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## The Doing Business project: how it started: correspondence

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## Correspondence

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### **The Doing Business Project: How It Started**

The Summer 2015 issue included an article by Timothy Besley on the nature and influence of the World Bank's Doing Business report ("Law, Regulation, and the Business Climate: The Nature and Influence of the World Bank Doing Business Project," pp. 99–120). As the manager of the World Bank team that created Doing Business, I wish to highlight the importance of academic research in starting this project.

The Doing Business report was first published in 2003 with five sets of indicators for 133 economies. However, the team that created Doing Business had been formed three years earlier, during the writing of the *World Development Report 2002: Building Institutions for Markets* (World Bank 2001). The focus on the importance of institutions in development was chosen by Joseph Stiglitz, who at the time was the World Bank's Chief Economist. As a member of the team, I was tasked with authoring the chapters on institutions and firms. At the time, the work by Rafael La Porta, Florencio Lopez de Silanes, Andrei Shleifer, and Robert Vishny on legal origins and various aspects of institutional evolution was generating a great deal of interest. I turned to Shleifer with a request to collaborate on several background papers for the World Development Report. He agreed, on the condition that we used this work as an opportunity to gather and analyze new cross-country datasets on institutions. This is how Doing Business started.

The inspiration behind Doing Business was two-fold. First, both Shleifer and I had previously researched the experience of centrally planned economies and documented the waste of entrepreneurial talent and resources as a result

of overregulation. With the collapse of communism, research on the benefits of simpler regulation would be of use to reformers in Eastern Europe. Second, in his book *The Other Path*, Hernando de Soto (1989) showed that the prohibitively high cost of establishing a business in Peru denies economic opportunity to the poor.

Working with Shleifer, we constructed five sets of indicators on the institutions that affect entrepreneurs and businesses through their life-cycle, the results of which were published in a series of papers in academic journals: 1) Djankov, La Porta, Lopes-de-Silanes, and Shleifer (2002) on starting a business, with measures of the procedures, time, cost, and minimum capital required to start a new business; 2) Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2003) on enforcing contracts, with measures of the procedures, time, and cost required to enforce a debt contract; 3) Djankov, McLiesh, and Shleifer (2007) on getting credit, with measures of the strength of legal rights, which encompass the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders, and the depth of sharing credit information; 4) Botero, Djankov, La Porta, Lopez-De-Silanes, and Shleifer (2004) on employing workers, with measures of the ease with which workers can be hired or made redundant and the rigidity of working hours; and 5) Djankov, Hart, McLiesh, and Shleifer (2008) on resolving insolvency, with measures of the time, cost, and percentage recovery rate involved with bankruptcy proceedings.

The data collection started simultaneously on all five projects and was based on a reading of the laws and regulations. The measures of institutional efficiency and quality were intended to be comparable across countries, which was achieved by basing the

data collection on a precisely defined hypothetical enterprise and the circumstances that it faced. The hypothetical case is a firm with at least 60 employees, which is located in the country's largest business city. It is a private, limited-liability company and does not operate in an export-processing zone or an industrial estate with special export or import privileges. It is 100 percent domestically owned, and exports constitute more than 10 percent of its sales.

The five papers were extensively used in working paper form in the World Development Report and were then picked up as the basis for a new ongoing effort which became the Doing Business project. World Bank Vice-President Michael Klein provided the needed guidance for the project to develop and survive various challenges within the World Bank. The set of Doing Business indicators gradually expanded from five to eight, using essentially the same methodology. The new additions were published as: 6) Djankov, Freund, and Pham (2010) on additional sets of measures on the efficiency of customs rules; 7) Djankov, Ganser, McLiesh, Ramalho, and Shleifer (2010) on the effect of different tax regimes on entrepreneurship; and 8) Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2008) on investor protections.

The high visibility and impact of the Doing Business project generated controversy reflected in discussions at the World Bank and by its shareholders. This resulted in one set of indicators—on employing workers—being removed from the overall Doing Business ranking. Another proposed set of indicators on disclosure of assets and income by politicians was not taken up by the World Bank (Djankov, La Porta, Lopez-de-Silanes, and Shleifer 2010).

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