Is Development for the World Bank Mainly Doing Business

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The World Bank has finally given up defending its controversial but influential *Doing Business Report* (DBR). In August 2020, the Bank 'paused' publication of the DBR due to a 'number of irregularities' after its much-criticised ranking system was exposed as fraudulent.

Apparently, data from four countries—China, Azerbaijan, the UAE and Saudi Arabia—was 'inappropriately altered', according to the *Wall Street Journal*. Exposure of these irregularities was the final straw: now, it is uncertain whether the DBR will return after its suspension.

Exposing the Lie

After Chief Economist Paul Romer told the *Wall Street Journal* in 2018 that he had lost faith in the 'integrity' of the DBR, and apologised to Chile for likely politically motivated data manipulation, he was forced to resign. *The Economist* commented then, 'His resignation may not end the controversy.'

Romer later received the so-called Economics Nobel Prize subsequent to his resignation. Almost two decades ago, Joseph Stiglitz also received the so-called Economics Nobel Prize after being forced to resign following differences with US Treasury Secretary Larry Summers in the wake of the 1997–1998 Asian financial crisis.

When Justin Sandefur and Divyanshi Wadhwa of the Center for Global Development (CGD) exposed how ostensibly methodological tweaking changed Chile's and India's DBR rankings to bolster Piñera and Modi as 'market-friendly' vis-à-vis their more centrist opponents, Simeon Djankov, founder of the Bank's Doing Business index, dismissed the CGD and the two authors as 'reformed Marxists'.

Doing Business Vs SDGs

Djankov insisted that the DBR was about the costs of doing business, not 'the benefits of running a society'. He contemptuously told those who criticised the DBR for failing to consider social or environmental impacts, to create their own 'index that says the benefits of … regulation'.

For the DBR, it did not matter if reducing regulations harmed the environment or employment conditions, or if lowering taxes constrained governmental capacity to fund public investment and provide decent public health or social protection, as long as such 'reforms' lowered the costs of doing business.

Singlehandedly, Djankov exposed the shallowness of the Bank's commitment to the Sustainable Development Goals (SDGs). By undermining the social and environmental dimensions of the index, Djankov exposed the Bank's actual attitude to sustainable development itself. Hence, the Bank had little choice but to ditch the DBR, which had already done enormous damage to development by encouraging harmful tax competition and 'races to the bottom' with regard to the protection of the environment and labour rights.

Racing to the Bottom for Nothing

Governments seek improvements in their country's DBR ranking believing that this will increase growth via increased investment, especially foreign direct investment (FDI). However, the evidence has been disappointing.

For example, a World Bank Policy Research Working Paper found that, 'on average, countries that undertake large-scale reforms relative to other countries do not necessarily attract greater [foreign direct investment] inflows'. For developing countries, it found an insignificant statistical relationship. Another study concluded that, 'the various studies do not provide guidance on which of the wide range of possible [investment climate (IC)] reforms are most strongly correlated with increased growth'.

Such ranking competition has encouraged debilitating investor-friendly government behaviour. The index has become a tool for governments to formulate, evaluate and legitimise their economic policies. Some now game the system to notch up their countries' ranking with essentially cosmetic reforms.

Indonesia's recent 'Omnibus Bill' ostensibly for job creation includes many market-friendly reforms that would most certainly boost Indonesia's DBR ranking. The bill, from a government increasingly influenced by the Bank, is now widely criticised for heavily favouring powerful business interests at the expense of workers, human rights and the environment.

Agrarian Counter-Revolution

Ditching the DBR may be a good start but is far from enough. The Bank must also end other similar 'ideologically driven' exercises, such as its Enabling the Business of Agriculture (EBA) and Investing Across Borders (IAB) indicators, which prioritise FDI, typically at the expense of some SDGs.

The Bank's EBA indicators project is an extension of its Benchmarking the Business of Agriculture (BBA) programme, first launched in 2013. BBA, partly based on the DBI methodology, was created after the G8 asked the Bank in 2012 to develop such an index for the G8's controversial New Alliance for Food Security and Nutrition programme.

The Bank claimed, 'The indicators provide a tangible measure of progress and identify regulatory obstacles to market integration and entrepreneurship in agriculture', leading to a more modern commercial agriculture sector. Private agribusiness investors would be the main beneficiaries of its proposed land policies and environmental protection deregulation.

But the Bank did not bother to explain how farmers, especially smallholder or peasant farmers, would benefit from the proposed reforms or from large-scale commercial agriculture. Our Land Our Business highlighted that the EBA would encourage corporate land grabs and undermine smallholder farmers, who produce 80 per cent of the food consumed in the developing world.

In January 2017, over 158 organisations and academics from around the world denounced the EBA to the WB president and its five Western donors (USAID, DFID, DANIDA, the Netherlands and the Gates Foundation), demanding its immediate end.

In response, the Bank made some cosmetic changes and dropped its controversial land indicator. However, its 2019 EBA still reflected its strong bias towards commercial agricultural inputs and monocropping, undermining food security and sustainability as well as customary land-holdings.

Favouring Foreign Direct Investment

The Bank's International Finance Corporation (IFC) introduced its Investing Across Borders (IAB) indicators in 2010. Heavily influenced by Hernando de Soto, the IAB indicators were designed to complement the Bank's DB indicators.

The IAB indicators claim to help to accelerate economic growth by giving primacy to FDI as a driver for job creation and technology transfer, upgrading skills, fostering competition and fiscal consolidation. In fact, the IAB indicators encourage frameworks that limit benefits for host countries, besides enhancing the harmful effects of cross-border investment deals.

The indicators also violate the letter and spirit of the IFC's Performance Standards for Environmental and Social Sustainability; Principles for Responsible Agricultural Investment respecting rights, livelihoods and resources; Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests; and various other international instruments.

One Size Never Fits All

The rise and fall of the DBR exposes the dangers of using and exaggerating the significance of standardised rankings for very different countries and business environments. An IC is typically complex and difficult to reduce to a few key indicators, let alone a meaningful composite index.

Reforming only certain aspects of business regulation because of the influence of *Doing Business* cannot possibly be optimal, especially when government capacity is constrained. Academic literature reviews conclude, 'while there is empirical evidence that institutional reform can promote growth, it is less clear which reforms matter most, how to prioritise possible IC reforms, and what kinds of institutional frameworks and functions are needed'.

Growth drivers and constraints are very context-specific, so reform priorities should also be context-specific. Therefore, a one-size-fits-all approach to measuring and understanding complex investment environment issues is very problematic, especially one based on the interests and priorities of particular institutions and powers.

The Bank should stop doing harm by concentrating on its original mandate of intermediating finance at the lowest possible cost for sustainable development, relief and recovery in our extraordinary times. It should stop misleading the world, especially developing countries, with its highly biased supposed knowledge products.

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