

GLOBAL OPPORTUNITY INDEX: METHODOLOGY¹

WHAT'S THE PURPOSE OF THE GLOBAL OPPORTUNITY INDEX?

The Milken Institute's Global Opportunity Index (GOI) answers a pressing need for information that's vital to a thriving global economy. What policies can governments pursue to attract capital flows (banking, foreign direct investment [FDI] and portfolio flows), expand their economies and accelerate job creation? The GOI also provides useful background information for investors using globalization as an opportunity to diversify their investment strategies.

It is designed to

- assist companies and countries as they explore investment opportunities and strategies;
- fill gaps in information, which frequently discourage mutually beneficial transactions that spur development and job growth;
- provide a baseline assessment for countries seeking to improve their business environments and attract foreign investors;
- guide investors to factors that influence the deployment of capital.

The GOI is the only index that looks at factors that are relevant for both FDI and portfolio flows. In an environment where more and more governments and international institutions search for innovative funding solutions for projects and investors are looking for yield, the *GOI* provides a systematic, data-rich framework to shed light on nations' attractiveness to foreign investors.

METHODOLOGY

The GOI considers economic and financial factors that influence investment activities as well as key business, legal and regulatory policies that governments can modify to support and often drive investments. Overall, the GOI tracks countries' performance on 51 variables aggregated in five categories, each measuring an aspect of the country's attractiveness for investors.

¹ For questions please contact ifm@milkeninstitute.org

- **Economic Fundamentals (EF)** indicates the current economic strength of a country vis-à-vis the global economic outlook. The assessment focuses on the country's macro-performance, trade openness, quality and structure of the labor force, and modern infrastructure.
- **Financial Services (FS)** measures the size and access to financial services in a country by looking at the country's financial infrastructure and access to credit.
- **Business Perception (BP)** measures explicit and implicit costs associated with business operations such as tax burden, transparency, etc.
- **Institutional Framework (IF)** measures the extent to which an individual country's institutions provide a supportive network to businesses.
- **International Standards and Policy (ISP)** reflects the extent to which a country's institutions, policies, and legal system facilitate international integration by following international standards.

The assigned composite index value is the average score of the five categories (called component scores). Each variable is normalized from 0 to 10. Within each category, the normalized variables are given equal weight and aggregated, resulting in a normalized category score between 0, indicating the least favorable conditions for investment, and 10, signaling the most favorable. The index covers 133 countries.² The index methodology is reviewed for each publication to reflect changes in data sources or other relevant adjustments.

CATEGORY DISTRIBUTIONS ACROSS REGIONS

The boxplots presented in Figure 1 provide insight regarding the spread of the rankings across regions as well as global trends in 2017. These boxplots allow for a visual comparison of the overall ranking and the sub-ranking, as well as a comparison between the composite score distribution across regions. Let us focus on the first diagram for all the regions to illustrate how to read the information:

- While the composite score can range from 0 to 10, the rectangle, or box, shows that half of the countries considered, which rank between 33 and 99, report a value between 3.8 and 6.6.

² The 2017 edition ranks 133 countries, based on data availability.

- The whiskers represent the remaining 50 percent of the scores' distribution. The top 25 percent, which ranks between 1 and 32, have a composite score ranging from 6.7 to 8.9 out of 10. The lowest 25 percent, which rank from 100 to 133, have a composite score ranging from 1.4 to 3.8.
- The median, represented by the black line in the box, shows that 66 countries have a composite score less than five.
- Finally, some boxplots have dots that represent extreme scores or outliers, i.e. countries performing extremely well or extremely poorly when compared with the group.

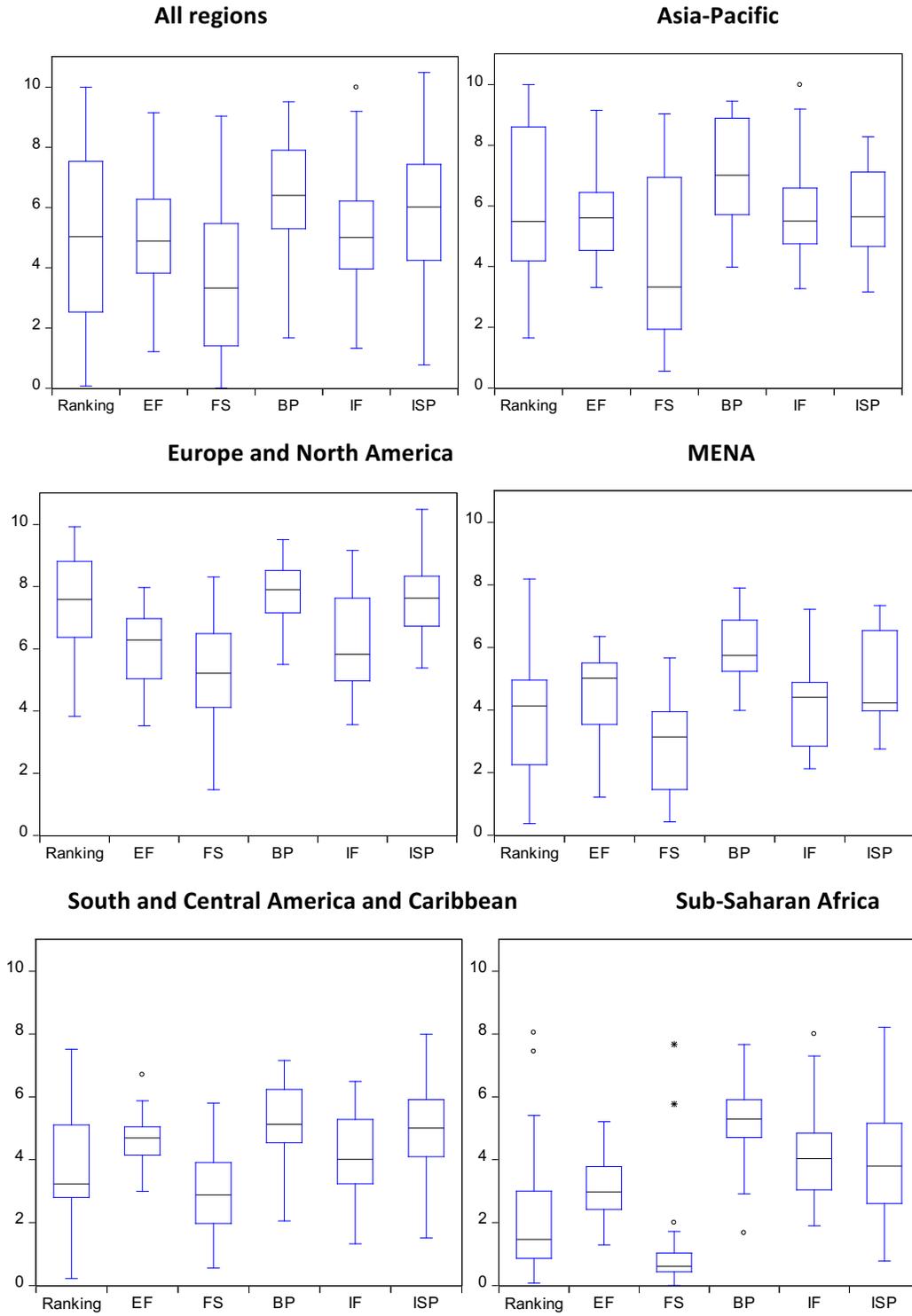
When comparing the overall ranking with its subcategories, a few key points stand out.

- Business Perception is overall the strongest category with most of the scores higher than 5.4 on a scale of 0 to 10.
- Economic Fundamental is the most homogeneous category amongst the countries.
- Financial Services, on the other hand, is the category with the greatest heterogeneity across countries. It is also the category that can improve the most as most of the scores are below 5, on a scale of 0 to 10.

There are also different types of outliers in different categories. These countries' performance are extreme relative to the group of countries considered:

- New Zealand performs extremely well, regarding Institutional Framework, when compared to the rest of the world and to countries within the Asia-Pacific region.
- Chile performs significantly better in Economic Fundamentals than the rest of the South and Central America and Caribbean region.
- Mauritius and South Africa perform significantly better than the rest of the Sub-Saharan Africa region, overall but in particular when it comes to the availability of Financial Services. Botswana joins these two countries as an outlier in this category. Regarding Institutional Framework category, Rwanda performs better than other countries in this region.

Figure 1: Distribution of the Ranking and Sub-Categories Scores



DATA SOURCES

Component	Variable	Source
Institutional Framework	Transparency of government policymaking	World Bank
	Credit depth of information	World Bank
	Efficiency of legal framework in challenging regulations	World Economic Forum
	Efficiency of legal framework in settling disputes	World Economic Forum
	Extent of disclosure	World Bank
	Judicial independence	World Economic Forum
	Political stability and absence of violence/terrorism: estimate	World Bank
	Protecting investors	World Bank
	Protection of property rights	Heritage Foundation
	Public trust in politicians	World Economic Forum
	Start-up procedures to register a business	World Bank
	Strength of investor protection index	World Bank
	Strength of legal rights index	World Bank
	Voice and accountability: estimate	World Bank
International Standards and Policy	Bilateral trade agreements	World Trade Organization
	Chinn-Ito Index	Journal of Development Economics 81, no. 1 (October 2006): 163-192 (and subsequent updates)
	Corporate tax rate (%)	Heritage Foundation
	Credit market regulations	Cato Institute- Economic Freedom of the World
	Exchange rate regime	IMF
	Income tax rate (%)	Heritage Foundation
	Labor market regulations	Cato Institute- Economic Freedom of the World
	Regulation of securities exchanges	World Economic Forum
	Tariff rate, applied, weighted mean, all products (%)	World Bank

Economic Fundamentals	Age dependency ratio (% of working-age population)	World Bank
	Central government debt, total (% of GDP)	World Bank
	GDP growth (annual %)	IMF
	GDP per capita (current US\$)	IMF
	Inflation, consumer prices (annual %)	World Bank
	Internet users (per 100 people)	United Nations
	Labor force with secondary education (% of total)	International Labour Organization
	Mobile phone subscribers (per 100 people)	World Bank
	Real interest rate (%)	Thomson Reuters
	Total factor productivity	Groningen Growth and Development Centre, Total Economy Database™
	Trade (% of GDP)	World Bank
	Unemployment, total (% of total labor force)	World Bank
Financial Services (FS)	Automated teller machines (ATMs) (per 100,000 adults)	World Bank
	Domestic credit to private sector (% of GDP)	World Bank
	Market capitalization of listed companies (% of GDP)	World Bank
	Credit coverage (% of adults)	World Bank
	Private credit by banks, percentage of GDP	World Bank
Business Perception (BP)	Cost to start a business (% of income per capita)	World Bank
	Ease of shareholder suits index (0 to 10)	World Bank
	Enforcing contracts, cost (% of claim)	World Bank
	Percent of firms identifying corruption as a major constraint	World Bank
	Percent of firms identifying labor regulations as a major constraint	World Bank
	Percent of firms identifying tax rates as a major constraint	World Bank
	Resolving insolvency: cost (% of estate)	World Bank
	Resolving insolvency: recovery rate (cents on the dollar)	World Bank

	Time required to enforce a contract (days)	World Bank
	Time required to start a business (days)	World Bank
	Time to resolve insolvency (years)	World Bank