Global Economy

Georgieva row reveals a murky truth about global financial institutions

World Bank and IMF are membership bodies with core shareholders who are not independent from geopolitics

IMF managing director and former World Bank chief executive Kristalina Georgieva © REUTERS

Chris Giles and **Jonathan Wheatley** in London and **Colby Smith** in Washington
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Allegations that the head of the IMF manipulated a flagship World Bank ranking to boost China has thrown the organisations into turmoil — and revealed a murky truth about international financial institutions.

The likes of the World Bank and IMF are membership bodies with powerful core shareholders, and therefore far from independent from geopolitics.

Country reports, forecasts and rankings are not delivered on tablets of stone and have always been prone to delicate negotiations between the institutions and the shareholding countries.

“National authorities have always tried to influence international financial institutions’ analyses and the language in documents in order to show themselves in a better light,” said Eswar Prasad, senior fellow at the Brookings Institution and a former head of the IMF’s China division.

“Interactions between national authorities and the institutions become particularly fraught in the context of high-profile public documents, including country-specific reports and cross-country comparisons,” he added.

China, for example, refused to let the IMF publish the annual health check on its economy until 2007 and has blocked publication a couple of times since.

When the UK went "cap in hand" to the IMF in 1976, the Treasury was secretly supportive of the harsh medicine that the fund wanted to impose, while the government's official stance was to negotiate and complain.

The delicate balance the institutions strive to strike is to have sufficient autonomy and independence for their words and deeds to have credibility internationally without forgetting they operate in the real world with messy politics.

It is this balance that IMF managing director Kristalina Georgieva appears to have upset in her previous role as World Bank chief executive.

It is now widely accepted that the Doing Business report, which was changed in 2018 with the result of boosting China's ranking, had become extremely problematic. Regardless of their merit, country rankings had become extremely important for all emerging economies.

"Any time you rank countries, it's controversial," said Samy Watson, former executive director for Canada on the World Bank board. "Frankly, you can ask if this should be the bank's job."

A recent review of the Doing Business methodology commissioned by the World Bank said the report's findings were detached from the reality on the ground.

It was into this hornets' nest that the changes to the 2018 report were made in what the World Bank concluded was an "irregular" fashion because "they were made outside of the appropriate review process".

Kevin Davis, a New York University law professor who has written extensively on the World Bank, said "there was always a tension between wanting to make sure you get it right and correct any issues and, on the other hand, opening yourself up to various forms of improper influence".

The problem Georgieva and the World Bank leadership faced, according to a former senior US Treasury official, was that the Doing Business report was "a subjective undertaking".

"It's not like balance of payment data or GDP data, it's more like a forecast. Is it the case that staff can go into a lab . . . and come up with a scientific answer to what the shareholders and the institutions. One problem is that China was favoured, which causes deep domestic political problems in the US.

"The fact that it was China is what made it such a salient issue," the former US official said, adding that if it had been "just Brazil, it would have had 120th of the resources invested into looking into this".

And IMF officials privately acknowledge that at a time the fund is carving out a new role, more as an advisory body and less as a lender to large economies, any questions over the credibility of its reports are potentially catastrophic for the future of the institution.

For many close watchers of these institutions, the core issue is the need to ensure the future credibility of the IMF and World Bank. And if that meant the career of one top official might be sacrificed, so be it.

Georgieva might have survived the immediate battle over her future, but she might not win the war, especially if the US administration feels her continued service undermines the IMF or worsens its domestic political appeal.

Janet Yellen, US Treasury secretary, sounded ominous in her statement to the fund this week as she called for "strong action to boost accountability" and prevent misconduct. She also said the US would monitor developments and evaluate new findings should they become available.

A person familiar with the ongoing discussions said the Treasury was already looking ahead to a second report due out in six to eight weeks time that would focus on any potential wrongdoing by World Bank staff more broadly.

Meg Lundsager, policy fellow at the Wilson Center think-tank who was previously on the IMF board for the US, described the situation for the World Bank and the fund as "very discouraging", all the more so because both organisations were sorely needed.

"There are many challenges facing countries now, and these two institutions are