IMF: The business of doing business*

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A charade played out in the weeks preceding the fall meetings of the IMF and the World Bank has subsequently occupied time that should have been devoted to more crucial issues such as a looming debt crisis, inequalities in vaccine distribution and finance for mitigating and adapting to climate change. G7 governments and IMF directors have been preoccupied with the question as to whether Managing Director Kristalina Georgieva had in 2018 manipulated the results of the World Bank's annual (ease of) Doing Business report (DBR), when she served as the chief executive of that institution, and whether she should for that reason step down from her current position as Chair and Managing Director of the IMF. The allegation of manipulation has led to a mid-September decision to discontinue the Doing Business report. But as of now Georgieva has won the battle to stay in her position.

The charge against Georgieva is that under her watch she prevented a downward revision of China's 2017 position from 78 to 85 in the Doing Business ranking, keeping it at 78 in 2018 as well. She did this, it is suggested, under pressure from China, while the Bank was negotiating a multibillion-dollar capital increase with its members. Since that brings her integrity under a cloud, she does not deserve to remain the head of an ostensibly "independent" and honourable institution like the IMF the argument went. The allegation, prompted by internal reports of "data irregularities" in the 2018 and 2020 editions of the DBR involving ethical violations by bank staff, was converted into a conspiracy theory by a commissioned report from law firm WilmerHale, which Nobel laureate Joseph Stiglitz has dismissed as a "hatchet job",

The argument that whatever Georgieva, together with then World Bank President Jim Yong Kim and the designer of the Doing Business metric Simeon Djankov, did in 2018 was an aberration, and that maintenance of methodological and data integrity was the norm at the Bank is, however, nothing but hogwash. There is a view that some at least of the World Bank's portfolio of indices are aimed at skewing policies in developing countries in directions its dominant shareholders desire. And many of them are not robust. Not only are indices like the Doing Business ranks routinely interfered with, but even the GDP growth projections for individual countries that the IMF puts out regularly are likely determined not by robust models but influenced by assessments of whether country policies are 'right'. Not only are such projections regularly revised, but they tend to diverge from actuals, often by a large margin. In that background, the question whether keeping China at rank 78 for two years running was reflective of malfeasance is easily resolved. In the two years following 2018, in 2019 and 2020, under a different chief executive, China's rank improved to 31 and 25. If this had occurred after a fall in ranking in 2018 from 78 to 85, the conclusion must necessarily have been that either the 2018 ranking process was rigged against China or that the index was not robust, leading to wide fluctuations.

The latter view is something that the World Bank itself, after years of procrastination, has now implicitly admitted, when discontinuing the doing business ranking system. What needs noting, however, is that there have been other accusations that changes in the methodology used to compute Doing Business ranks had conveniently helped the World Bank pursue its neoliberal ideology. In early 2018, the Bank's then Chief

Economist Paul Romer had alleged that Chile, a country that had been a long-term, neoliberal favourite of the Bretton Woods institutions, was subjected to a deliberate downgrade once it came under the rule of a socialist government led by President Michelle Bachelet. On the other hand, Chile's rank improved when Bachelet's government was replaced with a more conservative one under Sebastian Pinera.

In an interview given to The Wall Street Journal, Romer had apologized to Chile for changes to the report's methodology that "conveyed the wrong impression" about the business environment in that country under Bachelet. He went further to suggest that the changes in methodology may have been driven by the political motivations of the Bank's staff. The allegation that the China ranking was manipulated also relates to 2018, when Georgieva was heading the Bank and reportedly worked closely with fellow Bulgarian Simeon Djankov who designed the Doing Business report and is identified by some to have overseen the changes in method. But Romer's speculations on the Chilean rank changes were papered over. An inquiry report by Randall Morck and James Chenxing Shou of the University of Alberta in Canada concluded that: "Concerns that World Bank staff implement methodology changes to manipulate the Ease of Doing Business indicators of specific economies or to sway domestic politics in affected economies are entirely without evidence." The fall guy was Romer who resigned after having reported what he thought was a manipulation of the index that was ideologically motivated and was allowed to go. Romer has recently said that Georgieva in her previous role at the World Bank, "engineered a cover up, a whitewash", when he raised questions about the changes in methodology that affected Chile's rankings.

In sum, the allegations about manipulation of the DBR rankings in the case of Chile and China, both of which occurred when Georgieva was at the World Bank, have generated very different responses. In the case involving Chile, where the adverse reputational effect of a ranking downgrade, if any, impacted a socialist government that refused to accept the World Bank's policy recommendations, the insider who discovered the manipulation turned out to be the victim targeted by the powers that control the institution. When the allegation of manipulation involved China, this time in the form of dropping a ranking downgrade that it is assumed helped the country and was engineered by pressure from its representatives, insider allegations of manipulation were followed by an inquiry that not merely indicted Georgieva and the others involved but has led to calls for her resignation from the IMF.

The difference between the responses generated in the two instances suggests it is not just one individual (Georgieva) who should be implicated in the manipulation, but the institution itself that is prone to such violations. It also suggests that intervention in favour of China, if it occurred at all, was not an exceptional breach of integrity. The allegations of manipulation of the Chilean ranking were deflected because that adjustment suited the US and its allies that dominate World Bank shareholding. The allegations about China's pressure having prevented a downgrade of its rank blew up because it comes in a context where the US has made that country its (and the "free world's") principal enemy, with China being accused of using technology theft, debt diplomacy and territorial aggression in its search for political and economic dominance.

But in this instance Georgieva is being made the fall-person because of a more immediate reason. The shareholding structure of the World Bank and the IMF still reflect the balance of economic strength immediately after the Second World War. Much has changed since then, and the spectacular rise of China since the 1980s makes it a contender for a much larger vote share than it currently holds. China has made clear its ambitions to play a more important and vocal role in international institutions and has made some progress especially during the Trump era when the US chose to withdraw in various ways from multilateral organisations. China has also sought to create new multilateral institutions of its own, among which is the Asian Infrastructure Investment Bank. The US is, therefore, desperate to keep China at bay in the two Bretton Woods institutions by protecting its disproportionate vote share and that of its allies, though that does not make geopolitical sense. To that end, it serves to send out a message that China's intentions are suspect when it demands a bigger role. It also helps to signal that functionaries seen as submitting to Chinese influence do not have a place in these institutions. Georgieva seems to be taking a hit in that proxy battle.

However, the power-sharing framework created through the post-war global economic architecture is proving a hindrance. Despite the dominance of the US, Europe was granted the "right" to choose the chief of the IMF from among its member states. Bulgaria became a member of the EU in 2007. And when Christine Lagarde left as IMF Chief to helm the European Central Bank in 2019, Georgieva was well placed to take on the mantle since she had useful experience at the World Bank, was a citizen of an EU member country, and to top it all was from a less developed, "emerging market" within that union. The only factor that seemed to have stood in her way was her age, since she was just about a year older than the 65-year ceiling that the IMF was adopting for applicants for the job. But France persuaded the IMF to relax that age limit and Georgieva won herself a five-year term. Having fought to put her there, and fearful of losing their privilege of choosing the IMF head, France, Germany, the UK and Italy decided to give her their backing in the current controversy.

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