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FROM THE RING SIDE

Coffee, tea or international aid?

The annual meeting of the World Bank and the International Monetary Fund begins in Washington this week. As is customary, the Finance Minister along with Reserve Bank Governor and their aides will participate in these deliberations. P Chidambaram's predecessor had no appetite for the Fund-Bank jamboree and gave both the Spring and the annual meeting either a miss or registered a token presence.

It is true that in an increasingly interdependent world with most developing countries adopting market-friendly policies, access to global capital markets has replaced the pre-eminent position of the Bank and resources of the Fund have proved increasingly meagre to meet the financing needs of countries in distress.

The heady days of the Fund and Bank have vanished for yet another reason. In the earlier days, annual meetings used to be an extended week-long affair, providing an opportunity for Finance Ministers to get to know each other and permitting over-dressed merchant bankers to zip in and out of Ministers' rooms in search of business. The anti-globalisation protestors and subsequent security concerns have pared these events down to just two days, making these meetings more of a formality than an event. So what should India try to get out of the forthcoming Fund-Bank meeting?

First, with stable macro-fundamentals and healthy external sector, we can afford to pontificate and lecture to others on how to avoid a crisis and how to get out of one with shallow conditionalities. Our unutilized head-room of borrowing from the World Bank is still very large. And so there are no worries relating to access to Bank resources. However, there are some issues which deserve our attention.

• The millennium development goals subscribed by the international community remains grossly unrealized. There is a compelling case to increase Overseas Development Assistance (ODA) to address these needs and alibis like increased trade flows, increased workers remittances or access to world capital markets should not enable countries to either resile from earlier commitments or desist from making new ones.

• The resources of the International Development Assistance (popularly known as IDA) remains rather meagre as we move from the XIII to the XIV replenishment cycle. Attempts to cap India's access at modest levels or worse to graduate us out of IDA resources must be firmly resisted. Higher growth rates of the 1990s have certainly brought down the incidence of poverty to say 19% or 22% or some other figure depending on the preferred methodology. In absolute terms, however, given our population, the number of people living below the poverty line still remains very large. India clearly qualifies to receive IDA resources and we can assure the international community that given our improved disbursement procedures, the head-room for IBRD/ IDA or a blend that is available would be more fully utilized.

• The proposal put forward for International Financing Facility in which, based on securitisation of future aid flows, larger quantum of market borrowing can be undertaken in the short and the medium term must be encouraged. It will enable us to secure upfront financing for high quality infrastructure projects. After all, the large amounts for the National Highways Authority are being financed through market borrowing based on securitisation of the future revenue stream from the cess. This principle can be now internationally applied.

• Even while over the years, the cost of borrowing from the Bank has been moderated, there is scope for reducing them further and of harmonising them across the international lending agencies. There is a case for further moderating the cost of IBRD resources and aligning the Ordinary Capital Resources (OCR) of ADB and donors like Japan to meet these revised benchmarks.

• In the earlier Government, a somewhat hasty decision was taken to terminate all bilateral aid flows except from some countries like USA, Japan, UK and Germany. This may have been part of a short lived ‘‘economic machoism’’ in which we suddenly took pride in becoming donors rather than recipients. This was also a component of the ‘‘Shining India’’ campaign. Given our large incidence of poverty, access to these concessional resources, the uncompleted earlier projects initiated on these funds requires a more coherent strategy to be evolved. We have for decades happily lived in an asymmetric world of being both donors and recipients and there is no inherent contradiction between these two worlds!

• On the issue of restructuring the shareholding structure of Bank & Fund based on economic performance and the new permutation and weightages to be adopted, several proposals have been doing the rounds for a decade. It is not clear if in any of the proposed arrangements, India would be a gainer. I think we need to move with caution and live with the existing structure till a clear preferred alternative emerges. At the same time, in respect of heavily indebted countries and debt restructuring, the exercise needs to be accelerated particularly with respect to Sub-Saharan Africa.

• The World Bank’s record in India of spreading access to its resources in an equitable manner has been less than glorious. Seven States have ended up in garnering 75% of the resources. Argument that better performing States need to be rewarded can cut both ways. The real success lies in inducing the poorly performing States to improve their development and governance record so that access to external assistance does not become yet another factor in widening regional disparities. Six Sates alone, namely Bihar, UP, Jharkhand, Chhatisgarh, Orissa and Madhya Pradesh account for over 60% of the population subsisting below the poverty line. If India is going to achieve the primary Millennium Development Goals of halving the proportion of population living below the poverty line by 2015, the focus of development efforts will have to shift to these States.

• The IMF and the World Bank have not lost their relevance to us. The annual Article IV Consultations of the IMF is a useful independent exercise focusing on our strength and weaknesses along with advanced warning systems. The resources of the IDA and the IBRD are useful in supplementing resources for the social sector and the long tenor loans of the IBRD in financing high gestation period projects in infrastructure particularly, power, roads and railways.

• Restructuring of the International Financial Architecture has been put on the backburner as the Fund has become more conscious in the application of its conditionalities and the office of the Independent Evaluator brought in greater objectivity in evaluating Fund programmes. The Bank itself has undertaken a number of steps to finetune its policies and procedures to meet country-specific needs. The sheen may have gone off the Fund and the Bank. But the world and India still needs them. We are important and founder shareholders in both these organizations and we should use them effectively, consistent with our own developmental priorities.

In accessing the Bank resources we can also shape their perceptions to meet our changing needs and work out arrangements which are mutually acceptable, both to the borrower and the lender. No other country more fully meets the objectives contained in the Millennium Development Goals. Our economic success coupled with our optimism of the future enables us to do so. The Bank needs us as much, if not more, than we need the Bank. Chidambaram has a doable brief.

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