India, IDA, IBRD

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Introduction: The Conjuncture

• The Conjuncture:
  – On present rules, in two to three years inflows from IDA to India will cease (and, because of the accelerated repayment clause, outflows will double).
  – So if IDA rules do not change, India will become IBRD-only in the blink of an eye, and net flows from IDA will turn negative in due course.
  – Whether IBRD only, or IBRD plus IDA, gross inflows to India are very small, and getting smaller, relative to the economy and to government expenditure. Net inflows are thus even smaller.
Introduction: Two Questions

• Two Questions:
  – The future of IDA globally. What is the case for a change in graduation policy?
  – India in an IBRD-only world. How best to use IBRD (and limited IDA) resources?
Introduction: Delineation

• A clarification of what I can and cannot do.
• I can bring to bear a global perspective and the perspective of the broader development literature to these questions.
• I cannot address detailed technical questions on specific rules and procedures of IDA and IBRD (current Bank staff can do that).
• I cannot address IFC issues.
Introduction: Some Papers

• Ravi Kanbur and Andy Sumner, “Poor Countries or Poor People? Development Assistance and the New Geography of Global Poverty,” February, 2011.
Introduction

• Outline:
  – Introduction
  – IDA Graduation Policy: The Case for a Change
  – IBRD/IDA Gross Inflows: How Best to Deploy them?
  – Conclusion
IDA Graduation: The Basic Rule

• The current operational cutoff for IDA eligibility is per capita gross national income of $1,165 in 2009.
• Other considerations such as capital market access, but I will focus on GNI per capita.
• India’s per capita GNI was $1,170 in 2009.
IDA Graduation: The Basic Rule

• The accelerated repayment clause is triggered when the operational cutoff is breached three years in a row.

• Inflows: “The borrower will continue to access IDA resources on regular terms until the GNI per capita continuously exceeds the cutoff for three years.”

• (Note: IDA financial capacity simulations assume graduation after five years).
IDA Graduation: History

• Some IDA Graduates:
  – Chile (1961)
  – Korea (1973)
  – Thailand (1979)
  – China (1999)
  – Indonesia (2008)
  – Montenegro (2008)
IDA Graduation: History

• Some “reverse graduates”
  – Cote d’Ivoire (1973, 1992)
IDA Graduation: Simulations

• Graduation Simulations by Moss and Leo based on WEO growth projections. (IDA’s own simulations do not present country specific detail in the public document, but are likely to be similar).

• Moss-Leo baseline scenario is “maximalist” on graduation. Other scenarios are more pessimistic on growth, but broad patterns remain unchanged, especially over the long term.

• Who graduates?
# IDA Graduation: Who Graduates?

<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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</tbody>
</table>
IDA Graduation: Who’s Left and What Do They Get?

• So, who’s left?
  – 31 countries
  – with 40% of current allocation
  – with one third of the current population
  – largely African
  – many currently fragile and poor performing
IDA Graduation: Who’s Left and What Do they Get?

• How much would these countries get? Answer depends on:

• (i) credit reflows, which will of course increase significantly, and

• (ii) new commitments, on which the assumptions include:
  – For regular donors, 2% annual increase from IDA-16
  – For IBRD/IFC, constant at $1.3 billion per annum
  – Etc (loan charges, admin expenses...)
IDA Graduation: Who’s Left and What Do they Get?

• Under these assumptions, IDA 21’s commitment capacity would be $49b in real terms, $67b nominal.

• Country allocations depend on Performance etc. Assume performance in 2025 same as that in 2009. Plus other assumptions.
IDA Graduation: Who’s Left and What Do they Get?

• Some consequences:
  – IDA 21 countries would receive $17 per capita per annum in real terms, roughly double what they are getting now.
  – Bangladesh would receive $3b in IDA-21, more than three times the current commitment rate.
  – Ethiopia would receive $2.5b, more than twice the current commitment rate.
  – Etc, etc.
IDA Graduation: Two Scenarios

• Graduation will lead to a bonanza for remaining eligible countries on present trends. If the amounts they will receive under current rules are thought to be “too large”, what are the options?
  – Reduce donor commitments (including from IBRD/IFC), increasing the importance of credit refloows.
  – Change rules for accessing IDA
Arguments for Changing the Rules: Global Public Goods

• There are arguments (eg Kanbur 2003) for using development assistance to support Global Public Goods that have clear benefits for poor countries. There are some such funds in place already (GEF), and IDA could open its own Regional/Global facility. To the extent that actions by middle income countries contribute to GPGs which in turn benefit LICs, this is a rationale for IDA funds to flow to MICs.

• BUT, a series of tests would need to be passed to ensure that the funds are indeed benefiting GPGs that will in turn benefit LICs.
Arguments for Changing the Rules: Knowledge Spillovers

• Another spillover argument is that the knowledge gained by operating in MICs can be transferred by development agencies to LICs.

• BUT, a series of tests will need to be passed to ensure that the knowledge is indeed being harnessed and transferred.
Arguments for Changing the Rules: The New Geography of Global Poverty

• The really BIG argument in favor of changing IDA’s rules is that countries that are due to graduate from IDA have large numbers of poor. A global perspective that targets poor people rather than poor countries might come up with a different graduation policy.
Arguments for Changing the Rules: The New Geography of Global Poverty

Where do the $1.25 Poor Live?

<table>
<thead>
<tr>
<th></th>
<th>Twenty Years Ago</th>
<th>Now</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low income, stable</td>
<td>80%</td>
<td>16%</td>
</tr>
<tr>
<td>Low income, fragile conflict-affected state</td>
<td>13%</td>
<td>12%</td>
</tr>
<tr>
<td>Middle income, stable</td>
<td>6%</td>
<td>61%</td>
</tr>
<tr>
<td>Middle income, fragile conflict-affected state</td>
<td>1%</td>
<td>11%</td>
</tr>
</tbody>
</table>
Arguments for Changing the Rules: The New Geography of Global Poverty

### The Top Ten

<table>
<thead>
<tr>
<th>Ten countries with highest poverty (millions)</th>
<th>LIC or MIC in 2010 (basis is 2008 data)</th>
<th>Number of Poor People (millions, US$1.25, 2007-8)</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>MIC</td>
<td>456</td>
</tr>
<tr>
<td>China</td>
<td>MIC</td>
<td>208</td>
</tr>
<tr>
<td>Nigeria</td>
<td>MIC</td>
<td>89</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>LIC</td>
<td>76</td>
</tr>
<tr>
<td>Indonesia</td>
<td>MIC</td>
<td>66</td>
</tr>
<tr>
<td>DRC</td>
<td>LIC</td>
<td>36</td>
</tr>
<tr>
<td>Pakistan</td>
<td>MIC</td>
<td>35</td>
</tr>
<tr>
<td>Tanzania</td>
<td>LIC</td>
<td>30</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>LIC</td>
<td>29</td>
</tr>
<tr>
<td>Philippines</td>
<td>MIC</td>
<td>20</td>
</tr>
</tbody>
</table>
Arguments for Changing the Rules: The New Geography of Global Poverty

• If we could be confident that concessional transfers given to a country would reach the poor in that country without leakage, then there is a case for dividing the aid pot in proportion to the number of the world’s poor who live in a country.

• The less confident we are of this linkage, the less tight is the link between the number of poor in a country and the amount of assistance to that country. So the base allocation would need to be corrected for “Performance in Poverty Reduction”.

Arguments for Changing the Rules: A Possible Operationalization

- Poverty within countries is often clustered within states/provinces.
- Thus a rule which stays with a “per capita income cutoff” but combines continued support beyond MIC status with targeting to the poor could be the following:
  - The IDA per capita cutoff applies to states/provinces. If a state/province within a country is below the standard IDA cutoff, the country is eligible for IDA provided the resources are used for the development of the state/province in question.
Arguments for Changing the Rules: Some Counter-Arguments

• The above approach, of giving weight to the absolute numbers of the poor would change dramatically the future of IDA. Countries like Indonesia would become eligible again. Countries like India would remain eligible for much longer. Countries like Ethiopia would get less than they would have if India does not graduate (and donor flows remain at current levels).

• But there are several counter arguments.
Arguments for Changing the Rules: Some Counter-Arguments

• The poor in LICs are poorer on average than those in MICs.
  – BUT this is an empirical question. There is some evidence that Human Development in the poorest parts of MICs is abysmally low. If necessary this can be taken into account.
Arguments for Changing the Rules: Some Counter-Arguments

• The fact that poverty persists in MICs to such an extent surely reflects lack of political will—almost by definition it cannot be lack of resources.
  – BUT, there may be lack of political will also in LICs. This needs to be assessed on a case by case basis, and resources targeted appropriately. The “Poverty Reduction Performance” indicators for MICs, and a focus on poor regions, could address targeting of resources.
Arguments for Changing the Rules: Some Counter-Arguments

• Some MICs have their own aid programs. How can a country justify receiving concessional aid while at the same time giving aid?

  – BUT many blend countries have, and have had, aid programs. This has not, so far, led to an IDA cut-off. Funds are fungible in general, but if engagement with IDA can lead to a better targeting of national resources towards the poor, this is an outcome worth extending IDA eligibility for.
Arguments for Changing the Rules: Some Counter-Arguments

• What is important are net flows. Could the same effect not be had by softening repayment terms, at least not hardening them so sharply when graduation occurs?
  – BUT, while it is true that softening repayment terms can achieve the same as increasing gross inflows, increasing gross flows brings an engagement with IDA through IDA staff time, and an engagement for IDA in the country, that has valued added (more on the gross flows point later in the context of IBRD).
Arguments for Changing the Rules: Some Counter-Arguments

- While concessional funds are valuable to a MIC, accessing them may not comport with its self image (or the self image of its political and policy making elite) as a player on the world stage, perhaps a member of G20, ready to intensify its own aid programs to even poorer countries for humanitarian or political ends.

  – BUT.....There is no but here. This is a fundamental tension each IDA recipient country must resolve for itself.
IDA Graduation Policy: What is the Most Likely Outcome?

- Why a change during IDA 16 (preparing for IDA 17) is unlikely:
  - It has been the policy for 50 years and there has been little discussion of relaxing it.
  - It will face resistance from the beneficiaries of the graduation policy ie those who remain eligible for a potentially larger pot of resources.
  - It will face resistance from donors, who will see the short term benefit of cutting back on fresh commitments on the back of graduations and increased refloows.
  - The current policy is relatively clear cut. It is not immediately clear what specifically should replace it—any alternative is likely to be more complicated and thus more contentious.
  - Constituencies within the MICs themselves may quite like the kudos of graduation, and pushing for change in graduation policy will need an alliance of disparate MICs with different interests in specifying an alternative to the current policy.
IDA Graduation Policy: What is the Most Likely Outcome?

• However:
  – As the big countries graduate and refloows grow, and IDA is left with an ever smaller group of countries to engage with while poverty problems persist in MICs and need attention, IDA’s self interest and global concern may bring about a profound reflection on the rules and policies according to which it operates.
  – A number of us are pushing for such a major rethink, and we may succeed eventually (perhaps during IDA 17, in preparation for IDA 18).
India and IBRD: The Blink of An Eye

• On the present trajectory, India will become an IBRD-only country very shortly. Even if IDA graduation is postponed somewhat, IBRD-only status will come soon enough. In the blink of an eye.

• How should India deploy IBRD resources?
India and IBRD: Gross Flows is Where The Action Is

• The key point to grasp is that net flows from IBRD are now very small relative to macro magnitudes.
• If the Single Borrower Limit is hit, for example, the net flows by definition have to be zero.
• While at the SBL, the only way India can get a billion dollars from the Bank is to repay the Bank a billion dollars. (I view the bond placement route to creating headroom, financial engineering driven benefits aside, in similar vein).
India and IBRD: What Comes With The Gross Flows?

• In any event, even the gross flows are small in financial terms relative to macro magnitudes.
• So it’s what comes with the gross flows that matters.
• This is staff time, staff expertise, and the Bank’s reputation.
• Here are two models of how they might be deployed:
India and IBRD: The Mexico Model

• Mexico (CPS FY08-FY13):

“The Bank and the government have agreed on an approach that would enhance the Bank’s effectiveness and responsiveness through a streamlined IBRD lending program, and an expanded program of analytic and advisory activities (AAA). Most lending would be consolidated into an annual Development Policy Loan (DPL) that supports the government’s own national development strategy. The AAA program will be carefully tailored to country demands and would respond rapidly to emerging opportunities.”
India and IBRD: The China Model

• China (CPS FY06-FY10):
  “IBRD AAA and lending will apply international expertise to helping the GoC to complete the transition to a market economy, improve the welfare of the poor and near poor, and develop and implement sustainable resource-management practices.... Over the CPS period, it is expected that the Bank Group’s overall exposure to China will remain stable or grow slowly. IBRD lending is expected to range over $1.0 billion to 1.5 billion a year....”
India and IBRD: The China Model

• Other China features:
  – Small amount of total lending divided into smaller projects, in sectors and locations where the government feels greatest need of technical assistance (relative to the best alternative source).
  – The financing is a vehicle for engagement; it is trivial relative to GoC’s own resources.
  – GoC (at the centre) has the dominant say in selecting projects and AAA; not much scope for supply driven activities.
India and IBRD: Some Questions

• The China model comes closest to the current India model (many projects in many parts of the country.

• It is of course for GoI to decide how best to deploy limited IBRD resources, judging the relative return to India from using the technical expertise embodied in the Bank’s gross flows, in location/sector/activity A rather than B.

• But here are some issues that will surely arise:
India and IBRD: Some Questions

• Where is the WB’s comparative advantage (relative to the best alternative source of finance and technical assistance) greatest?
  – Hypothesis: There are fewer credible alternatives to the Bank the further one moves from the centre to the lagging states, and the further one moves from high end infrastructure and finance to social, human development and livelihood sectors.
India and IBRD: Some Questions

• Is this comparative advantage a function of how big the Bank’s financing is relative to the overall outlay in the project?
  – Hypothesis: Yes, size matters, with the implication that the comparative advantage will be less in large high end infrastructure and finance deals, and greater in poorer states.
India and IBRD: Some Questions

• Is the WB best used as a partner in small pilots to test out innovative ideas, rather than as a partner in implementing nationwide or statewide programs?
  – Hypothesis: Alternative sources are unlikely to have such cross-country experience. If the WB’s claimed advantage is transference of international experience and lessons, surely this is best done through pilots, to first test if and how those lessons translate to the Indian context. But there are equally strong arguments for the Bank as a key partner in large national or state programs.
India and IBRD: Some Questions

• On AAA, is the Bank better used (relative to alternative sources) in doing “major” pieces of work with sustained in-depth analysis addressing fundamental medium term issues, or is it better suited to doing short sharp pieces responding to policy issues of the day?

  – Hypothesis: For Indians, high quality sustained in-depth analysis, mobilizing analysts In India and outside, would be the Bank’s comparative advantage relative to alternative sources in the private sector.
India and IBRD: Some Questions

• Two final points:
• First, of course, in reality we are not talking “either-or” in answers to these questions. They are meant to highlight a “stance” or a “tilt.”
India, IBRD and IDA

• Finally, perhaps my most important point in the transition from IDA to IBRD-only status.
• All blend countries fall into a mindset of “soft money for soft sectors, hard money for hard sectors.”
• With this mindset, when the soft money disappears there is a tendency for the soft sectors to suffer.
• This is not of course a problem for countries like Brazil or Mexico, who have been IBRD for a long time. They make the appropriate tradeoffs and do use some of the resources for the social sectors. But they do this knowing that ALL money they get is hard money, and do not penalize the social sectors merely because in the past they had soft money which was used for soft sectors and that money is now gone.
Conclusion

• India faces rapid transition out of IDA and into IBRD-only status.

• The key argument for changing IDA’s graduation policy globally is the New Geography of Global Poverty. Increasingly, the world’s poor will be concentrated in non-IDA middle income countries. IDA will be left with a lot of money for a small number of countries without the bulk of the world’s poor.
Conclusion

• This is a powerful argument for changing IDA’s per capita income graduation criterion, for example by applying it instead to the sub-national level.

• However, there are also counter arguments, and powerful interests (including countries who will remain eligible under current rules, and donors who will be able to reduce their contributions as countries graduate) ranged against this logic.
Conclusion

- Momentum for a serious examination of IDA graduation policy is likely to build only slowly, unless pushed at the highest levels, perhaps in the context of the ongoing 50th anniversary stock take. Without this, major changes are unlikely to happen till IDA 17 and beyond.

- In the mean time, India faces the issue of how to use IBRD resources, where all the action is in the gross flows and the staff time and experience they bring with them.
Conclusion

- My hypothesis is that for India, the Bank’s comparative advantage, relative to the best alternative, is greatest in the lagging states, and in the social sectors broadly construed.

- Finally, as India transitions out of IDA, it should watch out for a drop in Bank resources devoted to the social sectors, simply because IDA is no longer available.
Thank You!