

Doing business in 2014 – the Pacific falls behind

by Jonathan Pryke and Stephen Howes

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The World Bank recently **released** their Ease of Doing Business rankings for 2014, a ranking of 189 countries across 11 indicators to assess the ease of establishing and operating small and medium-sized businesses. The outcomes for the Pacific are not good. Of the 11 Pacific Island Countries (including Timor-Leste) that are measured in the rankings, only four have managed to improve their position relative to other countries since 2012, and two since last year. Fiji, the Marshall Islands and Papua New Guinea have all slipped by over 20 spots since 2012. Micronesia, Palau, Solomon Islands and Vanuatu have seen marginal gains, but none have improved more than five spots since 2012. Samoa and Tonga are still the best performers in the region, with Timor-Leste lagging far behind.

Country	2014	Ranking change from 2013	Ranking change from 2012
Samoa	67	-6	-12
Tonga	69	-12	-9
Vanuatu	76	-2	2
Fiji	81	-19	-23
Solomon Islands	87	10	5
Palau	113	-13	1
Papua New Guinea	133	-20	-25
Kiribati	134	-12	-17
Marshall Islands	139	-25	-29
Micronesia, Fed. Sts.	145	11	5
Timor-Leste	172	0	-5

Note:

Some of the change in rankings is attributed to data adjustments and changes in the methodology of the rankings from year to year. See our extended note on the methodology at the end of the post.

The above results (even if taken at face value) do not necessarily mean that the regulatory climate for businesses in these countries has worsened. It may be rather

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that other countries are improving faster. The World Bank has tried to address this in recent years through the Distance to Frontier (DTF) measure, which “tries to capture the actual distance each economy has to go to reach the frontier of ‘best performance’”. The ‘frontier’ is set at 100 so, from the table below for example, Samoa is 2/3 of the way towards ‘best performance’.

	DTF score 2014	DTF score 2013	DTF score 2012	Change in score from 2012
Samoa	66.17	66.23	67.55	-1.38
Tonga	65.72	65.72	65.25	0.47
Vanuatu	64.6	63.62	64.1	0.5
Fiji	63.9	63.82	67.51	-3.61
Solomon Islands	63.08	61.06	62.11	0.97
Palau	59.5	59.5	56.58	2.92
Papua New Guinea	55.78	55.79	57.14	-1.36
Kiribati	55.48	55.23	58.91	-3.43
Marshall Islands	54.72	54.83	56.91	-2.19
Micronesia, Fed. <u>Sts.</u>	53.07	51.02	50.1	2.97
Timor-Leste	46.89	44.31	43.11	3.78

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2012 the average score of the Pacific region has shrunk by 0.3, while the global average score has increased by four points. The Pacific looks a little better over the five year period since the DTF has been recorded, with the average score increasing by 1.8, but that is again only one quarter of the global average increase. Six Pacific countries have improved their performance since 2009, and five have gone backwards.

This fairly dismal performance notwithstanding, the World Bank decided to put a **positive spin** on results by highlighting in its press release specific score-improving reforms made by Palau (reduced trade barriers), Solomon Islands (easier electricity connections), Timor-Leste (a one-stop shop for starting businesses) and Vanuatu (faster property transfers). No mention is made of the Pacific falling behind other regions, or of the glacial progress the region is making in relation to the indicators as a whole. Nor is there any mention of the two other Pacific reforms highlighted in the Bank report as taking the countries concerned backwards: Kiribati is pinged for introducing a VAT and Samoa for increasing building permit fees.

Perhaps accentuating the positive is a good strategy to encourage other countries to follow suit. But it also obscures the fact that the many millions of assistance put into improving the environment for business in the Pacific (largely by the Australian aid program) has, if these indicators are to be believed, had little return to date.

Of course, we should also note that the independent review panel set up by the

Bank a couple of years ago suggested that it **end the practice** of ranking countries against one another on the grounds that the results might be misleading and are sometimes not objective. Clearly that recommendation has been ignored. If the Bank thinks the ratings are worth publishing, then it shouldn't ignore the message those ratings give.

*Note: The methodology for the doing business index changes from year to year, making cross-year comparisons imperfect. The World Bank, however, only provides **adjusted data** based on new their methodology for this year and last year's rankings, leaving this rough comparison as the best measure we have for comparing performance over a longer than two year time frame. Using the adjusted data rather than the original data makes no difference to the trends of the year-on-year comparisons, which are possible using the former, except in the cases of Timor-Leste (which slightly improves instead of falling five spots) and FSM (which maintains the same ranking).*

Jonathan Pryke is a Research Officer at the Development Policy Centre. Stephen Howes is Director of the Centre.

Author/s:

Jonathan Pryke

Jonathan Pryke worked at the Development Policy Centre from 2011, and left in mid-2015 to join the Lowy Institute, where he is now Director of the Pacific Islands Program. He has a Master of Public Policy/Master of Diplomacy from Crawford School of Public Policy and the College of Diplomacy, ANU.

Stephen Howes

Stephen Howes is Director of the Development Policy Centre and Professor of Economics at the Crawford School of Public Policy at The Australian National University.

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