CHAPTER 6

INDIA’S ECONOMIC DEVELOPMENT: THE WORLD BANK’S ROLE
India is one of the countries in whose economic development, external assistance has played and continues to play a decisive role. Soon after coming to grips with immediate crises and problems of partition, Indian leadership focussed its attention on the process of fulfilling the economic promises of freedom. Economic planning was accepted as "an essay in faith" and a "venture of the spirit."

Before Independence, India received British capital both in equity and loan account. The British capital was received by private parties and the Government of India. During the British period in India there was suspicion and antagonism against the use of foreign capital in India. By 1948, foreign investment increased considerably in India and it remained mainly concerned with light and export industries and import replacement industries. Britain was the biggest investor accounting for more than 82% of the capital.

Since the advent of freedom the pressure for economic development in India has been mounting steadily. Development programmes could eliminate poverty and pave for steady economic growth. India's economic plans have appreciated from the beginning the vital role of foreign capital in the country's economic development. India has received external financial assistance from industrial countries like the USA, the UK, the USSR, West Germany, Japan
and from international financial agencies like the IBRD, the IDA, the ADB, etc.

**World Bank's Aid Programme**

The active association between India and the IBRD is about of thirty-two years standing. It began two years after India attained Independence and a year after the Bank turned from reconstruction to development lending. A good deal of progress has been made to India during the past three and a half decades. National income has much increased since the inception of planned economic development. India has created a large and complex industrial structure and laid the foundation for accelerated growth in agriculture.

India's population has tremendously increased since 1920.

**TABLE 6.1**

Source-wise Aggregate External Aid to India as on March 30, 1998

<table>
<thead>
<tr>
<th>Principal Aid givers</th>
<th>Loans</th>
<th>Grants</th>
<th>PL 480/665 Aid and Third Currency Assistance</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>USA</td>
<td>3,659</td>
<td>286</td>
<td>2,165</td>
<td>6,110</td>
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<tr>
<td>IDA</td>
<td>3,962</td>
<td>-</td>
<td>-</td>
<td>1,470</td>
<td>18.4</td>
</tr>
<tr>
<td>UK</td>
<td>1,422</td>
<td>718</td>
<td>-</td>
<td>2,140</td>
<td>10.0</td>
</tr>
<tr>
<td>West Germany</td>
<td>1,402</td>
<td>42</td>
<td>-</td>
<td>1,444</td>
<td>6.7</td>
</tr>
<tr>
<td>USSR</td>
<td>1,431</td>
<td>12</td>
<td>-</td>
<td>1,443</td>
<td>6.7</td>
</tr>
<tr>
<td>IBRD</td>
<td>1,271</td>
<td>-</td>
<td>-</td>
<td>1,271</td>
<td>6.0</td>
</tr>
<tr>
<td>OPEC</td>
<td>1,264</td>
<td>-</td>
<td>-</td>
<td>1,264</td>
<td>5.9</td>
</tr>
<tr>
<td>Japan</td>
<td>692</td>
<td>1</td>
<td>-</td>
<td>693</td>
<td>3.2</td>
</tr>
<tr>
<td>Others</td>
<td>2,029</td>
<td>1,100</td>
<td>-</td>
<td>3,129</td>
<td>14.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>17,132</td>
<td>2,159</td>
<td>2,165</td>
<td>21,456</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The rapid growth rate of population at 2.5% a year has an adverse effect on India's efforts for her people's welfare. In the sixtees, for example, more than 60% of the growth in income had bee absorbed by the increasing population. Although the bulk of resources for India's economic development has come from within, assistance from the World Bank has played an important and complementary role.

Table 6.1 illustrates the role of the IBRD's lending to that of other donor countries. The USA has been the main source of external aid accounting for more than 44% of the total, but the recent years (i.e., as on March 30, 1998), its share has declined to about 28%. It shows India's excessive dependence on the US aid. Taking together, the IBRD and IDA has assumed the second place accounting for more than 24% of the total. The IBRD exclusively comes at sixth place. OPEC participation is increasing.

**Five Year Plans and the IBRD**

Now, we will discuss here the quantum of the IBRD assistance during the planning period. Table 8.2 shows the factual position of the external assistance to India as on March 30, 1978.

It will be apparent from the table that up to the end of the First Plan, the Bank accounted for about 14% of the total foreign aid authorized and about 8% of the total IBRD's lending to India up to 1974. During the Second Plan, the IBRD's assistance increased in absolute terms by more than 5 times but declined in terms of percentage to 10.3% of the total foreign aid. Upto the end
of the Second Five Year Plan, the Bank has been the second largest source of external aid to India. During the Third Plan, the IBRD assistance declined and continued to decline thereafter. Major portion of the total IBRD loans, i.e. about 66% came up to the end of the Third Plan. During the period 1966-74, the quantum of the Bank’s aid declined. However, during the period of four years 1974-78, the Bank’s assistance increased tremendously.

**TABLE 6.2**

IBRD’s share in Total External Assistance to India

<table>
<thead>
<tr>
<th>Plans</th>
<th>Total Foreign Aid</th>
<th>IBRD Authorized</th>
<th>Percentage of the IBRD Loans to the total external aid during the respective years</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951-52</td>
<td>382.2</td>
<td>52.21</td>
<td>8.4</td>
</tr>
<tr>
<td>1955-56</td>
<td>2539.0</td>
<td>261.04</td>
<td>38.0</td>
</tr>
<tr>
<td>1960-61</td>
<td>2790.0</td>
<td>159.56</td>
<td>19.2</td>
</tr>
<tr>
<td>1970-71</td>
<td>3172.0</td>
<td>30.88</td>
<td>1.8</td>
</tr>
<tr>
<td>1985-86</td>
<td>4172.0</td>
<td>159.38</td>
<td>14.30</td>
</tr>
<tr>
<td>1997-98</td>
<td>6203.0</td>
<td>633.74</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>19258.2</td>
<td>1296.81</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Note: Figures given in this table may not tally with the figures given in the table 8.1; the reason of the difference is the compilation of the present table from the different sources to show Plan-wise detailed figures.*
Pre-Plan Assistance

The Bank's interest in India dates back to 1949, when it made two loans amounting to $40 million. One loan of $7 million was for land reclamation and the other one of $33 million was for the railways expansion programme. In the year 1950, a loan of $17 million was advanced to the Damodar Valley Corporation for power development.

The Bank continued its interest in DVC power projects by advancing two further loans which made DVC essentially a power producer and led to a relative neglect of its irrigation and flood control projects.

During the pre-plan period, the Bank advanced $57.0 million. India might not have asked for even a small assistance but main reason of its was that India's large sterling balances in London were still blocked.

First Five Year Plan (1951-56)

IN 1951 the Government of India launched its First Five Year Development Plan. The First Plan was only a modest warm-up for the real effort of planning. Targets of the plan were set a modest level and the main
emphasis was on infrastructure investment, on agriculture and on rehabilitation. Total Plan investment (public and private sector) was of the order of Rs. 3360 crores out of which 92% was realized from domestic resources. Foreign aid, though included in the plan, was not a crucial element.

During the Plan period foreign aid amounted to Rs. 382 crores out of which Rs. 194.3 crores (i.e. 58%) was utilized. The IBRD took an active interest in the development programmes of India. In 1951, the Bank’s Mission visited India to gain first-hand knowledge of the planning, financing and execution of the development programmes of India’s First Plan.

During the plan, the IBRD advanced about Rs. 52.21 crores which came to about 14% of the total external assistance authorized. The Bank provided for both public and private sector. In the public sector the Bank financed the development of electric power, while in the private sector the Bank offered its loans for the expansion of steel industry, electric power and to augment the financial resources of the ICICI.

During the Plan, the rate of increase in the GNP averaged a little over 3% a year in real terms. It increased to about 4% during the Second Plan, a record substantially better than that of southern Asia as a whole.

The Plan was understood to have been successful in achieving its targets. The industrial production rose by about 7% a year; agricultural output also increased due to some favourable climatic conditions.
Second Five Year Plan (1956 – 60)

In 1965, the Government of India launched its Second Plan which was more comprehensive than the First. The Plan required more foreign exchange and marked the beginning of a period of planned development for heavy industries.

India was laying the basis, particularly during the period of its Second Plan which was more comprehensive than the First. The Plan required more foreign exchange and marked the beginning of a period of planned development for heavy industries.

India was laying the basis, particularly during the period of its Second Five Year Plan (1956-61), for heavy industry. The core of the Plan was a large expansion in Iron and Steel manufacturing facilities, heavy engineering and electricals. All this involved huge investments in iron ore and coal mining as well as railways and electric power investments. The IBRD-advanced loans during the Second Plan were more of the same kind during the First Plan.

In fact, the magnitude of external assistance authorized tremendously increased and reached the figure of Rs. 2539 crores. Out of it the IBRD advanced Rs. 261 crores which came about 10.3% of the total external assistance authorized.

External assistance utilized also increased by more than seven times (i.e., to Rs. 1430.30 crores) over the Second Plan period as compared with the
previous Plan. The Bank assistance was utilized to the extent of Rs. 223 crores which came about 16% of the total external assistance utilized during the Plan.

The Second Plan witnessed a major foreign exchange crisis. The main cause of anxiety was the deterioration of balance of payments which showed a deficit of Rs. 427 crores in 1957-58. Lending to India developed slowly. Doubts were expressed concerning the country's credit-worthiness for loan on the Bank’s terms, and prior to 1956 only a little more than $125 million had been committed to it, mainly for the rehabilitation of the Indian railways.

In order to overcome the difficult foreign exchange problem in 1958, the Bank came forward and brought together for consultation a group of industrialized countries.

This resulted in the five nations* entering into bilateral arrangements with the Indian Government for aid which, together with additional World Bank loans, covered the foreign exchange needed in the Second and the Third Plans. Aid India Group, (later known as the Aid India Consortium) marked the beginning of lending on a large scale. The years 1958-62 probably represented a high point in cordial relations between India and the IBRD.

It was felt at that time if the IBRD had left; India in the lurch, India would thereby have been compelled to turn to expensive short-term credits and would thereby have to thoroughly jeopardize its balance of payments in the coming years. Moreover, the Bank got an impression that India had utilized
foreign assistance more effectively than perhaps any other underdeveloped
country.

Another development that took place during the Plan (regarding the close
relationship between India and the World Bank) was that the IBRD mediated
for settlement of the Indus water dispute between India & Pakistan. The Indo-
Pakistan treaty was signed in 1960 which created the Indus Development Fund
of $870 million contributed by various countries. India contributed about $174
million to the Fund to replace supplies of water from various rivers wholly to
India.

**Third Five Year Plan (1961-66)**

The Third Plan represented the first phase of a long-term (1961-66)
perspective planning aiming not only at rapid expansion of the economy but
also on making it self-reliant and self-generating. And the tempo of investment
continued unabated. The character of investment remained foreign exchange
oriented. The establishment of the IDA during this period, viewed as a
watershed, or major landmark in the evolution of the World Bank Group,
greatly increased the scope of Bank Group commitments to India.

While delivering Lal Bahadur Shastri memorial lectures on foreign aid,
encouraged by the experience of Second Plan, Mr. I.G. Patel said that:

We wanted the Consortium to assess and underwrite in advance our
requirements of foreign exchange during the Third Plan period as a whole so
that we could embark on the Plan with full confidence.
To facilitate this, the Bank and the Indian Government arranged in 1960 a three member Mission chosen from the international financial community. The “three wise men” – Sir Oliver Franks of the U.K., Hermann Abs of Germany, and Allan Sproul of the USA – prepared the report which Mr. Patel described as one of the most heartening documents in the annals of international relations. The Banker’s Mission was followed, on a more technical level, by a World Bank Mission, headed by Michal L. Haffman, which also gave a general endorsement to the Third Plan including its emphasis on industry.

The quantum of foreign aid authorized during the Third Plan was Rs. 2790 crores which came to about 28% of the total investment of the Plan. The IBRD provided only Rs. 159.56 crores which came about 5.8% of the foreign aid authorized during the Plan.

During the period of 1961-65, the IBRD did not announce any direct loan, apart from few loans through the ICICI operations. The main reasons for the decline of loans was due to the doubt created by the IBRD in India’s credit-worthiness. Early years of the Plan witnessed a good relationship with Bank-led Consortium. The Consortium members pledged well over $ 1 million a year in development assistance. No doubt it was a favourable situation, but it proved to be short-lived.

In 1962 again, the Bank Mission came to India and presented a report on the growth in national income during the first year of the Third Plan which was
considered to be highly disappointing. The report noted that the task which India is attempting in the field of economic development, is increasingly difficult than any which has faced the more developed economics of the West. Moreover, the report criticized the Indian management.

In 1964 the Bank decided for a comprehensive study of the Indian economy. To undertake this study, the Bell Mission visited India in 1964. In India, a capital repayment requirement absorbed 15% of India’s export earnings against about 10% that was considered as the normal safety limit by the IBRD. India was to repay heavy debt and as a result of all this the IBRD projects were transferred for the IDA financing.

Annual Plans (1966-69): There was a slight change in the planning procedure was adopted in place of Five Year concept. Agriculture contributed much to National Income growth and record output of 95.6 million tons in food grains in 1967-68. This was due to good monsoon and appropriate agricultural practices. During this period Rs. 6,626 crores were invested. The contribution of foreign aid to the total investment was 27% out of which the IBRD provided only Rs. 30.88 crores, i.e. 1% of the total external assistance authorized. About Rs. 66.6 crores of the earlier IBRD loans were utilized. Authorized aid is aid authorized, but it is not necessary that it be released during the period.

Fourth Five Year Plan (1969-74)

The Fourth Plan visualized self-reliance of the country. During the Plan period, total plan outlay envisaged a total of Rs. 24,882 crores. The plan
originally provided for Rs. 2,614 crores (i.e., 16.4% of the total public outlay) for external assistance. During the Plan, the IBRD showed improvement in its lending by authorizing about 159.38 crores.

The amount came to 14.3% of the total IBRD assistance authorized during the entire 5-year period. It is significant to note that during the Annual Plans average annual rates of authorization of the IBRD assistance was about Rs. 10 crores while it rose more than Rs. 32 crores.

**Fifth Five Year Plan (1974-79)**

Total plan outlay was estimated at Rs. 67,300 crores and out of it 24,300 crores were to be provided for the public sector. Foreign assistance during the Fifth Plan was estimated Rs. 2,431 crores. (i.e., 6.4% of total public outlay). The main distinction between the Fourth Plan and Fifth Plan was that in the latter, 95% was to be financed from the domestic resources as against 80% in the Fourth Plan.

During the period of four years (1974-78) external aid to India came to the tune of Rs. 6,203 crores, out of which the Bank obligated about Rs. 633.74 crores (i.e., about 10.2%) of the total foreign aid during the said period. It is significant to note that the aforesaid amount comes to about 49% of the total Bank’s aid during the entire period of Bank’s lending to India, i.e. since 1974 to 1978.
Public Vs Private Sector

After discussing the IBRD financing during the planning period, it is easy to discuss the distribution of the IBRD lending between public and private sector in India. The IBRD is often viewed as being in opposition to the development of Indian public and private sector in India. The IBRD is often viewed as being in opposition to the development of Indian public enterprises. This is partially true. It is important to examine here this view correctly. The IBRD assistance goes to both the public and private sectors. Till the end of June 1978, the IBRD assistance to India came to the tune of $2255.4 million (net-of-cancellation), out of the which the private sector accounted for about 43% and the public sector accounted for 57%. Table 6.3 classifies the distribution of the IBRD aid in the public and private sectors.

Upto the end of the First Plan, there was no marked difference between public and private sector. But during the Second Plan period, the IBRD assistance to India’s public sector far exceeded that to the private sector. This was due to a sudden expansion of India’s public sector. In fact, the public sector accounted for nearly 72% of the total IBRD assistance at the end of the Second Plan. Two factors were responsible for
### TABLE 6.3

Distribution of the IBRD Assistance between Public and Private Sectors

*(Million US Dollars)*

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Years</th>
<th>Public Sectors</th>
<th>Private Sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1951-56</td>
<td>67.2</td>
<td>53.0</td>
<td>120.2</td>
</tr>
<tr>
<td>2</td>
<td>1961-65</td>
<td>380.7</td>
<td>167.1</td>
<td>547.8</td>
</tr>
<tr>
<td>3</td>
<td>1981-86</td>
<td>132.8</td>
<td>147.4</td>
<td>280.2</td>
</tr>
<tr>
<td>4</td>
<td>1986-90</td>
<td>-</td>
<td>26.7</td>
<td>26.7</td>
</tr>
<tr>
<td>5</td>
<td>1990-94</td>
<td>40.5</td>
<td>170.0</td>
<td>210.5</td>
</tr>
<tr>
<td>6</td>
<td>1994-98</td>
<td>676.0</td>
<td>394.0</td>
<td>1070.0</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>1297.2</strong></td>
<td><strong>958.2</strong></td>
<td><strong>2255.4</strong></td>
</tr>
</tbody>
</table>

% of the total Bank lending 56 44 100

*Note:* Loans are net of cancellations. A loan of $25 million is a joint/public sector.


the low level of the IBRD’s assistance to the private sector up to the end of the Second Plan:

1. At the first place, the Bank required a government guarantee while granting a loan to the private concern.
2. Secondly, the governments may not like to give the required guarantee, because there may be complaints of favouritism and discrimination levelled against them.

During the 1981-86 period the Bank authorized a larger volume of assistance to the private sector, and thus the share of the public sector came down to 62% at the end of 1981-86. Since the end of the ICICI operations. During 1986-94, the private sector accounted for 82% of the total IBRD lending, but over the recent past (1994-98), the public sector loans have again far exceeded that to the private sector (i.e. 53%).
TABLE 6.4

<table>
<thead>
<tr>
<th>Purpose</th>
<th>No. of Loans</th>
<th>Public Sector (amount)</th>
<th>No. of Loans</th>
<th>Private Sector (amount)</th>
<th>Total No. of Loans</th>
<th>Total Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Transport</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Railways</td>
<td>9</td>
<td>377.8</td>
<td>-</td>
<td>-</td>
<td>9</td>
<td>377.8</td>
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<tr>
<td>Ports</td>
<td>3</td>
<td>58.3</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>58.3</td>
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<tr>
<td>Air Crafts</td>
<td>1</td>
<td>5.6</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>5.6</td>
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<tr>
<td>2. Industry</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Iron &amp; Steel</td>
<td>-</td>
<td>-</td>
<td>6</td>
<td>176.9</td>
<td>6</td>
<td>167.9</td>
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<tr>
<td>Coal Mining</td>
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<td>-</td>
<td>1</td>
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<td>28.8</td>
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<td>General Industrial</td>
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<td>-</td>
<td>12</td>
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<td>12</td>
<td>515.0</td>
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<td>Development (ICICI)</td>
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<td>65.0</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>65.0</td>
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<tr>
<td>Fertilizer</td>
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<td>-</td>
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<td>109.0</td>
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<tr>
<td>Bombay High</td>
<td>1</td>
<td>150.0</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>150.0</td>
</tr>
<tr>
<td>3. Electric Power</td>
<td>6</td>
<td>131.8</td>
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<td>128.5</td>
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<td>260.3</td>
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<tr>
<td>4. Telecommunications</td>
<td>3</td>
<td>227.5</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>227.5</td>
</tr>
<tr>
<td>5. Agriculture</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Land Reclamation</td>
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<td>7.2</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>7.2</td>
</tr>
<tr>
<td>Seed Development</td>
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<td>38.0</td>
<td>-</td>
<td>-</td>
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<td>38.0</td>
</tr>
<tr>
<td>Irrigation</td>
<td>2</td>
<td>197.0</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>197.0</td>
</tr>
<tr>
<td>Fisheries</td>
<td>1</td>
<td>14.0</td>
<td>-</td>
<td>-</td>
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<td>14.0</td>
</tr>
<tr>
<td>6. Urban Development</td>
<td>1</td>
<td>25.0</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>25.0</td>
</tr>
<tr>
<td>Total</td>
<td>32</td>
<td>1297.2</td>
<td>23</td>
<td>958.2</td>
<td>55</td>
<td>2255.4</td>
</tr>
</tbody>
</table>

In the beginning, ICICI was set up in the private sector exclusively, but later became a joint sector when the Life Insurance Corporation of India, a major share holder of the ICICI, was nationalized.
Note: Loans are net of cancellations.

Source: Compiled from the IBRD, Annual Reports, 1948-98.

Purpose-wise Distribution Between Public and Private Sector

Now we discuss the extent of amount of the IBRD lending in different sectors of the economy.

It will be seen from the table 6.4 that public sector loans have gone mainly for the development of socio-economic infrastructure like transportation, electric power, telecommunications, agriculture and irrigation. The emphasis on railways was very marked. Till the end of the Third Plan, the Banks aid was primarily directed towards infrastructure development while private sector loans were mainly for the expansion and modernization of iron and steel companies, coal mining and privately owned development finance companies. Since the beginning of the fourth Plan, some loans have been advanced for the development of seed, fisheries and irrigation in the public sector, while in the private sector, fertilizer plant and development finance institutions have been helped finance.

The assistance directed to the private sector stimulated the process of development and strengthened the Indian financial institutions because private use of external assistance meant normally borrowing of more funds from the banks, floating of more shares and bonds or issuing of fresh equity shares in order to finance the foreign aid. In this way, one can conclude that the Bank aid
to the private sector helped to broaden the development base and financial market and provided incentive and stimulus for savings.

In the case of irrigation and power the IBRD aid was divided between public and private sector. This is indicative of the fact that the IBRD is non-domestic with regard to ownership within “infrastructure” categories.

While the World Bank has contributed to the development of the public utilities and irrigation projects, it has ignored the financial needs of the industrial projects in the public sector. One compliant against the World Bank is that its lending policy has a bias towards the public sector. While it has extended loans to ICICI which is in the private sector, it has not extended any financial assistance to the Industrial Finance Corporation (IFC) of India in the public sector. It should, however, be noted that the efforts of the US and the IBRD to influence India favourably towards private enterprise has been of doubtful consistency and efforts.

The Bank’s dedicated efforts to persuade India to encourage private sector have had marginal effects that are considered beneficial. Exchanges of views over the years have blunted the orthodoxy of both parties of the debate while earning the Bank a reputation in India for conservatism that has been hard to dispel.

Policy Changes

During the past couple of years the Bank has considerably changed its lending policy. The bias against extending assistance to public sector industrial
units has now virtually disappeared. The IBRD has provided a loan for the construction of pipelines from the oil fields of Bombay High to the onshore terminals. The Bank is also financing the giant 2,000 MW Singrauli thermal power station and having discussions about four or five such plants. The World Bank's work on a proposal for a fertilizer plant in Cochin (Kerala) led to a much-improved process and therefore a better and more useful project. The Cochin plant, incidentally, was the first publicly owned industrial establishment in India to receive direct Bank or IDA lending.

Leverage

It would not be a waste or time to study the extent to which the IBRD has been successful in influencing or changing the policies of economic development in India. Experience tells that the Bank has been actively involved in the internal economic matters of member countries which seek its help. Theoretically, the Bank can make a request or a formal memorandum of understanding to the member countries. With this letter the Bank imposes conditions on its loans. The fact is that the Bank has a discretion to approve or not the general economic policies of the borrowing countries as well as a specific project for which a loan is requested. It is not a widely known practice and is kept secret. The role of the Bank in influencing the economic policies of less developed countries, and especially of India, is a large and complex subject with a number of facets. It is said that no other country has been studied more
comprehensively by the World Bank than India. The facts are summarized as below.

First, during the First Plan, a number of technical and economic missions came to India to examine the terms and conditions of the IBRD assistance to the IFC in the public sector, but the Bank helped finance a privately owned development finance company, viz. the ICICI instead of the IFC.

Secondly, during the Second Plan period, there was an ideological difference between the Government of India and the Bank. In the middle of 1956, the Bank mission headed by Mr. Mc Kittrick, criticized the Government's policy of laying more emphasis on the public sector and the Government's inclination towards certain new industries like oil, cotton and coal in which the state was exclusively responsible. The Bank wanted to improve the infrastructural facilities which were the main bottlenecks in the country's economic development.

The Bank was unwilling to finance the public sector heavy industry projects which were the heart of India's cherished plan. The "international" nomenclature of the World Bank could not hide its true character as an American-dominated institution. The World Bank had always attempted to use its loan operation as a lever to intervene in the working of the economy of the recipient country. Private enterprise was its love. Public sector was an enemy to it.
The Bank advanced loans for building up economic and social infrastructure but never for building up heavy and basic industries. Its modus operandi was simple. It helped the underdeveloped countries to develop power and transport and this created what it called “development potential” in them. Once the “development potential” was created, it induced the aided country to invite foreign private investors for its utilization. This was borne out by the emphasis which the Bank constantly placed on the need to improve prospects for foreign private enterprise. All this goes back to a famous exchange of letters in 1956 with the then Indian Finance Minister Mr. Krishnamachari, in which Mr. Eugene Black, the then President of the Bank, urged the Indian planners to give more stress on private investment.

The Indian Finance Minister replied to the President of the Bank, reiterating India's belief in the importance of public enterprises. Both the letters were published and the IBRD was criticized of having bias against and attempting to influence India's internal policies and for its resistance in giving financial support to the public sector industries.

A third example of the IBRD's influence we find in 1958 when there was a shortage of foreign exchange in India. Then another Bank mission repeated the voice urging the Indian planners to give more emphasis on agriculture rather than industry and that the state should limit its industrial responsibilities. The Vice-President of the Bank, while delivering a speech to the "Southern India Chamber of Commerce in Madras expressed his belief in the private
sector. The Indian Government made it clear that foreign majority ownership of joint ventures was acceptable and the foreign capital was welcome in several industries which originally had been reserved for the state.

To meet the foreign exchange crisis the Bank look initiative in organizing the Aid India Consortium to provide foreign assistance to India on a regular basis. Thus, the Bank tried to coordinate the international interest in India’s economic problems and the development needs.

Theoretically, there was an implicit expectation on the part of the Consortium members that their aid to India would be put to good use and the policies which were effective in promoting the development of the Indian economy, would be followed. This involved a kind of tacit understanding among the members of the Consortium and India. From the Indian side, there was also a reason to presume that so long as effective policies were adopted, the Consortium aid would continue in India’s development programme.

In fact, upto the end of the Second Plan, the question of influencing the economic policy was not of real significance at major economic policy level; it was mainly limited to the technical, organizational and administration of aid particularly in the IBRD projects operating in India. As more sophisticated social scientists might say, it was a micro-oriented exercise of influence.

In 1963, it was felt that the lack of improvement in agriculture and the sluggish trend of Indian export affected the progress of the Plan and contributed to very difficult balance of payments problems. It was apparent that
either aid requirements would outrun plan calculations or efforts to develop the Indian economy would have to be curbed.

The World Bank Mission headed by Bernard R. Bell came to India towards the end of 1984 to assess the economic development of Indian. The Mission split itself into several groups to study the Indian economy from different angles. There were at least ten reports dealing with special reference to public sector enterprises and so on. The issue were the following:

“(i) agricultural policy in India;
(ii) problems of public financial policy in India;
(iii) physical controls on resource allocation and investment;
(iv) export and import policy;
(v) the Indian family planning programme;
(vi) problem of development of manufacturing industries.”

On the basis of these various reports Mr. Bernard R. Bell made an overall report and presented it to Mr. George D. Woods, President of the IBRD. The report criticized the economic policies of the Government in the field of agriculture, trade and foreign exchange administration.

“The three aspects of performance that were considered most damaging of India’s credit-worthiness and prospects for economic growth were exchange rate policy, administrative controls over imports, and the relative neglect of agriculture.”
It was the view of the Bank that poor performance in these sectors not only became obstacles to economic growth but seriously decreased the credit-worthiness of the Indian Government for further borrowing. As a remedial measure the Mission’s report called for the devaluation of the Indian rupee and abolition of many of the foreign trade controls, then in effect Mr. Bell observed in his report:

“The over-valuation of the rupee works directly to defeat the massive import substitute and export expansion which are essential to achievement of the objectives of the development programme. It has resulted in increasing losses of foreign exchange through all the familiar devices which come into play in such circumstances. It has also operated against economy in the use of imports and in the use of capital equipment. The associated system of import controls has been an inefficient allocation of scarce supplies of imports and has failed to maximize the aggregate output obtained imports and has reduced enterprise efficiency and has had other negative effects.”

The Bank, using the leverage of the Aid India Consortium, tried to influence the development priorities and policies that would probably not have taken place, at least at that time without this leverage.

It is not probable that measures suggested by the World Bank would not have been considered by the Government of India itself. The advantages and
disadvantages of devaluation were already considered by the Government of India before the Bill Mission came to India. But this discussion with the Bank authorities minimized the risks of foreign exchange loss involved in a devaluation accompanied by the trade liberalization.

With this effort, the Bank certainly eased the difficulties of devaluation of the Indian rupee. However, it can be safely said that the Bank had some influence on the decision. But in reality it cannot be termed as "leverage effect" of the IBRD, because as a matter of fact the actual timing of the devaluation came as a surprise to the World Bank.

The next question of influence arises with regard to the agricultural policy. The Bell Mission in its report also pointed out that during the planning period, the agriculture was accorded second priority was given to industry. The Mission concluded that more could have been done for the Indian farmers. The Mission also suggested the measures for the improvement in agriculture, which greatly facilitated the subsequent profound changes in agricultural technology. With regard to agricultural growth the Mission suggested the following measures:

"(i) providing all necessary supplies of fertilizer,

(ii) accelerating and improving Government development and distribution of water supplies,

(iii) providing stable incentive prices through operation of Government purchasing for buffer stocks at support prices,"
(iv) improving research directed towards development of improved seeds, more suitable plant protection materials, etc., and
(v) improving extension work and administration."

The relative neglect of India's huge agricultural sector had become a source of distress to the Bank before the series of bad monsoons in the 1960s. Some believe that Sir John Crawford, the eminent Australian who was a member of the Bell Mission to India, was highly influential in stimulating the adoption of the new technology that produced the green revolution. But others have different views on this point; they believe that the process of development of agriculture, the so-called green revolution, was already under way. In this context Edward S. Mason and Robert E. Asher observe that:

Mr. C. S. Subramanian, the then Agriculture and Food Minister of India, was fully aware of the need for the change.

There was no doubt that the Bank in general pressed for adequate price incentives for agriculture producers and high priority for the inputs they needed. There was no doubt that the Bank continued its traditional support for large flood control and irrigation schemes but, at the same time, it also experimented with other approaches to agriculture development and agriculture credit projects. But one must remember that these changes must have come due to development to new scientific methods in agriculture in the world: Hence it would be an exaggeration to say that the Bank has not had any impress on the changing patterns of Indians agriculture.
However, the influence of the Bell Mission was not so successful in reshaping Indian agricultural policy as in dramatizing the need of it technologically and financially, and in finding a way to help India to produce more of its large and increasing food requirements. The Indian case represents, perhaps, the strongest attempt the Bank has ever made to use its leverage as well as the leverage of Consortium associates to induce changes in aggregative economic policies in a borrowing country.

**India’s Influence on the IBRD**

The Bank has attached considerable importance to its relations with India. Mr. Mc Namara, the President of World Bank, has rightly pointed out, “India occupies a position of truly exceptional importance in the global developmental efforts.”

The close cooperation between India and the IBRD goes for beyond the normal creditor-debtor relations. This relationship has a beneficial impact for both India and the Bank. In the evaluation of the Bank as a development agency, a number of initiatives were first taken in response to India’s complex and compelling problems. India, being the largest recipient country of the IBRD, has influenced the Bank’s conception of the development process in the following ways.

In the first place, the Bank’s experience in coordinating development assistance from bilateral and multilateral sources to a single recipient country began in India in 1958 when the Bank organized the Aid-India Consortium.
Secondly, the IBRD’s first direct lending to a manufacturing enterprises was made in India in 1952, i.e. a loan of $29.2 million to the IISCO. Since then, development of the Indian industry has been an important theme of the Bank.

Thirdly, in the eyes of the Bank’s management, India (because of her limited credit-worthiness) offered the clearest justification for the creation of the IDA. It can be argued that with the establishment of the IDA, the Bank has tried to ease the problems of balance of payments deficits. Without the creation of the IDA the Bank could not have continued to be keenly involved in India.

The aim of the IDA is to finance the same types of projects as does the Bank, selected according to the same standards, but on terms that place a lighter burden on the balance of payments of the borrowing country. The result has been to substantially broaden the range of nations which the Bank deals with and to increase the amount of financing it provides.

As had long been known, Indian and Pakistan alone could easily have absorbed all IDA’s resources. Since the establishment, the IDA has been advancing massive lending (i.e., soft lending without interest charges except ¼ of 1% service charges). Upto June 30, 1998, India has received about $5528.20 million which comes to 46% of the total IDA global lending.

Several middle income countries requested for IDA financing but their requests were turned down on the ground that they were not eligible for IDA lending. Malaysia and Thailand have made it clear that the policies of the IDA should not be discriminative and should not penalize the other developing
countries. Moreover, in 1964, Taiwan urged the IDA that its lending should not be refused to a country whose balance of payments has been temporarily favourable.

Differences between the IDA and the Bank with respect to type of project financed are to some extent explained by the IDA’s concentration on South Asia. Almost one-fourth of IDA resources during 1981-90 were devoted to programme lending, especially to India and Pakistan, as compared to less than 1% of the Bank’s resources. A further 20% to 25% of IDA resources have been concentrated in the agricultural projects as compared to 10% of the Bank’s agricultural commitments.

Fourthly, in 1969, the Bank offered a loan for growing seeds of high yielding varieties of food grains in India which represented the Bank’s first financing of seed production, a key component of the Green Revolution. In addition, India’s progress towards achieving self-sufficiency in food grains has done much to highlight the so called second generation problems of the so called second generation problems of the Green Revolution for the Bank and for the world as a whole.

Fifthly, the Bank’s views on non-project or programme aid to underdeveloped member countries have been shaped substantially by its experience during the 1960s in India.

Sixthly, India offers the only example of debt relief negotiations in which an adjustment of service on outstanding Bank loans has been a part of package.
For example, the IBRD offered Rs. 450.0 million during the period of four years, i.e. from 1967-68 to 1990-91 in equal instalments of Rs. 112.50 million.

Seventhly, India’s ability to produce capital equipment has been instrumental in securing changes in the Bank’s policy on international competitive bidding in order to permit a margin of preference for domestic supplies of goods.

Lastly, the Bank undertook its first operation in support of manufacturing enterprises of India’s public sector in 1992.

The above discussion is indicative of the fact that the IBRD’s assistance to India has been consistent with India’s needs and developmental priorities. In recent years, the Bank has been particularly active in supporting minor irrigation and other on farm investments. It is not exaggeration to say that India has influenced the Bank as much as the Bank has influenced India.