



## THE INDIA–WORLD BANK: HISTORICAL RELATIONSHIP

**R. Venkatesh**

PhD Research Scholar (Full-Time)  
Department of History Annamalai University  
Annamalai Nagar 608 002 Chidambaram

---

### *Abstract*

Cooperation between the World Bank and India goes back to the foundation of the International Bank for Reconstruction and Development (IBRD) in 1944. As one of 44 countries, India prepared the agenda for the Bretton Woods Conference in June 1944. The Indian delegation led by Sir Jeremy Raisman, Finance Member of the Government of India, proposed the name "International Bank for Reconstruction and Development India managed to lift 133 million people out of poverty between 1994 and 2012. However, India with a population of 1.3 billion shows 5% of its population living in extreme poverty. In June 2018, India ran a current account deficit of USD 15.8 billion, marking the highest deficit in the last five years. India exported USD 261 billion in 2016, making it the 17<sup>th</sup> largest exporter in the world. However, India's export structure is still not really diversified and focuses primarily on commodities and primary products. Diamonds and jewelry and packaged pharmaceuticals account for about 20% of the export sector

**Key Words: Indian Economy, World Bank, IBRD, India**

---

### **Introduction**

The World Bank was created at the 1944 Bretton Woods Conference, along with three other institutions including the International Monetary Fund (IMF). The head of the World Bank is traditionally an American. Both the World Bank and the International Monetary Fund are based in Washington, DC. Works from, and works closely together with each other. Although many countries participated in the Bretton Woods Conference, the United States and the United Kingdom were the two most powerful and dominated the negotiations. Before 1974, the reconstruction and development loans provided by the World Bank were relatively small. Bank employees were aware of the need to instill confidence in the bank. Fiscal protectionism ruled, and loan applications had to meet strict regulations. 56–60 France was the first country to receive a World Bank loan.

The bank's president at the time, John McCloy, chose France over two other applicants, Poland and Chile. The loan was USD 250 million, half the requested amount, and it came with strict conditions. France agreed to create a balanced budget and prioritize repayment of loans to the World Bank over other banks. World Bank staff is closely monitoring the use of the funds to ensure they meet the French government's conditions. Additionally, the US State Department informed the French government that members associated with the Communist Party must first be removed before the loan could be approved. The French government agreed with this diktat and abolished the so-called Communist Party – Tripartite. Within a few hours, the loan was granted to France.

### **Through the 1970s: A cyclical relationship**

The bank's relationship with India began with a slow introduction; Bank Appreciation for India's First Five Year Plan; Cautious lending to railways, iron and steel, irrigation and development funds; and mild criticism of the more ambitious Second Five-Year Plan in the late 1950s, the Bank and other donors supported the Third Five-Year Plan, which contained ambitious investment plans supported by generous capital transfers. The sense of vulnerability prevailing in India at the time, partly due to the country's increasing dependence on aid, exacerbated sensitivities about outside interference.

The policy dialogue Triggered by the Bell report and directed by the Bank's president became confrontational. The Bank and India became estranged, with the notable exception of agriculture. For the Bank, the policy dialogue represents an early attempt to use the leverage of its lending in a major member country. While the government accepted the need for reform, Bank pressure caused resentment. The modest amount of the devaluation, combined with tariff surcharges on traditional exports, a severe drought, and inadequate relaxation of the underlying control regime proved insufficient to generate a strong supply response. Given the high political cost of the devaluation and its apparent ineffectiveness, vastly compounded by delays and shortfalls in promised quick-disbursing aid, controls were tightened again and the government emerged from this episode wary of liberalization and determined to lessen the country's dependence on foreign assistance. In parallel, the Bank's activist attitude gave way to an exaggerated reticence to advocate policy change. Instead, the Bank focused on narrow issues directly related to its operations' success, even in its quick disbursing program lending—for example, the annual industrial imports credits.

The late 1960s and 1970s, trust was restored. India's agricultural sector became the focus of Bank assistance, which helped expedite the adoption and dissemination of the new technologies that produced the Green Revolution. At the same time, Indian officials—fearful of the Bank's interference in politically sensitive national programs—resisted the Bank's ambitions to support the government's poverty alleviation programs. Policy advice and economic analyses, often prepared by resident staff in close consultation with government officials, had moderate impact. The condition was used sparingly and the common ground between the Bank's objectives and those of the Government was consistently emphasized. External political factors helped cement the relationship. Although the US government's rejection of aid reflected poor political relations, bank debt increased and soon outstripped aid flows from other donors, it earned more credit from Indian officials. India and the Bank converged in the late 1970s: the Bank adopted the essence of India's perspective on development priorities, while India began to cut its red tape.

### **The 1980s: Lending in a poor policy environment**

Throughout the 1980s most academics, government officials and high-level political leaders recognized the need to adopt a new model of economic governance, but lacked support for the necessary political visionary reform. Bank staff produced a large number of sectoral reports, particularly in the industrial and financial sectors, which pointed out the required policy gaps. While the Bank has been aggressively promoting structural adjustment in many of its member countries, the apparent link between the Bank's lending and policy reforms has largely been avoided in the high-level discussion of the policy adjustment needed in India. Throughout In the 1980s, banking management overlooked India's disappointing policy record because a strong credit relationship with an important customer would suffer.

The bank also froze its advisory and corporate reporting roles. Although IDA lending declined significantly throughout the 1980s, in aggregate and absolute proportions (*according to IDA delegation responsibility*), IBRD lending and international financial institution investments expanded very rapidly. Total bank annual loans peaked at \$3 billion in fiscal year 1989 and \$18.5 billion for the decade. In many cases bank support programs are not aligned with the bank's economic and sector analysis and advice. Many projects supported limited policy content and Expansion State in the economy regardless of performance. The bank continued to lend to PSUs producing fertilizer, steel and cement; For non-committal rural credit institutions; And To the inefficient state electricity boards that do not charge for the electricity they generate and are behind serious state financial problems that are yet to be resolved.

The bank also lent money to the expansion of irrigation systems, which were unable to recover their costs and were mired in suspicion of corruption. The focus on irrigation was largely due to the neglect of rain-fed areas where most of the rural poor live. Bank lending for urban development was a significant failure because it neglected the public finance and institutional



development aspects of urban lending. The failure was so profound that in the first half of the 1990s it led to the decision to withdraw from the sector altogether. Also, despite great needs in social sectors, the Bank was unable to establish a dialogue or lending program in health and education due to government resistance to foreign consultations.

### **The 1990s: Enhanced Relevance of the Bank Assistance Strategy**

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 macroeconomic crisis. Changing the mindset of the principal counterparts in the core ministries 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 macroeconomic stabilization measures (*together with the International Monetary Fund*); reforms in the investment and trade regimes, finance, taxation, and public enterprises; and cushioning short-term social costs, including with three quick-disbursing, policy-based operations. At the same time the Bank sought to discontinue old-style lending for public enterprises and state electricity boards, and to build a lending program in health and education.

The Bank continued lending, however, in a number of sectors without a sector strategy and without seeking the necessary reforms (for example, in agriculture, irrigation, urban water supply—even banking). Nonetheless, the partial attempt to make Bank advice consistent with its lending led to a record drop in new commitments in fiscal 1994 to less than \$1 billion and to the dismantling of the Industrial and Finance Division of the India Department. In the first half of the 1990s the Bank focused on key areas of reforms for sustainable development (*improved macroeconomic management and liberalization of the trade and investment regime*). And human development (for broad-based improvement of basic social services) It also expanded its support for environmental protection. But the bank is not paying enough attention For the inadequacy of agricultural incentives, the Landless rural poor, rained agriculture and the Structural constraints to rural development It is Opportunities to reform safety nets were also lost and improving the target of the poor and Women in its programs and public expenditure Fit in the second half of the 1990s Bank assistance for poverty reduction improved, and even more so after 1997.

In the mid-1990s the Bank began studying state finances, Increased its focus on sectoral reforms Assist in establishing optimal structure Efficient private investment in infrastructure, It also gave its support to restructuring social programs and giving the poor the skills to participate in the new, more competitive market. Economy Telecom companies, Ports, and gas and oil sectors, capable of attracting private investment, were excluded from credit assistance. All new loans It was expected that there would be strong policy content. The 1995 Country Aid Strategy (CAS) document explicitly listed continued reductions. Central government deficit is 5.5 percent 1995-96 and beyond and progress in implementing its reform agenda and annual debt levels of about \$2.9 were the impetus for issuance.

The strategy also proposed a shutdown lending to states whose fiscal position is unsustainable. Significant deficits against those stimuli were expected to lead to improvement Reduction in lending to at least \$1.2 billion annually, starting with IBRD operations. But the government clarified to the bank As well as to the International Monetary Fund that it wants to follow its own pace in reform Economics and it is missing a role Bank in shaping the agenda. Despite the inadequate financial position there has been no downward adjustment in bank credit levels. Happens, and annual new responsibilities are returned More than \$2 billion in fiscal 1995 and 1996 The most recent full CAS, in December 1997, It had the same triggers as in 1995 CAS for a total annual loan of about \$3 billion lion. It was built around the same objective of poverty reduction through accelerated growth and social development as past assistance strategies. But it added specific antipoverty interventions. It also set out a new and highly relevant operational

approach to deal with the challenge of finding a role for the Bank in supporting reforms; that is, to scale up lending to reforming states.

### Conclusion

The five operational pillars of the 1997 strategy, still highly relevant, Support for policy reform (through early engagement and building consensus and ownership with partners and clients) 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 new initiatives for community participation and demand-driven small investments in the poorest districts increased priority to the social and environmental impacts of Bank operations Promotion of private sector development, including the financial sector Concentration of assistance toward states and programs strongly committed to reform. Some components of the 1997 CAS have progressed well. Bank assistance has focused increasingly on rural development; social and human development; participatory, decentralized, and targeted poverty reduction programs; and economic management and statistical systems. The new focus on states willing to reform has led to Bank support for two comprehensive reform programs in Andhra Pradesh, Karnataka, and Uttar Pradesh, and close engagement with Orissa and Rajasthan. But lending commitments of \$2.1 billion in fiscal 1998 were much lower than planned because of the sanctions imposed by major Bank shareholders after India's nuclear testing in May 1998. Under the sanctions, only projects meeting a "basic human needs" criterion were allowed to go forward. At the end of 1999 the sanctions had held up more than \$2 billion of IBRD lending for energy, state roads, and other infrastructure projects. In the January 1999 CAS progress report, the Bank recognized that India had not met the 1997 CAS fiscal triggers and had made only limited progress in structural reform. Thus India was at the border "between the base case and the low case, still in the former but heading in the direction of the latter." Consistently, India expected a lending envelope for fiscal 1999 of \$1.9 billion. Because sanctions remained in place, blocking all the infrastructure projects in the pipeline, only \$1.1 billion was committed in fiscal 1999. In fiscal 2000 the sanctions were de facto relaxed in the fourth quarter, but the Bank still committed only \$1.8 billion, remaining on the border between the base case (\$2.7–3 billion) and the low case (\$1.2 billion) lending scenarios presented to the Board a year earlier.



## REFERENCES

1. Chandavarkar, Anand (2001). "Sir (Abraham) Jeremy Raisman, Finance Member, Government of India (1939-45): Portrait of an Unsung Statesman Extraordinaire". *Economic and Political Weekly*. 36 (28): 2641–2655. JSTOR 4410856.
2. "World Bank Document" (PDF). documents. worldbank.org "World Bank Group to Focus on India Growth, Jobs, Human Capital". World Bank. Retrieved 2018-12-05.
3. "Government of India and World Bank Sign \$1006.20 Million Agreement to Improve Learning Outcomes and Retention in Elementary Education".
4. "Sarva Shiksha Abhiyan- A Successful Scheme of Education in India" (PDF).
5. "Over 80% habitations connected with roads under PMGSY". *The Economic Times*. 2017-12-16. Retrieved 2018-12-05.
6. "Project Signing: Government of India and World Bank Sign \$500 Million Additional Financing Project for All-Weather Rural Roads Using Green Technologies". World Bank. Retrieved 2018-12-05.
7. "India, World Bank sign \$500 million loan pact for rural roads". *The Economic Times*. 2018-05-31.