India, The World Bank, and the International Development Architecture

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Outline

• IDA Graduation
• India, IDA, IBRD
• India and Global Development Engagement
IDA Graduation (1)

• IDA eligibility is defined by the operational cutoff of US$1,195 for FY13.
  – “....the borrower will continue to access IDA resources on regular terms until the GNI per capita continuously exceeds the cutoff for three years.”
  – “IDA credits include an acceleration clause, providing for the possibility of doubling of principal payments from creditworthy borrowers.”
IDA Graduation (2)

• Projections by Leo and Moss:
## IDA Graduation (3)

<table>
<thead>
<tr>
<th>IDA 16/17</th>
<th>Angola, Armenia, Bhutan, Bolivia, Bos&amp;Herz, Congo, Djibouti, Georgia, Guyana, Honduras, Moldova, Mongolia, Sri Lanka, Sudan, Uzbekistan / Cameroon, India, Nigeria, Vietnam, Yemen, Zambia</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDA 18/19</td>
<td>Cote d’Ivoire, Kenya, Kyrgyz Rep, Laos, Mauritania, PNG / Cambodia, Ghana, Lesotho, Nicaragua, Pakistan, Senegal, Tajikistan</td>
</tr>
<tr>
<td>IDA 20/21</td>
<td>Bangladesh, Benin</td>
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IDA Graduation (4)

• Consequences:
  – IDA will become mainly African
  – Many fragile states
  – Even with “reasonable” donor reductions, huge increases in per capita allocations for remaining countries

• What to do?

• Recommendations of CGD Working Group:
  – Modify graduation: Transitional Window for “Pockets of Poverty”
  – Global Public Goods Facility
India, IDA, IBRD (1)

• India is a test case.
  – Transition to MIC status
  – Above the IDA cutoff for three years
  – Space Program, Nuclear Power
  – Own Aid Program

• But
  – Only just above threshold
  – Home to one third of the World’s poor
  – IDA’s largest recipient
  – Capped on IBRD (but see below)
India, IDA, IBRD (2)

• Graduation (or not) of India raises a range of conceptual, political and operational issues for donors:
• Conceptual—What is the nature of global responsibility towards the poor in a country that is (only just) non-poor on average?
  — Rawls versus the Global Rawlsians
• Political—How can you give aid to a country that is a MIC, whose multinationals are buying up companies in the North, which has a space program, and has its own aid program?
India, IDA, IBRD (3)

• Analytical—Is it globally rational for a country to be both a recipient and a donor of official concessional flows?

• Operational—If graduation is not to be a steep cliff, then what exactly should it be? How much, at what terms, for how long?
India, IDA, IBRD (4)

- From the donor perspective, these issues have begun to be resolved.

- Paris Meeting of IDA Deputies, March 2013. Details still being worked out, but:
  - India will “graduate” in IDA16.
  - But there will be transitional arrangements for the three years of IDA 17.
  - Two thirds of flow it would have got if it had not graduated.
  - Harder terms.
India, IDA, IBRD (5)

• But what about India’s perspective on all this?
• There are perhaps three types of views among the policy making elite:
  – Take graduation as mark of growing global stature. Perhaps even become a donor to IDA.
  – Take the fact of 400 million poor as signal of need for outside resources to address poverty despite MIC status.
  – Take the money if it is on the table, given current financial constraints. Net flows to IDA will turn negative in FY15.
• The last two views seem to have won through in the arguments presented by India to IDA for continued support.
India, IDA, IBRD (5)

• An interesting perspective on India’s engagement with the World Bank is also provided by its IBRD status.
• India hit the “Single Borrower Limit” (SBL) of $16.5 billion on its stock of IBRD borrowing. This was raised to $17.5 billion but will be exhausted soon. Net flows from IBRD will also thus turn negative.
India, IDA, IBRD (6)

• An interesting scenario: Special Private Placement Bonds (SPPBs). “The China Bond Option.”
• India purchases IBRD bonds, which opens up headroom for equivalent lending from IBRD to India!
• “In 2012, the Executive Directors approved the use of SPPBs by India. Lending under the SPPB framework will be capped at US$4.3 billion in excess of the SBL. Therefore, gross exposure to India would be capped at US$21.8 billion (US$17.5 billion + US$4.3 billion). On a net basis, however, it will remain within the SBL.”
India, IDA, IBRD (7)

- So, the SPPB option leads to zero net flows, but an additional gross flow of $4.3b.
- Further, in IDA dialogue the government has (implicitly and indirectly) expressed a preference for magnitude of flows over the terms of these flows.
- Net flows will in any case be small in absolute terms, and in relation to the growing Indian economy.
- What all of this suggests is that the real action is in the Gross Flows. Why?
India, IDA, IBRD (8)

• Some reasons:
  – At the micro level every gross flow is a net flow!
  – Because of the Bank’s budget model, gross flows is what brings staff time. With it comes knowledge and “certification.” An implicit vote of confidence in the Bank.
  – Engagement. Zero net flow with zero gross flow is zero engagement. Gross flows bring engagement, even with zero net flow. Active borrower has a seat at the Table. Since significant capital increase route to engagement is blocked with IBRD in the near future (despite increases in India’s share recently), this is the available alternative.
India, IDA, IBRD (9)

• Nevertheless, the scope of India’s continued engagement with the World Bank Group appears limited by:
  – No new commitments from IDA beyond IDA17; gross flows lower and declining; net flows turning negative soon thereafter.
  – Could become an IDA donor, but large enough to have influence?
  – Net flows from IBRD more or less zero in the years to come. Gross flows depend on rate of repayment, and on financial engineering like the SPPBs. Magnitude of gross flows generated in this way also quite limited.
  – Little scope for significantly greater influence and flows through further contributing to IBRD capital increase (despite recent increase in India’s share).
India and Global Development Engagement (1)

• Given the limitations discussed earlier, it is perhaps not surprising that India is search for new avenues of global engagement in the development arena, looking for (i) net inflows of capital, (ii) knowledge and “certification”, (iii) influence.

• Two examples of this search for global development engagement are the BRICS Bank, and an expanded bilateral aid program.
India and Global Development Engagement (2)

• The architecture of the BRICS Bank is being worked out and negotiated now.
  – But from what we know so far it is safe to assume that this Bank will provide net flows of official finance in a future where IBRD and IDA cannot.
  – It is less clear how much knowledge and “certification” gain there can be from a newly formed Bank, compared to the expertise of the World Bank or Asian Development Bank. The BRICS Bank may take a decade or two to reach this level.
  – What is clear of course is that India will have greater influence in a BRICS Bank than in the World Bank. This is especially true if BRICS Bank lending goes beyond the BRICS. This must be a dominant force pushing towards the formation of the Bank (among all the BRICS, not just India).
India and Global Development Engagement (3)

• Dani Rodrik has critiqued the concept and the need for a BRICS Bank:
  – “This approach represents a 1950’s view of economic development, which has long been superseded by a more variegated perspective that recognizes a multiplicity of constraints – everything from poor governance to market failures – of varying importance in different countries. One might even say that today’s global economy suffers from too much, rather than too little, cross-border finance....What the world needs from the BRICS is not another development bank, but greater leadership on today’s great global issues.”
India and Global Development Engagement
(4)

• Dani goes on further to say that in a range of global settings, “these countries have so far played a rather unimaginative and timid role….When they have asserted themselves, it has been largely in pursuit of narrow national interests.”
India and Global Development Engagement (5)

• But surely one reason for this timidity is that the current global institutions do not give them sufficient voice, and even their money cannot buy them that voice in the current structures, for example through capital increases at the World Bank.

• We are in that twilight phase where the old order is dying but there are obstacles in the way of the new one being formed.
India and Global Development Engagement (6)

• Even the national interests and rivalries between the rising economic powers cannot be played out or negotiated through in current global institutions since they have little voice in these settings.

• With this perspective, institutions like the BRICS Bank are a vehicle for the expression of the new international order. A second best route, but one that is being followed because other avenues appear to be blocked.
India and Global Development Engagement (7)

• From this perspective, increasing bilateral aid programs of China, India and Brazil can also be seen as the expression of an emerging order. The rivalries of China and India are being played out in Africa under different guises—development assistance is one of them.

• This is not the occasion to assess the aid programs of India and China relative to those of the “traditional” donors. But it should be recognized that lack of an outlet through the old institutions will indeed lead to attempts at the creation of new channels of influence.
India and Global Development Engagement (8)

• From the global perspective, it is probably inefficient for new institutions to be created when the old ones could in principle be reformed to reflect new realities and economic weights. Radical reform of current institutions is the first best option.

• However, as a practical matter, it is unlikely that the old institutions will change rapidly enough. We should thus expect the expression of new realities to come through new institutions, with the old ones fading into insignificance over the years if they do not change.
Conclusion (1)

• India is at a particular stage of transition where it has just crossed into Middle Income Status, but is the poorest by far of the BRICS, and is home to a third of the world’s poor.

• It will receive transitional flows from IDA, but its net flows from IDA and IBRD will turn negative, and gross flows will be relatively small.

• India is some distance from becoming a major IDA donor, and is prevented from contributing to an IBRD capital increase which would increase its influence significantly.
Conclusion (2)

• Capped as it is in the World Bank context, it is natural for India to search for new avenues for net flows, for knowledge and certification, and for global economic influence.

• The BRICS Bank, second best option though it might be for India (and for the other BRICS) is an example of a natural response to these constraints.
Conclusion (3)

- Unless there is rapid reform of current global institutions like the World Bank to satisfy the demand for net flows, knowledge and certification, and influence, the world will see the creation of more institutions like the BRICS Bank.
- This, together with an expanded bilateral aid program, is likely to be the trajectory of India’s global development engagement.