

Doing business: beyond World Bank rankings

Pakistan's poor ranking on the World Bank's Ease of Doing Business indicators is one of the main deterrents to growth in domestic and foreign investments in the country. So goes an oft-repeated argument at nearly every conference or seminar on Pakistan's economy held anywhere in the country. The problem with getting obsessed with EoDB rankings is that it ignores wider set of complexities and problems faced by businesses in Pakistan, and instead shifts the focus of reforms to a very limited agenda.

Every year when the World Bank announces its Ease of Doing Business (EoDB) rankings, the economic press gets a field day with fancy headlines pegged to the fall in ranking. However, if there is anything in those EoDB reports, it's the individual scores on the list of themes that feed into the sub-indices that form the EoDB rank. That and the distance to frontiers (DTF) scores. The DTF measure shows the distance of each economy to the "frontier," which represents the best performance observed on each of the indicators across all economies.

Generally, there is no established relationship between EoDB rankings and FDI inflows. There are many countries, including India that had poor EoDB rankings a few years ago but attracted much higher foreign investments compared to Pakistan, and consistently grew her domestic investments as well. Similarly, Bangladesh ranked 60 places below Pakistan in 2020 EoDB rankings has been able to attract much higher FDI compared to Pakistan – an average 1.31 percent of GDP in the last five years as against 0.76 percent in Pakistan.

Besides, if and when foreign investors do take a look at EoDB datasets, they look at the individual scores, indicators and the data that feed into the scores rather than the rankings, because there is so much to an investment decision than just the ranking, since rankings are often a misleading indicator. Consider this: Pakistan's ranking in 'starting a business' were 142 as of EoDB 2018, whereas on 'dealing with construction permits' it was 141. Did that mean that 'starting a business' was worse than 'dealing with construction permits' in Pakistan? No! Because in contrast, the DTF scores of the latter was far worse than the DTFs of the former.

Another reason why EoDB rankings do not fully capture the problems of doing business in Pakistan is the fact that those rankings try to capture the business environment faced by a corporate entity in Karachi and Lahore. In a country, where the number of other forms of businesses – such as association of persons and partnerships - are much bigger, and where public and private sector stakeholders envision next wave of economic growth to be triggered by youth across the country – including the start-up culture – obsession with improving EoDB rankings risks ignoring the needs of various other business types and size across the country.

In fact, EoDB ranking also do not even fully capture much bigger deterrents to investments faced by corporate sector as well – such as frequent changes in government policy, and other regulatory failures. Consider the recent stories of GIDC see-saw or the delay in the renewing

of telecom licences or frequent changes in tax policies or delays in tax refunds – episodes like these send far worse messages to foreign investors across the globe than EoDB rankings.

This is not to demonise World Bank's EoDB rankings. No index or ranking can capture the entire spectrum, and as such the EoDB rankings may have its use in its own respect. But obsession with these rankings has excluded some of very genuine and much bigger problems across the many other cities of importance (including Gwadar) and economic/business sectors from the discourse. And that's problematic.

For instance, one of the biggest issues is the absence of efficient inter-provincial coordination mechanisms – be it in the matter of taxation, agriculture, labour or anything else. Distortions created by two-tier regulation structure in many economic sectors and ancillary areas have not even been evaluated, let alone resolved. Similarly, labour productivity and the quality of human resource are another set of oft-ignored issues.

To reiterate, excessive focus on EoDB has elbowed out the desired focus on issues of labour productivity, inter-provincial coordination and many other important concerns such as poor organisational and representation skills of business chamber and associations. The latter is equally important because even if the government is to focus only on EoDB rankings, any reforms will have to be brought through consultation, whereas business chambers and associations do not have adequate research capacity to propose evidence-based solutions to their problems.

In light of this, there could perhaps be a case for countries like Pakistan to develop their own set of doing business report card, one that better captures their business, economic and political realities, and is also more comprehensive in terms of datasets (by including aspects of labour productivity, indicators of policy inconsistency etc) since the scope would also be much smaller – a few federating units as against nearly 150 countries in the case of EoDB rankings.

Perhaps, Pakistan Bureau of Statistics (PBS) could be tasked to produce such evaluations for each province, say once in two years, tracking the average business climate of relevant cities within each province.

In addition, it could also come up with similar sectoral rankings to compare doing business in key sectors (such as livestock, or jewellery or tourism) across provinces.

By doing this, the PBS would in affect be producing an economic performance report card of provincial governments, which could then feed into the bigger discourse on devolution and fiscal federalism. However, for this exercise to be apolitical, the PBS would have to be made a strong, independent body with equal representation of the provinces, and also perhaps one nomination from opposition bench of the parliament. Apologies for wishful thinking!