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THE ROLE OF THE WORLD BANK IN MIDDLE INCOME COUNTRIES

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Contents

Abstract

This paper establishes some general principles of the rationale for development assistance in Middle Income Countries and then applies these principles to the operations of the World Bank. It then puts the argument through its paces for the specific case of India, which has just transitioned into middle income status. The main conclusions are as follows. Whether or not IBRD is "development assistance", the rationale for its engagement in MICs flows from the objectives of poverty reduction and global spillovers. The key issue in deploying limited IBRD resources is not just its value added, but value added relative to the best alternative source of finance and technical assistance. Survey evidence suggests that MIC countries are aware of alternative sources, and have assessments of comparative advantage. My hypothesis, a gross generalization of course, is that the Bank's comparative advantage is stronger the further away the location is from the centre, and the closer the activity is to the poor. I include environmental dimensions under this heading. Finally, to the extent that the Bank's global objectives indicate a different pattern of engagement than country specific comparative advantage might suggest, then, effectively, these activities will have to be subsidized relative to others.

* T.H. Lee Professor of World Affairs, International Professor of Applied Economics and Management, and Professor Economics, Cornell University. This paper has been prepared for a forthcoming Oxford University Press volume, *Global Economic Development and the World Bank*. The paper was partly written when I was a Visiting Fellow in the New Delhi Office of the World Bank, and presented at a seminar there. I am grateful to the staff of the World Bank for productive discussions during my stay, and for helpful seminar comments.

1. Introduction

According to the World Bank, as a country crosses a (2008) gross national income[1] threshold of $995, it moves from the category of "low-income" to "lower-middle-income". As it further crosses $3,945, it is classified as "upper-middle-income." Finally, at $12,195 it crosses in to the "high-income" group.[2] A related classification is that which identifies eligibility for IDA (concessional) loans and IBRD (non-concessional) loans. Using 2008 values, $1,135 per capita income is the operational cut off for IDA-eligibility and the start of IBRD terms, and $6,725 is the trigger for initiating the process for graduation from IBRD lending (but this can take a long time). There are some "blend" countries that have both IDA and IBRD lending as a transitional arrangement. In this paper I take middle income country (MIC) to be one that is eligible for IBRD borrowing from the World Bank.

Some country cases illustrate the different categories. Ghana, with a per capita income of $630 is low income status and IDA, and some way from crossing either threshold. South Africa, at $5820, is lower-middle-income and IBRD. Brazil, at $7,300 is decidedly in the upper-middle-income category and an IBRD borrower, as is Mexico at $9,900 (indeed, Mexico is a member of OECD). China began its relationship with the World Bank in low income status and IDA eligibility. With rapid economic growth it crossed the thresholds into blend status and now IBRD only status, as it transitioned from low income to the upper reaches of the lower-middle-income category, with per capita income touching $3,000. India also began in the low income status and IDA eligible category. It languished in this status for a long time because of its low rate of growth, but the sharp increase over the past two decades, and especially over the past decade, has taken it into the IDA-IBRD blend category, and now into the lower-middle-income category, at a per capita income of $1,040 in 2008. At current growth rates, India's IDA eligibility will stop soon, and it will become a pure IBRD country.

This paper asks, how should the World Bank and (MICs) relate to each other? What do the MICs get from the World Bank, and what does the World Bank get from the MICs? It should be immediately clear from the above that the MICs are a very diverse category—ranging from those that have been MICs for a long time, including some that are in IBRD-graduation territory, while others have just entered this category and face issues of transition into the category. India is one such country and I will pay particular attention to India in this paper.

The plan of the paper is as follows. In Section 2 I establish some general principles of the rationale for development assistance in MICs. Section 3 applies these principles to the operations of the World Bank. Section 4 gets even more specific, by considering the case of India. Section 5 concludes the paper.

[1] Using the Atlas method: http://data.worldbank.org/about/country-classifications/world-bank-atlas-method
[2] http://data.worldbank.org/about/country-classifications/country-and-lending-groups (as of 8.10.10)

2. Why Development Assistance for Middle Income Countries?

The threshold for middle-income country status is annual per capita income of $995, or $2.7 per person per day. The operational cutoff for IDA eligibility is $3.1 per person per day. Clearly, such a country has, on average, crossed internationally recognized poverty lines. At the top of the middle income range, income is in excess of $30 per person per day. What is the rationale for the use of scarce public resources as development assistance to such countries?

There appear to be three main arguments for continuing development assistance to countries that have on average crossed the $2 per person per day poverty line—"pockets of poverty", "spillover effects ", and "knowledge transfer." Let us take each one of these in turn.

It is obvious that averages deceive. There are many people below $2 per day, even if the national average is well above this line. According to one estimate, for example, 70% of the world's poor by the $2 per day line live in MICs (of course, China and India account for the lion's share of these).[3] Thus, clearly, there is sufficient inequality in the MICs that there are indeed pockets of poverty. In some countries, like India, the term "pockets" may mislead. Poverty is widespread despite the country attaining middle income status and the international status that might go with it. If the objective of development assistance is to help poor people rather than just poor countries, then there is a rationale for continued developed assistance despite the fact that the country on average is no longer poor.

The difficulty arises because, one might well ask, why should northern taxpayers channel resources to the government of a non-poor country in order to help the poor of that country, when on the face of it the country itself does not appear to be willing to help its own poor—as shown by the fact that poverty persists despite middle income status? But this might be too stringent a line to take. A more realistic line is that while the government of the non-poor country would like to help its poor the political economy makes it difficult to release resources for this task—an external flow of funds could ease this constraint and thus lead to greater flows to the poor. A second argument in this vein is that the government has good intentions but lacks the knowledge on how best to tackle its pockets of poverty. Development assistance in the form of knowledge transfer (which requires financial resources, of course) helps in this regard.

Finally, even if these arguments are accepted, it is not immediately clear what the financial and technical assistance should be targeted to, in order to help the poor in non-poor countries—encouraging further growth in per capita income, or encouraging better distribution of the per capita income? This is of course a major debate in the literature. To the extent that there is a conventional wisdom in this area it is the balanced view espoused by the Growth Commission:

"In short, we take the view that growth is a necessary, if not sufficient, condition for broader development, enlarging the scope for individuals to be productive and

[3] World Bank (2007, endnote 1.2, p 119)

creative…..The Commission strongly believes that growth strategies cannot succeed without a commitment to equality of opportunity, giving everyone a fair chance to enjoy the fruits of growth. But equal opportunities are no guarantee of equal outcomes. Indeed, in the early stages of growth, there is a natural tendency for income gaps to widen. Governments should seek to contain this inequality, the Commission believes, at the bottom and top ends of the income spectrum. Otherwise, the economy's progress may be jeopardized by divisive politics, protest, and even violent conflict. Again, if the ethical case does not persuade, the pragmatic one should." (Commission on Growth and Development, 2008, p. 7)

Even if only averages mattered, so that there was only concern about low income countries, there would be a case for development assistance to MICs if what happened there had the potential to affect negatively the prospects of low income countries. Assistance to MICs to prevent such spillovers would be akin to development assistance to the poorest countries, even if it wasn't given directly to them. Thus assistance to MICs (for example, Brazil, India and China) to reduce emissions of greenhouse gases would help on climate change, whose impacts, it has been argued, can affect the poorest in poor countries (for example, in Bangladesh). But notice that this is no longer an argument for general development assistance to aid general development in MICs. Rather, it is an argument for identifying specific spillovers and deploying targeted assistance to prevent them or to mitigate their consequences (unless it is argued that general development in MICs will indeed achieve these objectives).

Knowledge transfer is the third reason why development assistance may have a rationale in a country which has crossed a poverty threshold in per capita income. Since countries below the poverty line might wish to emulate the success of those countries who have crossed this line, how this was done, and how the higher level of income is being maintained and enhanced, might have lessons for low income countries. There are many ways of achieving this knowledge transfer. One of them is continued engagement of development assistance agencies in the middle income countries, to garner and transmit these lessons to low income countries. Given the vast range of per capita incomes in the middle income category, this argument can be also marshaled to support engagement in upper middle income countries—this time to help lower middle income countries.

The above is of course a variant of the spillover argument, couched in terms of positive spillovers. But the key transmission channels are not development in MICs and their consequences for poorer countries. The key transmission channel is the development agency. The argument requires the agency to be geared towards learning the lessons from MICs and using them in targeted fashion to help poorer countries. Moreover, the argument requires that the development agency be able to do this better than alternative mechanisms such as official bilateral exchanges as part of diplomatic relations, or private sector managed exchanges.

3. The World Bank and Middle Income Countries

My focus in this paper is the role in the MICs of the first and largest of the five components of the World Bank Group, the International Bank for Reconstruction and Development (IBRD). As is well known, in contrast to the International Development Association (IDA) part of the World Bank, IBRD does not make concessional loans—at least not at the deep level of concessionality of IDA.[4] IDA resources come from triennial replenishments of grant funds to a pool from donor nations. IBRD uses its financial strength, in the form of its reserves, its paid up and callable capital, and its effective senior creditor status, to borrow favorably in financial markets and on lend to its developing country members. In this sense, IBRD lending and assistance may not constitute development assistance on the spectrum from pure grants to pure market rate loans. Indeed, this is a point of some discussion and debate, it being argued that IBRD's role as a financial intermediary has been "tainted" by the presence of the soft loan arm IDA. Indeed, wasn't that the role for which John Maynard Keynes and Harry Dexter White created the World Bank alongside the International Monetary Fund (IMF) at Bretton Woods in 1944?

Some of this discussion is to be seen in light of the recent responses of the international community to the financial needs of the two Bretton Woods institutions—a commitment of close on a trillion dollars increase in support for the IMF, compared to a capital increase of only 5 billion dollars for the World Bank, and the latter having been much more difficult to achieve politically. Of course there are many reasons for these difficulties, including the reluctance of northern governments to give up voting power in return for capital injections from southern nations such as China and India. But the whole process and its outcome may strengthen the idea that northern governments view their capital contributions to IBRD through the same lens as they view their contributions to IDA[5]. If this is the case, then support for an institution which in turn supports countries like India, China and Mexico, seen now as competitors rather than deserving financial assistance, may be politically problematic. Continued support to IBRD may indeed then depend on the three pillars discussed in the previous section as justifying development assistance to MICs.

The lack of expansion of IBRD's capacity to lend, and growth in MICs, has meant that IBRD flows are an ever small share of the MICs total investment—down from 1.2% in 2005 to 0.6% in 2005.[6] However, whatever the debate on the extent to which IBRD is or is not development assistance in the same fashion as IDA, IBRD's own self evaluation is based on these same three pillars—pockets of poverty, negative spillovers and global

[4] The other three parts of the World Bank Group are the International Finance Corporation (IFC) which engages directly with the private sector, the Multilateral Guarantee Agency (MIGA) and the International Center for the Settlement of Investment Disputes (ICISD). I will not discuss these components, nor the (important) issues of coordination across the World Bank Group.

[5] As a comparison, IBRD's equity is around $40 billion, which is about the same as a three year replenishment of IDA.

[6] Independent Evaluation Group (2007), p xiv. Of course there was a spike in IBRD lending in 2008-9 because of the global financial crisis, but I believe the pre crisis trend capture the medium term prospects for IBRD better.

public goods, and knowledge gain and transfer.[7] Here is how the latest Financial Statement of IBRD begins:

"IBRD's main goals are promoting sustainable economic development and reducing poverty in its developing member countries. It pursues these goals primarily by providing loans, guarantees and related technical assistance for projects and for programs for economic reform." (IBRD, 2009, p.3)

Here is how a recent evaluation of the World Bank's operations in MICs defines the additional scope of the evaluation over and above development and poverty reduction:

"[The Report] also spotlights three growing dimensions of the Bank Group's role—sharing knowledge across countries, engaging countries in global programs, and combining support to the public and private sectors." (Independent Evaluation Group, 2007).

Accepting, then, the three dimensions of the rationale for World Bank engagement in MICs—poverty, spillovers and knowledge, how has the Bank actually done in this engagement? This question was asked and answered by the Independent Evaluation Group (IEG) of the World Bank in its 2007 report, which focused on Bank support to MICs over the decade 1995-2006. It is the most systematic assessment available of this issue, and one that is based on a range of quantitative and qualitative empirical evidence.[8] The sources of evidence include: (i) a review of IEG's own country assistance evaluations (CAEs) of the Bank's programs in 43 MICs, (ii) a review of the its own evaluations of 1,500 Bank projects in MICs, (iii) filed assessments in seven countries based on in depth interviews with stakeholders in seven MICs, and (iv) a client survey with over 600 respondents from 12 MICs.[9] Based on this evidence, IEG's "headline conclusions" are as follows:

"The World Bank's support in fostering growth and reducing poverty has been appreciated by MICs and made a contribution to their considerable success in these major areas. But the Bank must become more effective on issues where its work has not yielded pronounced advancements, notably dealing with inequality, combating corruption, and protecting the environment….The Bank's quality stamp—reflected in technical expertise, project design and supervision, and advisory services—has been a key strength. Its advisory work has been strong on diagnostics but would have greater impact if it concentrated more on specific local needs. The Bank could have done better in finding ways to increase synergy across the Bank, the International Finance Corporation, and the Multilateral Investment Guarantee Agency…. Looking ahead, the Bank should continue its engagement with MICs, but it must depart from business as usual. To produce greater development benefits, it has to become more agile and needs to draw upon MICs' own capacity much more systematically, connecting such capabilities to help low-income countries and to tackle global challenges. The Bank's work has to more clearly demonstrate

[7] This line of defense is also mounted by De Ferranti (2006), in a riposte to "right wing" attacks on the World Bank and specifically the operations and even the raison d'être of IBRD.
[8] I was an adviser to this report.
[9] See IEG 2007, Box 1.2.

best practice to deliver impact beyond its limited direct role." (Independent Evaluation Group, 2007, p. xxx).

Of all the sources of evidence used, the client survey is novel and innovative, and I look at that evidence is some detail in what follows. The survey is of 656 respondents from 12 MICs: Brazil, China, Jamaica, Jordan, Kazakhstan, Mexico, Morocco, Peru, Russia, South Africa, Thailand and Turkey. The response rate is 34% (range 20% to 50%), which is in the acceptable range for a survey of this type.[10] The respondents are from Government (40%), Private Sector (20%), CSO (16%), Academia (10%), Media (9%), and Donors (4%). As will be seen below the sample size is too small for some finer grained questions, at a general level it is the first comprehensive perspective of WB engagement in MICs from the perspective of the countries themselves.

At the most general level, client responses to World Bank effectiveness paint a fairly favorable picture. As is seen from Table 1, over 80% of the respondents find the Bank to be "Moderately Effective", "Effective" or "Highly Effective".[11] However, the absolute levels of these numbers are less informative than their variation across categories of engagement. Thus Table 2 shows that client satisfaction with Bank engagement declines as we go from "Fostering Growth" to "Poverty Reduction" to "Addressing Inequality" to "Reducing Corruption." Indeed, for "Reducing Corruption" IEG rates the bank's performance, on the basis of the full range of evidence as "moderately unsatisfactory".[12]

However, these findings are focused on the Bank's *absolute* performance. For a MIC facing multiple sources of finance and advice and for the Bank's owners deciding on where best to allocate their resources, what is perhaps equally important is the Bank's *comparative advantage*, relative to alternative sources of finance and advice. It is of course important to know that the Bank's overall value added is positive, which these client surveys and other pieces of IEG evidence seem to strongly suggest. It is also important to know whether the Bank's value added is greater in activity A than in activity B. But the really assessment is how the bank compares with the best alternative in these two activities. Especially in a context where IBD resources are limited, if alternatives to the Bank in activity B are non-existent, whereas there are adequate substitutes in activity A, this would be an argument for deploying the Bank's resources in activity A.

There is some, limited, evidence on comparative advantage in the client survey. Table 3 shows how the Bank compares to alternative sources of finance and advice (official and private), by dimension of performance. Clearly, the Bank does well on quality in a general sense, but not as well on fit to country needs, and not as well again on responsiveness to change and ease of access to its support. Table 4 disaggregates as between different types of alternative sources, but at the expense of disaggregation on type of performance. It shows how the Bank is rated overall compared to other official agencies

[10] For a detailed discussion of the methodology, see Appendix B of Independent Evaluation Group (2007)
[11] The Tables in this section are all derived from the detailed numbers given in Appendix C of Independent Evaluation Group (2007). In Table 2 I have aggregated the categories Moderately Effective, Effective and Highly Effective.
[12] Independent Evaluation Group (2007), p. xv.

(regional development banks and bilateral development agencies) and compared to private capital. Again, the relative comparison is perhaps more informative than the absolute numbers. Clearly, the Bank has a stronger advantage relative to official agencies than relative to private capital.

It would have been useful to have had the comparative advantage assessment disaggregated by alternatives to the Bank, by sector and dimension of performance. But information was not collected at this detailed level, and in any case the sample size would have been inadequate to get meaningful comparisons. However, the comparative advantage question was indeed asked for a specific type of Bank activity—Knowledge Services. Table 5 shows that the comparative advantage rankings are the same for Knowledge Services as for Overall—the Bank does better relative to official agencies than it does relative to private agencies.

Let me thus pose the question again: Given limited IBRD resources, how should a MIC think about how to deploying them, by sector and by function, and how should the Bank's owners think about deploying them in that country? 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. The Bank is likely to be better than alternative official sources in these, and the private sector is unlikely to be a viable alternative to the Bank in these areas. Again, these are not hard and fast conclusions and the specifics may point in other directions, but they are a start to a discussion about the nature of the Bank's contribution—what is important is to pose the question.

The above hypothesis resonates with the first of the reasons for continued engagement with MICs—"pockets of poverty." But it may need to be modified when the other two reasons are taken into account. The knowledge gain and transfer argument is potentially a powerful one for continued engagement in an activity even if the Bank does not have a strong comparative advantage in that country in that activity—because the knowledge gained could help the Bank support another country where the alternatives are not better than the Bank. The IEG client survey found that 40% of respondents though the Bank was "Moderately Effective" in "Sharing experiences from different countries", 26% thought it was "Effective" and 9% thought it was "Highly Effective".[13] But this is knowledge transfer into MICs. On knowledge transfer from MICs to Low Income Countries (LICs) there is little in the way of direct evidence, although work on Conditional Cash Transfers is often mentioned as one example.

The spillover and global public goods argument also points to a broader engagement than might be indicated by comparative advantage as seen by the country, on issues such as environment and finance, where there are strong spillover effects globally. Here is how the IEG evaluation summarizes its findings:

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[13] IEG (2007), Table 4.1 on p. 38.

"Significant global programs, in which MICs account for half of participants, have received growing emphasis as part of the Bank's engagement with MICs…. Bank involvement in global programs is not always highly recognized at the country level; nor is it particularly well integrated into its country programs…..Having an insufficient voice in global program governance is still a concern for MICs and may inhibit their enthusiasm for and engagement in such programs." (Independent Evaluation Group, 2007, p.45).

Thus the Bank does not get very high marks for using its engagement with MICs as a vehicle for advancing the cause of global public goods. Further, there is an issue which is not raised in the IEG report because it deals with truly global programs. Sometimes, however, a multi-country issue confined to a few countries within a region is claimed by the World Bank. The principle of subsidiarity would suggest that the first port of call should be a regional institution, perhaps a regional development bank (RDB), rather than the World Bank. There may be a case for temporary use of the World Bank because the RDB does not have the capacity to do so, but this is only an argument for strengthening the capacity of the RDB over the medium term, as argued in Kanbur (2005). The World Bank should be used for truly global, cross-regional spillover issues, and its engagement in MICs should be assessed in light of the contribution of the engagement to the global public goods objective.

4. An Application to India

India is an interesting country in which to apply the general global level reasoning of the previous two sections. Indeed, when the IEG assessment was done, during 2006, India's gross national income per capita was just below the middle income country cutoff at that time, so it did not make the cut for inclusion in the study, although it was a "blend" country receiving both IDA and IBRD support. But all that has changed. As stated in the introduction, India has now crossed the dividing line from LIC to MIC, and in fact has now crossed the IDA operational cutoff. IDA lending will be phased out over the next three years, leaving India as a pure IBRD country.

The transition out of IDA is only one aspect of the current conjuncture in the relationship between the World Bank and India. Earlier this year, India approached the so called single borrower limit (SBL) with IBRD, a total exposure of $15.5 billion dollars of outstanding debt. This ceiling has now been raised to $16.5 billion, but the basic issue will resurface when this ceiling is hit, or even before it is hit. With an exposure limit, net flows must be close to zero, and gross flows can only be as high as repayments. Thus India has in its own hands how much to generate in the way of gross flows—by accelerated repayments! Doing this, however, means that India sees a benefit in the gross flows that outweigh the costs of earlier repayment. In any event, gross flows are likely to be curtailed relative to the past. [14]

[14] Another option, which is being discussed but whose future is unclear as of now, is for the Reserve Bank of India to invest in IBRD bonds, creating equivalent headroom for gross in flows. The same question would arise in this case—the benefits of the gross flows would have to exceed the opportunity cost of investing in IBRD bonds.

The third and final aspect of the current conjuncture is that net flows from the World Bank have been an ever shrinking share of India's economy, India's budget and India's current account. In India's trillion dollar economy, an annual current account deficit of around 30 billion dollars, no binding foreign exchange constraint because of private capital inflows, and central government expenditures well in excess of 200 billion dollars per year, the net flows and even the gross flows that IBRD can generate for India are small indeed. This is very different from 20 years ago when the Indian economy was much smaller, IBRD net flows were larger, and there was a binding foreign exchange constraint.

Each of these features has an implication, for India and for the World Bank. First, both have to be careful of a mindset that is typical of IDA/IBRD blend countries, namely, "soft money for soft sectors, hard money for hard sectors." This is indeed the division that is typically used, but the danger is that as the soft money runs out the mindset penalizes the social sectors, even when there is no soft money in play. Countries that have been IBRD for a long time do not have this issue—for them all money is hard and they do use some of it for the social sectors. Whatever else determines the amount going to social sectors, it is not the transition out of soft money. Presumably in ten years time that will the Indian mindset because India will have been a pure IBRD for a decade borrower for a decade, but a bias against social sectors is one to watch in the near term period immediately after the transition out of IDA.

The cap on IBRD gross flows will force greater scrutiny on tradeoffs. Up to now, loosely speaking, there has been room for more of everything. And the smallness of IBRD gross flows relative to the total will mean that a "seat at the table" will come from technical excellence rather than financial clout. How might the Indian decision makers react to these new realities? How should they use IBRD resources, in which sectors, for what activities, and through which instruments—development policy loans (DPLs), which support government budget directly, investment loans which disburse against project expenditures, or technical assistance (also known as analytical and advisory activities, AAA).Indications are that they are increasingly engaged in thinking through how best to respond (other than working vigorously for a raise in the cap).Here are two possible models for them to consider as medium term targets: Mexico and China.

For Mexico, a member of OECD but also an IBRD borrower, the overall relationship is well captured in the most recent Country Partnership Strategy (CPS) document:

"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." (World Bank, 2008, p. i).

An alternative approach is the one followed for the Government of China (GoC):

"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…." (World Bank, 2006, p. vi).

For China the overall gross flows are also very small, but they have decided to take the flows across a range of even smaller projects. The staff time and oversight that comes with the gross flows are deployed across a range of activities where the Chinese think the technical input of the World Bank can have most benefit. Mexico has decided to take the gross flows together in the form of a direct injection to the budget, and access World Bank expertise through the AAA program, with some of these on a fee for service basis.

Before discussing which model might suit India best, let me first of all characterize what I see as the contours of the Indian economic policy discourse which will frame these decisions. In the Indian policy making community, a concern for fast increases in average income (high growth) exists simultaneously with a concern about distribution around the average (equity, poverty). But the two concerns are *separate*, and instruments for each are also seen as being *separate*.[15] Distributional concerns often flow from political imperatives; there is nothing wrong with that—large sums are now being devoted to these concerns. With this background, I believe that Indian economic policy makers will push simultaneously, *but separately*, for interventions and expenditures they believe to be pro-growth on the one hand, and pro-distribution ("inclusion") on the other. I would include environmental issues under the latter. Specifically, this will translate into a simultaneous, *but separate,* push for things like high end infrastructure, finance, research and development (including higher education) on the one hand (under the "growth" heading) and things like rural livelihoods, basic health, and urban slums on the other (under the "inclusion" umbrella).

It is of course for the Government of India (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. With each issue I will also propose a hypothesis that might help to structure the discussion as we go forward.

- 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.

[15] I should say that I believe this characterization holds for economic policy makers in other countries, and in the economics profession more generally. See Kanbur (2001, 2002).

- 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 at the national level, and greater at the level of states focusing on the lives of the poor.
- 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.
- 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.
- Question for WB: If the disconnect between the growth and the inclusion streams in Indian discourse is accepted, and if the Bank thinks this connect is important, should the Bank more strongly advocate AAA and pilots that explore this linkage specifically for India?
  - Hypothesis: Yes, but receptiveness from the Indian policy making elite may be limited in the current mode of discourse.

Two final points; First, the directions suggested by the hypotheses above are just that—directions. This is not a simple either-or issue. Rather, it is more a question of the stance or the tilt that the Indian government might or should take in its dealing with the World Bank. Second, to the extent that any of these country specific activities have a positive spillover for the world as a whole, it is unlikely that the Indian government would internalize that external benefit. This is something that the Bank itself will have to do, and encourage the adoption of these activities through effective subsidization in one way or another.

5. Conclusion

In this paper I have considered the World Bank's engagement with MICs from the perspective of development assistance, emphasizing comparative advantage. After exploring a general framework at the global level, I have presented an application to the specific case of India, which has a long standing relationship with the World Bank and has just transitioned into MIC status. Here are the five major conclusions of this paper:

- Whether or not IBRD is "development assistance", the rationale for its engagement in MICs flows from the objectives of poverty reduction and global spillovers.
- The key issue in deploying limited IBRD resources is not just its value added, but value added relative to the best alternative source of finance and technical assistance.
- Survey evidence suggests that MIC countries are aware of alternative sources, and have assessments of comparative advantage.
- My hypothesis, a gross generalization of course, is that the Bank's comparative advantage is stronger the further away the location is from the centre, and the closer the activity is to the poor. I include environmental dimensions under this heading.
- Finally, to the extent that the Bank's global objectives indicate a different pattern of engagement than country specific comparative advantage might suggest, then, effectively, these activities will have to be subsidized relative to others.

Tables

Table 1
World Bank Client Response: Overall Effectiveness

	Highly Ineffective	Ineffective	Moderately Ineffective	Moderately Effective	Effective	Highly Effective
Overall	1%	4%	12%	53%	28%	2%

Table 2
Effectiveness By Objective

	Moderately Effective or Better
Fostering Growth	69%
Poverty Reduction	59%
Addressing Inequality	44%
Reducing Corruption	35%

Table 3
Bank vs Others by Type of Performance

	Worse	Same	Better
Quality	7%	34%	60%
Fit to country needs	18%	39%	43%
Responsiveness when country needs change	28%	34%	38%
Ease of access to support	32%	37%	31%

Table 4
Bank vs Official and Bank vs Private

	Less Effective	Same	More Effective
Bank vs Other Official Agencies	21%	33%	45%
Bank vs Private Capital	43%	20%	37%

Table 5
Bank vs Official and Bank vs Private for Knowledge Services

	Less effective	Same	More effective
Bank vs Other Official Agencies	10%	35%	55%
Bank vs Professional advisers such as consultants and academics	24%	31%	45%

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