CHAPTER – I
INTRODUCTION

The present study aims to examine the goals, strategies, patterns and the results of the lending policies of the World Bank group of institutions (hereafter referred to as the Bank) in social sectors like health and education in India. The attempt is to intertwine an analysis of the developments at the global macro level in terms of increased aid flows to the social sector, with insights reflecting upon the field level dynamics of the interactions between the Bank, the Government functionaries and project beneficiaries at the micro levels.

RATIONALE

In the light of economic liberalisation and in view of the serious crisis of development presently confronted with on a global scale, the relative responsibilities of the State as well as the international community towards the social dimension of development, has once again become a subject of concern. Deprivation and vulnerability are integral to the lives of the poor in most developing countries. Severe deprivation is not just a matter of an unfortunate fall from a previously more comfortable position but a state of chronic destitution arising from the absence of assets and resources. In such a context, investments made in the social sector either by the State or private organisations, in providing facilities like schools and health centres, perform an undeniably important role in ameliorating and addressing directly the above problems of deprivation and poverty.

The measurement of "poverty" both in the sense of how many people suffer deprivation as a result of the lack of income or assets and the intensity of that
deprivation has been a matter of concern for the international community. Several appraisals of global poverty provide estimates of the number of poor across the world. Poverty as a condition of social life is more than just low or inadequate income. It encompasses several other dimensions such as isolation, vulnerability and powerlessness. Of the 4.6 billion people living in developing countries, it has been estimated that nearly 1.2 billion people live on less than US$ 1 a day with another 2.8 billion on less than US$ 2 a day. Of these nearly a billion lack access to improved water sources with another 2.4 billion lacking access to facilities of basic sanitation.¹

Investing in people - through lending for education, health, nutrition, and other aspects of human development- has been central to the World Bank's philosophy in recent times. From a complete rejection and a near total exclusion in the 1940s, investments in the social sector have seen a notable rise. Social sector lending by the Bank, consisting of loans towards, health, population, nutrition, education, and social protection constitute nearly 25 percent of the total lending, making it the largest operational portfolio of the Bank. Working as a cartel, mobilising, coordinating and chanelling resources, the World Bank is also the single largest provider of external finances for social infrastructure in the world.

For countries lacking the resources and capabilities to invest in the health and education of its people, the availability of external aid is significant. India also, is an important beneficiary of the Bank’s programmes in the social sector in view of the fact that within South Asia, India of late, has received some of the biggest loans for education and health. Identified as a low-income economy in the official

listings, investments made in the social sector in India are seen as a key element in the Bank’s strategy for reducing poverty and enhancing economic growth.

The history of the Bank’s assistance to India has been a dynamic and adaptive one. In the early years, the Bank emphasised on infrastructure. During the seventies and eighties the Bank assistance was broadened to include agriculture and the social sectors. Lending to India from the Bank group has been predominantly in the form of project lending. The World Bank has lent approximately US $ 6.8 billion to India for projects in the social sector. Starting with the first population project in 1972, the lending has diversified into various other fields such as nutrition, maternal and child health and education projects. For projects in the social sector, the Bank has been sensitive to regional imbalances, and efforts have been made to reach out to backward areas. A number of projects have been “multi-state” in the sense that they have funded investments and activities in a number of states within the framework of a single project. In this regard it is interesting to note that, India is one of the first countries, where the Bank has undertaken a comprehensive review of its lending portfolio.

OBJECTIVES

The study concentrating on the evolution of Bank policies in the social sector and its investments in India has five main objectives:

- To discuss the underpinnings of development as a working philosophy and vision of the World Bank.
- To study the reasons why development, especially human capital development became a central concern of the Bank?
• To examine the twists and turns of the Bank’s lending profile in the social sector.

• To trace the course of relationship between Bank and India and

• To bring out the patterns and problems related to lending to social sectors such as health and education in India.

RESEARCH QUESTIONS

In documenting the institutional history of the receding opposition and the growing acceptability within the Bank of the initiation and expansion of social sector lending, the study attempts to examine the following questions arising out of the Bank’s increased involvement with the social sector.

(1) What factors have shaped the World Bank’s realisation that lending in the social sector is essential to its development goals?

(2) What are the intellectual arguments that have come forth in favour or against and how decisive has been the role of the President of the Bank?

(3) Is lending in social sector an end in itself for the Bank or such lendings are integral to the larger scheme of structural adjustment loans?

(4) Is social sector lending by the Bank to be seen as an ally of the State - in promoting its role in national development or its marginalisation?

(5) How has the lending relationship of the World Bank with India evolved in the past fifty years?

(6) What are the main features and goals of World Bank’s lending to the social sector in India and

(7) What lessons can India as well as the Bank draw from the lending so far?
HYPOTHESIS

The present study is based on the reality that there has been a steady rise in the World Bank's lending towards the social sector in recent years. The investment policy that the Bank follows today towards education, health, nutrition etc., are the direct fallout of the Bank's past policies. Previously whereby the focus was on benefits reaching the people indirectly, through loans made in other sectors, the Bank has from then moved on and believes in and promotes a policy of direct investment in human capital development. In this regard, it is important to point out that the client states too attach a similar importance to the overall programme of investments made towards human resource development. The increased lending to the social sector has in essence worked to provide a human face to the Bretton Woods system and its lending policies.

Operations wise, investments in the social sector are conventionally smaller and less-capital intensive in nature than other projects in more traditional fields. The projects in other words require more adept handling, are more time consuming and more difficult to implement. Evaluation of social sector projects is therefore a challenging task. Co-relating evaluation practices with the achievement of development objectives is relatively more difficult in the case of social sector programmes, as a result of which majority of evaluations of projects in the social sphere restrict themselves to a simple input-output analysis, narrowing the scope of evaluation to a report of the project implementation rather than an assessment of the impact performance of projects.

The study builds on the hypothesis that although lending for the social sector has seen a rise in the World Bank's total loan portfolio, lending for such
purposes is still very limited. For example, in the case of India, the physical reach of the programmes is limited to only a few states with some of the worst-off districts standing excluded from the purview of the programmes. The World Bank has therefore many a lesson to learn from its experiences in lending to the social sector. The Organisation has to evolve more appropriate lending policies, better its co-ordination with the client states involved, and refine its methods of evaluation. India provides an ideal test case for the World Bank in this regard.

SURVEY OF LITERATURE

Economic aid to developing countries has been traced back in general terms to the colonial links between Western imperial powers and their overseas territories and, in the case of the United States, to the Truman Doctrine of the late 1940s. Whatever its precise origins, aid began to be an important facet of international relations in the 1950s; in the next 30 years it grew in importance both as quantities of aid flows increased and as international attention focused more and more on the economic conditions, especially the poverty of the developing countries. During this period not only did increasing number of countries become donors but colonial and past historical links no longer provided the sole reason for giving aid, as multilateral institutions such as the World Bank were created and their operations expanded substantially to receive funds from a range of donors and provide aid to a large number of recipients.

The literature of the study comprises rich scholarly works and variety of primary and official documents. Mason and Asher’s *The World Bank Since Bretton Woods* (1973), Ayres’s *Banking on the Poor: The World Bank and World Poverty* (1983), Baum and Tolbert’s *Investing in Development: Lessons of World Bank*

Issues pertaining to the social sector have too been the focus of much academic attention in recent years. At the policy level there has been a rediscovery of the importance of human capital in economic growth that has led to a worldwide consensus amongst both academic and policy-makers on the need for increasing investments in social infrastructure. At the policy level, interest has been generated by the fact that several countries undergoing economic reform in Sub-Saharan Africa and Latin America during the 1980s experienced deterioration in social sector attainments. This led to a debate on the social repercussions of economic reform and the advocacy of structural adjustment with a human face.

The UNICEF sponsored study, Adjustment with a Human Face (1987) – for example provides evidence from ten countries of rising malnutrition as a consequence of dietary changes and falling household consumption associated with diminished real incomes, during the adjustment phase. Similarly in Engendering Adjustment for the 1990s, a Commonwealth Secretariat report, attention was drawn to the fact that budgetary cutbacks in the course of structural adjustment had in fact increasingly shifted the burden of payment for education, medicines etc. from the domain of the state to that of the family. For poor households, especially those
headed by women, the economic crisis and the ensuing adjustment measures had further intensified the pressures not to send for example, children to school or to withdraw them early because of the growing parental burden of primary education and the opportunity costs of sending children to school compared with using their time in other ways. The report called specifically for increase of resource availability to the social sector. It stated, "To date adjustment programmes have reduced social support systems at a time when an increase is needed to buttress the overall adjustment process and make it more effective."

The recent emphasis by the World Bank on programmes in the social sector is directly linked with the negative experiences of structural adjustment in the eighties. Certain priorities such as poverty alleviation and mitigating the social costs of adjustment have been elevated as important principles of Bank policy. The Bank classifies direct victims of stabilisation or structural adjustment either as the "new" poor, who include, for example, retrenched civil servants and employees laid off because of austerity measures or shifts in production; or the "borderline" poor, who include the old, children, lactating and pregnant women, the landless, poor farmers, and other vulnerable groups hurt by cutbacks in social programmes or by changes in relative prices. Social sector funding by the Bank of late includes programmes and projects reallocation of expenditures in the social sectors, especially primary education and health care; introducing compensatory transition agreements such as severance payments, retraining, resettlement and credit schemes for laid off public and private sector workers.

In the vast sea of literature on the Bank and the social sector, there is however a paucity of scholarly research interconnecting the two developments.
The World Bank is today the largest single provider of social infrastructure in the world and has virtually more than two and a half decades of experience in lending to the social sector. However, there are very few pieces of scholarly work that are available on the Bank’s activities in the social sector. Majority of the information available on this specific subject is based on the Bank’s own research such as sector reports, discussion papers, evaluation studies etc. The information available from the above sources has its limitations. Though it does provide a broad idea of the evolution of the Bank’s lending strategies, its contents relate to the developments mainly at the level of policies rather than that of processes. Thus whereas sectoral policies may be well listed out in the policy documents there is very little that is revealed in terms of internal discussions, negotiations and voting patterns in the making of specific policies.

Philip Jones’s book, *World Bank Financing of Education: Lending, Learning and Development* (1992) in this context provides an important insight into the evolution of Bank lending in the education sector. The novelty of the work lies in that it provides a comprehensive narrative based not just on the officially published documents such as those mentioned above but a review of archival material, oral interviews with Bank functionaries, tracing the course of evolution. From an organisational perspective, the book provides an important insight into the internal dynamics and politics of the Bank, as between the President and the Board of Executive Directors, governing the evolution of Bank policies.

The changes in Bank policies in the context of social sector lendings have been more evolutionary than revolutionary. Ayers in his book, *Banking on the Poor: the World Bank and World Poverty* (1983) provides a vivid historical
account of the concerns of the Organisation with the question of development. The book captures the variety, innovations and changes made in official policies, while adjusting to the new challenges of development. The present study seeks to build on the scholarly contributions of Ayers and Jones in documenting the history of the Bank from an organisational perspective.

In the context of the Bank-India relationship again although there are many scholarly works on the macro-level interactions between the Bank and India in terms of projects, policies etc., there are however very few studies that provide details providing information on the field level dynamics at play between the Bank and the local Government functionaries in the course of project implementation. Such attempts have been made by scholars such as Rehman Sobhan in the context of Bangladesh, The Crisis of External Dependence (1982) that have revealed important facets and nuances of the donor-client relationship.

Michael Lipton and John Toye, in their book, Does Aid work in India (1990) have attempted in a chapter to document the investments made by the World Bank and the resulting benefits accruing to the Indian society from such projects. According to them, in most cases, the returns were good, though the project implementation stage in almost all the cases surveyed suffered from exceptionally long delays. The Government of India as a result had to bear heavy expenditures on the above projects due to the delays. Another interesting point made by the two authors concerns the definition of the “poor”, by the World Bank. The definitions according to them, be it of a “small farmer” or “poor beneficiary” by the Bank are often in manners, that ironically work to exclude many of the poor. Drawing on the example of a state credit project in the mid-1970, they point out as to how the
“marginal farmers” apparently defined as those operating below 3 acres, not 2.5 acres as in standard government practice - “were not permitted to borrow under the project”, although all operational holdings in the state, over two-thirds, were smaller than 2.5 acres. Thus ironically at the end the smallest 75 per cent of operational holdings stood excluded.

The Bank it must be stated has been modest in admitting to limitations in its performance. The Wapenhans Report for example, an in-house assessment of the Bank’s entire loan portfolio revealed that the proportion of troublesome projects had increased from 11 percent in the early 1980s to 37.5 percent in 1991. Like other donor agencies the Bank too has certain structural limitations. The Bank’s projects are either likely to affect or be affected by the social, economic and political environment in which they operate. The Bank in order to minimise the chances of failed interventions needs to therefore refine its methods of project appraisal, monitoring and evaluation.

In terms of information related to Bank performance, there are various categories of primary and secondary level sources that provide information about the Bank’s policies in the social sector. The Bank’s Staff Appraisal Reports (SARs), Project Appraisal Documents (PADs), Implementation Completion Reports (ICRs) and Operations Evaluation Department’s (OED) audit reports form one major source of information. Apart from these are studies and discussion papers undertaken by experts commissioned by the Bank. For example, the study by Carvalho and White titled, Implementing Projects for the Poor: What Has been Learned? (1996). However the official documents and the commissioned studies of the World Bank, like the one mentioned above present incomplete pictures of the
policy process. Being too occupied with targets etc., the reports often concentrate more on the quantitative aspects rather than the qualitative dimensions of projects. A case in point being the study by Carvalho and White.

The Annual Reports of various Ministries of the Government of India, too focus similarly on the quantitative aspects of the project. This phenomenon one feels cannot simply be dismissed as bureaucratic obsession with figures. An explanation to the problem lies in the very nature of the projects. The contribution of poverty alleviation programmes to growth, is less measurable and less direct than that of projects dealing with the setting up of industrial plants. Although social sector projects appear to be relatively less capital-intensive, it needs to be reiterated that they nevertheless are more time-consuming, more staff-intensive, and more difficult to implement than projects in other sectors.

**SCHEME OF CHAPTERISATION**

The heart of the thesis lies in the six chapters which can be broadly grouped into two main sections. The first focuses on the Bank; functional underpinnings of development theories, structural arrangements and the increasing imperatives for investment in non-traditional i.e. social spheres of development in client states. The second section with three chapters places at the centre, aspects of India’s relationship with the Bank, the convergence of concerns on social development, and two case-studies of experience with social sector lending.

The second chapter explores the nature of relationship between aid and development. The chapter introduces the main elements and provides the contextual background – if not theoretical underpinnings - to the practice of development aid. Many of the components of development aid are dependent on
various social, political and historical factors lying outside the realm of economic theory. The theory and practice of development aid cannot therefore be divorced from non-economic aspects of development, an in cases of multilateral aid where the power centre is more or less diffused it cannot be fully understood without a knowledge of both lender and borrower.

The next chapter examines in detail the functional, philosophical basis of the Organisation, documenting the special position, status and role of the World Bank in the field of development aid. Focussing on the institutional and organisational dynamics, and their interplay in the determination of aid flows to countries of the developing world, the chapter attempts to provide a macro picture of the Bank’s operations through the years. The fourth chapter focusses on the evolution of the Bank’s social sector portfolio and provides a historical analysis of various trends in lending towards the social sector. The chapter seeks to provide a useful narrative of the experiences of countries in the Caribbean and Latin American regions, some of the largest beneficiaries of social sector lending in the eighties. The chapter also tries to examine certain salient features of the Bank’s lending to the social sector such as the scope of the Bank’s project assistance, the variations in lending across countries and regions, the decision-making process and, the lessons learnt in the course of gradual expansion of the Bank’s social sector portfolio.

The next three chapters as indicated, focus on India’s experiences. While providing the general backdrop to the relationship between the World Bank and India, Chapter five seeks to analyse some of the important developments such as the initiation of structural reforms in India and the important changes in policies
related to the governance of social policy in the country. Given the relatively scarce documentation of the nexus between the structural adjustment programme and the increased emphasis on the social sector, the attempt is to document this aspect of development diplomacy by focussing in particular on the negotiation aspects of the structural adjustment experience in India.

Chapters six and seven attempt a detailed examination of the Bank’s lending to the health and education sector respectively. It is noteworthy that prior to the signing of the structural adjustment loans, the policy followed by the Government did not envision an active role for the Bank in the social sector, preferring grants through bilateral mode to loans provided by the Bank. Loans including soft loans from the IDA were reserved for other sectors, and the external contribution of the Bank to the social sector portfolio was negligible. The example of primary education is a relevant case in point. The Government of India for example refrained from taking any loan from the Bank for primary education throughout the eighties before finally agreeing to a series of loans under the structural adjustment negotiations. Similar was the case for the health sector. Following the structural adjustment negotiations, in the early nineties, the Bank came to occupy an active role in the determination of social policy within the country. Chapters six and seven provide a review of the Bank’s engagement in two social sectors of India. The eighth and final chapter highlights the main findings, emanating from the substantial chapters of the study.

METHODOLOGY

In addition to material consultation in various public libraries, the study involves careful scrutiny of a wide range of primary data in the form of reports,
documents, notings etc. available at the Resident Mission of the Bank in India as also the Bank's archives in Washington DC. With a view to complementing or clarifying on the published sources, interviews have also been conducted with various Bank officials, including important Division heads in the social sector. For the Indian perspective, apart from published documents of the Government of India, interviews have been conducted with serving and retired officials. Perspectives of representatives of non-governmental organisations and local communities have also been obtained to get an appropriate feedback on the operation of projects at the field level. In addition visits to project sites were also undertaken in cities of Bangalore and Delhi and districts of Chamba (Himachal Pradesh), Mandya (Karnataka), Alirajpur (Madhya Pradesh) and Dharmapuri (Tamil Nadu) to ascertain performances and feedback from the field level.