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**FOR DEBATE AND GUIDANCE**

## FOURTH ITEM ON THE AGENDA

**The United Nations and reform:  
Developments in the multilateral system****World Bank *Doing Business* report:  
The employing workers indicator**

1. The Ministerial Declaration of the 2006 High-level Segment of the United Nations Economic and Social Council (ECOSOC) called on the multilateral system and donor agencies to mainstream the goals of full and productive employment and decent work for all in their policies, programmes and activities. It strongly encouraged multilateral and bilateral donor and inter-agency cooperation and coordination in this respect, with a view to achieving improved policy coherence. It further contained a commitment “to the implementation of the present declaration and invite(d) all relevant actors, including the Bretton Woods institutions and other multilateral banks, to join our efforts in this regard”.<sup>1</sup>
2. The ILO and the World Bank have developed strong working relations at country level, in policy dialogues and on research questions with a view to promoting improved policy coherence between the wide-ranging activities of the Bank and the Decent Work Agenda.<sup>2</sup> The Bank also participates in the United Nations System Chief Executives Board for Coordination (CEB) which is increasingly engaged in furthering inter-agency collaboration to achieve internationally agreed development goals, including the Millennium Development Goals (MDGs). In this regard, the Director-General and the President of the World Bank have recently agreed to work together in the implementation of the CEB *Toolkit for mainstreaming employment and decent work* in a number of countries to be determined jointly.
3. The *Toolkit* “is designed to be a ‘lens’ that agencies can look through to see how their policies, strategies, programmes and activities are interlinked with employment and decent work outcomes and how they can enhance these outcomes by taking full account of the implications of their policies, strategies, programmes and activities for employment and decent work during the design stage and while advising and assisting countries and constituents with regard to their adoption and implementation”.<sup>3</sup>

<sup>1</sup> GB.297/WP/SDG/1.

<sup>2</sup> See GB.300/ESP/3 for a review of the progress made in developing a decent work dimension to Poverty Reduction Strategy Papers.

<sup>3</sup> Chief Executives Board for Coordination, 2007: *Toolkit for mainstreaming employment and decent work*, p. iii.

4. Since the adoption of the ILO's 1998 Declaration on Fundamental Principles and Rights at Work, the World Bank has increased its collaboration with the ILO and has developed guidance to assist its staff in analysing core labour standards (CLS) in Country Assistance Strategies (CAS). In 2006, the International Finance Corporation (IFC) of the World Bank group implemented new performance and policy standards requiring its private sector borrowers to comply with requirements based on the ILO's fundamental principles and rights at work, and other ILO standards with respect to safety and health, conditions of work and termination of employment. These criteria are now also used by the Bank in its lending for all infrastructure projects and by the Equator group of major private sector banks engaged in infrastructure project financing. The Bank also recently revised its "Standard bidding document for procurement of works" to require that core labour standards be respected by the Bank's contractors. Implementation has not yet started. These are positive developments in international policy coherence.
5. The World Bank is strongly engaged in making the regulatory environment in countries more conducive to investment and entrepreneurship. A landmark is the annual *Doing Business* report whose 2008 edition was launched at the end of September 2007. In many ways, these concerns rejoin the ILO's own efforts in fostering a conducive environment for sustainable businesses. This came to fruition in June 2007 with the tripartite adoption of the sustainable enterprises resolution by the 96th Session of the International Labour Conference.
6. The resolution states, inter alia:

An environment conducive to the creation and growth or transformation of enterprises on a sustainable basis combines the legitimate quest for profit – one of the key drivers of economic growth – with the need for development that respects human dignity, environmental sustainability and decent work (...) Sustainable enterprises should innovate, adopt appropriate environmentally friendly technologies, develop skills and human resources, and enhance productivity to remain competitive in national and international markets. They should also apply workplace practices based on full respect for fundamental principles and rights at work and international labour standards, and foster good management relations as important means of raising productivity and creating decent work.<sup>4</sup>

7. The annual *Doing Business* report provides a ranking of 178 countries as a guide for evaluating regulations that directly impact economic growth, making cross-country comparisons, and identifying good practice reforms. It aims to provide an objective measure of business regulations and their enforcement with a view to helping countries develop a good regulatory environment to promote private sector development and employment. The ranking is based on a *Doing Business* index (DB) which is composed of ten subcomponents. These are: (1) starting a business; (2) dealing with licences; (3) employing workers; (4) registering property; (5) getting credit; (6) protecting investors; (7) paying taxes; (8) trading across borders; (9) enforcing contracts; and (10) closing a business.
8. An issue of concern to the ILO is the employing workers indicator (EWI). The Office has expressed its disquiet on a number of occasions to the World Bank staff responsible for the *Doing Business* report that: the methodology of the employing workers indicator yields a narrow and misleading view of the employment environment for business; results in a ranking in which some countries with a strong and competitive private sector are placed at

<sup>4</sup> Resolution concerning the promotion of sustainable enterprises, paras 10 and 13, International Labour Conference, 96th Session, June 2007.

the lower end;<sup>5</sup> and is being used explicitly and implicitly to determine country lending priorities in the field of labour market reform. In these contacts the Office has stressed that other aspects of the *Doing Business* report may help focus attention on vital areas of concern for healthy private sector development, such as security of property rights and enforcement of commercial contracts, but that the methodology of the EWI detracts from this effort.

9. The *Doing Business* report has acquired some importance in international policy discussions and is influencing policy reform at the national level. Its EWI raises policy coherence issues central to the ILO's mandate on labour standards, social protection, social dialogue, employment creation and the promotion of sustainable enterprises. This paper contains a summary analysis of the main issues and limitations around this indicator. It bases this analysis on the approach of the conclusions adopted at the June 2007 International Labour Conference on the promotion of sustainable enterprises.<sup>6</sup> It also suggests that these questions and their policy implications be further discussed in the continuing dialogue and cooperation with the World Bank.
10. These main issues and limitations involve the following key points:
  - (a) The EWI is a poor indicator of the investment climate and of labour market performance to promote employment and decent work.
  - (b) There are serious methodological and technical limitations with the indicator.
  - (c) The design of the indicator and the scoring system suggests that reducing protection to a minimum and maximizing flexibility is always the best option. The EWI does not take into account the need for balance in labour market institutions and policies to ensure that both enterprises and workers have the right combination of security and flexibility to adapt to competition while ensuring an adequate security of income and employment.
  - (d) International research does not provide conclusive evidence for the view that labour market regulations are the main cause of informality or that lowering labour market regulations beyond certain points will promote employment and transition to formality.
  - (e) The Bank claims that "... it is now possible for an economy to receive the highest score on the ease of employing workers ... and comply with all 187 ILO Conventions". This claim is misleading. Countries can achieve a high score on the DB and face problems in the application of ratified Conventions.
  - (f) The *Doing Business* ranking has been used to promote policy reform in developing countries, including via direct or indirect conditionality. While benefits can be derived by reducing the cost of red tape and unnecessary regulations to a minimum, there is a serious problem with promoting reforms of labour law based on the same cost-minimization principles.
11. The next section reviews the basic structure of the EWI; the following sections comment on each one of the limitations listed above.

<sup>5</sup> See appendix for the ranking of countries according to the EWI.

<sup>6</sup> Conclusions concerning the promotion of sustainable enterprises, International Labour Conference, 96th Session, June 2007, ILO, Geneva.

## The employing workers indicator

12. The EWI measures some aspects of employment protection legislation assigning a favourable ranking to countries with lower levels of regulation. It is a composite of three sub-indices: difficulty of hiring, rigidity of hours, and difficulty of firing. In addition, there is a firing cost indicator as well as a non-wage labour cost indicator that measures social security payments made by the employer (see table 1). Country rankings are calculated according to the score received on the three sub-indices and the firing cost indicator. Although listed in the EWI, non-wage labour costs affect the score of the “paying taxes” category.<sup>7</sup>
13. The data on employing workers is based on a survey of employment regulations completed by selected local law firms. To ensure comparability across countries, the *Doing Business* survey asks its correspondents to make the following assumptions when answering the questions: the worker is a non-executive, full-time male employee with 20 years of tenure. He earns a salary plus benefits equal to the country’s average wage. He has a wife and two children, he lives in the most populous city and he is law-abiding. Finally, he does not belong to a union, unless membership is mandatory. The business he works for is a limited liability company, is domestically owned, is in the manufacturing sector, has 201 employees, is law-abiding, but does not grant benefits above what is required by the law. The business is subject to collective bargaining agreements in those countries where bargaining covers more than half of the manufacturing sector.

Table 1. The *Doing Business* employing workers indicator

Employing workers indicator				
Rigidity of employment			Non-wage labour costs (% of salary)	Firing costs (weekly wages)
Difficulty of hiring (0–100)	Rigidity of hours (0–100)	Difficulty of firing (0–100)		
<b>Components</b>				
(1) Use of term contracts	(1) Night work restrictions	(1) Use of redundancy	(1) Payroll taxes	Cost of advance notice, severance payments, redundancy penalties
(2) Maximum duration of term contracts	(2) Weekend work restrictions	(2) Third party notification for redundancy (indiv./collective)	(2) Retirement	
(3) Ratio of the minimum wage to the average value added per worker (for new hiring)	(3) Day(s) of rest	(3) Third party approval for redundancy (indiv./collective)	(3) Sick leave	
	(4) Workweek duration	(4) Reassignment or retraining options before redundancy	(4) Maternity	
	(5) Paid annual vacation days	(5) Priority rules for redundancies;	(5) Health insurance	
		(6) Priority rules for re-employment	(6) Workplace injury	
			(7) Family allowance	
			(8) Other contributions associated with hiring	

<sup>7</sup> Non-wage labour costs used to be part of the EWI scores and ranking. In 2007, the Bank changed the methodology to have non-wage labour costs as part of the “paying taxes” category. The “paying taxes” category ranks countries according to the amount of taxes and mandatory contributions that a medium-sized company must pay or withhold in a given year, as well as measures of the administrative burden in paying taxes and contributions. Payroll taxes are included among the taxes and contributions measured. Countries with lower non-wage labour costs receive high scores and vice versa.

14. While the very specific survey assumptions are understandable from the perspective of creating a 178-country ranking, they yield a very narrow view of the labour market environment faced by business in specific countries. The survey looks simply at costs faced by individual businesses in meeting legal requirements concerning minimum contract conditions especially concerning termination. It does not seek to measure the benefits to workers or business from a labour law regime.

### **A poor indicator of the investment climate for growth, productivity and employment**

15. The *Doing Business* project has asserted that the EWI “can be used to analyse specific regulations that enhance or constrain investment, productivity and growth”.<sup>8</sup> In practice the ranking of countries of the report has been taken as rankings of investment climate or the “climate for doing business”. Yet the *Doing Business* report is narrowly focused on the cost of red tape. Important considerations for businesses, such as macroeconomic conditions, physical and human infrastructure and crime are not considered. Nor does the EWI consider how the educational level of the country, the skills of the labour force, worker–management relations, brain drain, or the participation of women in the labour force can affect investment and economic performance.
16. The *World competitiveness yearbook* (WCY), the *Global competitiveness report* (GCR) and the World Bank’s investment climate surveys (ICs), on the other hand, consider many of these issues and demonstrate the importance they hold for business and competitiveness. In the IC, for example, the lack of skills consistently outscores labour regulations as an impediment to business. Similarly, the WCY and GCR include a question on labour relations and the surveys demonstrate that countries that have cooperative labour relations score higher on competitiveness.
17. As a result, there is little in common between the findings of the DB and the other investment climate indicators. For instance, top economic and social performers in the competitiveness ranking, rank very poorly in the EWI: Finland and Germany, for example, rank top 2 and 3 performers in the World Economic Forum’s business competitiveness index of 2006, but they have ranks 127 and 137 in the EWI. Senegal and Ecuador ranked in the bottom 10 per cent of the EWI in 2006, but according to the World Bank 2006 IC surveys in these two countries only 15 per cent of employers felt that labour regulations were a major or very severe obstacle to the operation of their business whereas 70 per cent reported that labour regulations were not an obstacle or a very minor obstacle.
18. Many countries with a strong private sector, good or relatively good employment performance and a good ranking in GCR reports, rank low in the EWI, for instance: Spain (154); France (144); Germany (137); Finland (127); Brazil (119); Sweden (107); Norway (94); Netherlands (92); South Africa (91).
19. The *Doing Business* report champions the proposition that regulations, including labour regulations, affect growth negatively and are a major factor in increasing the size of the informal economy. While there is evidence that excessive regulations on business in certain areas (entry, trade, financial markets, contract enforcement, registration of business) can indeed be a barrier to the growth of the private sector, the empirical debate around the idea that by deregulating the labour market business will prosper and

<sup>8</sup> This statement appeared on the homepage of *Doing Business* ([www.doingbusiness.org](http://www.doingbusiness.org)) throughout 2006 and much of 2007. Similarly, the product description of the 2008 report states, “*Doing Business* 2008 focuses on how complex business regulations dampen investment, growth and job creation in all businesses, and especially opportunities for women entrepreneurs”.

informality will be reduced<sup>9</sup> is far from being settled.<sup>10</sup> For example, in the study by Botero, et al. (2004), which is the basis for the methodology of the EWI, the authors find that employment laws have a significant negative effect on male labour force participation and unemployment (positive and significant), *but no effect* on informality.<sup>11</sup> Even articles that find positive economic effects as a result of labour market deregulation also find “that better institutions help mitigate, and even eliminate, the adverse impact of regulation on economic growth”<sup>12</sup> and warn that “conclusions on the role of regulation must necessarily be evaluated in a more comprehensive context before drawing definitive social welfare implications”.<sup>13</sup>

## Flexibility, security and international labour standards

20. The EWI does not take into account the *raison d'être* of labour legislation, which is to govern the individual and collective relations between workers and employers, so as to ensure a satisfactory balance between not only the economic interests but also the social and political interests of these two groups of beneficiaries. Labour legislation is also an essential policy tool at the disposal of governments to promote social cohesion and social peace and is indispensable to the goal of decent work for all. Where minimum rights and duties are known to all and effectively enforced the disruptive impact of poor labour relations and an unstable working environment on productivity are reduced. An assessment of labour legislation that overlooks these aspects risks being partial and one-dimensional and a poor guide to evaluating regulations and identifying good practice reforms.
21. Given that many countries' labour legislation is often based on international labour standards, a further concern is that the EWI might discourage countries from ratifying and abiding by international labour Conventions and Recommendations if doing so would push them down the indicator. Although the IFC has made some minor revisions to the questions in the 2008 *Doing Business* report, there remain possible conflicts with the EWI questions and ILO standards concerning dismissal notification, working hours, and weekly rest. In general, the DB questions interpret principles enshrined in ILO Conventions so

<sup>9</sup> In the 2006 report, for example, the chapter on employing workers begins with the anecdote of Yasmine, a college graduate from Burkina Faso, who is unable to find a job in the formal sector: “her plight can be explained by rigid employment regulation” (p. 21).

<sup>10</sup> Articles on this issue find negative, neutral, positive as well as inconclusive economic effects as a result of labour market regulations and institutions. Part of the difference in results is attributed to what is taken as representative of labour market regulations. Many studies on labour market institutions focus on employment protection legislation including severance pay, whereas others consider freedom of association and collective bargaining rights, minimum wages, laws on working hours and social security provisions. For a review of the labour market flexibility debate see Berg and Kucera, eds. (2007): *In defence of labour market institutions: Cultivating justice in the developing world*, London, Palgrave–Macmillan, and Geneva, ILO. For a detailed overview on empirical work measuring the labour market effects of employment protection legislation see S. Cazes and A. Nesporova (2003) and G. Pierre and S. Scarpetta (2004) “Employment regulations through the eyes of employers: Do they matter and how do firms respond to them?”, IZA discussion paper No. 1424.

<sup>11</sup> J. Botero; S. Djankov; R. La Porta; F. Lopez-de-Silanes and A. Shleifer (2004): “The regulation of labour”, in *Quarterly Journal of Economics*, 119(4): 1339–1382.

<sup>12</sup> N. Loayza; A.M. Oviedo and L. Serven (2005): *The impact of regulation on growth and the informal sector: Cross country evidence*, World Bank, p. 15.

<sup>13</sup> *ibid.*, p. 16.

narrowly that countries that have ratified Conventions may receive lower scores for applying them. Furthermore, no reflection is given to the fact that the legal regulations giving rise to a negative assessment by the EWI may be the fruit of important negotiations aimed at providing the best business climate for all concerned. The deregulation encouraged by the indicators is further likely to create an environment that may in practice create obstacles to the effective recognition of the fundamental rights of freedom of association and collective bargaining.

22. The EWI does not reward compliance with international labour standards and can give high rankings where laws do not conform to ratified standards. Similarly, it does not encourage respect for the principles contained in the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy and the 1998 Declaration on Fundamental Principles and Rights at Work, which have enjoyed the unanimous support of the business and labour communities and which highlight the link between social progress and economic growth.
23. The EWI is limited to assessments of legal texts rather than the law's practical implementation. But labour law's effectiveness is dependent upon its enforcement and its interpretation by the relevant dispute settlement institutions. Indeed, asymmetries across countries and over time in the degree of enforcement of labour legislation may be more marked than differences in regulations. For example, increasing complexity surrounding the rights of workers under new types of contracts means that national administrations and labour courts effectively determine the enforcement of employment protection. The OECD has developed a "difficulty of dismissals" indicator<sup>14</sup> which aims to capture this dimension of the employment environment and is a more useful measure of job termination probabilities and the inflows of persons into unemployment.<sup>15</sup> The courts' implementation of the law evidenced in jurisprudence is as important as the nominal strictness of regulations but does not figure in the indicator.
24. With its focus on costs to individual firms, the EWI does not consider the wider economic benefits, or "positive externalities", of labour market regulations. Rather, the indicator is based on a costs and "time is money" approach where legal systems are only seen as a burden and expense for business. The benefits, both economic and social, emanating from labour regulations, such as their role in reducing inequality among workers, insecurity, unpredictability and social conflict, but also in providing incentives to businesses to pursue high-road management strategies, are not considered.<sup>16</sup>

<sup>14</sup> This indicator of employment protection legislation reflects a qualitative assessment of the strictness of legal definitions of unfair dismissal, the frequency of verdicts involving the reinstatement of employees, and the monetary compensations awarded in cases of unfair dismissal (the methodology is discussed in detail in Grubb and Wells, 1993).

<sup>15</sup> S. Cazes; T. Boeri; G. Bertola (1999): "Employment protection and labour market adjustment in OECD countries: Evolving institutions and variable enforcement", Employment and Training Papers, No. 48, Geneva, ILO.

<sup>16</sup> C. Fenwick: *Labour-related regulations and promoting SMEs* (2007). EMP/ENT working paper (forthcoming), ILO.

25. Research by the ILO shows that firms do not opt for a high degree of external flexibility and high labour turnover, even when allowed under the law.<sup>17</sup> The negative effects of heavy labour turnover on investment in human capital, in new technologies, and in capturing new markets have been pointed out in numerous economic studies.<sup>18</sup> Moreover, businesses may prefer stable relationships that cultivate a worker's experience, as transaction costs such as screening and training are lowered. Unrestricted working hours can lead to a socially inefficient level of hours worked for the worker, the firm as well as society, as workers often do not realize the harmful effects that working long hours can have on health and safety as well as on family and community life.<sup>19</sup> Restrictions on working hours may also encourage firms to adopt functional forms of flexibility as well as productivity enhancing technologies that benefit the firm as well as economic growth in the medium to long term. Similarly, fixed-term contracts do allow firms to adjust their workforce more easily in response to business cycle fluctuations while reducing labour costs (workers on fixed-term contracts have been found to earn 10 per cent less than workers on indefinite contracts after controlling for worker characteristics). However, research shows that they have also led to greater turnover, less skills development, a greater prevalence of work accidents as well as a postponement of marriage and parenthood.<sup>20</sup>
26. The EWI does not allow for the measurement of the value of a balanced approach to the issues of flexibility and security.<sup>21</sup> For example, if the goal is to have a dynamic labour market with increased workers' mobility, then governments may choose to increase income protection for workers who change jobs, but also offer them the opportunity to receive training if they are out of work, as opposed to simply eliminating redundancy and severance pay provisions, as this could create the opposite effect.
27. Policy frameworks that enhance the flexibility of labour markets, work organization and collective bargaining while improving security, both of employment and of social protection, have proved to be the foundation for a number of the world's most attractive business locations. However taxes collected to finance such policies are viewed negatively

<sup>17</sup> See for example, P. Auer and S. Cazes (2003): *Employment stability in an age of flexibility. Evidence from industrialized countries*, Geneva, ILO.; S. Cazes and A. Nesporova (2003): *Labour markets in transition: Balancing flexibility and security in Central and Eastern Europe*, Geneva, ILO; P. Auer; J. Berg and I. Coulibaly (2005): "Is a stable workforce good for productivity?", in *International Labour Review* 144 (3).

<sup>18</sup> See for example, G. Becker (1964): *Human capital: A theoretical and empirical analysis, with special reference to education*, New York, Columbia University Press; and O. Williamson (1985): *Economic institutions of capitalism: Firms, markets, relational contracting*, New York, Free Press.

<sup>19</sup> S. Lee and D. McCann (2007): "Measuring labour market institutions: Conceptual and methodological questions on 'working hours rigidity'", in J. Berg and D. Kucera (eds.) (2007): *In defence of labour market institutions: Cultivating justice in the developing world*, London, Palgrave-Macmillan, and Geneva, ILO.

<sup>20</sup> See R. Muñoz de Bustillo Llorente (2005): "Employment performance and labour market institutions: The case of Spain", in D. Howell (ed.): *Fighting unemployment: The limits of free market orthodoxy* (New York, Oxford University Press) and S. De la Rica and I. Iiza (2005): "Career panning in Spain: Do fixed-term contracts delay marriage and parenthood?", *Review of Economics of the Household* 3 (1):49-73.

<sup>21</sup> See Sengenberger (1994) for a discussion of this issue (W. Sengenberger (1994) "Protection – participation – promotion: The systematic nature and effects of labour standards", in W. Sengenberger and D. Campbell (eds.): *Creating economic opportunities: The role of labour standards in industrial restructuring* (Geneva, International Institute for Labour Studies)).

by the EWI. Replacing severance pay by unemployment benefits – under certain circumstances a superior solution – may not lead to an improvement in the overall *Doing Business* ranking.

## Methodological limitations

28. The main methodological limitations of the EWI are:<sup>22</sup>

- (a) The assumptions and standardized cases on which the indicators are built (a worker with 20 years of tenure working in a firm with 201 employees), are not representative of the world of work.
- (b) The choice of the variables. For instance, the authors focus mostly on external numerical flexibility and in particular contractual flexibility (the duration of fixed-term contracts and dismissal legislation). Other important channels of internal adjustment such as wage flexibility, part-time work and work-sharing arrangements are not taken into account.
- (c) The arbitrary choices of the weighting. Presently, equal weights are attributed to each of the three components of the difficulty of hiring indicator and the rigidity of employment indicator, but the difficulty of firing indicator gives greater weight to some subcomponents without providing a rationale for why. Indeed, there is no economic analysis to back up why specific regulations are chosen.<sup>23</sup> Ideally, variables should be weighted according to their impact on the labour market.
- (d) The *Doing Business* reports are based on answers to questionnaires which allow room for interpretation and value judgements,<sup>24</sup> resulting in a certain level of subjectivity. The questionnaire has also been shown to suffer from linguistic bias and problems in translation, possibly affecting responses.<sup>25</sup>
- (e) Although ranking is a useful tool in summarizing some qualitative aspects of labour legislation, a country's performance in absolute terms cannot be evaluated as information on levels is lost. More disturbing is the dynamic induced by ranking countries according to their level of (de)regulation. For instance, despite efforts to reform, a country could simply keep the same ranking, or even "regress", just because other countries would be "better reformers" or because new countries would be included in the ranking.

<sup>22</sup> A more detailed discussion of the methodological limitations of the EWI is available in J. Berg and S. Cazes (2007): "The *Doing Business* indicators: Measurement issues and political implications", ILO Economic and Labour Market Paper 2007/6 (available at <http://www.ilo.org/public/english/employment/download/elm/elm07-6.pdf>).

<sup>23</sup> Such as the arbitrary decision to penalize countries that do not allow fixed-term contracts for less than five years.

<sup>24</sup> Problems due to the collaboration with different lawyers include possible misunderstanding of the questions as well as the risk that each lawyer fill in gaps in the definitions of terms used in a question according to his or her priorities.

<sup>25</sup> B. du Marais (2006): "Methodological limits of the *Doing Business* reports", WP AED-2006-1, research programme "Economic attractiveness of the law".

## Use of the *Doing Business* report as a criterion for World Bank development assistance

29. The Bank as well as the IMF link performance on the DB to the support they give to countries. The Bank's country policy and institutional assessments (CPIA) scores countries on 16 different policy areas and the score given determines the amount of development assistance a country will receive. The employing workers component of the DB is used as a "guidepost" by World Bank staff in assigning scores in two policy areas: business regulatory environment, and social protection and labour. A lower score will affect the amount of assistance the country receives. The DB indicators also trigger releases of Poverty Reduction Strategy credits, especially of those credits linked to the implementation of the private sector component of Poverty Reduction Strategies.
30. In addition, the EWI forms part of the World Bank's framework for labour market analysis, MILES,<sup>26</sup> which seeks to identify constraints to job creation and help in the formulation of labour market policies. The DB informs the analysis of the investment climate, while the EWI specifically informs the category of labour market regulations and institutions, thereby partially determining the policy advice and technical assistance that is given to countries.
31. To the extent that the DB is also used by private firms as a basis for investment decisions, it not only sends signals for capital flows but also exerts additional pressure on countries to deregulate towards minimal worker protection.

### Final remarks

32. This document has outlined some of the limitations of the EWI. The *Doing Business* report has grown considerably since its inception. It is the Bank's best-selling publication and is credited with having raised the profile of reforms to ease the cost of doing business in many countries. However, by contrast with other components of the DB, the narrow and limited methodological foundations for the EWI are insufficient and possibly damaging as a guide to policy formulation. The approach used by the *Doing Business* team with the indicator also contrasts markedly with that of other parts of the World Bank group.
33. By comparison, the tripartite resolution on the promotion of sustainable enterprises, adopted by the 96th Session of the International Labour Conference (June 2007) offers a more constructive and balanced way forward to strengthening the role of the private sector, creating decent work opportunities and achieving internationally agreed development goals, including the MDGs. It states, inter alia, that: "The ILO's work in promoting sustainable enterprises must be guided by its mandate, budget and comparative advantage, and be firmly grounded in its unique standard-setting role and in the Decent Work Agenda".<sup>27</sup> The Office is undertaking further research and analysis in support of the policy package advocated by the sustainable enterprises resolution.

Geneva, 22 October 2007.

*Submitted for debate and guidance.*

<sup>26</sup> Macroeconomic policies; Investment climate, institutions and infrastructure; Labour market regulations and institutions; Education and skills; and Social protection.

<sup>27</sup> Resolution concerning the promotion of sustainable enterprises, op. cit., para. 18.

## Appendix

### Rankings on the employing workers indicator

2007 rank	Economy	2007 rank	Economy	2007 rank	Economy
1	Marshall Islands	61	Mauritius	121	Zambia
1	Singapore	62	Austria	122	Philippines
1	United States	63	Yemen	123	Zimbabwe
4	Brunei	64	Mongolia	124	Lithuania
4	Georgia	65	United Arab Emirates	125	Tajikistan
4	Tonga	66	Kenya	126	Syrian Arab Republic
7	Maldives	67	Uzbekistan	127	Finland
8	Australia	68	Chile	128	Macedonia, FYR
9	Palau	69	Lesotho	129	Bangladesh
10	Denmark	70	Botswana	130	Djibouti
11	Uganda	71	Guyana	131	Republic of Korea
12	Micronesia	72	Uruguay	132	Pakistan
13	New Zealand	73	Timor-Leste	133	Cambodia
14	Bhutan	74	Kyrgyzstan	134	Mexico
15	Samoa	75	Slovakia	135	Chad
16	Fiji	76	El Salvador	136	Turkey
17	Japan	77	Vanuatu	137	Germany
18	St. Kitts and Nevis	78	Poland	138	Ghana
19	Canada	79	Costa Rica	139	Croatia
20	Switzerland	80	Azerbaijan	140	Sudan
21	United Kingdom	81	Hungary	141	Islamic Republic of Iran
22	Kazakhstan	82	Lao PDR	142	Greece
23	Hong Kong, China	83	Colombia	143	Cape Verde
24	Afghanistan	84	Viet Nam	144	France
25	Kiribati	85	India	145	Romania
26	Oman	86	China	146	Togo
27	St. Lucia	87	Israel	147	Argentina
28	Belize	88	Mali	148	Taiwan, China
29	Gambia	89	Ethiopia	149	Central African Republic
30	Nigeria	90	Malawi	150	Madagascar
31	Papua New Guinea	91	South Africa	151	United Rep. of Tanzania
32	Puerto Rico	92	Netherlands	152	Burkina Faso
33	Jamaica	93	Republic of Moldova	153	Indonesia
33	Namibia	94	Norway	154	Spain
35	Haiti	95	Rwanda	155	Nepal
36	Belgium	96	Latvia	156	Estonia
37	Ireland	97	Seychelles	157	Portugal
38	Trinidad and Tobago	98	Montenegro	158	Comoros
39	Kuwait	99	Burundi	159	Peru
40	Saudi Arabia	99	Guinea	160	Senegal
41	Antigua and Barbuda	101	Russia	161	Niger
42	Iceland	102	Ukraine	162	Mozambique
43	Belarus	103	Liberia	163	Gabon
43	Malaysia	103	West Bank and Gaza	164	Luxembourg
45	Jordan	105	Guatemala	165	Morocco
46	Grenada	106	Dominican Republic	166	Slovenia
47	Solomon Islands	107	Sweden	167	Congo, Rep.
48	Armenia	108	Egypt	168	Ecuador
49	Thailand	109	Albania	169	Sierra Leone
50	Suriname	110	Serbia	170	Panama
51	Swaziland	111	Sri Lanka	171	Congo, Dem. Rep.
52	St. Vincent and the Grenadines	112	Côte d'Ivoire	172	Angola
53	Lebanon	113	Tunisia	173	Paraguay
54	Dominica	114	Bosnia and Herzegovina	174	Guinea-Bissau
55	Czech Republic	115	Benin	175	Equatorial Guinea
56	Italy	116	Honduras	176	São Tomé and Príncipe
57	Bulgaria	117	Mauritania	177	Bolivia
58	Eritrea	118	Algeria	178	Bolivarian Rep. of Venezuela
59	Nicaragua	119	Brazil		
60	Iraq	120	Cameroon		

Note: The Marshall Islands, Singapore and the United States share a ranking of 1 because they all received a perfect score. Similarly, Brunei, Georgia and Tonga received the same score.

Source: *Doing Business* database ([www.doingbusiness.org](http://www.doingbusiness.org)) accessed 10 October 2007.