Chapter 5
Can a Country Be a Donor and a Recipient of Aid?

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5.1 Introduction

Can a country be a recipient and a donor of development assistance? If the question is read in simple factual terms the answer is clearly yes and that is the end of the story. China, India and many developing countries have been and are recipients and donors of aid. So the phenomenon exists. The deeper question is what issues this raises for the moral case for development assistance, and what it means for the operational rules of development assistance. The object of this paper is to raise these issues and to frame an analytical discussion around questions and processes which would otherwise be primarily political in nature.

It turns out that the case of India is pivotal in the current discourse. The country has just crossed into the status of a Middle Income Country (MIC), using official World Bank classifications. It has also crossed the per capita income threshold for eligibility for the World Bank's concessional loans window (IDA). Two decades of high growth have brought the country into prominence in global economic circles, including membership of country groupings such as the G20, BRICS, etc. Its quest for a permanent seat on the United Nations Security Council has been given new impetus by its economic successes. It is of course a nuclear power, and has a space program, with significant portion of public expenditure going into these endeavors.

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Further, India's aid program to even poorer countries is now sufficiently on the radar screen that an aid agency is being formed to coordinate Indian aid efforts.

And yet, India has around 400 million poor people, using the official World Bank global poverty line. This disconnect between the performance and perception of the country on average, and the reality of poverty for huge numbers of individuals in the country has led to considerable soul searching among aid donors and among the Indian policy making elite. Many bilateral donors, including some Nordic countries, have suspended their aid programs to India. The former colonial power, Britain, has been agonizing over what to do. Sending aid to a country whose multinationals are buying up factories in the UK does not sit well with the taxpaying public, especially in fiscally straightened times. And the fact that India has its own aid program makes aid to India a difficult political sell to the British public. The current compromise is that British aid will continue, but will focus on the poorest states in India where national poverty is concentrated.

The Indian policy making elite is similarly conflicted. There appear to be three groupings among senior bureaucrats and opinion makers. One group is focused on India's new global status as a member of G20 and finds it perhaps demeaning for India to been seeing going "cap in hand" to donors, especially to the former colonial power. A second group is focused on the widespread poverty in India despite its MIC status, and is on the lookout for resources to address these issues. There is also, perhaps, a third group of pragmatists who are focused on fungibility of resources and are willing to cultivate access to concessional funds provided India's geopolitical objectives are not too severely affected. These three tendencies in Indian policy making are currently struggling over whether and how to maintain India's access to IDA despite the fact that according to the current rules of access India will "graduate" soon from this facility. And this is the mirror image of the discussion at the global level among the IDA donors about the politics in their domestic constituencies of changing the rules of IDA so as to continue India's access to these concessional funds.

These political currents—the perceptions of the taxpaying public in donor countries and the self-image of Indian elites—will eventually determine the future of aid to India. This paper, however, provides a more analytical focus on the issues raised by the current discourse. Section 5.2 begins with a discussion of the moral salience of national level averages in determining global responsibility towards the poor in a country, in the context of an ongoing discussion in political philosophy on "Global Rawlsianism." Section 5.3 takes the perspective of Global Utilitarianism and discusses the allocation of global aid with the objective of poverty alleviation, and whether in this context it might make sense for a country to be a donor and a recipient of aid. Finally, in Sect. 5.4 the paper takes a specific operational perspective and discusses some of the key issues facing the international community in the next few years on IDA, the World Bank's concessional assistance window. Section 5.5 concludes.

5.2   The Salience of the Nation State: Global Rawlsians Versus Rawls

The crossing into MIC status can be seen in a broad sense as India on average having crossed the global poverty line.[1] But many millions of Indians are indeed below the global poverty line. If there is a moral responsibility for nations who are above the poverty line to help those below the line, does this responsibility extend only to nations that are below the poverty line, or to individuals below the line even if they live in a nation that has crossed the line? Many responses from northern publics in the raw political discourse are of the type—"these countries should take care of their own poor now that they have the resources to do so, our responsibility stopped when the country crossed the poverty line." In fact, it turns out that the political discourse is related to an ongoing debate in political philosophy on the nature of global justice.

Let us start with the standard "Rawlsian maximin", whereby policy should be directed towards improving the wellbeing of the worst off in society. The simplified justification of this is the thought experiment of the "veil of ignorance". If individuals were deciding whether or not to accede to one of a range of policy packages but they did not know where they themselves would end up, it is argued that there would be support for the package which focused on the wellbeing of the worst off, because each individual could be that person. I realize of course that this is a highly simplified account of Rawls's *A Theory of Justice* (Rawls 1971), but it follows Arrow's (1973) interpretation of the Rawlsian argument for economists. If this argument were applied to the global level, such "Global Rawlsianism" would mean that at the global level the focus would be on the least well off, no matter where they were. In particular, the fact that the least well off lived in a nation that was relatively well off would not have any moral significance.[2] However, such a position has been critiqued by a range of political philosophers, not least Rawls himself in a series of arguments culminating in *The Law of Peoples* (Rawls 1999). In what follows, this debate on Global Justice is reviewed and assessed to provide an analytical background to the issue of aid to countries like India.

In a masterful exposition from which I have learnt a lot, Nagel (2005, pp. 114–115) states the basic set of questions as follows:

> The issue of justice and equality is posed with particular clarity by one of the controversies between Rawls and his critics. Rawls argued that the liberal requirements of justice include a strong component of equality among citizens, but that this is a specifically political demand, which applies to the basic structure of a unified nation-state. It does not apply to the personal (nonpolitical) choices of individuals living in such a society, nor does it apply to the relations between one society and another, or between the members of different

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[1]Of course there are a number of technical issues involved here in terms of the different methods of constructing individual poverty lines and the per capital income thresholds which define MIC status.

[2]It can of course have operational significance—this will be taken up in the next section.

societies. Egalitarian justice is a requirement on the internal political, economic, and social structure of nation-states and cannot be extrapolated to different contexts, which require different standards. This issue is independent of the specific standards of egalitarian justice found in Rawls's theory. Whatever standards of equal rights or equal opportunity apply domestically, the question is whether consistency requires that they also apply globally.

The line of argument in Rawls (1999) can be traced back to Hobbes in *Leviathan*, that it is in return for conceding their powers to the sovereign that the citizenry can make demands on the operation of the sovereign. Among these is economic justice, focusing on the least well off. This framework can be seen to apply, however imperfectly, at the level of the nation state. But it is argued that it self-evidently does not apply at the global level.

Contrary to the above argument, which Nagel (2005) labels "the political conception," the alternative conception of "cosmopolitanism" argues from the basis of equal concern and duty that is owed to all human beings. This argument has been advanced for example by Singer (2002), Pogge (1989) and Beitz (1979). In this view, "it would be morally inconsistent not to wish, for the world as a whole, a common system of institutions that could attempt to realize the same standards of fairness or equal opportunity that one wants for one's own society. The accident of being born in a poor rather than a rich country is as arbitrary a determinant of one's fate as the accident of being born into a poor rather than a rich family in the same country." (Nagel 2005, p. 119).

Nagel (2005, p. 126) says that he finds "the choice between these two incompatible moral conceptions difficult." On one view, the right moral unit is the individual irrespective of which nation state they belong to. In a related set of arguments, Rawls and his followers would reject such "monism" and argue that there cannot be a single regulative principle for all moral questions. The Rawlsian maximin applies to relations between individuals as they relate to a sovereign state but not, for example, to moral relations between individuals, and certainly not to moral relations between nation states. Rawls would consider it illegitimate to extend his theorizing from the nation state to the global stage.

My Cornell colleague Miller (2010) has recently addressed the issue of cosmopolitanism and its tensions with a nation state based view. My interpretation of this important contribution to the debate is that Miller rejects both extremes. On the one hand he questions the Singer view that closeness along different dimensions (for example, family, community or nation) should have no moral salience whatever— that, for example, a well off person in a developed country has duty of equal concern for her daughter and the poor in developing countries. On the other hand, he also argues that individuals in a nation can indeed have some moral responsibility to individuals in another nation because of the relations between the two states. The argument turns on whether relations between nations are themselves exploitative. Miller (2010) argues that arrangements in world trade, in the global financial architecture and more generally in economic arrangements benefit wealthy nations and thus individuals in those nations. This then leads to a moral responsibility on the part of those individuals to work to remove these forms of exploitation, and to

redress their consequences. To the extent that nation-to-nation aid constitutes such redress, it has moral justification.

Although I am drawn strongly to the cosmopolitan view, I recognize that there are strong counterarguments. For example, within a country there are regions and regional identities. The question then arises as to whether a regional development policy which aims to minimize poverty should do so even if it means depopulating a region and thereby extinguishing that regional identity. In fact, most countries have regional policies that direct investment and development into regions even when this may not be the most efficient outcome for poverty reduction at the national level. In such situations, I tend to have sympathy with a policy that attempts to "move jobs to the people" rather than "move people to the jobs." At the international level, however, such migration is not allowed or at least is not extensive. Thus we are back to the question whether once a nation crosses the poverty line global responsibility to the poor in that country ceases. The Rawlsian argument would be that this responsibility did not exist in the first place. The cosmopolitan argument would be that the responsibility continues so long as any poverty persists in any country. The Miller argument would be more nuanced, looking to find patterns of exploitation as the building block of moral responsibility. In what follows I assume that responsibility endures. But the national level performance might nevertheless be a useful indicator in determining aid flows.

5.3 Global Utilitarianism and Anti-poverty Targeting[3]

Suppose a donor nation, or a collectivity of donors nations as in the case of IDA, were interested in minimizing global poverty irrespective of where it occurs. How should they allocate their resources between nations of differing per capita incomes? The answer to this question depends on a more detailed specification of donor objectives, and on an elaboration of how aid leads to poverty reduction in different countries. On objectives, let us think specifically of the well known Foster et al. (1984) family of poverty P_α. When $\alpha = 0$, we have the simple head count ratio or incidence of poverty. When $\alpha = 1$ we have the poverty gap measure which is the normalized sum of gaps between the poverty line and incomes below the poverty line. When $\alpha = 2$ we have the squared poverty gap measure which gives greater weight to the poorest among the poor.

To fix ideas, let us think of aid simply as increasing the purchasing power of individuals in countries to which it is directed. The channels through which this happens, and the efficiency of aid in reaching the poor, will be taken up presently. If donors could perfectly target their transfers to the poor, then the nation state would indeed be irrelevant—aid should flow to the poor to minimize global poverty. For $\alpha = 0$ this would be the poor who were closest to the global poverty line, no matter

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[3]The arguments in this section draw on Kanbur and Sumner (2011).

in which nation they lived. Of course, if there was a nation where the poor were concentrated closest to the global poverty line, this nation would receive most aid, but this would only be a side effect of the policy, not its essence. For $\alpha = 1$ it would not matter which of the global poor the aid flowed to—the donors would be indifferent as between the poor and therefore as between the nation states. For $\alpha = 2$, aid should flow to the poorest of the poor again no matter where they are. If it so happens that they are concentrated in a particular nation, then aid will flow there, but again as a side consequence. For example if it is the case that the poorest nations have the poorest of the global poor, this policy will direct most aid to the poorest nations, and will reduce and may even cut off assistance as per capita income rises in a recipient country. But this will be the natural consequence of a cosmopolitan policy in these circumstances—it will not be an expression of a view that beyond a certain point the nation state will have to take responsibility for its own poor.

With this highly stylized setting we can now pose the analytical question, could a country be a recipient and a donor of aid? The answer depends on their being different objective functions between different countries as donors. If all countries had as their objective the poorest of the poor, then if a country received aid because it had the poorest of the poor in the world, then it should spend its own aid resources also on its own people, so we could not have a country being both a recipient and a donor. On the other hand, if $\alpha = 1$ so that the objective function was indifferent as to which of the poor received assistance, then we could indeed have a situation of a country receiving and giving aid as the rational outcome of the aid allocation process, but this would only be for this "knife-edge" case.

All of the above is when perfect targeting is possible directly from the donors to the poor. Let us now move to the case where this is not possible. The flow of aid is now to the recipient government, which then distributes the aid on to its population. This is in fact the actual state of affairs in the global aid architecture. Analytically, everything now depends on how exactly the recipient country distributes the aid it receives (and of course on the donor's objective function). Let us start with the assumption of no onward targeting—in other words, the aid is distributed equally among the populace of the recipient country.[4] It has been shown that faced with this situation if the objective is to minimize global P_α the donor should target aid to the country with the highest $P_{\alpha-1}$.[5] Thus if the objective is P_2 the aid should be targeted to countries with the highest P_1, and if the objective is P_1 then the target should be countries with highest P_0.[6]

With the above framework, if poverty falls with per capita income then there is an argument for reducing aid to countries with higher per capita incomes. But this relies on a presumed empirical regularity. Even if there were strong evidence for the relationship, which there is, it would be better to base the criterion for aid flow

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[4]This could happen, for example, if the aid was used to finance subsidies to food and fuel rations to the population in a country.

[5]Kanbur (1987).

[6]The analysis is more complicated if the objective is minimization of P_0.

directly on poverty in the country rather than per capita income. At the very least this would allow us to distinguish between differential movements in P_1 and P_2 if any. Still in this framework, could a country be a recipient and a donor? If the global donor and the recipient have the same objective function and the same model of how aid flows to the economy (every individual gets an equal amount), then the recipient from the global donor could not itself be a donor to other countries, since both would target their resources to the country with the highest $P_{\alpha-1}$. However, if the objectives of the global donor and the recipient differed, for example if they had different α's, then analytically it is possible for the global donor to give aid to a recipient country and for the recipient country to use its own resources to give aid to another country.

So far we have assumed that the model of how aid flows to the poor in a country is the same in all countries. But this is clearly not the case. There are efficiency differences in how some countries are able to use aid. One way o represent this analytically is to treat an aid flow of A as an effective flow of eA, where e is an efficiency parameter. And there are targeting differences. Some countries target aid to the poorest better than others. If the objective of a donor is to minimize global poverty P_α then aid should be targeted to countries with (i) higher $P_{\alpha-1}$, (ii) higher e, and (iii) better targeting to the poor. The key point, however, is that per capita income does not enter this calculation at all, except once again in terms of an empirical regularity between it and (i), (ii) and (iii). Rather than rely on this, it would be better to rely directly on indicators of the efficacy of aid in reducing poverty.

Finally, could a country be a recipient and a donor in this expanded framework? The answer depends on the interpretation of the efficiency parameter e, and a more detailed consideration of how aid transforms itself into development and poverty reduction. Up to now we have simply taken a "cash transfer" perspective. But much of aid is transfer of specific knowledge and expertise in different sectors ranging from agriculture, through infrastructure, to social sectors. With this broader perspective it is quite possible that countries may have different types of expertise. As *The Economist* (August 13, 2011) notes in its assessment:

> …like trade, aid benefits from specialisation and comparative advantage. Emerging countries, with recent experience to draw upon, might do a better job of infrastructure spending. The West should focus more on policies and good governance (something many poorer Indian states are crying out for).

To summarize, a Global Utilitarian Framework, with the objective of minimizing global poverty no matter where it occurs, can nevertheless lead to a key role for the nation state as a mediator between donors and the poor. Depending on donor objectives and on the constraints faced in reaching the poor, various national level indicators can be useful in targeting development assistance to different countries. These include poverty in the country, and indicators the efficiency of aid use in the country. Per capita income can be useful as a correlate of these indicators, but does not emerge in and of itself as the sole criterion for cutting countries off from development assistance does not emerge from the analysis.

5.4   Some Operational Considerations: The Case of IDA[7]

The political, conceptual, philosophical and analytical issues covered in the paper so far all come together in an issue that is at the forefront of policy discourse right now—the rules of access to IDA, the World Bank's concessional loans window. Unlike the IBRD part of the World Bank Group, which makes loans to richer developing countries at market rates from funds raised in the market, IDA is a fund to which donors contribute, and from which highly concessional loans are made to the poorest countries. According IDA rules, repayments go back into the IDA pool. Donors meet every three years to agree on their new contributions to the pool. The three year cycle is known as a "replenishment." We are currently in the middle of the 16th replenishment, IDA16.

In 2012 the cutoff for eligibility for IDA funds was gross national income per capita of $1175.[8] The threshold is updated for inflation every year. Operationally, when a country exceeds the threshold for three years in a row it "graduates" and can no longer get new loans from IDA. Further, at graduation a country's repayment terms on outstanding loans harden. In simple terms, whatever principal was due to be repaid on the old repayment schedule now doubles—in other words, the maturity of the outstanding debt halves. Thus countries face a significant penalty as they cross the threshold. However, the logic behind graduation is that these countries should now be able to address their poverty problems without assistance from IDA, thereby releasing funds for even poorer countries. Obviously this logic rests on an assumed close connection between poor countries and poor people.

The link between poor countries and poor people has been weakening. Twenty years ago, 90 % of the world's poor lived in officially classified Low income Countries (LICs). Today around three quarters of the world's poor live in MICs. This is not just a "China and India" phenomenon. A number of large MICs (Indonesia, Pakistan, Nigeria, Philippines etc.) account for as many poor as India (Kanbur and Sumner 2011). The phenomenon has crept upon us because of the fast growth of these populous countries. Growth has clearly reduced poverty, but not so fast that poverty is rendered insignificant as the countries cross into MIC status. The result is a very different geography of poverty compared to even two decades ago.

Moss and Leo (2011) have conducted a detailed set of projections on the future of IDA if country growth patterns continue as in the past, and IDA rules of access remain unchanged. Using more conservative graduation assumptions (for example, five years continuously above the threshold in order to graduate) they nevertheless find dramatic patterns: 36 out of the current 68 eligible countries will graduate by 2025. The graduands include India, Vietnam, Pakistan, Nigeria, Ghana and Kenya (Bangladesh will graduate by 2029). These countries are currently the biggest recipients of IDA funds.

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[7]This section draws on Kanbur (2012).

[8]This is slightly different from the MIC threshold. A country crosses over to MIC status when its per capita income exceeds $1025 (2011 threshold).

The implications of this "business as usual" scenario are quite dramatic. Most importantly, while IDA will indeed focus on the poorest countries in the world, it will disengage from the bulk of the world's poor. The countries that remain in IDA will receive a bonanza if donor flows continue into the pool. For example, Ethiopia would receive twice as much as its recent IDA commitments. Niger would receive an amount from IDA that was greater than its flows from all other current donors. There may well be absorptive capacity problems in these countries. But before that happens, donors may well "declare victory" and reduce their contributions to the IDA pool. Thus the remaining countries may not benefit greatly, but the graduated countries will lose funds to address their huge poverty problems.

And it is the remaining poverty problems in MICs that are the strongest argument for continued development assistance to them. The case of India is well known. Depending on how exactly the calculations are done, around 400 million Indians are below the official global poverty line. The recent growth spurt has benefited some states but not others. Even in fast growing states some districts lag behind. And yet India has crossed the IDA threshold and is due to graduate from IDA within the next year or two. Does this make sense?

I have argued (Kanbur 2012) that if IDA is to not become disengaged from the bulk of the world's poor, its rules of access will have to be changed. But changing the rules will not be easy. India is the test case. The countries that remain in IDA will see the threat to their funding from keeping India in IDA. Indian elites may themselves not be willing to accept aid. Donors will argue that in times of fiscal austerity they cannot support a MIC country. And, of course, they will raise the question of how aid can be continued to India when it is itself becoming an aid donor.

All of these arguments will need to be countered. But even if these arguments are won there remain the detailed operational questions of exactly the rules of access to IDA will be changed. In Kanbur (2012, p. 6) I propose a second window for IDA:

> Between the current IDA threshold and twice this threshold, IDA resources would be available for projects and interventions targeted specifically to the poor—for example through projects focused on regions whose per capita income is below the IDA threshold, or through projects focused on sectors such as basic health and basic education which would reach the poorest of the poor.

I argue that this proposal has several advantages, including the fact that it stays within the standard "per capita income thresholds" framework but within that it incorporates explicit targeting to the poor. However, changing IDA's rules of access in this way will encounter a number of operational problems which will have to be addressed (Kanbur 2012, p. 7):

1. "Exact delineation of poor regions or poverty oriented sectors. Regional per capita income could be used to target projects within a country. Only those regions that have not crossed the basic IDA threshold would be eligible. In India, for example, the poorest states would continue to have access to IDA until India's per capita GNI exceeded twice the IDA threshold. But for implementation this would require strengthening of sub-national income accounts.

2. Performance based allocation for this window of IDA resources. Would the same allocation rules (based on the Country Policy and Institutional Assessment—CPIA) apply? Or might modified performance indicators, focused directly on poverty reduction outcomes, be more appropriate? [For an argument in favor of strongly outcomes-based approaches, see Kanbur (2005). See also Leo (2010)].
3. Some countries that have graduated but have not crossed the UMIC threshold will once again have access to IDA. Bringing these countries back into the IDA fold will require the appropriate reengagement, although of course there is IBRD engagement in any case.
4. On the funding side, the issue of how much should be allocated to the new window, and on what criteria, will need to be discussed and worked out. Can donors earmark their contributions for a window? Or would the overall replenishment be allocated according to operational needs and performance criteria?
5. More generally, governance structures for the new window, to which a limited number of MICs would have access, would need to be worked out."

These operational issues are important of course, but the fact that they can be specified in this way suggests that we can at least begin to address them. But the more fundamental question is whether India should continue to have access to IDA. On analytical grounds, I have argued that the answer to this is yes. Ultimately, of course, the final outcome will depend on the politics among IDA donors and within India itself.

5.5   Conclusion

As I noted at the start, the simple factual answer to the question in the title of this paper is yes. It turns out that the answer to the deeper interpretation of the question is also yes, but in qualified manner. I have contrasted "cosmopolitanism", which requires equal concern for the poor no matter which country they are in, with the "political conception", which would imply in strong form that there is no moral responsibility of economic justice towards the poor of another country, or in a weak form would still imply that once a country crosses the poverty line on average global responsibility towards its poor citizens is diminished or even finished. However, even with global utilitarianism with an objective of minimizing global poverty, national level indicators reappear in a targeting framework. But from the analytical perspective national per capita income is not one of these direct indicators, and appears only as their correlate—itself only an indicator of the relevant targeting indicators. However, per capita income thresholds are now well ensconced in the global aid architecture. In the specific operational context of IDA I have therefore argued for a second window beyond the current threshold beyond which funds can be accessed only for interventions targeted to the poor. Ad this should happen even if India has an aid program to countries poorer than itself.

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