

World Bank's 'Doing Business 2020 – Iraq' report: A Critique

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Introduction

The World Bank published 'Doing Business 2020– Iraq' report (henceforth WB2020), on September 24 2019, amid tumultuous political and economic events in Iraq.

WB2020 aims to “recommend reforms to improve performance in each of the indicator areas” (<https://www.doingbusiness.org/content/dam/doingBusiness/country/i/iraq/IRQ.pdf>). DB2020 covers business regulation and reform in different cities (Baghdad in the case of Iraq) and regions within nations. Countries/regions/cities can compare their business regulations with the 190 economies ranked in the report. The report encourages economies to compete towards more efficient regulation; it offers measurable benchmarks for reform; and serves as a resource for those interested in the business climate of each economy.

Each indicator *broadly* measures *procedures* to legally start and formally operate a company; *time* required to complete each procedure (calendar days); and *cost* required to complete each procedure (as a percent of income per capita).

The selection of Small and Medium-Sized (SME) companies employing 10 persons and over is based on assumptions that would make the data comparable across the 190 economies (*ibid*). It is assumed, for example, that “any required information is readily available and that the entrepreneur will pay no bribes.” WB2020 also uses “a standardized business that is 100% domestically owned, has start-up capital equivalent to 10 times the income per capita, engages in general industrial or commercial activities and employs between 10 and 50 people one month after the commencement of operations, all of whom are domestic nationals” (*ibid*)

Comparing business regulation in 190 economies takes two forms. First, each *indicator* in a particular economy (e.g. Baghdad – Iraq) is allocated a *point*, which shows its position relative to the economy that offers either the most favourable business environment (scoring 100) or the least favourable environment (scoring 0.0). For example, regarding the ‘starting a business’ indicator, Iraq scores 77.3 points (22.7 points below the best favourable environment), whereas Oman scores 93.5 points.

Second, “the ranking of economies is determined by sorting their scores for starting a business. These scores are the *simple average of the scores* for each of the component indicators” (*ibid*, italics added), using the latest (May 2019) data available. This reflects ease of doing business scores for 10 topics included in the aggregate ranking. Here, Iraq (Baghdad) falls at 172nd place (the bottom decile, reflecting overall 44.7 points out of 100.0 at *ease of doing business*), a very long distance from the front line score, where New Zealand ranks number one – at the very top, in terms of providing a competitive business environment (scoring 86.8 points at ease of doing business) and Denmark scoring 85.3 points, etc. These are described as the “world’s most business-friendly countries.”

Doing business environment in Iraq

It is instructive to benchmark Iraq’s performance in creating a conducive (if competitive) environment to do business. The Table below summarises the main results of the WB2020 report. For comparative purposes, the Table also provides data from 2012 WB report on investment environment in Iraq.

The second column in the Table shows an overall score of 44.7 for measured individual *indicators*. The score for individual indicators varies widely from 77.3 regarding ‘starting a business’ to 25.3 regarding ‘trading across borders.’

Summary of the findings of the WB 2020 and 2012 reports – IRAQ

Doing Business 2020	100 = most favourable DB environment 0.0 = least favourable DB environment	Ranking Score out of 190 1= best, 190 = worst	Ranking Score out of 190 1= best, 190 = worst
	2019	2019	2012
Starting a business	77.3	154	176
Dealing with construction permits	67.7	103	120
Getting electricity	61.9	131	46
Registering property	57.3	121	98
Getting credit	0.0	186	174
Protecting minority investors	46.0	111	122
Paying taxes	63.5	131	49
Trading across borders	25.3	181	180
Enforcing contracts	48.0	147	140
Resolving insolvency	0.0	168	18 *
Employing workers	0.0	0	N/Applicable
Overall	44.7	172	164
Source: for 2020: https://www.doingbusiness.org/content/dam/doingBusiness/country/i/iraq/IRQ.pdf			
For 2012: http://documents.worldbank.org/curated/en/224621468261277147/pdf/770960ICA020120IRAC0Box377289B00PUBLIC0.pdf			
* In the WB 2012 report, this indicator was titled 'closing a business'			

As for 'getting credit' (a critical requirement for starting a business) Iraq evidently suffers from lack of support for aspiring entrepreneurs to establish a new business. This is partly why Iraq ranks at the very bottom of comparator countries (scoring 186) revealing a very weak system for credit extension to entrepreneurs. This is also a reflection of the widely known fact that Iraq suffers from a very weak banking system, which, according to a July 2019 IMF assessment, needs "an overhaul of the banking sector...to maintain financial stability...(and to recognise)... the benefits of increasing financial inclusion, especially for the SME sector, which has a large potential to absorb entrants to the labor market" (<https://www.imf.org/en/New.s/Articles/2019/07/26/pr19301-iraq-imf-executive-board-concludes-2019...>).

Moving to ranking (third column in the Table), which measures the distance to the front line score, Iraq, again scores poorly – an overall score of 172. This clearly shows that Iraq is a long distance away from the best in class - New Zealand, Singapore, Denmark, etc. On resolving insolvency, again another important consideration in doing business, Iraq scores 168, and on trading across borders the score is 181?

These findings are consistent with views aired by other institutions. For example the UK's 'Department for International Trade' perceives Iraq as a "challenging market" given security concerns, lack of transparency, stifling bureaucracy, weak banking sector and, *inter alia*, the fact that arbitration can take months, if not years (<https://www.gov.uk/government/publications/exporting-to-iraq/doing-business-in-iraq...>). Writing in the same vein, Imad A. Salim, adds "inefficiency, failure of successive Iraqi government to improve the business environment, lack of proper legal framework deterring foreign direct investment (FDI), and, *inter alia*, the flight of capital, only to be invested outside the country" (<https://almadapaper.net/view.php?cat=222424> – in Arabic).

Business Reforms in Iraq

The WB2020 (p.64) suggests that Iraq has implemented business regulatory reforms, for example, making starting a business easier by combining multiple registration procedures and reducing the time to register a company. Iraq has also improved access to credit information by launching a new credit registry in 2017. In addition, Iraq made dealing with construction permits easier by allowing the simultaneous processing of applications for utility clearances and building permit. The Ministry of Electricity made getting electricity faster by enforcing tighter deadlines on electricity connections, in 2012.

However, the WB2020 report asserts that 'Starting a Business' in Iraq has "become more expensive because of an increase in the cost to obtain a name reservation certificate and in the cost for lawyers to draft articles of association."

In **summary**, whilst Iraq appears to have introduced limited reforms since 2012 to improve the business environment, this does not seem to have been enough to improve its position in the ranking in comparison to other economies. Indeed, the situation appears to have worsened, since 2012, as fourth column in the above Table clearly shows. The overall

ranking of ‘ease to do business’ was 164 in 2012, and has gone up to 172 in 2019. The WB’s report - *IRAQ Investment Climate Assessment 2012* – suggested that the leading “impediments to Iraqi firms are electricity supply, political instability and corruption with variations noted across sectors and governorates” (<http://documents.worldbank.org/curated/en/224621468261277147/pdf/770960ICA020120IRAC0Box377289B00PUBLIC0.pdf> - p.7). This appears to be still the case, if not worse.

Perhaps it is not too bold to suggest that the persistent lack of tangible improvement in the ‘ease to do business’ in Iraq is one reason why FDI has been in decline recently, from US\$ 1,396 million in 2010, to US\$ -7,574 million in 2015 and further down to US\$ -4,885 million in 2018 (UNCTAD, 2019: <https://unctadstat.unctad.org/CountryProfile/GeneralProfile/en-GB/368/index.html>). UNCTAD (*ibid*) also reports that FDI outflows have increased from US\$125 million in 2010 to US\$188 million in 2018. To borrow a journalistic phrase, this is most certainly not good news for business in Iraq, nor productivity growth. It certainly provides food for thought to Iraqi institutions aiming to attract FDI.

The dynamics of doing business in Iraq – a critique

It must be stressed that whilst WB2020 report falls within micro-/business economics discipline; it only points to areas where improvement is required, or has been made. It is not a strictly an analytical report in the sense that it compares practice with received theory.

The authors acknowledge that the methodology has limitations. For example, in measuring the indicators, the entrepreneur is assumed to have knowledge of and comply with applicable regulations. This appears to be in line with *neoclassical economics* framework; an unrealistic premise. Given the widely reported pervasive corruption in Iraq, avoidance of compliance might not be uncommon, as the authors appear to suspect. The methodology also excludes many policy areas, thus narrowing the scope of the measurement, nor does it capture the qualitative aspects of an economy’s business environment, for example the quality of the labour force, bribery and corruption, which form a real economic and financial cost to doing business in Iraq.

One might add that another technical limitation is the exclusion of Kurdistan Region, where the business environment might be better than in Baghdad. Also, in Iraq the number of small firms (employing less than 10 workers) is large but excluded in the WB2020 report; in 2016 there were 25,966 small firms, compared to 179 medium-sized in the manufacturing sector (www.cosit.gov.iq/AAS2017/...pdf), perhaps a representative sector of Iraq’s firm-size-spread.

It must be stressed, though, that none of these limitations lessen the importance of the WB2020 – IRAQ report, or the recommendations provided to individual economies to improve the business environment.

However, like other international institutions, for example, the IMF, OECD, World Economic Forum, the WB does not normally deal with socio-religious factors that influence the dynamics of doing business in a country like Iraq, or, indeed, the Middle East, or any other economy. The October/November tumultuous protests in Iraq appear to demonstrate the ineffectiveness of an ethno-sectarian political system, where ethnic, religious and tribal influences in the economy appear to constrain (to mention one example only) the participation of women in business. The WB2020 report notes (p. 8), for example, that the ‘Personal Status Law No. 188 of 1959, Article 25’ states that married Muslim women forgo alimony if they do not obey their husband’s guardianship. On inheritance, Article 89 (1) states that “the male gets a portion equal to that of two females.” Such a primogeniture measure immediately reduces Muslim women’s potential to make major economic use of new resources available to them. It is partly due to social norms and religious codes that women’s participation in Iraq’s labour market is currently around 19 percent (UNCTAD, *op cit*), and only 6.8 percent of firms had female ownership in 2011 (WB’s: <http://www.enterprisesurveys.org>).

Perhaps the major international institutions should start looking more closely at the impact of socio-religious factors on the dynamics of doing business especially in backward and developing economies.

Risks and Challenges

Finally, if Iraq does not improve the ease of doing business in the way outlined by WB2020, and by other major institutions (e.g. from the UN, OECD, IMF, etc.) the country risks the continuation of a situation whereby it remains uncompetitive, suffering from low productivity and the formation of business. Its non-oil exports will remain as low as they are at present (less than 5 percent of the total). Business formation and employment creation remain a critical challenge for Iraq. Rising to this challenge could (in part) help Iraq avoid continued social unrest, political instability and poor economic performance.

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