Chapter Two
CHAPTER-2

THE WORLD BANK GROUP IN INDIA—A
SYNOPTIC VIEW

The signboard at the World Bank’s Headquarter in Washington reads “Our Dream is a World Without Poverty”. The World Bank is seen as the beacon of development a lender, of last resort and a savvier of poor countries. It is supposed to combine the hard nose of a banker with the human face of a development agency. It is perceived to be more intellectual than UNDP agencies and less harsh than the IMF in administering bitter pills through conditionalities. It has tried to differentiate itself as a development bank lending to poor countries who are denied access to market financing and to social projects that do not command the interest of private investors.

(A report sponsored by the US Congress Meltza Commission 2000, Allen Meltzner of Carnegie Mellon University and Jaffary Sachs of Harvard University suggested that the World Bank should restrict its focus to poverty alleviation and vacate its role as a Bank, where capital markets can better take care).

However, as the Meltzer commission 2000 found in practice, more lending of World Bank goes to countries that barrow in the Capital markets, the World Bank Credit is just seen as a bit cheaper.
source of finance comforted by government guarantee normally not available for private sector lenders. With reduced funds on its disposal and bearing the criticism of its unwarranted taking up those functions that could well be left to the capital market. The Bank has changed its strategy from project based lending for ‘hardware’, which requires large funds—to lending for capacity building (for ‘software’ or consultancy services, requiring smaller amounts). It has also changed its role from primarily being a lender to being catalyst of lending by facilitating projects to access funds from the capital market. It does this by providing the ‘A’ loan which enables securing of much larger ‘B’ loans from commercial banks. It has also entered the guaranteeing and insurance business through its affiliate Multilateral Investments Guarantee Agency (MIGA). For instance, it gives a counter guarantee on a sovereign guarantee of a country, for a free!

It is difficult to apportion earlier the success or failure its policies between the Bank and country as it has to walk through the country governments and its institutions. Here good policies may become victims of poor implementation. Earlier studies came with a revelation that wherever there was good governance backed by strong institutional infrastructure the result have been good and ‘India’ was counted as one of those countries where the result were good. However, India has not benefited much from its approach in terms of
higher inflow of funds between 1993 and 1999. India received a modest 4% of the resources of the Bank, compared to 12% for China, 10% for Argentina, 9% for Russia, 7% for Mexico, 6% for Korea. Notwithstanding the fact that World Bank considers India as good borrower, yet not given its due in terms of quantum of lending.

In its 50-year of partnership with India, the Bank concentrated on the growth objective in the first phase, subscribing to the theory that developments would automatically twilled down out of growth. It has started initiatives on the main plank of poverty alleviation only recently. However, the World Bank formulated a near 20-20 vision for the year 2010 and has drawn up the following targets for India.

1. Reducing poverty to 15 percent

2. Halving the proportion of malnourished children

3. Putting in place a reliable disease surveillance system.

4. Increasing contraceptive prevalence to more than 60% of eligible couples; and reducing the population growth the rate to 1.2% (from 1.9%).

Even on the objective of growth, where the Bank concentrated its lending in the first phase, the investment resulted in less growth than in other countries, notably China, because about 40% of capital stock was under government ownership with poor productivity. The Bank lent and still goes exclusively to the government appears to be a
critical constraint particularly in India where government’s capital productivity is lower than in other LDC’s.

India has improved the well being of its people. Since the year 1970’s, country economic growth has risen, poverty has declined, and social indicators have improved. The average life expectancy at birth has increased from 49 which years to the current 63 years in the year 2003. Interestingly their was dramatic reduction since 1950 in infant mortality from 150 to current average of 68 per thousands live births.

Since post independence more than half of the country population was living in poverty, if we compare in the 1990s witnessed high levels of poverty reduction and important achievements in literacy with enrolment of primary school age children from 70% in 1992 to more than 80% at the end of the decade gross enrolment ratio in 2005.

India today has more than 100 million children aged 6 to 10 attending primary school, making it the World’s Second largest system after China. While these improvements shows achievements in a challenging environment. India’s social indicators remains weak by most measures of human development. However, there is little room for being complacent and more challenges are to be addressed yet.
CURRENT CHALLENGES

Poverty – A threat to developmental programmes is India’s one of the biggest challenges despite good progress since 1990s.

Country’s poverty, as measured in non-income indicators such as health and education is also a significant challenge. Despite remarkable progress in education, India still is home to the world’s largest number of illiterates. India still accounts for 25% of the world’s out of school children and more than 20% of the gender gap in elementary education.

The relative achievement of the stabilization and reform progress during the 1990s India’s future progress in reducing poverty and improving social indicators critically depends on the countries ability to accelerate economic growth and maintain a stable macro-economic framework.

With the growing global focus on the Millennium Development Goals (MDGs), including halving the proportion of people living on less than one dollar a day and achieving universal education by 2015, success in India is critical to the achievement of these goals.\(^2\)

While improvements in poverty and illiteracy are becoming more concentrated in India’s largest and poorest states namely Uttar Pradesh and Bihar. The relevant Millennium Development Goals will not be achieved without these efforts to widen economic opportunities and
solve some of the barriers to more rapid poverty reduction and better human outcomes.

Eradicating poverty is the declared objective of India's development strategy. A broad national consensus has emerged on the means to achieve this objective – rapid growth through industrialization and redistribute transfer to the poor. India's development policies welded two disparate visions namely Mahatma Gandhi's dream of a simple Village based economy and Nehru's Socialist ideal of self-reliant welfare state. In order to accommodate both, the government subsidized small scale industries and handicrafts and intervened extensively in the economy through publicly owned heavy industries economic openness was viewed with suspicion.

A series of five year plans gave concrete shape of the strategy in line with the development paradigm of their time.

Government control over the economy and large public investment in productive activities generated some social benefits but also had a significant negative side. The industrial licensing system, the restrictions on capital flows, and the controlled system of high trade barriers reduced competition. It theorized enterprise restructuring, generated monopoly rents and stifled growth. Paradoxically, the public sector – with its human and financial
resources overstretched – lacked the capacity to intervene effectively on behalf of the poor.

The proportion of poor people fluctuated around 50 percent through the 1970s, when the average per capita income growth rate was below 1 percent, the higher per capita growth of the 1980s estimated at 3.5 percent. But the high growth was unsustainable as it relied on excessive public spending and financing of the fiscal deficit at commercial rates. Moreover, the unintended bias against labour intensity was such that output growth in the industrial sector during 1951-91 did not contribute to poverty reduction at all, either in urban or rural areas. Instead, poverty reduction was positively affected by growth in the agricultural and service sectors, and by human capital development.

By the 1980, India had eradicated famine and attained self-sufficiency in food production. The Bank played a modest role in helping create the physical and institutional infrastructure of the Green Revolution, but the Bank’s role in sustaining the revolution was critical. India also made significant gains in social indicators with some southern states succeeding in bringing fertility to replacement levels. Between 1970 and the late 1980s, life expectancy rose from 49 to 60 years, infant mortality fell from 1.37 to 80 per thousand and the
annual population growth rate fell from 2.3% to 2%. Gross primary enrolment rose from 73% to 97%.

But social indicators trailed behind those of China and many other low-income countries by the end of the 1980s with only moderate steps toward economic reform. India also trailed in the global economic competition, the result of closure to trade and investment; a license-obsessed, restrictive state; inability to sustain social expenditures; loss of confidence in the efficiency of growth in reducing poverty; macro instability, indeed crisis, pessimism and marginalization of India in world affairs.4

Strong Foundations for Development

Based on policies prevailing in the mid-1990s, predictions of some researches using cross-country growth/regressions revealed a per capita growth rate of 3.6 percent a year beyond 1996. Their simulations showed that India could have doubled its per capita growth rate if it had adopted East Asian policies on public savings, openness, labor market flexibility and government spending.

Beyond growth and macroeconomic stability, researches and policy analysts have reached a broad consensus on the factors affecting the pace of poverty reduction in India; more effective public development spending to enhance infrastructure (especially in rural areas), human capital and agricultural productivity. In turn, policy
makers and governments frameworks influenced the accumulation of physical and human capital, their efficient allocation and technological innovation and adoption (Srinivasan 2001). All these factors have significant presence of the World Bank.

Widespread agreement has also emerged across the political spectrum on the need to rejuvenate the reform process. This view – articulated in the past five years in economic journals, policy studies, government committee deliberations, and Bank reports – have been endorsed by all past coalition governments and reaffirmed strongly by the current one. But the belief that a second round of reform comes also from vested interest that gain from the complex incentive structure. Preoccupation with issues of ethnicity and religion, regional pulls and pressures and ideological baggage of economic nationalism remain obstacles to sustained reform.

A LARGE, UNFINISHED REFORM AGENDA

Business surveys and qualitative assessments of India’s economic management and institutional performance in the 1990s confirm that there have been substantial improvements in many areas, but they also point to remaining frameworks of labour market policies, corporate governance and exit policy, banking sector efficiency and trade protection. High corporate tax rates (35 percent for domestic
coupons and 48 percent for foreign companies), in particular are a disincentive to private investment.

**FISCAL REFORM**

Reducing the fiscal deficit should be a priority but little progress on this front is expected till date. The public bureaucracy need streamlining. Public programs for marketing food and other commodities (including the still ineffective public distribution system) need further reform, as do programs for employment and training. Subsidies (about 14.4% of GDP) and public enterprise losses need to be reduced expenditure need to be redirected towards operations and maintenance and investment in infrastructure. To improve revenue buoyancy and equity, the tax base needs broadening and tax administration need improvement.

**GOVERNANCE**

Variable enforcement of laws, regulations and contracts and delayed administration of justice are serious problems, especially with respect to the poor. The chain of accountability from the Civil Service to the legislature is weak–audit reports have limited impact because of a lack of transparency delays and poor follow up by parliamentary committees. State administrative and financial controls capacities have large gaps and variations. The performance of the Civil Service is undermined by overstaffing, low salaries, inadequate performance
appraisals, and political interference, corruption which extends to the police and judicial system is perceived to be serious.

Much work lies ahead to improve weak governance. In addition to strengthening financial accountability public sector reforms require focus on quality efficiency, incentives for service delivery and orientation towards a market economy. The legal system also needs strengthening to fight corruption and uphold equality under the law. Devolution of powers has been gradual since the landmark 1992 constitutional amendment mandated decentralization of state responsibilities to elected local bodies or panchayats and enhanced representation of women's in such bodies. Training is needed to improve local capacity for administration and service delivery.

PRIVATE AND FINANCIAL SECTOR DEVELOPMENT

A major constraint to private sector development is slow privatization of public enterprises, including banks, due in part to a blurred delineation of responsibilities among the multiple government agencies and commission that advise on and implement privatization. Overlay protective labor laws need to be relaxed archaic bankruptly and liquidation laws and procedures (including sick industrial company) urgently need reform completing regulatory framework for corporate governance also needs more transparency.
OPENNESS

Protection remains very high compared with all large countries in Asia and Latin America. The liberalization timetable to correct the still substantial anti-export bias of the current regime should be accelerated. Even internally, India is not a single common market, especially in agriculture – interest rate, sale taxes, and movement restrictions across and within status still apply.

AGRICULTURAL REFORM

Agriculture remains over-regulated, with distracted production and marketing incentives. Public resources are used inefficiently, mostly for public employees' salaries and subsidies for water, electricity, fertilizers and food that does not reach the poorest. Basic reforms are needed to free internal trade, eliminate other market distortions and interface India fully with world markets while. Increasing investment in agricultural technology and rural infrastructure, protecting the poor, and ensuring that quality inputs are supplied is also the call of the day.

ENVIRONMENTAL PROTECTION

Environmental legislation is adequate, but current efforts to strengthen the weak enforcement capacity must be accompanied by policy changes. To stem over-watering and excessive private, pumping, form, aquifers, subsidies for electricity and water should be
drastically reduced. Community based programs hold promise for improved natural resource management, but scaling them up requires increased public funding. A more effective public role for urban sanitation services is also needed.

SOCIAL SECTORS

Public education can be effective, as Madhya Pradesh, where local community successfully took responsibility for hiring teachers and monitoring their performance. At the same time, national enrolment level in primary schools, better efficiency access by the poor requires increasing public expenditures, reallocating expenditures away from territory levels toward primary ones, making institutional changes.

SOCIAL INCLUSION

India’s public sector has an affirmative action program which applies to elected bodies to help break caste inequality. Reservation of a third of local council seats for women, decreed by the 1992 Panchayats Act, is already raising the voice of poor women in local politics. India’s gender strategy aims to empower women socially and economically by changing attitudes toward girls, providing education, training, employment and support services and emphasizing women’s rights and laws. This strategy should be pursued with renewed vigor, sensitively mainstreaming programmes in all development programs.
and monitoring their gender – disaggregated and carte-disagreement impact.

**INDIA–THE WORLD BANK HISTORICAL RELATIONSHIP**

India was one of the Bank founding members and is still one of the Bank’s main borrowers and has had a major influence on the bank understanding of development. The bank has been India’s largest source of all long-term gross inflows in the 1980s by the end of 1990s still supplying more than a Fifth. The Bank disbursement which were about 5.5 percent of gross domestic public investment during the 1980s and have been 6.2 percent since 1998 cumulative lending from 1950 until June 2000 has been $53.8 billion for 412 Project Split almost equally between the International Development Association (IDA) and the International Bank for Reconstruction and Development (IBRD).5 Bank commitment to India have averaged about $1.6 billion annually during fiscal 1997-2000, with 54 percent from IDA and 46 percent from the IBRD. Satisfactory country policy performance, however IBRD lending in recent years would have been substantially higher and the blend would have been harder.

Bank’s relationship with India began with a slow acquaintanceship; praise from the bank for India First Five Year Plan; cautious lending for railways, iron and steel irrigation and development financial and mild criticism of the overlay ambitious second five year
plan in the late 1950's. Initially, the Bank and other donor supported the third five years plan consisting of ambitious investment programs supported by general capital transfer. But a high level bank economic mission led by B. Bell criticized the government development strategy and recommended greater liberalization, increased foreign assistance, and a currency devaluation. The sense of vulnerability prevailing in dependence on aid, exacerbated sensitiveness about outside interference.

The policy dialogue triggered by the Bell’s report and directed by the Bank president become confrontational. The bank and India became estranged with the notable exception of agriculture (that part of the bell report) was prepared under the direction of John Crow ford for the bank, the policy dialogue represent an early attempt to use the leverage of its lending in a major member country. India’s agricultural sector become the focus of bank assistance. With helped expedite the adoption and dissemination of the new technologies that produced the green revolution. At the same time, Indian authorities – who feared Bank interference in politically ambitions to support government anti poverty programs policy advice and economic analysis mostly produced by resident mission staff in close consultation with government officials had a modest impact. Conditionally was used sparingly and common ground between the Bank objectives and the
government was continually stressed. External political factors helped cement the relationship while assistance from the U.S. government declined, reflecting a deteriorating political relationship, bank lending increased and soon exceeded aid flows from other donors, eliciting much good will from Indian officials by the end of 1970s. India and bank were converging the Bank had adopted the essence of India outlook on development priorities, while India agreed to cut tangle of red tape.

During 1980s, most academics, government officials, and top political leader became aware of the need to adopt a new model of economic management. But the necessary political support for far reaching reform was not forthcoming. Bank staff identified a large number of sector especially in industry and finance, that pointed to policy deficiencies, requiring attention. While the Bank was actively promoting structural adjustment in many of its member countries, high-level discussion of necessary policy adjustment in India was largely avoided. Throughout 1980s Bank management did not address India disappointing policy record for fear of jeopardizing a strong lending relationship with a sensitive client. The Bank also muffed its advisory and institutional reporting roles. Although IDA lending slowed considerably throughout the 1980s both as a proportion of the total and in absolute terms
IBRD lending and International Financial Corporation investment expanded very rapidly. Total bank annual commitment reached a peak of $3 billion in Fiscal 1989 and $18.5 billion for the decade. In many cases bank supported project were inconsistent with bank economic and sector analysis and advice. Many project had limited policy content and supported the expansion of the state in economy, regardless of efficiency. The bank continued to lend to public sector enterprises that made fertilizer steel and cement etc.

The bank also bent for the expansion of irrigation system known for their inability to recover cost and cloved with the suspicion of corruption. The focus on irrigation came at the cost of neglect of rain fed areas in which a large portion of the rural poor live. Bank lending for urban development met with considerable failure because it ignored the public finance and institutional development aspect of urban lending. The failure was so profound that it became the reason for the decision in the first half of the 1990s to withdraw entirely from the sector.

Furthermore despite the great needs in the social sector the Bank was not able to establish a dialogue or of the government resistance to foreign advice. There were some bright spot such as a loan to the housing development corporation that helped establish project that provided resources.
For venture capital research and development on the whole however, in the 1980s, transfer of resources was the over riding object of the Bank, with little concern for the effectiveness with which these resources were used. As lending expanded in the wrong direction, the quality at entry of the bank portfolio faltered. OED rated bank performance at the project-appraised stage satisfactory in only 26 of 57 operation (52 percent of total commitment) approved in Fiscal 1985-89.8

**THE CHANGING SCENARIO:**

Against the backdrop of strong commitment to structural adjustment by a new government, the relevance of bank assistance increased markedly during and immediately after the 1990-91 macro economic crisis. Changing the mindset of the principal counterparts in the core sectors was not the issue any more. Instead the central challenge was to help the newly elected reform minded government implement its programs, a challenge that the bank substantially met.

Bank assistance focused on supporting macro economic stabilization measure (together with the International Monetary Fund) reform in the investment and trade regimes, finance, taxation and public enterprises and cushioning short term social costs etc. At the same time the bank sought to discontinue old style lending for public enterprises and state electricity board and to build a lending programs in health and education. The bank continued lending however in a number of sector without a sector strategy and without seeking the necessary reform (for example in Agricultural irrigation Urban Water Supply and even banking). Nonetheless the partial attempt to make bank advice consistent with its lending led to a record drop in new commitment in Fiscal 1994 to less than $1 billion and dismantling of the industrial and Finance division of the Indian Department. For the first half of 1990s Bank focused on crucial areas of reforms for
sustainable growth (for improved macro economic management and liberalization of the trade and investment regime and on human development (for broad based improvement of primary social services). It also expanded its support for environmental protection. But the bank did not pay enough attention to inadequacy of agriculture and the structural constraints to rural development. It initially ignored opportunities to reform safety nets and to improve the targeting of the poor and women in its project and it public expenditure. In the second half of 1990s the relevance of Bank assistance to poverty reduction improved and much more so after 1997. In the mid 1990s the Bank began studying state finances, increased its attention to sector reforms, offered assistance in establishing a framework conducive to efficient private investment in infrastructure. It also offered its support in structuring social program and providing the poor with skills to participate in the new, more competitive economy.

The telecommunication companies, ports and gas and oil sector which had the potential to attract private investment were excluding from lending assistance. All new loans were expected to have strong policy content. The 1995 Country Assistance Strategy (CAS) document explicitly listed continued reduction of the central government deficit to 5.5 percent in 1995-96 and beyond and progress in implementing it
reform agenda as triggers for providing annual lending volumes of around $2.9 billion.

The strategy also proposed to discontinue lending to states whose fiscal stance was unsustainable. Significant shortfalls against that trigger were expected to lead to progressive reduction in lending. It also approach to deal with the challenge of finding a role for bank in supporting reforms. That is to scale up lending to reforming states. And for the first time the CAS articulated monitorable target against which the success of assistance can be judged.

Support for policy reform (through early engagement and building consensus and ownership with partner and client) in key areas including rural development, power, urban management and urban water supply and sanitation.

- Focus on poverty alleviation including a large and expanding social lending program and initiatives for community participating and demand driven small investment in the poorest district.

- Increased priority to the social and environmental impact of Bank operation.

- Promotion of public sector development including the financial sector.
The table reveals that in addition to the reduction in poverty incidence, education indicators have improved markedly. For the first time since independence, the absolute number of illiterate citizens in India declined between 1991 and 2001. Literacy rates rose particularly for women. Enrollment rates of primary aged children also increased, and the gap between enrolment ratio for boys and girls declined.

However, against these achievements, progress in improving health indicators in India has been mixed. Reduction in the Infant Mortality rate (IMR) slowed during the previous decade and the higher IMRs have persisted among disadvantaged groups such as SC/ST population. Progress in addressing malnutrition has been minimal. Based on existing data, the maternal mortality rates has worsened; however there are problems with the data. Other worrisome trends are an accelerating rate of infection by HIV/AIDS and deterioration in the overall sex ratio for children under four. These trends have continued despite an increase in public expenditures on health. It is partly because public expenditures on health, remain low by international standards and thus much need to be done. Furthermore, the aggregate indicators mark widening divergence in GDP per capita and other indicators of well being between the richer and poorer states. While poverty declined in both, the rate of progress is skewed in favor of richer states. In 1999/2000, 76 percent of India's poor lived in the
states with per capita GDP lower than the all India average. Generally, the poorest states also lagged behind in social indicators. For example, Assam have the highest percent of population that is calorie deficient, reflecting extreme hunger poverty; Orrisa, Madhya Pradesh and Uttar Pradesh have the highest infant and child mortality rates; and UP shows the lowest primary school enrollment rate. Access to reliable water supply and electricity, which is important to both economic and human development is missing.

**CONCENTRATION OF POVERTY IN INDIA**

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<thead>
<tr>
<th>% of total number of poor</th>
<th>1983</th>
<th>1987/88</th>
<th>1993/94</th>
<th>1999/00</th>
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<tr>
<td>Poor states*</td>
<td>71</td>
<td>70</td>
<td>71</td>
<td>76</td>
</tr>
<tr>
<td>Richer states**</td>
<td>27</td>
<td>28</td>
<td>26</td>
<td>22</td>
</tr>
<tr>
<td>Others</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>3</td>
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<td></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
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Notes: * includes AP, Assam, Bihar, Kerela, MP, Orissa, Rajasthan, UP, and West Bengal

** Includes Gujarat, Haryana, Karnataka, Maharashtra, Punjab and Tamilnadu.

Source: India : Staff Calculations, based on Planning commission.
Performance on environmental issues, particularly related to environmental health, also reflects some growing disparities. While urban air pollution in Delhi and other metro-cities has stabilized largely thanks to mounting pressure to act from environmental activities and NGOs representing the urban elite- efforts. To reduce indoor air pollution from the use of traditional biomass fuels have suffered from inconsistent policies and lack of recognition of the issue. For the poor, it is often this indoor air pollution that constitutes a larger risk to health, disproportionately affects women and young children and contributes to high infant/child mortality rates.

In other areas of environmental sustainability, the story is mixed. For instance, deforestation appears to have been reversed on a national scale, which is a considerable achievement. At the same time consumption of fuel wood has increased, suggesting continued pressures on forests. The worsening availability and quality of water, particularly ground water depletion, has emerged as the major concern threatening livelihoods and development prospects in many areas.

The issue of whether India will be able to reach its MDGs targets by 2015 is yet to be analysed. The recently completed Bank report "Attaining the Millennium Development Goals in India" has focused on the major human development related MDGs (e.g. child mortality, child malnutrition, schooling enrolment and completion, gender
disparity in schooling and hunger poverty. In its analysis of progress for achieving the MDGs at the state level, the report asserts that India cannot hope to attain the MDGs without significant improvement in the poorest states, which will account for an even larger share of the country's population in 2015. The study concludes that achieving these goals will be very challenging in the poorest states particularly for the goals 100% net primary enrollment and 100% primary completion of education.

**ECONOMIC DEVELOPMENTS AND OUTLOOK**

India's ambitious program of economic reforms, underway since 1991, can be credited to overall good progress in increasing incomes and improving living standards.

Even though the pace of reforms has been since the mid-1990s, cumulative changes so far have been substantial. Reforms included abolition of all quantitative restrictions on non-consumer goods, reduction in tariff, unification of the exchange rates, adoption of more liberal rules of foreign direct investment, and the introduction of current account convertibility. Many sectors have opened up to private activity, trade policy, the exchange rate have been further liberalized, and the reform of capital markets has started, leading to an improved investment climate. After several years of, at the best, slow decline, tariffs were significantly reduced in Jan 2004 - the average un-weighted
tariff was cut from 22 percent to 33 percent. There were initial signs of fiscal adjustments at the center and in some states.

INDIA AND THE WORLD BANK GROUP PARTNERSHIP:

Given the vast development challenges, and the modest size of the bank group programs relative to the population and economy of India, the Bank group cannot support India in every effort towards achieving its tenth plan goals and the MDGs. Instead, since 1997 bank group strategy has been to engage selectivity in India and primarily at the state level, with knowledge resource and financing geared towards reform. The main thrust of the strategy has been to support the programs to create demonstration effect that might stimulate reform across other states, or in the other sectors of reforming states.\(^{13}\)

In developing this CAS, the Bank focused on key aspects of the reform agenda and working in partnership with Govt. of India, reforming states and others. The recent bank group has been ambitious in their efforts to catalyze and expand the state reform process in area that are central to reducing poverty in India - and when process in reform was slower than expected, bank strategy was also well structured to deal with the slowdown in reform implementation that took place in several states.\(^{14}\) While concluding that the FY02-04 strategy was broadly appropriate, the review points to some lessons of experience which
suggest an evolution (rather than a fundamental rethink) of the strategy. Going forward these include; the need to address growing disparities in state development performance, especially given the importance of the poorest states for achievement of MDGs; the importance of long term engagement with states on cross-cutting reform issue; and the disadvantages of concentrating investment lending in states that are recipients of adjustment lending.

For new Bank lending, commitments fell short of the base case of the CAS during FY03 and FY04 and below the program envisioned at the time of the Progress Report. Reasons for this include delay in both adjustment and investment lending due to a slower than expected pace of reform implementation in some states. Consistent with the 'Self-activating triggers' of the Fy02-O4 CAS, the Bank's lending volumes have been reduced when states have slowed in their implementation of fiscal, governance and power reforms. The investment pipeline was also affected by preparation delays.

Despite this IDA resources, which are constrained at low levels relative to India's size and absorptive capacity, are likely to be fully utilized. By contrast, while the slowdown in some states reforms reduced Bank financing, during FY03 and FY04 the AAA program of the Bank was stepped up. The country team continued dialogue on reforms and provided non-lending technical assistance in UP when
further adjustment lending was put on hold as the state's reform process faltered. Substantial policy advice and non-lending technical assistance have also been provided in states where adjustment lending has been under preparation, namely AP, Karnataka, Tamil Nadu and Orrisa. Important analytic work on the investment climate and fiscal, governance and power sector reform was also initiated in states where the bank had not previously been engaged in these areas, including Maharashtra, Bihar and Punjab.\textsuperscript{15}

In addition to the expansion of state level policy dialogue the country team focused on major studies such as the DPR and an AP Growth Study in order to disseminate key messages more widely across India. A Country Procurement Assessment Review (CPAR), several State Financial Accountability assessments (SFAAs) and numerous sectoral policy notes, workshops and dissemination activities were also delivered to bolster the reforms at both the federal and states levels.

For IFC programs, commitment in India grew strongly over the period, despite considerable variation in response to market and regulatory conditions. Over the last two years record commitment was achieved in India, nearly doubling its portfolio, improving profitability and investing in high impact projects, making India IFC's second largest exposure. In FY-05, IFC committed a record US$348 million, with a concentration in manufacturing. It also made investment in
agribusiness, power, oil expansion through in long term debt, aided by the introduction (in FY-02) of local currency lending, which is better suited to sectors such as infrastructure, housing finance and healthcare that do not generate foreign exchange.

**SCALING UP**

The country team’s review of Bank Group assistance reconfirmed the positive impact that the Bank Group can have when focusing on supporting key aspects of the reform agenda and working in partnership with the government, states and others. The Bank Group offers a number of strengths. First among these is the Bank Group ability to gather and share global knowledge and experience with government and other important audiences in India. Secondly, the Bank Group has a broad array of tools that it can offer to help mobilize private financing and foster greater private sector participation in India’s development. Thirdly, through lending and investments the Bank Group can help catalyze greater effectiveness and more efficient spending of others (e.g., state level governments) towards the ultimate goal of reducing poverty and encouraging India’s sustainable development. *In looking ahead, the core message of this CAS is to build on this strength while engaging in new ways with India to achieve a major step-up in Bank Group impact and delivery.*
To achieve this enhanced impact, three *Strategic Principles* will underpin the Bank Group's work:

- *Focusing on outcomes*, to ensure that all of the work of the Bank Group is explicitly geared towards supporting India's achievement of its development goals. The Bank Group will support achievement of these outcomes with all of its finance and knowledge resources in India; the outcomes will in turn serve as the goal post to measure the effectiveness of Bank Group support over the medium term timeframe of the assistance strategy.

During FY-05 the Bank Group will also seek to support or develop a stronger focus on results and an 'outcome orientation' within the programs of Government and the states, emphasizing impact monitoring and evaluation and improved service delivery for some of the most far reaching programs of government.

- Due to the complexity of India's development challenges, World Bank group program will necessarily span a wide range of sectors and types of interventions. Nevertheless, selectivity will be applied, to target limited recourses to activities where assistance is welcome and where contributions can also be the most effective. Lending selectivity will also be exercised by choosing projects in a way that seek to maximize their impact. During FY-05, this means focusing adjustment lending on states undertaking comprehensive reforms, as is currently
the case, and applying 'guidelines for engagement' for investment lending. Even with scaled-up lending, gross disbursements will be very small in relation to the size of India's economy - less than 0.2 % of GDP. Selectivity therefore also means a greater emphasis, on projects that move from successful pilots to larger scale interventions, and projects that scale expansion of proven government programs on a sector wise basis.

The Bank will also aim to substantially expand its role as a particular realistic knowledge provider and generator. To achieve this shift, changes are envisioned on a number of fronts, including: (i) strengthening Bank capacity to act as a channel for ideas and of international experience; (ii) placing greater emphasis on understanding the motivation of interest group and different stakeholders in the reform process; (iii) helping clients to better communicate the potential benefits of their reform programs; and (iv) operating in more strategic and integrated fashion across different organizational units of the Bank to leverage knowledge resource more effectively. Given the modest scale of Bank group financing, to help realize its role as a full development partner, an important part of its knowledge function will be directed to supporting better delivery and effectiveness of government programs, with the aim of leveraging rather small knowledge - based intervention into significant impact on
development outcomes. Applying these strategic principles, the bank will seek a substantial increase in its volume of lending to India.

Given India's enormous needs, the expansion will primarily be in (i) **infrastructure** (roads, transport, power, water supply and sanitation, irrigation and urban development - to underpin both accelerated growth and improved services delivery); (ii) **human development** (education, health, social protection - priorities to support specific MDGs); and (iii) **rural livelihoods** (with an emphasis on community-driven approaches). Cross cutting reforms at state level will also remain an important focus. Expansion in lending for human development and rural livelihoods will depend critically on availability of IDA resources; whole expansion would be justified by the opportunity to contribute to achieving MDGs.

The stepped up program will provide increased opportunity of collaboration across the bank group to promote innovative **Public-Private Partnerships (PPPs)** for infrastructure development - particularly in power and transport. The private sector development strategy suggests some areas where this collaboration might be developed. The basic principle guiding the division of labor is for the Bank to support activities that warrant public support, while IFC and MIGA assistance will encompass activities that fall within the private sector's role.
IFC will continue to provide equity and loan financing and guarantees to supplement what is available from India financial institution or capital markets, and will help to mobilize financing from both domestic and international sources. This will include pioneering investments in infrastructure where innovative structure and long tenures are required. Investments in projects which are constrained by limited risk appetite of other investors, including medium-sized manufacturing companies, agribusiness companies and companies entering new markets domestically and internationally, IFC will add value to the projects it invest in by mobilizing finance from other source (especially foreign investment), advising on structuring, acting as an honest broker between various projects parties and facilitating international partnership, particularly with other developed countries.

In its lending and investment, the bank group on adding value through advice on environment, social substantiability and the transfer of global knowledge and best practices. In doing so, IFC will promote higher corporate standards of social and environment responsibility. Harmonization with government system will be managed carefully, focusing during the CAS period on sectors in which its benefits are clearly greater than risks (i.e., large number of small, relatively low risk investment as in education, reproductive and child health, rural water and rural roads).
Additionally, country-financing parameters, which will allow increased flexibility in the type of expenditure that are eligible for Bank Financing in India, are also being developed. While the new financing parameters are not likely to lead to a significant change in demand for bank financing, they can simplify procedure and reduce the transaction costs of Bank financing for Government of India.

In order to scale up the impact of the Bank group's global knowledge resources in India, AAA program is being reshaped to focus on (i) preparation and dissemination of a limited number of major reports on key issues in India's development, either required for fiduciary reasons, or focused on topic which a public exposition of bank views would be helpful to advancing the development debate; and (ii) 'just in time' activities primarily in response to Government of India requests. The bank group will seek an increasing array of partnerships local research institutions and interested organizations in both developing its analytic work and disseminating important findings. An enhanced program of support on five of the areas where capacity-building efforts can be most beneficial has been initialized. These five thematic areas - HIV/AIDS control, urban development, local government capacity building, improving the investment climate and strengthening fiscal management along with a particular focus on four of the poorest states with the greatest capacity building needs.
Since India has underutilized funds and grant programs offered by the bank group in the past, at the request of Govt. of India, greater effort will be made to enhance participation with these programs in the coming strategy period. In particular, Govt. of India and the bank will seek to help strengthen project readiness via upfront analytical work strengthen implementation capacity or the capacity of key institutions (e.g., through Japan Policy and Human Resource Development (JPHRD) and Institutional Development Fund (IDF) grants etc.

**WORKING AT NATIONAL LEVEL**

Scaling up will require expanded bank support at national level. A large part of this expansion will be in the form of AAA: for instance the series of major reports will primarily address issues of national consequences. Some of these issues are expected to be: the implication of India's gender imbalances, employment issues (especially young people), long term economic impacts of HIV/AIDS, building India's knowledge economy, India's adaptation to climate change and a review of disability issues etc. The medium term review of the CAS will address the program anticipated for the latter half of the strategy period. With the recent DPR serving as a model, the bank will work to bring a multi-sectoral perspective to these studies and seek broad dissemination of their messages across India. The increase in overall lending will also involve more lending at national level compared to
recent years. An important shift envisioned for FY07-08 is the use of new approaches, including Co-financing with other development partners under common arrangements, for national programs in the areas most critical to meeting the MDGs. Using such approaches, the bank will seek to step up its national level engagement and work closely with partners that can join the bank in providing substantial assistance. Such operations are already beginning to materialize, with the first being a major new sector-wise approach supporting Govt. of India national elementary education program - Sarva Sikhsa Abhiyaan (SSA) - approved by board in April 2004. This can be expected to pave way for a stronger and more effective partnership between the Bank and the Govt. of India in a future.

WORKING WITH THE STATES

Some important shifts are also being implemented in the bank group approaches to the states. Since 1997, the CAS has included a focus on the states undertaken comprehensive reforms, in order to support the leaders of change and serve as a catalyst to the states level reform process. With the widening gulf between the reforming and non-reforming states in India, leading to a concentration of poverty and poor social indicators in just a few states, some shifts in this approach are warranted. Though the bank group strategy will retain an essentially reform and performance based approaches to the states, it
will also change in ways that are intended to go as far as possible in opening up new opportunities for engagement with these largest and poorest states.

A number of steps are envisaged. Firstly, in consultation with Government of India the bank is seeking in this CAS to ensure that all of the largest and poorest states of India that so which are engaged in a dialogue on cross-cutting reforms that are the focus of adjustment lending (fiscal management, governance, service delivery, the power sector and the investment climate), regardless of their eligibility for adjustment lending. Either the Bank or ADB would take the lead in offering support through dialogue on cross cutting reforms in each of the major states. Twelve of India's 28 states account for 90% of the poor. The Bank is currently actively engaged in dialogue with Karnataka, Orissa (in collaboration with DFID), AP (in collaboration with DFID), UP and Tamil Nadu and would seek a similar dialogue with Bihar, Maharashtra, Rajasthan and Jharkhand. ADB is engaged in dialogue with MP (in collaboration) and Assam. ADB has also had a longstanding engagement with West Bengal.

Secondly, the Bank will work proactively try to build a productive development relationship with four states where poverty is increasingly concentrated in India and where public institutions are considered to be at their weakest - Bihar, Jharkhand, Orissa and UP.
This support could go beyond the basic dialogue on crosscutting reform noted above.

The expanded support of these four states could take several forms during the strategy period. The bank would seek to mobilize limited grant funding resources (e.g., from the IDF or Japan Social Development Funds (JSDF) to finance innovative governmental and non-governmental activities targeted to poverty reduction and progress towards MDGs. A good example of this kind of work is the recent approval of a JSDF seed grant for the Orissa fund for development initiatives. The bank would also work to help these states meet 'guidelines for engagement' for investment lending in support of critical poverty focused projects. At this time the most promising candidates are the IDA financed projects that rely on community driven approaches to improve rural livelihood, watershed management and rural water supply and sanitation. The country program and WBI will also seek avenues for focused knowledge support and capacity building in these states.

Thirdly, State level Adjustment Lending operations (SALs), aimed at supporting achievement of the MDGs, are also expected to remain an important part of the bank program - up to 15% of total lending. While in the initial phase such lending was limited to three states (UP, AP and Karnataka), Gol has adopted the guideline of united
official external financing of states budgets which provide transparent criteria for such support and have opened the way for additional states to receive such funding on a performance basis. In addition to supporting states the government efforts to reduce fiscal deficits, reform the power sector, strengthen governance and implementation of a range of actions to improve the investment climate - all of which have been covered by initial states SALs - this lending would support cross cutting actions to improve preceded by in-depth analytic work, and the bank would provide technical assistance to help states as they implementation their comprehensive reform programs.

Government of India guidelines for states adjustment lending will be the subject of ongoing discussion between Government of India and the Bank to adapt to evolving circumstances. However, the most recent guidelines emphasize that external support be designed so that:

- Any state that is considered to be implementing a comprehensive reform effort would be eligible for adjustment lending. Similarly, any previously performing state that discontinues comprehensive reform implementation would no longer be eligible for adjustment lending for as long as it remain off track.

- Adjustment lending to states would be set in a medium term framework of about five years, consisting of about medium term reform program and associated external financing.
• Progressive deficit reduction, power sector reform, improved governance, the investment climate and improved services delivery would be elements of all programs, with the basic design principle being to focus on key actions within the states control that would promote poverty reduction most effectively; and

• External financing would not be an addition to overall financing for states (since it would be in the context of declining states budget deficits) and is therefore to be seen as refinancing or substituting for higher cost debt. In this context, states with both serious debt sustainability issues and solid reform programs would be the best candidates for adjustment lending; on lending terms for adjustment lending would be kept under review, bearing in mind their basic role as an incentive for reform implementation.

Fourthly, there is no longer an upfront decision to concentrate substantial state-level investment lending on 'focus states' that are also receiving adjustment lending in support of cross-cutting reforms. Instead, investment lending will be channeled more broadly to states that are able to comply with the new 'guideline for engagement' for the relevant sector. These guidelines attempt to set out the sector-specific conditions that experience has shown to be necessary for project success. Given that small size of bank resources relative to the vast needs across India's states - and the prospects that more states will take
up sector reform during the period - it is likely that demand for bank support could outstrip its capacity to respond at the same time within a sector. Where this is the case, the Bank would engage first with the states with the greatest number of poor citizen, or weakest indicators, in order to maximize its impact.

WORKING WITH EXTERNAL PARTNERS

Recently Government of India announced new guidelines for the development cooperation with bilateral partners. As per the new guidelines, India will receive direct bilateral assistance only from Japan, the United Kingdom, Germany, the United States, the European commission and the Russian Federation. All other bilateral assistance would be routed either through multilateral organization or for projects of economic and social importance directly to universities, NGOs or autonomous bodies registered under the foreign contribution (regulation) act.

The work of the Bank group has been coordinated or leveraged with that of external partners in the most sectors, including energy (ADB, JBIC, DFID, USAID, KfW, CIDA), education (EC, DIFD), health and nutrition(USAID, WHO, EC, DIFD, UN Agencies, CDC, AUSAID, ILO and other institution including the gates foundation), and small and medium enterprise financing (DFID, KfW and GTZ). IFC has co-financed investments with ADB, DEG and FMO and has
partnered with ADB, CIDA, DFID, the EC, the Netherlands and Norway in Small and Medium Enterprise (SME) development technical assistance in north east India.  

Generally, coordination has worked well through informal communications at the projects team level, complemented at the projects team level, complemented by periodic overview discussions with the various partners, usually in Delhi. During the FY07-08 strategy period the bank group would continue to proactively look for opportunity to ensure coordination and cooperation with external partners in this way. In addition, in the changed donor landscape, a particular focus in our coordinated with the largest external financing sources (ADB, EC, DFID, Japan, and Germany) will be on the efforts to develop common, harmonized financing approaches that are based on Govt. judiciary and safeguard arrangements, within the constrains of evolving bank policy.

There are considerable overlaps in the areas of activity between the Bank and ADB in India - both institutions have a substantial and growing involvement in infrastructure and in energy, and are also engaged in adjustment lending to states. Frequent interactions between the Bank and ADB staff, generally through their New Delhi offices, have been effective in ensuring strong coordination and open activities complementary and mutually reinforcing. The possibility of both
institutions supporting the national rural roads program through co-financing is being reviewed. A coordinated assistance strategy for national roads was jointly developed by ADB, the Bank and Govt. of India, is now under implementation and will be updated shortly. The Bank group and ADB also coordinate in other sectors, including urban development and energy.

At the initiative of DFID, the bank and DFID India entered into a strategy partnership agreement more recently that will provide a broad context to the institutions' cooperation in support of the Govt. of India's development efforts. DFID and the Bank have worked together on direct budgetary support and power sector reform in AP and Orissa, and also co-finance (with other agencies) Govt. of India's centrally sponsored RCH and education programs. Complementary support is also provided in rural urban development and power sector reform.

IMPLEMENTATION AND MONITORING

Achieving the main objective of this CAS - a measure in the bank's impact delivery in India - will pose many challenges in the years ahead. Actions are already underway to address these challenges by strengthening organization and management of the country program. To enable the Bank to move to a higher level of delivery and allow for close interaction with its clients, a cadre of senior staff is being positioned in New Delhi office. Lead specialist positions have been
created in key sectors and sub sectors in order to strengthen team leadership and accountability in New Delhi, while also improving links to the networks. In order to provide coordinated support to growing number to states where the bank will engage, state coordinators have also been designated. Strategic oversight and management of Bank's growing program is also being strengthened in the country management unit, including position of a senior country manager in Washington.

This realignment is taking place within the context of an already strong Bank team that is highly decentralized. Since 1997, India-country director has based in the New Delhi office and operational responsibility has been substantially delegated to an expanded team in India. During FY04, more than 44% of all lending, AAA and TA activities were led by task managers in India. New Delhi is increasingly used as a hub for regional operation of the bank and is the operational base for procurement.17

IFCs activities in India are managed from a regional hub based in new Delhi, with a smaller office in Mumbai. Together, they are responsible for the business development in all sectors and portfolio supervision of manufacturing, services and financial sector projects. To ensure that clients benefits from IFCs global expertise, country based staff and global staff based in Washington work closely together in project teams. In addition, some senior international staff is based in
Delhi and Mumbai, while locally recruited staff is given extensive training at IFC headquarters as well as opportunities for international experience. To increase its presence in southern India, IFC intend to establish a small office in Chennai, co-located with IBRD/IDA accounting office and a small SEDF office in Guwahati, Assam for delivery of SME programs in north and India-east India.

FACTS ABOUT THE WORLD BANK IN INDIA

1. **India is one of the world bank “founding – fathers”**

   India was among the 17 original participants of the 1944 Bretton Woods Conference conceiving the idea of the International Bank for Reconstruction and Development more commonly known today as “The World Bank”.

2. **World Bank Loans are Cheap Sources of Financing**

   India receives roughly half of its World Bank loans interest free. These are through Bank’s International Development Association. This agency provides grants annually, which are loans at zero interest with a 0.75 percent finance change. The remaining world Bank loans to India are provided by the International Bank for reconstruction development, another world bank agency which provides loans at low interest. The countries that borrow from the IBRD have more time to repay when compared to the remaining portion that is expected to be repaid within 15 to 20 years with a
3. **The Bank Rely on Local Expertise**

The world bank office in New Delhi has around 140 professional staff members of which around 95 percent are Indian nationals who specialize in areas such as education, financial management, resource management, information technology and communication. The Bank works closely with the Indian government. This is the world Bank’s overall strategy as the country is specially designed to support the goals outlined in the government yearly plans.

4. **The Bank looked to India first for new development ideas.**

In December 2003, New Delhi allowed non-government players in the development area and find funding for their creative programs. More than 1500 proposals were received out of which the 20 most innovative ideas got support grant of US$20,000.

5. **Bank has Joined hands with India to fight against HIV/AIDS**

The Bank is largest financer of India’s National AIDS Control Program (NACP) a commitment of around US$275 million in interest free credits. The government develops its ability to manage HIV/AIDS programs at the central and state levels government is enabled to ensure important gains in improving blood safety, expanding surveillance to the scope of the problem, and scaling up activities aimed at prevention and treatment support from the Bank and other donors.
6. World Bank Bringing Bank Assistance to the State Level

Although Bank financing in still channeled through national governments, World Bank have agreement that allows a significant amount of this to go to some of India's poorest and more active states like Andhra Pradesh, Uttar Pradesh, and Karnataka. Focus of the work has been supporting fiscal reforms, reducing corruption and accountability of State Governments.

7. World Bank and Energy Sector

For 50 years, World Bank assistance to India's energy sector has covered power projects and alternative sources of energy. Bank has been a key partner in government's efforts to develop its national power grid, and it has provided assistance aimed at increasing the access of poor people to electricity and clean fuel.

8. World Bank Excited about e-governance in India

The Government of India is planning to use Internet technology to reduce corruption, increase public accountability – and bank is all-willing to support.

9. The World Bank India's Vision of "Education for All"

World Bank is the largest external financer of India's District Primary Education program (DPEP) which covers over 50 million primary - school children, over one million teachers and 375000
schools. The most significant contribution of DPEP has been its bringing primary education to the center stage of the nation’s agenda.\textsuperscript{12}

**RECENT SOCIAL PROGRESS AND OUTLOOK**

By many measures, India has made good progress in reducing poverty and improving the welfare of its citizens in recent years. The Bank's 2003 development policy review- "India: sustaining reform, reducing poverty" provides a detailed discussion. Official estimates show a decline in poverty from 36 percent in the early 1995 to 26.1 percent in 1999-2000, though the household survey underlying the 1990-2000 figures indicate a smaller degree of poverty reduction. How much smaller/bigger is a matter of debate as estimates vary widely but all estimates have praises for growth on this front.

**MONITORING THE COUNTRY ASSISTANCE STRATEGY**

The appropriateness of this strategy will ultimately be measured by the bank group contribution to India's achievement of its development goals. Monitoring will take place both at the individuals project and report level, and at the level of overall assistance program. Some of the indicators that will be used to monitoring the effectiveness of overall bank group contribution are provided in the county strategy outcome matrix. Management and staff reviews progress against these proposed outcomes and indicators in a midterm review of the assistance strategy.
References


12. www.worldbank.org.in


