

Business Environment Snapshots

-Methodology Note-

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A. Terms of Use and Disclaimer

Please note that this resource was developed to aggregate disparate data from already available resources into a consistent and usable format. The project data is gathered from resources within the World Bank Group (SAP and iDesk), and therefore the data presented on the BE Snapshots website is only as up to date as the source. On the first page we attempt to highlight a few key observations from the data. As such, this is not intended to be exhaustive or a rigorous analysis; it is only to serve to focus the user on a few of the more striking points in the included data.

The user understands that no claims, implicit or explicit, are made for the data and that any conclusions or inferences drawn from the data are wholly the responsibility of the user. No conclusions or inferences drawn from the data or accompanying materials should be attributed to the World Bank Group, its Board of Executive Directors, its management, or any of its member countries without their express written consent.

B. Abbreviations

AAA	Analytic and Advisory Activities
ADP	Asian Development Bank
AfDB	African Development Bank
BE	Business Environment
BES	Business Environment Snapshot
BEE	Business Enabling Environment
CAS	Country Assistance Strategy
CIDA	Canadian International Development Agency
CPI	Corruption Perception Index
DB	Doing Business
DCED	Donor Committee for Enterprise Development
DFID	Department for International Development
EBRD	European Bank for Reconstruction and Development
EIU	Economist Intelligence Unit
ESW	Economic Sector Work
EU	European Union
FDI	Foreign Direct Investment
FINIDA	Finland's Department for International Development Cooperation
FPD	Finance and Private Sector Development
GDP	Gross Domestic Product
GNI	Gross National Income
GFCF	Gross Fixed Capital Formation
GTZ	German Agency for Technical Cooperation
IBRD	International Bank for Reconstruction and Development
ICA	Investment Climate Assessment
ICRG	International Country Risk Guide
IDA	International Development Association
IDB	Inter-American Development Bank
IFC	International Finance Corporation
ILO	International Labor Organization
IMF	International Monetary Fund
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
MIGA	Multilateral Investment Guarantee Agency
NORAD	Norwegian Agency for Development Cooperation
OECD	Organization for Economic Cooperation and Development
PRS	Political Risk Services
SDC	Swiss Agency for Development and Cooperation
SIDA	Swedish International Development Cooperation Agency
TAAS	Technical Assistance and Advisory Services
TI	Transparency International
TTL	Task Team Leader
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development

WBG
WEF

World Bank Group
World Economic Forum

C. Objective

The Business Environment Snapshots presents measurable indicators across a wide range of business environment issues and over time. This web-enabled tool compiles disparate data, indicators, and project information on the business environment for each country in an easily accessible, consistent and usable format. The BE Snapshots help development practitioners and policymakers obtain a comprehensive picture of the business environment in a particular country. It is updated regularly to maintain up-to-date information.

This methodology note explains the purpose, presentation, and data collection methodology for the website. Each country snapshot includes the following sections: i) indicators measuring the current business environment in the country; ii) a listing of relevant legislation to the business environment; iii) inventory of analytic work specific to areas of the country's business environment; and iv) data on planned, ongoing, and completed business environment projects. The remainder of the document will elaborate on each section.

D. Audience

The main audience for this product is development practitioners and policymakers, as well as academicians. The Snapshots can be used as a monitoring tool, but, more importantly, as a planning tool for initiating the business environment programs in a country. This tool can help to

- Flag priority areas for reform and help make decisions about business environment interventions
- Obtain the latest information on project and analytical work for better collaboration and coordination across teams and donors
- Measure and evaluate the impact of interventions on business registration, and more.

E. Methodology

Section 1 – Snapshot of the business environment

- **Section Purpose:**

The purpose is to provide users with the most important information that characterizes the business environment within the country. By aggregating data from a number of different sources and presenting it in an easy to understand framework, this section significantly reduces the time it takes someone to “get up to speed” on a country's business environment. In addition, data highlights section draws out a few key points characterizing a current business environment situation in a particular country. Lastly, we present the PSD focus as presented in the WBG Country Assistance Strategy.

- **Information & Presentation:**

- Part I: Global Rankings

First, we present both rank and score for eight indicators:

- Economic Freedom Index (The Heritage Foundation)
- Political Risk Rating of ICRG Index (International Country Risk Guide – PRS)
- Country Credit Rating (Institutional Investor)
- Business Environment Index (EIU *Global Outlook Report*)
- Regulatory Quality Indicator (World Bank Group *Governance Indicators*)
- Control of Corruption Indicator (World Bank Group *Governance Indicators*)
- Quality of National BE Ranking (WEF *Global Competitiveness Report*)
- Doing Business Rank (World Bank Group *Doing Business Report*)

(Please see Appendix II-Table 2 for a description of each indicator and the justification for its inclusion, as well as the citation.) The available data is provided for the last 5 years. Using a radar chart, we

present the rank relative to the average regional rank and the average income group rank. This presentation gives a sense of how the country is doing on each indicator relative to their competitors. As each indicator is linked back to its source, the user can easily consider the index components to understand why a country may rank higher or lower on a specific indicator. It should be pointed out that one should only compare a country's ranking to its regional and income group comparators. As each index in the chart has a varying number of countries included in the ranking, comparing across indices is problematic, even though we scaled all the ranks to one. (Please note: The radar chart reflects a rank ratio which is constructed as follows: $[1 - (\text{country rank} / \text{countries ranked})]$). As such, zero is lowest and one is highest.)

Also presented is a one year trend for the country's absolute score on the indicator (where the score is available). (If the score increased or decreased by at least a percentage point, we indicate a positive or negative trend.) By presenting both relative rank and a one year trend, the user will have a sense of performance relative to comparators as well as performance relative to the country's historic performance.

In addition, in Section I Part I we present data highlights from the data included in the profile. We look for a few specific things. First, we try to evaluate any significant changes in ranking or indicators and try to isolate the reason. Second, we look for variation across rankings / indexes. Third, we consider positive or negative trends over time in any of our indicators. Fourth, we try to identify any perceived anomalies in the data. Also, we look for extreme values on specific indicators; we draw attention to this area. We should emphasize that neither list is meant to be exhaustive; it is only meant to highlight a few of the more interesting points from the data. (As noted in the validation process, we expect the country team to review and validate these points, as they are more aware of the situation in country.)

Part II: Quantitative Indicators

Here we provide information from the two primary internal sources of business environment data: Enterprise Surveys and Doing Business. On this page, we present the high level information for both data sets. For the Enterprise Surveys, this is the top 10 constraints to firm investment as perceived by firms. Here we are using the calculation for top 10 constraints as presented on the Enterprise Survey website. For Doing Business, we simply present the rank of the 10 sub-indices. We then provide more detail from each data source. From the Enterprise Surveys, we have selected six indicators that provide more objective data on three specific issues (Regulation, Corruption, and Finance) and selected the top and bottom country globally and within the region for comparison as well as regional and world average.

- Regulation: Senior management time spent dealing with requirements of regulation (%)
- Corruption: Unofficial payments for firms to "get things done" (% of sales)
- Finance: Bank finance of new investment (%)
- Innovation: ISO Certification Ownership (%)
- Tax: Time spent in meetings with tax officials (days)
- Trade: Average time to claim imports from customs (days)

From the Doing Business data, we have ranked all Doing Business indicators for the country and selected the highest three and lowest three ranked indicators to give a sense of where the country is doing well, and where they may be struggling. For comparative purposes, we present the averages of the income group (again divided into + and -) and the region. (For presentation purposes, we have used a table rather than a chart, as extreme values would make the visual display cumbersome.)

Part III: Time Series Data

Fifteen variables were selected to provide a sense of changes overtime in the business environment. We leveraged World Development Indicator data where possible, as these are the most readily available.

Macro Indicators:

- GDP Growth (% annual): Indicator of macro environment
- Inflation, consumer prices (% annual): Indicator of macro environment
- Total Returns Index: Indicator of macro environment

Finance and Private Sector Development Indicators:

- FDI net inflows (% of GDP): Indicator of confidence in business environment
- GFCF Private Sector (% of GDP): Indicator of confidence in business environment
- Tax Revenue (% of GDP): Indicator of general economy including growth, business environment, tax and compliance, etc.
- Exports of goods and services (% of GDP): Indicator of trade and integration
- Imports of goods and services (% of GDP): Indicator of trade and integration
- Private Credit to GDP: Isolates credit issued to private sector as opposed to credit issued to governments and public enterprises.
- Private Credit to Total Domestic Credit: Fraction of total domestic credit in the economy channeled by intermediaries other than the central bank or public enterprises.
- Total Financial System Deposits to GDP: Indicator of size of Financial Sector
- Bank nonperforming loans to total (%): Indicator of health of Financial Sector
- Lending spread: Indicator of competition in the Financial Sector
- Private Sector Employment (% total emp.): Measure of private sector employment overtime, which should capture fluctuations in labor policy
- Business Entry: (new registration , % of total): Indicator of confidence in business environment

It is important to emphasize that none of these indicators is ideal (e.g. gross fixed capital formation private sector includes dwellings and tax revenue is not just businesses); however, together they should provide a good sense of what is happening overtime in the business environment. We tried to focus here on those private sector indicators most closely associated with the Financial and Private Sector as defined by the World Bank Group, hence we do not include areas associated with infrastructure.

Table 3 includes some of the other indicators of the private sector that we considered and the reasons for not including them.

• Data Collection Methodology:

Data collection for each of these components will require a download of the data from the various websites or databases and uploading it into our format.

Section 2 – National Legislation Relevant to the Business Environment

• Section Purpose:

As much of the work undertaken in the field of business environment is related to the legal or regulatory environment, it is helpful to have a listing of the relevant laws related to the business environment within the country.

- **Information & Presentation:**

We present the laws and links listed in the *Doing Business Law Library*

- **Data Collection Methodology:**

N/A

Section 3 –Analytical Work

- **Section Purpose:**

For anyone working in a country on business environment, or other development issues, it is important to be familiar with the most current analytical research available. By doing so, findings from analytical work can be used in the design of business environment reform projects. Also, one ensures that they do not duplicate work that has already been done. As such, we have collected a listing of the most current research at the country level produced by the World Bank Group. This information is updated on the quarterly basis.

- **Information & Presentation:**

We present the title, author / contact, source, and date in tabular format.

- **Data Collection Methodology:**

We are only pulling WBG research that has been published in the past 5 years and is related to the Financial and Private Sectors, except when stated otherwise.

- 1) Search on the WBG country page for AAA and other research
- 2) Pull the most recent full CAS
- 3) Link to the most recent Doing Business country page
- 4) Link to the most recent ICA, if it was not included in the past two years of AAA

Section 4 –FPD Project Portfolio

- **Section Purpose:**

To provide a listing of WBG projects that are planned, ongoing or have been closed within the last two years so that a user of the document has a sense of the current and past activities affecting the business environment. (Note: WB analytic and advisory activities are listed among analytical work, not projects.)

- **Information & Presentation:**

The FPD Project Portfolio will provide a listing of all FPD projects led by the World Bank, IFC, or MIGA that have been active within the last two years. These will be sorted by WBG institution and approval date. Aside from the project name, we will include the project ID, approval date, closed date, status, total project cost, and contact.

- **Data Collection Methodology:**

The initial data collection methodology differs by group, as the systems and codes for categorization vary. The various desk research methods are listed below. (As noted later in the validation process, this data will undergo a review by the appropriate WBG staff on the country teams.)

IFC

For IFC data, we query the TAAS reporting database for projects that are coded as the Business Enabling Environment or Access to Finance business line.

World Bank & MIGA

For World Bank data, we query Business Warehouse for any projects that are mapped to the PSD/FSE sector board or mapped to Finance sector. For MIGA data, we will query the technical assistance

projects through MIGA's website to determine if any Business Environment technical assistance has occurred.

F. Validation Process

The primary information is information already available on the intranet, web, or in published reports. As such, we must rely on the WBG country teams to validate the country information based on their experience with the business environment context within the country. We sought and continue to seek on an ongoing basis, feedback on two areas:

- *Data Highlights:*

As stated previously, this brief analysis is intended to highlight some of the more striking points from the entire Snapshot. It is important that these points are reviewed by the country team as they should have a much better understanding of the business environment in the country than we will. We primarily want to ensure that we are not drawing focus to minor points.

- *Analytical Work:*

As mentioned in the section on analytical work, we limit the analytical research to recent WBG research. However, the team may be aware of other pieces of WBG research that were not officially published.

G. Update Process

The majority of the data that we use in the first section of the report is updated on an annual basis; however, this information is not all published at the same time. Also, the analytical work and project data could change throughout the year. As such, we believe that a three stage update process will be most appropriate.

- *Annually:*

On an annual basis we will load new data from the following resources:

- World Development Indicators
- Entrepreneurship DB
- Operations Portal
- iDesk
- MIGA website
- Analytic Work Search
- Revise Data Highlights

This update will be targeted for after July (when the new GNI per capita and revised WBG income group categorizations are set) and before September (when the annual meetings occur).

- *Monthly:*

New projects and analytical work are entered into the WBG databases on an on-going basis. In an effort to stay up to date with new work, we will query these resources once a month. Going forward in the next phase, the upload of the analytical and project work will be automated and therefore will be updated continually.

- *On-going:*

As all of the rankings are not published at the same time each year, it is our intention to upload this data to the database when it is available. Our expectation is that the database will update the relevant components of the Snapshot (radar charts/trends) in an automated fashion. Table 1 below reflects the approximate update timing for each of the indices.

Table 1: Index Update timeframe

#	Ranking	Update Timeframe
1	Economic Freedom Index	January
2	Political Risk Rating (ICRG)	Monthly
3	Institutional Investor	Bi-annual
4	Business Environment Index	November
5	Control of Corruption	May through July
6	Regulatory Quality	May through July
7	Quality of National Business Environment Ranking	September-October
8	Doing Business	September

H. Appendices

Appendix I: Data Sources for Global Rankings

Source List

Economist Intelligence Unit. 2007. *Business Environment Index* in the EIU Global Outlook Report. available at <http://eiu.com>.

The Heritage Foundation. 2007. Economic Freedom Index. available at <http://www.heritage.org/>.

Institutional Investor, 2007. Country Credit Rating. Available at <http://www.dailyii.com/>.

The PRS Group. 2007. Political Risk Rating. In the International Country Risk Guide. available at <http://www.icrgonline.com/>.

World Bank Institute. 2007. *Worldwide Governance Indicators*. available at www.worldbank.org/wbi/governance/data

World Bank. 2007. *Doing Business*. available at <http://www.doingbusiness.org/>.

World Economic Forum. 2007. *Quality of National Business Environment Ranking*. in the Global Competitiveness Report 2006-2007. available at <http://www.weforum.org/>.

Appendix II: Section I—Indicator Justification

Table 2: Included Rankings

#	Indicator / Source	Description (as described by source)	# of countries	Justification
1	Economic Freedom Index / The Heritage Foundation	<p>“Economic Freedom is defined as the absence of government coercion or constraint on the production, distribution, or consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty itself.”</p> <p>“To measure economic freedom and rate each country, the authors of the Index study 50 independent economic variables. These variables fall into 10 broad categories, or factors, of economic freedom: trade policy, fiscal burden of government, government intervention in the economy, monetary policy, capital flows and foreign investment, banking and finance, wages and prices, property rights, regulation and informal market activity.”</p>	183	<p>Though it is broader than business environment, and some of the indices, such as the Corruption Perception Index, are overlapping, this index provides a very broad perspective on the business environment of the country. Though detailed, historical data is available for each of the 10 factors, we will opt for the aggregate, as each of the components has business environment variables included.</p>
2	Political Risk Rating / International Country Risk Guide	<p>“The aim of the political risk rating is to provide a means of assessing the political stability of the countries covered by ICRG on a comparable basis. This is done by assigning risk points to a pre-set group of factors, termed political risk components. The minimum number of points that can be assigned to each component is zero, while the maximum number of points depends on the fixed weight that component is given in the overall political risk assessment. In every case the lower the risk point total, the higher the risk, and the higher the risk point total the lower the risk.</p> <p>To ensure consistency, both between countries and over time, points are assigned by ICRG editors on the basis of a series of pre-set questions for each risk component.”</p>	140	<p>The political risk rating includes 12 components. Four of these components can be considered to directly impact the business environment: investment profile, corruption, law and order and bureaucracy quality. The other components which deal with government stability, socioeconomic conditions, internal / external conflict, military influence, religious / ethnic tensions and democratic accountability may be more political, but will certainly effect a business’ decision to invest. As such, we will opt for inclusion of the political component as a business environment measure, rather than a collection of its subcomponents.</p>

#	Indicator / Source	Description (as described by source)	# of countries	Justification
3	Institutional Investor Country Risk Ratings / Institutional Investor	<p>“The country-by-country credit ratings developed by Institutional Investor are based on information provided by senior economists and sovereign-risk analysts at leading global banks and money management and securities firms. They have graded each country on a scale of zero to 100, with 100 representing those countries that have the least chance of default. We also asked respondents to rank ten politico-economic indicators in terms of importance to their rating for each country. The names of the respondents to the survey are kept strictly confidential. Participants are not permitted to rate their home countries. The individual credit responses are weighted using an Institutional Investor formula that gives more importance to responses from institutions with greater worldwide exposure and more-sophisticated country analysis systems.”</p> <p>“In every edition of the Country Credit survey, we ask respondents to rank the importance of ten financial, economic and political factors that they consider in assessing sovereign credit globally, in certain regions and selected countries. Higher numbers indicate greater importance, while lower numbers indicate lesser importance. In this edition of the survey, participants place more importance on the balance of payments in Sub-Saharan Africa than they did six months earlier, and increase their emphasis on national security. In both North America and Western Europe, voters place more importance on banking system stability and national security than did voters in September 2005, even as they assign lesser importance to fiscal policy and the political system.”</p>	153	IEG has consistently used the Institutional Investor rating as an indicator of business environment and as such we include it here. Unlike the other ratings, it is based on credit risk, thus it gives a different perspective of the business environment.
4	Business Environment Ranking / EIU Global Outlook Report	<p>“The EIU has developed a global business rankings model, which is applied to all 60 countries in the Country Forecast product range and seeks to measure the quality or attractiveness of the business environment and its key components. The quantitative assessment of the business environment-the opportunities for, and hindrances to, the conduct of business-allow a country to be ranked on a global regional basis, both on its overall position and in each of ten categories. The model uses quantitative data, business surveys and expert assessments. It reflects the main criteria by companies in formulating their global business strategies and investment location decisions. The overall scores (on a scale of 1 to 10) and rankings are based on the scores for 70 indicators, grouped into ten different categories of the business environment. Scores and rankings are produced for both the five year historical period (2001-05) and the five-year forecast period (2006-10).”</p> <p>The downside of this ranking is that it has a narrow coverage (e.g. only Nigeria and South Africa are included from Sub-Saharan Africa).</p>	60	As it is a specific assessment of the business environment, it will be included.

#	Indicator / Source	Description (as described by source)	# of countries	Justification
5	BCI: Quality of National Business Environment / World Economic Forum Global Competitiveness Report	<p>Business Environment component of the BCI described above.</p> <p>“The business environment can be understood in terms of four interrelated areas: the quality of factor (input) conditions, the context for firm strategy and rivalry, the quality of local demand conditions, and the presence of the related supporting industries.”</p> <p>“The Business Competitiveness Index is constructed from measures drawn primarily from the survey of a 10,961 (2005-2006) senior business leaders in 116 (2005-2006) countries.”</p> <p>“Because many of the dimensions of company sophistication and the quality of the business environment tend to move together, the sample of countries is relatively small, and the number of relevant variables is high, the impact of individual variables is difficult to distinguish statistically. Hence we use common factor analysis instead of multiple regressions to compute the subindexes.”</p>	116	As stated above, we focus only on this component of the BCI, as it focuses specifically on the business environment.
6	Worldwide Governance Research Indicators Dataset, 2004 (Control of Corruption and Regulatory Quality) / World Bank Group	This paper presents estimates of six dimensions of governance covering 212 countries and territories over the period 1996-2008. These indicators are based on several hundred individual variables measuring perceptions of governance, drawn from 37 separate data sources constructed by 31 different organizations. The authors assign these individual measures of governance to categories capturing key dimensions of governance, and use an unobserved components model to construct six aggregate governance indicators. We use two of the six governance indicators. Control of Corruption is defined as the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as elite "capture" of the state. The Regulatory Quality is defined as the ability of the government to provide sound policies and regulations that enable and promote private sector development.	212	We use the Control of Corruption and Regulatory Quality indicators. The Control of Corruption indicator is the most comprehensive indicator of corruption available. Regulatory Quality indicator complements two other indicators dealing with regulation, Enterprise Surveys and Doing Business.
7	Doing Business Ranking / World Bank Group	“The <i>Doing Business</i> database provides objective measures of business regulations and their enforcement. The Doing Business indicators are comparable across 155 economies. They indicate the regulatory costs of business and can be used to analyze specific regulations that enhance or constrain investment, productivity and growth.”	183	As business regulations are a major component of business environment, <i>Doing Business</i> will be included.

Table 3: Other PSD Indicators (not included)

#	Indicator	Source	Justification
1	Value added (% of GDP), by sector	WDI / DDP	Productivity is based less on business environment
2	Changes in Inventories	WDI / DDP	Interpretation is not straightforward
3	Gross Private Capital Flows (% of GDP)	WDI / DDP	As this measures the sum of the absolute value of inflows and outflows, it is more of a measure of openness than business environment. Also, as this variable aggregates inflows and outflows, correlating movements of this indicator to business environment interventions would be extremely difficult.
4	Labor Force / Unemployment Variables	WDI / DDP	Too broad (included private sector employment/total employment)
5	Labor Force / Unemployment education level	WDI / DDP	Though level of human capital of the labor force is important for firms, the policies that dictate this are more on the social side.
6	MSME per 1000 / % of total employment	WDI / DDP/MSME Database	Though an important variable, for most countries we do not have an adequate time series.
7	Other FSDI Indicators	WDI / DDP / FSDI	We tried to include a balanced, but limited, group of Financial Sector Development Indicators.
8	ICT / Other Infrastructure Variables	WDI / DDP	Infrastructure is outside the scope of this database