurs policy debate.

Even stakeholders who found DB indicators useful for benchmarking questioned or criticized aspects of the methodology and process. Each year the DB team receives numerous queries and complaints from governments, both directly and channeled through Bank and IFC country staff, about the rankings and how they are calculated. “Often Country Management Units are called upon by counterparts (often very irate counterparts) to explain the basis of scores or ranking.”⁸ Apart from numerous challenges and debates about details of fact, country and Bank staff interviewees raised methodological concerns about some of the areas discussed in chapter 2. Stakeholders noted that:

Even stakeholders who find DB benchmarking useful question its methodology and process.

- Data informants are too few or represent prominent law and accounting firms that are more likely to have primarily large and/or foreign firms as clients.
- DB data is collected for the capital city and may not be valid for other parts of the country.

Box 4.2: Keeping up with the Neighbors: DB Indicators Foster Benchmarking

- Bank Group staff in Africa commented that DB indicators are very useful because they provide cross-country benchmarking data previously unavailable in many countries. Bank Group staff in Burundi noted that the DB indicators are the “only source out there” that allows for cross-country comparisons related to the business environment.
And elsewhere...
 - By providing information about other countries, DB shows the potential for improving regulations and legislation. *(Vietnam government official)*
 - The DB indicators help to raise greater awareness within the country on the need to improve our overall competitiveness. *(Tanzania government official)*
- Algerian policy makers monitor how Algeria fares compared to Morocco and Tunisia. *(Bank Group staff)*
- Ranking with peers provides incentives for reforms, not the survey itself. I see the value of DB indicators in Albania when we have policy dialogue and tell the authorities Serbia did better last year and jumped X steps in the ranking because they did X, Y, and Z. *(Bank Group staff)*
- DB was used by donors, Bank, and others to point out the deficiencies that the Investment Climate Assessment had pointed to earlier by benchmarking Mongolia against other countries. This really helped open the eyes of the government and Mongolians and galvanized them to take action. *(Bank Group staff)*

DB rankings need to be interpreted with care.

- The firms depicted in the hypothetical cases are larger than the typical firm in middle- and low-income countries, so the rankings may fail to pick up improvements to the business climate for micro and small enterprises.
- Changes in methodology, data, and rankings make it difficult to explain and interpret DB indicators to legislators and the public.
- DB indicators lack a systematic validation process that draws on the experience of country teams and country stakeholders.
- The indicators omit measures of important constraints on business, as discussed in chapter 3.

Clients' doubts about aspects of DB's methodology could, if not allayed, jeopardize the use and impact of the report, as audiences question the relevance to their country's reality. As an Albanian official expressed it, when there are as many disagreements on indicators and overall rankings as there are now, the report is seen as a "dismotivator" in international conferences on foreign direct investment. Bank Group staff observed that the Chinese authorities pay less

DB has led to additional diagnostic work in Peru and Nigeria.

attention to DB than to other cross-country benchmarks on rule of law, the investment environment, global competitiveness, trade and logistics, and corruption, because they consider China's poor DB rankings inconsistent with its strong private sector growth. More generally, stakeholders in all the case study countries noted that they find the general findings of the DB cross-country benchmarking useful, but do not always rely on the exact numbers.

A Catalyst for Dialogue

In many countries, discussion around DB, even when contentious, has opened up a productive dialogue between policy makers and other stakeholders about the business climate. DB's active dissemination and simple communications style permits widespread press coverage, fostering interest from business and NGO

DB has successfully stimulated dialogue on business climate issues.

communities, and attracting the attention of the most senior policy makers.

In both Moldova and the Netherlands, for instance, efforts to reduce the regulatory burden on business had begun before the advent of the DB indicators in 2003, but the DB indicators increased awareness of regulatory issues and increased the pressure for further reforms.

Rwanda's Economic and Finance Commission asked DB to explain its methodology after the country failed to make the top reformers list in the 2007 report. The presentation led to a workshop that involved over 70 participants including legislators, officials, business persons, and donors. The resulting task force remains under the aegis of the president's office.

Tanzania's multidonor Business Enterprise Strengthening in Tanzania (BEST) program to streamline licensing and registration procedures got off to a slow start. The Bank's involvement, along with the publication of the DB indicators, drew the attention of the president and other senior officials, helping Tanzania gain a top reformer spot in 2007.

DB has also inspired some countries to do additional diagnostic work. In Peru, *Doing Business 2006* drew the attention of Lima's mayor to the difficulties of starting a business in the capital. Drawing on diagnostic work by FIAS and technical assistance from the IFC, the municipality reformed the process for obtaining a business license. The reform template is now being promulgated by the National Council for the Simplification of Municipal Procedures for Businesses. In Nigeria, the United Kingdom's Department for International Development (DFID) is supporting the collection of DB indicators for every state. The data will be used for diagnostic analysis and as benchmarking by the government and donors.

A Guide to Policy Reform

While the vast majority (85 percent) of interviewees affirmed DB's usefulness for motivating reforms, less than half (44 percent) considered it helpful as a guide to action because it offers little guidance about the priorities, sequencing, and policy coherence needed to implement a

successful reform program. Moldova's home-grown *Cost of Doing Business* assessment, which surveys perceptions of 600 small and medium-size enterprises, finds that businesses are most concerned about arbitrary interference from police and uniformed services in their daily operations—a topic outside DB's ambit. Bank Group staff working on China noted that a perception-based survey of businesses in 120 cities was helpful in highlighting the constraints faced by businesses and encouraged reform in a number of cities. A Bank Group staff member working on Albania stated, "We cannot build projects or TA [technical assistance] programs on the DB indicators. It is just indicative about the business climate and is used to provide incentive to countries to improve the business climate. Our counterparts understand the limitations of the methodology."

DB annually designates 10 countries as top reformers. The "Reformers Club" provides a forum for recognizing countries that have made the largest changes in ranking in a given year. These are countries that have both improved their rankings on at least three individual indicators—indicating "breadth of reform"—and improved the most on their overall EODB ranking from the previous year—indicating "depth of reform." This method rewards the quantity of rankings changes and does not attempt to assess whether the changes constitute important or meaningful reforms. While the approach is practical and transparent, as Hausmann, Rodrik, and Velasco (2005, pp. 5–6) note, "We cannot be assured that any given reform taken on its own can be guaranteed to be welfare promoting, in the presence of multitudes of economic distortions. . . . and welfare may not be increasing in the number of areas that are reformed." An alternative approach would be to design reforms to address the most "binding constraints" in order to produce the biggest bang for the reform buck (Hausmann, Rodrik, and Velasco 2005, p. 7). Because the DB indicators neither prioritize among the 10 dimensions nor provide detailed country-level analysis, they are not suited to designing reform programs targeted at critical bottlenecks.

DB's direct impact is thus difficult to determine and appears limited, even in countries designated as top reformers. For instance, in Tanzania, *Doing Business 2007* noted improvements in *trading across borders* because of modernization of customs procedures. Staff and stakeholders noted that while DB motivated authorities to look at the issue, the process of modernizing procedures relied heavily on other Bank diagnostics and the country's own detailed studies. To guide its business climate reforms, the Netherlands uses its indigenously developed Standard Cost Methodology, with an added emphasis on regulatory burdens that require the firm to undertake activities outside the scope of regular business operations. The DB indicators are seen as a useful tool for monitoring progress, but not a principal source for prioritization of government actions or policies.

As noted in chapter 3, since the DB indicators cannot capture country-specific policy nuances, they cannot and do not help countries to situate particular improvements within broader reform efforts nor ensure adequate sequencing and policy coherence, needed to implement and sustain the changes in legislation. For instance, in Algeria and Moldova, the governments experimented with the creation of one-stop shops for licensing, which in Algeria included construction permits and was counted by DB as a reform. But the pilot in Algeria is underutilized, and Moldovan ministries continued to require other forms of revenue-generating activities such as "authorizations" and "permits" before procuring a license. The one-stop shop simply added another regulatory layer.

An obstacle to using the DB indicators as a guide to action is that some indicators measure specialized aspects of a larger problem, as discussed in chapter 3. Many stakeholders mentioned that DB's *dealing with licenses* indicator, which

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Some DB indicators measure specialized aspects of a larger problem. relates to construction permits, has had limited usefulness in guiding the broad reforms of licensing. For example, Niger reduced the number of procedures measured by *dealing with licenses* from 27 to 19 by eliminating numerous security inspections at the construction site, but this reform is unlikely to result in real improvements to the licensing regime as a whole. Similarly, in Tanzania, Nigeria, and Rwanda, access to credit and cost of financing are important constraints not measured by DB's *getting credit* indicator; while the credit bureau information it does measure is not considered relevant by stakeholders in Rwanda.

Have countries tried to improve their ratings by changing the letter of the law without making serious reforms? Interviewees with Bank and IFC country teams, FIAS, and the Millennium Challenge Corporation (MCC) cited instances of country officials asking how to increase their DB rankings (India) or making the increase in DB rankings a goal in itself (Georgia and Madagascar). The ratings simulator in the DB Web site encourages users to see the effects of possible changes. And the DB team has provided country officials with suggestions of specific actions they could take to improve their indicators upon request. But none of the 13 countries reviewed by this evaluation took an unduly or cynically narrow approach or "easy" steps purely to affect the ratings. Even where officials initially aimed to reform only those aspects measured by DB, they were persuaded by Bank and IFC staff to take a comprehensive approach to business climate reforms. FIAS and MCC staff noted that they use such inquiries to open a dialogue on genuine reform options.⁹ Often this involves detailed explanations by Bank staff and other donors to country counterparts about the methodology of DB and what each indicator measures.

IEG did not find evidence that countries took an unduly narrow approach solely to increase their rankings.

The FIAS Rapid Response Unit will need to ensure its advice is integrally aligned with the Bank Group's advice and recommendations.

FIAS has recently created a Doing Business Rapid Response Unit with a mandate to help countries adopt

measures that are "strictly DB-related."¹⁰ While this unit does aim to introduce and involve experts in the relevant areas from other parts of the Bank, it expects that "broader reform suggestions" will be managed by the other relevant units. To avoid an implied endorsement of quick fixes, the Rapid Response Unit will need to ensure its advice to a country is integrally aligned, and perceived by clients to be aligned, with the Bank Group's overall Private Sector Development (PSD) Assessment and other recommendations.

The DB indicators do not capture the extent to which changes in legislation or streamlining of procedures are actually implemented. There is no clear articulation of the impact of the DB-measured reforms on firm performance, perceptions of regulatory burden, or the overall regulatory environment in a country. In Vietnam, Bank Group staff reported using DB's *getting credit* indicator to open a dialogue with the Ministry of Justice on a plan for improving the collateral lending environment and to advocate for the creation of a private credit bureau in the State Bank of Vietnam. But both staff and an informed stakeholder noted that only a small number of individuals and businesses were using the collateral registry. It is not clear what the effects of the private credit bureau and collateral system have been.

A Research Tool

DB's near-universal country coverage, combined with the accessibility of the data and methodology notes on the Web site, make it a useful tool for analyzing regulatory issues. But yearly changes in methodology and retroactive changes to prior year data without making available previously published data sets makes it difficult for research to be validated and replicated. This disadvantage could be attenuated if the Web site fully disclosed and explained all corrections and changes and their effects on the rankings and provided previously published data sets.¹¹

A second disadvantage is the small number of informants supplying the underlying data, as discussed in chapter 2. Given the very small number of completed questionnaires on each

indicator in a given country, it is not possible to calculate meaningful standard errors or confidence intervals. DB needs to make transparent the number of completed questionnaires that form the basis for each indicator in a country.

A Criterion for Operational Decisions

The MCC uses two DB subindicators—days and cost to start a business—in its formula for selecting countries eligible for grants. Together, these subindicators account for 6 percent of a country's score. In 2008, MCC will add DB's subindicators of time and cost to register property, raising DB's weight to 9 percent. The DB indicators have, according to MCC officials, sparked more interest by ministers than most other parts of their scorecard because they are easy to understand and convey to the public and point to specific areas that may need improvement. On the down side, MCC officials noted that eligibility decisions had been made on the basis of DB data that were subsequently changed. The high stakes of MCC eligibility make it all the more important for DB to stabilize the methodology, make clear that posted data are subject to change, and make available both original and modified data sets.

In the World Bank Group, DB plays an indirect role in assessing countries' policy frameworks. Six of the 10 DB indicators are used as "guideposts" (along with Investment Climate Assessments and other sources) to assist country teams in determining country scores on "Business Regulatory Environment," one of the 16 criteria of the Country Policy and Institutional Assessment (CPIA), the most important (but not the only) determinant of allocations to International Development Association (IDA) countries.¹² In addition, the DB's *employing workers* indicator is one of several guideposts for the CPIA's social protection and labor criterion, even though this indicator captures only the administrative burden to firms of issues such as retraining and severance pay, rather than a broad assessment of a country's social protection policies. The extent to which the guideposts (including the DB indicators) influence the CPIA scores will be reviewed in a forthcoming IEG evaluation of the CPIA.¹³

The "IDA results framework"—a tool to help IDA donors track development results in IDA countries—reports DB numbers on the time and cost to start a business as 2 of the 14 "outcome" indicators (World Bank 2007b). This results framework is an ex-post reporting mechanism and is used neither to allocate resources nor to guide IDA programs ex-ante.

The DB indicators are used to monitor progress of lending operations, including development policy loans that deal with private sector development issues. In 6 of 11 countries reviewed by this evaluation, such operations used DB indicators as one of the key monitoring indicators for specific components.¹⁴ For instance, the time and cost of starting a business is used to monitor progress of one component of Tanzania's Private Sector Competitiveness Project.

An Addition to the Bank's Toolkit

DB has helped to define a new role for the Bank in development assistance. A majority of the stakeholders interviewed noted that DB is one of the first initiatives to develop objective (that is, non-perception-based) cross-country data, and thus fill a critical gap in knowledge.¹⁵ It is a "knowledge" product, as distinct from analysis done to support lending and related conditionality. DB draws on the Bank's unique position to assemble information on a global scale. While other indicators, such as the World Development Indicators, cover many countries, DB incorporates indicators that are defined specifically enough to determine actionable steps.

The DB model—use of a standard case methodology, expert informants, and rankings—is being replicated in other indicators. For instance, the Logistical Performance Index developed by the World Bank's Trade Group ranks the quality of infrastructure, customs procedures, and logistic costs in 150 countries based on information from freight forwarders, transporters, and officials. Other efforts to replicate

Continuous revisions to the DB data and unavailability of previously published data sets limit its usefulness for research.

DB plays a role in determining eligibility for grants made by the United States' Millennium Challenge Corporation.

DB does not affect the Bank's resource allocation decisions.

Among the Bank's knowledge tools, DB is one of the first to introduce indicators aimed at defining actionable steps.

this model in the financial sector are under way.

To what extent can the Bank scale up or replicate the DB model in other areas of development? Many development issues lack the DB indicators' critical characteristics of a widely accepted and

linear trajectory for improvement and a clear definition of what constitutes a reform. The Bank should leverage the DB methodology in areas that share these characteristics.