

After the scandal and confirmation of data manipulation in the Doing Business ranking, the World Bank has decided to stop publishing this annual report on business regulation. Over the past almost two decades, this report has served as an important description of the quality of business regulation in countries around the world. As an indicator, it contributed to numerous successful reforms that facilitated business and accelerated economic growth rates. Considering its importance, a legitimate question arises - do we need a new Doing Business index after all?

What was Doing Business?

The annual ranking of the quality of business regulation eventually included as many as 190 economies worldwide. Before the creation of this index, the question of institutional quality in the economy was rarely raised because there was no single measure for the quality of laws, although there was an understanding that the text of laws and other rules really have economic consequences, including economic efficiency, i.e. to have an impact on economic growth.

Doing Business took objective data from its partners in the field, which were mostly law offices, auditing and consulting firms, in the form of case studies. In this way, the actual administrative burdens encountered by small and medium-sized enterprises were measured - in other words, not how much the legal deadline for a procedure is, but how long it really takes in practice.

Regulatory burdens were measured in the number of working hours necessary to fulfill a certain procedure, the number of days the procedures last, as well as their direct costs - paid fees and taxes. 10 individual areas were observed:

- Registration of a new company
- Obtaining a building permit
- Getting an electricity connection
- Real estate or land registration
- Getting a loan
- Protection of minority shareholders
- Payment of taxes
- Cross-border trade
- Contract enforcement
- Bankruptcy resolution

Each of these areas was calculated based on several indicators. For example, New Business Registration measured how many procedures were necessary to open a new business, how many days that process took, and what was the amount of costs (fees and taxes) for new businesses in limited liability company status.

The cheaper this process was, and the less time and individual procedures it required, the

better the rating of the given country (ratings ranged from 0 to 100, where a higher number of points meant a better business environment). The country that had the best score would receive a maximum of 100 points, which is the state that other lower ranked countries could reach, and the difference between their score and the maximum level of points was called DTF (Distance to Frontier).

Why was Doing Business important?

Until the development of this metric, the quality of regulation was measured by subjective criteria, such as the perception of company directors or economists; a good example is the World Economic Forum's *Executive Opinion Survey*, from where the responses were taken for the also famous *Global Competitiveness Report*.

But such measures are quite difficult to compare because they are vague and often influenced by local context. For example, on such measurements, Tajikistan gets results on the independence of the judiciary similar to those in Germany, but the situation there is almost certainly much worse, as other surveys also show.

Therefore, it is more likely that in Tajikistan there is a problem with the sample of respondents who answer these questions, that their answers are influenced by the state, or that there is too much optimism in the evaluation of the work of the courts because there is no knowledge of how the independent judicial system really works, rather than are the courts in Tajikistan more independent from political influence or corruption than in Germany.

Doing Business was therefore an excellent diagnostic tool because it precisely enabled a comparison of the quality of regulation in different countries, but it also clearly showed "what is possible" to achieve with reforms, i.e. that with political will and administrative effort it is possible to significantly improve the situation because some others had already done it before.

And perhaps most importantly, it made it possible to see exactly what needs to be changed - whether it is the number of necessary procedures, their duration, the amount of fees associated with them, or something else. That's why Doing Business became very popular, both among economists and investors, as well as among politicians - everyone wanted their country to rank as high as possible on this list.

Do we really need Doing Business?

Unfortunately, it seems that the popularity of the Doing Business list was exactly what led to its downfall. Simply put, if there is a benchmark that attracts investors and improves the political image, everyone will want to do as well as possible on it.

This was also helped by the nature of the Doing Business publication, because it is much easier to influence the results than in the case of other indicators of a more general nature, because here it is clear what needs to be done to improve the ranking. Therefore, in practice, a large number of reforms in the area of improving the administrative environment

and business regulation were actually only reforms in areas measured by Doing Business, while all other areas were neglected.

According to the principle: “if the World Bank measures it, reform it, if it doesn’t measure it, don’t touch it”. That is why in practice we have also received somewhat absurd examples: is the business environment in North Macedonia really better than in Germany; Thailand rather than the Netherlands or Serbia rather than Israel?

Doing Business has another problem, and that is the fact that it implies a strong rule of law - that laws are applied in practice, equally to everyone, without nepotism, corruption and other weaknesses of the administration. This is still an illusion in most countries, especially in countries that have a low level of independence of the judiciary and a high level of corruption.

Finally - the importance attached to the ranking in the list led to political pressures to change the ranking of certain important countries, which ultimately led to a scandal with the fixing of the final ranking, as a result of which the decision was made to stop this research and the publication of the report.

As part of the internal investigation, it was found that the management of the World Bank directly influenced the manipulation of the results in the case of China because they expected increased funds from that country, while irregularities were also found in the case of Saudi Arabia, the UAE and Azerbaijan. With all that in mind, it’s about time something was done about it, but doing away with this ranking altogether isn’t the smartest solution.

What should Doing Business 2.0 look like?

This list has really proven to be useful in implementing reforms - in many countries it no longer takes several months or thousands of dollars to register a new business (as was the case in many countries in Africa or Latin America), which forced a large number of entrepreneurs to operate on the black market, it is already possible to do it in just a few days and with minimal costs.

It is similar in Serbia - with the introduction of APR in 2006 and the transfer of company registration from commercial courts, these procedures were significantly shortened, and now it is possible to register a company online here, and the procedure takes about a week. Since the beginning of the publication of the index, over 3,000 individual reforms have been recorded that have facilitated business in 190 countries. Therefore, a better solution is to fix Doing Business rather than stop publishing them.

The new version of the Doing Business list should be different than before.

Recommendations on what this improved version should look like were given by Simeon Djankov, a Bulgarian economist who developed the original report in 2003 within the World Bank.

First, given the disgrace of the World Bank for which no one seems to have been held accountable (the then President of the World Bank, Kristalina Georgieva, who was accused

in an internal report as the person who directly requested the data theft, in the meantime became the president of the International Monetary Fund) a solution should be sought in that the collection and verification of data as well as the publication of this list should be taken over by some other institution, among which a non-profit academic network composed of universities would do best.

Second, the current methodology should be improved by paying more attention to the implementation of laws and not only to what those laws prescribe; attention should be paid to whether existing online services are actually used; whether companies in majority foreign ownership face additional procedures; re-introduce the flexibility of labor legislation that was dropped in 2010; new indicators should be added regarding the provision of government services to the private sector, such as transport, health or education, with an emphasis on public procurement procedures; case studies of important reforms should be developed and new research should be encouraged with all these data.

Furthermore, Djankov says that three new sets of indicators should be considered, those concerning:

- intellectual property rights
- regulation of online trade
- risk of property expropriation by the state.

A more detailed overview of proposals for what the new Doing Business report should look like can be seen in the Fraser Institute's new 2022 Economic Freedom Report. Although this proposal appears at first glance to be well thought out, it still has several shortcomings.

Firstly, it does not guarantee the complete independence of the publisher because academic institutions are not much less susceptible to political influence by their funders, and secondly, it does not say who could fund such an expensive research endeavor and provide stable and sustainable funding for a long period of time such as an international financial institution like the World Bank could do.

However, this proposal pointed to a very important point: Doing Business is too important to be abolished just like that. We need to renew the public debate about what it should look like and how to ensure the integrity of the collected data, so that some new improved metric could once again serve the imagined goals of improving the quality of the business environment, attracting investments and accelerating economic growth, Talas writes.