The contributions to this e-book have, quite rightly, tended to be overarching and general in nature, identifying overall trends and speculating about big issues in the structure of aid. I want to focus on a specific channel of aid, IDA—the World Bank’s concessional aid window. And I want to speak to a very specific question, namely IDA’s graduation policy. However, I do this in the context of the big trends and issues, and also in the recognition that IDA’s policies often act as a benchmark for the policies of other multilateral and bilateral donors.

IDA’s “operational cutoff” is a Gross national Income (GNI) per capita of $1,195 in 2013. The graduation policy as stated is that “The borrower will continue to access IDA resources on regular terms until the GNI per capita continuously exceeds the cutoff for three years.” Further, in a little appreciated but very sharp twist, once this condition is met the repayment terms on outstanding IDA debt also harden significantly, through what is known as the “accelerated repayment clause.”

As has been shown by the projections of Todd Moss and Ben Leo, if this graduation policy were to be applied then over the next decade IDA would be disengaged from the bulk of the world’s poor, since they would be living in countries above the IDA cutoff. Although the specific cutoffs are different, this is closely related to Andy Sumner’s finding that while twenty years ago 90% of the world’s poor lived in low income countries (LICs), today close to three quarters of them live in Middle income Countries (MICs).

This growing disconnect between poor countries and poor people raises serious questions about a graduation policy set at a time when the vast bulk of the world’s poor lived in poor countries. Surely, a reset is needed.

The central conceptual point concerns whether global moral responsibility to the poor is conditioned by the nation state in which they live. If a country as a whole rises above the poverty line on average, does this eliminate concern for the poor in that country merely for that reason? Such an argument is often found in popular discourse (“they now have enough money to look after their own poor”), but related arguments can also be found for example in Rawls’s The Law of Peoples, which argues that the philosophy of Rawls’s A Theory of Justice applies only within a nation state, and cannot be used to justify transfers from one state to aid the poor of another. This position has been challenged,
I believe rightly, by the “common humanity” based arguments of philosophers like Charles Beitz, Thomas Pogge and Peter Singer.

Of course, even if it were accepted that there is global moral responsibility to aid the global poor no matter where they live, the persistence of poverty in a MIC may be read as a signal of the likely ineffectiveness of aid in helping the poor (“if they are not using their own resources to aid the poor, what hope is there that our resources will be used for that?”). This is a legitimate argument about instruments, not objectives, but aid effectiveness as a criterion should applied to every country, even the poorest ones. It cannot be an argument for shutting out countries above some threshold of income capita, merely because they are above that threshold.

Faced with the emerging situation of large numbers of poor in countries that have graduated from IDA on the basis of the GNI per capita threshold, a recent report by the Center for Global Development (CGD) recommended that IDA consider a second window, from the current threshold to say twice the threshold, where countries would continue to have access to IDA resources but conditional on their use targeted to pockets of poverty.

IDA has itself given the matter considerable thought, especially since under the conventional rules India, IDA’s biggest recipient, would have graduated at the end of 2013, and other countries like Vietnam would be in the same situation a few years down the line. The India issue has been central to negotiations on the 17th replenishment of IDA (covering the years 2014-2017), which took place throughout 2013. IDA Management recommended that India be given “transitional support” during 2014-2017, at lower levels and on harder terms than what its standard IDA allocation would have been. This proposal was accepted by the IDA Deputies (the political representatives of donor countries) at the conclusion of negotiations in Moscow in December, 2013.

This outcome of the IDA negotiations is good because it recognizes, to quote the management proposal, that: “Transitional support to India would allow the World Bank to maintain a meaningful engagement in a country which is home to one third of the world’s poor......” However, on the other hand, it is couched only as “transitional support” which presumably would come to an end in three years’ time. Yet no one believes that there will still not be vast numbers of poor (at least 200 million if not more) in India at the end of 2017. Will there then be another transitional arrangement for India? And also for Vietnam? And perhaps for Ghana? And will this be repeated for the three dozen or so countries which Moss and Leo project will cross the IDA threshold over the next decade and a half?

It seems to me that the time is right for a deep and systematic evaluation, and then a resetting, of IDA’s graduation policy, if we are to avoid falling into an ad hoc system of “transitional arrangements” awarded to countries. The CGD report stayed within the GNI per capita framework but argued for raising the current threshold for the specific purpose of addressing the needs of the poor in a country which was not according to global classifications, poor in terms of average income. Of course, a number of operational questions still need to be addressed, for example, about whether the criteria for allocating funds in the second window will be different and if so in what way, from the allocation of funds in the
window below the conventional threshold. Further, the second threshold, like any threshold, could be challenged in its time.

While there will no doubt be, for political if for no other reason, some GNI per capita beyond which concessional development assistance would cease altogether, it is what happens up to that threshold which needs to be thought through. This includes how, if at all, access to funds should be graduated by level of GNI per capita, and whether alternative criteria, for example on the extent and depth of poverty, should be a separate and independent criterion for access to IDA. One would not want a plethora of indicators in an operational setting, and indeed one attraction of the GNI per capita threshold has been its simplicity. And new indicators would of course each have their own problems, including data availability. But surely some broadening is called for given the fact that most poor people now live in non-poor countries.

I do not have an easy, readymade answer to what the new IDA graduation policy should be, although there are a range of ideas on the table, including from the World Bank itself. What I do know is that a graduation policy set half a century ago is coming under increasing strain, and that this will not be mitigated by a series of transitional arrangements. A major rethink, leading to a resetting of graduation policy, is called for. The World Bank and IDA Deputies, in concert with the broader development community, should consider setting up an independent technical commission to study the issue, as an input into internal IDA processes, which in their turn will inevitably be political in nature.

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