Helpdesk Research Report: Indicators for investment and business climate

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Query: Identify and summarise indicators used to indicate improvements in overall business environment, e.g. improvement in property rights, rule of law etc. Where possible, identify strengths and weaknesses, and the indicators most suitable for measuring improvements in fragile states.

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1. Overview

There are many indicators available that can be used to indicate improvements in the overall business environment. Some indicators focus on the microeconomic, business-focused factors, while others concentrate on the macroeconomic and policy factors. In addition to indicators with an explicit focus on business and investment climate, there are indicators, such as governance and corruption indicators, which can provide information on factors which are likely to impact business climate but may be overlooked by standard indicators.

In general, there does not seem to be a single approach that can be said to be superior to others (Silva-Leander, 2005). Moreover, it would not be feasible to develop an all-embracing methodology that can generate all the information needed for all types of investment climate policy analyses. Instead, the appropriate tool should depend on the purpose of the investment climate study. For example, if the aim of the tool is to identify the role of the business environment as a development bottleneck (e.g. Li et al. 2011), then it may be worth focusing on, say, labour-hiring flexibility, access to finance or higher regulatory burden.

When looking at specific indicators it is important to assess how well the indicator lends itself to analysis across different time periods. Several indicators such as the Doing Business index
were primarily designed to allow cross-country comparisons. Consequently, the underlying scores may not be based on objective criteria consistent over time and so the indicators work poorly when comparing different time periods.

It is also important that indicators fully capture all relevant factors. Many business climate indicators overlook social and political risk. These are factors especially pertinent in fragile and conflict-affected states, where the most significant factor affecting the business climate may well be the social and political climate. It is also of note that not all indicators are ‘actionable’, i.e. they do not provide sufficient information from which to base policy or programming decisions.

In general, the World Bank’s Doing Business index seems to be the most widely used and well regarded index of business climate. The index includes a ranking which provides comparisons across different countries, though some have criticised this ranking as being largely inaccurate (e.g. Høyland et al 2008, 2010). A change in a country’s ranking may be attributable to an improvement or worsening of the business climate, but it may equally be attributable to changes in the other countries’ business climates or even to measurement inaccuracies. The large margins of error in such indicators demonstrate that measurement inaccuracies may very well be a reason for changes in ranking.

The Doing Business survey focuses on laws and regulations. A more comprehensive picture may be provided through indicators such as the World Bank Enterprise Surveys which are based on firm experiences. However, available data from the Enterprise Surveys does not seem to include all years and countries.

To get a quick overall picture of business investment climate, tools such as the World Bank Business Environment Snapshots or the ACP/ECOWAS BizClim may be most suitable. It may also be worth designing a unique tool that aggregates data from different indicators tailored to a specific policy or programming objective.

### 2. Key World Bank Group indicators

The World Bank Group produces several diagnostic tools which can be combined to create different perspectives on the investment climate (World Bank Group 2012). **Doing Business** looks at more *de jure* measures – laws and regulations across ten areas – whereas **Enterprise surveys** examine firms’ actual experiences across a similar range of topics. The **Business Environment Snapshots** web portal brings together a number of tools and data. Some larger economies (including India, China, Indonesia, Russia and Colombia) have completed subnational assessments. Other benchmarking tools include the new **Investing Across Borders** project.

**Doing Business**

[http://www.doingbusiness.org/](http://www.doingbusiness.org/)

The World Bank ‘ease of doing business’ index ranks countries from one to 183, with number one being the country where the regulatory environment is most conducive to business operation. The index averages the country’s percentile rankings on the following ten topics covered in the World Bank’s Doing Business project.

- **Starting a business**: procedures, time, cost and paid-in minimum capital to open a new business.
- **Protecting investors**: indices of the extent of disclosure, extent of director liability and ease of shareholder suits.
- **Dealing with construction permits**: procedures, time and cost of obtaining construction permits, inspections and utility connections.
- **Paying taxes**: number of tax payments, time to prepare and file tax returns and pay taxes, total taxes as a share of profit before all taxes borne.
- **Getting electricity**: procedures, time and cost.
- **Trading across borders**: documents, time and cost to export and import.
- **Registering property**: procedures, time and cost to register a transfer of commercial real estate.
- **Enforcing contracts**: procedures, time and cost to resolve a commercial dispute in court.
- **Getting credit**: strength of legal rights index, depth of credit information index.
- **Resolving insolvency**: recovery rate in bankruptcy.

There are also subnational and regional Doing Business reports. These surveys look to capture differences in business regulations and their enforcement across locations in a single country or region. The reports provide data on the ease of doing business (often as expressed as time taken or cost), rank each location and recommend reforms to improve performance in each of the indicator areas. Data seems to be available for every year for the last nine years.

### Limitations and criticisms


- **Largest city bias.** Collected data tends to refer to businesses in the economy's largest business city and may not be representative of the rest of the economy. Subnational Doing Business indicators aim to identify the significant differences in the speed of reform and the ease of doing business across cities in the same economy.
- **Limited liability company bias.** Data often focuses on a specific business form – a limited liability company (or its legal equivalent) of a specified size. This may not be representative of the regulation on other businesses.
- **Subjective bias.** The measures of time involve an element of judgment by the expert respondents. When sources indicate different estimates, the time indicators represent the median values of the responses given.
- **Business ignorance and delay.** The methodology assumes that a business has full information on what is required and will undertake the procedure without delays. In reality, businesses may not have all the necessary information and may be unable or unwilling to follow up promptly.
- **Focus on specific set of business issues.** Transactions refer to a specific set of business issues and may not represent the full set of issues a business encounters.

The World Bank (2012) also notes that the Doing Business index does not measure all aspects of the business environment that matter to firms or investors, or all factors that affect competitiveness. Examples of omissions include: an economy's proximity to large markets; quality of infrastructure services; security of property; transparency of government procurement; macroeconomic stability; the labour skills; and underlying strength of institutions. Doing Business does not focus on regulations specific to foreign investment and does not assess the strength of the financial system or market regulations. It does not cover all regulations, or all regulatory goals, in an economy.
Employers Workers Indicator (EWI) criticism

Some have criticised the World Bank approach as potentially undermining labour regulation and the Doing Business index as supporting this. The International Trade Union Confederation General Secretary Guy Ryder argued that ‘Doing Business defines almost all labour regulations – such as hours of work, minimum wages, advance notice of mass dismissals and protection against discriminatory practices – as undue impediments to “doing business”’ (ITUC, 2006).

As a result of the criticism the EWI has been removed from the calculation of the ‘ease of doing business’ ranking, but it is still included in the Doing Business reports. The EWI methodology is currently being reviewed with the aim of ‘measuring the efficiency of employment regulation that favours job creation within international standards’ (World Bank 2012).

Imprecision in rankings and lack of clear inclusion/exclusion criteria

Høyland et al (2008, 2010) argue that in contrast to the key message of the precise ranking published in the Doing Business report, the index does not distinguish well between most of the regulatory environments in the world. Though the index clearly distinguishes the best economies from the worst, it does not distinguish particularly well between the economies that are somewhat in between – a large group of more than 100 countries. The authors note that the effect of excluding the EWI component index is marginal. Several of the indicators presented in Doing Business are not used for rankings and the coding decisions taken before calculating the rankings are not transparent. The authors conclude that many countries may find it easier to change their ranking in Doing Business than changing the underlying business environment.

An evaluation report also suggested that the indicators should be clearer on what the indicators do and do not measure and they should disclose the changes made to published data and their effect on the rankings, recruit more informants, and simplify the ‘paying taxes’ indicator (World Bank 2008).

Enterprise Surveys

http://www.enterprisesurveys.org/

An Enterprise Survey is a World Bank firm-level survey of a sample of an economy’s private sector (World Bank 2012b). Enterprise Surveys implemented in Eastern Europe and Central Asian countries are also known as Business Environment and Enterprise Performance Surveys (BEEPS) and are jointly conducted by the World Bank and the European Bank for Reconstruction and Development.

The surveys cover a broad range of business environment topics including access to finance, corruption, infrastructure, crime, competition and performance measures. The World Bank has collected the data from face-to-face interviews with managers and business owners in over 130,000 companies in 135 economies. Typically 1200-1800 interviews are conducted in larger economies, 360 interviews in medium-sized economies, and for smaller economies, 150 interviews take place.
The primary business sectors of interest are manufacturing and the service sector. Formal (registered) companies with five or more employees are targeted for interview. Firms with 100 per cent government/state ownership are not eligible to participate in an Enterprise Survey. For a few surveyed countries, other sectors, such as education or health-related businesses, are included in the companies surveyed. In each country, businesses in the cities/regions of major economic activity are interviewed.

In some countries, surveys which depart from the usual Enterprise Survey methodology are conducted. Examples include surveys of informal (unregistered) enterprises, surveys fielded to registered firms with less than five employees and short surveys administered by telephone to assess the effects of the global financial crisis of 2008-09.

Data for Enterprise Surveys do not seem to be available for every year.

**Investing Across Borders**  
http://iab.worldbank.org/

Investing Across Borders (IAB) is a World Bank Group initiative comparing regulation of foreign direct investment (FDI) around the world (World Bank 2012c). It presents indicators on economies' laws, regulations and practices affecting how foreign companies invest across sectors, start businesses, access industrial land and arbitrate commercial disputes. The IAB indicators evaluate the text of laws and regulations, as well as, to the extent possible, their implementation. The indicators are based on data collected through questionnaires completed by local experts including lawyers, business consultants and investment promotion specialists in each of the economies surveyed.

IAB aims to be a complementary measure to Doing Business. Some of the Doing Business indicators (e.g. efficiency of export and import procedures) also apply to foreign companies but others (e.g. starting a business) apply exclusively to domestic companies. IAB measures laws and regulations in four policy areas specifically relevant for foreign companies. The IAB indicators, in conjunction with the Doing Business indicators, are therefore able to provide a more precise and extensive measure of the business environment for FDI in each measured economy.

However, neither Doing Business nor IAB measure all aspects of the business environment that matter to firms or investors, or all factors that affect competitiveness. IAB omissions include security, macroeconomic stability, market size and potential, corruption, skill levels, and infrastructure quality. The World Bank (2012c) argues that the indicators provide a starting point for governments seeking to improve their competitiveness in attracting foreign direct investment.

**Business Environment Snapshots**  
http://rru.worldbank.org/besnapshots/

Business Environment Snapshots provides an overall guide to World Bank Group information. These snapshots include reform priorities, data summaries, relevant laws, related World Bank Group publications and reports, World Bank Group project portfolio information and Country Assistance Strategies. This tool is designed to provide a comprehensive data set from a variety of sources in one brief document, and a first stop for researching a variety of country rankings related to reforms, macroeconomic indicators, enterprise data, etc.
3. Other key indicators

Global Competitiveness Index

The World Economic Forum’s Centre for Global Competitiveness and Performance produces a yearly report titled the Global Competitiveness Report. This report examines the business operating environment and competitiveness of most but not all country economies (142 in the 2011-2012 report). The reports and index exclude several low-income and fragile states. The Global Competitive Index (GCI) is made up of 113 variables structured into 12 ‘pillars of competitiveness’: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation.

The report presents the results of the 12 pillars of competitiveness separately, but stresses that they are not independent and tend to reinforce each other. Although all 12 pillars matter to a certain extent for all countries, the relative importance of each one depends on a country’s particular stage of development. Consequently the GCI attributes higher relative weights to those pillars that are more relevant for an economy given its particular stage of development.

Prior to the GCI the World Economic Forum used two complementary approaches to analyse competitiveness – in essence one macroeconomic and one microeconomic approach. The Growth Competitiveness Index, developed by Jeffrey D. Sachs of Columbia University and John W. McArthur of The Earth Institute, measured the aggregate or macroeconomic determinants of competitiveness. The Business Competitiveness Index was developed by Michael Porter of Harvard University and focused more on the microeconomics or business aspects of competitiveness.

Sala-i-Martín, who designed the index, argues that separating the macroeconomic and microeconomic or business aspects of competitiveness was misleading because individual businesses operate in a macroeconomic environment and, in turn, macroeconomic decisions affect individual businesses (Sala-i-Martín 2012). The GCI, therefore, merges the two approaches into a single, unified and global index that captured both the national and business components of competitiveness at the same time.

BizClim
ACP: http://www.acpbusinessclimate.org/bizclim/
ECOWAS: http://www.ecobizclim.net/

The BizClim Facility (Private Sector Enabling Environment Facility of the ACP Business Climate) is an EU funded initiative under the Cotonou Agreement. The Facility seeks to enhance the business environment of African Caribbean Pacific (ACP) countries and regions by providing technical assistance. The Facility manages an EU-funded technical assistance project the ‘Development of Capacity and Framework at the ECOWAS (Economic Community Of West African States) Commission for monitoring investment climate’. As part of this project a website was developed, which includes a database of investment climate indicators that cover a variety of aspects impacting on business activity in the ECOWAS regional group of
fifteen West African countries. Sources of indicators are: World Bank Doing Business, World Bank Enterprise Surveys, World Bank World Development Indicators, World Bank Trade Logistics in the Global Economy, World Economic Forum Global Competitiveness Report, UNCTAD foreign direct investment data, other UN Agencies (e.g. International Telecommunications Union (ITU), which publishes a host of data on the cost and diffusion of telecoms and the United Nations Office on Drugs and Crime (UNODC), which publishes data on crime), Country Risk Indicators (produced by rating agencies and export credit agencies), the Heritage Foundation Economic Freedom Index and the Transparency International Corruption Perception Index.

The website includes country reports and thematic analysis. Though some of the data in these reports are incomplete the presentation does allow comparison across countries but not apparently over a time scale.

4. Related indicators

**Women, Business and the Law**
http://wbl.worldbank.org/

Women, Business and the Law presents indicators based on laws and regulations affecting women's prospects as entrepreneurs and employees, in part drawing on laws contained in the Gender Law Library. These resources aim to inform research and policy discussions on how to improve women's economic opportunities and outcomes.

**OECD Indicators of Product Market Regulation**
http://www.oecd.org/regreform/regulatoryreformandcompetitionpolicy/indicatorsofproductmarketregulationpmr.htm

The OECD has developed a range of indicators of product market regulation at both the economy-wide and sectoral levels. These indicators measure the extent to which policy settings promote or inhibit competition in areas of the product market where competition is viable. These include indicators of economy-wide and sectoral regulation. The economy-wide indicators are the indicators of product market regulation. Indicators of sectoral regulation are in professional services, retail trade, transport and communications, and on regulation impact. Regulation impact measures the ‘knock-on’ effects of regulation in non-manufacturing sectors on all sectors of the economy.

**Index of Economic Freedom**
http://www.heritage.org/index/default

The Index of Economic Freedom is a series of ten economic measurements, titled ‘freedoms’, created by the Heritage Foundation and the Wall Street Journal. The Index aims to measure the degree of economic freedom in 184 countries. These freedoms are divided into four broad categories or pillars: rule of law (i.e. property rights and freedom from corruption); limited government (i.e. fiscal freedom and government spending); regulatory efficiency (i.e. business freedom, labour freedom and monetary freedom); and open markets (i.e. trade freedom, investment freedom and financial freedom).
Globalization Index
http://globalization.kof.ethz.ch/

The Globalization Index, initially produced by A.T. Kearney and Foreign Policy Magazine and now produced by the KOF Swiss Economic Institute, measures what are considered the three main dimensions of globalization: economic, social and political. The index uses indices referring to actual economic flows, economic restrictions, data on information flows, data on personal contact and data on cultural proximity. Data is available on a yearly basis for 208 countries over the period 1970-2009.

Freedom in the World
http://www.freedomhouse.org/report-types/freedom-world

Freedom in the World is a yearly survey and report by Freedom House that attempts to measure the degree of democracy and political freedom in states. It produces annual scores representing the levels of political rights and civil liberties in each state and territory, on a scale from one (most free) to seven (least free). Depending on the ratings, the nations are then classified as ‘free’, ‘partly free’ or ‘not free’. Data is available from 1973 to 2012.

Business Environment Survey
http://www.cbcglobal.org/publications

This is a benchmarking survey produced by the Commonwealth Business Council (CBC) which records private sector perceptions of a country’s investment climate. Currently only publications for 2007 and 2009 seem to be available.

Business Environment

This index produced by the Economist Intelligence Unit assesses the quality or attractiveness of the business environment using a standard analytical framework. It was designed to reflect the main criteria used by companies to formulate their global business strategies based on historical conditions and on expectations for the next five years.

World Competitiveness Scoreboard
http://www.imd.org/research/publications/wcy/index.cfm

The International Institute for Management Development (IMD) produce this index as part of their World Competitiveness Yearbook which ranks countries in terms of ‘how a nation’s environment creates and sustains the competitiveness of enterprises’ (IMD 2012).

African Economic Outlook
http://www.africaneconomicoutlook.org/en/

The Organisation for Economic Co-operation and Development (OECD) produces this annual report, which is intended to chart the past, present and future performance of the African economy as a whole, as well as being disaggregated into individual country analyses. This
involves analysis of key macroeconomic and structural variables, such as growth and investment, as well as short-term projections.

**Opacity Index**  
[http://www.pwc.fr/the_opacity_index1.html](http://www.pwc.fr/the_opacity_index1.html)

This index produced by PwC aims to derive a single score, termed the O-factor, that estimates the degree of opacity. Opacity is defined as the lack of clear, accurate, formal, easily discernible and widely accepted practices in international capital markets. The opacity index measures the impact of business, economic, legal and ethical opacity on the cost of capital in 35 countries.

**Afro Barometer Survey**  

The Afro Barometer network includes the Institute for Democracy in Southern Africa, the Centre for Democratic Development, Michigan State University, Policy Research Institutes from the surveyed countries and bilateral and multilateral donors. Using national public attitude surveys each Afro Barometer survey collects data about individual attitudes and behaviour, including indicators especially relevant to developing societies. The topics addressed include democracy, governance, livelihoods, macroeconomics and markets, social capital, conflict and crime, participation and national identity. The survey covers 35 countries in Africa.

**Economic Freedom of the World**  

The Fraser Institute produces this index where the core factors contributing to economic freedom are personal choice, protection of private property and freedom of exchange. Individuals have economic freedom when the following conditions exist: (a) their property is acquired without the use of force, fraud or theft and is protected from physical invasions by others; and (b) they are free to use, exchange or give their property to another, as long as their actions do not violate the identical rights of others.

**Worldwide Governance Indicators**  

The World Bank Worldwide Governance Indicators provide aggregate and individual governance indicators for 213 economies over the period 1996–2010. The six dimensions of governance covered are: voice and accountability; political stability and absence of violence; government effectiveness; regulatory quality; rule of law; and control of corruption. The aggregate indicators combine the views of enterprise, citizen and expert survey respondents in industrial and developing countries. The individual data sources underlying the aggregate indicators are drawn from survey institutes, think tanks, non-governmental organisations and international organisations.
Corruption Perception Index (CPI)
http://www.transparency.org/research/cpi/overview/

Transparency International's Corruption Perception Index (CPI) qualitatively measures corruption as perceived by national and foreign businessmen and women, academics and policymakers in each country. One of the aims of the CPI is to highlight the effects of corruption on business, trade and justice.

Inward FDI Performance index
http://archive.unctad.org/Templates/WebFlyer.asp?intItemID=2469&lang=1

This United Nations Conference on Trade and Development (UNCTAD) index ranks countries by the Foreign Direct Investment (FDI) they receive relative to their economic size. It is the ratio of a country’s share in global FDI inflows to its share in global GDP. A value greater than one indicates that the country receives more FDI than its relative economic size, a value below one that it receives less (a negative value means that foreign investors disinvest in that period). The index aims to capture the influence on FDI of factors other than market size, assuming that, other things being equal, size is the ‘base line’ for attracting investment.

Inward FDI Potential index
http://archive.unctad.org/Templates/WebFlyer.asp?intItemID=2470&lang=1

Like the previous index this UNCTAD index aims to captures factors, apart from market size, that are expected to affect an economy’s attractiveness to foreign investors. It is an average of the values of twelve variables: GDP per capita, rate of GDP growth over the previous ten years, share of exports in GDP, average number of telephone lines per 1,000 inhabitants and mobile telephones per 1,000 inhabitants, commercial energy use per capita, share of R&D spending in GDP, share of tertiary students in the population, country risk, world market share in exports of natural resources, world market share of imports of parts and components for automobiles and electronic products, world market share of exports of services, and share of world FDI inward stock.

Investment Policy Reviews

UNCTAD’s Investment Policy Reviews provide an evaluation of the country’s legal, regulatory and institutional framework for FDI to attract increased foreign and direct investment, as well as how to maximise the benefits from it. The review includes FDI entry and establishment, treatment and protection of investment, taxation, the business environment and sectoral regulations. The strategic analysis is tailored to country needs. It includes concrete and action-oriented recommendations.

Africa Competitiveness Report

The World Economic Forum produces these reports which highlight the prospects for growth, obstacles to improving competitiveness and the need to accelerate the pace of economic
change. It depicts the strengths and weaknesses of national business environments, can be used as a tool for policy-makers to identify and address obstacles to growth and establish a process whereby governments, business leaders and other stakeholders can evaluate progress on a continual basis.

5. Other related Helpdesk Queries


This report examines the main factors that have prevented the development of a strong investment climate in Fragile and Conflict-Affected States (FCAS).


This report identifies evidence on whether improvements in the investment climate lead to increased economic growth and provides three short case studies, detailing interventions to improve the investment climate with the aim of drawing generic lessons that might apply to other countries.


This paper identifies interventions that have been most successful in improving the investment climate in fragile and conflict affected states. The report provides examples of good and bad donor practice in supporting these interventions and a particular focus on Special Economic Zones.

6. References


6. Additional information

Suggested citation:

About Helpdesk research reports: Helpdesk reports are based on 3 days of desk-based research. They are designed to provide a brief overview of the key issues; and a summary of some of the best literature available. Experts are contacted during the course of the research, and those able to provide input within the short time-frame are acknowledged.