

Submission to Doing Business Independent Review Panel
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Center of Concern¹

The Doing Business Report project is premised on a series of analyses that predicate the importance of the investment climate for development.

The Bank has justified the exercise's contribution on the basis of an agenda to facilitate the operation of local firms and particularly in developing countries. For instance, in its 2004 edition of Doing Business, the Bank explained that there are plenty of indicators of business climate:

"More than a dozen organizations . . . produce and periodically update indicators on country risk, economic freedom and international competitiveness. . . . But few indicators focus on the poorest countries, and most of them are designed to inform foreign investors. Yet, it is local firms, which are responsible for most economic activity in developing countries, that could benefit the most from reforms." (World Bank 2004: xiii)

This laudable goal is, however, at odds with a reductionist methodology that attempts to equate a good business climate with a set of metrics to assess implementation of a standardized, one-size-fits-all blueprint of reforms.

If there is one consistent lesson of development effectiveness that has been learned in the last couple of decades is that we should not trust one-size-fits-all blueprints that claim to work everywhere. As put by economist Dani Rodrik, "All successful cases of development in the last fifty years have been based on creative and often heterodox policy approaches. . . . If we want to assist developing countries in their quest for development, the way to move forward is not through more onerous conditionality, further international harmonization, better dissemination of 'best practices' or greater international discipline. It is through greater policy space." (Rodrik et al 2005: 9) Indeed, it is hard to understand why, for instance, reductions in the number of days to open a business in very dissimilar countries, with dissimilar issues to address and capacities to address them would hold the same meaning.

Contrary to the Doing Business Report's claim, all the changes in the business environment that are ranked in the DBI are equally applicable to foreign and local companies, not one of them differentiating on the basis of origin. This seems rather consistent with the approaches that push for lowering barriers to foreign investment in developing countries – including the attempt to introduce investment liberalization as an item in the World Trade Organization. This latter was so clearly at odds with developing countries' interests that they banded together to have it removed from the agenda at the World Trade Organization Cancun Ministerial Conference in 2003.

On the subject-matters of its coverage, Doing Business rankings promote a harmonization of standards for investment. This seems a lot more appropriate to reduce transaction costs and facilitate corporate planning for companies operating on a global scale than to provide locally-sensitive and tailored regulatory approaches that capture the unique features of the environment in which local small and medium enterprises operate in each country.

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Likewise, local small and medium enterprises often demand protection from competition posed by large foreign companies that come to operate in the domestic market. Admittedly, it may not be wise or consistent with the interest of consumers to cede to every demand made by local companies that seek to be shielded from foreign competition. Nonetheless, it is striking that not a single one of the standards promoted by a project that claims to address concerns of small and medium companies contemplates providing any measure of discrimination in favour of local investors. If anything, the Doing Business project does the opposite by assuming all companies, local and foreign, are on a level playing field.

For all the aforementioned reasons, we highly doubt that universal rankings of “doing business” environment, such as the one embodied by the Doing Business Project, are of service to the avowed objective of supporting local firms in developing countries.

We recommend:

It is in the best interest of small and medium local companies in developing countries that universal rankings of “doing business” environment no longer be carried out by the World Bank.

The rankings should be replaced by analytical work on a country-by-country or regional basis meant to serve as a basis for policy dialogue on institutional reforms best suited to support better performance by small and medium enterprises. Such work should especially rely on the insights provided by business and traders’ associations as well as other bodies that nucleate such companies.

References:

World Bank 2004. Doing Business Report: Understanding Regulation

Rodrik, Birdsall and Subramanian 2005. If rich countries really cared about development.