Aid to Middle Income Countries?

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The ongoing shift in global economic power from developed to “developing” countries has been much remarked upon. It is perhaps the most significant global economic feature of the past quarter century.

The ongoing transformation of previously low income countries (LICs) to middle income countries (MICs) has accelerated.

Indonesia, India, Vietnam, Ghana are only the latest entrants to the MIC category.
Introduction (2)

• Relatedly, shift in geopolitical balance.
• Reflected in G7 to G8 to G20; in BRICS; in pressure for permanent UN seat to India, etc etc.
• However, despite all this, consider the following stunning stylized fact (Sumner, 2010).

• Using standard official definitions, twenty years ago 90% of the world’s poor lived in LICs. Today, three quarters of the world’s poor live in MICs.
Introduction (4)

• This talk is about one seemingly small aspect of these new realities.

• What should be done about development assistance to newly middle income countries?
Introduction (5)

- It may seem as though this is too narrow a topic for a conference on Rethinking Development.
- But, in fact, it is a lens through which a number of fundamental issues can be broached.
Introduction (6)

• What is the right measure of development and of poverty?
• What exactly is moral salience of the level of achievement of a nation state versus an individual in that state?
• What is the operational salience of the use of national averages to target development assistance?
Introduction (7)

• So, I want to address these questions through the narrow lens of development assistance to MICs.
• Actually, I want to get even more specific. I want to ask—should IDA’s graduation rules be changed, and if so, how?
• I take IDA as a test case because so much of concessional assistance takes its lead from IDA—for example, the Asian Development Bank’s Asian Development Fund is essentially modeled on IDA.
Even more specifically, I want to take India as a lead case study. India is now a MIC, but it has 400 million poor people. Should India continue to get IDA or not?

These specific questions are of interest because: (i) they raise more fundamental questions outlined earlier, (ii) the future of IDA is a key point of discourse and debate right now—for example, in the forthcoming Annual Meetings of the World Bank.
Introduction (9)

• Some Papers:
  • Ravi Kanbur and Andy Sumner, “Poor Countries or Poor People? Development Assistance and the New Geography of Global Poverty,” February, 2011.
IDA Graduation: The Basic Rule (1)

• 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.
IDA Graduation: The Basic Rule (2)

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

• The “accelerated repayment clause” is also triggered when the operational cutoff is breached three years in a row.
IDA Graduation: History (1)

• Some IDA Graduates:
  – Chile (1961)
  – Korea (1973)
  – Thailand (1979)
  – China (1999)
  – Indonesia (2008)
  – Montenegro (2008)
IDA Graduation: History (2)

• 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).

• 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?

• 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 rules and trends.
• At the same time, IDA will become disengaged from the vast bulk of the world’s poor.
• Three possible scenarios:
  – No change to rules of access
  – Reduce donor flows
  – Change rules for accessing IDA
Arguments for Changing the Rules

• 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 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: 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: Another Possible Operationalization

- A sharp sectoral focus can target income poverty and non-income dimensions of poverty.
- So, a country could continue to be eligible for IDA provided funds were used for sharply sectorally targeted interventions (basic health and education, urban slums, basic rural infrastructure, etc).
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.
  – 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.
  – More work is needed in clarifying and identifying different dimensions of deprivation in MICs versus LICs. Perhaps even a cutoff using Multidimensional Wellbeing?
  – BUT the issue of poor people versus poor countries would remain even with a multidimensional perspective.
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 is surely an issue of political will also in LICs. This needs to be assessed on a case by case basis, and resources targeted appropriately. “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 IDA/IBRD 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

• The counter-arguments all have the feel of positions where the PCGNI of a nation state has moral salience in and of itself, affecting the way we think about global responsibility to help poor citizens of that country.

• My counters to the counter-arguments are based on a view that the nation state has no moral relevance in and of itself—it is merely the instrument for helping the poorest. So for example, PCGNI is only an indicator of the likelihood that a citizen of that country will be poor.
Arguments for Changing the Rules: Some Counter-Arguments

• Philosophical arguments based on moral salience of the nation state.

• John Rawls. Should Rawlsian maximin apply to all citizens of the world? Or is it valid only within the confines of a nation state?

• Richard Miller (2010). Arguments for aid are better founded on an assessment of the justice or otherwise of relations between states, rather than the moral imperative to help any poor person anywhere in the world (a la Peter Singer).
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. For example, tensions within India.
Further 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.
IDA Evolution: Windows of Opportunity

• If IDA is to remain engaged with the vast bulk of the world’s poor, its rules need to change.

• A possible broad framework is to have three windows:
  – The standard window, for countries below the income cutoff.
  – A second window for countries below twice (or three times?) the cutoff, for projects focused on poor regions or sharply poverty focuses sectors.
  – A third window, for interventions wit Global Public Goods dimensions.
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 reflows.
  – 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 reflows 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).
The General Issue

• I have focused on IDA. But it should be clear that the issues are quite general.
• What moral responsibility does the global community have to the individual poor in a country, when the country as a whole has crossed the poverty line (whether income or multidimensional)? Analog of Right To Protect?
• If there is responsibility, how exactly is it to be discharged in an operational setting?
• These questions are of analytical interest in and of themselves. And they will be with us as major policy concerns in the coming decade and beyond.
Thank You!