



## Sensational Balkans

One year ago, when the World Bank's Ease of Doing Business report ranked 189 countries in terms of business climate, Bosnia and Herzegovina (hereafter: Bosnia) came 107<sup>th</sup>.

In October 2015 Bosnia had jumped 28 positions to be 79<sup>th</sup>.<sup>1</sup> According to the World Bank Bosnia was the *worst place in Europe* to do business in 2014. This year it did better than Malta (position 80), a member state of the European Union.

Bosnia's is not the only Balkan sensation in 2015. Macedonia, long an outperformer, is now an undisputed European star of Doing Business, ranking number 12 in the world. It beat all EU members except a few Scandinavian countries and the U.K. It beat Germany and Switzerland, again.

*Macedonia vs. EU member states in Doing Business this year<sup>2</sup>*

<b>Country</b>	<b>Position</b>
Denmark	3
United Kingdom	6
Sweden	8
Finland	10
<b>Macedonia</b>	<b>12</b>
Germany	15
Estonia	16
Ireland	17
Lithuania	20
Austria	21
Latvia	22
Portugal	23
Poland	25
France	27
Netherlands	28
Slovakia	29
Slovenia	29
Spain	33
Czech Republic	36
Romania	37
Bulgaria	38
Croatia	40
Hungary	42
Belgium	43
Italy	45
Cyprus	47
Greece	60
Luxembourg	61
Malta	80

Serbia's rise is also spectacular: from position 91 to 59 in one year. These Western Balkan success stories are striking on many different levels. What is actually going on?

<sup>1</sup> Doing Business, "[2016 Rankings](#)", 27 October 2015.

<sup>2</sup> Doing Business, "[2016 Rankings](#)", 27 October 2015.

### Bosnia's astonishing rise

In October 2014, when the Ease of Doing Business report ranked 189 countries, Singapore came first, Eritrea came last and Bosnia came 107<sup>th</sup>. The EU delegation in Sarajevo called on Bosnia to improve its ranking:

“Bosnia and Herzegovina needs to boost competitiveness by approving a results-based plan aimed at *improving the conditions measured by Doing Business indicators* to match the regional average.”<sup>3</sup>

The EU suggested that “there is strong evidence that progress in one period has a *significant effect on growth in the next period* and that this can act as a further spur to reform.”<sup>4</sup> Improving its Doing Business ranking became part of the reforms the EU expected Bosnia to carry out most urgently.<sup>5</sup> It even turned into an EU condition for accepting a membership application.<sup>6</sup>

ESI has long warned that the ranking in Doing Business is easy to manipulate.<sup>7</sup> We noted the absence of a robust methodology behind the selection and aggregation of the results for ten sub-indicators. In 2014 we wrote:

“To suggest that the quality of Macedonian business regulation is comparable along ten indicators with that of Switzerland is problematic from the outset. To suggest that the number of days it takes to register a shop or café is one of only ten decisive indicators for a country's business environment is misleading.

The analysis does not take into account many factors that are obviously crucial in an investor's decision to invest, among them: security; market size; macroeconomic stability; state of the financial system; and level of training and skills of the labour force. And within the indicators that *are* measured, certain critical aspects are left out, such as: the reliability of utilities; the cost and availability of credit for firms; and subsidies.”<sup>8</sup>

This does not mean that focusing on specific reforms may not be a good thing: Bosnia *should* make paying taxes quicker and easier and business registration simpler. But this is no basis to compare countries with very radically different economic structures (and regulatory needs) across a few simplified indicators. Doing Business is certainly no meaningful measure of any nation's “business climate.”

At the same time, seen from the point of view of national policy makers, it is obviously always better to be on top than at the bottom of any widely quoted ranking. Given the attention that is still being paid to Doing Business (even in serious publications like the Economist) Macedonia is smart to exploit the weaknesses of this methodology.

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<sup>3</sup> EU Delegation to Bosnia and Herzegovina, [“Compact for Growth and Jobs in Bosnia and Herzegovina”](#), 11 October 2014.

<sup>4</sup> Ibid.

<sup>5</sup> Federation of BiH Government, [“Reformska agenda za Bosnu i Hercegovinu za period 2015-2018 godina”](#), 27 July 2015.

<sup>6</sup> Council of the EU, [“Council conclusions on Bosnia and Herzegovina”](#), 12 October 2015.

<sup>7</sup> ESI, [“Pumpkins, outliers and the Doing Business illusion”](#), 4 November 2014.

<sup>8</sup> Ibid.

For this reason ESI sent a letter to the Bosnian presidency in March 2015, suggesting 14 simple steps to turn Bosnia into a wunderkind in Doing Business rankings.<sup>9</sup> We also met with Bosnian politicians. We met with managers in Elektroprivreda BiH and explained to them how Bosnia could quickly rise in one of the 10 criteria (“getting electricity”) where the World Bank had put it in position 163 among 189 countries. We also explained our proposal in the media. This made Bosnian front pages.<sup>10</sup> Everywhere we argued that while a rise in these rankings would not change the business climate – for this other reforms are urgently needed – it would take away an excuse to further delay Bosnia’s EU integration process.

But does the sensational rise from 107 to 79 in one year reflect any of the reforms we suggested to Bosnian leaders to carry out?

We would like to claim this, but alas, we cannot. To understand what is going in here compare Bosnia’s position as reported last year and this:

*Bosnia in 2014 vs. Bosnia in 2015<sup>11</sup>*

<b>Indicator</b>	<b>Bosnia 2014</b>	<b>Bosnia 2015</b>	<b>Difference</b>
<b>Overall ranking</b>	<b>107</b>	<b>79</b>	<b>+28</b>
Trading across borders	104	28	+76
Getting electricity	163	119	+44
Enforcing contracts	95	66	+29
Protecting minority investors	83	66	+17
Dealing with construction permits	182	171	+11
Paying taxes	151	154	-3
Resolving insolvency	34	38	-4
Getting credit	36	42	-6
Registering property	88	97	-9
Starting a business	147	175	-28

This table shows how Bosnia performed in each category. There is a spectacular improvement in three categories: trading across borders, getting electricity and enforcing contracts. Unfortunately, Bosnia did not actually improve in these categories *if improvement is understood as carrying out concrete reforms that make life easier for businesses*.

Here is what really happened. Every year the World Bank does what it calls a “data revision” of previous rankings.<sup>12</sup> It also introduces some new sub-indicators and then retroactively applies them to the previous year’s rankings.<sup>13</sup> When it did this this year it retroactively changed Bosnia’s ranking *last year* from 107<sup>th</sup> to 82<sup>nd</sup>.

<sup>9</sup> ESI, [“Bosnia as Wunderkind of Doing Business. Outline of 14 steps to take – A Proposal to the presidency of Bosnia and Herzegovina”](#), 19 March 2015.

<sup>10</sup> ESI, [“Media Reactions”](#).

<sup>11</sup> Doing Business, [“2016 Rankings”](#), 27 October 2015. Note that the World Bank calls the rankings published at the end of 2014 “Doing Business 2015”, the ones published at the end of 2015 “Doing Business 2016”.

<sup>12</sup> Doing Business, [“Data Revisions”](#), 27 October 2015.

<sup>13</sup> Doing Business, [“2016 Doing Business Data Notes”](#), undated.

*Bosnia in 2014 OLD vs. Bosnia in 2014 REVISED<sup>14</sup>*

<b>Indicator</b>	<b>Bosnia OLD</b>	<b>Bosnia NEW</b>	<b>Difference</b>
<b>Overall ranking</b>	<b>107</b>	<b>82</b>	<b>+25</b>
<b>Trading across borders</b>	<b>104</b>	<b>28</b>	<b>+76</b>
Getting electricity	163	131	+32
Enforcing contracts	95	67	+28
Protecting minority investors	83	64	+19
Dealing with construction permits	182	170	+12
Paying taxes	151	151	0
Getting credit	36	36	0
Resolving insolvency	34	35	-1
Registering property	88	95	-7
Starting a business	147	165	-18

Look at one indicator to see what this does to Bosnia's position: "trading across borders." Last year the World Bank told the world that Bosnia ranked 104<sup>th</sup> in the world.<sup>15</sup> In the revised ranking of last year Bosnia suddenly ranks 28<sup>th</sup>.

This means that now, according to the World Bank, "trading across borders" from Bosnia was easier than in six (!) EU member states: Finland (31), Germany (34), UK (36), Malta (39), Cyprus (43) and Ireland (47), as well as in Norway (45) and Switzerland (40).

Note: this "revision" is not linked to any changes or reforms undertaken in Bosnia. It is due to an adjustment in the way the World Bank defines its categories.

Note also: if you take into account the World Bank's revision of last year's ranking Bosnia has only moved up three positions in one year (from 82 to 79). It also only achieved progress in two indicators: getting electricity and enforcing contracts, while regressing in seven indicators. The whole spectacular rise disappears in thin air.

*Last year (revised) vs. this year<sup>16</sup>*

<b>Indicator</b>	<b>Bosnia 2014 revised</b>	<b>Bosnia 2015</b>	<b>Difference</b>
<b>Overall ranking</b>	<b>82</b>	<b>79</b>	<b>+3</b>
Getting electricity	131	119	+12
Enforcing contracts	67	66	+1
Trading across borders	28	28	0
Dealing with construction permits	170	171	-1
Protecting minority investors	64	66	-2
Registering property	95	97	-2
Paying taxes	151	154	-3
Resolving insolvency	35	38	-3
Getting credit	36	42	-6
Starting a business	165	175	-10

<sup>14</sup> Doing Business, ["2016 Rankings"](#), 27 October 2015.

<sup>15</sup> Doing Business, ["Country Tables"](#), 29 October 2014.

<sup>16</sup> Doing Business, ["2016 Rankings"](#), 27 October 2015. Note that the World Bank calls the rankings published at the end of 2014 "Doing Business 2015", the ones published at the end of 2015 "Doing Business 2016".

In reality, of course, nobody knows what Bosnia's ranking this year means – for this we have to wait for another possible revision that will take place twelve months from now.

There is another striking finding. Doing Business is not, as suggested by the EU, “a further spur to reform.” A country can rise or fall without doing anything at all.<sup>17</sup> In some indicators where Bosnia rose – “getting electricity”, “protecting minority investors”, “enforcing contracts” and “construction permits” – a closer look at sub-indicators shows that nothing had changed: not the number of days it takes to do something, nor any procedures, nor the cost (see annex). The same is true for indicators where Bosnia regressed, such as “resolving insolvency” and “registering property.”

### **Macedonian illusion**

According to the World Bank Macedonia has the 12<sup>th</sup> best business climate in the world this year. The UK and three Scandinavian EU members are better than Macedonia; all other EU members are behind.

Already in 2013 the World Bank told the world that Macedonia was a better place to do business than Switzerland. It was a surprise then: Macedonia came 25<sup>th</sup> and Switzerland 29<sup>th</sup>. Then, in 2014, the World Bank corrected the rankings for 2013. This put Macedonia in 31<sup>st</sup> place and moved Switzerland up to 22<sup>nd</sup>. In 2014 the World Bank put Macedonia 30<sup>th</sup> and Switzerland 20<sup>th</sup>.<sup>18</sup>

In November 2014 ESI wondered about this reversal of positions.<sup>19</sup> And we looked forward to further retrospective adjustments. Doing Business did not disappoint. It turns out that Macedonia was after all *always a better place to do business than Switzerland*. The World Bank revised Macedonia's rank last year to 14<sup>th</sup> in the world, compared to Switzerland's 26<sup>th</sup>.

*Macedonia vs. Switzerland 2014 OLD vs. 2014 REVISED*<sup>20</sup>

<b>Country</b>	<b>2014 OLD</b>	<b>2014 NEW</b>	<b>Difference</b>
Macedonia	30	14	<b>+16</b>
Switzerland	20	26	<b>-6</b>

<sup>17</sup> EU Delegation to Bosnia and Herzegovina, [“Compact for Growth and Jobs in Bosnia and Herzegovina”](#), 11 October 2014.

<sup>18</sup> Doing Business, [“Reports”](#), 27 October 2015.

<sup>19</sup> ESI, [“Pumpkins, outliers and the Doing Business illusion”](#), 4 November 2014.

<sup>20</sup> Doing Business, [“Reports”](#), 27 October 2015.

*Doing Business: Macedonia indicators in 2015<sup>21</sup>*

<b>Indicator</b>	<b>Macedonia</b>
<b>Overall Rank</b>	<b>12</b>
Starting a business	2
Paying taxes	7
Construction permits	10
Protecting minority investors	14
Enforcing contracts	26
Trading across borders	26
Resolving insolvency	37
Getting credit	42
Getting electricity	45
Registering property	50

All 28 EU member states can learn a lot from Macedonia, as it is better than all of them on starting a business and better than all but one when it comes to paying taxes and obtaining construction permits. See below the table showing how many EU countries are behind Macedonia in the different categories covered by the World Bank's ranking:

*Doing Business: Number of EU member states doing worse than Macedonia in 2015<sup>22</sup>*

<b>Indicator</b>	<b>EU members behind MAC</b>
Starting a business	28
Paying taxes	27
Construction permits	27
Protecting minority investors	24
Enforcing contracts	17
Getting credit	14
Getting electricity	14
Registering property	10
Resolving insolvency	10
Trading across borders	7

**What now?**

There were always conceptual problems with what Doing Business measures. But the dramatic revisions every year also show deep methodological problems.<sup>23</sup>

In light of these it would be good if the World Bank would undertake a serious review of its methodology. In the meantime, the European Commission should stop making any more references to the Doing Business rankings in its reporting on the Balkans.

<sup>21</sup> Doing Business, "[2016 Rankings](#)", 27 October 2015.

<sup>22</sup> Doing Business, "[2016 Rankings](#)", 27 October 2015.

<sup>23</sup> For more details on the methodological weaknesses of the ranking see ESI, "[Pumpkins, outliers and the Doing Business illusion](#)", 4 November 2014.

**Annex:**  
**The problem with Doing Business (ESI in November 2014)<sup>24</sup>**



*Business climates – Balkania vs. Danubia*

There is an obvious conceptual problem with the way countries are ranked in the Doing Business project. To better understand this central problem, imagine two very different economies from two hypothetical countries seeking to climb their way up in the World Bank's rankings.

The first country – let us call it *Balkania* – consists mainly of cafés, small shops, wedding parlours and subsistence farmers. The other – *Danubia* – is an industrial economy that produces high-value goods for export, with chemical plants, agro-processing, pharmaceuticals and industrial agriculture.

Doing Business only measures the regulations that apply *both* to an economy of very small businesses and subsistence agriculture, as well as to an industrial or advanced service economy. The analysis excludes any regulations specific to either simple or highly advanced economies.

Now assume that it takes fewer days to register a small shop in Balkania than in Danubia – it is certainly a good thing if this can be done in two days rather than in 20. It may well be true that Balkania has improved aspects of the regulatory system of its relatively primitive economy, particularly in the few areas that Doing Business measures. This would benefit many of Balkania's small entrepreneurs. And this is a good thing in itself, like in the real-world examples of Georgia and Macedonia, which have indeed improved aspects of their business climates since 2003.

But will such reforms attract investors who have avoided the small shops and cafes of Balkania, and have flocked to industrialised Danubia? Investors that create high-value added goods integrated into global chains of production, products which have helped Danubia catch up with its wealthy neighbours, while Balkania continues to fall behind?

Back to Macedonia, Switzerland, Georgia and Germany. To suggest that the quality of Macedonian business regulation is comparable along ten indicators with that of Switzerland is problematic from the outset. To suggest that the number of days it takes to register a shop or café is one of only ten decisive indicators for a country's business environment is misleading.

<sup>24</sup> ESI, "[Pumpkins, outliers and the Doing Business illusion](#)", 4 November 2014.



The analysis does not take into account many factors that are obviously crucial in an investor's decision to invest, among them: security; market size; macroeconomic stability; state of the financial system; and level of training and skills of the labour force. And within the indicators that *are* measured, certain critical aspects are left out, such as: the reliability of utilities; the cost and availability of credit for firms; and subsidies.

Overselling Doing Business can do harm, if it suggests that the key problems facing a country like Macedonia are easy to identify and to address without any real understanding of local comparative advantages or disadvantages, of existing businesses and industrial legacies.

Doing Business authors argued that their research “defies the often used saying, ‘one size doesn’t fit all.’” This implies that it is straightforward both to diagnose the illness and to prescribe the right medicine. It is not, and to believe it is is to engage in magic thinking.