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Doing business report and beyond — I

The World Bank launched its annual flagship 'Doing Business 2020' report, 17th edition in the series, which compares/ranks 190 economies in terms of 'ease of doing business', covering data up to May 1, 2019; broadly across 12 business regulations with sub-indicators within each category and include: a) starting a business; b) dealing with construction permits; c) getting electricity; d) registering property; e) getting credit; f) protecting minority investors; g) paying taxes; h) trading across borders; i) enforcing contracts; j) resolving insolvency; k) employing workers; and l) contracting with the government.

One of the flashpoints of World Bank's flagship 'Doing Business 2020' Report with regard to Pakistan was that the country's ranking improved by 28 positions to 108th, placing it at the sixth spot whereby the change of ease of doing business score improved by 5.6 points among the 10 economies improving the most across three or more areas measured by 'Doing Business in 2018-19'. In this regard, the Report indicates, 'Pakistan, another top improver, developed an ambitious reform strategy, setting up a national secretariat as well as a prime minister's reform steering committee to ensure progress. Most of the programmed reforms evolved around the Doing Business indicators. Doing Business working groups have been set up at both municipal and provincial levels.'

The areas of improvement included a) starting a business basically through the creation of online one-stop shop; b) dealing with construction permits primarily through bringing efficiency in approval process and holding more regular inspections for ensuring safe constructions; c) getting electricity by i) following more efficient delivery timeframes; ii) making available online process for launching of new applications; and iii) bringing greater transparency to changes in electricity tariffs; d) registering property, where according to the Report, 'Pakistan made registering property easier by making it faster and easier to register a deed and by increasing the transparency of the land administration system'; e) paying taxes made easier through provision of online facility for paying value-added tax and corporate income tax, while reducing the latter at the same time; and f) trading across borders was made easier 'by enhancing the integration of various agencies in the Web-Based One Customs (WEBOC) electronic system and coordinating joint physical inspections at the port'.

It is important to note that areas within the 12 reform aspects, where little or no progress was made to make doing business easier from that particular perspective, included a) getting credit; b) protecting minority investors; c) enforcing contracts; and d) resolving insolvency. The Report further said that in terms of ease of hiring 'Pakistan limits employer flexibility in this area with legislation dating back to the 1960s'.

The government's ease of doing business-related celebratory tone needs more restraint/caution, since the Report covers only two cities - Karachi and Lahore - out of 100-plus cities in the country, not to mention ease of doing business condition in rural areas (also not covered).

Secondly, the coverage of the Report does not penetrate any level of disaggregation across different sectors of the economy. This is an important aspect missed since significant and marked sector-specific differences exist in the country, for example, a) ease of entry and exit situation for new firms; b) subsidised financing may easily available to new businesses entering a particular sector; c) presence of less competitive and more collusive nature of firm presence in certain sectors, making it difficult for new businesses (especially the small ones) to thrive; where the report remains silent on the performance of institutional frameworks like Competition Commission of Pakistan; and d) risk-averse nature of banks, both overall and across sectors, especially acute towards new businesses, not enjoying economies of scale, and generally having low collateral/weak credit history.

Thirdly, the Report does not comprehensively cover ease of doing business in a wider sense, in terms of analyzing the performance of economic institutional quality, the extent of transactional costs such as search, enforcement and information-related costs and the extent of market failures that all add to the overall, and sector-specific situation of ease of doing business.

The Report also fails to cover some important aspects related to ease of doing business; which include a) the extent of prevalence of extractive institutional design in favour of already established big businesses in a particular sector, where perhaps some political institutional variables are also captured, for example, the extent of policymaking in parliament on issues involving new businesses, as compared with those that are related with bringing greater ease to established businesses (and perhaps at the cost of new entrepreneurs entering a particular sector); b) the aspects related with the governance and incentive structures that influence the ease of doing business; and c) highlighting the lacunae in policies with regard to i) determinants that enhance banking sector's risk-averse nature towards lending to new businesses; ii) promote government borrowing at the cost of disproportionately crowding-out private sector borrowing; and iii) rationalizing the level of interest rate spread so that excessive profit-mindedness of banks does not discourage private business-related lending, especially of new businesses.

Although, the Report highlights that 'Doing Business [report] isn't meant to be an investment guide, potential or prospective investors consider many other factors, such as the overall quality of an economy's business environment and its national competitiveness, macroeconomic stability, development of the financial system, market size, rule of law, and the quality of the labor force', yet the aspects being highlighted here are important in terms of influencing ease of doing business at the aggregate and disaggregated level in a country, especially a developing one like in Pakistan, where the quality of economic institutions, extent of market failures and transactional costs have not only high variability across sectors, including in terms of consequences for the 12 indicators, but that these covered aspects in the Report have serious limitations that impact in significant ways in determining ease of doing business beyond the aspects covered.

It is therefore of paramount importance that firstly, the World Bank should look to enhance the scope of the Report in terms of areas highlighted above (among possibly others), so that a more meaningful and realistic picture of ease of doing business becomes available for countries. Secondly, individual countries, for example Pakistan, should understand the limited nature of this Report, as it currently stands, and look to take a wider view of the aspects involved before trumpeting its success.

For example, the ease of doing business does not seem to augur well with a) severe lacklustre performance of large-scale manufacturing sector in Pakistan; and b) the lack of private sector credit growth in the country, where the recently-launched State Bank of Pakistan's annual report on the 'State of Pakistan's Economy 2018-19' highlighted 'the momentum in private credit weakened: private sector credit expanded by Rs 693.5 billion during FY19, compared to Rs 775.5 billion last year. Resultantly, the credit to GDP ratio remained stagnant at 17.3 percent in FY19... [where]... the expansion in loans for fixed investment more than halved compared to FY18... [and]... in FY19, however, long-term loans grew only Rs 82.9 billion – less than half of the Rs 203.9 billion increase recorded in FY18'.

Hence, there is indeed a need for taking more wholesome approach to understanding the factors impacting the economy, and ease of doing business, and one important stride in this direction is understanding and employing in policy the Economic Freedom Index produced by the Heritage Foundation.

(To be continued)

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