CHAPTER – IV
WORLD BANK'S LENDING TO THE SOCIAL SECTOR

The World Bank group is not only the single largest creditor of finances for development but also significantly it has emerged as the largest provider of external finance for projects in the social sector. Its stature and importance as already discussed arises not only from the funds which it makes available, but also from the advice which accompanies such loan. The World Bank on account of these factors surpasses in importance other international organisations traditionally working in areas concerned with the social sector- like the WHO, UNICEF and UNESCO.

It may be noted that the Bank in its early years concentrated primarily on industry and infrastructure. In accord with the development thinking of the time, it was not involved in lendings for the social sector. In fact the social sector stood to be completely excluded from the Bank’s operational portfolio. However by the 1960s, with the scope of “development” widened to include people’s needs, the rationale for direct support for investments in socially relevant sectors became apparent. In 1962 the Bank opened its social sector account by making its first ever loan in the field of education. At present, specific investments in health, education, nutrition and social security make up for nearly 25 percent of the total lending, making the social sector the largest operational portfolio of the Bank.

Why is social lending important to the objectives of the Bank? How did the change actually come about? How were the traditional considerations of fiscal viability and lack of short-term tangible returns addressed? What was the impact of these new investments both in terms of lending profile of the Bank and the developmental programmes of the recipient countries? Though precise answers to
such questions may be hard to offer, the present chapter seeks to probe the questions, by examining five distinct phases in the evolution of the Bank's involvement and interest in the social dimensions of development.

Social development vis a vis economic development has been the focus of much attention in the development debate. Conventionally the concept of social well-being has been a broader and a more encompassing concept than economic growth, where the overall well-being and development of humans is seen as the central end of all economic activity. The defining difference between the economic growth and the social well-being (human development) schools is that the first focuses exclusively on the expansion of only one choice – income - while the second embraces the enlargement of all human choices – whether economic, social, cultural or political.  

The human development paradigm according to analysts performs an important service in questioning the presumed automatic link between expanding income and expanding human choices. Such a link according to them depends on the quality and distribution of economic growth, not only on the quantity of such growth. A link between growth and human lives has to be created consciously through deliberate public policy – such as public spending on social services and fiscal policy to redistribute income and assets. This link may not exist in the automatic workings of the market place, which can further marginalise the poor.

---

Focussing on the specific case of investments in education, health and nutrition, the present study does not to limit the broader spectrum of human development encompassing related concepts of empowerment, equity, capabilities, opportunities, sustainability and security. It may be clarified that the selection is guided by the objective to study the evolution of the World Bank’s social sector portfolio. The study therefore traces out briefly the evolution of social lending within the Bank’s larger operational mandate of managing development.

**THE TOTAL EXCLUSION OF THE SOCIAL SECTOR IN THE EARLY YEARS**

At a time when social investments were being emphasised largely in two major liberal economies – the United Kingdom and the United States, under the Keynesian and New Deal policies, the neglect of this aspect both in the agenda of the Bretton Woods conference and in the business of the institution created, seemed ironical. The issue was raised in a small way by John Maynard Keynes who served as the chairman of the committee in-charge of the World Bank. He put forth the suggestion that one of the main fundamental purposes of the Bank should be “to assist in raising the productivity, the standard of life, and conditions of labour in member countries, thereby helping to make available through international collaboration long-term capital for the sound development of production and resources.”

In another meeting, Keynes again emphasised on the same point by stating that

---

2 The exclusion was more noticeable due to the fact that, prior to the conference, social investments were indeed repeatedly emphasised in a number of conferences held by the Allied powers.

the field of reconstruction from the consequences of war [would] mainly occupy the proposed Bank in its early days. But as soon as possible, and with increasing emphasis as time [went] on, a second primary duty laid upon it, namely, to develop the resources and productive capacity of the world, with special attention to the less developed countries, to raising the standard of life and the conditions of labour everywhere, to make the resources of the world more fully available to all mankind, and so to order its operations as to promote and maintain equilibrium in the international balance of payments of all member countries.  

Keynes however failed to garner the confidence and support of the other western Allies. The purposes of the new organisation were defined rather conservatively, focussing on economic issues alone. It may be noted that whereas the United Nations Charter included among its objectives the promotion of higher standards of living, full employment, and conditions of economic and social progress, the Articles of Agreement of the World Bank made no such mention. The operational principle that the Bank would only lend on projects designed to make a direct contribution to development made, from the start, the case for social sector lendings” because of the presumably long gestation period and the lack of any quantitatively established relationship between investments made and the final output - a complete, “no-no.”

In the post- Bretton Woods period, the heavy dependence of the Bank on the financiers in the Wall Street, further foreclosed all possibilities of the Bank ever stepping into the social sector. Compelled to observe strictly the rules of fiscal sobriety in the conduct of its business, the Bank adopted a very cautious attitude right from the start. In the second Annual Report of the Board of Governors, in 1947, for example, President McCloy made it clear, that the Bank “must conduct its activities in such a fashion that its bonds w[ould] be considered a sound

---

Ibid., p.85
business risk by the United States financial community." Investments in the social sector, deemed as "soft" and "non-viable"; the Wall Street bankers were generally in favour of more "sound" investments in areas traditionally considered to be Bank worthy.

The Bank's obsession with success and its desire to be actually seen as credible, pressed the management harder than ever, not to deviate from the position taken at Bretton Woods regarding the social sector. A glimpse of the Bank's conservative outlook towards investments in the social sector may be found in the following recollections of a senior member of the Bank staff - Lauchlin Currie. Currie, who was put in charge of drawing up a comprehensive development plan for Colombia in 1949, recollects how he was surprisingly taken aback when Vice President Richard Garner rejected his broad range of programmes, including both social and industrial by stating "we can't go messing around with education and health. We're a bank!" Currie's recollections - "I felt that the Bank had missed an opportunity to establish a precedent of linking nonbankable with bankable projects in an overall country programme" spelled out the disappointment among some of the Bank staff, endeavouring to broaden the scope of the Bank's interventions during its early years.

It would be naïve to assume that the Bank did not see the connections between illiteracy, ill-health and low levels of development prevalent in countries

---

of the developing world.\(^7\) Rather it may be stated that it chose not to make a case of "productive investments" out of what it saw. The fear that having once started financing such activities, they would be flooded with more requests, led the Bank to eschew any engagement with the social sector altogether. As some analysts commented, [it] seemed prudent to the management ... to consider as unsuitable in normal circumstances World Bank financing of projects for eliminating malaria, reducing illiteracy, building vocational schools, or establishing clinics."\(^8\) Instead the Bank became the leading proponent of the view that investments in transportation and communication facilities, port developments, power projects, and other public utilities were the more important sectors, for the development of the economy.

LENDING FOR EDUCATION: BREAKTHROUGH AND RELATED DEVELOPMENTS

The Bank’s interest in the social sector developed gradually from the late 1950s. The thrust area identified was education. The development experience in Africa, which came up for discussion as a special item before the United Nations Economic and Social Council (ECOSOC) in the late 1950s, brought in for the first time, for serious introspection the subject of education into the portals of the World Bank. Till then there had been some isolated references, but never a full-scale

\(^7\) In its fourth Annual Report 1948-1949, for example, the Bank admitted: of fundamental importance is the low level of education and health prevailing in most underdeveloped countries... Without requiring any large expenditure of money, technical help in such matters as training teachers and doctors, establishing and operating schools of many different kinds, improving sanitary and public health facilities and eradicating such wide-spread and debilitating diseases as malaria, can do as much, in the long run, as any other single factor towards creating the conditions necessary for accelerated economic progress, particularly in the under-populated countries.

discussion. Eugene Black, the then President’s admission at the ECOSOC in 1960, that the basic requirement for the faster development of the new nations was more education and training, marked in a sense the beginning of the Bank’s involvement in education.  

For the next three years though publicly the Bank maintained a straight face on the question, denying the possibility of the Bank entering the field, there was however a wide divergence of views within the Bank on the subject. The differences within the Bank were clearly discernible – between those who actively supported the Bank’s entry into activities associated with the social sector and those opposing.

From the point of view of the Bank, for education to become a viable investment proposition, it had to qualify first like the other sectors in the test of economic acceptability. According to one senior management personnel, “the economic question which ha[d] to be answered concerning an education project [wa]s the same as for any other project, namely what effect w[ould] it have on economic growth and development or, more precisely, what rating d[id] such a project merit in the scale of relative priority when compared with others in more conventional fields.”  

The admission led however, neither to an automatic embracement, nor did it guarantee that the organisation would make loans for education in the future. The importance of the speech lay in simply that none other than the head of the organisation had accepted publicly the link between education and development, and coming from the head it gave a definite green signal for rounds of discussions and introspection to follow about the role of the Bank in such activities, within the organisation.

For those campaigning for the Bank's entry into education, there was stiff resistance to any sort of dilution of the Bank's operational policies.

The World Bank has a firmly established reputation in the financial community as a responsible and sound banking institution. As such it is accepted as an integral part of that community. When the World Bank enters into the field of education I believe that it runs the risk of using up some of the good-will that it has built up with the financial community. 11

Given the general acceptance of the international community, it was however difficult for those opposed to the motion to deny outright the benefits of education. The fact that the Bank's own projects were found to be sufficiently hampered by the absence of trained personnel in the client countries drew both the opposing sides together.

The main thing that drew the Bank's attention to the need to support education was the fact that its own projects often were delayed or made difficult by the lack of sufficiently skilled manpower, administrative or technical or whatever, to execute a project. They came right into first hand contact with the inadequacy of people to carry on development, so that very soon this problem of manpower became a pressing one. 12

The battle lines between the two groups were drawn therefore not so much around the contribution of education to development but essentially around the question of the kind and character of loans to be made available to the education sector. Namely first whether the Bank would stick to funding only technical education or would take up within its purview the issue of providing general education too, and secondly whether it would make available hard IBRD money for the projects or reserve such operations for the softer IDA credits.

11 Howard C. Johnson in a letter to Mr. Geoffrey Wilson, Office Memorandum 15 October 1963, Central Files, World Bank Group Archives, Series A1994042.
A "Working Party on Educational Projects" related to the settlement of these two questions was set up in August 1961 by the Bank. The Committee was presented with a set of general questions. Namely,

(a) What sort of projects should be regarded as offering a prima facie case for IDA financing (e.g., technical education, vocational training, etc)?
(b) Should IDA be prepared to consider the financing of local expenditures as well as foreign exchange costs?
(c) Should IDA financing be restricted to non-recurring (i.e., capital) expenditures?
(d) Should the collaboration of UNESCO (and ILO) be sought? If so, what mechanisms of collaboration might be established?
(e) Should arrangements be made for economic, financial and technical appraisals of these projects by IDA itself? If so, what?\(^{13}\)

On the question of finances, there was a deep reluctance among the conservatives to extend IBRD finance to education, and instead the possibility was proposed to extend grants for educational purposes financed from IBRD profits.\(^ {14}\) President Black’s proposal to the Executive Directors that the IBRD spend up to $10 million each year from its earnings, was adopted in September 1962. It appeared that the supporters of grants had won the argument of grants versus loans. However, the arrival on the scene of the new President George Woods in January 1963 renewed the debate. Woods forcefully argued before the Board of Executive Directors upon the availability of *hard* IBRD money for educational projects. The


\(^{14}\) Dr. Harvie Branscomb, a consultant from the University of Virginia filed a report to the President on a possible program of grants for education purposes. He suggested the use of grants for the establishment of science foundations, fellowship programmes, support of new techniques of teaching by radio, television, support of vocational education programmes, teacher training, training of educational administrators, and aid for developing teaching material. Though rejected at that time, later on interestingly these very areas became the main concern of the Bank’s education programme.
possibility of transfers of IBRD operating profits to an account for education became henceforth a contentious issue at the Board meetings.\footnote{15}

At one such meeting of the Financial Policy Committee, held on 18 July 1963 Woods put forward the following recommendation, which in its timing was to have an enormous influence on the nature of Bank's involvement in education. He suggested that

instead of establishing a program of grants in the field of education at this time, our initial approach should be to supplement IDA credits and Bank loans for educational facilities with the provision of expert services and technical advice...We should, in my judgement, be prepared to consider grants for a few especially important educational projects where, considered on their merits, there are special and persuasive reasons for Bank support.\footnote{16}

In response to whether IBRD would be expected to engage in IDA type lending, he settled the matter by answering that "it was [ultimately] the foreign exchange situation of the recipient country, not the type of project, which [would] determine whether the financing would come from the Bank or IDA."\footnote{17} The matter was given a final shape and the controversy laid to rest in the first sectoral document, titled Proposed Bank/IDA Policies in the Field of Education (released on 31 October 1963), which stated that "the Bank and IDA should be prepared to consider financing a part of the capital requirements of priority education projects."\footnote{18}

\footnote{15} The Bank's apprehensions about stepping into education financing were apparent in discussions held between the staff and representatives of member countries making specific requests. "World Bank would not like to undertake supporting us alone. If we get support, funded in long range by A.I.D., Ford or others, World Bank would seriously consider contributing." - Letter from Dr. J. R. Zacharias, Chairman Africa Education Study Committee, informing other trustees of a meeting held with Mr. Demuth, Director of Operations, IBRD, 20 December 1961, Central Files, 1947-1968, World Bank Group Archives, Series A1994042.


\footnote{17} Ibid., p.55.

In April 1961, the Government of Tunisia became one of the first countries to approach the Bank for assistance in the education sector. It asked the Bank explicitly to fund the provision of technical education at the secondary level. The proposal became the focal point and brought into limelight questions related to the Bank’s programmes and future involvement in funding educational activities in the developing world. What kind or sort of projects would qualify for lending? Would the Bank fund education activities at the primary, secondary or higher levels? In terms of curriculum, would the Bank restrict itself to the provision of technical and vocational training or go in also for general education? Would it fund construction activities or go in for programmes of curriculum change and development? Answers to these questions varied within the Bank.

The discussions within the Working Party on Education were significant, and the indicators provided by the group on one occasion are worthy of detailed reproduction:

IDA should be interested in education only to the extent that it is an important factor in economic development and not simply as a socially or culturally desirable end in itself. IDA should, therefore, finance educational projects when, but only when, such projects are designed to produce, or to serve as a necessary step in producing, trained manpower of the kind needed to carry out development in the country concerned. Under this test, facilities for vocational and technical training would be clearly appropriate. This is agreed by all members of the Committee. Several members would limit IDA financing to facilities of this kind. A substantial majority, however, believes that IDA should be prepared to finance projects in any field of education - whether at primary, secondary or university level - so long as the projects appear to satisfy important development needs... These members noted that the value of vocational and technical training depends to a large extent upon the ability of the primary and secondary education programs to produce an adequate supply of students... IDA should not be deterred from financing projects at the primary or secondary school level by the difficulty of quantifying the precise results.\(^{19}\)

\(^{19}\) First Report of Committee on Education, n.13.
The trends indicated by the Working party were significant in that they provided clear indications of the management’s thinking on the subject. Not all of the recommendations made by it were accepted by the Bank. The Bank was only willing to venture into fields where its interests directly lay.

We would be much more likely to finance educational projects emphasizing fields of interest to the Bank, such as agriculture, business administration and economy than training in fields of less direct interest, such as medicines.

The 1963 Proposed Bank/IDA Policies in the Field of Education pronounced the final word in the debate.

Bank and IDA should be prepared to consider financing a part of the capital requirements of priority education projects designed to produce, or to serve as a necessary step in producing, trained manpower of the kinds and in the numbers needed to forward economic development in the member country concerned. In applying this criterion, the Bank and IDA should concentrate their attention, at least at the present stage, on projects in the fields of (a) vocational and technical education and training at various levels, and (b) general secondary education.

In January 1963 a new Education Division was established. From a sum of US$ 5 million for the first project, the Bank lending increased roughly forty eight times, to US$ 243.8 million by the end of the decade. The IDA contributed roughly 62.2 percent of the grand total amounting to US$ 151.7 million, whereas the IBRD

---

20 There were many persons who retained their apprehensions and saw education lending as an area far afield from the more traditional sectors of lending. The statements made by the Australian executive director are a case in point. He believed that “educational projects which fell properly within the Bank field of lending should be associated very closely with development projects. An agricultural training school or a school set up to service an industrial estate would be very much more suitable for bank lending than school buildings justified merely in terms of the general contribution made to development by improving educational facilities”, Jones, n.16, p.54.


share was approximately 37.8 percent with roughly US$ 92.15 millions going out as loans. In all 28 different countries received loans for education with the total number of projects sanctioned, being 32, for the above period. Many countries such as Pakistan (3), Tunisia (2), Tanzania (2), received more than one loan. The beneficiaries in terms of number of projects, in descending order were first the Sub-Saharan region of Africa (11) with 35.2 percent of the total money, followed by Latin America and the Caribbean (9) with 22.7 percent, then East Asia (4) with 14.6 percent, North African and the Middle East region (4) with 15.4 percent and South Asia (4) with 12.1 percent.

The emphasis, gauged by the number of loans and the amounts involved, was clearly on the provision and facilitation of secondary level education. The emphasis on expansion of secondary education had dual benefits. On the one hand, it helped the preparation of middle-level management for government, industry, commerce and agriculture, and secondly it prepared more candidates for higher education and for specialized vocational training. The first loan to Tunisia, for example, aimed to assist explicitly the construction and equipping of six secondary schools, in addition to hostel facilities for student boarders and a training college for technical education teachers. Notably secondary education for the above

23 The figure in brackets indicates the number of projects allocated to the area/country.
24 Calculated from Annual Reports of the World Bank for those years.
25 The terms technical and vocational were understood to include industrial, commercial, and agricultural skills, as well as teacher training. When George Woods first put the agenda of secondary education before the Board of Governors, his theory was that the government budgets of the poorer countries would still support primary education because there was a big demand, and that higher education would be supported by the foundations and other aid agencies and the like, and that the secondary field along with the technical and vocational, was the area where attention was most needed. Duncan S. Ballantine's interview with Phillip Jones, n.12.
period made up for approximately 72 percent of the total budget. Higher education came next, followed by primary education. The latter occupied a relatively negligible place in the overall budget with only 5 percent of total lending being dedicated to it. The issue of primary education had come up around 1967, but plans to go into lending for schools were shelved by the Economic Department. Its director, Andrew Kamark gave a rather bizarre reason for doing so:

In most developing countries, there is a very strong demand for primary schools. This demand is so strong that governments tend to allocate a disproportionate amount of their limited education money to the primary schools; our financing and emphasis on secondary and technical schools consequently helps to get an overall better use of resource. Secondly, because of the very strong demand for primary schools it is often possible to establish the policy that if people in any locality want a primary school, they have to put up the school building themselves... In this way it is possible to get additional local savings that otherwise would not be made. And, it preserves the country’s creditworthiness for other activities that cannot be financed in this way. 26

Although Kamark’s statement had a strange air to it, it revealed the Bank’s unwillingness and discomfort at the thought of investing in primary education in its early years. The Sudanese government’s request for a project in primary education, for example, was turned down and instead in 1968, a project supporting secondary and post-secondary agricultural teacher training was sanctioned. 27 The reluctance to invest in primary education, was based primarily on two main notions. One, that the limited amounts of funds available could be more usefully spent on other subsectors closer to final production of the skills thought to be in shortest supply -

26 Jones, n.16, p 99-100.
27 The Bank’s policy of giving priority to secondary education found ready support amongst other agencies such as UNESCO, Rockefeller, Ford Foundation, Carnegie Corporation etc.—“the situation is somewhat complicated by Government insistence that primary education has first priority. We feel that secondary education is equally, if not more, important and that agricultural education is an essential factor in their development”—letter from Malcolm S. Adiseshiah, Acting Director General of UNESCO to R. Demuth, Director of Operations IBRD, 26 December 1961, Central Files, World Bank Group Archives, Series A1994042, Vol. I.
hence the focus on vocational and technical education at secondary and higher levels, diversified secondary, and primary teacher training; and second, the argument that political pressures for primary education would ensure that sufficient funds were directed towards this sector without Bank intervention. 28

Table 4.1 provides a breakup of the Bank’s lending as per level/curricula and outlay for the period 1963-1971. Nearly every project had multiple objectives, addressing educational expansion and diversification at the secondary, technical, vocational, teacher education, and that at the university level. Bank policy for the above period, and much to the liking of the conservative section was limited in its focus to the kinds of educational provision thought most likely to lead to increased worker productivity and economic expansion. The deficiencies in the borrowers’ technical capacities reinforced the need to fill the gap. Numerous technical schools, agricultural schools, schools of commerce and business administration were established as a result, and emphasis was placed on educating personnel, working within the modern sectors of the economy.

28 The Bank’s scepticism about funding primary education was shared by other donors too. For example, George Cant of the Ford Foundation is on record to have stated that “it would be a mistake for IDA to finance elementary education” in the countries with which he is familiar. He said that the demand was so great for primary school education that, in the normal case, the villages would provide the land and buildings so long as the government makes teachers available and therefore external aid was not necessary. To the Files from Richard Demuth, Director of Operations, IBRD, on the subject of meeting with Ford Foundation Officials on Education Problems, 6 September 1961, Central Files, 1947-1968, World Bank Group Archives, Series A1994042.
Table 4.1: Analysis of IBRD/IDA Education Lending, 1963-1971

<table>
<thead>
<tr>
<th>Lending</th>
<th>US Smillion</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 By Levels</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary and basic</td>
<td>22.48</td>
<td>5</td>
</tr>
<tr>
<td>Secondary</td>
<td>309.65</td>
<td>72</td>
</tr>
<tr>
<td>Higher</td>
<td>99.32</td>
<td>23</td>
</tr>
<tr>
<td>Total</td>
<td>431.45</td>
<td>100</td>
</tr>
<tr>
<td>2 By Curricula</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General and comprehensive</td>
<td>190.77</td>
<td>44</td>
</tr>
<tr>
<td>Technical</td>
<td>126.48</td>
<td>29</td>
</tr>
<tr>
<td>Agricultural</td>
<td>63.03</td>
<td>15</td>
</tr>
<tr>
<td>Teacher training</td>
<td>51.17</td>
<td>12</td>
</tr>
<tr>
<td>Health</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Total</td>
<td>431.45</td>
<td>100</td>
</tr>
<tr>
<td>3 By Outlay</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>262.17</td>
<td>61</td>
</tr>
<tr>
<td>Equipment and furniture</td>
<td>148.16</td>
<td>34</td>
</tr>
<tr>
<td>Technical assistance</td>
<td>21.12</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>431.45</td>
<td>100</td>
</tr>
</tbody>
</table>


The Bank's disinclination to carry out any ambitious programmes during this period, and the fact that nearly 95 percent of the education budget was directed to the construction and the purchase of equipment, gave an additional degree of assurance to the conservative opinion in the management. Such gains on the part of the conservative school could not brush aside the fundamental gain of the liberals registering the ushering in of the social sector within the Bank. The Bank policy guidelines provided still enough leeway for them to carry on their efforts for more

---

29 The beginning made by Woods was a modest one, in the sense that social sector lendings made up for a small proportion of the total. Between 1961 and 1965 for example, electric power and transportation continued to attract 76.8 percent of all Bank lending whereas the amount sanctioned for social service investment was a paltry 1 percent. IDA in the same period lent about half for electric power, 18 percent for [contd.] agriculture, and only 3 percent for social services. Robert L. Ayers, Banking on the Poor: the World Bank and World Poverty (Cambridge, Massachusetts, 1985), pp.2-3.
favourable and liberal criteria for financing. The 1970s saw thus the intensification of the tussle, resulting ultimately in victory for the liberals with an expanded lending portfolio.

Expansion and Diversification: The McNamara era

The departure of Woods as President and the arrival of Robert McNamara (former U.S. Secretary of Defence) as the next head of the Bank proved to be helpful for those lobbying for a more liberal agenda. Addressing the Board of Governors in September 1968, on the very first occasion itself, McNamara spelt out his intention of seeing the Bank diversify its work, both in its existing form as well as in several new areas such as population control. 30 Determined to carry forth the Bank's lending in new directions, McNamara drove his staff to literally manufacture and produce projects in areas, unattempted before. 31 A new team of people was brought in, in an attempt to infuse fresh blood and thinking into the Bank's functioning. 32

30 "This leads me to yet another area where the Bank needs to take new initiatives – the control of population growth. This is a thorny subject which it would be very much more convenient to leave alone. But I cannot, because the World Bank is concerned above all with economic development, and the rapid growth of population is one of the greatest barriers to the economic growth and social well-being of our member states." The McNamara Years at the World Bank: Major Policy Addresses of Robert S. McNamara, 1968-1981 (Baltimore, 1981), p.12.

31 "I am going to ask you all to give me very shortly a list of all the projects or programs that you wish to see the Bank carry out if there were no financial constraints." Quoted from William Clark, "Robert McNamara at The World Bank", Foreign Affairs, Fall 1981, p.168.

32 Mahbub-ul-Haq was one of the senior staff members who was brought in from the Bank's Economic Development Institute (EDI) during this time and given charge of the Bank's Policy Planning and Program Review unit. Reminiscing about McNamara's desire to diversify, he states, "He was a very powerful and very dynamic person and often he would use the force of his personality to carry conviction and to carry through things in a hurry, once he had made up his mind, and a lot of the staff work had to be done under [contd.] the pressure of those deadlines." Mahbub ul Haq, in conversation with Robert Asher, 3 December 1982, The World Bank/IFC Archives Oral History Program.
In the 1960s, disparities between the industrially advanced and the less developed countries had in effect increased. Cloaked behind the widening gap between these countries was the stark fact of increasing poverty amongst the developing nations. In many of the countries, poorer and weaker segments of the population stood to be excluded from the benefits of economic growth, discrediting thus the theory and concept of trickle down effect altogether. McNamara who took over the World Bank at this crucial juncture was enthused to discard the discredited trickle down theory and embrace a more radical interventionist path towards the alleviation of global poverty. The accent was placed on launching a more direct attack on poverty by building the ability of the poor to produce more on their own behalf.

The Bank’s publication *Redistribution with Growth* (RWG) provided much of the ideological backing for this new thrust in Bank’s lending. The new approach was concerned with unemployment, income distribution, integrated rural development and lags in the social sectors especially those affecting directly the productive capacity of the poor and the disadvantaged. The RWG to a large extent

---

33 Hollis Chenery *et al.,* *Redistribution with Growth* (London, 1974). Chenery from 1970-1972 served as the Economic Advisor to the President and then for a whole decade was the Bank’s Vice President for Development Policy.

34 RWG discussed four approaches to the problem of raising the welfare of the low-income groups:
1. maximising the growth of gross national product,
2. redirecting investment to poverty groups,
3. redistributing income or consumption to poverty groups, and
4. transferring of existing assets to poverty groups.

The favoured strategy was the second. The first had the problem of “relatively weak linkage between the poverty groups and the rest of the economy.” The third had “too high a cost in terms of foregone investment to be viable on a large scale over an extended period.” The fourth was considered unfeasible because “political resistance to policies of asset redistribution made this approach unlikely to succeed on any large scale in most countries.” In this respect the essence of the RWG approach was on increasing the productivity, incomes, and output (and through these, the welfare) of the absolute poor.
was an offshoot of the basic needs approach to development, which attempted to provide opportunities for the full physical, mental and social development of human personality.\textsuperscript{35} Being less radical than its mentor, the RWG provided much of the intellectual underpinning for McNamara's new shift in lending policies.\textsuperscript{36}

*The Assault on World Poverty*, a World Bank publication, provides a brilliant summary of the kind of loans advanced by the Organisation during the 1970s.\textsuperscript{37} The basic problem of poverty and growth as explained in the book by

\textsuperscript{35} A good reference for basic needs approach being Paul Streeten et al., *First Things First: Meeting Basic Human Needs in Developing Countries* (New York, 1981).

\textsuperscript{36} Hollis Chenery the main author of the RWG, interestingly at first resisted the swing towards poverty lending. Mahbub ul Haq, who was the co-author with Paul Streeten of the basic needs approach, in his memoirs mentions about the initial resistance by Chenery to a basic needs approach, and the coming into being a less radical and more conservative Redistribution with Growth approach. "He [Chenery] was very impatient with talk of focusing on target groups like the small farmer and other vulnerable groups in society. He felt that was a boy scout's approach and that it could not work in the growth sense for you don't compartmentalize the economy in that fashion. I think later on, when he saw McNamara's forcefulness on this issue, he felt that he had to provide some conceptual framework for this, to see how the two needs of economic theory and practical policy could meet. It was that search that led to a collaboration with the Sussex Institute and to Redistribution with Growth." Mahbub-ul-Haq, n.33. Hollis Chenery in his own memoirs writes: "In terms of Bank policy, I would not say that we ever adopted a basic needs approach in our project lending...It was perfectly feasible to find good projects either in agriculture, or in housing or in education which combined the objectives of meeting basic needs, but did not violate the Bank's insistence on a productive social return to the country concerned." Hollis Chenery in conversation with Robert Asher, 27 January 1983, The World Bank/IFC Archives Oral History Program.

\textsuperscript{37} The Assault on World Poverty (Baltimore: John Hopkins University Press for the World Bank, 1975). The volume marked the Bank's effort to spell out its general approach to poverty alleviation in developing [contd.] countries. It made the fundamental distinction, also made in McNamara's speeches and in other Bank's publications, between absolute and relative poverty. Absolute poverty, which McNamara defined as "a condition of life so degraded by disease, illiteracy, malnutrition, and squalor as to deny its victims basic human necessities", was defined by a per capita income benchmark. The absolute poor were defined as that part of population living below two poverty lines of annual per capita incomes of $50 and $75 (in 1971 prices). In India it was estimated that 44.5 per cent of the population, numbering 239 million individuals, were below the $50 poverty line in 1969. Relative poverty on the other hand referred to the extent to which the income share of groups of individuals or households differed from their population share. The Bank and McNamara consistently gave more emphasis to
Robert McNamara himself, was that growth was not *equitably* reaching the poor and that the poor were not significantly contributing to growth. The thrust of the Bank’s lending lay in achieving *equity*, by reshaping development strategies and helping the poor become more productive. New lending was therefore encouraged on a massive scale under such heads as agricultural development, development of small enterprises, education, population, health, nutrition, urban development, water supply and sewage. This was in contrast to the earlier phase when lending for power, infrastructure, dominated the organisation’s agenda. Around 1981, according to McNamara’s own estimates, 38 percent of the Bank’s resources were going to sectors which were not regarded earlier as “Bank worthy”, such as non-formal education, primary health care, family planning, nutrition, etc. During this period the institution witnessed also the creation of new structures corresponding to its expansion in new areas of operation. A case in point being the setting up and the creation of the Urban Projects Department in 1975, and the Population, Health, and Nutrition Department in 1979.

In September 1967, Professor Edward Mason was selected by McNamara to conduct a wide-ranging policy review of the education sector, and also recommend changes. Mason submitted his report in February 1968 and after making a review, recommended that the Bank consider adding to its list of concerns general (and not just technical) higher education, primary education, adult education and along with new learning techniques.

---

38 Absolute poverty than to relative poverty (or more simply inequality). When reference is made therefore to the World Bank’s new anti-poverty focus, it is principally therefore in terms of absolute poverty.

The emphasis placed by Bank policy on secondary education, and on technical, vocational and teacher training at all levels was justified and is still appropriate but I believe the time has come for a substantially greater latitude for exceptions. ... At the primary level there is a case for experimental schools using new teaching methods that give promise of having a multiplier effect over the whole level of primary education. And in the field of adult education a program of functional literacy attached to particular areas of economic activity can have a more immediate effect on productivity than any type of formal education. While 80 per cent of bank lending should probably continue to follow existing criteria, I should like to see up to 20 per cent channeled into more experimental directions.  

The Mason report was a milestone in that it led directly to the Executive Directors’ approval of the landmark document Lending in Education in August 1970. In it President McNamara parted ways from the cautious approach of his predecessors, by stating openly that the scope of projects be broadened. 

We should determine priorities and select projects on the basis of a thorough examination of the education system as a whole rather than by a priori designated areas of eligibility which may not relate to the particular country. We should continue to emphasize projects which, like vocational training, produce trained manpower directly but we should also consider for financing other types of projects with less direct relation to the short-run training of manpower which would have important long-term significance for economic development.  

During 1971-74 the Bank gave substance and laid the basis for a re-prioritization of education financing. The emphasis was on roughly five basic key areas:

1. Skill development and its potential for productivity increases.
3. Education and equity.
4. Increasing the efficiency of education.
5. Improving educational planning and management.

---

40. Ibid.
The Bank in the preceding period had based its educational policy on a number of implicit assumptions. For example, it had assumed rather naively that there would be a pool of good primary school graduates with appropriate background for and interest in vocational or technical education, and that adequate numbers of teachers with the requisite technical and scientific backgrounds could be found or quickly trained in regions such as sub-Saharan Africa. For an average Tanzanian youth, for example, above the age of 25, the average years of schooling around 1965 was roughly three and a half years, and yet the Bank thought it worthy enough to invest US$ 4.6 million in a project (1964) directed towards secondary general education. In another case (1967) involving a sum of US$ 7 million, the Bank decided to fund another secondary-general, technical, teacher training project in Kenya where the average years of schooling were lower still, with only 0.5 percent of the youth finishing off their secondary level studies.42

This mismatch between policy planning and reality became the focus of many of the discussion papers. The 1974 Education Sector Working Paper paper drew attention to the fact that while too much emphasis continued to be placed on secondary and higher education for a minority, not enough was being done to provide basic primary education to the majority. The failure of most countries to provide a minimum standard of education to the widest possible segment of society was glaring. Literacy rates in the majority of the developing world countries provided a most dismal picture. Nearly 93 percent of the total population of Chad and Ethiopia, and around 85 percent of Liberians were still illiterate, in the

---

seventies, at a time when literacy levels in most countries of the west were nearly touching the 99 percent mark.\textsuperscript{43} The paper thus called for a definite change in the education strategies of such countries, spelling out the need for education to adapt to the needs and demands of concerned societies.

It sought to focus heavily therefore on the issue of mass education. The provision of a minimum education was seen as a necessary condition for effective participation of the masses in productive life as well as in the social and political process. The Bank advocated a “dual track” programme to fulfil the above goal of mass education. One, an expansion of the primary level targeting young children, and second a policy providing and making available a basic education package through the setting up of restructured schools and non-formal centres, for those groups who may due to factors of age (children, youths, adults) and socioeconomic characteristics (rural-urban groups, women) in the past, lost out on opportunities of securing a minimum level of education. It may be pointed out here that at this stage the Bank stopped short of advocating a policy of universal primary education (UPE).\textsuperscript{44}

Complementing the alternative of basic education was the concern also of enhancing equity within both males-females, and that between the rural and urban populace. Several of the Bank documents had repeatedly highlighted the elitist bias, favouring urban upper and middle income groups at the expense of the rural and urban poor, and that of males over females. To ensure that the overall inequities within these groups reduced, it was essential for policy makers therefore

\textsuperscript{43} Ibid., p.18.  
\textsuperscript{44} Ibid., p.55.
to attain and achieve equity in the delivery systems of education too. The Bank therefore focused and advocated strongly a policy of equity in education for its member countries.

Dissatisfaction was also expressed at the mismatch between education and increased labour productivity. Education, it was pointed out, was not sufficiently geared towards skill formation leading to potentially enhanced productivity and employment opportunities in most countries. It was recommended therefore that education and training systems be designed to enable the masses that had been unable to participate in the modern sector and had therefore been unaffected by the growth achieved, to now acquire skills by which they could enhance their productivity in their individual spheres. In terms of policies, manpower planning was advocated by the Bank as a major area of study and work. Planners were asked to make efforts to rectify the shortage of trained manpower as well as improve the absorptive capacity of the economies. Emphasis on vocational and technical centres and attempts to vocationalise the curricula of academic schools in both urban and rural areas was therefore recommended.

In addition to the above, the Bank also advocated a policy of enhancing the efficiency of the prevailing educational systems. It recommended suitable teacher training programmes, the redesigning and use of relevant learning materials and equipment, and development and changes in curricula and methods of teaching and learning. The Bank sought also to emphasise upon an overall improvement in the management and planning of governmental educational institutions.
In the period between 1970 and 1979, nearly 49 new countries received loans for education. The total amount of money lent was approximately US$ 2496.4 million, increasing nearly nine folds from that of the previous decade. The IDA contributed roughly 34 percent of the grand total amounting to US$ 850.2 millions, whereas the IBRD share was approximately 66 percent with roughly US$ 1,646.2 millions. The number of projects too witnessed an increase from the last decades’ 32 to 164 in the above period. The beneficiaries in terms of number of projects, in descending order were first the Sub-Saharan region of Africa (59) with 24 percent of the total money, followed by Latin America and the Caribbean (31) with 14.3 percent, then East Asia (27) with 23.6 percent, the North African and the Middle East region next (23) with 21.4 percent followed by South Asia (10) with 5.4 percent of the total.\footnote{Calculated from \textit{Annual Reports} of the World Bank.}

Table 4.2 provides a glimpse of the distribution and diversification of lending for the above period. A definitive shift was visible in the lending patterns of the period. Primary education which had been relegated to a place of minor importance in the previous years, increased to 14 percent of all educational lending. Non-formal education too saw a similar rise in importance with roughly 17 percent of all lending going towards it. Construction remained one of the largest outlays, though the percentages allocated to it saw a slight decrease from that of previous years. Technical assistance on the other hand, witnessed an increase, reflecting a new emphasis on the qualitative aspects of education projects. Another significant aspect of the lending pattern was the 7 percent allocated towards educational planning, curriculum development, production of learning materials,
mobile units and the development of educational programmes for telecast over radio and television.

Table 4.2: Distribution of Lending for Education, 1970-78

<table>
<thead>
<tr>
<th>Distribution</th>
<th>1970-74</th>
<th>1975-78</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>By Level</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary</td>
<td>5</td>
<td>14</td>
</tr>
<tr>
<td>Secondary</td>
<td>50</td>
<td>43</td>
</tr>
<tr>
<td>Higher</td>
<td>40</td>
<td>26</td>
</tr>
<tr>
<td>Nonformal</td>
<td>5</td>
<td>17</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td><strong>By Curricula</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General and diversified</td>
<td>42</td>
<td>34</td>
</tr>
<tr>
<td>Technical and Commercial</td>
<td>30</td>
<td>41</td>
</tr>
<tr>
<td>Agriculture</td>
<td>15</td>
<td>11</td>
</tr>
<tr>
<td>Teacher Training</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Management</td>
<td>-</td>
<td>-1</td>
</tr>
<tr>
<td>Health and Population</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td><strong>By Outlay</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>49</td>
<td>48</td>
</tr>
<tr>
<td>Equipment</td>
<td>43</td>
<td>39</td>
</tr>
<tr>
<td>Technical assistance</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td><strong>By Scope</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>General institutional development</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Learning materials and media</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Curriculum development</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Planning and management</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Specific schools and training institutions</td>
<td>96</td>
<td>93</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

ORIGINS OF LENDING TO HEALTH

The problem of the health sector was in ways similar to that of education. The Bank staff, for a long time, thought it unwise for the institution to step into the funding of health. Eugene Black, the President for example categorically told his counterparts in the ECOSOC in an address in 1961, that health and in particular population control, was “not a field in which international agencies [could] do much.” Any direct involvement of the Bank in health matters was strongly discouraged by the Management. The situation was no different seven years later- in the sense that there was still considerable resistance - when in September 1968, McNamara first announced his decision to enter the field of population control.

In his speech, McNamara stressing on the importance and interconnections between population and economic development, proposed a three-pronged strategy for the Bank’s intervention in the field of population. The first related to letting the developing countries know about the extent to which rapid population growth actually slowed down their potential for development. The second referred to the search for opportunities by the Bank to facilitate investment in various

---

Roger A. Chauffournier, a senior level economist with the Bank, in his memoirs, for example provides a very interesting anecdote of the way the Management of the Bank foreclosed any lending to health, despite suggestions offered — “I was a member of the IDA review committee under George Woods...Luis de Azcarate who had worked on Africa, said, “if we are looking at whether IDA should finance other activities than what we have been traditionally financing, why not health?” And he added, “Look, in Africa there is a disease called onchocerchiasis- river blindness- which affects such a large part of the population in an area which is the most productive area of Africa...here you can establish a direct link between health and development. Why not look at it?” I was struck by that, I got interested, I heard more about river blindness and talked about it. Finally, this disappeared in the last version of the report, so no health.” Roger A. Chauffournier in conversation
programmes related to family planning in such countries. The third stressed on the cooperation with other agencies in funding and carrying out research, on the most effective ways and methods of executing national family planning programmes. 47

The proposal engendered a number of responses within the Bank. B.Chadenet, the Deputy Director, Projects for one, wrote “I believe that the Bank is so new and inexperienced in the field of population control that we should be very careful not to tie our hands by a premature expression of policy.” 48 Another memorandum commented, “‘population control’ carries an altogether different image... to put it bluntly, it is the image of the rich white north controlling the growth of the poor dark south.” 49 Such reservations however severe, were gently brushed aside, and under the spell of McNamara’s new crusading zeal, the Bank was ready by the end of the sixties to step into the field of population control. In fact it must be noted that the Bank’s venturing into health, began with this very intricate and delicate subject of population planning.

The first Bank loan for population of US$ 2 million, went to Jamaica in 1970. The next year, the Bank sanctioned two more small loans to Tunisia and Trinidad, before going on to bigger loans. It designated 17 countries as key countries for its population assistance – the criteria being a population of over 20

---

million and a rapid rate of demographic growth. For the Bank, especially in its early years, "over-population" in some countries became the major issue. Though the criteria for identifying key countries included also population policy and mortality rate, finally it was the population size that mattered. As a result, population policies and projects for a long time continued to be defined as those primarily aimed at limiting fertility - basically through family planning. Suggestions were made during this period to broaden the Bank's concern beyond fertility control to include maternal and child health programmes. But the Bank's responses to the suggestions were negative. It saw its role limited to aiding national governments, through its funds, to carry on with indigenously designed family planning programmes.

In addition to supporting family planning, the Bank during this period, also undertook some nutrition related work. The World Bank's interest in nutrition and its decision to directly intervene in nutrition related activities was largely influenced by the prevalence of malnutrition in the developing world, and the effects that it had on productivity and mortality in such areas. Malnutrition is basically a fallout of insufficient dietary energy (calories) and protein, often in combination with some form of infection, and a lack of micronutrients (especially

---

50 Michael L. Hoffman in a letter to Mr. Bernad Berelson, Vice-President of the Population Council, New York, informing that he did not see "any possibility" of the Bank being associated with maternal and child health programmes, 11 July 1967, Central Files, 1947-1968, Projects and Studies, World Bank Group Archives, Series A1994042.

51 Alan Berg, the first Director of the Nutrition unit, recalls "McNamara's interest in the activity was keen and his expectations high- probably higher than the situation warrants, given the realities of staffing" in Office Memorandum on the subject of meeting with McNamara on 19 September 1972, Central Files, 1947-1968, Projects and Studies, World Bank Group Archives, Series A1994042.
iodine, iron, and vitamin A). The all too familiar outcomes are poor health, stunted growth, blindness, mental debilitation, and likely early death. The most vulnerable to these consequences are children - under the age of three, and pregnant and lactating women.

The Bank’s logic for intervening directly in nutrition lay basically in the following argument:

Waiting for economic growth to improve nutrition is unsatisfactory, and aiming to improve nutrition through raising incomes or increasing general food supplies is insufficient and too time consuming. A direct and immediate response to the problems of malnutrition also is required.52

Some of the general arguments in favour of the Bank stepping into nutrition were – (a) the problem needs priority attention, (b) the Bank has skills to contribute, (c) the Bank has financial resources which are needed, (d) the Bank’s loan ground rules are flexible, (e) the bank can make itself “ready” for nutrition and (f) some of the member countries are “ready” for nutrition projects. The arguments against were (a) the Bank cannot do everything, (b) the countries are not ready, (c) the Bank is not ready, (d) the state of nutrition art is not ready and (e) nutrition is a result of, not a contribution to, development.53

Till the middle of the seventies, it was thus primarily population control and nutrition which preoccupied the Bank in the health sector. This was simply so, because the Bank was too sceptical about entering into more broad based activities.

Instead of directly going in for health projects, the Bank sought to introduce health
related components in other existing projects. This choice to lend indirectly was
in a sense, a compromise arrived at between those who desired to see a more
liberal and direct place for health in the lending portfolio like that of education and
those who preferred to keep changes to a minimum. This dilemma within the Bank
was reflected in the official health sector paper of the Bank published in 1975. The
paper spoke explicitly of the two main options. Option one clearly spoke of the
trend to “continue progress in increasing health benefits within present patterns of
lending.” Option two on the other hand advocated a move towards the “Bank
lending for basic health services”. Whereas option one clearly implied that it
would be possible to make substantial improvements in health benefits from Bank-
supported projects, without necessarily bringing about a major change in pattern
of lending, option two chalked out a more ambitious role for the Bank in the
conduct of international health policies and matters.

54 For instance, health components were introduced frequently in rural development
schemes to guard against the possible harmful side effects of the project. Such as,
at the engineering design stage of a hydroelectric, irrigation or drainage project,
the use of schistosomiasis (vector) control measures, as in the Karonga rural
development project in Malawi in 1971. In the field of education too, the Bank
introduced components of training health manpower in several projects such as in
was led and monitored by an Office of Environment and Health, which was active
in developing health components to complement rural development, agriculture,
and infrastructure projects.

The health sector according to the 1975 policy paper bore a number of similarities
with the education sector. Projects in both sectors generated benefits of “human
value, as well as economic returns similar to those from infrastructure
investment.” It recognised the potential too, of such projects in the overall
programme of redistribution with growth. It mentioned explicitly therefore that, “
whichever option is adopted, the approach in the health area should generally be
similar to that in education; projects should be sought that combine promotion of
economic development with redistribution of welfare.”
After weighing both the options the decision was finally taken to execute option one. The paper argued that a policy based on such an option would allow the Bank to:

- Minimize the adverse side effects on health of its lending operations in other sectors (projects involving water use, land settlement, etc.)
- Make a number of key interventions necessary for improving the health status of low-income groups (for example, projects involving water supply, sewerage, nutrition, family planning, sites and services for low-cost housing and training of health personnel).
- Conduct field experiments to test selected elements of reformed health promotion systems within projects concerned with rural development, population, nutrition and sites and services.\(^{56}\)

A decade later however, the policy of supporting health indirectly came into question.\(^{57}\) The 1980 health sector policy paper stood for a more direct approach. The paper stated the changed strategy in clear terms.

The World Bank will begin direct lending for health projects. In addition, the Bank will continue to finance health components of projects in other sectors, such as agriculture, education, family planning, urbanization, and nutrition. Health projects will aim to strengthen the recipient countries' sectoral planning and budgeting capacity, and their primary health care systems. The projects will include such elements as development of the basic health infrastructure, training of community health workers and paraprofessional staff, strengthening of logistics and supply of essential drugs, promotion of proper nutrition, provision of maternal and child health care, including family planning, prevention and control of endemic and epidemic diseases, and development of management, supervision, and evaluation systems.\(^{58}\)

The change in policy was justified on the following four grounds. Firstly, it was generally held that the Bank possessed a capacity for programming and sectoral analysis which it was thought could be helpful in extending health care coverage, particularly primary health care in developing countries. Second, a


\(^{57}\) On 29 November 1977, following extensive discussions with the Board of Governors, the President called for a re-examination of the Bank's health sector
broader policy of lending for health was seen as an essential element of the Bank's commitment to alleviating poverty. Thirdly, direct lending for health projects was viewed as a necessary complement to the Bank's activities in the health sector. And lastly, direct lending in health, it was believed, could serve as a vehicle for discussions of population issues and support of family planning services delivered through the health care system.59

The 1980 policy paper thus came clear on the definite change in thinking within the Bank on health matters. A greater role was envisaged for the organisation and its power to aid policy formulation vis-a-vis national governments and their respective health structures. Having adhered to the 1977 Alma Ata Declaration of providing Health For All, it was reasoned out that governments would need the aid and support of the Bank to realise the above stated goal. The Office of Environment and Health, with its health and nutrition specialists, and the Population Projects Department were merged to form the new Health, Nutrition, and Population Projects Department. The Bank's expertise in country programmes and sector analysis, was felt, would be needed in ensuring the success of national health policies. It was reasoned out that the Bank would be able to "provide technical assistance essential in formulating appropriate sector plans and detailed health project proposals, and in developing appropriate institutions."60

lending policy. Extended discussions went on within the Bank for the next two years, culminating in the publication of the 1980 Health Sector Paper.

60 Ibid., pp. 63-64.
In the period, 1970 –1980, the Bank lent approximately US$ 506.9 million for health. Out of this IDA lent approximately 55.2 percent amounting to US$ 280.1 million, while IBRD contributed the rest 44.7 percent amounting to US$ 226.8 million. Indonesia (4), followed by India (3) received the greatest number of loans during this period. Other countries like Bangladesh, Egypt, Jamaica, Malaysia, Philippines received two while the rest received one each. In all, 27 projects were sanctioned. In terms of number of projects, in descending order, the largest beneficiaries were the East Asian countries (10) with 46.5 percent of the total, followed by Latin America (6) with 12 percent, in third place was South Asia (5) with 8.5 percent, followed by Middle East (4) with 10.3 percent, and Sub-Saharan Africa with Kenya receiving the sole loan amounting to 2.4 percent of the total health budget.  

IMPACT OF ADJUSTMENT ON RELATED LENDING

The worsening of world poverty situation during the late 1970s ushered in a new spate of lending mechanisms and ideology in the early 1980s, geared towards bringing about reforms. McNamara’s speech at the UNCTAD in May 1979 stated the need for the Bank to undertake some “structural adjustment lending” to facilitate and cushion reforms in the developing world. A few days later Ernest Stern the Senior Vice President for Operations, produced a memorandum that became a kind of charter for structural adjustment loans.  

61 Calculated from the Annual Reports of the World Bank, for the period 1970-1980.  
The conditions attached to structural adjustment lending and the rationale behind such loans were the following:

- radically downsize government bureaucracy and curtail public spending to reduce inflation.
- privatise government corporations.
- promote the export of raw materials and of export industries to earn foreign exchange.
- import liberalisation and elimination of trade barriers and quotas.
- elimination or sharp reduction in subsidies.
- restrictive monetary policies and high interest rates to curb inflation.
- a reduction in real wages (especially for lower wage earners), also intended to control inflation.

McNamara’s successor Clausen showed keen interest to continue with the above policy of adjustment lending. The poverty focus, which had been the hallmark of McNamara’s strategies, was foreshadowed now by the more important policy of adjustment.63

Advocacy of Health Sector Reforms

The country related studies undertaken by the Bank in the early 1980s, brought out clearly the diversity amongst the clients, with respect to their ability to administer health. Setting aside the differences, the Bank concentrated on

---

63 It may be noted that several of McNamara’s close associates who had influenced the President and the Bank in cultivating a poverty-oriented focus such as William Clark, public affairs chief, Mahbub ul Haq and Hollis Chenery, left the Bank during this period.
identifying certain problems which it felt were common to all, namely (1) misallocation, (2) internal inefficiency of public programs and (3) the feature of inequality in the distribution of benefits from health services. It was held that

Each of these problems [was] due in part to the efforts of governments to cover the full costs of health care for everyone from general public revenues. Current government spending alone, even if it were better allocated, would not be sufficient to fully finance for everyone a minimum package of cost-effective health activities. The quality of government health services is often poor; clients face unconcerned or harried personnel, shortages of drugs, and deteriorating buildings and equipment. Investment in expensive modern technologies to serve the few continues to grow while simple low-cost interventions for the masses are underfunded. 64

The Bank advocated an alternate strategy of health financing, whereby it sought to remedy the prevalent maladies. Simply stated, the approach was to reduce government responsibility for paying for the kinds of health services that provide few benefits to society as a whole. More government (or public) resources would then be available to pay for the services that provide many benefits to society as a whole...relieving governments of the burden of spending public resources on health care for the rich... so that more could be spent for the poor. 65

The Bank called for specifically four policy reforms in member countries concerned, each closely related and mutually reinforcing the other. These consisted of,

1. Charging users of publicly provided health services, especially for the types of curative care that benefit solely individuals and their families: This policy recommendation explicitly spoke of the need to institute charges at government centres for facilities, especially for drugs and curative care, so as to increase the resources available to the health sector, by which

---

64 Financing Health Services in Developing Countries: An Agenda for Reform (Washington DC, 1987), pp.2-3.
65 Ibid., p.1.
allocations could be streamlined into fields which were earlier underfunded, helping the poor as a consequence. This policy recommendation was based on the understanding that higher charges at government health facilities would necessarily generate more revenue, and in the long run, more revenue would allow currently underfunded but "cost-effective" basic health services to expand and thus help governments redress the allocation problem. In the short run, revenues from charges could be used to cover a substantial portion of the operating costs of current programmes especially that of simple curative care. The revenues to be generated were to be primarily raised through the following channels.

- Hospital charges for the affluent: Fees collected from the more affluent opting for semi-private care, used to subsidise general ward patients.
- Hospital charges payable directly by insurance providers for insured patients: To ease the administrative burden on hospitals, insurance providers could be billed full costs for the services offered.
- Drug charges: Instituting charges for drugs was suggested as one of the means of possible cost-recovery.
- Bypass charges: This meant that if a person bypassed a lower level of service where basic care was available and went directly to a higher level he/she would have to pay more for that care.
- Modest inpatient charges: A fixed fee at entrance, a charge for linen, meals specific charges for laboratory services would make it possible to recover costs directly from patients.
• And finally outpatient charges: A small charge for a registration card or other record of visits could too add to the project of overall cost recovery.

2. Encouraging risk-coverage programmes: The second recommendation stated the need to encourage well-designed health insurance programmes to help mobilise resources for the health sector, where it was felt that insurance was necessary to relieve the government budget of the high costs of expensive curative care. An effective approach in this regard was to make health insurance compulsory, at least for employees in the formal salaried sector. A higher proportion of costs not necessarily covered by fees, would be recovered thus via the insurance system. However, to prevent the misconception that services used generally come free, a system of deductibles and copayments was to be introduced for the users. A deductible is the amount which users must pay before their insurance coverage begins, while copayment referred to the percentage of total costs above the deductible to be paid by the users. Such a system of deductibles and copayments, it was felt, helped prevent overuse of scarce personnel, equipment and supplies, which a user was often tempted to do, if he/she perceived that the services that were provided were generally coming free and without any costs.

3. Strengthening non-government provision of health services for which households are willing to pay: The paper drew attention to the fact that the government’s work in the health sector was often complemented by the activities of other non-government bodies, such as religious missions, non-
governmental organisations, independent physicians, traditional community health workers such as village healers, midwives etc. Expansion of nongovernment services, including profit and nonprofit services, it was suggested, could reduce the administrative and fiscal burden on the government sector and broaden consumers' options. Competition from the nongovernment sector could also encourage government services to improve their efficiency. To encourage the growth and working of the nongovernmental sector many steps such as the following needed to be operationalised:

• Helping community-based nongovernment schemes get started by increasing public funding for training and backup support, including technical supervision and assistance.

• Providing technical and financial assistance to private voluntary organisations for training and the co-ordination of activities.

• Making credit accessible to communities and private ventures that want to expand and upgrade services and facilities.

• Transferring the operation of government health facilities to nongovernment providers (through sale, lease, or contract). Such a step would be appropriate for curative care facilities where the benefits of care accrue directly to those served.

4. *Decentralising the public health system*: The issue of improving the efficiency of public services, could not be neglected and therefore, in countries where managerial resources were scarce, communication
difficult, transportation slow, and people relatively isolated, decentralisation of the government health system represented one such possible way of increasing the overall efficiency of the system. Decentralisation essentially refers to the process of granting greater financial and management autonomy to the local units, giving the local units thereby greater responsibility for planning and budgeting, for collecting user charges, and for determining how collected funds and transfers from the central government shall be spent.

The above policies favoured shifting responsibility of financing health care from the public to the private. It brought into focus the appropriate mixes, of the roles of the government and the private, in health matters. The major problems in health administration, as the Bank saw it, arose primarily from the governments' efforts to provide free health care for all. It was held that those who had sufficient capacity to pay for their respective health care, should pay for such services. The financing and provision of private types of health services (those which benefit mainly the direct consumer) should be shifted from a nearly complete public sector dependency to a more "judicious" combine of both nongovernmental and public sector. It was envisaged that the shift would increase considerably the public resources available for the types of health services which are public, which the government could then take responsibility of. These would include (currently underfunded) health programmess such as immunisations, control of vector-borne diseases, sanitary waste disposal, health education, prenatal and maternal care and family planning.
The first project where the Bank actually started playing a more interventionist role in terms of dictating the composition and structure of the ministry concerned, was in the context of Malawi (1983), where the Bank for the first time sanctioned a US$6.8 million to strengthen the Ministry of Health. The policy recommendations regarding the health sector were sought to be implemented and were justified as part of the larger adjustment exercises.

Reforms in the education sector

As in health, there was a thrust towards reforms in the field of education too. A critique was made of the price subsidies for higher education in the poorest countries, and of their unrealistic curriculum orientation, inequitable participation patterns, and seemingly elitist characterisation. It was argued that for the developing world as a group, it was only a small minority of 7 percent that enrolled for higher education. Students from the upper-income groups, it was argued, enjoyed between 51 to 83 percent of all governmental subsidies, whereas those from lower-income groups received a mere 6 to 15 percent. 66 Thus although the number of students registering for higher education was much lower than those in the primary and the secondary levels, the resource allocation for higher education was much greater. The Bank’s efforts at educational reform in the 1980s, were aimed thus at correcting primarily, what is called a “highly unequal” lop-sided allocation pattern.

Client states were urged to adopt a specific package of measures dealing with distinct features related to adjustment, revitalisation and expansion of the education sector. The package consisted of the introduction of essentially the following measures:

1. *Selective user charges and reallocation of public spending*: The recommendation made called for specific reallocation of public funds from the higher to the primary level, where the returns were likely to be higher. The reallocation was to be achieved primarily by cost recovery through encouraging greater private financing of the higher education sector. Support for higher education was to be mobilised through private financial support through the elimination largely of noninstructional subsidies, the introduction of fees, donations, and the undertaking of income-generating activities by educational institutions. Arguments were made in favour of the above cost-recovery measures on grounds that all three i.e. quality, quantity and equity, would all be greatly improved.

2. *Creation of a credit market for education*: To complement the shift towards greater private financing especially in the field of higher education, it was recommended that in general a credit market be developed, where student loans and selective scholarships be made freely available. The Bank referred to the experience in countries such as Japan, Sweden, United States of America, where such loans existed and where students borrowed to pay tuition fees or meet their living expenses for the period that they enrolled in higher education. The idea of selective scholarships and student loans were
seen as a feasible option, whereby governments could be freed from the responsibility of providing directly for such education.

3. *Decentralised education through private and community schools*: It was argued that greater decentralisation by giving more leeway to private and community schools, would improve the general condition by encouraging healthy competition. The easing of strict control by government over fees, curricula, teacher’s qualifications and salaries, would result in better functioning. The Bank provided the example of the *ujamaa* movement in Tanzania and the *harambee* (or self help) schools in Kenya, where such decentralisation exercises were in progress. In the latter schools, not only was cash accepted but also other contributions such as supply of materials and voluntary labour was accepted for covering operating costs related to school maintenance and construction.

Lending in the eighties thus witnessed a rather curious mix of association between the Bank’s larger educational agenda and its programme of structural adjustment, leading to a practical dilemma of sorts. Whereas on one side the organisation advocated radical rethinking about the role of governments, including their role in providing such social services as education; on the other it sought to propound such ambitious goals as securing universal primary education, which necessarily involved greater degrees of governmental involvement and responsibility, than envisaged. The Bank sought to address the incompatibility by stressing the principles of “decent duration”, “reduction of public commitments as students proceeded up the education ladder”, “privatization”, and “user-pays”
approaches; but in practice however the two couldn't be so easily divorced. The incompatibility between the above two goals - one related to specific sectoral reforms and second that of securing a more universal primary education ratio, revealed itself, once the Bank's programme of sectoral reforms were actually put into practice.

Sharp cutbacks in real expenditure per capita came to be reported from the adjusting client states. For example, from 1979 to 1983, 60 percent of countries in Latin America uniformly reduced their education expenditure. This resulted in relative deterioration in education, both in terms of numbers and in achievement, in all of these countries.\(^\text{67}\) The experiences of the Latin American countries were duplicated in other low-income countries as well. It was reported that the share of central government expenditure in education, in such countries fell by 42.4 percent between 1972 and 1985.\(^\text{68}\) In addition, the policy of introducing fees in schools put children coming from the relatively poorer households within these low-income countries, at a further disadvantage. With economic hardship, parents opted to take their children out of schools. In Zimbabwe for example, in 1992, secondary school enrollment fell by half - whereas just two years earlier the country had nearly almost achieved its goal of secondary school education for all.\(^\text{69}\)

\(^{67}\) Engendering Adjustment for the 1990s (London, 1989), p.27.


at educational policies, perceived the prevalent "danger" and threat to education in the period of stabilisation and structural adjustment. 70

MITIGATING THE SOCIAL COSTS OF ADJUSTMENT

The decline in the quality of civic life as a consequence of adjustments, drew the attention of world leaders and the need to institute a programme of adjustments bearing a human face. The Bank too was forced to think its strategy afresh. The need of the hour was undoubtedly the adoption of a face saving strategy, one that would be more cautious and judicious and would not appear to be very hard on the social fabric of societies undergoing adjustment exercises. Heeding the suggestions offered, the Bank decided to go in for a policy of extending additional funding to areas in the social sector, to especially those countries undergoing adjustment programmes.

The increased emphasis within the Bank on adjustments and reform proved to be one of the most definitive of all factors, leading to an increase in social sector lendings. Since many of the organisations who made criticisms against the Bank's adjustment policies did not per se disagree with adjustment, but sought primarily to draw attention to the lacunae in the adjustment process; pragmatism dictated that the Bank substantially reorient its social sector portfolio, if it were to continue with adjustments. Given the negative experience of the eighties, the Bank chose consciously to institute a range of social sector projects, wherever it had programmes of structural reform in place.

70 Ibid., Also see Chapter 3 of Griffin, n. 64, - John Knight, "Educational policy issues in a period of stabilization and structural adjustment", pp.59-72.
At the Safe Motherhood Conference held at Nairobi, on February 1987, the then World Bank president, Barber B. Conable, announced the Bank’s intention to double its lending for population, health and nutrition to roughly $500 million.71 The same year, in April, the Bank issued a document titled, *Protecting the Poor during the Process of Adjustment*, to serve as the basis for modifying adjustment policies to protect the poor during structural adjustment. In 1988, sensing the possible onset of “adjustment fatigue”, the Bank decided to go in for special programmes. The decision was taken to fund a “Programme of Action to Mitigate the Social Costs of Adjustment” (PAMSCAD) for Ghana.72 The PAMSCAD, according to the Bank, represented a “serious” attempt to provide help to vulnerable groups. The Bank initiated another similar programme called the “Emergency Social Fund ” for Bolivia. These compensatory programmes were seen as useful instruments for dealing with what the Bank termed as the “new poor.” In summarising its principal findings, the Bank admitted that the design of the adjustment package was an important aspect, and that the “same adjustment goals [could] be achieved with more or less pain depending on the design of the adjustment package.” In drawing lessons, the Bank agreed, “to sustain, if not intensify, the emphasis given in recent years to tackling the more fundamental issues of poverty and human development.”73

72 Other co-sponsors of the PAMSCAD included the World Food Programme, the ILO. The WHO, the UNDP, International Fund for Agricultural Development (IFAD), DFID (U.K), and UNICEF.
In 1995, at the World Summit for Social Development, at Copenhagen, the World Bank reiterated its pledge. It signed the Declaration, which read:

We commit ourselves to accelerating the economic, social and human resource development of Africa and the least developed countries. To this end, we will: Implement at the national level structural adjustment policies which should include social development goals...give priority to human resource development....increase official development assistance, both overall and for social programmes, and improve its impact, consistent with countries' economic circumstances and capacities to assist, and consistent with commitments in international agreements.\(^{74}\)

The commitments such as the above had a significant effect on the Bank’s own strategy. To begin with the Bank established a Task Force on Poverty Alleviation. The Task Force classified direct victims of stabilisation or structural adjustment into broadly two categories. One the “new poor”, consisting of retrenched civil servants and employees laid off because of austerity measures or shifts in production. And second the “borderline poor”, children, the old, 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 protection and safety net instruments became the new buzz words.\(^{75}\) Direct cash transfers, subsidies on basic goods and services, social infrastructure in deprived areas, employment generating public works schemes, targeted nutrition programmes, became the new concerns of the Bank. For an organisation, which was known publicly to have shorn lendings to the social sector in the past, the

---


\(^{75}\) Social Protection according to the Bank is defined as “human-capital oriented public interventions (i) to assist individuals, households, and communities better manage risk, and (ii) to provide support to the incapacitated poor.” S. L. Jorgensen and J. V. Domelen, “Helping the Poor Manage Risk Better: The Role of Social
spate of increased lendings definitely worked to change its image. Lending for the social sector increased significantly from 18.6 percent in 1995 to 25 percent in 2001.

Some scholars have analysed the Bank’s social funds portfolio in terms of generations. According to them the first generation of social funds represented those which were sanctioned primarily to complement the Bank’s structural adjustment programmes. They had as their primary objective, the provision of employment and income support to people driven into poverty by economic crisis. An example of such being the 1986, Bolivian Emergency Social Fund. The second generation of social funds, aimed more at long term poverty reduction through the provision of social and economic infrastructure, such as construction of schools, health posts, facilities for environmental sanitation, drainage etc. Such investments made in social infrastructure focussed on raising not just the productivity of labour, but also centred around ensuring a more sustainable economic growth in the future. The third generation of social funds started to appear around the mid-1990s, emphasising on developing the organisation capacity of the poor, through the rigorous participation of such persons in the disbursement of funds.


Six main principles guide the allocation and disbursement of the above funds in the social sector. These are:

- **Selectivity**: identifying strategic actions so as to catalyse and choose options having the greatest impact.

- **Partnership**: seeking alliances with other participants- multilateral, bilateral, governmental, non-governmental or private.

- **Client orientation**: responding to the real needs of clients and facilitating their participation in the design and implementation of Bank-supported programs.

- **Results orientation**: looking beyond lending commitments to maximum development impact, high quality services, increased efficiency and more accountability for performance.

- **Cost-effectiveness**: ensuring that scarce development resources are spent efficiently by streamlining bureaucratic processes, reducing administrative costs and improving coordination.

- **Financial integrity**: ensuring that the Bank continues to be able to provide both the resources and the best possible service that its clients need by maintaining its high standing in the financial markets.

Operations wise, social sector lendings make up significantly a relatively new field of Bank activities. Investments made in the social sector, are conventionally smaller and less-capital intensive in nature than other projects in more traditional fields and therefore the fact that they require more adept handling, more skills,

---

more time consuming, and difficult to implement, makes them all the more challenging than projects in other sectors. The next few chapters take a look at the specifics of the Bank’s social sector lending, to India. The history of the Bank’s assistance to India it may be noted has been a dynamic and adaptive one. India it may be noted has been 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 list, 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. Seen in that context, India it may be noted is an important test case for the Bank’s overall strategy in the social sector.