

**USAID ECONOMIC GROWTH OFFICERS WORKSHOP  
OCTOBER 15-19, 2007  
WASHINGTON, D.C.**

Session Title: Doing Business 2004 – 2007 and 2008: Doing Business and Women

Date and Time: Wednesday, October 16, 2007 9:00 – 10:30 AM

Type of Session: Plenary

Speaker(s): Simeon Djankov, International Finance Corporation (IFC)

Moderator: Steve Hadley, USAID

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**Overview of Session:**

Simeon Djankov presented the Doing Business 2008 data and highlighted what he sees to be the key incentives driving countries to improve their performance.

**Speaker's Remarks:**

Simeon Djankov first introduced the general background of the Doing Business report. The latest version compares 178 countries on a number of indicators such as time to start a business, how long it takes to hire workers, access to capital, and ease of customs clearance. The report examines the life cycle of a business and reports on how easy it is to go through each stage of operation.

The first set of rankings is a list of which countries improved the most in one year. Egypt led the top of the reformers list. Georgia, Bulgaria, Croatia were all in the top ten reflecting the fact that transition economies have consistently improved the most, outside of Egypt.

In his presentation, Djankov explained why he thinks the use of international comparisons is important for projects and why it often leads to reform. He discussed the following:

- 1) Patriotism – the basic feeling of patriotism is powerful and motivates countries to improve more quickly when they see a rival neighbor at a higher ranking. He used Georgia as an example and showed an advertisement the government put together to show how much better their reforms have gone compared to a number of countries, including neighbors Armenia, Turkey, and Azerbaijan. Other countries have done presentations to highlight their improvements as well.
- 2) Demonstration effect - the ranking shows that reforms can be done because other countries are reforming. It's a powerful message because it highlights that not only rich countries are improving or doing well.



Simeon Djankov addresses workshop attendees. Photo by Paul Goodman.

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- 3) Measurable and easily publicized – if reforms are not measured and easily quantified there is not as high of an incentive to reform because the results are not as tangible and easily publicized.
- 4) Comparative advantages - countries can compare themselves against others competing in similar industries and sectors, for example, competition with Dubai or Singapore for port infrastructure.

He mentioned that the time horizon of governments and their planning process is usually at best one year. If you design programs that provide impact after 5 years, you may lose reform momentum. Conversely if you can focus reforms that will show impact in one year, governments tend to be more interested.

**Key Points Discussed During Question & Answer Segment:**

**Q1:**What are we doing to tell the Congress about the role of USAID to push reforms in places like Bulgaria?

**A1:** Steve Hadley: Currently EGAT isn't doing this – in past years they have discussed having Djankov and the World Bank present on the Hill. Steve agreed that USAID needs to press these issues and suggested that Mary Ott and others should take on this issue and present to Congress with Djankov and his team.

**Q2:** Many governments state that countries like Singapore ensure good information to their businesses. Other governments fail in providing information to their companies – as Doing Business is largely based on perceptions – how do you ensure fair and correct rankings if the issue is just information access?

**A2:** Djankov– It is important to know that the Doing Business methodology does not rest upon perceptions of businesses at all. We divide the respondents according to topics, incorporate lawyers, accountants, freight forwarders etc. We talk to intermediaries and also follow the rules that the government has created. Doing Business has posted all the government laws and regulations on its website so it is publicly available. But Doing Business specifically does not ask the businesses themselves in order to avoid biases.

**Q3:** I have found that the labor index is vague and am curious to know if you have made some changes?

**A3:** Djankov: There has been criticism over the last year from the US labor unions that basically Doing Business is very pro-business and disregards worker's rights. If you read the report we make the point that there are fundamental rights and we show how difficult is it for a business to operate once you have controlled for basic labor rights. This year we have gone further to make it more transparent – to showcase all the ILO conventions – to show we do not reward a country when they disregard the ILO conventions. Incidentally, one of the key opponents is notary unions because Doing Business has shown that with increased technology the notaries (often required by bureaucratic laws) are antiquated and unnecessarily costly for companies.

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Q4: How is this system of rankings impacting the political dynamic for reform? Has seen this recently in Azerbaijan where the government has more motivation for systemic change and the motivation with the business community to promote tax reform around competitiveness issues. He asked about the significant gaps in what is measured and plans for expanding into those.

A4: It is the case that there are areas such as infrastructure, intellectual property rights (IPR), and macroeconomic areas that we don't cover – mostly because we felt there are other places to get this information. Some think that we should include infrastructure in the ranking even if it doubles on other data to at least draw more attention to it by governments. So we will start doing that starting with the energy market. For IPR, for many poor countries it is really just a second tier focus in terms of reform so perhaps in the future we can focus on it.

Q5: We do relatively sophisticated comparable work at the provincial level – that is another way to look at attractiveness and Ease of Doing Business. b) If you had to be self critical about the whole project, what would your own analysis say?

A5: I know the one in Vietnam is very good and has similar or higher methodology. It would be great if there were more of examples of this approach.

If we could reform Doing Business we would link the national level and some of the outcomes – how many new businesses entered, how many property deals were struck etc. We haven't done it so far as each year we are improving the product and it takes time. In addition, we would rely upon government numbers for that information and would need an independent source against which we could verify that data. Governments have incentives to provide padded numbers. A critique of Doing Business is that it doesn't cover some important areas including infrastructure, business education (and its linkage to the actual needs of the private sector) and we can add those later.

Q6: I see Egypt was the leading reformer as was Kenya – both are part of COMESA. A couple years ago COMESA started a business authority based in Egypt – I would like to believe that taking part in that initiative and being involved with USAID projects partly lead to their reforms.

A6: CAFTA is one trend area and the other is COMESA, which is a very exciting aspect in this report because it is easier for Eastern Europe and Central America to reform due to proximity to wealthy countries. And there is no special club like Europe for COMESA, but it seems they are trying to set up their own club which is a great opportunity.

Q7: Is broad based engagement important and how important is it that these countries celebrate or publicize their reforms?

A7: You can see Doing Business more as a cheerleader than as an intellectual guru which is why we have stayed with relatively simple indicators – to be more accessible. Our job is to incentivize the whole cabinet and government. Sometimes we see the cabinet is interested but not the parliament, so we have to go to them. Then we also want to be sure the private sector is

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on board. So first it is within the government, then the parliament and then private sector. This is where working with USAID can help. USAID works directly with parliament in some projects and can be a good place to cooperate and link together. Beyond that, governments themselves know that advertising reforms makes them look good.