Ease of Doing Business Rankings - A Controversy

What is the issue?

IMF MD Kristalina Georgieva is under scrutiny for her role in alleged rigging of the World Bank's Ease of Doing Business rankings when she was chief executive there.

What is the controversy around Georgieva?

- Georgieva is a Bulgarian economist who held several high-profile positions in European politics.
- In January 2017, she was appointed the chief executive of the World Bank group.
- In January 2019, she took over as the interim president of the WB group after Jim Yong Kim resigned.
- In October 2019, she took over as Managing Director of the IMF.
- In January 2018, Paul Romer, then the chief economist of the World Bank told that the World Bank's EoDB rankings were tweaked for political reasons and he resigned.
- In August 2020, the World Bank suspended its EoDB rankings after finding some **data irregularities** in the 2018 and 2020 reports.
- It was alleged that the EoDB rankings were tweaked to inflate the ranks for China (in EoDB 2018) and Saudi Arabia, UAE and Azerbaijan (EoDB 2020).

China is the third-largest shareholder in the World Bank after the US and Japan.

- Wilmerhale's investigations found that the World Bank staff compromised the data to help China's ranking under pressure from Georgieva.
- The report states that Georgieva punished the World Bank's country director for mismanaging the Bank's relationship with China.

Why do EoDB rankings matter?

- The EoDB rankings indicate how easy or difficult it is for anyone to do business in a country.
- It maps whether and by how much a country improves on a number of parameters, such as the time taken to start a business, how costly it is to get a construction permit, etc.
- EoDB is used by international investors to assess risk and opportunity across the globe.
- It is used by political leaders to either claim success or criticise the existing government.

How reliable are the rankings?

- **Cherry-picking of top cities -** Top cities such as Beijing and Shanghai in China, Mumbai and Delhi in India are selected to make the ranking go high.
- **Suspicion on data integrity -** There is a disconnect between the rise in EDB index rank and economic outcomes.

- **Changes to the data -** There were reported changes in the data, inconsistent with the Doing Business methodology.

How can the ranking methodology be improved?

- A substantial methodological shift towards data collection from representative samples of actual business owners and operators is needed.
- Government functions that provide essential public goods to the private sector should not be ignored.
- Countries should not be ranked on their tax rates.
- The indicators "protecting minority shareholders" and "resolving insolvency" shall be eliminated.
- "Employing Workers" indicator shall be restored and improved countries should not be ranked based on this information.
- The transparency and oversight of Doing Business needs improvement.

Source: The Indian Express

Quick facts

World Bank

1. The World Bank is an international financial institution that provides loans and grants to low and middle income countries for the purpose of pursuing capital projects.
2. It was created at **the 1944 Bretton Woods Conference** along with the International Monetary Fund (IMF).
3. It has its headquarters at **Washington D. C.**
4. Aims - The WB has two stated goals to achieve by 2030.
    1. To end extreme poverty by decreasing the number of people living on less than $90 a day to below 3% of the world population
    2. To increase overall prosperity by increasing income growth in the bottom 40% of every country in the world.
5. The World Bank Group consists of five organizations
    1. **International Bank for Reconstruction and Development (IBRD)**- It is a global development cooperative owned by 189 member countries and the largest development bank in the world.
    2. **International Development Association (IDA)-** It helps the world's poorest countries by providing zero to low-interest loans (called "credits") and grants.
    3. **International Finance Corporation (IFC)** – It is the largest global development institution focused on the private sector in developing countries.
    4. **Multilateral Investment Guarantee Agency (MIGA)-** It promotes cross-border investment in developing countries by providing guarantees to investors and lenders.
    5. **International Centre for Settlement of Investment Disputes (ICSID)** – It provides international facilities for conciliation and arbitration of investment disputes.
6. Reports and indices of World Bank
    1. Global Economic Prospect Report
    2. Ease of Doing Business
    3. Ease of Living Index
    4. World Development Report

5. India Development Update
6. Logistics Performance Index
7. Remittance Report
8. Universal Health Coverage Index
9. The Service Trade Restriction Index
10. Energy Efficiency Implementation Readiness
11. Human Capital Index (Prepared as a part of World development Report)
12. Regulatory Indicators for Sustainable Energy (RISE)

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