



## Brand South Africa

### Research - Internal Analysis World Bank Ease of Doing Business Index

24 November 2020

On 27 August, the World Bank (WB) Group released a press statement, announcing the temporary suspension of the “Ease of Doing Business” (EDB) Index. Following the controversial reporting of irregularities, the WB has taken the decision to review the findings and methodology before the next EDB and Doing Business report release. In the last EDB 2020 South Africa was ranked 84/190. This analysis note aims to present the currently available information pertaining to the World Bank suspension of the index- pending further investigation. This holds implications for the integrity of the EDB instrument, as well as the reputation of the World Bank.

The following research update will explore the following:

1. What is the EDB & Doing Business Report?
2. Reported Irregularities in the EDB
3. Critic of EDB and Global Competiveness Frameworks

#### 1. What is the EDB & Doing Business Report?

Brand South Africa annually monitors and reports on the World Bank’s “Ease of Doing Business” Index, complemented by the corresponding Doing Business report which provides analysis on the EDB Index. Doing Business 2020, a World Bank Group flagship publication, is the 17th in a series of annual studies measuring the regulations that enhance business activity and those that constrain it. The EDB presents quantitative indicators on business regulations and the protection of property rights that can be compared across 190 economies across the Globe.

The EDB covers 12 areas, including assessments of business regulation and relevant environmental factors. Ten of these areas—starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency—are included in the Ease of Doing Business score and Ease of Doing Business ranking. Doing Business also measures regulation on employing workers and contracting with the government, which are not included in the Ease of Doing Business score and ranking.

By documenting changes these 12 areas of business activity in 190 economies, Doing Business analyzes regulation that encourages efficiency and supports freedom to do business. The data collected by Doing Business addresses three questions about government. First, when do governments change regulation with a view to developing their private sector? Second, what are the characteristics of reformist governments? Third, what are the effects of regulatory change on different aspects of economic or investment activity?

The 18th Ease of Doing Business Index and the Doing Business Report 2021 which provides insights on the 2020 reporting period will no longer be released this year. The institution cites the suspension of the report's release to a "number of irregularities." Some of these irregularities are attributed to what appears to be ideological biases that rank country's according to the extent to which they align with neo-liberal frameworks. In 2018 the Bank's Chief Economist, Paul Romer, resigned and subsequently apologised to the nation of Chile, after the country fell down the rankings due to a change in methodology (as well as possible political biases at the World Bank) rather than any substantive change in its business environment.

## **2. Reported Irregularities in the EDB**

In August 2020, the World Bank suspended its Doing Business Report due to what it referred to as a "number of irregularities." According to Bloomberg, since 2003 the report has ranked 190 economies, "based on how easy it is to do business there, taking into account trading regulations, property rights, contract enforcement, investment laws, the availability of credit and a number of other factors."

Moving up in the rankings is often cited by developing country governments as evidence that their economies are modernizing. It also creates an incentive for countries to pursue economic policies that conform with the World Bank's vision of economic development: eliminating regulations and barriers to investment, pushing for market-friendly reforms, reducing labor protections, etc. This development pathway is not always appropriate in every instance, but if a country wants to move up in the rankings, it may feel pressure to push through sweeping reforms to land ownership, investment regulations, and labour laws that are not properly thought out or which result in unintended consequences.

The flaws in the Ease of Doing Business rankings have been clear for several years. The Bank's Chief Economist, Paul Romer, resigned in 2018 and apologized to the nation of Chile, after the latter fell down the rankings due to a change in methodology (as well as possible political biases at the World Bank) rather than any substantive change in its business environment<sup>1</sup>. The flawed ranking system apparently was fraud, which is what led to its suspension. According to the Wall Street Journal, data from China, Azerbaijan, the UAE and Saudi Arabia appeared to have been deliberately altered. The media report was the final straw for the World Bank. Even though the bank has made a commitment to resume the EBD once its methodology has been reviewed, it is uncertain if it will have the same influence and legitimacy it enjoyed over its 17 year publication history.

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<sup>1</sup><https://thediomat.com/2020/10/why-the-world-bank-torched-its-ease-of-doing-business-ranking/>

The rise and fall of the Doing Business Report is a good lesson in the limits of applying standardized rankings to heterogeneous units like countries and their business environments. A one-size-fits-all approach to measuring and understanding economic growth and development, especially one based on the ideological priors of particular institutions and stakeholders, is always likely to contain some fatal flaws.

### **3. Critic of EBD and Global Competitiveness Frameworks**

Even before the Wall Street Journal's expose and Paul Romer's resignation in 2018, the EBD was regarded as a largely insufficient measure of doing business as it was cited as having methodological and ideological biases. According to the Diplomat website, the EBD tends to reduce the complexity of economic activity to a few quantifiable metrics with a libertarian bias, such as the time it takes to get a business license or the number of regulations in a particular sector, ignoring deeper structural, social or political issues - as well as the benefits of certain regulations<sup>2</sup>. The practice is often likened to global university rankings, where once governments understand the methodology, they are likely to game the system by making cosmetic changes that often seek to improve overall rankings without implementing significant reform measures within the business landscape. According to US-based Global Social Justice Program and the US-based International Trade Union Confederation, the decision to halt the report's publication was "welcomed by trade unions, academics and human rights groups"<sup>3</sup>. As these institutions and stakeholders underscored, the report has faced numerous criticisms, including a call by a 2013 World Bank independent panel for the Bank to cease its use of the global rankings.

Highlighting methodology concerns, a 2018 report by the US-based Center for Global Development noted that India's Prime Minister Narendra Modi has, as is the case with many leaders, touted the country's rise in the rankings as evidence of the international community's support for his reformist agenda. While Indian civil society has stressed however that the reforms made under the 'guidance' of the DBR analysis have caused significant harm to vulnerable communities. The EBD and its ideological requirements can be easily likened to the requirements placed on African countries in the 1970's, where the cross-sectional effects of Structural Adjustment Programs kept African economies in perpetual bondage and increased their reliance on the likes of the World Bank. This then raises questions about the ideological implications of Global Competitiveness and how International Institutions such as the World Bank and the World Economic Forum use rankings and indicators to determine a country's economic performance and its ability to attract business. First among these relates to the overall methodological legitimacy of these Institutions to determine a few quantifiable metrics, secondly the largely cosmetic policy reforms that Competitiveness indices require, have a number of intended and unintended consequences, for a country like South Africa, some of the policy reforms recommended by the likes of the EBD and the Global Competitiveness Index threaten to further entrench inequality.

The decision to suspend the rankings is also likely to reignite controversy around the annual report, particularly in the methodologies behind the rankings. In the 17 years it has been

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<sup>2</sup><https://thediplomat.com/2020/10/why-the-world-bank-torched-its-ease-of-doing-business-ranking/>

<sup>3</sup> <https://www.brettonwoodsproject.org/2020/10/as-world-bank-pauses-doing-business-report-pressure-mounts-for-it-to-be-permanently-scrapped/>

published, the Doing Business reports have amassed “surprising influence over global regulatory policies,” researchers wrote in a paper published in 2019<sup>4</sup>. The researchers found that the rankings strongly affect policy as governments make reforms to improve their ranking. “Changes over time in the Doing Business rankings are not particularly meaningful. They largely reflect changes in methodology and sample—which the World Bank makes every year, without correcting earlier numbers—not changes in reality on the ground,” Researchers at the Center for Global Development wrote in February 2018<sup>5</sup>. Critics of the EBD have raised concerns about the reports impact on social progress and in turn further promotes inequality. Since first being published in 2003, the EBD has gained critical acclaim for its anti-regulation bias. This has largely been due to it being regarded as encouraging countries to take part in the “deregulation experience” including reductions in employment protection, lower social security contributions (denominated as “labor tax”) and lesser corporate taxation<sup>6</sup>. The EBD is said to rank countries better when its social security contributions are low, that is, when employees have lesser social protection benefits for their families and retire with low pensions. Countries also get better rankings if corporate tax is low, no matter if this will generate further inequality and starve resources for national sustainable development. For example, India has improved in the reports’ international ranking as the government has eroded environmental and labor protections and reduced corporate taxation, resulting in detrimental social impacts.

In 2013, an independent review panel established by the World Bank’s executive board and led by Trevor Manuel recommended that the use of rankings be discontinued. The panel also recommended the permanent deletion of the labor market flexibility and tax rate indicators, as the latter penalizes countries that require business to pay taxes or make contributions to pensions and other social protection schemes that support households. The World Bank’s independent review panel also expressed concerns that the report, “tends to ignore the positive effects of regulation”, highlighting “black box” data gaps and “cherry picking” of background papers. A key source of information for the report are surveys completed by corporate consultants and law firms - not businesses engaged in productive activities whose needs are usually different from the ideological prerogatives of the report, such as benefitting from a social protection floor and tax-financed investment in infrastructure.

Regardless of data manipulation, the Doing Business Report has always been an act of ideological interference in policymaking. If the Bank clings to this relic, it should at the very least remove the most regressive elements including those on social security contributions and corporate taxation, and follow the recommendations of the 2013 independent review panel. These blunt indicators are against the Sustainable Development Goals, human rights and international conventions agreed by all countries. Continuing to use the profile and name of the World Bank to promote less worker protections, less social protection benefits and less corporate taxation will only increase inequality and worsen the effects of the COVID19 pandemic.

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<sup>4</sup> <https://www.theafricareport.com/39622/world-bank-suspends-doing-business-rankings-after-fraud/>

<sup>5</sup> <https://www.doingbusiness.org/en/reports/global-reports/doing-business-2020>

<sup>6</sup> <https://ourlandourbusiness.org/it-is-time-to-end-the-controversial-world-banks-doing-business-report/>