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Is the World Bank's 'Doing Business' Report at Odds With How Business Is Done in the Developing World?

By Raymond Zhong



Cambodian workers walk past a construction site in Phnom Penh in July. Researchers found differences in estimates for getting a construction permit in the country. The World Bank's "Doing Business" report says that it took 652 days to get a construction permit in 2013, while surveys of companies in the Southeast Asian country put the number closer to 15 days.

TANG CHHIN SOTHY/AFP/GETTY IMAGES

The [World Bank's "Doing Business" report](#), an influential survey of the operating environment for companies in nearly 200 countries, doesn't accurately reflect the experience of companies actually doing business in developing nations, a new study has found.

The annual publication from the development lender assesses the ease of compliance in 10 facets of private enterprise, from starting a business to getting electricity to paying taxes. The results are used to generate [a much-publicized country ranking](#), which governments around the world take as a yearly checkup on their economic stewardship.

Singapore [flaunts its top spot](#), while laggards turn improving their rank into national priorities. Retaking the Russian presidency in 2012, **Vladimir Putin** [vowed to vault Russia to 20th](#) by 2018 from 120th in 2012. The country came in at No. 62 this year. India's prime minister, **Narendra Modi**, testifies to his business-friendliness by [promising to take his nation, 142nd in this year's report, into the top 50](#) by 2017.

But **Mary Hallward-Driemeier**, a World Bank economist, and **Lant Pritchett**, a Harvard University economist, find "almost zero correlation" between the Doing Business findings and those based on [surveys of business enterprises](#) that the World Bank helps conduct around the world. On average, the amount of time companies tell surveyors they spend on three tasks—obtaining construction permits, getting operating licenses and importing goods—is "much, much less" than the times recorded in the Doing Business report.

The divergence, the authors hypothesize, stems from the gulf in poor countries between the laws and policies that exist on the books and the ones that prevail—or perhaps don't prevail—in reality.

The Doing Business report "does not summarize even modestly well the experience of firms as reported by the

Enterprise Surveys,” Ms. Hallward-Driemeier and Mr. Pritchett write in [the latest edition of the Journal of Economic Perspectives](#).

Mr. Pritchett said in an interview that for developing-country policy makers, focusing on rising in the Doing Business ranks could draw scarce resources away from more-substantive reforms that would help the government better administer and enforce business regulations.

“The pretense that Doing Business measures the real rules, and that if we just modestly improve these Doing Business indicators, they would somehow become the reality of what the rules are and how business is really done—I think that’s a very dangerous fiction,” he said.

He and Ms. Hallward-Driemeier find that in the Doing Business report, the median reported time in developing countries for obtaining a construction permit is 177 days. In the Enterprise Surveys, the median is 30 days. That’s a difference of five months.

The largest difference was found in Cambodia, where Doing Business records that it took 652 days to get a construction permit in 2013. Companies in the Southeast Asian country put the number closer to 15 days.

For starting a business, firms in some nations report that it takes longer than what’s recorded in Doing Business. But there too, the overall correlation between the times in the two sources is minimal. Likewise with the time it takes to import goods. The median in Doing Business is 21 days. In the Enterprise Surveys, it’s 6.25 days.

The Doing Business report is based on surveys of local lawyers, accountants and other professionals, who are asked to estimate the time and cost required for a hypothetical firm to comply fully and honestly with local regulations.

The Enterprise Surveys, meanwhile, ask firms themselves about the costs and delays they actually deal with.

Mohammad Amin, an economist in the World Bank’s Enterprise Analysis unit, said [the two projects’ different methodologies](#) mean “it is expected, and desirable, that their results should not be highly correlated.”

Decades of research on the developing world have found that poor countries tend to be places with lots of rules and processes but not a lot of government capacity to enforce them, leaving companies with ample ways of getting around regulations. The Enterprise Surveys ask explicitly about bribes and meetings with government officials.

Not all firms seem to be able to sidestep the rules equally, Ms. Hallward-Driemeier and Mr. Pritchett use Enterprise Survey data to show. Whatever the time it takes to complete processes according to the Doing Business report, some enterprises “report times that appear completely impervious to the regulations considered by Doing Business,” while others report far longer delays.

Mr. Pritchett said that companies in poor countries face profound uncertainty about how they’ll be treated and regulated: “I know what the law is, but I don’t know what’s going to happen to me.”

The result, he said, is that many businesses either grow by cozying up to officials or choose to remain small and unregistered—a reality not captured in the Doing Business project, he said.

“Doing Business is measuring how hard the wind is blowing that makes sailboats’ progress difficult. But most firms are submarines, because they’ve decided they just can’t survive on the surface,” he said.

The World Bank’s Mr. Amin said: “We know that, in practice, not all regulations are implemented, or implemented even-handedly, and that firms are able to negotiate different deals.” But benchmarking what’s on the books, he said, helps governments move toward more effective and consistent enforcement of the rules.

“In countries where the gap between rules and enforcement is large, significant improvements in the rules and more transparency will reduce the incentives for firms to negotiate deals, and this will foster an environment that levels the playing field for all businesses,” he said.

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