

KRISTALINA GEORGIEVA
Chief Executive Officer

January 15, 2018

Hon. Nicolás Eyzaguirre Guzmán
Minister of Finance
Government of Chile

Dear Mr. Eyzaguirre,

Subject: Chile's performance on Doing Business measures

It is unfortunate that Mr. Paul Romer, in an interview with the *Wall Street Journal*, has questioned the Doing Business rankings, in particular for Chile. This is not the view of World Bank management. We have full trust in the integrity of Bank research overall and are confident in the methodology and the rankings in the Doing Business report.

Nevertheless we understand that his remarks are upsetting to Chile and we will do everything we can to assure our many clients and partners who rely on the quality and relevance of our research. We are therefore asking an independent entity to objectively confirm that the methodology of Doing Business was appropriately applied in determining Chile's ranking. We will inform you of the next steps as soon as we have clarity over the process.

As you are aware, following a review by an Independent Panel of Experts in 2012, many improvements were made to the Doing Business methodology, in consultation with and validated by broader consultations with World Bank Group staff, country governments and the private sector. The improvements, which covered all 11 Doing Business indicators, significantly expanded the benchmarks used to measure the efficiency of business regulation (such as the time and cost of complying with government regulations) to include more measurements of the quality of regulation. The improvements also included the introduction of an absolute measure of progress - the distance-to-frontier (DTF) score - to complement the relative rankings measure which is affected by efforts of other countries in carrying out business reforms. The expansion and changes to the Doing Business methodology have affected the rankings of all economies covered by the report.

In the specific case of Chile, its absolute DTF score has improved from Doing Business 2017 (issued in 2016) to Doing Business 2018 (the latest edition) by 0.37 percentage points, which translated in a ranking improvement to 55th place. If the Doing Business methodology had remained unchanged, Chile's ranking would have evolved in a similar trend as under the new methodology. In particular, the Doing Business 2015 ranking for Chile would have been 37 under a comparable methodology (instead of 41), in Doing Business 2016 it would have been 40 (instead of 48) and in Doing Business 2017, 43 (instead of 57).

Chile has been particularly affected by the changes to the Paying Taxes indicator, the methodology for which was finalized by a working group which included representatives of the World Bank Group, the IMF and PwC in November 2015. This methodology expansion, measuring post-filing processes, provides more insights on how to improve tax administration. In the interest of full transparency, the World Bank issued a Chile-specific press release (dated October 25, 2016) explaining that the drop in the country's ranking was due to the methodology expansion in Paying Taxes and that there was no absolute decline in the efficiency and quality of business regulations in Chile.

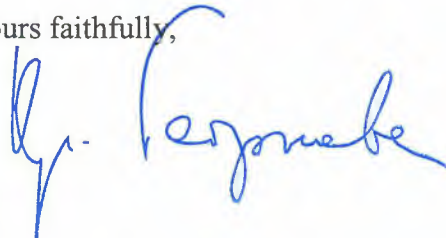
Since it was created in 2003 we have looked into concerns that were raised over the way Doing Business is executed. We will do the same regarding the concerns expressed by World Bank Chief Economist Paul Romer in his interview with the WSJ.

The Doing Business methodology expansion predated Mr. Romer's arrival at the Bank in October 2016. Extensive consultations with a large range of stakeholders, from governments to experts on the field covered by the report, were performed prior to the introduction of the changes in the rankings.

These consultations happened well before 2016. As such, Mr. Romer has not had the opportunity to familiarize himself with the rigorous process that went into the report's methodology overhaul. We do not have any evidence to support the notion that the methodology is skewed to disfavor Chile or that any of the changes in methodology were conducted for any other than technical reasons and with the aim of improving the quality of the report.

Chile is an example to many countries in the region for promoting shared prosperity and economic stability through its reform-minded leadership. Your experience is important to the World Bank, as it is to many economies looking to Chile to learn from its progress. We are confident that we can clarify the issue not only to your satisfaction but also to that of all our clients and member states. We hope that you allow us to prove that Doing Business is methodologically sound, while serving as a critical tool for countries to shape their economies, determine their future and help them achieve more prosperity for their people.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'R. Torero', is written over the closing text.

Cc: Maximo Torero, Executive Director for Chile, WBG
Rodrigo Rojo, Advisor to the Executive Director for Chile WBG
Sheila Redzepi, VP ECR WBG
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