Halt of 'Doing Business' Report

Why in news?

The World Bank halted its annual 'Doing Business' report, as it detected irregularities of data for a few countries.

Should India bother about it?

- Yes. India has sought to improve its doing business index ranking, as a means to attract investments to achieve the targets set for 'Make in India'.
- This initiative, announced in 2014, aims at:
    1. Raising the manufacturing sector's share in Gross Domestic Product (GDP) from 16-17% to 25% and
    2. Creating 100 million additional jobs in the manufacturing sector by 202
- India's success in boosting its ease of doing business ranking from the 142nd rank (2014) to 63rd rank (2019) is spectacular.
- The WB decision to audit the last five years' reports may soon cause discomfort by shining a spotlight on the sharp rise in India's ranking.
- In 2018, a study by the Center for Global Development (CGD) found that the improvement in India's ranking was almost entirely due to methodological changes.

What is the case of Chile?

- Chile's global rank went down sharply, from 34 (in 2014) to 67 (in 2017).
- Chile's former President (2014-18) accused the WB of manipulating the index methodology to show her presidency in poor light.
- The CGD study of March 2018, with a reworking of the ranks with an unchanging methodology showed very little change in Chile's global rank.

How did the WB respond?

- In 2017, World Bank's Chief Economist, Paul M. Romer admitted to the World Bank's mistakes.
- The contrasting experience of Chile and India casts doubts on the country-level data and also the changes in underlying methodologies.
- Therefore, the WB decision to suspend the publication and conduct a systematic review of the reports of the last five years is welcome.

Does the index have predictive power?

- Recent evidence about India is telling.
- While its rank pole vaulted, it has meant nothing on the ground.
- The share of the manufacturing sector has stagnated at 16-17% of GDP, and 3.5 million jobs were lost between 2011-12 and 2017-18.
- Annual GDP growth rate in manufacturing fell from 13.1% in 2015-16 to zero in 2019-20, as per the National Accounts Statistics.
- India's import dependence on China has shot up, compelling India to announce yet another initiative — Atmanirbhar Bharat.

What are the shortcomings of the index?

- There are many shortcomings in the **design and implementation** of the index.
- The Indicators used for the index are **de jure** (as per the statute), not de facto (in reality).
- The data for computing the index are obtained from larger enterprises in two cities, Mumbai and Delhi, not from entrepreneurs.
- These data are obtained by lawyers, accountants and brokers.
- The WB conducts a global enterprise survey collecting information from companies.
- Interestingly, there is **no correlation** between the rankings obtained from ease of doing business and the enterprise surveys.
- The **theoretical underpinning** of the index is suspect.
- There is little in any major strand of economic thought which suggests that minimally regulated markets for labour and capital produce superior outcomes in terms of output and employment.
- Economic history shows rich variations in performance across countries and policy regimes that defies the index's simplistic generalisations.
- But, such simplistic homilies are used under a seemingly scientific garb of the quantitative index to the disadvantage of workers.
- For instance, to meet the ease of doing business targets, safety standards of factories are compromised.

What could be done?

- The WB's decision to halt its annual report on account of data authenticity issues of some countries has implications for India.
- Since 2015, the government has invested political and administrative capital to improve India's global ranking, with impressive success.
- But the enhanced ranking has failed to augment investment and output growth.

- So, it is time the World Bank **rethinks its institutional investment** in producing the 'Doing Business' report.
- India should do some **soul searching** as to why the much trumpeted rise in global ranking has failed miserably on the ground.

Source: The Hindu

