CHAPTER - V
WORLD BANK AND INDIA WITH REFERENCE TO SOCIAL SECTOR LENDING

While the preceding chapter analyses the growth of the World Bank’s interest in the social sector for the purpose of adapting its lendings policies, the primary focus of the study is to examine the dimensions of the Bank’s lending in India’s social sector. Before taking up this important task in separate chapters, it would be useful to essay the dynamics of the relationship that evolved between the Bank and India. The present chapter aims to examine this aspect so that necessary backdrop is provided for detailed analysis, relating to lending in India’s social sector.

India’s association with the Bank interestingly dates back to the pre-Independence period. India was one of the few colonies to be invited to the preliminary meetings of the Bank and was one of the original signatories of the final agreement that established the Bank. At a time when colonialism still pervaded large parts of Asia and Africa, the participation of India in the founding of the Bretton Woods system represented a recognition of India’s standing and its potential, even before Independence. The failure of Soviet Union to ratify the Bretton Woods Agreement placed India in a somewhat privileged position with the right as per the Bank’s Charter to nominate its own Executive Director. Though borrower country, India from the start by way of its inclusion in the Bank’s

1 The Indian delegation to Bretton Woods was led by Sir Jeremy Raisman, Finance Member of the Viceroy’s Executive Council, and also included Sir Theodore Gregory (Economic Advisor), Sir R. K. Shanmukham Chetty (later independent India’s first Finance Minister), C. D. Deshmukh (who later became India’s Finance Minister), Mr. A.D. Shroff (one of the architects of the Bombay Plan for India’s economic development and Mr. B. K. Madan (later India’s Executive director in the IMF).
Executive Board, exercised influence and authority associated normally with the richer bloc of nations. Its unique position led it to be a natural advocate of the concerns and issues facing countries less developed.

From the Indian perspective, the Bank constituted an important organisational platform for pursuing the goal of international development. Being a relatively backward economy that had witnessed lop-sided development, one of the primary expectations from the Bank was that it should fund development projects. Although it has been widely claimed that the credit for adding "development" to formal name of the Bank goes to India, the available official records do not attest this. The term "Development" indeed figured in as a name in the drafts presented at the founding conference. In that sense development remained very much a part of the original mandate of the Bank, though it was made secondary to reconstruction.

From 1944 onwards, the relationship between the Bank and India has been a dynamic one, and in more cases than one, India has proved to be an important test case for the Bank's strategists working in the area of international development. The Bank has so far lent a total of US $ 58.6 billion to India in 441 different projects. Ranked as a low-income country, India has the distinction of being the largest borrower of Bank funds and also significantly of being the single largest beneficiary of IDA disbursements amongst all the other member countries.

---

3 Figures at the close of the financial year, July 2002.
4 The Bank classifies countries into broadly four main groups: low- countries having per capita GNP of less than US$ 755, lower middle- per capita GNP between US$ 756-2,995, upper middle- per capita GNP between US$ 2,996 and US$ 9,265 and high with more than US$ 9,266 per capita GNP.
As a multilateral agency, the Bank’s intervention is not limited to the realm of finances. The Bank in its capacity as the coordinating agency for the Aid India Consortium plays a major role in the coordination and convergence of aid flows into the country. The credit ratings given by the Bank are influential in determining the approach of other multilateral and bilateral funding agencies. The Bank’s opinion determines to a large extent the design and content of aid strategies.

Discussion in the present chapter is divided into three major sections. Section one examines the structures on India’s as well as the Bank’s side that come into the picture at various stages of the relationship between the two, while section two traces the historical relationship focussing on the salient points of the operational relationship between the Bank and the country. The section traces the larger dynamics addressing the role and influence of the Bank in the formulation of specific national strategies. The third and last section provides a generic analysis of the Bank’s interest in social sector projects in India. The Bank’s involvement in the social sector in India, it may be noted was negligible in the eighties. It was largely the structural adjustment undertaken during the 1990s that provided the main impetus for the Bank’s active involvement in social lending. The chapter therefore tries to explore the underlying dynamics between adjustment and expansion of social sector lendings that characterises largely the Bank- India relationship in the post adjustment period.

STRUCTURAL FRAMEWORK

The Union Government is the main borrower and guarantor of all Bank loans and projects. The loan amount is routed through the Central Ministry of
Finance to the specific Central or State agency concerned. Within the Central Ministry of Finance, in the Department of Economic Affairs, there is located a specific “Aid, Accounts & Audit Division” that is responsible for arranging the release of funds, drawn against all loans and credits to various agencies. There is a specific World Bank credit division that co-ordinates and organises all financial aspects related to the Bank’s work in India.

The assistance received from the Bank is officially categorised as “concessional and semi-concessional” assistance by the Ministry of Finance. The finances are released in a phased manner as per the progress of a given project. In terms of IBRD loans, classified as semi-concessional, the Government is given a grace period of 5 years with repayment in 15 years at a variable rate of interest, revised semi-annually in accordance with the Bank’s own estimates of the borrowing costs. The current rate of interest is around 6.34 percent with a commitment charge on undisbursed balance of 0.75 percent. In terms of IDA credits, which are softer concessional loans, the Government is given a grace period of 10 years with repayment in 25 years, with a service charge of 0.75 percent on the disbursed portion of the credits. It may be noted that for IDA credits finalised before July 1988, the repayment period is 50 years including a grace period of 10 years.

On the policy aspect, the Planning Commission plays a pivotal role in co-ordinating between the Bank and the various ministries at the Central and State levels. The existence of functional divisions along with the presence of a large number of functionaries within the Planning Commission with past associations
with the Bank greatly facilitates the co-ordination sought to be achieved by the Planning Commission at the policy levels.

From the Bank’s side, there are mainly three main organisational units that are involved in the processing of each loan. These are the Bank’s South Asia Regional Vice-presidency having a specific India Desk, the concerned sectoral network, and the Resident Mission. The World Bank’s Resident Mission in New Delhi, established in 1957 is the oldest, continuously functioning Bank’s local office. The Delhi-based India Country Director is responsible for the Bank’s strategy in India and manages the annual budget for the country programme. About one-third of the Bank’s operations in India are now managed by the staff in the Delhi office.

The Bank’s Country Programme for India forms the overarching policy framework for the negotiation of loans and projects. The objectives of the Country Programme are centred largely around the adopted strategy and plan of action of both the Bank and the Government of India. Policy making in the Indian context, given its federal set up, is a complex task. The responsibility of framing public policies is divided as per the Constitution between the Centre and the respective State Governments, and in the context of decentralisation, the decision-making chain extends well beyond the state capital to local level municipalities in the urban areas and panchayats in the rural context. Figure 2 provides an idea of the various levels of governance structures, that the Bank has to interact with, while working on the larger country assistance strategy and approving specific loans and projects.
Figure 2: Disbursement of World Bank Aid: The Federal Arrangement

Federal Government

Ministry of Finance – Nodal Aid Disbursing Agency

Concerned Central Sectoral Ministries

State Government

Programmes and Funds across sectors are distributed by the Central Government to respective State Governments - planning, and preparation of project reports

District Administration

Selection of towns/cities: planning, implementation, operation, maintenance and monitoring

Block Administration

Local Government: Municipal Committee, Urban & Rural Panchayats
THE BANK-INDIA RELATIONSHIP – A HISTORICAL ANALYSIS

The nature of the relationship between India and the Bank is a subject of charged debate in India. Whereas some see it as a typical syndrome of Bank-led domination and control of domestic policies, others view the relationship as based on mutual consent and cooperation. The truth lies somewhere in the middle. In the history of its fifty year long association with the Bank there have been times of vulnerability and weakness (that shall be discussed later in the chapter), that have witnessed the Bank exercising an upper hand. However, on the whole, the benefits that have characterised the relationship should not go unnoticed. India has been an important beneficiary of the Bank’s lending strategies. The Bank has funded important projects in industry, infrastructure, power, agriculture and other sectors of the Indian economy. The distinct style of functioning that the Bank possesses has also led to a favourable working relationship leading to the transfer of skills and training in administering projects and programmes.


6 "The stress of the World Bank on the long-term view on the rational and professional handling of issues, has strengthened the hands of those in the administration, who value these concepts, reducing the impact of ad-hocism, narrowness, shoddiness and excessive politicization of decision-making" - P.N. Mathew, former member of World Bank staff in Malcolm Adiseshiah, ed., Forty Years of Economic Development, n.2, p.73.
Table 5.1: Sectoral Distribution of Bank Projects in India

<table>
<thead>
<tr>
<th>Sector</th>
<th>IBRD</th>
<th>IDA</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Fishing, and Forestry</td>
<td>2350.4</td>
<td>10935.5</td>
<td>13285.9</td>
</tr>
<tr>
<td>%</td>
<td>17.7</td>
<td>82.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Economic Policy</td>
<td>550.0</td>
<td>295.0</td>
<td>845.0</td>
</tr>
<tr>
<td>%</td>
<td>65.1</td>
<td>34.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Education</td>
<td>55.0</td>
<td>2273.4</td>
<td>2328.4</td>
</tr>
<tr>
<td>%</td>
<td>2.4</td>
<td>97.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Electric Power &amp; Other Energy</td>
<td>9732.7</td>
<td>2574.0</td>
<td>12306.7</td>
</tr>
<tr>
<td>%</td>
<td>79.1</td>
<td>20.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Environment</td>
<td>310.0</td>
<td>951.4</td>
<td>1261.4</td>
</tr>
<tr>
<td>%</td>
<td>24.6</td>
<td>75.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Finance</td>
<td>2430.0</td>
<td>80.0</td>
<td>2510.0</td>
</tr>
<tr>
<td>%</td>
<td>96.8</td>
<td>3.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Health, Nutrition &amp; Population</td>
<td>31.3</td>
<td>3554.4</td>
<td>3585.7</td>
</tr>
<tr>
<td>%</td>
<td>0.9</td>
<td>99.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Industry</td>
<td>2800.6</td>
<td>734.0</td>
<td>3534.6</td>
</tr>
<tr>
<td>%</td>
<td>79.2</td>
<td>20.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Information and Communications</td>
<td>634.5</td>
<td>574.5</td>
<td>1209</td>
</tr>
<tr>
<td>%</td>
<td>52.5</td>
<td>47.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Law and Justice and Public Administration</td>
<td>376.3</td>
<td>375</td>
<td>751.3</td>
</tr>
<tr>
<td>%</td>
<td>50.1</td>
<td>49.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Mining</td>
<td>1304.0</td>
<td>77.0</td>
<td>1381</td>
</tr>
<tr>
<td>%</td>
<td>94.4</td>
<td>5.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Multisector</td>
<td>351.3</td>
<td>1671.9</td>
<td>2023.2</td>
</tr>
<tr>
<td>%</td>
<td>17.4</td>
<td>82.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>2383</td>
<td>0</td>
<td>2383</td>
</tr>
<tr>
<td>%</td>
<td>100.0</td>
<td>0.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Private Sector Development</td>
<td>200.0</td>
<td>5.0</td>
<td>205.0</td>
</tr>
<tr>
<td>%</td>
<td>97.6</td>
<td>2.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Social Protection</td>
<td>0</td>
<td>519.5</td>
<td>519.5</td>
</tr>
<tr>
<td>%</td>
<td>0.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Transportation</td>
<td>5176.8</td>
<td>1768.1</td>
<td>6944.9</td>
</tr>
<tr>
<td>%</td>
<td>74.5</td>
<td>25.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Urban Development</td>
<td>399.1</td>
<td>1236.2</td>
<td>1635.3</td>
</tr>
<tr>
<td>%</td>
<td>24.4</td>
<td>75.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Water, Sanitation &amp; Flood Protection</td>
<td>605.4</td>
<td>1327.9</td>
<td>1933.3</td>
</tr>
<tr>
<td>%</td>
<td>31.3</td>
<td>68.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>29690.4</td>
<td>28952.8</td>
<td>58643.2</td>
</tr>
<tr>
<td>%</td>
<td>50.6</td>
<td>49.4</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Annual Reports of the World Bank

The Need for Foreign Capital for Domestic Development

India's interaction with the Bank has always been guided by its development strategy and philosophy of foreign aid. The central theme of the official approach was that foreign aid was essential to national development but its
flow had to be regulated in a manner that would not harm national interest. Foreign aid in other words was welcomed, preferably with no strings attached. The official policies and plans formulated highlighted the need for pragmatism in the choice of resources. The World Bank in this context appeared to be a long-time creditor amongst other comparative donors in the field. The First Five Year Plan document for example explicitly stated that priority would “no doubt go to such external investment as is available from institutions organised on an international basis”, highlighting the official preference of Indian planners for multilateral sources of aid.

Prime Minister Nehru’s development strategy, which emphasised upon the modernisation and development of technical and industrial expertise, provided much of the substantive thrust for collaboration with the Bank. The Special Policy Statement released by the Prime Minister on 6 April 1949 spelling out the assurance of national treatment to foreign enterprises, coupled with the guarantee that the government would not object to foreign capital having control of a concern for a limited period if it was found to be in national interest; worked to reassure the Bank of the liberal and open economic policy of the Indian government. Domestic capital for purposes of development proved to be inadequate and hence it became necessary for the Indian government to fall back on foreign assistance. The Bank in such a context emerged as an important multilateral player.

7 “India has a programme of development larger than can be financed from the resources internally available. To a certain extent, the volume of domestic resources available for investment can be augmented through appropriate fiscal and economic policy, through compulsory savings, and through drawing on unutilised manpower. There will, however, still remain certain shortages which would tend to restrain the whole pace of development, and it is in meeting these that external resources can be of help.” – The First Five Year Plan (1951-1956, Planning Commission, Government of India (web edition), para 46, Chapter 1, “Planning : Economic and Social Aspects.”
Early Trends: Influence on Five Year Plans

"India built its bridges with the Bank [largely] through its political leaders, industrialists and civil servants."\(^8\) The top echelons of Indian bureaucracy, leadership and business were articulate in canvassing actively the interests and priorities of the Indian Government before the decision-makers at the Bank. Foreign capital was welcomed by the Indian state functionaries and the industrialists in the “national interest” of India and the leadership actively collaborated with the World Bank in inviting foreign capital and technology to transform the Indian economy.

On 10 January 1949, on the invitation of the Indian government, the Bank sent its first mission to India. Soon, following this visit, periodic consultations between the two became the established practice. From the planning stages of the First Five-Year plan, the Bank’s status as the *de jure* advisor to the Government, stood confirmed. However, it may be noted that as a client state India on account of its relatively experienced civil service, was far more assertive than many other ex-colonies, holding strongly held ideas on what needed to be done on the development front.\(^9\) This assertiveness toned down at times the Bank’s own negotiating power.\(^10\)

---


\(^9\) Historians Edward S. Mason and Robert E. Asher in their book *The World Bank Since Bretton Woods* (Washington DC, 1973), provide an interesting comment on the Bank-India relationship. India according to them was never a “*tabula rasa* patiently awaiting outside advice on development priorities or strategy”, p. 676. Rather the Indian Government was a repository of strongly held ideas on what needed to be done.

\(^10\) "The Indians, didn’t mind receiving project advice but they always felt that they should make all the final decisions." Bilsel H. Alisbah, Country Director India, in an interview with W. Becker and D. Milobsky, 20 December 1993, The World Bank Group/ Historian’s Office Oral History Program.
It may be noted that the Bank from the start was critical of the heavy reliance on the public sector in Indian planning. The break-down of negotiations over the financing of the Steel Plant at Rourkela in 1956 constituted the first noted case of differences between the two resulting in the cancellation of the proposed loan. The Bank in the above case was averse to financing any government-controlled industrial enterprise, and the steel plant issue brought to light the differences between the two on the primacy of private enterprises. The Bank's insistence that the Government provide more leverage to the collaborating German firm Krupp-Demag was unacceptable as the Government insisted on negotiating a loan essentially for the public sector.\(^\text{11}\)

Despite these differences, India continued to be important to the Bank. The Bank's India portfolio saw a steady increase in projects through the fifties. Within a span of two years of having achieved Independence, India received its first loan of a sum of US $ 34 million from the Bank on 18 August 1949, towards the development of Indian railways. On 29 September 1949, India received its second loan of US$ 10 million for importing equipment essential for the reclamation of agricultural land. A year later, the Bank financed a third, a power development project for the country. Significantly, a common thrust on infrastructure, between policy makers in India and those at the Bank ensured an active relationship between the two from the beginning. Whereas till the end of the First Five year Plan (1951-56), the Bank had funded 7 projects, during the Second Five Year Plan

\(^{11}\) Rejecting the Bank's offer, it struck a deal with the West German Government for financing of the Rourkela Steel Plant. On the Bank's part, though it declined to finance the proposed public sector enterprise, it however proceeded to sanction loans to privately owned steel plants. In 1956-57, the Bank provided three loans consecutively to India Iron and Steel Company (IISCO) and the Tatas (TISCO) to expand the steel production within the country.
period (1956-1961), the number had risen to 22 - 15 of which were new projects for railway modernisation, electric power, iron and steel, port development and through the Industrial Credit and Investment Corporation of India (ICICI) for private industry.  

The Bank during the fifties was also actively involved in resolving the dispute between Pakistan and India over the sharing of the Indus river waters. The Bank's involvement began in the early stage with a joint technical study on increasing the supply of Indus water to the two countries. From 1952, meetings were held in Delhi, Karachi and Washington among engineers representing the Bank, India and Pakistan. However, when growing hostilities between the two governments made negotiations difficult, the Bank offered to mediate. Given the comparatively dim chances of a joint Indo-Pakistani authority, the World Bank formulated its own proposals for developing the Indus basin in February 1954.

India accepted the World Bank plan in March 1954, but Pakistan had certain reservations. The Vice-President of the Bank, Mr. W. A. B. Iliff met with senior ministers and heads of the two governments up in June 1957. The Bank modified its proposals to suit the interests of both countries and persuaded the governments of Australia, Canada, West Germany, the United Kingdom and the United States of America to provide funding for the engineering plan drawn up by the Bank. Finally, with the Bank's help an agreement was signed on 19 September 1960, between India and Pakistan to set up the Indus Basin Development Fund to

---

12 As drawn from relevant Annual Reports of the World Bank.
oversee the implementation of the Treaty signed.\textsuperscript{13} The dispute that had waged for twelve years between the two countries was thus amicably resolved largely on account of the persistent mediation of the World Bank.

Another important milestone in the Bank-India relationship during the early years involved the setting up of a permanent consortium of western donors to coordinate the flow of development assistance coming into the country. Conceived by the Bank to rescue India from the severe balance of payments crisis during the Second Five Year Plan period, the arrangement was however given a more permanent shape with five members, (Canada, West Germany, Japan, the United Kingdom and the United States of America) agreeing to the formation of an Aid India Consortium in 1958. With the establishment of such a Consortium the case for greater participation and control by Western donors in the determination of national policies became stronger. It may be noted that the formation of the Aid-India Consortium occurred at an important period of Cold War rivalry, when the Western and the Soviet blocs vied with each other for political and economic influence among the newly emerging developing countries.

\textsuperscript{13} For a summary of the main issues involved in the Indus Water Problem between India and Pakistan, see A. Appadorai and M.S. Rajan, \textit{India’s Foreign Policy and Relations} (New Delhi, 1985), pp.64-68.
### Table 5.2: Distribution of Bank Projects in Different Plan Periods

<table>
<thead>
<tr>
<th>Plan Period</th>
<th>No.of Loans</th>
<th>Volume</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Total</td>
<td>IBRD(%)</td>
<td>IDA(%)</td>
<td></td>
</tr>
<tr>
<td>1949 &amp; First Plan</td>
<td>7</td>
<td>139.70</td>
<td>100</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>(1951-1956)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Second Plan</td>
<td>18</td>
<td>560.90</td>
<td>100</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>(1956-1961)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Third Plan</td>
<td>26</td>
<td>894.50</td>
<td>34.6</td>
<td>65.4</td>
<td></td>
</tr>
<tr>
<td>(1961-1966)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yearly Plan</td>
<td>5</td>
<td>336.00</td>
<td>8.9</td>
<td>91.1</td>
<td></td>
</tr>
<tr>
<td>(1966-1967)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yearly Plan</td>
<td>1</td>
<td>25.00</td>
<td>100</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>(1967-1968)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yearly Plan</td>
<td>1</td>
<td>125.00</td>
<td>0</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>(1968-1969)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fourth Plan</td>
<td>41</td>
<td>1775.10</td>
<td>13.4</td>
<td>86.6</td>
<td></td>
</tr>
<tr>
<td>(1969-1974)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fifth Plan</td>
<td>49</td>
<td>3214.10</td>
<td>26.3</td>
<td>73.7</td>
<td></td>
</tr>
<tr>
<td>(1974-1978)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yearly Plan (1978-1979)</td>
<td>17</td>
<td>1829.50</td>
<td>15.0</td>
<td>85.0</td>
<td></td>
</tr>
<tr>
<td>Yearly Plan (1979-1980)</td>
<td>9</td>
<td>1059.00</td>
<td>23.6</td>
<td>76.4</td>
<td></td>
</tr>
<tr>
<td>Sixth Plan</td>
<td>76</td>
<td>11102.00</td>
<td>48.4</td>
<td>51.6</td>
<td></td>
</tr>
<tr>
<td>(1980-1985)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seventh Plan</td>
<td>55</td>
<td>12816.60</td>
<td>73.1</td>
<td>26.9</td>
<td></td>
</tr>
<tr>
<td>(1985-1990)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yearly Plan (1990-1991)</td>
<td>12</td>
<td>2378.40</td>
<td>52.1</td>
<td>47.5</td>
<td></td>
</tr>
<tr>
<td>Yearly Plan (1991-1992)</td>
<td>13</td>
<td>2525.00</td>
<td>58.0</td>
<td>42.0</td>
<td></td>
</tr>
<tr>
<td>Eighth Plan</td>
<td>52</td>
<td>8774.10</td>
<td>42.0</td>
<td>58.0</td>
<td></td>
</tr>
<tr>
<td>(1992-1997)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yearly Plan (1997-1998)</td>
<td>12</td>
<td>2330.24</td>
<td>54.1</td>
<td>45.9</td>
<td></td>
</tr>
<tr>
<td>Ninth Plan</td>
<td>47</td>
<td>8758.06</td>
<td>53.0</td>
<td>47.0</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>441</td>
<td>58643.2</td>
<td>50.6</td>
<td>49.4</td>
<td></td>
</tr>
</tbody>
</table>

**Source**: Annual Reports of the World Bank

---

1960s: Pressures on India and Opportunities for the Bank

The 1960s, particularly after the wars with China and Pakistan in 1962 and 1965 respectively, posed further challenges to the relationship between India and the Bank. The wars accompanied by food shortages caused by droughts put a severe constraint on the financial resources available. By November 1965, buffer stocks of food were exhausted. The need for food imports on concessional terms in the midst of foreign exchange shortage made India critically dependent on World Bank aid. At the request of the Indian Government, the Bank sent a mission headed by Bernard Bell in 1964, which suggested radical reforms and changes in the strategy of development.

---

The recommendations made by the Bell mission calling for the removal of excessive controls, liberalising imports, devaluation of currency and increased investments in agriculture, received wide support within the Bank.\textsuperscript{15} George Woods, the President of the World Bank informed the Indian Government that “they could not expect the high level of assistance – especially quick – disbursing program aid, which they counted on for the fourth five year plan, unless they undertook the recommended policy reforms.”\textsuperscript{16} Coming at a time when India faced numerous difficulties both on the internal and external front, the above recommendations of the Bank formed the basis for a pressure group to exist, which India was not in a position to resist. Apart from the foreign exchange and other economic difficulties, the country also witnessed a series of quick unforeseen political difficulties. In 1964 Nehru had expired and just two years later, his successor, Lal Bahadur Shastri also passed away. The new Prime Minister, Mrs. Indira Gandhi who had just taken over faced a power struggle within her own Congress Party.

For the first time in the Bank’s history, the Bank’s credits to India in 1966, represented a significant attempt on the Bank’s part “to use the leverage of its lending to modify macroeconomic policies in a major member country.”\textsuperscript{17} It may

\textsuperscript{15} "There is no particular evidence that the licensing system has in fact served any positive economic purpose. There is little doubt, however, that it has prevented efficient enterprises from expanding or that it has imposed restraints upon the achievement of economies of scale, and that it has delayed and hampered investment and production activity. It has, like the import control system, protected and preserved inefficiency by, in effect, allocating market shares and restraining the growth of more efficient enterprises." Excerpt from the Bell Report as quoted in World Bank publication, \textit{The World Bank in India} (New Delhi, 1993), p.42.


\textsuperscript{17} Mason and Asher, n.9, p.679.
be noted in this connection that the Bank had already tried to induce changes in macroeconomic policy in Brazil in the 1950s but negotiations there had never reached the stage that they reached in India. For the first time in the Bank's history, through the Consortium, the Bank sought to experiment with the prospects of programme lending. At a time when India on account of the food shortage needed cheap food grains the most, majority of the consortium members the United States, France Canada etc, were not willing to oblige with food aid on concessional terms. India was therefore highly dependent on the Aid India Consortium for both food grains and foreign exchange on the eve of the rupee devaluation in June 1996. 18

As a client state, India's dependence on World Bank aid and through the Consortium on western aid in particular, was greatest in the sixties than ever before. The Fourth FiveYear Plan, supposed to begin in 1966, was postponed for three years on account of uncertainty regarding the flow of external finances. As a result of increased vulnerability, the Bank was able to exert direct pressure on the Indian government to bring about changes and reforms recommended by its missions. The Bank's recommendations asking for the devaluation of the Indian Rupee was accepted by the newly installed government headed by Indira Gandhi. Also agreed were measures like dismantling of a number of controls on imports and export subsidies.

On the domestic front, especially when the Bank retracted from its guarantee of raising US$ 900 million, the decision of the Indian government to devalue the rupee from Rs 4.75 to Rs. 7.50 to a dollar and the associated policy of import liberalisation came in for sharp criticism. The case for external pressure was

made in telling terms across the ideological spectrum. "It should be common knowledge here that the decision to force India down to her knees had been made by the cloak and dagger aid givers."\(^{19}\) It may be noted that fearing an internal backlash following the devaluation exercise Mrs. Gandhi was forced to undertake measures contrary to the Bank's functional philosophy such as abolition of privy purses and the decision to nationalise sectors of banking and insurance.

For the Bank, the developments on the Indian side represented an impasse brief in nature. India remained to be the single largest borrower of both IBRD and IDA funds. Following the 1965 devaluation experience the Bank developed some cold feet regarding the implementation of policy wise conditionalities, and its lending to India shrank back into the traditional project type of lending. Mrs. Gandhi's thrust on poverty alleviation in the seventies in fact coincided with McNamara's strategy of poverty reduction, and lending to India during the above period saw a substantial expansion in favour of programmes directly affecting the poor.

1970s and 1980s: Soft loans for Softer Sectors

Agriculture and irrigation projects that had made up for only 0.7 percent and 5.1 percent of the total share of resources to India in the sixties; the shares of these two sectors increased substantially in the seventies to 21.6 percent and 16 percent respectively. By the end of the seventies both these sectors made up for 37.6 percent of the total.\(^{20}\) The seventies also saw the introduction of new areas

---


20 Though the share of loans for industry continued to be still the greatest, at 25.2 percent, its relative share it may be noted, however, decreased during 1970-1979 with
such as projects for urban development, water supply and sewerage, education and health. Though the share of the new projects was small, they represented in a distinct way the Bank’s entry into the “softer sectors” of the Indian economy in the seventies.

Domestic developments ranging from the imposition of Emergency and the subsequent defeat of Mrs Gandhi in 1977, and the formation of a new Government headed by the Janta Party, did little to affect the Bank-India relationship. In fact the Janta Government brought in changes opening the economy to more foreign investment. The return of Mrs Gandhi to power in 1980 marked the start in a significant way the beginning of a new phase of slow but steady movement towards liberalisation. The Sixth Five Year Plan (1980-85) strategised on the need for a shift from administrative regulation to a process of economic openness. The accent was significantly on making the shift from planning to managing the economy. What Mrs. Gandhi started in the early eighties was taken further by the successive Government of Rajiv Gandhi. A new industrial policy was announced allowing private producers and investors with greater autonomy. Tax concessions to corporations were also announced. Substantial increases in salaries at the higher levels of Government, coupled with an expansion of employment in the public sector were some of the other measures announced.

---

21 While the Janta Government took two major decisions which were much publicised regarding the closing down of the Coca Cola and International Business Machines (IBM) factories in India, on the whole however, the regime in power encouraged other multinationals such as Hindustan Lever to freely operate in non-priority areas. C.P. Bhamhri, n.8, pp.35-36.

The Bank’s reactions to the above changes were positive. The 1988 Annual Report of the World Bank for example, commended the good performance of the industrial sector and observed that “recent industrial policy reforms [were] clearly paying off.” The period in question saw a significant decline in concessional IDA assistance while loans from the IBRD on market terms increased sharply. Whereas in the previous decade IDA credits made up for nearly 80 percent of the resources to India, in the years 1980-1989, its share in the total loan portfolio was reduced substantially to 38 percent. This was due to the fact that the Indian economy was doing well, and with national income growing at 5.5 percent per annum, there were pressures on the Indian Government to “graduate” out of the IDA club. However, the turn of events on the domestic front around late 1989 and early 1990 turned all expectations upside down. The situation on the balance of payments front became grim. The country’s foreign debt had been rising and India by the end of the eighties was on the verge of defaulting on repayment of scheduled debts.

1990s: Trends in Support of Economic Liberalisation

In August 1990, the Indian economy plunged into a deep crisis by the adverse impact of the conflict in the Gulf. For the next ten months, the economy

---

24 The World Bank in India, n.15, p.11. The number of IDA projects it may be noted however continued to be numerically more than IBRD during 1980-1989.
25 The problems of the economy which reached crisis proportions in early 1990 were largely a “direct consequence of the financial profligacy on the part of the Government.” The gross fiscal deficit of the central government was 8.2 percent during the second half of the 1980s, as compared to 4 percent in the mid 1970s. This fiscal deficit had to be met by borrowings, the consequences of which were that internal debt of the Government accumulated rapidly, rising from 35.6 percent of the GDP at the end of 1980-1981 to 53.5 percent of GDP at the end of 1990-1991 – Deepak Nayyar, Economic Liberalization in India : Analytics, Experience and Lessons (Bombay, 1996), p.4.
was teetering on the brink of a collapse as the country passed through two changes of government, general election and several other domestic upheavals. The new Government headed by P.V. Narasimha Rao, on coming to office in June 1991, announced a series of measures to correct the economic situation. At probably no other time except during the 1965-1966 crisis, did the Bank along with the IMF wield so much influence as it did, at this particular juncture of Indian history. Although previous governments had paved the way for a more open, market-friendly economy, the commitments made by the Rao government towards liberalisation were path breaking. For the first time in Indian history, policy makers embraced overwhelming the prospects of an unconditional liberalised order. In exchange for the commitments made, the Bank on 5 December 1991 approved its first Structural Adjustment loan of US$500 million for India. The main objectives of the loan were to help the Indian government weather the balance of payments crisis, and support the policy reforms initiated for liberalising the economy.

The crisis, which engulfed the country, was generally perceived as unprecedented. The crisis in the balance of payments and mounting fiscal deficits

---

27 Dil Kumari Bhandari, a Lok Sabha member is on record questioning the Bank’s role and the Finance Minister’s reply on the occasion that “there is no question of Government policies being dictated by any outside agency... [and that policy measures introduced] are based on the Government assessment of what is needed in the present situation to cope with our balance of payment difficulties” serves to indicate the Government’s discomfort and reluctance to admit to charges of Bank pressure in the formulation of policies. Lok Sabha Debates, Lok Sabha Secretariat, Vol. XVII, 16 December 1992 (New Delhi, 1992), p.865.
28 The above loan SAL Loan 3421- IN/ Cr.2316 –IN it may be noted was the first in the series of three adjustment loans given by the Bank between 1991-1992. The other two being the Social Safety Net Sector Adjustment Program (Cr. 2448) (December 1992), and the External Sector and Investment Regime Liberalization loan (Ln. 3627), (June 1992).
(both at the level of Central and State Governments) prompted the then Government to initiate the process of economic reforms encompassing the following measures:

- Devaluation of the Rupee.
- New Industrial Policy allowing for more foreign participation.
- Opening up of areas hitherto reserved for the public sector to domestic private and foreign investments.
- Part dis-investment of government equity in profitable public sector enterprises.
- The closure of sick public sector units.
- Reforms of the financial sector through larger private sector participation in banking and insurance.
- Liberal import and export policy, and
- Tax reforms leading to greater share of indirect taxes.

These reforms in India conformed to the pattern of structural adjustment in countries of Latin America, Africa and East Asia. Overall in the nineties, with the increasing emphasis on liberalisation, the share of World Bank assistance to India saw a general rise. In terms of external assistance, the period witnessed a rise in multilateral aid, with the World Bank significantly the single largest donor. In the plan periods, 1990-1991 to 1998-1999 for example, nearly 50 percent of the multilateral assistance received by India came from IDA and 33 percent from the IBRD. On the whole lending in the nineties saw an increasing conjunction of
interests between the Government and the Bank, the natural and organic outcome of which was an unconditional acceptance of the necessity of policy reforms.

The crisis also gave rise to an intense debate about the appropriate role of the State in development in India. The decision taken to go in for structural adjustment by the Government, was never really debated publicly. Loans as such from the Bank are never ever discussed in detail within the Parliament, and the structural adjustment loan, despite its significance in terms of policy changes, was no exception. Soon after independence, it may be recalled there was a widespread consensus among political leaders and economists that the state must be the primary instrument for bringing about growth and development. India like many other developing countries sought to adopt highly interventionist development strategies, which sought to change the existing patterns of trade and distribution of income by direct state action. For a while the interventionist strategy was successful in mobilising resources for development, however after some time, the “crisis of governability” became apparent.29 The signs of decline in the authority of the Indian State became evident, and the crisis in the 1990s ignited further the debate on the role and position of the State in India.

29 Atul Kohli, Democracy and Discontent : India’s Growing Crisis of Governability (Cambridge, 1991). Analysts see the State in India as facing a crisis of declining autonomy, whereby its sovereignty is compromised by the increasing influence and control of multilateral agencies such as the World Bank. An omnipresent but highly feeble, over centralised and yet powerless state has widened the scope for an externally aided policy process. See also M.A. Oommen, et al, Crisis in India : Studies in Political Economy (New Delhi, 1995).
INDIA: COUNTRY ASSISTANCE STRATEGY

The Bank’s Country Assistance Strategy (CAS) for India provides an interesting comment on the role and responsibilities of the state in India. The state’s responsibility in the context of liberalisation and increased globalisation extends to the performance five fundamental tasks: establishing a foundation of law, maintaining macroeconomic stability, protecting the environment, protecting the vulnerable and investing in basic social services and infrastructure.30 The state through the government has a central role in ensuring the provision of the above services but it is significantly not the only provider. The state’s choices about provision, financing, and regulation of these services is regulated by the relative strengths of markets and civil society - the state being essential for putting in place the appropriate institutional foundations for markets, and involving the civil society namely citizens groups and communities in meeting the above essential responsibilities. The CAS building on the spirit of partnership and cooperation underlying the Comprehensive Development Framework (CDF), provides a framework that explains the ongoing policy dialogue between the Bank and the Indian Government. The CAS is based on three strategic principles – selectivity, partnership and a programmatic approach.

Beginning with the first principle of selectivity, the Bank by adopting this particular principle seeks essentially to cut down on contributions in sectors that have graduated out of its lending package. For example, both the IBRD and the IDA no longer finance sectors such as thermal generation, telecom, ports, coal, oil and gas, where the private sector can invest with support from the IFC and MIGA. As such, the lending for the telecommunications sector has declined from US $150 million in the third five year plan to US $62 million during the ninth plan, registering a decline of 13.7 percent per plan. Similarly lending for oil, gas and coal after rising by 149.8 percent per plan between the third plan and the seventh plan, declined by 94.5 percent in the eight plan.\(^\text{31}\)

\(^{31}\) Calculated on the basis of loans and allocations to each sector.
The Bank's strategic partnership with the Indian government as per the CAS extends to four main areas: agriculture and rural development, fiscal and governance reform, financial sector development and health sector reforms. The CAS for India focuses on working closely with a relatively small number of focus states. In other words, the Bank as part of its endeavour to lend selectively focuses its lending programme in only those States whose governments have (a) chosen to embark on a comprehensive programme of economic reforms, including fiscal and governance and sectoral reforms of key sectors such as power, (b) have expressed interest in entering into a partnership with the Bank, or (c) where poverty levels are relatively high. Andhra Pradesh in this context was the first State to be adopted for the application of the CDF. It has since been joined by Uttar Pradesh, Karnataka, Orissa and Rajasthan. Lending to the above states according to the Bank estimates is expected to be about 40 percent of the total lending in the near future. As for lending to non-focus States, the CAS is clear that loans and resources shall only be made available provided the States are able to justify and demonstrate the utility value of the resources.

Another noteworthy feature of the current Bank-India relationship relates to the provision of increased co-financing arrangements. The consortium approach towards aid assistance has led to increased convergence and coordination among aid agencies in the financing of programmes and projects in India. Co-financing with the UN family for example has been a focal point for all social sector projects in India. Many of the projects in the health sector (including HIV/AIDS, malaria, leprosy etc) for example have been co-financed by other donors. To ensure the

---

33 Ibid., p.27.
sustainability of the initiatives undertaken, the Bank has also focussed on following strictly a *programmatic approach* in its operations in India. The Bank’s adjustment lending to Uttar Pradesh, for instance, was effectively guaranteed by the Central Government through a co-financing programme established on a performance-based fund allocation, backed by a Memorandum of Understanding, comprising policy conditions very similar to the adjustment loan.

One of key sectors in which the programme approach is sufficiently very powerful at the present juncture is the social sector. The social sector portfolio of the Bank in India has been symptomatic of the gradual but steady penetration of the Bank in an area that was largely unopened to Bank assistance. The Government of India, till as late as the middle eighties, given the shortage of resources and the multiple demands from relatively more important sectors, refrained from borrowing for the social sector. It was largely in the context of structural adjustment, that the Government opened up to the Bank’s suggestion of creating an active and programmed expansion of the social sector portfolio. “Killing two birds with one stone, social service projects were discovered by [both the Bank and the Government of India] to be a powerful tool for the occasion: they served the adjustment, and thus productivity and growth, objective; and they served the equity and poverty objectives.” 34

The section below examines the complexities and dynamics of the evolving Bank-India relationship by focussing in particular on the case of the Bank’s lending to the social sector in India. The section seeks to introduce the main

themes and provide a backdrop to the more detailed presentations concerning lending to health and education in the next chapters five and six.

THE BANK’S AND ITS LENDING TOWARDS THE SOCIAL SECTOR IN INDIA

Both, the Bank’s development in the fifties and the Mahalanobis model of development adopted by Indian planners sought to ironically push investments in the social sector to a secondary position, as compared to investments made in infrastructure and industry. The resultant effect was a self-generating under-supply in terms of both external aid and domestic budgetary resources towards the social sector. The allocations towards health for example in the first three Five Year Plans averaged around a mere 3.09 percent of the total plan allocations. The Government though open to discussions at the level of visiting World Bank missions was not prepared to take loans or credits specifically for the social sector. The Bank had started funding social sector projects by the early 1960s, but because of the hesitancy on the part of the Indian Government to approach the Bank, the decade saw no loans or credits to India in the social sector. The ideological impasse regarding social sector lendings was broken however during the course of the country’s Fourth Five Year Plan (1969-1974), when the Indian Government for the first time forwarded a request to the Bank for the funding of a population project. The timing of the request coincided significantly with the enthusiasm for new projects within the Bank in support of McNamara’s “Redistribution with Growth” strategy. On 14 June 1972, the Bank approved its first social sector credit to India, in the field of population control. Five months later, it approved a second loan in support of agricultural education for the country.

35 Compiled from the various Five Year Plans, Planning Commission, Government of India.
Having limited experience in the field of social projects the Bank maintained a rather limited role, in these formative years. It restricted itself to financing necessary inputs without going deep into matters of policy. In the period of internal political Emergency (1975-1976) for example, when family planning initiatives in India took a coercive turn the Bank maintained passive silence on the issue. Through the seventies thus the Bank generally refrained from offering policy advice to the Government on matters of health and education. The Government also on its part did not entirely depend on the Bank to fulfil its social sector obligations. Between 1973 and the end of the Seventh Five Year Plan, 1990, the Government had approached the Bank for funding of only 7 social sector projects, in comparison to 250 other projects funded by the Bank. Bilsel Alisbah, a senior level manager who worked in the India Division of the Bank during the said period, and later served as the Country Director for India has criticised the “overly conservative” attitude of the Indian Government during the seventies and early eighties, commenting on the fact that “they could have improved their situation considerably” had the government agreed to the prospects of Bank support for projects in the social sector. 36

The Bank’s position vis-a-vis its lendings towards the social sector in India was essentially that of waiting and watching. From 1987 onwards however, concrete signals started to appear from the Bank’s side to engage the Indian Government in various social sector programmes. In 1988, in a crucial agreement reached between the Bank and the Government, the decision to finally engage in a comprehensive dialogue on the financing of social sector was taken. Two important works of research immediately followed. One, the 1989 Country

36 Bilsel H. Alisbah, n.10.
Economic Memorandum on Poverty and the other the 1991 Gender and Poverty Country Study. Both these documents expressed clearly the desire to incorporate specific social sector lendings in the anti-poverty programmes in India. The Gender and Poverty Report for example drew attention to the fact that most Government policy interventions regarding gender generally aimed at redressing the imbalances faced by women in terms of access to outputs such as food, shelter, clean water, health etc. Arguing for a change in the above perception, the report advocated policy level changes - transition from an output based intervention to an input oriented program, focussing on increasing the economic productivity of women, by securing better access for them to key inputs such as education, training, credit and land.

Following the 1987 agreement the Government in quick succession signed a number of projects with the Bank. Three follow-up projects in the filed of population were signed in 1988, 1989 and 1990, followed by a second project for nutrition for the State of Tamil Nadu in 1990, the Integrated Child Development Service projects (1991 & 1992), and the first Child Survival and Safe Motherhood project in 1991. In contrast to the period 1972-1987 when social sector lendings made up for less than 1 percent of the total lendings to India, in 1991 the share of such investments rose to about 20 percent of the total. The two important reports on the financing of education and health in the developing countries, brought out by the Bank in the late eighties along with the substantial focus on social

37 Richard Skolnik, Division Chief of the Population and Human Resources Operations Division, South Asia Country Department, in an interview with the present author in Washington DC on 13 April 2000.
38 Gender and Poverty in India (Washington DC, 1991), pp.4-5. The Report in its analysis made a differentiation between two kinds of inputs: inputs providing for basic survival and maintenance, and the other concerned with enhancing productivity and growth.
overheads and their fundamental relationship with poverty, demonstrated the preparedness of the Bank to enter into a comprehensive policy dialogue with the Government of India on sectors related to education, health and nutrition.\(^{39}\)

On the social sector front, there were clearly certain points on which the Bank expressed its ideological discomfort. First the question of resource allocations. The Government of India, according to the Bank, earmarked a disproportionately low amount of resources for the social sector. Collectively, the allocations made towards social sector programmes in various Plan periods averaged around 16 percent of the total share of plan resources.\(^{40}\) Individual sectors however such as education registered lower shares of allocations through the various plan periods. The plan allocations for education for instance declined significantly from 7.8 percent of the total plan outlay in the First Plan to 3.5 percent in the Seventh Plan.\(^{41}\) Within individual sectors again, the disproportionately high share of resources going towards tertiary level activities was another reason for concern. Primary level education viewed as the most profitable form of investment, with higher rates of return than secondary and higher education witnessed decline in allocations in the overall educational expenditure.\(^{42}\) The Bank’s strategy in education thus called for a reorientation towards primary education accompanied by a concomitant reduction in public

---

\(^{39}\) The two reports being *Financing Education In Developing Countries: An Exploration of Policy Reforms* (Washington DC, 1986) and *Financing Health Services in Developing Countries: An Agenda for Reform* (Washington DC, 1987).

\(^{40}\) The categories included under social sector being, education, medical and public health, family welfare, housing, urban development, social welfare schemes and those included in the category marked “other social service programmes.”

\(^{41}\) Compiled and computed from various *Five Year Plans* and issues of *Economic Survey*, Economic Division, Ministry of Finance, Government of India.

\(^{42}\) The share of elementary education in total educational outlays it may be noted declined from 56 percent in the First Plan to 29 percent in the Seventh Plan.
financing of higher education. In the area of health too, similar trends were perceivable. The plan allocations for health declined significantly from 3.3 percent of the total plan outlay of the First Plan to 1.7 percent in the Seventh Plan. Additional allocations towards health in various plan periods starting from the second Plan onwards, were diverted into the more popular family welfare programmes. The sum of budgets for health and family welfare in the Seventh Plan - 3.1 percent, were incidentally lower than the 3.3 percent resources earmarked in the First Plan.

Another related point of discomfort was the seemingly narrow access of the poor to the public services rendered. The poor were generally found to have lower access to public social services than the not-so-poor sections of the society. Four States - Gujarat, Maharashtra, Tamil Nadu and West Bengal - in which only 26 percent of poor children were said to be located accounted for as much as 64 percent of all children benefitting from the Government's supplementary feeding programmes. In the case of the Public Distribution System (PDS) again, the purchase of food by the poor was reported to be small, with just 5 percent of foodgrains being supplied through the governmental system in States such as Uttar Pradesh and Bihar. The spread of existing programmes was found to be thin,

---

having relatively little impact due to low coverage on the existing asymmetries within the country. The interest of the Bank thus lay in reorienting the Government’s strategy of non-targeted approach by focussing specifically on the poor and the most vulnerable sections of the society.

The third reason for dissatisfaction was poor programme implementation responsible to a great degree due to institutional and managerial weaknesses, at the State and Central level. The Bank’s own limited experience of working in India such as its involvement in the Tamil Nadu Nutrition Programme, brought it to critique the “widespread problems of weak organizations in social sectors and the inherent difficulties of improving internal organization, procedures, and staff along with the demands on institutions to take on new roles and responsibilities.” The presence of the State functionaries was overwhelming, with very little participation and scope for the private sector and local communities to be involved in the functioning of social sector programmes. Also the lack of sufficient feedback and monitoring mechanisms, coupled with inadequate in-house training for the personnel involved worked further, according to Bank officials, to weaken the thrust of the existing governmental interventions in the area of social sector programmes.

By the late 1980s thus concerns began to grow within the Bank about the above mentioned maladies in the Indian policies. Overall, India’s poor record in terms of human development worried the Bank the most. For the Bank’s overall programme of reforms and poverty alleviation to succeed, a qualitative improvement in the level of human capital was essential. For the Bank more than

the low absolute level of human capital, it was the relatively slow rate of change over time in the human development potential that caused concern. It may be noted that between 1962 and 1992, the Human Development Index for India, increased only 17 points from 0.21 to 0.38.\textsuperscript{48} Out of 173 countries in 1992, India's rank was 135. For the Bank, the necessity of reforms in the social sector was urgent. The Bank, as already mentioned, agreed to fund a few projects following the 1987 agreement, each of which tried to introduce in an incremental manner new elements of policy. However, it was largely the fiscal crisis of 1990 that provided the immediate context for the Bank to negotiate seriously with the Government on the policy front. Concerns about a possible cut in the budget for key social programmes for FY1992-93 and the apprehension of an adverse public reaction against the negative impact of the adjustment programmes, brought both the Bank and the Government of India to the negotiating table to work in partnership on the parameters of a specific policy of social protection for the country as a whole.\textsuperscript{49}

The Social Safety Net (SSN) Credit that was signed between the Bank and the Government of India on December 17, 1992, contained within it specific conditionalities and guarantees by the Government of India, to maintain its social sector spendings in the course of stabilisation and adjustments. The SSN package for India consisted essentially of programmes, which were far removed from what

\textsuperscript{48} Human Development Report, 1994, (New York, 1994). Over the same period, 1960-1992, the HDI for all developing countries it may be noted increased by 28 points. China's HDI improved by 40 points, while in Korea and Malaysia it increased by 46 points. The HDI for India in 1992 was roughly at the same level as the HDI for all developing countries in 1970.

\textsuperscript{49} For the Bank, after the negative experience of structural adjustment in the eighties, the protection of social spendings and the provision of adequate social safeguards during adjustment had become important. Therefore the Indian programme of structural adjustment had right from the start an additional social safety net component attached to it.
had traditionally been “safety net” programmes in Africa and Eastern Europe. The SSN credit as it evolved in India was more broad-based covering within it components related to primary education, health and disease control programmes, nutrition, apart from traditional safety net measures. The Credit was truly, the first in the series of social development programmes by the Bank, and the selection of programmes was controversial within the Bank.\textsuperscript{50}

It would have been so much easier to (in true old Bank style) tell the GOI that because Social Safety Nets in Africa or Eastern Europe include the following programs, your program should look the same. The Team which identified and prepared this operation resisted this temptation... an attempt at client responsiveness. \textsuperscript{51}

The operation as conceived initially focussed largely around the proposition of a National Renewal Fund. However, as negotiations progressed, both the Government and the Bank expressed a desire to broaden the gamut of operations envisioned in the proposed IDA credit. In the eight months period, from April to December 1992, considerable amount of time was devoted to discussing what to include and what to exclude. For example, there was considerable discussion on the question of including the Public Distribution System (PDS) within the gamut of operations envisaged. Similarly, despite considerable hesitation within the Bank’s Loan Committee, a decision to include education was taken. A number of technical staff at the Bank believed that the SSN should have addressed inequities and inefficiencies of the food and employment based programmes such as Jawahar Rozgar Yojana, Nehru Rozgar Yojana and the Public Distribution System in order to protect the poor during adjustment. Opinions were divided as to how policy

\textsuperscript{50} Richard Skolnik, n.37.

178
level changes in primary health care or education were going to help ease transitional costs of reform.

The objectives of the SSN were namely:

(1) Restoration and increase of central government funding for key social programmes.

(2) The expansion of key social and safety net programmes into districts in India that were especially disadvantaged or suffering specific negative consequences as a result of stabilisation and adjustment.

(3) The carrying out of selected measures for a number of social and safety net programmes that could lay the foundation for and initiate improvements in quality, effectiveness and efficiency of such programmes and

(4) The funding of the National Renewal Fund to facilitate industrial restructuring and reintegration of retrenched labour into the economy.\(^ {52}\)

The IDA credit of US$ 500 million was released in two parts. The first tranche was made available after an assessment was carried out of the up-front actions taken by the Government of India, demonstrating its willingness to carry out reforms in key areas. Nine major areas were identified as per the Credit for select intervention. These were: (1) financing of the social safety net, (2) coordination and integration of social sector programmes, (3) primary education, (4) health, (5) primary health care, (6) disease control programmes, (7) nutrition, (8) employment and income generation, and (9) monitoring of the social dimensions of adjustment. The selected list of policy declarations by the

Government in each of the above areas, prior to the release of the first tranche were significant and included the following measures:

1. Financing of the Social Safety Net

- The approval by the Government of additional resources to sustain the social safety net initiatives to be undertaken in primary education, primary health, disease control and ICDS through the end of the Eight Five Year plan (1992-1997).

- The approval of US$ 83.3 million supplementary budget allocation to primary education, primary health, communicable disease control and Integrated Child Development Services (ICDS) programmes in FY 1992/1993 in order to maintain these programmes at 1991-1992 levels in real terms.

- The approval of annual budgets for the specific Social Safety Net programmes in the above areas and the guarantee that these would be maintained at least in real terms to the end of the Eight Five Year Plan.

- The decision by the Government that all donor assistance for the Social Safety Net to be considered as "net additionality" to Plan outlays.

- The decision that all Committee of Secretaries including the Secretaries of the Planning Commission, Departments of Finance, Expenditure, Economic Affairs, Health, Family Welfare, Education and Women and Child, review the share of public expenditures to be devoted to the social sectors during the Plan period, and decide upon the methods of mobilising additional non-budgetary resources for higher education and tertiary health, and mechanisms for progressively increasing the proportion of non-budgetary support for higher and technical education and tertiary health care.
• The increase significantly in FY1992 of tuition and other fees at the apex higher education institutions such as the Indian Institutes of Management and the Indian Institutes of Technology and increase of fees of Polytechnics operated by the States along with the increase by about 100 percent in the pay wards of centrally funded tertiary level hospitals like the All India Institute of Medical Sciences.

2. Coordination and Integration of Social Sector Programmes

• The approval by the National Development Council of new strategies and approaches to design, targeting, funding and the implementation of social sector programmes, calling for better coordination and integration of services between health, education, nutrition, water supply and sanitation, and urban and rural employment programmes.

• The establishment of a Standing Social Sector Coordination Committee to develop new strategies to oversee the convergence of social services, overcoming duplication and redundancy in the staffing and management of social sector programmes, achieving better targeting of poor beneficiaries and ensuring greater cost-effectiveness in the delivery of social sector programmes.

3. Education

• The revision of the 1986 National Policy on Education with priority towards the universalisation of primary education, through disaggregated target setting and decentralised planning, better targeting of females and Scheduled castes and scheduled tribes, improved quality and provision of adequate budgetary resources.
• The ranking of districts on the basis of literacy rates, female enrolments and the demand for primary education, and the development of District Action Plans. For the establishment of a new initiative of District-based Primary Education Programme.

• The revision of the National Policy of Education with priority being given to quality improvement, retention, learning achievement over expansion, the establishment of Minimum Levels of Learning (MLL) streamlining the curriculum and focus on basic competencies, and cost effective decentralised planning and management.

• The introduction of changes in key aspects of the Operation Blackboard Programme, calling for the provision of additional classrooms and teachers per school and a flexible programme delivery system to meet specific local requirements.

• The development of Management Information Systems to monitor progress of primary education programmes, especially regarding new enrolments and additional enrolment of girls.

• Freezing of allocations to higher education under the Eight Five Year Plan, with an increase of additional resources in the Plan towards the primary level. The announcement of a similar increase in the share of primary education allocations in the State budgets also.

• The pilot testing of new funding mechanisms to ensure that the additional resources required for the District Primary Education Programme is successfully passed on to the targetted priority districts.
4. Health

• A review of the 1982 National Health Policy for establishing more appropriate goals and targets of Health for All by 2000, examining the role of Center and States in the provision of health services, identifying areas and methods to increase the cost-effectiveness of all central interventions.

• The establishment of a Committee by the National Development Council to assess all aspects of medical and dental education including an assessment of the manpower available and for recommending the starting of new medical schools in the private sector.

• The strengthening of the Bureau of Planning in the Department of Health.

• The decision to supplement the existing provision of drugs and medicines to sub-centers in identified districts.

5. Primary Health Care

• The approval of an Action Plan by the National Development Council for revamping the National Family Welfare Programme which includes improving the quality and outreach of family welfare services in rural areas, the adoption of a differential strategy for districts with attention focussed on the backward districts of the country, and enhancing the provision of safe motherhood interventions in districts especially where maternal mortality rates are above the national average.

• The implementation of the new policy of operationalising rural health systems focussing on the provision of supplementary facilities where required, training of medical and para-medical staff, increased provision of materials as required.
• The selection of 90 districts having higher than average infant and maternal mortality followed by the implementation of the revised strategy of primary health care.

• The implementation of the new birth-based approach to determining work routines and training of health workers with priority attention to pregnant and lactating mothers.

5. Disease Control

• The completion of detailed reviews and Action Plans to enhance the effectiveness and coverage of the National Leprosy Eradication and AIDS control programmes.

• The development of a new Health Management Information System with a plan to introduce it in a phased manner in all States.

6. Nutrition

• The formulation for the first time of a National Nutrition Policy.

• The decision to avoid duplication by providing Early Childhood Education Centers only in blocks where ICDS is not being implemented, along with a review of the coverage and efficacy of the State-funded Special Nutrition Programmes in relation to ICDS.

• The introduction of strict geographical targeting of ICDS in 180 districts selected on the basis of poverty ratio, the concentration of scheduled castes and tribes and the crude birth rate, with an additional strategy of providing intensified inputs such as replenishment of worn-out articles, provision of additional facilities and equipment, to 200 blocks of the 180 districts chosen.
• The completion of a comprehensive national evaluation of the ICDS programme by The National Institute of Public Cooperation and Child Development, and the decision to start work on the implementation of the key recommendations which include the raising of honoraria payments to grass root workers, the development of a synchronised strategy of delivery of services at the Anganwadi level, the construction of food storage sheds in selected areas to overcome some of the logistical problems leading to feeding shortfalls, improving basic and refresher training, improving supervision and introducing a Management Information System enabling the Department of Women and Child Development to effectively monitor the quantity and quality of ICDS performance.

7. Employment and Income Generation

• The establishment of a National Renewal Fund to facilitate the industrial sector reform programme and to mitigate the negative impact on workers affected by the revitalisation and restructuring programmes undertaken in Public Sector Enterprises.

• The approval of a Business and Financial Plan for the National Renewal Fund for FY 1992-1993 with particular attention to support the provision of Voluntary Retirement Schemes, negotiating compensation packages for the public enterprises, expenditures on counselling and retraining of affected workers as well as area regeneration schemes to stimulate new employment opportunities.

• The completion of a review of the Jawahar Rozgar Yojana by the Planning Commission and the decision to implement the major recommendations.

• The revision and the announcement of new guidelines for the Nehru Rozgar Yojana and the decision to support employment generation activities under the above scheme in urban areas which have been impacted by industrial restructuring.
• Additional allocations to both Jawahar Rozgar Yojana and Nehru Rozgar Yojana through the National Renewal Fund.

8. Monitoring the Social Dimensions of Adjustment

• The completion by the National Sample Survey Organisation of completed consumer expenditure surveys for the 1990-1991 period.

• The establishment of Management Information Systems to monitor progress in the implementation of the new initiatives in primary education, primary health care and communicable disease control programmes.53

A *sui generis* (hybrid) operation, fitting few of the conventions of a traditional safety net operation, the most notable feature of the SSN credit constituted essentially the policy framework that it supported. In terms of its broad objective to maintain real spending on selected safety net operations, it must be admitted that the credit did help the Government maintain the financial status quo. Budget allocations to the selected social programmes were made as planned and several individual sectors such as primary education, disease control etc registered percentage share increases. However, notwithstanding the increase in nominal terms, the allocations for social sector registered stagnation in *real* terms during the crucial 1992-1994 period.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rs. millions</td>
<td>47620</td>
<td>53800</td>
<td>58810</td>
<td>67390</td>
<td>79060</td>
</tr>
<tr>
<td>% of total government expenditure</td>
<td>5.13</td>
<td>5.11</td>
<td>5.27</td>
<td>5.49</td>
<td>5.57</td>
</tr>
<tr>
<td>% of GDP</td>
<td>1.05</td>
<td>1.01</td>
<td>0.96</td>
<td>0.96</td>
<td>1.01</td>
</tr>
<tr>
<td>at constant 1980-81 prices</td>
<td>23410</td>
<td>23880</td>
<td>23040</td>
<td>23990</td>
<td>26050</td>
</tr>
</tbody>
</table>


The contradictions in policy were apparent when an overall picture of the share of individual sectors of the larger social sector portfolio in the total Government spendings were analysed. In individual sectors such as education it may be noted that the allocations made, registered a notable decline in terms of percentage share of total government expenditure, for the FY 1992-1993 and FY 1993-1994. While the allocations for elementary education increased, the budget for higher education saw a decline in terms of percentage points. The same was true for adult education and other allocations such as the special central assistance given to border areas. On the whole, the percentage of expenditure towards education in 1992-1993 and 1993-1994 it may be noted declined below the 1991-1992 level.

Table 5.4: Expenditure on Education : 1990-91 to 1994-95

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Elementary Education</td>
<td>224.45 (13.59)</td>
<td>268.35 (15.48)</td>
<td>339.66 (18.62)</td>
<td>443.70 (20.24)</td>
</tr>
<tr>
<td>Secondary Education</td>
<td>388.01 (23.49)</td>
<td>423.83 (24.44)</td>
<td>455.98 (25.00)</td>
<td>561.39 (25.61)</td>
</tr>
<tr>
<td>University &amp; Higher Education</td>
<td>471.60 (28.55)</td>
<td>498.13 (28.73)</td>
<td>510.09 (27.96)</td>
<td>546.49 (24.93)</td>
</tr>
<tr>
<td>Technical Education</td>
<td>313.19 (18.96)</td>
<td>318.69 (18.38)</td>
<td>341.67 (18.73)</td>
<td>401.04 (18.29)</td>
</tr>
<tr>
<td>Adult Education</td>
<td>136.58 (8.27)</td>
<td>110.53 (6.37)</td>
<td>114.46 (6.27)</td>
<td>170.01 (7.76)</td>
</tr>
<tr>
<td>Other Heads</td>
<td>117.17 (7.13)</td>
<td>114.45 (6.60)</td>
<td>62.31 (3.41)</td>
<td>69.63 (3.17)</td>
</tr>
<tr>
<td>Grand Total</td>
<td>1651.50 (100.00)</td>
<td>1733.98 (100.00)</td>
<td>1824.17 (100.00)</td>
<td>2192.26 (100.00)</td>
</tr>
<tr>
<td>Education Expenditure as % of Total Government Expenditure</td>
<td>1.44</td>
<td>1.44</td>
<td>1.33</td>
<td>1.38</td>
</tr>
</tbody>
</table>

Source: Union Budget, Government of India

The Bank's own assessment, of the SSN credit was "satisfactory."54 However, in the audit carried out by the Operations Evaluation Department (OED), doubts were expressed seriously about the overall outcome of the operation. The

---

audit report rated Bank performance as "unsatisfactory", on the grounds that the operation failed to add any "real value" in terms of qualitative changes in social safety net programmes.\textsuperscript{55} The report was particularly critical of the operation's emphasis on maintaining the financial status quo, "at the expense of qualitative changes in the effectiveness of public financing of the social safety net."\textsuperscript{56} According to the report, it remained unclear given the diffuse nature of the programmes objectives and the broad spectrum of sectoral policies that the SSN supported, as to how the Credit sought to provide protection to the most vulnerable sections of the society. Except for the NRF, the programmes selected for support only indirectly related with the social costs, and with the absence of concrete safeguards, the operation scored low in terms of actual reduction of the social costs of adjustment.

Under the Voluntary Retirement Scheme (VRS) drawn up by the Government to facilitate industrial restructuring, which the SSN helped to fund, nearly 70,826 workers were made redundant between FY 1992-1995 of which 48.6 percent of workers were over 50 years and 40.9 percent between the age-group 35-50 years.\textsuperscript{57} The counselling and redeployment activities also did not start until December 1993 and in some cases not until mid 1995.\textsuperscript{58} Many of the workers who had previously been employed in the organised sector, as a result moved to the informal and unorganised sector. The number of families assisted under the Integrated Rural Development Programme, which seeks to promote self-

\textsuperscript{56} \textit{Ibid.}, p.20.
\textsuperscript{57} \textit{India : Completion Report of the Social Safety Net Sector Adjustment Program}, n.52, p.41.
employment among the rural poor by providing assets or inputs through a mix of subsidies and bank credit, also saw a noticeable decline during the above period. From 2.90 million families assisted in FY1990-91, the number served declined to 2.54 million families in 1993-1994.\(^{59}\)

In terms of the larger Bank-India relationship, the SSN credit laid the basis in an important way for future discussions on specific investment programmes between the Bank and the Government of India in the social sector. Whereas pre-SSN, there had been only 18 projects in the social sector, post SSN, not only did the number of projects increase but the emphasis on agreed policy reforms also increased. For the Bank increased social sector lendings, became an important part of its overall country strategy. In the case of India, the question of increased lendings became important from two main vantage points. One, the increased emphasis on the social sector during the phase of stabilisation helped avert a crisis of the proportions faced by the many other countries in the eighties. And secondly the recognition of the role and importance of human capital development in the overall strategy of development and reforms.

Concern over the social dimensions of development emerged as a common point in the consideration of projects between the Bank and the Government. The establishment of a Social Development Unit in the Bank’s New Delhi Office in 1995 facilitated to a great extent the emphasis on integration of social development work in the India portfolio. The concern expressed over the issue of involuntary displacement in the Bank-India dialogue is a relevant case in point. It may be noted that the number of people displaced by Bank-assisted projects in irrigation, mining, thermal plants and highways in India has been the highest in the world. The India

\(^{59}\) Compiled from the Annual Reports of the Ministry of Rural Development.
Resettlement Review (1993-94) undertaken by the Bank revealed pervasive problems with resettlement in the Bank’s India portfolio. Concern over the social costs of displacement led the Bank to subsequently cancel, suspend, or in some cases restructure its operations to minimise the negative effects of displacement.  

The consideration of social benefits in the project plans has had a positive impact and it is notable that nearly 80 percent of the projects approved during FY 1994-99, have had clauses of “social assessments” attached to them. As a client state undergoing reforms, from the point of view of the Bank, India stands to be an instructive if not encouraging test case for the Bank’s policies in the social sector.