

Report on the Integrity of the “Ease of Doing Business” Indicators: Management Response

Comments from the Auditors	Response from the WBG
Conclusions	
<p>[Conclusion 1] Allegations that World Bank staff have manipulated individual economies’ Ease of Doing Business indicators are without foundation.</p>	<p>[Response] The World Bank Group (WBG) welcomes the independent assessment, based on a detailed inspection of documents and computer records.</p>
<p>[Conclusion 2] Methodology changes reflect World Bank staff’s genuine efforts to improve the indicators. However, the well-intentioned efforts to improve methodologies have compromised the comparability of the Ease of Doing Business indicators over time.</p>	<p>[Response] The methodology changes in Doing Business 2015-2017 were made after a thorough consultation to implement some recommendations from an Independent Panel of Experts in 2013, the WBG staff, governments and the private sector.</p> <p>The WBG agrees with the recommendation to put forward methodology changes to existing sets of indicators only every 5 years. The WBG agrees to engage in deeper consultations with all relevant stakeholders, in particular country governments, prior to making changes in any existing indicators.</p>
Recommendations	
<p>[Recommendation 1a] The World Bank may wish to minimize methodology changes in existing indicators except to fix confirmed problems with existing methodology.</p>	<p>[Response] The WBG agrees to optimize the methodology changes and the comparability of data over time. Methodology changes would be allowed only every 5 years. Doing Business will also ensure a 3-year time period between the piloting of new measures and their introduction into the rankings.</p>
<p>[Recommendation 1b] The World Bank may also wish to consider allocating resources to back-calculate prior years data where this is feasible.</p>	<p>The WBG also agrees to back-calculate the new subcomponents of the Ease of Doing Business indicators. When the time series for a new subcomponent is complete, the WBG will publish it on the Doing Business website (www.doingbusiness.org). The objective is to make the set of back-calculated subcomponents available by the launch of <i>Doing Business 2020</i> in October 2019.</p>
<p>[Recommendation 2] The World Bank may wish to incorporate additional aspects of the ease of</p>	<p>[Response] The WBG agrees with this recommendation.</p>

<p>doing business with new indicators, rather than with methodological changes to existing indicators.</p>	
<p>[Recommendation 3] The World Bank may wish to consider assigning a much greater weight to preserving comparability in the indicators across all years.</p> <p>The World Bank may wish to produce an alternative set of stable indicators, specifically designed to be comparable across years, which meaningfully tracked economies’ institutional development or backsliding. Changes in economies’ rankings by these measures would then also be meaningful.</p> <p>[Recommendation 4] The World Bank may wish to provide a set of stable Doing Business Development indicators and rankings, based solely on subcomponents of the Ease of Doing Business indicators free of major methodology changes.</p>	<p>[Response] The WBG already publishes the methodology-invariant subcomponents of the Ease of Doing Business indicators, such as the time and cost of some indicator sets.</p> <p>Such indicators based solely on subcomponents prior to methodology changes also truncate a lot of valuable information, including the new, more economically relevant Trading across Borders indicator set, and the new measures of regulatory quality:</p> <ul style="list-style-type: none"> • the revamped Trading across Borders indicator set • building quality control index • reliability of supply and transparency of tariffs index • quality of land administration index • extent of shareholder rights index • extent of ownership and control index • extent of corporate transparency index • postfiling index • quality of judicial processes index • strength of insolvency framework index
<p>[Recommendation 5] The World Bank may wish to establish objective methodologies to continuously update distance-to-frontier endpoints needing updating to avoid renewed controversy about methodology changes.</p> <p>The World Bank may also wish to rename the “distance-to-frontier” measure Doing Business scores.</p>	<p>[Response] The WBG agrees with this recommendation. Furthermore, the WBG agrees to rename distance-to-frontier scores to Doing Business scores for clarity purposes.</p>
<p>Other Suggestions:</p> <p>The auditors also suggested to address three specific questions regarding Doing Business methodologies on the website. The WBG agrees to include the following clarifications:</p>	
<p>[Suggestion 1] Why best and worst practice endpoints for distance-to-frontier scores are defined as they are?</p>	<p>[Answer] The best practice endpoints are defined as the best performance on the component indicators across all economies since 2005 or the third year in which data for the indicator were collected, except:</p>

	<ul style="list-style-type: none"> • for scores (such as the ease of shareholder suits index): the frontier is set at the highest possible value, because the component indicators are bound by definition or construction • for the total tax and contribution rate: the frontier is defined at the 15th percentile of the overall distribution for all years included in the analysis up to and including Doing Business 2015. The purpose is to reduce the bias in the total tax and contribution rate indicator toward economies that do not need to levy significant taxes on companies like the Doing Business standardized case study company because they raise public revenue in other ways • for the time to pay taxes: the frontier is defined as the lowest time recorded among all economies that levy 3 major taxes (profit tax, labor taxes and mandatory contributions, and value added tax or sales tax), because the indicator means to measure the time taken to prepare, file and pay the 3 major taxes • for the different times to trade across borders: the frontier is defined as 1 hour, even though in many economies the time is less than that, to reduce noise in data <p>The worst practice endpoints are defined as:</p> <ul style="list-style-type: none"> • for scores (such as the quality of land administration index) and the recovery rate: the worst performance is set at the lowest possible value, because the component indicators are bound by definition or construction • for the indicators with the most dispersed distributions (including minimum capital, number of payments to pay taxes, and the time and cost indicators): the worst performance is defined at the 95th percentile of the distribution to mitigate the effects of extreme outliers • for number of procedures: the worst performance is defined at the 99th percentile of the distribution to mitigate the effects of extreme outliers
--	---

<p>[Suggestion 2] Why a nonlinear transformation is applied to the tax rate subcomponent of the Paying Taxes indicator when calculating its DTF score, but to no other subcomponent of any other indicator?</p>	<p>[Answer] The total tax and contribution rate component of the Paying Taxes indicator set enters the distance-to-frontier calculation in a nonlinear fashion. The nonlinear transformation reduces the bias in the component indicator toward economies that do not need to levy significant taxes on companies like the Doing Business standardized case study company because they raise public revenue in other ways (for example, through taxes on foreign companies, through taxes on sectors other than manufacturing or from natural resources). In addition, it acknowledges the need of economies to collect taxes from firms.</p> <p>Because of the nonlinear transformation, an increase in the total tax and contribution rate has a smaller impact on the distance-to-frontier score for Paying Taxes for economies with a below-average total tax and contribution rate than it would have had before this approach was adopted in Doing Business 2015. And for economies with an extreme total tax and contribution rate (a rate that is very high relative to the average), an increase has a greater impact on the distance-to-frontier score than it would have had before.</p>
<p>[Suggestion 3] Why the Getting Credit indicator has a distance-to-frontier score defined as the DTF of the sum of its subcomponents, while all other Ease of Doing Business indicators have DTF scores that are the simple averages of the distances-to-frontier of their individual subcomponents?</p>	<p>[Answer] The Getting Credit indicator set includes 2 component indicators:</p> <ul style="list-style-type: none"> • the strength of legal rights index: which measures 12 features related to legal rights of borrowers and lenders with respect to secured transactions in collateral law and bankruptcy law • the depth of credit information index: which measures 8 features of rules and practices affecting the coverage, scope and accessibility of credit information available through a credit bureau or a credit registry <p>A score of 1 is assigned for each of these 20 features.</p> <p>The distance-to-frontier score for Getting Credit is computed as the DTF of the sum of its two components (0-20 points) so that each point is weighted equally in the distance-to-frontier</p>

	score, independent of which component the point comes from.
--	---