ALTERNATIVE BUSINESS ENABLING ENVIRONMENT RANKINGS

A REVIEW

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Introduction

Business Enabling Environment Ranking Systems have become an important tool in promoting reforms in countries to improve the prospects for economic growth. A number of these systems have developed over the past decade or so and some have achieved prominence in discussions about how countries are progressing toward free market economies. The Business Growth Initiative (BGI) project of the U. S. Agency for International Development (USAID) commissioned this report by Don Snodgrass to review a number of key ranking systems and analyze the strengths and weaknesses of each. This was done in order to provide some guidance to USAID Economic Growth Officers and private sector development practitioners on how to use these different ranking systems in determining if progress is being made on improving the business environment in particular countries.

USAID Bureaus in Washington and some USAID missions have been using ranking systems to pull together indices for internal use that help to determine the effectiveness of reforms supported by USAID and other donor assistance programs. The Millennium Challenge Commission (MCC) has made improvement in some of the Doing Business Indicators of the World Bank as part of the criteria for qualifying for MCC assistance. These indices have been helpful in encouraging dialogue among development practitioners, private sector players and government officials in how to promote enterprise development and, thereby, economic growth within countries. One lesson learned on this topic is how important it is to establish on-going public-private dialogue mechanisms in countries, both at the national and local levels. These permit the private sector to provide input and impact on macroeconomic policy and microeconomic regulatory decisions by government on the business environment. There is no single ranking system or index that necessarily provides a complete picture of the business climate within a country. There are differences both in the definition of the components of the business environment and in methodologies used to collect and analyze data for each ranking system. This paper is meant to help guide the reader to a better understanding of these differences and how, taken together, these different ranking systems and indices can be used effectively to gauge progress in the reform of the business environment.

Stephen C. Silcox,
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Overview

The purposes of this note are:

- To summarize the best known and most widely used indexes of the business enabling environment (BEE)
- To see how they have been applied to the countries in which USAID works
- To speculate about which indexes best reflect the quality of the BEE in which the clients of USAID private sector development (PSD) programs actually work.

The note analyzes the two best known and most commonly cited rankings, namely:

- The *Global Competitiveness Index* of the World Economic Forum (GCI); and
- The *Doing Business* indicators of the World Bank (DB).

It also reviews:

- The *Index of Economic Freedom* of the Heritage Foundation (IEF);
- The *Business Environment Rankings* of the Economist Intelligence Unit (BER);
- The *Global Entrepreneurship Monitor* produced jointly by Babson College and the London Business School.[1]

The summary description of each index reviewed provides the following information:

- How long it has been in existence
- How it is compiled; what the components of the index are
- How many countries it covers in its latest edition
- How many of the countries in which USAID works are covered
- How relevant it seems to USAID PSD programs and clients

The five systems reviewed in this note are only a few of the many attempts that have been made to create country ranking systems based on criteria related to the business environment. Other more or less prominent examples are listed and briefly described in the Annex.

Global Competitiveness Index

The Global Competitiveness Report has been published by the World Economic Forum, based in Geneva, Switzerland, since 1979. The latest edition, dated 2007-2008, was edited by Michael Porter of the Harvard Business School, Xavier Sala-i-Martin of Columbia University, and Klaus Schwab, Executive Chairman of the WEF. Its GCI covers 131 countries, including 66 of the 89 countries in which USAID currently works.[2]

Each edition of the Global Competitiveness Report contains a genuine wealth of information on the countries covered. The report's cornerstone is the GCI, which was

[1] Thanks to Elaine Allen, Svetlana Bagaudinova, Margareta Drzeniek Hanouz, Anthony Kim, and Cory O'Hara for comments, corrections, and constructive suggestions on earlier drafts.

[2] A few countries with projects but no mission may be excluded from this list of countries in which USAID currently works.

developed by Xavier Sala-i-Martin in cooperation with the Forum and initially inspired by Michael Porter's analysis of national competitiveness. The index scores countries on a total of 131 variables grouped under twelve "pillars." The pillars are:

1. Institutions (public and private)
2. Infrastructure
3. Macroeconomic stability
4. Health and primary education
5. Higher education and training
6. Goods market efficiency
7. Labor market efficiency
8. Financial market sophistication
9. Technological readiness
10. Market size
11. Business sophistication
12. Innovation

Seventy-nine of the 131 variables included in the index are measured according to data gathered in the Executive Opinion Survey conducted annually by the WEF among more than 11,000 respondents (an average sample of about 90 firms per country). The remaining variables are taken from published sources. Countries are scored and ranked according to each variable and pillar as well as in terms of their overall competitiveness. The scores and rankings of individual variables allow competitive strengths and weaknesses to be identified for each country.

The Global Competitiveness Report also classifies economies into five groups based on Porter's schema of what drives economic growth at different levels of development:[3]

1. Stage 1: Factor-driven (GDP per capita less than $2,000); includes 44 countries, of which 36 are countries in which USAID works
2. Transitional from Stage 1 to Stage 2 ($2,000-3,000; includes 18 countries, of which ten are countries in which USAID works
3. Stage 2: Efficiency-driven ($3,000-9,000); includes 27 countries, of which 16 are countries in which USAID works
4. Transitional from Stage 2 to Stage 3 ($9,000-17,000); includes 11 countries, of which four are countries in which USAID works
5. Stage 3: Innovation-driven (over $17,000); includes 31 countries, none of which is a USAID country

Doing Business

Doing Business made a big splash when it first appeared in 2004. While most previous efforts had relied on a combination of macroeconomic data and subjective judgments by business people or experts, this series broke new ground by providing more objective micro-level measures: the documented costs (in time and money) of a number of common business operations. Its cost estimates are based on consultations with knowledgeable local authorities, usually lawyers and accountants, in each country

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[3] In addition to the GDP criterion, the GCI also uses the factor intensity of the economy as a second criterion for classifying countries into stages of development.

covered. Details for all costs and the steps involved in each process, as well as the specific laws on which they are based, are all available on-line at www.doingbusiness.org. The fifth and latest edition, *Doing Business in 2008*, came out in 2007.

This approach to rating a country's BEE is based on the hypothesis that simplifying the way regulations are implemented will improve the BEE and thus promote PSD. The data generated by the *Doing Business* series clearly indicate that the cost, time, and complexity of complying with business regulations varies substantially among countries and tends strongly to be higher in poorer countries than in richer ones, especially when measured as a percentage of GDP per capita. Data displayed in the *Doing Business* reports suggest that higher regulatory costs are associated with lower labor productivity, greater informality and corruption, delays, and higher female unemployment.

The business transactions covered in *Doing Business in 2004* were starting a business, hiring and firing workers, enforcing contracts, getting credit, and closing a business. By the latest version (*Doing Business in 2008*), other topics had been added: dealing with licenses, registering property, protecting investors, paying taxes, and trading across borders. Topics that might be added in future editions include not paying bribes, opportunities for women, and infrastructure.

Doing Business in 2004 covered 135 countries. Coverage has expanded over the years, in part with support from USAID, and *Doing Business in 2008* was able to cover 178 countries, including 84 of the countries in which USAID currently works.[4]

Index of Economic Freedom

The Heritage Foundation has compiled an Index of Economic Freedom since 1995. The 2008 edition is the 14th issued. This index now covers 162 countries, including 78 of the countries in which USAID currently works. It gives countries ratings of 0-100 on ten broad areas of economic freedom:

1. Business freedom
2. Trade freedom
3. Fiscal freedom
4. Government size
5. Monetary freedom
6. Investment freedom
7. Financial freedom
8. Property rights
9. Freedom from corruption
10. Labor freedom

Aggregating across these ten measures, the Heritage Foundation assigns countries to five broad categories:

1. "Free" (seven countries in the latest edition)
2. "Mostly free" (23 countries, including 3 USAID countries)

[4] The only USAID countries not covered were Burma, Cuba, Cyprus, Kosovo, and Turkmenistan.

3. “Moderately free” (51 countries, including 27 USAID countries)
4. “Mostly unfree” (52 countries, including 33 USAID countries)
5. “Repressed” (24 countries, including 15 USAID countries)[5]

In addition to the 78 USAID countries that are ranked in the current IEF and four countries that were analyzed but not ranked, five USAID countries/regions were left uncovered: Afghanistan, Kosovo, Liberia, Timor Leste, and West Bank/Gaza.

These rankings are highly correlated with per capita income. The Heritage Foundation argues that the relationship is causal – in other words, that greater economic freedom leads to greater prosperity.

The IEF draws on a wide range of published data sources, which are listed in the report on the latest edition of the index. The report also provides a detailed explanation of the methodology used to compile the various components of the index.[6]

Business Environment Rankings

The Economist Intelligence Unit (EIU) was founded in 1946. Its *Business Environment Rankings* examines ten separate criteria or categories:

1. The political environment
2. The macroeconomic environment
3. Market opportunities
4. Policy towards free enterprise and competition
5. Policy towards foreign investment
6. Foreign trade and exchange controls
7. Taxes
8. Financing
9. The labor market
10. Infrastructure.

Each of these categories includes a number of indicators. Approximately 250 indicators are included in the rankings. About half of these indicators are drawn from national and international statistical sources. The rest are qualitative in nature and are taken from a range of data sources and business surveys, frequently adjusted by the EIU.

These rankings draw on the in-depth country knowledge that the EIU gains from the compilation of frequently revised reports to its subscribers on economic and political conditions in all the countries concerned. This index differs from the two described above in that it reflects both historical information (covering the past five years) and forecasts for the medium-term future (next five years) made by the EIU itself. This permits trends in the quality of the BEE, as gauged by the EIU, to be measured.

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[5] Five additional countries were analyzed but not ranked: Montenegro, Serbia, Sudan, Iraq, and the Democratic Republic of Congo. All but Montenegro are USAID countries.

[6] See http://www.heritage.org/index.

The latest EIU ratings, published in October 2007, covered 82 countries. A complete set of country rankings is not provided on the website, but extensive information on the BEE in various world regions has been published. Also available is a list of the 15 lowest ranked countries. In ascending order, these are Angola, Venezuela, Iran, Libya, Cuba, Ecuador, Kenya, Nigeria, Bangladesh, Azerbaijan, Algeria, Pakistan, Ukraine, Morocco, and Kazakhstan. Eleven of these 15 lowest-ranked countries are areas of USAID activity.

Unlike the World Bank, WEF, or Heritage Foundation, the EIU is a commercial organization that sells its services to those willing to pay for them. For this reason, it emphasizes the larger world economies, especially those likely to be of interest to foreign investors. This no doubt explains the much narrower coverage of the EIU's rankings compared to those of the previous two organizations. It may also be the case that its rankings more accurately measure the quality of the BEE for foreign direct investors than for business more generally.

Global Entrepreneurship Monitor

The *Global Entrepreneurship Monitor,* produced annually since 1999 as a joint effort of Babson College and the London Business School, has three main objectives:

- To measure differences in the level of entrepreneurial activity between countries;
- To uncover factors determining national levels of entrepreneurial activity; and
- To identify policies that might enhance national levels of entrepreneurial activity.

The latest GEM report (Niels Bosma, Kent Jones, Erkko Autio, and Jonathan Levie, *Global Entrepreneurship Monitor: 2007 Executive Report)* draws on data gathered by a consortium of national teams that participate in the Global Entrepreneurship Research Association (GERA; see www.gemconsortium.org). Information on entrepreneurial activity (entrepreneurs and business owner-managers as a percentage of the adult population) is collected through a survey of individuals called the GEM Adult Population Survey. GEM also collects information on ten "Entrepreneurial Framework Conditions"[7] and compiles a "red tape index" that rates national expert perceptions of regulation affecting new and growing businesses and can be compared to the World Bank's Doing Business indicators.

The 2007 edition of GEM measures the prevalence of entrepreneurship in 42 countries, of which 23 are high-income countries and the remainder middle- and low-income countries in Europe, Asia, and Latin America. Important developing countries such as China, India, and Brazil are included, but most of the smaller countries are not and Africa is excluded altogether. Only 13 countries where USAID is active were included in the latest edition of GEM.[8] Coverage for the red tape index is slightly broader, with 58

[7] Financial support; government policies; government programs; education and training; research and development transfer; commercial and professional infrastructure; internal market openness; access to physical infrastructure; cultural and social norms; and intellectual property rights protection.

[8] Brazil, China, Colombia, Croatia, Dominican Republic, Hungary, India, Kazakhstan, Peru, Romania, Russia, Serbia, and Thailand.

countries included using data for one or more years in the 2003-2007 range. This includes 21 USAID countries (see Table 2, below).

Comparison of Ranking Systems for USAID Countries

This section compares the DB, GCI, IEF, BER, and GEM indexes in terms of coverage of countries in which USAID works and considers how consistent their rankings of these countries are.

Table 1 summarizes characteristics of the four ranking systems noted earlier.

Table 2 shows how each of the 89 USAID countries ranks in the four of these systems. The rankings are broadly similar and generally confirm that poorer countries have worse business environments than richer countries, but some interesting differences do emerge.

Some countries are judged by the WEF to be relatively competitive despite low DB and IEF rankings. An objective measure of this phenomenon would be that a country ranks at least 25 places better on the GCI than in the DB rankings. Countries that meet this criterion are Albania, Benin, Bolivia, Brazil, Cambodia, China, Croatia, Ecuador, Egypt, Guatemala, Honduras, India, Indonesia, Jordan, Madagascar, Mali, Morocco, Philippines, Russia, Senegal, Sri Lanka, Tajikistan, Tanzania, Ukraine, and Uzbekistan. Some of the countries listed (e.g., Brazil, China, India, Russia) appear to be nations – often large ones – that are experiencing strong economic growth despite relatively illiberal regulatory environments. It has also been suggested that some of the countries that rank higher on the DB scale have reformed rapidly in a short period of time, while the responses given by business people in the WEF survey may reflect their cumulative experience rather than what happened in the past year.[9]

There are also a few discrepancies in the opposite direction. The following countries ranked 25 or more places *worse* on the GCI than in the DB rankings: Armenia, Georgia, Kenya, Kyrgyzstan, Mongolia, Namibia, Peru, and Romania. At least some of these countries have simplified their business regulations but may not yet have improved other aspects of competitiveness. Georgia was given an award by the World Bank for achieving the greatest number of regulatory reforms. Interestingly, *Doing Business 2008* reports (p. 1) that the Eastern Europe and Central Asia region now rates as more business-friendly according to their measure than East Asia and the Pacific. This probably reflects efforts by several Eastern European countries (e.g., Estonia and Slovenia) to qualify for membership in the European Union.

[9] Thanks to Amy Cogan Wares of USAID for this insight.

Table 1. Characteristics of Indexes Reviewed

CHARACTERISTIC	**DOING BUSINESS**	**GLOBAL COMPETITIVENESS**	**ECONOMIC FREEDOM**	**EIU BUSINESS ENVIRON-MENT**	**GLOBAL ENTREPRENEURSHIP MONITOR**
When started	2004	1979	1995	???	1999
Definition of business enabling environment	Private cost of government regulations	12 “pillars” of competitiveness	10 measures of economic freedom	10 criteria	Regulations affecting new or growing businesses
Source of information	Local lawyers & accountants	Published statistics + executive opinions	Published statistics	Published statistics, analysis, forecasts	Survey of at least 2,000 individuals per country
Type of measure	Cost in money and time	Scalar ranking	Scalar ranking	Scalar ranking	Scalar ranking
Total number of countries covered in latest edition	178	131	162	82	58
Number of USAID countries covered in latest edition	84	66	78	??	21

Table 2. Ranking of USAID Countries by Three Indexes

COUNTRY	DOING BUSINESS	GLOBAL COMPETITIVENESS	ECONOMIC FREEDOM	GEM Red Tape Index
Afghanistan	159	---	---	
Albania	136	109	102	
Angola	167	---	143	
Armenia	39	93	28	
Azerbaijan	96	66	107	
Bangladesh	107	107	148	
Belarus	110	---	150	
Benin	151	108	110	
Bolivia	140	105	123	
Brazil	122	72	101	56
Burma	---	---	153	
Cambodia	145	110	100	
China	83	34	126	8
Colombia	66	69	67	
Congo, DR	178	---	---	
Croatia	97	57	113	45
Cuba	---	---	---	
Cyprus	---	---	22	
Czech Rep.	56	33	37	
Dominican Rep.	99	96	87	39
Ecuador	128	103	108	42
Egypt	126	77	85	
El Salvador	69	67	33	
Ethiopia	102	123	124	
Georgia	18	90	32	
Ghana	87	---	94	
Guatemala	114	87	78	
Guyana	104	126	136	
Guinea	166	---	127	
Haiti	148	---	138	
Honduras	121	83	79	
Hungary	45	47	43	52
India	120	48	115	27
Indonesia	123	54	119	
Iraq	141	---	---	
Ireland/N. Ireland	8	22	3	10
Jamaica	63	78	45	41
Jordan	80	49	58	14
Kazakhstan	71	61	78	43

Kenya	72	99	82	
Kosovo	---	---	---	
Kyrgyzstan	94	119	78	
Laos	164	---	137	
Lebanon	85	---	73	
Liberia	170	---	---	
Lithuania	26	38	26	
Macedonia	75	94	71	
Madagascar	149	118	65	
Malawi	127	---	120	
Mali	158	115	104	
Mexico	44	52	44	29
Moldova	92	97	89	
Mongolia	52	101	62	
Morocco	129	64	98	
Mozambique	134	128	96	
Namibia	43	89	72	
Nepal	111	114	112	
Nicaragua	93	111	81	
Nigeria	108	95	105	
Pakistan	76	92	93	
Panama	65	59	50	
Paraguay	103	121	77	
Peru	58	86	55	50
Philippines	133	71	91	31
Poland	74	51	83	54
Romania	48	74	68	25
Russia	106	58	134	37
Rwanda	150	---	116	
Senegal	162	100	91	
Serbia & Montenegro	86	91	---	18
Sierra Leone	160	---	138	
Slovak Rep.	32	41	35	
South Africa	35	44	57	33
Sri Lanka	101	70	90	
Sudan	143	---	---	
Tajikistan	153	117	114	
Tanzania	130	104	97	
Thailand	15	28	54	20
Turkmenistan	---	---	152	
Uganda	118	120	52	26
Ukraine	139	73	133	
Uzbekistan	138	62	130	
Vietnam	91	68	135	
West	117	---	---	

Bank/Gaza			
Yemen	113	---	125
Zambia	116	122	99
Zimbabwe	152	129	155

Note: Color codes in table show which quartile of the distribution of all countries covered by the indicator a particular USAID country's ranking falls into. The top (highest ranking) quartile is highlighted in green, the second-ranking quartile in blue, the third-ranking quartile in yellow, and the lowest quartile in red.

Analysis and Conclusions

Each of the ranking systems reviewed in this note measures something a bit different from what the others measure. Doing Business measures the quality of the regulatory environment and employs relatively objective measures, as opposed to the more subjective opinions used in other rankings. With financial support from USAID, Doing Business has achieved nearly complete coverage of the countries in which USAID works. Besides being limited to the quality of the regulatory environment – just one element of the BEE broadly defined, although an important one – the DB indicators have five limitations that have been noted by the World Bank itself.[10]

1. The measures refer to the cost of doing business in the country's "largest business city"; conditions elsewhere may differ -- most likely the costs are higher elsewhere. To deal with this shortcoming, sub-national surveys have been carried out for some countries. The World Bank recently released such reports on Colombia (13 cities and provinces; five topics), Egypt (three cities; three topics); and Morocco (eight cities; four topics).
2. To achieve cross-country standardization, respondents are asked to give estimates for a limited liability company of a specific size. Costs for other forms and scales of businesses may differ.
3. For the same reason, the transactions to be costed out are very specifically defined. The costs of other types of transaction may differ.
4. The cost estimates come from individuals identified as expert respondents. Sometimes the estimates given by such individuals differ. If so, the responses are averaged.
5. The estimates assume that a business knows what is required and does not waste time. Satisfying regulatory requirements will obviously take longer if the business lacks information or is unable to follow up promptly. A related point is that Doing Business may not understand "work-arounds" that speed approvals and reduce costs but may involve paying bribes or "facilitation fees."

While Doing Business covers more countries, including more USAID countries, than the Global Competitiveness Report, its definition of the BEE is much narrower than that of the Global Competitiveness Report. Doing Business limits itself to measuring regulatory costs and ignores other major issues considered in the Global Competitiveness Report,

[10] *Doing Business 2007,* p. 61. The Independent Evaluation Group of the World Bank just published a report title *Doing Business: An Independent Evaluation* (2008). The analysis in this report was not incorporated into this note.

such as infrastructure provision, macroeconomic stability, and the quality of the labor force.

The GCI employs a much broader concept of the BEE. It uses a combination of quantitative and qualitative information, interpreted through a well-known and popular although not universally accepted analytical framework. One limitation is that it covers a smaller number of countries, especially countries in which USAID works. USAID has partnered with the WEF to expand coverage to a number of USAID countries.

A significant limitation of the GCI is that the sample sizes for WEF's Executive Opinion Survey are often quite small. This is especially true for the least developed countries of particular interest to USAID, where typical sample sizes range from 50 to 80 firms. Firms that participate in the survey also tend to be leading firms with international presence (they are best positioned to offer legitimate cross-country comparisons) and are significantly larger than the average firm in the country. For example, in Peru more than 80 percent of the firms surveyed had more than 100 employees. The quality of the survey data also depends on the capacity of the local partner that WEF uses to implement the survey.

The IEF seems to measure an even broader concept of economic freedom. A number of specific questions have been raised about its use of data. More broadly, Jeffrey Sachs and a number of critics have asked why, if economic freedom as measured by this index is what brings prosperity, countries like China, Russia, and Vietnam that have undemocratic systems of government and thus get low ratings in the IEF have managed to grow so rapidly.[11] Philip Bowring pointed out that the high ratings accorded to Hong Kong and Singapore reflect high levels of freedom for foreigners to trade and invest enjoy low taxes, rather than the lower levels of freedom accorded local inhabitants.[12]

The GEM red tape index measures something similar to the DB indicators, but uses the opinions of national experts instead of objective measures of time and money spent. Its rankings for the 58 countries that it covers differ substantially from the World Bank's ranking of countries on the ease of starting a business indicator.[13]

So which system best reflects the true BEE for USAID private sector development clients? Obviously no one index merits exclusive reliance. DB and the GCI both have their strong points and indeed complement each other. The growing acceptance and prominence of Doing Business has made it a powerful tool for motivating reform in several countries. Reportedly, more than 90 countries have reformed the Starting a Business indicator since Doing Business began publishing data in 2004. However,

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[11] Jeffrey Sachs, *The End of Poverty: Economic Possibilities for Our Time* (2006).
[12] Philip Bowring, "Economic Freedom? It Depends on Where You Stand." *International Herald Tribune,* January 8, 2006.
[13] GEM officials stress that their Total Entrepreneurial Activity (TEA) rate is the primary index used by GEM. They regard the Red Tape Index as a minor feature of the 2007 report. As noted in Table 1, the TEA's coverage of USAID countries is still quite limited.

since Doing Business measures only a part of the BEE (and does so imperfectly), improvement in a country's DB indicators does not guarantee successful private sector development. It does provide a starting point, but for any specific private sector development project, it would not be sufficient to rely on any single global ranking system, or perhaps even two or three of them.

A USAID official or contractor working on the BEE in a specific country might be well advised to consult all the indexes discussed here, consider possible reasons for ranking discrepancies and their implications, and then reach his or her own conclusions. A new web-based tool from the World Bank called Business Environment Snapshots (http://rru.worldbank.org/besnapshots) could aid this process. It pulls together material from several sources. For each of 160 countries, this feature gives highlights, rankings according to several different ranking systems, quantitative data (Doing Business indicators), legislation, analytical work done by the World Bank Group, and the Bank's project portfolio.

Low scores on Doing Business, or any other set of indicators, can be seen as analogous to a high temperature registered by a thermometer. They indicate the presence of a fever but do not diagnose the nature of the disease. Further analysis of the business environment is required.[14]

[14] For this analogy and extensive discussion of how to use (and how not to use) the Doing Business indicators, see Wade Channell, "Uses and Abuses of *Doing Business* Indicators" (USAID/EGAT/EG)

ANNEX: SOME OTHER RANKING SYSTEMS

Besides the systems analyzed in this paper, there are many others that might be consulted in particular circumstances. Some of the most important are briefly described below.

- The *Human Development Index,* was introduced in 1990 by the United Nations Development Program as an alternative to GNP per capita rankings and has been updated annually ever since. The HDI tries to measure countries' levels of human development, based on data on life expectancy, literacy, education, and per capita income. The HDI is viewed primarily as a welfare measure but it can also be used to measure the quality of a country's human resources.
- Transparency International's *Corruption Perception Index,* begun in 1995 and revised annually, reports business people's and country analysts' perceptions of the prevalence of public sector corruption (in 110 countries in the latest version). The CPI incorporates findings by several other agencies (e.g., the World Bank, regional development banks, EIU, Freedom House, the WEF) to produce a consensus evaluation of this particular dimension of the business environment.
- The World Bank has an annual rating system called the *Country Policy and Institutional Assessment* that it applies to IDA-eligible countries and uses to influence the allocation of IDA resources. The CPIA uses 16 criteria grouped in four clusters: economic management; structural policies; policies for social inclusion and equity; and public sector management and institutions. The ratings, which are based on judgments made by Bank staff members, theoretically range from 1 to 6 but typically run from a low of 2 to a high of 3.5. Seventy-six countries were included in the 2005 exercise.
- Since 1998 the World Bank Institute has published a set of *World Governance Indicators* that can be used to rank countries by each of six aggregate indicators that relate to the quality of their governance. These indicators (voice and accountability; political stability and absence of violence; government effectiveness; regulatory quality; rule of law; and control of corruption) "are based on 33 individual data sources and hundreds of variables, capturing the views on governance of tens of thousands household and firm respondents, as well as hundreds of nongovernment organizations and public sector experts, and commercial business information providers worldwide." (from WBI website). The latest version of this survey, with data for 2006, has been issued as *A Decade of Measuring the Quality of Governance: Governance Matters 2007.*
- The tireless World Bank also does *Enterprise Surveys* that capture business perceptions on the biggest obstacles to increasing employment and productivity and measures productivity levels in the firms surveyed. This source covers more than 70,000 firms worldwide in 104 countries. National surveys are carried out by private contractors working for the World Bank. Large and small firms are covered, but large firms are over-sampled. The World Bank regards these surveys as complements to Doing Business as a tool for assessing a country's business environment.
- The United Nations Conference on Trade and Development is developing a *Trade and Development Index*, which ranks 110 countries and is described by UNCTAD as a work in progress. The TDI tries to measure a country's trade and development performance, based on data relating to structural and institutional factors (human capital, physical

infrastructure, institutional quality, economic structure, and environmental sustainability), trade policies and processes (openness to trade and effective access to foreign markets), and level of development (economic, social, and gender).

- The PRS Group publishes an International Country Risk Guide that covers 161 countries. This service began in 1980 and has been refined over the years. Its ratings comprise 22 variables in three categories of risk: political, financial, and economic. Users (banks, multinational corporations, traders, etc.) can change the weightings to reflect their particular concerns. Ratings for particular countries must be purchased.
- Several other companies compile country risk assessments and sell them to clients.

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