

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

Session Title: Uses and Abuses of the Doing Business Indicators

Date and Time: Wednesday, October 17, 2007, 4:15 – 5:00 pm

Type of Session: Plenary

Speaker(s): Wade Channell, USAID and Tom Kelly, MCC

Moderator: Annette Brown, Chemonics

Overview of Session:



Wade Channell addresses workshop attendees. Photo by Paul Goodman.

The session was a discussion by Wade Channell and Tom Kelly reviewing a paper written by Wade that outlined the uses and abuses of the doing business indicators. Wade stated that he strongly endorses the indicators and praised the transparency they created. Wade then discussed a few of the potential pitfalls of relying too heavily on the indicators. He illustrated this point with a bamboo metaphor; often countries and donors look only at the stalks neglecting to identify the root causes of the problems.

Tom Kelly followed with a short review of the key points in Wade's paper: abuses, potential and impact. Tom stated that reactions to the Doing Business indicators are usually a three step process:

- Denial - the numbers are wrong!
- Anger-you shouldn't be doing this to us! It will hurt our image
- Acceptance and willingness to start the discussion of what their country needs to do to improve.

Speaker's Remarks:

Wade Channell

- Wade Channell believes in the doing business reports and that the reports create transparency.
- Doing Business covers a lot, but of course it doesn't cover everything, still requires common sense
- Doing business is the tip of the iceberg: Getting Credit (2 measures included in the Report) but there are many other issues that are not covered such as banking regulations, property rights, civil procedure, enforcement, etc...

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- We must look at the indicators in perspective: for example, in the case of San Tome, other issues cause the lack of new businesses - not the number of days it takes to start business.
- Many countries focus too much on their ranking; they treat the doing business indicators like winning a “race”
- Many of the government officials that make regulations have never had their own business-don’t understand the problems that occur.
- In order for Doing Business information to be effective for businesses, we the revenues generated must be greater than costs plus risks.
- Some countries may not see improvement in number but things are still improving.
- Reference website: www.bizlawreform.com
- Conclusion – DB is a useful tool - not a magic solution.

Tom Kelly

- Structured his comments around three key aspects of Channel’s paper: Abuses, Potential, Impact
- Abuses: Problems with focusing solely on improving an indicator score. Can’t get to deeper problems in short program.
- Example - Guyana: It is problematic to open a business. Part of their threshold program focuses on improving the business environment. But why would you want to formalize? Taxes are high. The country has a couple of programs that address high taxes. The key is to attack the issue on multiple fronts.
- Prioritization is very important-Revealed social preference
- Kelly presented the Washington Consensus (WC) versus Augmented Washington Consensus. Rodrik, 2006 (Washington Consensus or Washington confusion)
- Rodrik says that using the WC as background causes some of the imbalances in the current business environment.
- Another abuse of the DB is errors in interpreting score. A good score doesn’t mean there are not any problems and the opposite is also true. Bad scores do not necessarily mean there is a problem.
- Again, we must look at deeper causes and culture.
- The DB reports are useful for donors. Other benefits:
 - Information can start the dialogue. MCC uses some of the doing business indicators in its 17 indicators.

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- Getting information to reformers.
- Empowering people with information.
- Comparing countries to their peers which has a deep impact.
- Useful as a rhetorical tool - would use them in peer-reviewed journals.

Key Points Discussed During Question & Answer Segment:

Q: Please explain why many of your indicators may not reflect an accurate state of things in a given country?

A: Variable isolation does sometime cause the realities on the ground. In other words, we must better monitor the actual implications of rules on the book.

Incorrect indicators are not acceptable. But if we aren't willing to spend the money we can't expect them to become more accurate.

Q: I have been impressed with the MCC affect: How many MCC report cards can there be? Monetary rewards for good grades? How many different awards can we expect to be effective? What makes a successful report card tool?

A: Money is a great incentive. This new model is good not because it was new but because it was linked to programming decisions and seen as stamp of approval or a "Seal of good housekeeping." Worry about a country's reputation is a main driver for paying attention to any report card. Interest will peak and will decline with time and we need to make the most of this interest while it lasts.

The report card/tool must be individualized. Relationships are important; often they are not what we need to make this work. People that are not involved in businesses are the ones making the decisions.

Q: What are the different uses of this data?

A: We do not triage in scorecard, instead the scorecard looks at each section separately. Scorecards are best suited for looking at historical performance - not current data. We use supplementary information to compensate for data lags. Change is difficult and takes time. We must manage expectations.