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The World Bank

Stand up for “Doing Business”

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The president of the World Bank should support one of its most useful products

May 25th 2013 | From the print edition

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A YEAR ago, when Jim Yong Kim was appointed president of the World Bank, this newspaper had doubts about the choice. Mr Kim, then head of Dartmouth College, was a health expert who had run innovative AIDS projects in poor countries, but had no background in economics or finance. He once wrote that the “quest for growth in GDP” had “worsened the lives of millions of women and men”. For the boss of the world’s premier development bank, this was a curiously sceptical view of what economic growth might do for the poor.

Mr Kim has since assuaged some of those doubts. He has focused the bank on eliminating extreme poverty and has promised that the sprawling organisation will be more “scientific” in delivering its services. But a big test lies ahead: a showdown over the “Doing Business” report, one of the bank’s most successful research products, but one which some shareholders would like to see watered down or scrapped. How Mr Kim handles this will show whether he understands the importance of growth, has a sensible idea of the bank’s role in supporting it—and is a strong leader or a supine one.

Since 2003 “Doing Business” has shone an annual spotlight on regulations. Now covering 185 countries, it looks at the complexity of rules (such as the cost and time involved in starting a firm) and the strength of legal institutions (how well contracts are enforced, say). It ranks countries on these measures and on the overall ease of doing business.

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Singapore comes top, the Central African Republic bottom. Thanks to these rankings, "Doing Business" is influential. Presidents and prime ministers do not like to be low in the league, so they demand that red tape be cut. In the past decade almost 2,000 liberalising reforms have been undertaken in areas covered by the report.

Pulling rank

Alas, not everyone thinks that is the right response to a poor score. The rankings irk countries that do not do well—notably China, which comes 91st. Several attempts have been made to weaken the report. Mr Kim's predecessors rebuffed these efforts. He chose instead to set up a panel of outsiders to make recommendations on the future of the report.

Unfortunately, there are signs that the panel, led by Trevor Manuel, a South African cabinet minister, may be predisposed against "Doing Business". It has appointed two critics of the report as advisers. Its recommendations, due soon, are expected to include ditching the rankings, or even handing "Doing Business" to another organisation.

Mr Kim should reject any such ideas, for three reasons. First, the report spurs countries to useful reforms. Several studies show a clear relationship between improved scores in "Doing Business" and faster growth. Granted, its methodology is not perfect, and changes in rules do not always match conditions on the ground (some think Georgia, say, is flattered by its rise to ninth place). But the answer is to improve the research behind the rankings, not to suppress them.

Second, an enfeeblement of "Doing Business" would cast doubt on Mr Kim's commitment to the bank's research. Now that ever more emerging economies can borrow in private capital markets, the bank's usefulness lies in its intellectual leadership as much as in its lending. "Doing Business" has helped deepen economists' understanding of how legal institutions and regulations affect growth. Rather than weaken this work, Mr Kim ought to encourage more of it.

Third, by caving in to China's complaints Mr Kim might appease a powerful critic but he would also open the door to further self-serving complaints. And he would infuriate his largest shareholder, America. The "Doing Business" report is one of the few bank products that has broad support in Congress—the chief funder of the bank's soft loans. Fear of losing funding should not push a World Bank president to do the wrong thing. But it should stiffen Mr Kim's spine to do the right thing.

From the print edition: Leaders

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Germany	Italy	Germany	Spain	Italy	Cyprus
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