

The Power of Ranking: The Ease of Doing Business Indicator as a form of Social Pressure*

Judith G. Kelley
Kevin D. Gorter Professor of Public Policy
Duke University
judith.kelley@duke.edu

Beth A. Simmons
Andrea Mitchell University Professor
University of Pennsylvania
simmons3@law.upenn.edu

Rush Doshi
Harvard University
rdoshi@g.harvard.edu

Prepared for presentation at the Wharton School
University of Pennsylvania
Philadelphia PA, September 2, 2016.

DRAFT

Please do not cite or distribute without authors' permission

*Acknowledgement: we would like to thank Andrew Heiss for outstanding assistance with the empirical analysis and graphics. In addition, we thank all the participants at the May 2016 workshop on Assessment Power in World Politics at Harvard University, and participants in colloquia at the Center for Advanced Study, Princeton, the London School of Economics and the Wharton School of Business. For detailed feedback, special thanks to Christopher Lucas, Eddy Malesky, Dani Rodrik, Anton Strezhnev, and Jonas Tallberg.

Abstract

The proliferation of Global Performance Assessments (GPAs), especially those that rate and rank states against one another, now consequentially shapes decisions by states, investors, bureaucrats, and voters. This power has not been lost on the World Bank, which has marshaled the Ease of Doing Business (EDB) index to amass surprising influence over global regulatory policies – a domain over which it has no explicit mandate and for which there is ideological contestation. This paper demonstrates the intentionality behind the World Bank’s EDB ranking system and how it affects policy through bureaucratic, transnational, and domestic-political channels. It uses observational and experimental data to show that states respond to being publicly ranked as well as work with the Bank and reform strategically to improve their ranking. Two experiments demonstrate that the competition engendered by the ranking shapes public policy preferences and investor propensity to deploy capital. Qualitative evidence from India’s interagency EDB effort show how these mechanisms shape domestic politics and policy in the world’s second-largest largest emerging economy.

Stripping the ordinal rankings and “reforming” the report’s methodology would have the effect of completely destroying the report’s credibility and usefulness as a policy tool.

– Steve Hanke, *director, Troubled Currencies Project*, the CATO Institute¹

I. Introduction

The world is increasingly governed not by force, but by information. Information moves markets, affects individual and corporate reputations, and impinges on national security. As the introductory paper notes, Global Performance Assessments (GPAs), especially regimes that rate and rank states against one another, are proliferating, and they may influence important policies of states, investors, and other political and economic actors. Not all assessment regimes could possibly have important impacts, but there are strong reasons to believe that, under some conditions, GPAs constitute an increasingly important form of social power around the world, a power that can be claimed by different actors, not just states.

This power has not been lost on the World Bank, which has seized on GPAs to amass considerable influence on the regulatory policies of countries worldwide. Indeed, it has nearly come to dominate the conversation about regulatory reforms for business, especially in emerging markets and developing countries. It has done so by creating the *Doing Business Report* and Ease of Doing Business (EDB) ranking, which, while primarily a non-coercive reporting exercise, has provoked governments around the world to strive to meet the Bank’s expectations.

In this paper, we identify the motivations behind the World Bank’s creation of the EDB framework, and then assess the influence of this widely cited GPA on political activity and policy outputs. We theorize the EDB as a form of social pressure that the Bank exerts to stimulate policy self-assessments, domestic political awareness of possible regulatory inefficiencies, and interstate competition to ascend in the ranking. While the World Bank is reasonably authoritative when it comes to development policy, it has no explicit mandate to intervene in the business climate of member states, nor to define optimal regulatory strategies or monitor countries’ regulatory policies. Nonetheless, through the ranking, the Bank explicitly “encourages economies to compete towards more efficient regulation; [and] offers measurable benchmarks for reform.”² The Doing Business “mission statement” favors efficient government

¹ <https://www.cato.org/publications/commentary/singapore-leads-way-doing-business>.

² <http://www.doingbusiness.org/about-us>

intervention, and states that reducing regulation promotes “social inclusion,” “good ideas,” and “good business.”³

Both the Bank and commentators have claimed that the EDB rankings are influential,⁴ but no study has *systematically* assessed this claim. Theoretically, however, it is highly plausible. Because national politicians and bureaucrats believe their reputations are at stake, they are motivated to both signal their intentions to deregulate and to demonstrate their competence by moving up the rankings. These efforts are on display for both domestic and international audiences, and especially for businesses and investors. While the Bank itself has always had important policy influence in the developing states in which it makes loans, rankings have had an important effect on the patterns of reform trends in emerging markets around the world.

The rest of the article is structured as follows. The first section describes the development of the EDB ranking system, noting its provenance and its context. We show that this particular GPA dominates the market for business climate indicators, but also that it has been criticized and contested. The second section theorizes the influence of the EDB index, using the lens of the introduction to this volume. The index’s influence begins with reactivity to monitoring, but its impact is amplified because its comparative nature stimulates competition and engages the reputations of prominent politicians and bureaucrats. These leaders care about rankings because they believe crucial audiences care – especially business audiences but also domestic political actors more generally who may update their estimates of the politicians’ competence based on their EDB ratings.

The next three sections provide a variety of evidence to support these claims. Section three demonstrates a correlation between public rankings and policy reform. As evidence suggesting plausible causation, we demonstrate a broad range of evidence that policies are motivated specifically to do better in the ratings. Next, we demonstrate that bureaucracies have altered their structures and priorities specifically to implement Bank recommended reforms. Critically, while states on average move to reform their business regulations, the evidence suggests that those who work most closely with the Bank get more improvements in their rankings for their deregulatory buck. Third, we provide experimental evidence that links EDB rankings with investment decisions by showing that investors appear to care about rankings. They are much more likely to recommend an investment in country that ranks highly on the EDB than one ranked lowly. We also show that for an “average” country, ranking information is more likely to encourage investment than is “raw data” that is not in comparative form – a finding that supports one of the key hypotheses of the broader project. Finally, we explore the political and policy impact of the EDB rankings in a massive emerging market, India, where the EDB ranking has been used as an explicit policy target. Experimental evidence suggests that the ranking is likely to incite competitive attitudes domestically. The qualitative evidence suggests that India’s pro-business government has used the competitive and reputational leverage of the EDB

³ The Doing Business “mission statement” notes that “[W]here regulation is efficient, transparent and implemented in a simple way, it becomes easier for businesses to innovate and expand—and easier for aspiring entrepreneurs to compete on an equal footing. Indeed, Doing Business values good rules as a key to social inclusion. Enabling growth—and ensuring that all people, regardless of income level, can participate in its benefits—requires an environment where new entrants with drive and good ideas can get started in business and where good firms can invest and grow.” <http://www.doingbusiness.org/about-us>

⁴ The Economist 2013.

rankings to sell reforms, attract investment, and embarrass political opponents. Combined, the evidence suggests that the influence of the EDB ranking system on business regulations is highly plausible, and works through all three levels discussed in the introductory article.

II. Background: The EDB in Perspective

From Development to Deregulation

Over the course of the 1990s, a remarkable development was afoot in one of the most important public investment bureaucracies in the world. The World Bank, whose legal mandate was to promote investment by guaranteeing loans and supplementing private finance,⁵ began to turn its attention in earnest to what it saw as one underlying reason for underinvestment in the first place: overly burdensome business regulations. In the spirit of the times,⁶ academic and Bank researchers began to collect information that would speak to the empirical links between regulatory burdens, investment, and economic outcomes such as growth and development. The concept and methods underlying the indices on which the rankings were to eventually be based were developed in a widely-cited set of academic and policy papers that reflected the deregulatory and pro-investor approaches that were reaching their height at the time.⁷

The EDB index was “built on the premise that firms are more likely to flourish if they have to abide by fewer, cheaper, and simpler regulations.”⁸ It is an attempt to assess “the burden of regulation...as seen from the private firm’s point of view,”⁹ not the net social benefits of regulation, and not net poverty reduction. A ranking that rewards reduced business costs was justified theoretically on the grounds that overregulation stifles business activity, stunting growth and development. In August 2002, the Bank posted a description of what would make the EDB report distinctive: “The database differs from existing cross-country reports [...] which...do not identify the *nature of regulatory reforms required to improve the investment climate*. Doing Business aims to provide a new set of objective, quantifiable measures of business regulations and their enforcement.”¹⁰

⁵ The Bank’s legal mandate is discussed in the Articles of Agreement, Article I.

<http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/0,,contentMDK:20049563~pagePK:51123644~piPK:329829~theSitePK:29708~isCURL:Y,00.html>

⁶ For broader trends see, OECD, “International Standard Cost Model Manual: Measuring and reducing administrative burdens for businesses,” at <http://www.oecd.org/gov/regulatory-policy/34227698.pdf>. For the EU, see “Pilot Study on Administrative Burdens.” http://ec.europa.eu/smart-regulation/refit/admin_burden/docs/enterprise/files/pilot-study_en.pdf.

⁷ See the papers posted on the Doing Business website’s methodology page:

<http://www.doingbusiness.org/methodology>. Most prominent, is Djankov et al. 2002., which describes barriers to setting up businesses around the world and has been cited more than 3,000 times.

⁸ Independent Evaluation Group 2008.

⁹ Independent Evaluation Group 2008 xi.

¹⁰ From the Way Back Machine archive of the Bank’s *Doing Business* website, <http://web.archive.org/web/20020806155832/http://rru.worldbank.org/DoingBusiness/AboutDoingBusiness.aspx>. Emphasis added.

The index was designed to be a well-marketed inventory for action, and the decision to rank was a deliberate part of the strategy to impact policy. This “lively communication style” was designed specifically to establish benchmarks, and to set states in competition with one another, in support of the World Bank’s private-led development agenda.¹¹ The Bank promotes the Ease of Doing Business (EDB) Index as one of its “flagship knowledge products.”¹² Bank staff carry out a massive media campaign every year when the ratings are released and a separate Indicator Based Reform team works with countries to target policies effectively. The EDB product line has a robust online presence, including a *Wikipedia* page, and presence on *Chartsbin*, *Facebook*, *LinkedIn*, several *Youtube* videos and *Slideshare*. As a result, the EDB rankings enjoy tremendous “market share” among the growing list of GPAs that deal with national and business environments. To illustrate, we selected seven of the EDB’s closest cognate assessments, and searched over 50 thousand online media sources (news organizations, blogs, and other media).¹³ The EDB brand dominates the market for easy-to-access comparative rankings of country performance, as Table 1 clearly shows. In fact, the EDB has more mentions in the media between 2010 and 2017 than all the other nine cognate indicators combined. Today the Doing Business website has nearly 5 million annual visitors, 166 times as many as in 2003 (Figure 1).

[TABLE 1 AND FIGURE 1 ABOUT HERE]

Despite its dominance, the EDB rankings inhabit a contested space. The crowded market depicted in Table 1 represents some very different ideas for thinking about the environment for doing business. When the *Doing Business Report* was first published in 2003 it joined other free market GPAs skeptical of government intervention, such as the Economic Freedom indicators published by the Heritage foundation and Frasier Institute, both of which stress low taxation and limited government intervention in markets. But the Global Entrepreneurship Monitor, created in 1999 by a university consortium, stretched the concept of “business” to include the informal sector, and the Global Competitiveness Index by the World Economic Forum (WEF) contested freedom for businesses and instead drew attention to the wellbeing of *workers* and *citizens*. Indeed, the EDB has been criticized by labor unions and the International Labor Organization for neglecting the consequences of business deregulation for workers and working conditions, causing the Bank to remove labor related components.¹⁴ More recently, the index has been at the center of gender contestation; should a country receive a high rating for the ease of doing business if women are not allowed to do business at all? So sensitive was this issue that the Bank’s data on Women and the Law were only last year included in the rankings, causing states such as Saudi Arabia to tumble.

Such contestation makes it all the more remarkable that the EDB rankings have become so focal. Within a year of publicizing the rankings, leaders from many countries, including Algeria, Burkina Faso, Malawi, Mali, and Sao Tome and Principe had reportedly requested not

¹¹ Independent Evaluation Group 2008 xxvi.

¹² Independent Evaluation Group 2008 xv.

¹³ Media Cloud: <http://mediacloud.org/>. Accessed via the Berkman Center, Harvard University.

¹⁴ See the critique of the International Confederation of Free Trade Unions (ICFTU), at <http://library.fes.de/pdf-files/gurn/00171.pdf>.

general regulatory advice, but advice on “how to improve their standings. This illustrates,” according to a 2005 staff report, “the main advantage of showing a single rank: it is easily understood by politicians, journalists, and development experts and therefore created pressure to reform. As in sports, once you start keeping score everyone wants to win.”¹⁵

Win, indeed! The Bank itself has succinctly summarized our theory: decision-makers view the EDB index as a system that compares performance, engages reputations, and incites competition. The Bank explicitly and intentionally designed an assessment system calculated to draw attention to a few very simple criteria that are *plausibly but not unequivocally* associated with a “better” business environment. The index successfully harnessed broader intellectual and ideological trends to link development with a country’s business-friendly environment, riding the crest of the deregulatory wave of the Washington Consensus, touted by Harvard economists, and advocated by arguably the most central development institution in the world. The EDB index became focal because of its quantitative clarity. The rankings simply reward any policy that reduces the *time* or the *cost* of doing business.¹⁶ The Bank chose not to cloud this focal concept with alternative or countervailing values such as fair business, socially responsible business, or labor protection.¹⁷ The Bank further reinforces the focality and legitimacy of the assessment by referring to the rankings themselves as “data” on par with the rest of the World Development Indicators.¹⁸

As we will show, many states have obligingly played the game.

III. EDB Assessment Power: Social Mechanisms and their Channels of Influence

The EDB index as social pressure

The framework article captures many of the social relationships reflected in the EDB assessment process. For example, the fact that the World Bank regularly monitors reductions in business regulations but only occasionally monitors policies that impact the social conditions of its members conveys information about the Bank’s priorities. While International Financial Institutions have surveilled member states for decades, the EDB assessment process with its regularized publication and clear checklists of reform goals boosts reactivity amongst leaders and regulatory officials. This in turn can induce targets to internalize the assessment regime and even

¹⁵ Simeon Djankov, Darshini Manraj, Caralee McLiesh, Rita Ramalho. 2005. “Doing Business Indicators: Why Aggregate and how to do it,” p. 1. (accessed through the WayBack Machine, posting at 19 February 2006. From 2001 to 2005 the Bank did not rank. Data that would eventually form the basis of the rankings were first published in the fall of 2001 on the Bank’s website. From the Way Back Machine, <http://web.archive.org/web/20020806155832/http://rru.worldbank.org/DoingBusiness/AboutDoingBusiness.aspx>

¹⁶ E.g., days to enforce a contract, and cost of contract enforcement as a share of the total claim. There are just a few exceptions, such as the “quality of judicial processes index” which is a sub-indicator under “enforcing contracts.” See <http://www.doingbusiness.org/data/exploretopics/enforcing-contracts#close>.

¹⁷ The Bank does maintain a database on labor protections, but does not rank states in this area and does not combine labor and business regulations for a composite score.

¹⁸ See <http://data.worldbank.org/indicator/IC.BUS.EASE.XQ>.

self-regulate.¹⁹ The EDB assessment process influences regulatory authorities through *reactivity*, the tendency for people to change their behavior in response to being monitored.²⁰

The EDB assessment process compounds reactivity by making *comparative judgments*. As many researchers have suggested, rankings are designed precisely to facilitate comparison, both across units and over time.²¹ The Bank publishes rankings not only overall, but by sub-index. Rankings shape perceptions in ways that are difficult to dislodge.²² indeed, actors may not even quite know what to make of raw data unless it is put in comparative context.²³ The Bank makes it as easy as possible to sort all states by their total number of reforms or a specific reform category.²⁴ We hypothesize that comparative information is more likely to influence opinions and drive decisions than is raw data alone.

As a result of their clear, simple, and comparative format, the EDB ranking engages the *reputations and status concerns* of states and their relevant bureaucrats and politicians, in some cases fueled by national pride of domestic publics more generally.²⁵ Status concerns are inherently relative, and they stoke competition for positioning that may have little to do with absolute quality or objectively appropriate policy. When King Abdullah of Saudi Arabia declared in 2006 that, “I want Saudi Arabia to be among the top 10 countries in *Doing Business* in 2010. No Middle Eastern country should have a better investment climate by 2007,”²⁶ he was displaying a status motivation that has no other metric than his kingdom’s relative performance on the Bank’s narrowly defined, but highly focal scale.

Channels for Policy Influence

One reason governments may care about the EDB rankings is because of their domestic audience. For domestic business constituencies, the ranking creates new “information” that can trigger reputational or status concerns or tap into competition, thereby attracting, retaining or eroding domestic political support.²⁷ We hypothesize that the public’s opinion about their government is influenced by how well they compare with other states. We are not claiming the EDB is the main way that domestic businesses become informed of inefficient regulations – after all they experience such efficiencies on a regular basis; rather, the rankings reveal *how much worse* their government is doing than others. They help create a newly justified sense that regulation *can* be much less onerous. World Bank assessments in effect alter expectations and legitimate demands for a reduction in red tape associated with conducting business. Even the anticipation of publicity and negative domestic reactions could in some cases prompt preemptive policy review by government officials. We expect to observe some evidence that publics respond to the competitive prompts of EDB ratings.

¹⁹ Larson and Callahan 1990. Foucault 1995 201-202. Buthe 2012 ;Hansen 2011 508.

²⁰ Espeland and Sauder 2007.

²¹ Sinclair 2008.

²² Weisband 2000.

²³ Hansen and Mühlen-Schulte 2012 457;Robson 1992.

²⁴ See <http://www.doingbusiness.org/reforms/reforms-count>.

²⁵ Kelley 2017 ;Kelley and Simmons 2015.

²⁶ World Bank 2008 17.

²⁷ Dai 2007.

But GPAs need not activate domestic demands to have important influences. Government bureaucrats may be sensitive to assessments by the “experts” at the Bank and to the opinions of their peers, especially if individual officials are clearly responsible for performance. Rankings can reflect on the personal competence of an individual (e.g., government minister) or that of a department or bureaucracy.²⁸ For example, some EDB sub-indicators are specific enough to implicate the professionalism of business regulators, encouraging policy reform before the next “grading period” to avoid opprobrium.

Relatedly, GPAs can influence ongoing bureaucratic operations and capacities. Assessment regimes may prompt bureaucrats to create new structures, collect new data, and render internal reports. Bureaucracies consistently reach out to the Bank for advice on how to change their priorities to meet expectations. Bureaucracies develop institutionalized structures in response to GPAs, at least in some cases.

Finally, we hypothesize that the EDB ranking affects transnational market expectations. Investors may be influenced by a state’s rankings, and — even more importantly — business regulators *believe* that the ranking influences private investment decisions, and will try to use or improve their rankings to attract investment.²⁹ For some countries, performance may be even more explicitly tied to their rankings: EDB sub-indicators are used in awarding Millennium Challenge Corporation (MCC) funding, including the cost and days to start a business, access to credit, and registering property.³⁰ Arguably, the Bank has enough assessment credibility to be taken seriously by market or other actors.

Governments need not be deregulatory resisters for a GPA to have important policy consequences. Our theory of GPA influences can help explain why governments who want to make EDB-like reforms use the rankings strategically to gain support for their policies or adopt specific types of reforms. Policy reform is not necessarily easy, even if there is significant support at the top. Local politicians may collect rents from their ability to dole out businesses licenses. Uncompetitive but favored local enterprises may resist reform if it prevents the rise of competitors. If GPAs empower local anti-regulatory allies, provoke bureaucrats to revise business restrictions, and attract further investment, then they are useful tools in the hands of leaders who like the Bank’s general approach. Importantly, this is not the same as claiming that GPAs only matter where policy changes would have occurred anyway. Rather, it is to acknowledge that external validation (or criticism) is an important strategy to bolster a broad domestic coalition for reform.

This theory of GPA influence has at least five observable implications:

- *First*, we expect evidence that the EDB ranking motivates states to compete to improve in the rankings.
- *Second*, we expect evidence of policy reform, especially when states are publicly ranked.

²⁸ Kelley 2017 Chapter 4.

²⁹ Jayasuriya 2011.

³⁰ See <https://www.mcc.gov/pages/docs/doc/report-guide-to-the-indicators-and-the-selection-process-fy-2015>. See also <https://www.mcc.gov/who-we-fund/indicator/business-start-up-indicator>. The MCC entered into operation in 2004, before the Bank started ranking. See US announcement when the MCA was first created here: <http://georgewbush-whitehouse.archives.gov/infocus/developingnations/millennium.html>

- *Third*, we expect to see some evidence of bureaucratic (re)structuring aimed specifically at improving the EDB ranking.
- *Fourth*, we expect the public to respond to the competitive implications of the ranking system by demanding more reform when they believe their state is performing poorly relative to a salient competitor or comparator.
- *Fifth*, we expect EDB rankings to affect the willingness of investors to deploy capital.
- *Sixth*, we expect pro-reform governments to leverage the comparative information of the EDB index to achieve their domestic policy goals.

None of these hypotheses in isolation prove GPAs matter. But combined, evidence for them would suggest that the EDB ranking is a powerful source of social pressure.

IV. Observational Evidence: Motivations, Policy Reform, and Bureaucratic Restructuring (Hypotheses 1-3)

The best way to explore the consequences of the EDB index is with a wide range of methods. In this section, we examine the observational data about high-level motivations and intentions, aggregate policy reforms, and bureaucratic structural effects.

Motivations and intentions

We start with a simple observation: policy makers around the world speak and act as though the EDB matters *greatly*. Indeed, countries sometimes openly publicize in the press their plans to undertake reforms precisely to Georgia made concerted efforts to rise from 100th to the top 20 in two years.³¹ Other countries where national officials have highlighted EDB as motivating reforms include Yemen,³² Portugal,³³ Mauritius,³⁴ and El Salvador.³⁵

To test the plausibility of this claim more generally, we examined a near-comprehensive set of press statements and stories for 2016 in English from the Lexis Nexis database. There were literally hundreds of stories that mention the EDB ranking, but our specific interest is in the 51 English language stories covering 26 countries that directly cite high-ranking government officials. Illustrating the seriousness with which countries take the EDB rankings, 14 percent of the officials cited are heads of state, and another 47 percent are either ministers or deputy ministers, *making up over 60% of the total*. The remaining stories quoted spokespersons for these offices.

Governments' words evidence the social pressures to which we have alluded. When countries improve, officials highlight this accomplishment: 18 percent brag about progress on the index. Comparisons are rife: 14 percent of the officials compare their countries to others. For

³¹ Schueth 2011 52.

³² The World Bank Group 2009 13-14.

³³ The World Bank Group 2008 14.

³⁴ The World Bank Group 2009 76.

³⁵ The World Bank Group 2007 13.

example, the undersecretary to Cyprus' president, who heads the president's administrative reform unit, compared Cyprus with the rest of the EU where it ranked 25th of 28 noting: "Our performance there is not good." Fifteen percent of the stories mention specific bureaucracies tasked with improving the EDB score, potentially amplifying reputational concerns. Most of the stories explicitly mention the ranking and many discuss specific policy steps the government is taking to improve. To wit, Indonesia's Agrarian and Spatial Planning Minister specified that a "ministerial regulation was made *to respond to a survey by the World Bank on the ease of doing business* (emphasis added)."³⁶

Many officials stressed the desire to improve. Moreover, for half the countries we found official statements, usually by a head of state, that publicly commit to a specific target ranking. For example, Indonesian President Jokowi announced "a policy intended to improve Indonesia's position in the World Bank's Ease of Doing Business rankings from 109 to 40." In Bangladesh, a high level official notes that it is, "the prime minister's demand, to see Bangladesh among the countries with a double-digit position (10-99) in the 'ease of doing business index.' It's an aggressive target, but achievable." In Kazakhstan, Erbolat Dossaev, Minister of National Economy committed to reach the top 30, "an objective set by the President of Kazakhstan, Nursultan Nazarbayev." Indeed, none less than President Vladimir Putin of Russia has gotten in the game. A story reports that "Russia's high positions in the Doing Business ranking are one of the objectives provided in the President's May decrees of 2012. Russia is to go up from the 120th position in 2011 to the 50th in 2015 and to the 20th in 2018."

The evidence above is quite suggestive that high government officials make explicit comparative judgments, infer status, arrange bureaucracies and set goals based on the EDB rankings. Some also believe their efforts will be rewarded in a very tangible way – by attracting investment. Serbia's Prime Minister Aleksandar Vucic, acknowledged this explicitly, stating that, "*Serbia wants to enter the top 30 countries on the World Bank's list. This is very important for the citizens of Serbia, because the better positioned we are, the more we will be able to attract foreign and domestic investors.*" We conclude there is ample prima facie evidence that the EDB rankings have motivated a wide range of states, especially those with emerging markets, to take important policy reforms.

Policy Reform

Has the Doing Business assessment system affected policy reforms? The Bank appears to believe so: it claims that 2265 reforms were taken related to the ease of doing business between [year and year]³⁷ and has recently claimed that "...the Doing Business Report was used in shaping the reform agenda" for an additional 600 reforms.³⁸ In 2006, for example, it reported that Azerbaijan's president declared the ranking "unacceptable," and sent an Azeri working group to consult with the Bank to design reforms that moved Azerbaijan up in the rankings.³⁹ Similarly, in February 2008 the Albanian government asked the World Bank's Doing Business Reform Unit to review proposed legislation to protect investors. The government implemented

³⁶ A complete file of all the quotes and sources is available online.

³⁷ See The World Bank, <http://www.doingbusiness.org/reforms/reforms-count>.

³⁸ World Bank 2014 21-22.

³⁹ World Bank 2008 5-6.

modifications proposed by the EDB Reform Unit, which were unanimously enacted into law within a month.⁴⁰ These are not isolated incidences. Indeed, countries frequently contact the Bank for advice. From November 2013 to October 2014 alone, the EDB team reported receiving more than 160 data queries from countries, which suggests that bureaucracies are now configured to access and adapt to the Bank's policy advice.⁴¹

Anecdotes of some tremendous efforts to climb the rankings aside, does the Bank's ranking system affect regulatory reform? This is hard to answer, given the sparsity of observational data and the lack of a true comparison group of states that were never subjected to the EDB system.⁴² Due to data constraints, we explore a simple statistical model and interpret it cautiously. The dependent variables are logged measures of the Bank's sub-indicators for ease of doing business: log of the costs, the time and the number of procedures to start a business, enforce a contract, etc. Table 2 displays the indicators⁴³ and the years the data collection began. "Starting a Business" consists of four sub-indicators and "Enforcing Contracts" of three. Larger numbers represent higher costs or longer waits, and so are considered worse from a business perspective. To avoid biasing the estimates by including states who enter the rankings later, we use only the 110 countries for which we have base data going all the way back to 2001. We ask: do states reduce the time, costs and business procedures in response to being ranked?

[TABLE 2 ABOUT HERE]

First, we examine the *de jure* regulatory trend overall and compare countries before and after the introduction of the ranking system.⁴⁴ We use data recovered from the Internet archive "the Wayback Machine" for the 3-4 years before the *Doing Business Report* was first published in 2004. In these baseline years, information on regulations was posted on the website, but states were not publicly ranked. The first report that published the ranked sub indicators was in 2005, and the full overall rankings, covering 110 countries debuted in 2006. The earliest we would expect to observe *ranking* effects would be in 2005 or 2006, depending on how immediate one expects effects to occur. The key explanatory variable is therefore an indicator for public ranking, *Ranked*, which begins in either 2005 or 2006.⁴⁵ We limit the analysis to countries with data starting in 2001, having established that selection into that sample is not significant with respect to the outcome variable measuring the regulations. Indeed, even a correlate for which we

⁴⁰ "On Entrepreneurs and Companies" (Celebrating Reforms 2009, 55-56)."

⁴¹ World Bank 2014.

⁴² We have only a few baseline years pre-treatment, and data for two subgroups of treated countries.

⁴³ See Appendix for data details. To provide a comparable time series for research, the Bank back-calculates to adjust for changes in methodology, but these corrections only have been made since 2003 data (in the 2004 report). Therefore if the data in 2001 and 2002 tended to overestimate the measures (for example by requiring 1 day for all procedures rather than 1.2 day or lowering the capital requirement to the minimum paid-in capital rather than total required), then the biggest methodology-induced drop will occur between 2002-2003, which is a year before rankings existed. This would bias the findings *against* our hypothesis, because it would make a pre-ranking year appear to have large improvements.

⁴⁴ We cannot compare countries that were ranked with unranked countries, because the latter have no data on the dependent variable.

⁴⁵ A smaller version of top ten and bottom ten rankings were published in the 2005 report. We therefore run models using both years.

had strong priors for predicting business reforms favored by the Bank – the total volume of loans to a country over the period of analysis – does not predict either selection into the original group of rated states or improved business reform measures. If business reforms are not explained by the intense relationships with the Bank implied by borrowing and lending, it is hard to imagine what other variables are justified as controls.⁴⁶ Figure 2 displays the average trends for the six variables. As can be seen, it seems the early data for the contract variables is inconsistent and that after that those variables show little variation, which makes sense given that these are much less actionable. We therefore focus on the remaining four.

FIGURE 2 about here

We then run a simple OLS model that includes the lag of the outcome variable—logged when appropriate—so that we are essentially assessing the change in the outcome. We resist the temptation to pile on control variables, since we didn't really find any that mattered in the pre-analysis, and since these are essentially impounded into the lagged dependent variable, and would have to both be time variant and interacted with the *Ranked* indicator to control for the interaction effect that is the focus of the analysis.⁴⁷

Do states significantly reduce time and costs associated with starting and conducting business during the years the rankings are first publicized? Note this is a very hard test since it assumes that there was significant attention to the rankings above and beyond the data in the report although we know that attention in the early days was not nearly as huge as now, and it also assumes that countries are able to change policies rather quickly. As Figure 2 showed, the overall trend has been one of gradual, but continuous improvement. Nonetheless, we find modest, but significant results for the *Ranked* variables in three out of four cases for year 2005 and in all four cases for year 2006.⁴⁸ In all cases the coefficient has a negative sign as expected, indicating that it lowers the costs, time delays, and procedures facing businesses, which presents an improvement from the previous year.

Interrupted time series models of a shift in reform rates before and after ranking confirm many of these results.⁴⁹ Again, we see a robust relationship for the cost of starting a business; these models also suggest some shift in regulations regarding capital required to start a business. However, the number of procedures and number of days required to start a business are not statistically significant. We suspect this may be because the assumptions of linearity are not met.⁵⁰

⁴⁶ See Table A1 in the appendix. GPD per capita income, GPD growth, democracy, population size, and international or civil conflict rarely correlate significantly with reform and tend not to predict selection into the sample in 2001.

⁴⁷ This would lead to dozens of interacted terms, some of which would be incompatible with the inclusion of the time constant treatment variable. We opt to keep the model simple rather than to over-tax the limited data. We thank Eddy Malesky, Seth Sanders and Andrew Heiss for their advice on this section.

⁴⁸ All 8 models can be found in the Appendix Tables A2 and B1-B2.

⁴⁹ These models are included in the appendix Table A3, and B3-B4.

⁵⁰ The model assumes that the change in outcome is linear both before and after the treatment. However, the outcome appears to change non-linearly over time, in some cases due to floor effects; i.e., the cost of starting a business can only go so low.

In sum, the observational data suggest relationships between publicizing the rankings and several of the outcome variables. These modest relationships are realistic, since ranking alone cannot be expected to have huge and quick effects on regulations that generate rents and have been years in the making, and considering that these “ranking effects” are in addition to whatever influences the Bank may have had through Doing Business Reports that preceded ranking or through its lending policies. We can conclude that ranking is associated with modest acceleration in many of the reforms that the World Bank has decided publicly to score.

“Gearing up” for Grading: Bureaucratic Prioritization around the EDB

Grades affect motivation, as any teacher or professor will attest. Public rankings also affect bureaucratic priorities and routines; sometime even stimulating the formation of new bureaucracies, as described in the introduction to this volume. To examine this we identified countries that have formed EDB index related reform committees and examined their behavior and performance. Since the 1990s, more than 50 states have formed “reform committees” that, according to the Bank, “use the *Doing Business* indicators as one input to inform their programs for improving the business environment,”⁵¹ and are highly motivated to work closely with the bank to improve their rankings.

[TABLE 3 ABOUT HERE]

Table 3 lists the reform committees in place as of 2015.⁵² Countries with reform committees do not systematically differ from those without in terms of GDP growth, World Bank loans, regime type, GDP per capita or even EDB ranking,⁵³ but they *are* distinctive with respect to their EDB performance overtime. First, states with reform committees improved more in the rankings.⁵⁴ Figure 3 graphs state rankings in 2005 against 2014.⁵⁵ States clustered in the lower left, such as New Zealand and Norway, have been reliably at or near the top of the rankings for the past decade. Those in the upper right such as Niger and Laos have consistently been near the bottom. The upper left reflects many of the standout improvers (Rwanda, Georgia), while the lower right reflects states that have dropped in the rankings over time (Pakistan, Bangladesh, and Nigeria). States with reform committees – denoted with gold balls in Figure 3 – are clearly over-represented among the standout improvers.

[FIGURE 3 ABOUT HERE]

⁵¹ Table A in Appendix A lists the countries by region.

⁵² We have not coded when these committees were formed, so if a country had a committee in 2015 it is coded as having one since 2007 when the reform data starts.

⁵³ See the null regression results for these potential selection effects in the Appendix, Figure A1.

⁵⁴ The improvement attributable to having a reform committee is about 20 places in the ranking and the coefficient is statistically significant.

⁵⁵ Note that a few state have been added over time, so that standing still can mean moving down the rankings, but this does not fundamentally change the message of Figure 1.

Furthermore, we hypothesize such committees may have two motives: to improve the business climate, but also to score well for reputational, professional or political reasons. What is the evidence for the latter? To explore this we coded the number of reforms undertaken by countries since 2008 as described qualitatively by the Bank’s website.⁵⁶

The evidence supports the argument that states with reform committees are working concerted to improve their rankings. True, countries with committee countries undertake more than twice as many reforms on average (2.7 compared to less than 0.5 reforms, a statistically difference), underscoring that they *are* clearly more motivated, but they also appear to get more “bang for their buck.” Figure 4 shows that along a number of sub-indicators⁵⁷ *per reform* they improve more in the rankings than do non-committee countries. Although the differences are not statistically significant, they appear across all indicators and tell a consistent story. One possible explanation is that by communicating more with the Doing Business team, committee countries deliberately seek out better information about what they need to do to improve their rankings – an interpretation that was supported in interviews with Bank staff: “Countries are always asking: “what are other countries doing?”⁵⁸ In short, the evidence suggests that some states have created new bureaucratic routines not only to improve their business climate, but also specifically to improve when graded “on a curve.”

[FIGURE 4 ABOUT HERE]

V. Micro-level Evidence on Two Possible Mechanisms: Public Opinion and Attracting Investment

The evidence presented above is highly indicative that the EDB rankings have affected regulatory policies widely, but they say do not explain *why* the ranking process might influence states. In this section, we add micro-level data that suggest two mechanisms plausibly contribute to these results: the effect of the EDB rankings on domestic political attitudes (hypothesis 4), and on investors’ perceptions of the investment environment (hypothesis 5). We explore these through survey experiments with citizens in India, using MTurk, as well as with highly experienced investors, using a Qualtrics recruited sample.

EDB Rankings: Do Publics Care? And Why?

One avenue through which GPAs affect state behavior, according to the introductory article, is through domestic politics, at times by generating competitive status concerns for those living in the rated country that in turn create pressures for policy change.

⁵⁶ Discussion of this coding is in the appendix.

⁵⁷ The Index consists of sub-indicators and sub-indicators within these. These are the sub-indicators that make up the overall index.

⁵⁸ Sylvia Solf, Global lead, Indicator Based Reform Team. Phone interview with authors, April 5, 2017.

To examine the plausibility of this mechanism, we conducted an online survey experiment of 217 Indian participants. We chose India because it is a huge emerging market of inherent importance; because the current Prime Minister takes the EDB seriously and it therefore is highly relevant to our inquiry, and because India has a focal competitor: China. Moreover, this survey experiment complements the qualitative evidence presented in the final empirical section of the paper. Here, our goal is to assess whether EDB rankings plausible provoke Indian citizens to expect their government to take reforms, contingent on India's relative rating with China. If so, then, Prime Minister Modi's obsession with India's ratings, discussed in the last section, should be understood in this light.

China is perhaps the most important status comparison for the Indian public on economic matters. India shares a variety of traits with China: both countries have populations of over one billion, post-colonial legacies, and civilizations that date back millennia. They also gained independence at roughly the same time and initially held similar levels of development, though China's success has now left many Indians anxious and concerned for their country's own future. As the *New York Times* notes, "it seems to be a national obsession in India "to measure the country's economic development against China's yardstick...Indian executives refer to China as a template for development."⁵⁹ We vary China's ranking on the EDB relative to India's to see whether it affects Indians' perceptions of their business environment.

The respondents were gathered through mTurk from more than fifteen different states and offered a modest incentive for their participation. The sample was roughly 70% male and had a median household income of between 180,000 and 200,000 rupees (approximately \$2,900). Respondent age ranged from twenty-two to sixty-nine with a median of thirty-two. Roughly 90% possessed a college degree or higher. With respect to politics, participants supported 10 different political parties, with roughly half supporting the ruling BJP and the other half supporting parties opposed to the BJP and/or outside its ruling coalition.

Respondents were randomly assigned to one of five groups. Group 1 (No Rank) received no information on India's rank or the Ease of Doing Business indicator. The other four groups were all given India's true ranking of 130, told that this ranking was out of 189 countries, and given a clear scale indicating that 1 was the best ranking and 189 the worst. Of these four groups, Group 2 (India's Rank Only) received information on India's rank but no information on China's rank. Group 3 (China Higher) was told China's rank was 30 and India's 130. Group 4 (Equal Ranks) was told that China and India had equal ranks of 130. Finally, Group 5 (India Higher) received information that India's rank was 130 and China's 180. Respondents were then asked how important it was to them to improve India's business climate and EDB ranking, respectively, and their answers were scored on a five-point Likert Scale and then converted into a numeric with 1 serving as the highest measure of importance and 5 the lowest. This entails that lower-value means and negative-value coefficients reflect an *increase* in importance.

The results in Table 4 suggest that the EDB facilitates comparisons with countries that are relevant status comparisons and thereby shapes domestic policy preferences. First, and most conclusively, we find that Indians who are told that China is ranked 100 places ahead of India on the EDB indicator rate an improved business climate and an improved EDB ranking as more important to them (by .46 and .45 points on a five-point scale; or roughly 10% more important)

⁵⁹ Schueth 2011 52.

than respondents who are told China places fifty places behind India. Because India's ranking is held constant at 130 in these comparison groups, the results suggest that the manipulation of China's rank alone significantly affects the policy preferences of Indian respondents, which implies that perhaps status concerns play a role in framing Indian policy views. These results are robust across OLS, a bootstrapped Welch's T-Test, and a Wilcoxon Rank Sum Test.

[TABLE 4 ABOUT HERE]

Second, we find that those respondents who are provided only India's ranking of 130 out of 189 rate both an improved business climate and an improved ranking as more important to them than those who receive no information on the EDB ranking, though only the latter is statistically significant. India's rank is apparently influential, even when India is not compared with other salient countries. Finally, across our five comparison groups, the mean importance levels for the goals of improving India's business climate and EDB ranking vary systematically and as expected with the information provided. Figure 5 shows that when respondents are given both China and India's rank, they rate these goals as most important when China's rank is higher than India's, less important when China and India's ranks are equal, and least important when India ranks above China. Similarly, when respondents are told only that India ranks 130 out of 189 countries and given no information on China, they nonetheless rate improving India's business climate and EDB ranking as more important than when they have no information at all. This suggests that there is a small but discernible competitive causal effect that encourages people to demand more attention to policies on which they believe a competitor outperforms their own country.

[FIGURE 5 ABOUT HERE]

Do Investors Care? Experimental Evidence on Investor Assessments and the EDB

The framework article notes another important mechanism through which the EDB rankings might exert pressure: concerns about market reactions. As both the case study and review of quotes by public officials make clear, one reason states seek to ascend the EDB ranking is to attract foreign capital. But are investors actually impressed by a high ranking? In this section we report on a survey experiment to ascertain whether investors are more likely to recommend investment in states with higher EDB ranking and whether different types of information affect investors differently.⁶⁰

This experiment was conducted on a panel of 150 professional investors recruited by Qualtrics through a partnership with over 20 Golden Mean certified and actively-managed online market research panel providers.⁶¹ To avoid self-selection bias, recruitment did not involve any discussion of the survey contents. Respondents received a modest incentive for their participation from Qualtrics or its market research partners. The response rate was 32%.

⁶⁰ The experiment was preregistered with www.egap.org

⁶¹ It was pre-tested on "mTurk Masters;"; interestingly, treatment effects were present for both experiments, but were much stronger and more significant for investors, who are more familiar with investment decision-making, reducing statistical noise.

All members of the panel work in the investment industry and have had more than five years of experience; about half have twenty or more years of experience. Roughly half also hold high-level positions at their investment firm such as senior director, managing director, vice president, partner, principal, or president/CEO. Investor strategies varied, with nearly half identifying as value investors and others identifying as macro, stock, bond, long/short, and activist investors. The average respondent was fifty years old, with the oldest being seventy-eight and the youngest twenty-six. Roughly three-quarters of respondents were male and one-quarter were female.

Most of the respondents were portfolio managers (three-quarters), while others worked in private equity, venture capital, bank lending, and other investment sectors. The high percentage of portfolio investors is useful in two ways. First, portfolio managers who buy and sell securities of foreign firms that are *already* operating in difficult environments should be less sensitive to the EDB ranking than direct investors, for whom day-to-day business operations are a primary concern. For this reason, portfolio managers constitute a hard test of EDB influence. Second, portfolio investment is of significant concern to emerging market states since its rapid outflow can cause a country's exchange rate to fall dramatically (such as during the Asian Financial Crisis of the 1997 "Taper Tantrum"), forcing central banks to expend foreign exchange reserves to stabilize the currency, and pay for increasingly expensive imports and debt servicing. For this reason, the opinions of portfolio managers are of particular significance to emerging market governments, and we hypothesize that such investors are in turn influenced by the EDB indicator. As one former central banker argues, "The Ease of Doing Business ranking could help calm irrational markets or responses to exogenous shocks and the way that central bank credibility functions."⁶²

After the experimental portion, we asked some questions to determine how salient the EDB is to investors. Of those groups who received macroeconomic information but no EDB information, 47% said they would find EDB information useful while only 14% said they would not (39% were unsure). Moreover, 40% of respondents reported that they had previously used the EDB rankings or reports. However, when presented with a (fictitious) "Global Competitiveness Ranking," created by the World Bank, Economist Magazine, Heritage Foundation, and Brookings Institution, 44% picked the fictitious indicator created by the Bank, while more than half chose another source. (The Economist came second with 33%). This suggests that the ranking's legitimacy is not *entirely* tied to the World Bank's funding ability.

The experiment asked respondents to consider an investment in a country described only with a certain political-economic profile. We sought to test the impact of high or low ranking on investment decisions, so we assigned respondents to one of three different groups: a control group and two treatment groups. Those in the Control Group (No EDB information) were given four macroeconomic facts about an unnamed country which, unknown to them, was based on India: Real GDP Growth: 7%; Inflation Rate: 6%; Unemployment Rate: 10%; Per Capita Income: \$6000.⁶³ Those in Treatment Group 1 were given these same four macroeconomic facts but were also told that the unnamed country had an EDB rank of 30, which in fact is Indian

⁶² Cite needed. Interview by authors with a former member of the New York Federal Reserve, April 2017.

⁶³ To check whether people were guessing that this was India, we asked participants to later identify which region they thought the country was in and no clear pattern emerged.

Prime Minister Modi's *target rank* for India. Those in Treatment Group 2 were given the same four macroeconomic facts as the control group but were told that the unnamed country had an EDB rank of 130, which is India's present rank.

Respondents were asked, all things equal and based only on the information they were given, how likely they would be to recommend investment in the unnamed country. Their answers were scored on a seven-point Likert Scale and then converted into a numeric with 1 serving as the highest likelihood of investing and 7 the lowest. Thus, lower scores and negative value coefficients reflect an *increase* in the propensity to invest. In addition to OLS, three other tests were used: a boot-strapped T-test, a non-parametric Wilcoxon Rank Sum test, and OLS including a series of controls such as investment industry, investment strategy, title, experience, and the respondent's assumption of where the country was located.

The EDB ranking significantly affected investors' decision to invest. Specifically, relative to respondents who were told the hypothetical country had an EDB rank of 130 (Treatment 2), those told it had a higher rank of 30 (Treatment 1) said on average that they would be *far likelier to recommend investment* (by more than one full point on a seven-point scale; or roughly 19% more likely). This finding was significant across all four statistical tests at $p < .01$ (Table 5). This suggests that if India indeed meets Prime Minister Modi's goal and achieves an EDB rank of 30 from its present rank of 130, it likely will attract more investment, even if underlying macroeconomic indicators do not change.

[TABLE 5 ABOUT HERE]

Those told the unnamed country had an EDB Rank of 130, said they would be much less likely to recommend investment than the control group, who were given no ranking information at all (by .95 points on a seven-point scale; or roughly 18% less likely)⁶⁴. This was significant at $p < .01$ across all four tests and suggest that, all things equal, India's poor ranking may actually be depressing foreign investment relative to its macroeconomic profile. Conversely, relative to the control group, those told the country had an EDB rank of 30 were on average more likely to recommend investment (by .15 to .4 points; or roughly 4-7% more likely), but this was not significant.

In sum, the experiment suggests that higher EDB ranks induce greater investment than lower ranks. *A very low ranking can significantly affect willingness to invest relative to no EDB ranking information at all.* Importantly, this may be true even when an investor has accurate macroeconomic information available, which would explain why states pay so much attention to them.

When asked what information influenced their decisions, many respondents who received the EDB rank of 30 noted its influence. One respondent wrote: "While real GDP growth is substantial, the high unemployment rate is of some concern...[and] already high inflation could get worse...Ease of doing business certainly helps however." Another respondent similarly noted that despite "moderate unemployment" and the fact that the "inflation rate is somewhat

⁶⁴ We also asked respondents what their preferred return would be for this investment. Most respondents complained that this specific question was too difficult to answer. Consequently, answers to these questions exhibited a wide dispersion and no significant differences among groups.

troubling,” the country had a “relatively high rank for doing business.” A third respondent thought EDB helped mitigate risk: “while there are risks, growth is high and it is comparatively easy to do business.” Another noted that the country was a “great growth opportunity” because of its “low economic barriers.”

Conversely, those who received the low ranking of 130 also suggested it guided their decisions. As one respondent argued, “While the GDP growth and income numbers suggest potential, the unemployment rate and poor ease of doing business rank indicate some structural issues with the country *and its governance*.” Another used the EDB ranking to infer that the country “seems to be not that business friendly.”

The respondents’ short answers suggest that not only was EDB influential, but that in some cases it was *more important* than macroeconomic fundamentals. When respondents were asked how important each fact was in guiding their decision to invest on a Likert scale with 4 being most important and 1 being least important, those who received an EDB rank found it more useful than the inflation rate by .16 points at $p < .1$ and more useful than GDP as well although, perhaps due to the small sample size, not at a statistically significant level. Moreover, the mean importance of each macroeconomic indicators was *lower* for the treatment groups that received EDB than for the control groups that did not, suggesting the EDB made other information less salient. This was observed for each of the four macroeconomic indicators. Finally, those who received an EDB rank of 30 were more likely on a seven-point Likert scale to believe the government was more competent, had lower corruption levels, would attract competing investment, and would not discriminate between foreign and domestic investors than those who received a rank of 130. While these results do not quite achieve traditional statistical significance, they tell a surprisingly consistent story about the influence of rankings.

VI. The Case of India: Exploring Competitive Mechanisms and Strategic Government Behavior

Preceding evidence so far has shown that (1) states take their EDB rankings seriously; (2) states *on average* tend to improve their business regulations in ways that the bank approves of when scores are publicly available; (3) states have adapted their bureaucracies to implement EDB reforms, and appear to do so strategically to improve their ratings; (4) status comparisons involving the EDB ranking can affect public support for economic reforms; and (5) the EDB is important to people providing investment advice or making investment decisions. Our sixth hypothesis is that pro-reform governments are expected to leverage the comparative information of the EDB to achieve their domestic policy goals. India provides an important—though not an obvious—case to explore this claim. India is also a critical case for its sheer size. If we can show that EDB rankings influence policy in the fifth largest economy in the world, the “average” effects described above even more important.

In this section, we rely exclusively on independent (non-World Bank) evidence, including English and Hindi Indian media and primary sources. We show that the reformist government of Narendra Modi has made climbing the ranks of EDB a central feature of its agenda. The effort has been mentioned in party platforms and by the government itself; it is explicitly coordinated through inter-agency mechanisms; it is implemented in part through local

governments by using sub-national rankings to stimulate competition, embarrass opponents, and reward supporters; and it is supplemented by a campaign to strategically both lobby the World Bank and cooperate with it on reforms. Together, the evidence strongly suggests strategic behavior on the Part of Modi's government, with EDB-related reforms undertaken in large part for their value in lifting India's ranking.

Background

Narendra Modi began to focus on the EDB late in his campaign for Prime Minister.⁶⁵ Reemphasizing the business-friendly roots of his political party, the Bharatiya Janata Party (BJP), Modi blamed India's poor rating on India's ruling Congress Party and promised to improve the ranking. The BJP even included EDB improvement indirectly in the 2014 party platform.⁶⁶

Not long after Modi assumed power with the largest parliamentary majority in decades, he announced the "Make in India" program, a set of policies intended to transform India into a manufacturing powerhouse and attract investment. This has been the government's largest and most high profile economic program to date. The EDB was central to this new campaign. It was linked to manufacturing and investment within the BJP policy platform, and in subsequent official policy. In fact, Modi first formally announced his EDB initiative in a major national speech launching the Make in India Campaign. Clearly, the effort to improve India's EDB ranking is integral to the country's most visible domestic economic program and is a signature Modi initiative.

Modi has always been clear that his EDB focus was *not* about improving microeconomic incentives but about signaling a welcoming investment climate. "Industrialists don't come due to some fancy incentive scheme. One can say you will get this or that we will make this tax free or that tax free. Incentives don't work."⁶⁷ Instead, "the investor first wants the security of his investment. Growth and profit come later," Modi argued. For that reason, India needed to send a signal to investors that "your money will not sink." The EDB initiative was part of that signaling effort and Modi committed his "entire team in the Government" to improve India's ranking from 140 to 50, and then later to 30. While the reforms adopted may well have economic benefits that ordinarily could explain their adoption, the prime minister's words and behavior reveal a belief that *rankings matter* – they improve India's reputation, and thereby attract investment.

Coordinated Efforts to Improve EDB Rating

Modi followed up his announcement of an EDB initiative with an interagency, wide-ranging coordinated effort to improve the country's ranking. India's most powerful bureaucrat, the Cabinet Secretary, has called high-profile meetings of senior officials to discuss how to improve India's ranking.⁶⁸ These efforts are coordinated not only through the Prime Minister's

⁶⁵ The World Bank Group 2009 13-14.

⁶⁶ The World Bank Group 2008 14.

⁶⁷ The World Bank Group 2009 76.

⁶⁸ The World Bank Group 2007 13.

office but also through the Department of Industrial and Policy Planning (DIPP), which has been tasked with leading Modi's "Make in India" campaign, advancing his government's EDB efforts, and coordinating state-level reforms. Roughly a month after Modi announced the initiative, DIPP published a report with 46 policy proposals across several government ministries hewing almost precisely to the Bank's sub-indicators and intended to improve India's ranking.⁶⁹ The Indian government has adopted many of these reforms, including reducing the number of days it takes to register a business from 27 to 1; simplifying application forms for industrial licenses; placing license applications online; exempting several business from licensing requirements; extending the validity of licenses; raising FDI caps in several industries; introducing a new regulatory reform law; simplifying import-export documentation; and abolishing the Soviet-style Planning Commission. Whether or not these reforms have economic benefits, they are generally discussed by DIPP as ways of improving India's ranking.

Local regulators control many important instruments relevant to the EDB. Modi's government has encouraged localities to make reforms in service of his overall national effort. In December 2014, it sponsored a meeting of central and local governments where state leaders committed to a 98-point action plan to improve EDB at the local level.⁷⁰ DIPP also created a list of 344 recommendations for state-level governments,⁷¹ and organized meetings through which states were to share their best practices.⁷² To overcome local resistance, the central government created its own domestic, state-level EDB indicator – in concert with the World Bank – to score India's states on their compliance with the 98-point action plan and publicly praise or criticize them for their performance. Indeed, the very causal mechanisms this paper proposes for the EDB's influence on countries were used by Modi to catalyze Indian subnational reform. In the most recent report, seven Indian states led by the BJP made the top ten, suggesting either party-line cooperation or efforts to reward political allies through the ranking.

The December 2014 action plan was heavily influenced by World Bank standards and suggestions, and the Bank itself enthusiastically signed onto Modi's efforts to create a competitive state-level ranking. Since Modi's arrival, the World Bank has supported India's attempts to climb the EDB ranking, and publicly praised the government for its ambition.

Cooperation between India and the World Bank on the EDB indicator has legitimized India's government while enhancing the status of the EDB indicator. Interestingly, after Narendra Modi had committed to improving India's ranking, the World Bank released a report that year in which India fell several ranks. However, the Bank sought to protect Modi's reputation by publicly noting that the report was *not* reflective of Narendra Modi's recent reforms and that it only covered the period before his election.⁷³ The following year, the Bank praised India's climb of 12 spots, although this was technically an exaggeration based on an older, unrevised Indian ranking.⁷⁴

⁶⁹ Bajaj 2011.

⁷⁰ "Don't Run from Big Retail, Face Them, Modi Tells Traders" 2013.

⁷¹ *BJP Election Manifesto 2014: Ek Bharat Shreshthah Bharat:* 2014 29.

⁷² Modi 2014.

⁷³ "Cabinet Secretary to Meet India Inc Tomorrow to Discuss 'Ease of Business'" 2014.

⁷⁴ "DIPP Suggests Steps to Improve Business Climate" 2014.

High-ranking Indian officials have also actively lobbied the World Bank for a greater increase in India's ranking in direct meetings with the World Bank's Doing Business team.⁷⁵ As one senior government official involved in those meetings noted: "We listed a host of measures we have taken to cut red tape and improve business environment in the country. We are confident of seeing a substantial improvement in our ranking this year."⁷⁶

EDB Efforts, Social Mechanisms, and Channels of Influence

The India case illustrates several of the causal mechanisms of the introductory chapter. First, it illustrates how the EDB can become embedded in politics. The experimental survey shows that Indian public opinion is sensitive to the competitive and status implications of the EDB rankings. When Modi was an opposition politician, he used the country's low EDB rating to challenge the government and campaigned on the promise of making improvements. In office, he is making better rankings a priority. In speeches and even a letter to the Indian people marking the one-year anniversary of his election Modi has kept the EDB as an important part of one of his signature Make in India program.⁷⁷ Despite criticism, he has doubled down on his commitment to improve India's ranking – and has, if anything, scaled up his ambitions. His announcement of a new goal to rank in the top thirty within the next three years is extremely exudes confidence. Importantly, Modi has made his commitment to improve the EDB ranking credible by promising to achieve a high target rank *before* the next election, allowing voters to punish him for failure. In short, Modi has hitched his reputation to the *rankings* – not to a specific growth figure or a poverty reduction goal. His own public commitments – and the Banks's efforts to avoid embarrassing him – suggest the ranking competition is driving Indian policy efforts to a large extent.

Elite Indian bureaucrats and officials are a critical part of the EDB dynamic. At the national level, Modi embedded the EDB effort in the bureaucracy, creating interagency structures to improve the ranking and tying its success or failure to the policy elite. He has used province-level EDB ranking to praise reformers and shame laggards, triggering reputational mechanisms *among* Indian officials. For example, during a visit to BJP-governed Jharkhand, Modi praised its leaders for working hard to improve their EDB ranking.⁷⁸ In advance of critical elections in Bihar that would determine the balance of power in India's upper house of parliament, Modi's finance minister attacked Nitish Kumar, the chief minister of Bihar, for his state's low EDB ranking in 2015: "Nitish says let us debate the development issue. What is there to debate? This debate is over. Gujarat [the state Modi previously managed] is number 1 and Bihar stands at 21 [on EDB]. The economy speaks through statistics and not through debate."⁷⁹ Numbers can do even more than simplify, as suggested in the introductory chapter; they can even be used to foreclose alternative perspectives.

Thirdly, Modi eagerly uses his commitment to the ranking to win investment. The EDB ranking anchors his Make in India effort. He has broadcast his ambitions on the EDB to many

⁷⁵ Nidhi 2015.

⁷⁶ *Business Reform Action Plan 2016 for States/UTs* 2015.

⁷⁷ Chitravanshi 2015.

⁷⁸ "World Bank 'Ease of Doing Business' Report Doesn't Factor in Modi Government Reforms" 2014.

⁷⁹ "India's World Bank Ranking on 'Ease of Doing Business' Will Improve Further: Arun Jaitley" 2015.

foreign audiences in the United States, China, and in a speech before Korean businessmen and President Park.⁸⁰ Modi even created a joint “Ease of Doing Business Group” with the United States during the first U.S.-India Strategic and Commercial Dialogue – another signal to the global community that India is a safe and secure place to do business.

Lessons from India

The mechanisms discussed in the introductory chapter are on full display in India. The EDB index has clearly influenced policy and politics in India in important ways. Yes, Modi would have been a reformer regardless, but the rankings enabled him to embarrass foot-dragging opponents and reward reformist allies. As a savvy politician, utilized the competitive potential of the EDB to mobilize domestic attitudes for reform and signal his commitment and competence to foreign investors. Modi himself noted his EDB efforts were about signaling and not about business incentives per se. Thus, the EDB report and rankings are clearly *shaping* the policy response in one of the world’s largest and fastest growing economies.

VII. Conclusion

GPA creators aim not only to call attention to their issue and set standard of appropriate behavior; most hope to change policy outputs and—ultimately—outcomes. This is difficult to assess. By relying on multiple forms of data – media analysis, analysis of reform data collected from the World Bank’s current and past websites, experimental survey data of Indians and of investors, and qualitative evidence from India – we have, in what we believe is a first systematic attempt, presented considerable evidence that the World Bank’s EDB ranking motivates reforms, perhaps much more effectively than any other tool in the Bank’s toolkit.

The news is good for those who support the contents of the EDB rating system and want to use it as a model for achieving other development objectives, from health policy to climate change.⁸¹ For those who believe the EDB index is flawed, however, it is cause for concern. The index certainly has both admirers and detractors. One observer in the investment consulting industry exclaimed that the EDB rankings were one of the most effective things the World Bank had ever done.⁸² Others lament that the Bank has missed an opportunity to attack the full array of transactions costs associated with doing business.⁸³ From the other end of the spectrum, the International Labor Organization (ILO) has criticized the ranking system as “a race to deregulation of the labor market.”⁸⁴ Others note that the EDB rankings do not capture states’ actual business environment EDB.⁸⁵ Purely statistical critiques exist as well.⁸⁶ The Bank has in the past been under pressure to withdraw the rankings (by countries concerned with their

⁸⁰“DIPP Urges World Bank to Upgrade India’s Ease of Doing Business Ranking” 2015.

⁸¹ Independent Evaluation Group 2008 xxvi.

⁸² Anonymous interview with authors, August 2014.

⁸³ Arruñada 2007.

⁸⁴ Berg and Cazes 2007 12.

⁸⁵ Hallward-Driemeier and Pritchett 2011, 2015.

⁸⁶ Høyland, Moene, and Willumsen 2012 ;Pinheiro-Alves and Zambujal-Oliveira 2012.

unfavorable ranks)⁸⁷ but so far it has continued to rank on grounds that it is indeed an effective tool.⁸⁸ Interestingly, both critiques of the EDB rankings and the Bank's refusal to drop them assume they have an effect – for good or for ill – on reform policy, something for which we provide the first systematic evidence.

The most important message of this research is what it says about new ways to capture governance spaces and exert influence by using ingenious forms of communication. GPAs are communication strategies to draw attention to issues, and to define problems and solutions using extreme forms of simplification. Actors that try to create competitive dynamics or even social shame through ranking systems are well-aware that they oversimplify reality, strip concepts of their context and history, conceal their underlying theoretical origins, and offer a false sense of precision and certainty.⁸⁹ But many judge it is more important to grab attention and to start a conversation than to present the more complex reality. Our findings suggest that when authoritative actors, such as the World Bank, define criteria and challenge states to out-do one another to improve their scores, they had better be careful about what it is they are asking. The ILO has understood this point very well, and has been a strong proponent of keeping the labor flexibility measures *out* of the Bank's overall EDB rankings, while countries like Saudi Arabia has balked at the recent addition of gender components.

This deep-dive into the World Bank indicator weeds is important for its high-altitude implications for the global politics of information. First, it reminds us that information is not neutral, but rather is an important power resource. The World Bank has used the EDB to consolidate its authority to address not just development lending, but business regulation as well. Arguably, the cumulative effect of widespread comparative quantification is to reinforce global power structures.⁹⁰ That said, there is some evidence that alternative power centers – notably China – understands the game and has or will soon launch a few new rankings of its own. The Shanghai University rankings are an early example. The Asian Infrastructure Investment Bank may eventually be as much an opportunity to offer alternative scorecards for doing business, as it will be a resource for finance. By constructing “standards and scripts for action” performance indicators determine “what constitutes legitimate social practice.”⁹¹

This study is but a small step in understanding the influence of rankings in international relations. Combined, our evidence supports the argument that ranking *per se* can stimulate competitive dynamics that move the ranked toward specific policy criteria. Rankings stoke competition among the subunits of large states, as the Indian case demonstrates. These findings invite examination of bigger questions: For example, how often do states game ranking systems to improve their scores rather than select the most appropriate policies?⁹² Under what conditions

⁸⁷ Independent Evaluation Group 2008 xxvi.

⁸⁸ In 2013 a formal review (Independent *Doing Business* Report Review Panel, 24 June 2013, Washington D.C.) commenced [following pressure from China](#) which was unhappy with its rankings, discussed tensions over the rankings and once again recommended that they be removed. The Bank ignored the recommendation.

⁸⁹ Merry 2011 S4.

⁹⁰ Löwenheim 2008.

⁹¹ Hansen 2011.

⁹² While countries often start with easier, more actionable, reforms, we explored gaming in several ways, but found no systematic evidence for it.

do rankings matter?⁹³ Who gains “authority” to rank, and why? These and other questions need answers if we are to understand this form of power in global governance. For this paper, at least, we have contributed by providing some evidence that rankings matter and that these questions are worth asking.

⁹³ For exploration of this in the area of human trafficking, see "DIPP Urges World Bank to Upgrade India's Ease of Doing Business Ranking" 2015.

Table 1: Market Share of the Ease of Doing Business Index

Economic Indicators		
Indicator	Hits	Market Share
Ease of Doing Business Index	28798	65.26%
Global Competitiveness Index	7263	16.46%
Heritage Index of Economic Freedom	3563	8.07%
Global Entrepreneurship Monitor	1901	4.31%
Fraser Economic Freedom Index	1234	2.80%
World Competitiveness Rankings	973	2.20%
The Enabling Trade Index	272	0.62%
Forbes Best Countries for Business	126	0.29%

Results generated from Harvard Berkman Center, "Media Cloud Database," 3/16/2015.

Table 2: Overview of De Jure Reform Measures (Dependent Variable)

Variable Name	Definition	First year published online
Starting a Business indicators (Entry Regulations)		
Starting a business: capital	Paid-in minimum capital (% of income per capita) required to start a business	2003
Starting a business: procedures	Number of procedures required for an entrepreneur to legally operate a business.	2002
Starting a business: days	Number of days required to start a business.	2002
Starting a business: cost	Cost (% of income per capita) of starting a business	2002
Enforcing Contracts indicators		
Contracts: days	Number of days required for the process of dispute resolution	2002
Contracts: procedures	Number of procedures required to resolve a dispute	2002

Source: EDB website. See also the appendix Tables 2A-F. Years published covered data from year prior.

Table 3: Countries with Reform Committees Directly Using the EDB Data

Region	Countries
East and South Asia	Indonesia, the Republic of Korea, Malaysia, the Philippines and Sri Lanka.
Middle East and North Africa	Algeria, Kuwait, Morocco, Saudi Arabia and the United Arab Emirates
Europe and Central Asia	Azerbaijan, Croatia, the Czech Republic, Georgia, Kazakhstan, Kosovo, the Kyrgyz Republic, the former Yugoslav Republic of Macedonia, Moldova, Montenegro, Poland, the Russian Federation, Tajikistan, Ukraine, the United Kingdom and Uzbekistan
Sub-Saharan Africa	Botswana, Burundi, the Central African Republic, the Comoros, the Democratic Republic of Congo, the Republic of Congo, Cote d'Ivoire, Guinea, Kenya, Liberia, Malawi, Mali, Nigeria, Rwanda, Sierra Leone, Togo and Zambia
Latin America	Chile, Colombia, Costa Rica, the Dominican Republic, Guatemala, Mexico, Panama and Peru

Table 4: Experimental Results Status Comparisons on Importance of EDB and Business Climate Improvements

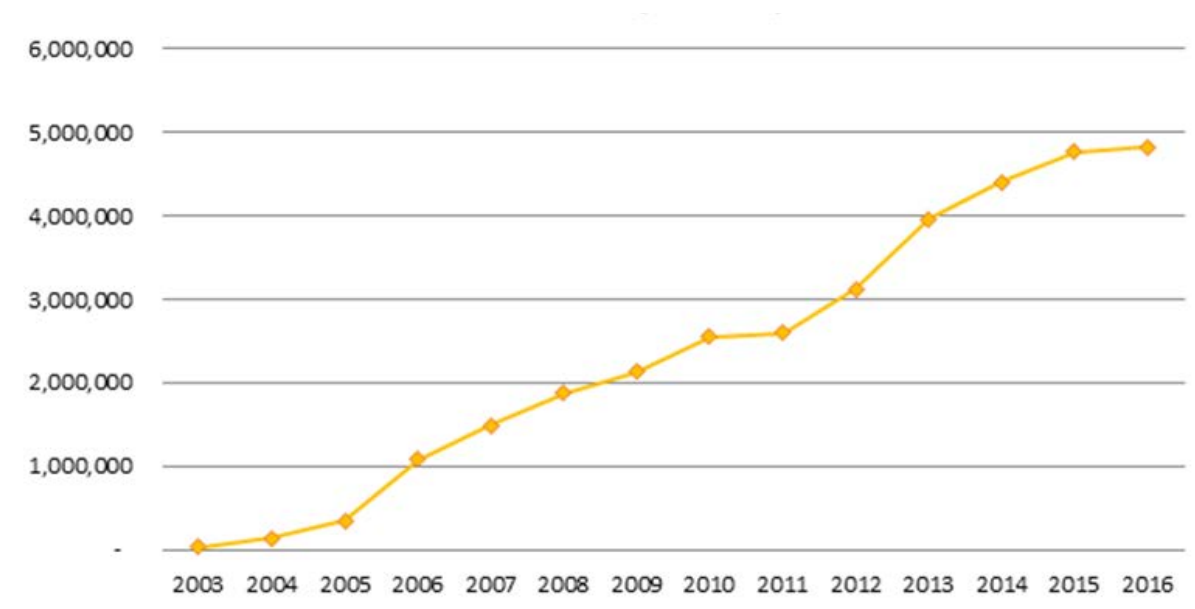
	OLS	Bootstrapped T-Test	Wilcoxon Rank Sums Test
China Higher vs. India Higher: Business Climate Importance	-.462*** (.1292) p=.0006	.4603*** (.1322) p=.0005	W=1419*** p=.0007
China Higher vs. India Higher: EDB Importance	-.4515*** (.1628) p=.007	.4513*** (.1623) p=.005	W=1383*** p=.003
India Rank Only vs. No Rank: EDB Importance	-.2884 (.1746) p=.102	-.2893 (.1772) p=.17	W=1046* p=.0615

*p<.1, **p<.05, ***p<.01

Table 5: Experimental Results of Ranking Differences on Investment Likelihood

	OLS	OLS With Controls ¹	Bootstrapped T-Test	Wilcoxon Rank Sums Test
EDB Rank of 30 vs. EDB Rank of 130	-1.1273*** (.3313) p=.0010	-1.1090*** (.3763) p=.0044	-1.1230*** (.3372) p=.0008	W=1631*** p=.0025
Control vs. EDB Rank of 130 EDB	.9758*** (.3020) p=.0017	.5920* (.3512) p=.0962	.9774*** (.3001) p=.0012	W=926*** p=.0024
Control vs. EDB Rank of 30	-.1515 (.3645) p=.6790	-.3956 (.4046) p=.3320	-.1503 (.3632) p=.6790	W=1173 p=.7023
<p>*p<.1, **p<.05, ***p<.01 ¹Industry, Strategy, Title, Experience, Assumed Region A negative coefficient entails a higher Likert score and a greater willingness to invest</p>				

Figure 1: Doing Business Website Visits, Annually (2003-2016)



Source: World Bank, unpublished data provided to the authors.

Figure 2: Average change in select subindicators, before and after public ranking (2006)

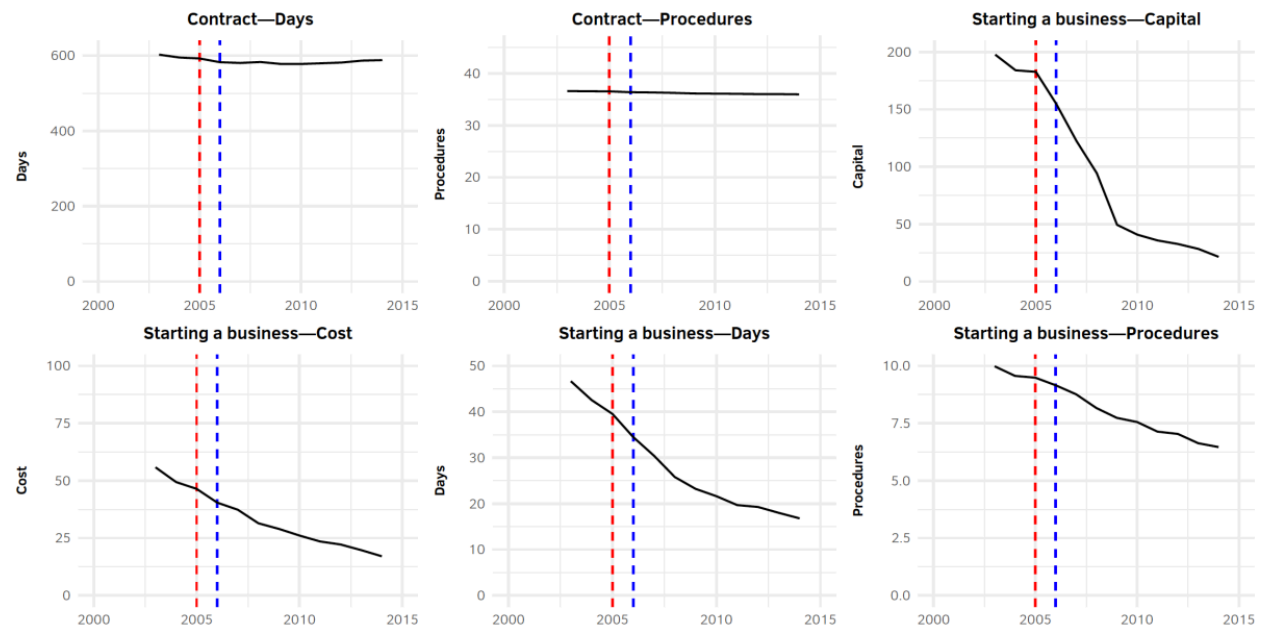


Figure 3: EDB Rankings, 2005 versus 2014, by Committee Status Based on 2015 report

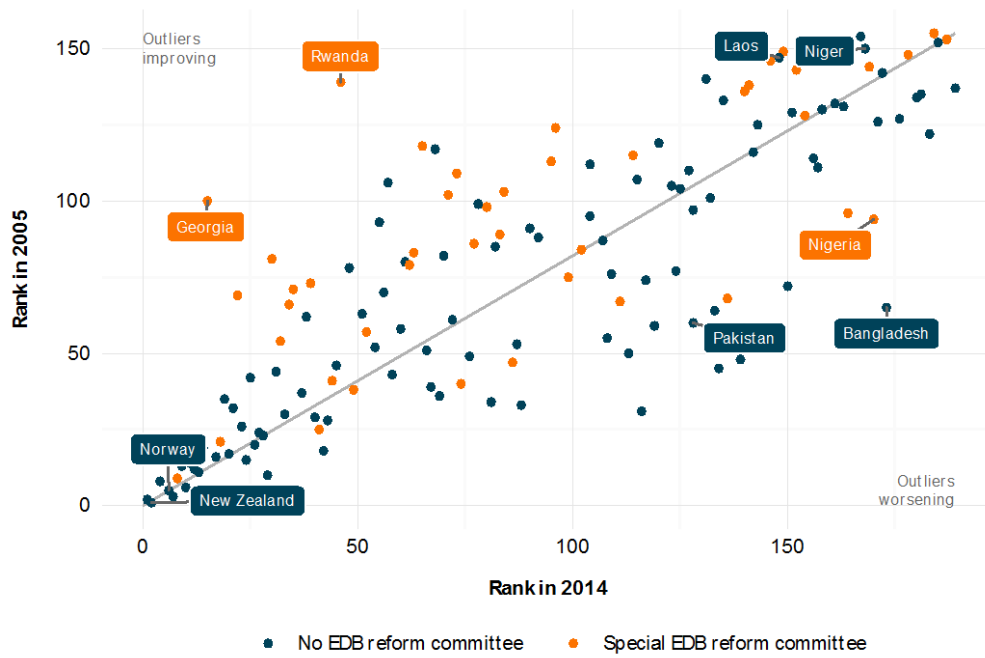


Figure 4: Ranking Gains by Number of Reforms, by Committee Status (95% CI)

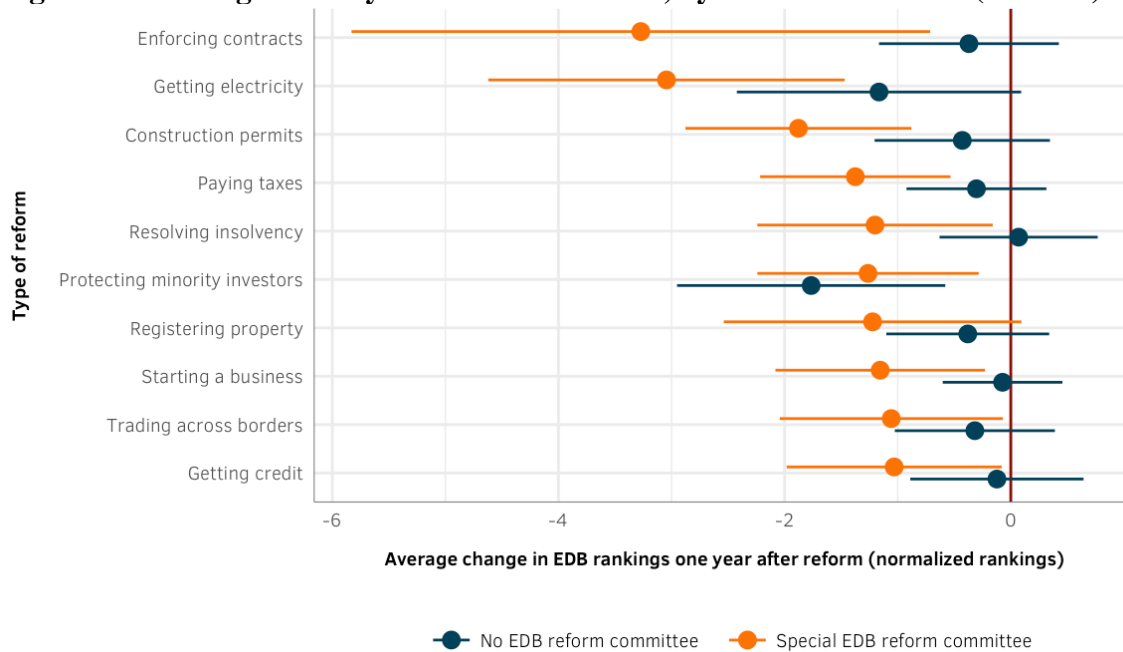
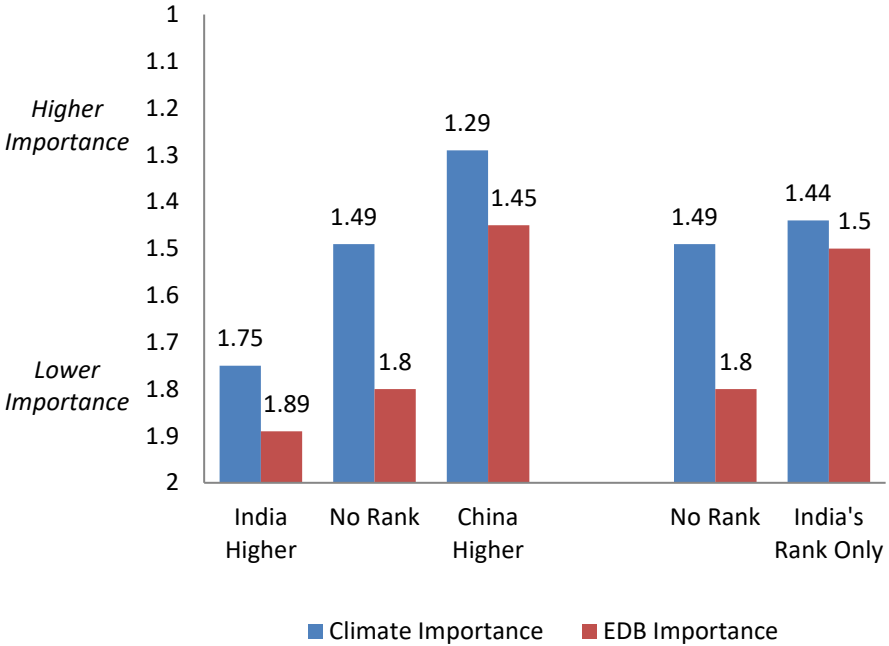


Figure 5: Public Assessments of Importance of Improving India’s Business Climate and EDB Rankings, by Exposure to EDB Information



References

- Arruñada, Benito. 2007. Pitfalls to avoid when measuring institutions: Is Doing Business damaging business? *Journal of Comparative Economics* 35 (4): 729-747.
- Bajaj, Vikas. 2011. "India Measures Itself Against a China That Doesn't Notice." In *The New York Times*.
- Berg, Janine, and Sandrine Cazes. 2007. *The Doing Business indicators: Measurement issues and political implications*. Internat. Labour Office.
- BJP Election Manifesto 2014: Ek Bharat Shreshthah Bharat.*: 2014. Bharatiya Janata Party.
- Business Reform Action Plan 2016 for States/UTs*. 2015. Department of Industrial Policy and Promotion: Ministry of Commerce and Industry, Government of India.
- Buthe, Tim. 2012. "Beyond Supply and Demand: A Political-Economic Conceptual Model." In *Governance by indicators: global power through classification and rankings*, eds. Kevin Davis, Angelina Fisher, Benedict Kingsbury and Sally Engle Merry: Oxford.
- "Cabinet Secretary to Meet India Inc Tomorrow to Discuss 'Ease of Business'." In. 2014. *Deccan Chronicle*.
- Chitravanshi, Ruchika. 2015. "States Share Best Ideas to Lift India's Global Ease-of-Doing Business Ranking." In *The Economic Times*.
- Dai, Xinyuan. 2007. *International institutions and national policies*. Cambridge, UK ; New York: Cambridge University Press.
- "DIPP Suggests Steps to Improve Business Climate." In. 2014. *The Hindu Business Line*.
- "DIPP Urges World Bank to Upgrade India's Ease of Doing Business Ranking." In. 2015. *The Economic Times*.
- Djankov, Simeon, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer. 2002. The regulation of entry. *Quarterly journal of Economics*: 1-37.
- "Don't Run from Big Retail, Face Them, Modi Tells Traders." In. 2013. *The Indian Express*.
- Espeland, Wendy, and Michael Sauder. 2007. Rankings and Reactivity: How Public Measures Recreate Social Worlds. *American Journal of Sociology* 113 (1): 1-40.
- Foucault, Michel. 1995. *Discipline & punish: The birth of the prison*. Vintage.
- Hallward-Driemeier, Mary, and Lant Pritchett. 2011. How Business is Done and The 'Doing Business' Indicators: The Investment Climate When Firms Have Climate Control. *World Bank Policy Research Working Paper Series* (5563).
- . 2015. How Business is Done in the Developing World: Deals versus Rules. *The Journal of Economic Perspectives* 29 (3): 121-140.
- Hansen, Hans Krause. 2011. The power of performance indices in the global politics of anti-corruption. *Journal of International Relations and Development* 15.
- . 2011. The power of performance indices in the global politics of anti-corruption. *Journal of International Relations and Development*.
- Hansen, Hans Krause, and Arthur Mühlen-Schulte. 2012. The power of numbers in global governance. *Journal of International Relations and Development* 15: 455-465.
- Høyland, Bjørn, Karl Moene, and Fredrik Willumsen. 2012. The tyranny of international index rankings. *Journal of Development Economics* 97 (1): 1-14.
- Independent Evaluation Group. 2008. *An Independent Evaluation: Taking the Measure of the World Bank-IFC Doing Business Indicators*. Washington, DC: The World Bank.

- "India's World Bank Ranking on 'Ease of Doing Business' Will Improve Further: Arun Jaitley." In. 2015. *The India Express*.
- Jayasuriya, Dinuk. 2011. Improvements in the World Bank's ease of doing business rankings: do they translate into greater foreign direct investment inflows? *World Bank Policy Research Working Paper* (5787).
- Kelley, Judith. 2017. *Scorecard Diplomacy: Grades States to influence their Reputation and Behavior*. Manuscript ed. New York: Cambridge University Press.
- . 2017. *Scorecard Diplomacy: Grading States to Influence their Reputation and Behavior*. Cambridge, England: Cambridge University Press.
- Kelley, Judith, and Beth A. Simmons. 2015. Politics by Number: Indicators as Social Pressure in International Relations. *American Journal of Political Science* 59 (1): 1146-61.
- Larson, James R., and Christine Callahan. 1990. Performance monitoring: How it affects work productivity. *Journal of Applied Psychology* 75 (5): 530-538.
- Löwenheim, Oded. 2008. Examining the State: a Foucauldian perspective on international 'governance indicators'. *Third World Quarterly* 29 (2): 255-274.
- Merry, Sally Engle. 2011. Measuring the World: Indicators, Human Rights, and Global Governance: with CA comment by John M. Conley. *Current Anthropology* 52 (3): 83-95.
- Modi, Narendra. 2014. "Text of Prime Minister Shri Narendra Modi's Address at the Launch of 'Make in India' Global Initiative." September 25, 2014. <http://www.narendramodi.in/text-of-prime-minister-shri-narendra-modis-address-at-the-launch-of-make-in-india-global-initiative-2867>.
- Nidhi, Sai. 2015. "Ease of Doing Business: Here's All You Need to Know About the Top 10 States." In *Daily News Analysis*.
- Pinheiro-Alves, Ricardo, and João Zambujal-Oliveira. 2012. The Ease of Doing Business Index as a tool for investment location decisions. *Economics Letters* 117 (1): 66-70.
- Robson, Keith. 1992. Accounting numbers as "inscription": action at a distance and the development of accounting. *Accounting, Organizations and Society* 17 (7): 685-708.
- Schueth, Sam. 2011. Assembling international competitiveness: The Republic of Georgia, USAID, and the Doing Business project. *Economic geography* 87 (1): 51-77.
- Sinclair, Timothy J. 2008. *The new masters of capital: American bond rating agencies and the politics of creditworthiness*. Cornell University Press.
- The Economist. 2013. "Stand up for "Doing Business"." *Economist*, May 25, 2013.
- The World Bank Group. 2007. *Celebrating Reform 2007. Doing Business Case Studies*. Washington DC: The World Bank.
- . 2008. *Celebrating Reform 2008. Doing Business Case Studies*. Washington DC: The World Bank.
- . 2009. *Celebrating Reform 2009. Doing Business Case Studies*. Washington DC: The World Bank.
- Weisband, Edward. 2000. Discursive Multilateralism: Global benchmarks, Shame, and Learning in the ILO Labor Standards Monitoring Regime. *International Studies Quarterly* 44 (4): 643-666.
- World Bank. 2008. *Celebrating Reform 2008 -- doing business case studies*. 45326.
- . 2014. *Doing Business 2015: Going Beyond Efficiency*.

"World Bank 'Ease of Doing Business' Report Doesn't Factor in Modi Government Reforms." In.
2014. *The Economic Times*.