CHAPTER 9

SUMMARY AND CONCLUSIONS
Chapter - 9

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The main purpose of the IBRD which emerged from the deliberations of the Bretton Woods Conference held in 1944, was to reconstruct the war-shattered economies of Europe and to increase productivity in underdeveloped countries. The membership of the Bank rose from 29 in 1944 to 182 in 2000. Its authorized capital which initially was $10,000 million, rose up to $41,016 million in 1998 (including selective increases) of which the equivalent of approximately $33,566 million (including selective increases) had been subscribed by June 30, 1998. The capital structure provides the Bank with both substantial loan resources from its own paid-in capital and with guarantees enabling it to borrow even more sizeable resources, mainly through the sale of Bank obligations to investors. It has a large organizational set-up which consists of President, Vice Presidents, Executive Directors, operating staff and regional missions.

It provided two types of loans, namely reconstruction and development loans. It provided reconstruction loans to France, Netherlands, Denmark and Luxembourg, the economies of which were shattered by the Second World War. But after 1948, when the Marshall Plan was adopted by the United States, the Bank turned its priorities from reconstruction to long-term financing of productive projects in less developed member countries in order to promote
The Bank has promoted international private investment in both capital-exporting and capital-importing countries. In the former it has promoted investment through the purchase of bonds and participation in loans under the government guarantee. It has also promoted direct foreign investment by creating the International Finance Corporation (IFC) and the international Centre for Settlement of Investment Disputes (ICSID).

In capital-importing countries it has promoted private investment by helping finance the capital infrastructure, which has paved the way for private agricultural and industrial development. Technical assistance to as well as financing of development finance companies has helped in expanding large numbers of industrial enterprises. The IDA's soft loans, which were created in 1960, developed the economic infrastructure in Third World countries. These loans have been found necessary to protect their already outstanding loans and to protect any contract which Western businessmen might wish to maintain with such countries.

Formation of coordinating group has also stimulated the international investment, and the long range balanced growth of international-trade by examining the overall economy of the borrower and making sure that the project in question will lead to self-sustained growth. Multilateral trade and investment have been promoted by permitting the borrower to spend the proceeds of a loan in any country. So far as the control over cyclical
fluctuations is concerned, the Bank operations do not allow such type of control, because the Bank's primary task must be economic development.

Most of the Bank loans are made for specific development projects. The methods of project appraisal developed by the Bank over the period have served as a model for regional and national development banks and for many other institutional investors. The procedure of procurement of goods through international competitive bidding ensures efficiency and economy in the use of proceeds of the Bank loans. But this policy is more time-consuming and occasionally irritating to less developed countries which would like the Bank to give greater preference to their domestic suppliers of goods and services. To help ensure an effective use of its loans and to overcome difficulties as and when they arise, the Bank has emphasized a close control of disbursements and close supervision of projects to complete the so-called Project Cycle.

The Bank normally makes, medium or long-term loans, with the principal repayments beginning at the end of a period of grace and thereafter spreads over the remainder of the life of the loan. The rate of interest charged by the Bank has increased from 4 1/2% in 1977 to 8.5% in 1998.

The Bank is to be guided in its decisions by political considerations and bases its policy on economic criteria only, but these prohibitions do not mean that it must not take into account political developments in member countries which may have an impact on their economic situation. Economic policy may be linked to political policy and thus the Bank's decisions may be influenced by
some political considerations and may have also an influence on the domestic affairs of a country.

Greater emphasis was also placed by the Bank on technical assistance to help developing countries in formulating effective policies for their development, in identifying and preparing projects. The Bank made use of the experience it had gained over the years by playing an important role in aid coordination through participation in Consortia and Consultative Groups. Its training programme provides opportunity to the younger experts of member countries, usually officials employed in the field of economic development. The Economic Development Institute (EDEI) of the Bank has provided a staff college for senior government officials concerned with the management of the economic affairs. Twenty four-year experience of the Institute has conveyed a sense of reality towards promotion of the goals which the Bank stands for. The EDI of the Bank: has enabled more than 2300 younger nationals of member governments to develop a sense of reality. But overall technical assistance provided by the Bank has been inadequate to meet the growing requirements of the developing countries.

Through the 1950s Bank's lending was concentrated on transportation, electric power, telecommunications, irrigation and flood controls newly independent countries joined the Bank, a rapid increase in population put an increasing pressure on the world's basic resources. By the early 1960s, the requirements of such sectors as agriculture, education, industrialization,
population planning, urbanization, and tourism came to be recognized by the Bank as crucial to social and economic progress.

The First Five Year Plan (1968-73) of the Bank provided for considerable expansion and diversification of its activities. Special efforts were made to assist the poorest member countries. During the plan period, the Bank lending more than doubled as compared to the previous five years (1963-68). During the period 1994-98, it increased to $24,372 million.

The Bank has shifted its policies in accordance with new directions in major sectors. In agriculture, emphasis was shifted from infrastructure (dams and irrigation works) to providing increased inputs to individual farmers by way of farm credit, storage facilities, seeds, pesticides and fertilizers. Besides financing heavy industries, emphasis was placed on labour-intensive, small-scale industries. Support to Development Finance Companies (DFCs) has greatly increased because the activities of these companies have a multiplier effect, as they reach, small enterprises which otherwise could not qualify for direct Bank loans.

Traditional Bank lending for transport, electric power and telecommunications has directly been urban-oriented. However, the endless stream of homeless and jobless immigrants from the countryside to cities made it necessary to seek out new ways of dealing with urbanization problems and helping the poorer citizen. The Bank has recently introduced new types of projects, called "sites and services", to cope up with the acute housing shortage.
The Dank recognised that tourism is an important contribution to the foreign exchange earnings in the Third World.

So far as regional distribution of the Bank's lending is concerned, Asia (excluding Japan and China) accounted for the largest amount, i.e. about 33% of the total Bank's global lending; while South Asia, most thickly populated and poverty-ridden segment of the world, received only 7% of the total upto June 30, 1978. The Western hemisphere accounted for 32% of the total followed by European countries accounting for 18%; Africa received the least amount, i.e. 15% only.

In South Asia the Bank has advanced 7% of its total global lending upto June 30 1998. It has actively participated in economic development of India and Pakistan, two largest borrowers in the region. During 1950s and 1960s, these nations placed greater emphasis on the promotion of economic infrastructural facilities. Its lending has also been in accordance with plan priorities decided by these nations. The Bank's 17 loans helped in the generation of 13.22 lakh KW electricity along with the construction of 13,300 KV transmission lines. Transportation loans helped in purchasing of 4,788 diesel and shunting locomotives, 83,792 passenger and freight cars. More than 33,130 km railway route was added, replaced, doubled or electrified. The ports of Calcutta, Madras, Karachi and Rangoon were modernized. Out of the total industrial lending, 50% has gone to finance the DFCs. In agriculture, about 1.66 million acres of kans-infested land was improved for cultivation. About 11
lakh farmers and other agricultural laborers have benefited.

The Bank has penetrated deep into the Indian economy. It has played a very crucial role in the economic development of India. About 66% of the IBRD's lending came up to the end of the Third Plan and India had been the largest borrower of the Bank's operations till that time. During 1963-89 the Bank's lending declined to a great extent, but there has been a gradual increase since then.

This declining trend was not due to declining interest of the IBRD in Indian economy; the main cause of it was a heavy burden of external loans already borrowed. During the planning period, the Bank realized problems of Indian economy and helped with money and technical assistance. To solve the foreign exchange crisis, the Bank brought together a group of rich countries, popularly known as Aid India Club, for reviewing the balance of payment position and future foreign aid requirements. During the same period, the Bank mediated the settlement of the Indus water dispute between India and Pakistan. Several technical missions from the Bank have come to India to endorse the Five Year Plans.

The Bank has provided financial assistance both to public and private sectors in India. In the public sector it has financed development of transportation, telecommunications, agriculture and electric power. In the private sector it has financed industrial development of large private enterprises in iron and steel, coal, power, fertilizer and the development finance
companies, viz. the ICICI and the IDBI, and thus helped in broadening development base and financial markets. Earlier the Bank's policy was criticized for its bias against the public sector industrial units, but over the years the Bank has overcome its earlier ideological hostility to the public sector by giving loans to Bombay High for oil exploration, the Cochin fertilizer plant and Phulpur fertilizer plant in the public sector.

So far as the Bank's leverage efforts are concerned, we can say that there are certain cases in which the Bank has influenced technical, financial and organizational aspects of the projects which otherwise it might not have succeeded in doing. This type of influence has been effective in the sense that the working of the particular projects has been improved. Just as the Bank operations have impressed upon the working of some projects, the Bank's conception of the development too has in the same way been influenced by India's complex and compelling problems. A few examples are the establishment of the IDA, non project financing, debt relief negotiations, financing of Nainital seed project and oil explorations. These operations of the Bank may be argued to have been initiated by the Bank, keeping in view the specific problems of India sub continent where majority of the poor people live.

So far as economic benefit of the Bank's lending is concerned, it advanced $377.80 million for railways, perhaps the largest amount the Bank has lent for any single enterprise anywhere. About 4,660 new locomotives and 84,000
freight wagons have been purchased. About 12,800 km tracks were replaced, 16,000 kill tracks were doubled, 3,430 km new tracks were laid down and several main lines were electrified. The project financed by the Bank has helped to reduce delay in essential freight and permitted rapid movement of important commodities and thus helped in India's internal and export trade. The Bank's 3 loans also financed pot projects which relieved congestion and provided capacity to enable the port of Calcutta to handle an additional 2 million tons of traffic each year. Facilities at Madras port were also expanded. One loan also helped finance the purchasing of 3 long range jet aeroplanes.

In industrial sector, TISCO and IISCO have been main beneficiaries and their output of ingot steel expanded from 1.3 million tons in 1955 to 3.3 million tons in 1966. 11 loans to the ICICI helped more than 417 small-scale industries in the private sector. Till 1973, projects financed by the ICCI have created about 2.28 lakh jobs. Two loans, later advanced, were one for Phulpur fertilizer plant to produce 900 tons of ammonia and 1,500 tons of urea per day, and another for Bombay High project to provide facilities of producing 1,40,000 barrels of oil and 2.2 million cubic meters of natural gas a day.

During the Second and the Third Plans the Bank realized the role of electricity in India's economic development and provided 8 loans for power projects, namely DYC, Trombay, Koyna and Kothagudem which altogether generated electric capacity of more than 10.23 lakh K W (i.e. 8 % of the total India's generating capacity) by the end of 1968-69. In agriculture, irrigation,
seeds, fisheries and weed control projects were financed. Telecommunication facilities have also been expanded.

Social problems like population control, increasing unemployment, mass illiteracy, malnutrition have not been given attention by the Bank. No loan has been advanced so far for population control, education, water supply and sewerage. Being capital-intensive in nature, earlier infrastructural projects did not generate more employment opportunities in India. However, the Bank has recently started to explore possibilities of employment generation in the field of agriculture, rural development and small-scale industries.

THE WORLD BANK AND INDIA: POOR RELATIONS

India’s relationship with the World Bank seems to be deteriorating to the point where the Bank may no longer be a reliable source for India. However, the Bank still plays an important role in the economic development of India. Table 9.1 is reflective of the facts that upto June 30, 1993, India accounted for 6.2% of the IBRD’s global lending.
TABLE 9.1

India’s Share in IBRD’s Global Lending

(US Million Dollars)

<table>
<thead>
<tr>
<th>Approved during</th>
<th>1992-93</th>
<th>Approved upto June 30, 1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total IBRD Lending</td>
<td>India’s Share</td>
<td>%</td>
</tr>
<tr>
<td>11,1363</td>
<td>1,087.9</td>
<td>9.8</td>
</tr>
</tbody>
</table>


Over the last 5 years 1988-93, the IBRD has advanced $3,537.7 million for 25 projects and India remained single largest borrower in south Asia. Energy received the highest priority accounting for 56% of the total IBRD lending in the country followed by industry, including DFCs. In energy sector, along with traditional power sector, oil, gas and rural electrification received priority. Table 9.2 shows the break-up of the IBRD’s lending trends.
### TABLE 9.2

**Sectoral Break-up of the IBRD Lending (1988-93)**

* (US Million Dollars)

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Amount</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Agricultural</td>
<td>309.2</td>
<td>8.7</td>
</tr>
<tr>
<td>2. Transport</td>
<td>200.0</td>
<td>5.6</td>
</tr>
<tr>
<td>3. Telecommunications</td>
<td>120.0</td>
<td>3.4</td>
</tr>
<tr>
<td>4. Urban Development</td>
<td>24.1</td>
<td>0.7</td>
</tr>
<tr>
<td>5. Industry</td>
<td>905.9*</td>
<td>25.6</td>
</tr>
<tr>
<td>6. Energy</td>
<td>1,979.4</td>
<td>25.6</td>
</tr>
<tr>
<td>(a) Power</td>
<td>887.1</td>
<td></td>
</tr>
<tr>
<td>(b) Oil &amp; Gas</td>
<td>787.8</td>
<td></td>
</tr>
<tr>
<td>(c) Rural Electrification</td>
<td>304.5</td>
<td></td>
</tr>
</tbody>
</table>

3,537.7 100

*A loan of $ million for Thal Vaishet Project was cancelled by the Bank.


In the field of agriculture, five loans were granted for the area development, ARDC, irrigation and water management. During 1991, One Bank’s loan of $ 30 million was provided for area development project which is expected to increase the income of about 23,000 farm families and owners of livestock. A loan to (ARDC) was designed to provide 60% of the credit to small farmers. With one loan, small farmer’s incomes in Kerala State will also
be increased through modernization of foodgrain and tree crop plantation. In addition, three loans were provided for irrigation, water utilization and Himalayan watershed management.

In the industrial field, three loans were advanced to the ICICI, lending IBRD's 14th loan to this institution and one loan was advanced to the IDBI. Another three loans were advanced for paper industry (for the first time in India), and refineries rationalization projects.

In the field of energy six projects are being financed. Table 9.3 is illustrative of the number & nature of the projects the Bank is helping finance. Five power projects are expected to add about 32,000 MW generating capacity to the existing generating capacity in India along with 1810 km of transmission lines. The IBRD/DA are meeting about 38% of the total cost of ten aforesaid projects. One loan has been made available for the expansion and improvement of rural electrification in about 14 states. Equipment and materials for about 3,500 rural electrification schemes will be financed. A unique feature of the Bank's lending is financing for the development of the southern and central areas of the Bombay High Offshore oil field which
TABLE 9.3
IBRD Aided Energy Projects (1987-93)

(US Million Dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Name of Project</th>
<th>Amount</th>
<th>Total Cost</th>
<th>Generating Capacity Added</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Trombay Thermal Power III</td>
<td>105.0</td>
<td>209.4</td>
<td>500 MW</td>
</tr>
<tr>
<td>2</td>
<td>Ramagundam Thermal Power</td>
<td>50.0</td>
<td>400.0</td>
<td>N.A</td>
</tr>
<tr>
<td>3</td>
<td>Farakka Thermal</td>
<td>25.0</td>
<td>499.4</td>
<td>600 MW</td>
</tr>
<tr>
<td>4</td>
<td>Bombay High-II</td>
<td>400.0</td>
<td>858.2</td>
<td>N.A</td>
</tr>
<tr>
<td>5</td>
<td>Ramagundam-II</td>
<td>300.0</td>
<td>1,567.5</td>
<td>1,500 MW</td>
</tr>
<tr>
<td>6</td>
<td>Rural Electrification-III</td>
<td>304.5</td>
<td>795.3</td>
<td>3,500 Rural elect. schemes</td>
</tr>
<tr>
<td>7</td>
<td>Godaswari Petroleum Exploration</td>
<td>165.5</td>
<td>633.8</td>
<td>N.A</td>
</tr>
<tr>
<td>8</td>
<td>Sough Bassein Gas</td>
<td>222.3</td>
<td>701.5</td>
<td>N.A</td>
</tr>
<tr>
<td>9</td>
<td>Upper Indravati Hydro</td>
<td>156.4</td>
<td>506.7</td>
<td>600 MW</td>
</tr>
<tr>
<td>10</td>
<td>Central Power Transmission</td>
<td>250.7</td>
<td>617.3</td>
<td>N.A</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1,979.4</td>
<td>6,789.1</td>
<td></td>
</tr>
</tbody>
</table>

*N.A.* = Not Available.


is expected to reach 12 million tons of crude oil a year. Two loans made in 1983 will assist the Oil & Natural Gas Commission (ONGC) for the production of gas and petroleum exploration. In sum, the Bank's assistance in critical sectors such as transport, energy, and agriculture is a catalytic effort in India's
The most important economic issue is the question of tied untied or programme aid. Table 9.4 indicates that all the 76 loans of ($ 5,553.3 million) advanced by the IBRD are in the form of tied aid, while the J DA has advanced about 88.5% of its total lending to India in the form of tied aid and 11.5% in the form of non-project assistance (i.e. industrial imports and local cost financing).

**TABLE 9.4**

**Tied/Untied Aid (1977-93)**

(US Million Dollars)

<table>
<thead>
<tr>
<th>Project Tied</th>
<th>United/Non-Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Loans</td>
<td>Amount</td>
</tr>
<tr>
<td>IBRD</td>
<td>76</td>
</tr>
<tr>
<td>IDA</td>
<td>138</td>
</tr>
</tbody>
</table>

* This amount is not included in the total loans because it was in the form of a grant.


An important benefit of the Bank's lending is that this is not a source-tied; India can utilise the aid for purchases of her requirements from the global market. Credits from the IDA, while tied to projects, can also be drawn to cover expenditures incurred within India in rupees. However, greater liberalisation is
still needed in India's case. Although, the Bank's Aid India Consortium has been the medium through which these views have generally been expressed, the Bank itself has not followed the trend.

The Bank argues that the basic purpose of project-tied aid is to ensure that the funds are used for the purpose for which they have been granted and thus wastes are curtailed.

**Credit-Mix Formula**

Over the recent past, the Bank has changed its lending policy towards India. The decline in the aid from the World Bank Group from $ 2,165 million in fiscal 1992 to $ 2,151 million (9% less) to India during fiscal 1983 should be a matter of concern. As per figures available latest, the IBRD assistance dropped from $ 1,265 million to $ 1,088 million (14%). Soft credits from the IDA also came down from $ 1.6 billion in 1980 to 900 million in 1982 and rose slightly to $ 1,063 million in 1983.
<table>
<thead>
<tr>
<th>Year</th>
<th>IBED (%)</th>
<th>IDA (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1962</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1982</td>
<td>12.7</td>
<td>87.3</td>
</tr>
<tr>
<td>1983</td>
<td>12.4</td>
<td>87.6</td>
</tr>
<tr>
<td>1984</td>
<td>11.5</td>
<td>88.5</td>
</tr>
<tr>
<td>1985</td>
<td>25.0</td>
<td>75.0</td>
</tr>
<tr>
<td>1986</td>
<td>25.0</td>
<td>75.0</td>
</tr>
<tr>
<td>1987</td>
<td>36.0</td>
<td>64.0</td>
</tr>
<tr>
<td>1988</td>
<td>25.0</td>
<td>75.0</td>
</tr>
<tr>
<td>1989</td>
<td>20.0</td>
<td>80.0</td>
</tr>
<tr>
<td>1990</td>
<td>7.5</td>
<td>92.5</td>
</tr>
<tr>
<td>1991</td>
<td>25.0</td>
<td>75.0</td>
</tr>
<tr>
<td>1992</td>
<td>58.5</td>
<td>41.5</td>
</tr>
<tr>
<td>1993</td>
<td>51.0</td>
<td>49.2</td>
</tr>
</tbody>
</table>


Table 9.5 reflects that up to 1991 (i.e. 1961-91), India received lending under soft blend. During the period of two fiscal years (1991-93) India received the Bank’s lending under hard blend. As late as in 1990, the IDA provided the lion’s share (i.e. 93%) of the total World Bank Group assistance to India but in 1992 its share declined to 41.5% in the total Group lending. Moreover, India’s
original share of 50% in IDA's lending was reduced to 40% which remained constant throughout the mid 1970 and 1980s and is now reduced to 32% and it may even be further eroded to 25% under IDA's VII Replenishment.

Within the south Asian Group, the Indian share has been cut more sharply than those of the others, notably Bangladesh and Pakistan. The axe has fallen most heavily on its receipts from the IDA. This further lowers India's relative receipts per capita development assistance which have already been around the bottom of the scale for low-income developing countries.

The reasons for the cut as advanced by the Bank are: (1) First, the cut is part of the overall pattern and due to reduction in contributions from donor countries because of their economic and budgetary constraints. Reaganomics, relying more on market forces and budgetary cuts on welfare schemes, has resulted in a shift from multilateral aid programme to bilateralism. The cut has influenced other aid donors also in cutting back earlier pledges to the IDA, resulting in total cut. The cut is mainly accounted for by the US.

The change in World Bank's policy has of course much support in the recession-hit West which feels it must restrict its charity. There is an Indian proverb: "I complained of having no shoes until I met a man with no feet." But bleeding-heart talk is not fashionable around the World Bank now.

The second reason for cut in the IDA assistance to India arises out of the need to increase its share to the sub-Saharan Africa. This reason is not convincing because the World Bank, the largest development institution, is not
a "Robin Hood", but a "catalyst" whose task is to help the developing countries to help themselves. The need to increase the Bank's share to the poorest region is justified. But it is ironical that the absolute quantum of aid to sub-Saharan African countries has been cut from $1.1 billion to $900 million.

The recent cut in the IDA assistance is nearly compensated for by increasing the IBRD loans so that the IDA credits remain intact. Cutting the IDA aid and channelizing more loans through the IBRD is justified by the single factor, i.e. "high creditworthiness of India", without taking magnitude of poverty and the low pcy GNP of $240 (in 1980). This reflects clearly a changing trend in the World Bank's credit policy. Apart from other factors like the magnitude of poverty, economic performance, creditworthiness, etc, the pcy GNP of a country has been playing a predominant role in determining the allocation of IDA credits, But the recent approach adopts a flexible attitude towards the determinants of IDA's credit allocation, giving more weightage to factors like creditworthiness, It is a known fact that a country may be very poor but be creditworthy at the same time.

Generally, it is the fiscal policy of the country rather than the structural parameters which determines its creditworthiness. Hence, creditworthiness is a spurious factor to justify the World Bank's stand in India's case.

The Impact of the Cut: What are the implications of this changing aid pattern?

There is a danger about the funds availability also, The cut in IDAs aid,
which is being compensated for by more transfers through the IBRD, is only effective for the VI Replenishment. The availability may gradually be reduced even if the cost of credit is increased due to changing composition of credit mix. This implies that there may be a cut in the IBRD loans accompanied by further cuts in IDA credit in the future.

Thus, both in terms of cost & availability, India is squeezed. The reshuffling of World Bank assistance, however, will put up the cost of borrowing for development assistance for India in the form of increased interest charges and it will also increase the pressure on the Indian budget for servicing repayments of IBRD loans which are of shorter maturities than the long term of IDA lendings. According to one estimate India would be obliged to spend about $100 million more per annum by way of debt repayment. Given the "none-too-encouraging" position of foreign exchange reserves, this cannot but put severe pressure on the country's external finance.

Since India happens to be the largest recipient of the IDA's assistance, it would be the major victim of the uncertainties prevailing over the next replenishment. In other words, the IBRD aid would hereafter be smaller and on hard terms, adding to India's debt servicing burden.

Moreover, the IBRD's credits with maturity of 7 to 15 years cannot be committed for projects and programmes for which commercial return cannot be derived even to service these loans. Such loans will have to be used with great economy and with considerable circumspection on "high and quick yielding
projects", and not for sanitation schemes, rural road building, minor irrigation, and reclamation of barren land. It will be feasible and worthy of taking risk to use commercial credits for stepping up oil exploration. China is now eligible to borrow from the IDA-VII Replenishment. Bilateral aid programmes of the major donor countries have either stagnated or been reduced with very few exceptions: Japan and Italy, for example. The real crunch will come over the next replenishment of IDA for which the World Bank is seeking $16 billion for 3 years. Some nations are suggesting $12 billion and the US is urging $9 billion.

Now the point is clear. China will be sharing the facilities of IDA's funds from the IDA-VII Replenishment which are now available to India. Major donors view that India really does not need subsidised loans. But aid to developing countries makes no sense if India is excluded because the bulk of the world's poor reside here. Other nations' leverage over the US should be larger and the US should be persuaded to loosen its purse strings, and will have to be convinced that this is in its own interest.

India will continue to seek fresh lending for further development and to repay the old ones. Capital requirements of India are rapidly growing. The World Bank is expected to raise the quantum of aid to assist India for the successful implementation of her Sixth Plan with the strategic bias for rural development. India's efforts over the last three decades were largely self-supported. Currently, India's domestic savings rate is about 23% of gross
national product and the draft on foreign savings is only about 2%. However, in an interdependent world, effectiveness of domestic policies is greatly affected by developments abroad.

Although India received substantial aid, it was much less considering her size and needs. Self-sufficiency is an attractive phrase; self-sufficiency in crude petroleum is all the more inviting as an objective. But the government should be conscious about the costs involved. The country is way behind in its foodgrains target. India's performance says that the balance of payment would be under strain for the next several years and external finance would continue to be an important supplement to Indian investment resources.

**Thal-Vaishat Fertilizer Project**

Over the recent years the World Bank was bitterly criticized on the Thal-Vaishat fertilizer project in Maharashtra state. India's experience in obtaining the World Bank's loans for fertilizer plants confirmed the Bank's clandestine political character. There are, however, member developing countries which have in the past confronted with the Bank and the IMF. The withdrawal by the Bank of its earlier offer to provide a loan of $250 million to finance the construction of Thal-Vaishat fertilizer project was a great economic blow. The withdrawal of the proposed loan was occasioned by the decision of the Government of India to change the foreign technical collaborator, replacing C.F. Braun, a US firm, by Haldor Topse, a Danish firm. The main reason of this change might be less fees to be paid to Topse (i.e. Topse was to be paid Rs.
16 crores as fees, as against Rs. 20 crores for C.F Brauns).

The Bank's action was resented by the Government of India and it was treated as an interference in India's internal affairs. The World Bank was not happy with the revised decision of the Government of India. But considering that, purely from the standpoint of the level of technology, the revision of the earlier decision did not represent any marked difference to the possibility of the fertilizer plants coming up, the withdrawal of loan was far from understandable.

The cancellation of World Bank loan for Thal-Vaishat project should not be viewed as an isolated case. The recent controversial appointment of consultants of Bombay's sewerage project, the infighting over Narmada project, bungling over Madras water supply project, have all created a very poor image and compelled the Bank to finally put its foot down.

An international organization should be prepared to recognize the right of the sovereign governments to take main executive decisions which have a lasting impact on the people of the country. If the international organizations go beyond advising the governments and seek to pre-empt the right to decide, unnecessary complications arise. Now, as India stands third in the world's largest technical pool, the country should have the right to choose the appropriate technology which costs less to the country.

The Critique

There are certain points on which the Bank's working can be criticized:
1. The present system of management of the Bank is defective. In theory, its Executive Directors have a two-fold responsibility. In the first instance, they have to act as the spokesmen of member countries safeguarding their interests. At the same time, they are supposed to take objective and impartial views, having regard to the collective interests of all the members. In practice, the directors have turned out to be the spokesmen of their countries. Besides, they are mostly civil servants or senior officials of central banks or ministries; quite often they lack that ability which would enable them to take prompt decisions on important issues that come up before the executive board.

2. The Bank can also be criticized on the ground that major portion of professional staff provided by the USA and the UK. The combined proportion of total professional personnel, which was more than 70% in 1951 and above 50% in 1966, has generously exceeded their combined proportion of total capital subscriptions.

3. One has a feeling that the IBRD has, since its inception, been a highly centralized organization in which decisions are generally taken in Washington (rather than in the field of operation) by the President and his close advisors, who at times are not fully conversant with the merits of the issues involved.

4. The Bank claims to be universal but some rich socialist countries are not yet members of it. It has given rise to misgiving about the Bank in a number of Third World countries.

5. Since the very beginning the voting rights have been revised on the
basis of economic, financial and political power which prevailed in 1940. The 
voting rights of the Bank are based on cumulative contributions. About 45 % of 
the total voting power has been captured by the 5 big nations such as USA, UK, 
West Germany, France and Japan, out of 129 members of the Bank, while 
developing countries (excluding the OPEC) have only 31 % of it, Several times 
a question was raised in the IMF/IBRD annual meetings so as to increase the 
voting power of the Third World, but it was postponed every time.

6. The lending criteria which allow tied lending for specific projects, 
have generally not been correlated with overall economic performance. Even if 
the Bank is satisfied that the borrower country is likely to meet its obligations, 
unless the 'productivity' of a project is judged from the broad developmental 
and social point of view, the utility of the loan will necessarily be very limited.

7. The procurement of goods through the Bank often consumes more 
time than any other aspect associated with the Bank-financed projects, and 
leads to frustration in the borrowing countries.

8. The Bank can also be criticized for the degree of excessive control it 
exercises over the expenditure on the approved projects. Moreover, the Bank's 
practice of supervising construction as well as operation of projects in their 
early years tends to deprive borrowers of learning opportunities.

9. A most serious criticism of IBRD projects lending is its failure to 
assess adequately the developmental consequences of its loans, i.e. whether the 
economic results of its projects are in line with those forecast during appraisal.
Not much has been done in this direction.

10. The high rate of interest charged by the Bank is not conducive to the interests of developing, especially South Asian, economies which have adversely been affected by increase in oil prices. There is no doubt that the Bank borrows its lending funds from the international capital market at the prevalent rate of interest, but it must be noted that if it is charged on purely commercial basis, the Bank cannot fulfill its aim of helping economic development of the Third world countries.

Its terms of lending have shown lack of flexibility. The Bank lends to all credit-worthy member borrowers at the same rate of interest, with the maturity of its loans conceptually related to the life of projects. It does not make allowance for difference in credit-worthiness among its borrowers. Grace and amortization period are short and constitute very little amount of grant element. Hard loans from the Bank have aggravated problems of debt in the Third World countries. In brief, inflexibility in the lending criteria has reduced credit-worthiness of the third World countries like India, and has reduced net capital movement of international resources to the developing countries. Economic situation of the Third World countries is calling for a greater measure of flexibility in the Bank's lending criteria.

11. The pattern of IBRD lending to developing economies of Asia has also not been free from criticism. So far as regional distribution of the Bank's lending is concerned, Asia (except Russia, Japan, China and other communist
countries) accounted for largest amount, i.e. about 33% of the Bank's total global lending. South Asia has received only 8%. In its early years the Bank accorded priority to India, Pakistan, Thailand, Philippines and Iran, while other developing member countries of the region were neglected. However, after 1964, some developing countries, namely, Taiwan; Korea, Malaysia, Singapore and Israel were also advanced development loans. As compared to other Asian countries, Burma, Sri Lanka and Nepal were not given adequate financial help by the IBRD. Burma received its third loan in 1961 and since then no loan has been advanced to her.

12. The Bank's lending policy can also be criticized on the ground that it (as a development agency) has been too cautious and concentrated too long and too exclusively on power and transport expansion. It has left risky projects to others. Recently the Bank has changed its policy towards more social projects, but the volume of such lending is still very small.

13. The Bank has been less venturesome than some other project lenders, at least until recently. While the Bank has showed considerable vitality in intensifying its activities (by turning its attention to productive programmes for the lowest 40% of the population), it has not showed the same vitality in extending the range of its services such as buffer stock financing, export credit financing in the field of oil exploration, and use of its guarantee powers.

SUGGESTIONS

The following suggestions are made for improving the working of this
international finance organization.

(A) Organization and Capital Structure

(1) The 5 regional offices of the Bank, now located in Washington, should be moved to their respective regions and strengthened by the addition of staff from the Bank's economic and legal departments. The regional office for Asia may be shifted to New Delhi as India has been the largest borrower and may require more loans from the Bank in the near future. The shifting of regional offices from Washington will lessen the administrative burden of the Bank. Regional offices would continue to bear their present responsibility for planning and executing the lending and technical assistance programmes of the Bank in their respective areas within the framework of approved policies.

(2) The administration of the Bank should be decentralized by establishing more resident missions and granting them greater authority. These missions should be established in principal borrower countries. A resident mission will periodically prepare the country's economic reports, feasibility study reports and appraisal reports on more routine projects, and will supervise all projects. The proposed regional offices should delegate some of their responsibilities to resident missions which, in turn, will report to them.

(3) It is suggested that in addition to the Board of Directors, there should be a body of ministers which can take quick decisions not only on the basis of technical but also on wider political considerations. This body of ministers should be a small group representing 132 member countries; it should meet at
least 2 to 3 times a year, and decide the cases as and when they come up for consideration.

(4) The Bank's two largest stockholders, the US and the UK, have provided the bulk of the professional talent in the Bank. The proportion of influential posts in the management and professional staff of the Bank held by the nationals of Third World countries should substantially be increased in order to make the body more representative.

(5) Much of the voting power has been monopolized by 5 big nations; hence restructuring of voting rights in the World Bank Group becomes essential. The Third World countries must have a greater say in decision-making process in the Bank. The votes of low-income countries in the governing body of the Bank should be increased from the present ratio of 30% to 33% by amending the Articles of Agreement. It will give member countries 30 additional votes for each one million of their population. The OPEC must be persuaded to play a bigger role.

(6) The Bank claims to be universal but still socialist nations such as the USSR, and East European countries have not joined the Bank. To exploit the opportunities and to strengthen the international aid efforts, the Bank must aim at universality of membership. The Bank must actively negotiate participation of the OPEC and richer socialist countries in its affairs. In the emerging climate, universality of membership becomes one of the most important principles to pursue in its future evolution. The original Articles of Agreement
which makes difficult for new members to join the Bank must be thoroughly reviewed. For example, if the Bank's capital base is expanded, the existing members must have the first right to increase the capital subscription and the new members can be induced.

(7) The capital stock of the Bank has been raised several times in the past but it could not increase loanable funds of the Bank. The capital stock of the Bank should be doubled at least to enable it to provide more financial help to developing countries. Developed and oil-rich member countries should be asked to accept special increases in their quotas. There must be an increase in capital beyond the current statutory limit of $33 billion so that the Bank can expand its lending to low-income developing countries. A selective capital increase of $8.9 billion already has been agreed that will allow the Bank to maintain its present rate of lending in current dollars. The demand of further increasing the Bank's capital should be supported by developed countries.

(B) Lending Criteria

(8) The criteria on which the Bank judges assurances of repayment is so harsh as to eliminate a large number of worthwhile projects and cut off from the Bank's help of those very borrowers who most need it. The procedure takes long time in granting loans and becomes a hurdle in quick economic development of the poor countries. The Bank should not apply its 'conventional standard' of judging the transfer capacity of any borrowing country because the transfer capacity follows rather than precedes the Joan. It is created in course of
time as the projects sought by loans materialize.

(9) The Bank has to be flexible in its approach to capital transfer. More experimentation with the programme aid, greater implementation of income distribution objectives, and the use of overall economic performance criteria are the prerequisites of successful performance of the Bank in the Third World countries.

(10) The Bank's control over projects should be reduced to a level compatible with safety in lending. To ease the problems in procurement of goods, it is suggested that there should be more training programmes and facilities for the officials of developing countries in the field of procurement.

(11) The Bank should financially help as many member countries as possible by lowering its rate of interest. During the past few years it was observed that it had to lend at a rate below the cost of borrowing. For example, in fiscal year 1991, the weighted average cost of Bank borrowing was 8.07% against a lending rate of 7.25% yielding a negative spread of about 0.82%. Continued lendings at a negative spread reduced the Bank's profits. These foregone profits could have been used to supplement the IDA funds to subsidize interest rates to some of the Bank's poor members.

In this connection, it is suggested that the Bank should reconsider its terms of lending and return to its policy of differential rate of interest. The Bank should charge higher interest than its standard rate from the market-eligible countries, i.e. those countries which can raise some but not all of the
capital they need, on reasonable terms in the world's private capital markets. For example, if the weighted average cost of the Bank's borrowing is 6.5% and its standard lending rate is 7%, this would mean a lending rate of 8% to market-eligible countries. Additional profits generated by differential lending rates could either be used to subsidize interest rates to the poorer borrowers of the Bank or be transferred to the IDA, a soft loan window mainly meant for poor countries.

(12) Regarding flexibility in terms of the Bank loans, it is suggested that the differences in interest rates on the Bank loans should be accompanied by differences in maturities and in grace periods before repayments of principal begin. Loans to market eligible countries should have maturities of 10 to 15 years and a grace period of 1 to 5 years. Loans to middle-income countries, which are not market-eligible, should have maturities of 20 to 25 years with a grace period of 1 to 10 years. Loans to low income countries should have maturities of 30 years or more with a grace period of 10 years.

(C) Technical Assistance

(13) The IBRD has been active from the very beginning in providing technical assistance to its member countries. Though much has been done in the field, need of a large number of trained personnel is still vital. The Bank should provide more facilities for selection and identification of projects in developing countries. Demand for the EDI-type training has increased over the years. The Institute should be ready to meet this challenge by building up the
capacity of other national or regional institutions for serving the needs of
developing countries. For reducing the unit cost of training provided by the
Institute, it should cooperate with other training institutions, i.e. outside
Washington.

**D) Employment and Social Justice**

(13) The World Bank’s role in solving unemployment problem had not
been considered in detail in its early period. There were two main reasons for
this: first, most of the projects were capital-intensive in nature which required
less labour content, and secondly, developing countries of Asia did not
seriously consider employment aspect in their development plans but it
remained on paper for a quite long time.

The three areas of activity in which the Bank may usefully concentrate
its efforts to help the developing countries to identify and work out labour
intensive projects are:

(i) construction,

(ii) small-scale industry,

(iii) rural development works and tourism.

It is suggested that if the Bank is to make rapid progress towards its goal of
more jobs and greater social justice, it must intensify the research work it is
now doing on how best to substitute labour for capital in developing countries
where labour is plentiful and capital scarce. It must complement research by
granting loans for experimental projects of many different kinds in many
countries under varying conditions, accepting the risks of some failures. The Bank should involve itself in large-scale employment generation at appropriate costs per job created, it must find ways of reaching the poor directly in areas that it has hitherto not touched such as service enterprises, small-scale operations, the self-employed artisans, and cottage industries.

In the urban sector, the Bank must concentrate in sectors in which its lending may have greatest potential of creating employment and providing services to the urban poor. These sectors are small-scale and labour-intensive enterprises, in nature of integrated urban projects like community development, slumupgrading and service, sites for shelter, water supply and sanitation, education, health and family planning.

There should be a direct and increasing share of lending to programmes which directly assist small farmers to become more productive. But this type of lending is especially dependent on the availability of softer funds. An increase in the IDA's lending is the only solution. Further, the Bank Group should, in association with other concerned agencies, establish a fund to bear the costs of failures in experimental employment maximizing projects. It should contribute $100 million a year to this fund for five years, the money to be spent over a period of ten years. Any amendments to the Articles of Agreement which may be required in this endeavour should be agreed to by the member countries.

(E) Development Strategy for South Asia

(15) The countries of South Asia should adopt a development strategy
which must include rural and urban public works, construction of low-cost housing, building of market roads, reforestation programmes, expansion of irrigation facilities, labour-intensive and economically useful projects. To help small farmers, these countries should create effective institutions, and more labour-intensive technologies in manufacturing industries should be developed. Progress in the solution of problems of population planning, educational advance, and agricultural growth is fundamental to such a strategy. But no such strategy will be complete unless it provides for an attack on the interrelated problems of unemployment, urbanization and industrialization.

The IBRD has already achieved Mr. Mc Namara's quantitative goal of doubling the total Bank lending between 1969-74. Qualitative goals should now receive full attention which calls for a world-wide programme of reducing poverty and providing certain minimum needs, even at the cost of the rate of growth. Urbanization and capital-intensive industrialisation should receive lesser attention. Top priority must be given to population planning, education and agriculture.

(F) Growing Debt of South Asia

(16) One of the most important problems before the countries of South Asia is the growing debt on loans already borrowed from lending countries and multilateral financial institutions. For example, during 1972-75, South Asian countries accounted for 20% of total external public debt of non-oil exporting countries. On the one hand, their capital requirements at fairly concessional
terms are increasing; on the other, growing service payments have reduced the international net capital movement to these countries.

The following steps are suggested to increase the creditworthiness of poor countries for the Bank's lending facilities in future.

(i) Increase in the IDA's lending resources; some of the IDA funds can also be used to repay the IBRD's loans. Various constraints to expansion of the IDA lending should be removed.

(ii) Increase in debt rescheduling facilities,

(iii) Increase in local cost financing,

(iv) Increase in the blend (i.e., IBRD/IDA) lending,

(v) Increase in the Third Window lending,

(vi) The OPEC should be given a special role to play in the World Bank's affairs.

(G) Automatic System

(18) There should be more automatic city in World Bank financial resources to enable it to play a truly multilateral role in the New International Economic Order. It is suggested that the IBRD, instead of seeking the concerned government's permission before floating its bonds, should have automatic right to borrow in any capital market where the country has been enjoying an overall balance of payments surplus. For the IDA, efforts should be made to link at least a part of the future IDA replenishments with creation of Special Drawing Rights (SDRs) or gold sales.
Summing up

It is observed that over the years the Bank remained a centralized institution. As long as the present situation continues the Bank will retain its image of being essentially a Western bank. To meet the financial needs of the Third World, the Bank's conservative gearing ratio needs to be increased. The Bank has tried to shill its policy towards agriculture and rural development with a special emphasis on rural development projects which are designed to increase the productivity of small farmers. However, the share of these projects remains marginal. Bank's future involvement in anti-poverty activities requires that it must become less of a Bank and more of a development agency.

The Bank's involvement in rural development should not be considered as its socialism because the Bank still engages in traditional lending for transport and energy sectors Socialist economies now see no objection to borrowing from the Bank, nor does the Bank see ideological obstacles to lending. 79

In regional lending, Latin America remained the largest borrower followed by east-Asia. South Asia received small percentage (i.e. 7%), and in the region India remained the largest borrower. Deficit in the IDA's soft funding to India is being compensated for by the IBRD's hard lending which is not suitable for India; it would further aggravate India's debt problems. Bank's future in the Third World will depend on the existence of the IDA; otherwise Bank will be limited to middle income countries. Finally, the Bank must
maintain the long term equilibrium between borrower and creditor interests; and it must remain strictly technical, i.e. apolitical.