Transitioning from IDA-IBRD Blend to IBRD Only: Issues for Vietnam

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Some Papers

Introduction

- Countries like Viet Nam and India will graduate from IDA in the blink of an eye. This raises two categories of questions.
  - First, global level questions on per capita income criterion for graduation in light of the “New Global Geography of Poverty.”
  - Second, specific questions for the newly IBRD-only countries on the Bank’s comparative advantage and how best to use the Bank’s resources.
The New Geography of Global Poverty

• A striking stylized fact (Sumner, 2010).
• Two decades ago, 90% of the world’s poor lived in LICs. Today, three quarters of the world’s poor live in MICs.
• Not just India (450m) and China (200m). Nigeria, Indonesia, Pakistan, Philippines together account for more than 200m.
• The poor haven’t moved, of course! They have been reclassified.
• But this reclassification matters, because it affects how they are seen by the current architecture of development assistance.
IDA in 2025: Who’s Left and What Do They Get?

• Moss and Leo projections for 2025 (middle of IDA 20 period):
  • 31 countries (From Asia: Myanmar, Nepal, Timor-Leste, Afghanistan
  • With one third of the current population
  • Largely African (From Asia: Myanmar, Nepal, Timor-Leste, Afghanistan)
  • $17 per capita, double the current allocation
Arguments for Changing the Rules: The New Geography of Global Poverty

• A number of arguments for continued concessional assistance to MICs (global public goods and knowledge spillovers, see Kanbur, 2003).
• The really BIG argument in favor of changing the rules of the current development assistance architecture is that countries that are have graduated and are due to graduate from LIC to MIC status 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: Possible Operationalization

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

• More generally, projects and operations that can be shown to be targeted to the poor can continue to have access to concessional finance.

• This would apply beyond the LIC/MIC cutoff (but perhaps stop at, say, three or five times the cutoff).
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 development assistance. For IDA, Countries like Indonesia would become eligible again. Countries like India and Viet Nam would remain eligible for much longer. Countries like Ethiopia would get less than they would have if India and Viet Nam do 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 aid cut-off. Funds are fungible in general, but if engagement with IDA for example, can lead to a better targeting of national resources towards the poor, this is an outcome for which it is worth extending aid eligibility.
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?

• Change unlikely in the very near future because of counter arguments, vested interests, and disparate interests of forthcoming graduands.

• However, As the big countries graduate and refloows grow, and concessional aid is left with an ever smaller group of countries to engage with while poverty problems persist in MICs and need attention, global and regional 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. In the mean time....
WB and MICs (1)

• I want to start from the fact that IBRD resources are limited for a country.
• Gross flows are small. Financial flows small and getting smaller (1.2% of national investment in 1995; 0.6% in 2006—obviously different during the recent crisis, of course).
• Net flows are smaller still. Interesting case of India with Single Borrower Limit.
• Given this, countries, and IBRD shareholders globally, need to ask—what is the comparative advantage of the Bank relative to other sources of finance and technical assistance (private sector, other international agencies, government itself)?
In other words, not just whether the value added of the Bank in A or B is positive (we hope it is), or how it could be improved (we should take recommendations on board).

Not even whether the Bank is better at A than B in an absolute sense.
WB and MICs (3)

• Not even simply whether the performance of the Bank in A or B is better than that of an alternative entity (private sector, official agency, government itself), although this is a good start.

• Rather, the question for a country with limited access to IBRD resources should be: would the performance of the Bank in A compared to the performance of the best alternative entity, be better than this ratio for B
WB and MICs (4)

• IEG Report has some interesting evidence on this from the client perspective.

• 656 respondents from 12 MICs: Brazil, China, Jamaica, Jordan, Kazakhstan, Mexico, Morocco, Peru, Russia, South Africa, Thailand Turkey. Response rate 34% (range 20% to 50%).

• Respondents from Government (40%), Private Sector (20%), CSO (16%), Academia (10%), Media (9%), Donors (4%).
## WB and MICs (5)
### Bank’s Overall Effectiveness

<table>
<thead>
<tr>
<th></th>
<th>Highly Ineffective</th>
<th>Ineffective</th>
<th>Moderately Ineffective</th>
<th>Moderately Effective</th>
<th>Effective</th>
<th>Highly Effective</th>
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<tbody>
<tr>
<td><strong>Overall</strong></td>
<td>1%</td>
<td>4%</td>
<td>12%</td>
<td>53%</td>
<td>28%</td>
<td>2%</td>
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<tr>
<td>Objective</td>
<td>Moderately Effective or Better</td>
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<tr>
<td>Fostering Growth</td>
<td>69%</td>
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<tr>
<td>Poverty Reduction</td>
<td>59%</td>
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<td>Addressing Inequality</td>
<td>44%</td>
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<td>Reducing Corruption</td>
<td>35%</td>
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WB and MICs (7)
Bank vs Official and Bank vs Private

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<thead>
<tr>
<th></th>
<th>Less Effective</th>
<th>Same</th>
<th>More Effective</th>
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<tbody>
<tr>
<td>WB vs RDBs &amp; Bilaterals</td>
<td>21%</td>
<td>33%</td>
<td>45%</td>
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<tr>
<td>WB vs Private Capital</td>
<td>43%</td>
<td>20%</td>
<td>37%</td>
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## WB and MICs (8)

Bank vs Others by Fit, Responsiveness and Access

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<th></th>
<th>Worse</th>
<th>Same</th>
<th>Better</th>
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<tr>
<td>Quality</td>
<td>7%</td>
<td>34%</td>
<td>60%</td>
</tr>
<tr>
<td>Fit to country needs</td>
<td>18%</td>
<td>39%</td>
<td>43%</td>
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<tr>
<td>Responsiveness when country needs change</td>
<td>28%</td>
<td>34%</td>
<td>38%</td>
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<tr>
<td>Ease of access to support</td>
<td>32%</td>
<td>37%</td>
<td>31%</td>
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<tr>
<td></td>
<td>Less effective</td>
<td>Same</td>
<td>More effective</td>
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</tr>
<tr>
<td>Bank vs RDBs and Bilaterals</td>
<td>10%</td>
<td>35%</td>
<td>55%</td>
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<tr>
<td>Professional advisers such as</td>
<td></td>
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<tr>
<td>consultants and academics</td>
<td>24%</td>
<td>31%</td>
<td>45%</td>
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Let me pose the question again: Given limited IBRD resources, how should a country think about how to deploy them, by sector and by function, and how should the Bank’s shareholders think about deploying them in that country?

Two possible models—Mexico and China.
WB and MICs (12)

• 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.”
WB and MICs (13)

• 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....”
WB and MICs (14)

• 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.
So, for the China model, and to some extent the Mexico model, the question arises, where should the Bank’s resources be targeted?

For a country, the answer is clearly: engage the Bank in those locations/sectors/activities/ where the Bank’s contribution relative to the best alternative is greatest.

This is of course country specific, but on an a priori basis I want to advance the hypothesis that it is in lagging regions/social sectors/ground level activities supporting the poorest that MICs do not have alternative sources of finance and technical support. Environmental issues are another example of such a class of activities.
WB and India (1)

• Three key issues in the current conjuncture for the WB and India
  – Transition out of blend status to IBRD-only
  – Total IBRD gross flows small relative to total government expenditures, and will get smaller
  – Indian polity and policy making elite divided into “growth” and “inclusion” camps
WB and India (2)

- On IDA transition, beware of “soft loans for soft sectors” mindset. If this persists during and past the transition, then use of the WB for activities under the “inclusion” umbrella may dip. (Contrast with Brazil).
WB and India (3)

• Is the WB’s comparative advantage (relative to alternative sources of finance and technical assistance) greater under the “growth” umbrella or under the “inclusion” umbrella?
  – Hypothesis: There are fewer credible alternatives to the Bank under the inclusion umbrella.
WB and India (4)

• 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.
WB and India (5)

• 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.
WB and India (6)

• 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.
Conclusion (1)

- The Geography of Global Poverty has changed and is changing.
- IDA will effectively disengage with the bulk of the world’s poor in the coming decade.
- There are strong arguments for continued engagement of IDA in MICs, but these are unlikely to prevail in the short run.
Conclusion (2)

• Viet Nam, India and others will become IBRD-only in the blink of an eye.

• What is the comparative advantage of IBRD? Hypothesis—relative to the best alternatives, its strength lies not in the “hard sectors” of infrastructure and finance but in the “soft sectors”. These are activities in lagging regions, in social and environmental sectors, and in public management.
Thank You!