

Reply to the *Wall Street Journal* article of January 12, 2018

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It is correct to say that the Doing Business indicators have been subject to substantial methodology changes during the last several years. As you may know, the Doing Business project was the subject of an external review by an international panel of experts which provided a number of recommendations in 2013. Partly on the basis of these recommendations, but also in light of extensive feedback given to the Bank over the years from various stakeholders and users of the report, the Bank decided to enter into a multiyear process of methodological improvements, to broaden the coverage of the business environment factors captured by the indicators and to better adapt the definition of some of the indicators to ongoing changes in the global economy.

Without doubt, the most important innovation was the incorporation of a quality dimension to virtually all of the indicators, to complement the indicators' emphasis on the efficiency of a particular business transaction. Let me elaborate by giving you a couple of examples. The Registering Property indicator measured the time, procedures and cost associated with the transfer of property from the seller to the buyer. We decided to introduce a fourth metric, that would capture several dimensions of the quality of the land management system (e.g., were property records digitized?; was there an electronic database to check encumbrances?; were the land ownership registry and mapping agency linked?, and so on). We felt that an indicator that captured both the efficiency of the registering property transaction and a range of institutional features underpinning aspects of the property rights regime would deliver a much better indicator even though, in practice, we were aware that as we made the transition from one indicator to the other, there would be shifts in country rankings across the world. The Getting Electricity indicator, likewise, was defined to capture the time, cost and procedures associated to establishing an electricity connection. But many users of the indicator in Africa would tell the Bank that the problem in Africa was not mainly that it was extremely expensive to connect to the grid but that once that connection was established the electricity would be subject to numerous interruptions and outages. So, the Bank decided to add a "reliability of supply and transparency of tariffs index" to the existing measure. I think you get the idea.

These improvements were made following detailed and widespread consultations within the Bank. The Doing Business report is subject to extensive internal peer review and the Bank went out of its way to announce these changes to the authorities of its member countries and to other users. Preliminary rounds of the new data collected were shared for comment and, in general, the whole process was undertaken in a context of transparency and openness.

As you may have noticed, the Doing Business report publishes a set of rankings and an absolute score, the so-called "distance to the frontier" metric. The development of this score was intended to address a characteristic of relative rankings, namely, that it is possible for countries to see a deterioration in their rankings with no observable worsening of the business environment simply because other countries are implementing more reforms and moving faster. Indeed, over the last several years we have shifted the analysis of our report to this metric, driven by the conviction

that what ultimately matters is whether the business environment in, say, country X is better this year than it was last year as opposed to whether the country has narrowed or widened the gap with respect to other countries. What matters to the business community is the constraints they face in their own country, rather than those faced by entrepreneurs elsewhere. The aggregate rankings remain a feature of the report because they highlight the countries with the best business practices.

You noted the deterioration in Chile's rankings over the past several years. Yes, it is the case that some of this deterioration reflects some of the methodological changes introduced. To take an example, in the DB2017 report Chile dropped several places on account of the introduction, in some of the indicators, of a gender dimension. Chilean legislation has a number of features that embed various restrictions against women and these adversely affected its DB results. Other countries were affected as well. But the Bank has generally opted for making methodological improvements based on the merits (do they make sense, do they capture more accurately an important dimension of the business environment?), without focusing on the impact these changes will have on particular countries. But Chile's rankings also deteriorated because other countries were doing more during the period you focused on. To take an example, if you look at the reports DB2014 through DB2017, you will see that Chile introduced a total of 2 reforms during this 4-year period, whereas Mexico introduced 8 and Colombia 6. Not surprisingly, Mexico overtook Chile as the country with the best business environment in Latin America, as captured by the Doing Business indicators.

The claim that the above methodological changes somehow targeted Chile is wholly without merit. You may be aware that during the last several years the World Bank negotiated with the Bachelet administration the opening of a research hub in Santiago, the first such center in Latin America and just inaugurated a few days ago, highlighting the strong collaborative relationship between the Chilean government and the Bank over the past several decades. That the Bank or its staff, during the middle of the negotiations that led to the establishment of this center would have targeted Chile to adversely affect its Doing Business rankings is bizarre beyond measure. On the contrary, while we exercise tight quality control mechanisms on all the Doing Business data before it goes to publication, in the case of Chile, we went out of our way to ensure that the likelihood of human error in collecting the data was reduced to zero. Chile's ranks in the last several years have dropped for the reasons outlined above. None other.

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January 13, 2018