

A DEVELOPMENT THAT WILL HARDLY PUT INDIA AT EASE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Demographic Economics & Various Indexes

On Thursday, the [World Bank halted its annual publication](#), 'Doing Business' report, as it detected irregularities of data for a few countries. A [World Bank Press release](#) of August 27 said: "The integrity and impartiality of our data and analysis is paramount and so we are immediately taking the following actions. We are conducting a systematic review and assessment of data changes that occurred subsequent to the institutional data review process for the last five Doing Business reports. We have asked the World Bank Group's independent Internal Audit function to perform an audit of the processes for data collection and review for Doing Business and the controls to safeguard data integrity..."

Should we bother about it? Yes, perhaps. India has sought to improve its ease of doing business index ranking, as a means to attract investments to achieve the targets set for 'Make in India', that was announced in 2014. The initiative aims at: raising the manufacturing sector's share in GDP to 25% (from 16-17% per cent) and creating 100 million additional jobs in the manufacturing sector by 2022. India's success in boosting its ease of doing business ranking is spectacular, to 63rd rank in 2019, up from the 142nd position in 2014. Policymakers celebrated it to signal India's commitment to "minimum government and maximum governance", the ruling coalition's winning slogan in the 2014 general election.

Ease of Doing Business | [To make it to top 50, India should focus on contracts, land administration: World Bank](#)

The World Bank decision to audit the 'Doing Business' report for the last five years may soon cause discomfort by shining a spotlight on the sharp rise in India's ranking. In fact, in January 2018, [Justin Sandefur and Divyanshi Wadhwa's study at the Center for Global Development](#) found that the improvement in India's ranking was almost entirely due to methodological changes.

During the same period, however, Chile's global rank went down sharply, from 34th position in 2014 to 67th in 2017. Chile's former Socialist President (2014-18), Michelle Bachelet, accused the World Bank of manipulating the ease of doing business index methodology to show her presidency in poor light, while showing improvement in the ranking during the regime of the right-wing party. Justin Sandefur and Divyanshi Wadhwa's study of March 2018, with a reworking of the ranks with an unchanging methodology showed very little change in Chile's global rank. In 2017, World Bank's Chief Economist (and later, Nobel Laureate), Paul M. Romer admitted to the World Bank's mistakes. He said, "Based on the things we were measuring before, business conditions did not get worse in Chile under the Bachelet administration," He further added, "I didn't do enough due diligence and later realised that I didn't have confidence in the integrity" of the report's data." — [World Bank Unfairly Influenced Its Own Competitiveness Rankings](#), *The Wall Street Journal*, January 2018. More details are [here](#).

The contrasting experience of Chile and India casts doubts on not just the country-level data but also the changes in underlying methodologies. Therefore, the multilateral agency's decision to suspend the publication and conduct a systematic review of the reports of the last five years is undoubtedly welcome.

Data | [Where India gained and lost out in the Ease of Doing Business rankings](#)

Going beyond the data and methodology, does the ease of doing business 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 around 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. To rub salt in the wound, India's import dependence on China has shot up, compelling the Prime Minister to announce yet another initiative — [Atmanirbhar Bharat](#).

It has been the same with Russia. Its ease of doing business rank jumped from 120 in 2012 to 20, six years later, taking Russia ahead of China, Brazil, and India, but without becoming a magnet for investment inflows. China, on the contrary, attracted one of the highest capital inflows but its ease of doing business ranking was low and hovered between 78 and 96 for the years between 2006 and 2017.

Comment | [What makes doing business easier](#)

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, by lawyers, accountants and brokers — not from entrepreneurs.

The World Bank's own internal watchdog, the Independent Evaluation Group, in its 2013 report, has widely questioned the reliability and objectivity of the index. The World Bank 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. Writing in the well-regarded *Journal of Economic Perspectives* (Volume 29, Number 3 – Summer 2015), Mary Hallward-Driemeier and Lant Pritchett said, "Overall, we find that the single numerical estimate of legally required time for firms to complete certain legal and regulatory processes provided by the Doing Business survey does not summarize even modestly well the experience of firms as reported by the Enterprise Surveys."

Also read | [Firms for more ease of doing business](#)

More seriously, the theoretical underpinning of the ease of doing business 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, defying simplistic generalisations that inform the construction of the ease of doing business index.

Unfortunately, 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. In 2016, the Maharashtra government abolished the annual mandatory inspection of steam boilers under the Boilers Act of 1923 and the Indian Boilers Regulation 1950. In its place "third party" inspection and employers' self-certification are mandated. Reportedly, however, no factory has complied with self-certification or submitted the third party certification. Most other States have copied the Maharashtra practice. Hence, industrial safety standards have been practically abolished. Such a change is truly a case of a "race to the bottom", to please the rating agency — NITI Aayog in this case.

Also read | [Behind India's leap in ease of doing business](#)

To sum up, the World Bank's decision to halt its annual 'Doing Business' report on account of data authenticity issues of some countries has implications for India. Since 2015, the government has invested considerable 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. Why? Analytical and empirical foundations of the index are weak, if non-existent. The index is based on *de jure* measures, and not on *de facto* conditions. There is no credible association between improvement in ranking and a rise in capital formation and output growth, anywhere. Worst of all, it is an ideologically loaded measure against the interest of workers. 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.

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