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From the ringside

World Bank needs India as much as we need it

Paul Wolfowitz, the 10th President of the World Bank, has just concluded his first visit to India. Notwithstanding NGO protests against water privatisation in Delhi, the visit was constructive and non-controversial. Contrast this with what one of his predecessors, Robert McNamara, encountered in 1968, described in Late I.G. Patel's, Glimpses of the Indian Economy, when Left parties had vowed not to let him enter Calcutta, and ultimately since Calcutta airport was surrounded on all sides by protesters, he had to be taken in a helicopter to the Governor's residence. It's a sign of changed times that the Chief Minister of the Left-ruled West Bengal is currently wooing investors in Singapore.

The Fund-Bank Division of Economic Affairs had prepared well and Chidambaram struck the appropriate chord in seeking constructive partnership. The debate about additionality, namely three billion plus, is sterile; there is significant unutilised borrowing headroom. Successful projectisation, high disbursement, counterpart funds and absorptive capacity are the real constraints.

Both the IMF and the World Bank originated in the aftermath of World War II as an outcome of the UN Monitoring and Finance Conference at Bretton Woods, New Hampshire, in July 1944 as part ''of the concerted effort to finance the reconstruction of Europe after the war and also save the world from future economic depression.'' The real name of the World Bank (IBRD) — The International Bank for Reconstruction and Development — explains its mission. Curiously, Joseph Stiglitz, in his book, Globaliation and its Discontent, comments that ''development was added almost as an afterthought.'' India was among 17 original participants of the 1944 Bretton Woods conference and it was apparently the Indian delegation which suggested the name of IBRD!

Over the years, the structure of the Bank became more broad-based, encompassing five closely associated developed institutions — International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA) and International Center for Settlement of Investment Disputes (ICSID).

The birth of IDA in 1960 was recounted by I.G. Patel when an India-sponsored initiative for a Special UN Fund for Economic Development (SUNFED), making UN the pioneer in development assistance, resulted in the US ''accepting a lesser evil, namely, the International Development Association (IDA), under the World Bank.''

Till date, India has a cumulative borrowing of 64.6 billion dollars and a current portfolio of 66 projects with a commitment of 13.2 billion dollars with a planned average annual commitment of 3 billion dollars a year. The World Bank's country strategy for the four-year period — July 2004 to June 2008 — envisages increasing the World Bank lending to India from 2 billion dollars to 3 billion dollars per annum. The current portfolio of the World Bank has a high concentration of 43 per cent in infrastructure and the balance in social sector. The State sector loans cover Andhra Pradesh, Uttar Pradesh, Rajasthan and Madhya Pradesh and Karnataka.

India's relationship with the World Bank can be seen in three phases. In the first phase, as a source of project financing to support large capital expenditure at a time when access to external credit was limited. Bimal Jalan, in his book, The Future of India, explains how in the 1950s and early 1960s, the vast expansion of Indian public sector undertakings (temples of modern India in the words of Pt Nehru) and the Balance of Payment crisis in the 1956 led to the creation of the Aid India Consortium in 1958 under the leadership of the World Bank to increase official and multilateral aid by industrial economies.

In Phase II, notwithstanding liberalisation efforts, in the 1980s, our balance of payments remained fragile and an external crisis loomed large. The economic crisis in 1991 obliged seeking World Bank resources along with the IMF facilities to finance critical imports and honour debt obligations. However, even during the 1980s, the line of distinction between the IMF and the World Bank had got increasingly blurred. Access to the Structural Adjustment Loan of the Bank (SAL) was contingent on a successful conclusion of an arrangement with the IMF and the other way round. Thus, between 1991-93, access to these funds was contingent on significant changes covering trade, industrial regulation, banking and financial sector reform apart from fiscal prudence to ensure macro-economic stability.

In Phase III, beginning from the mid-1990s, the World Bank has become an active development partner and has even tried to mainstream policies in state governments with the national objectives. For Central sector projects, its policy prescriptions have increasingly mirrored what we have ourselves adopted in the Ninth and Tenth Five Year Plans. They have increasingly realised the limitations of pre-conceived development paradigms in the so-called Washington Consensus, an expression used by John Williamson of the Institute of International Economics, which is broadly a laundry list of the World Bank and the IMF-favoured approach on development.

So what does the World Bank now mean to India?

First, it continues to be a valuable source for long-term external credit at costs which are lower than domestic or external borrowings. These long-term assured flows are more efficient than alternative financing modes — suitable for infrastructure like roads, power, ports, airports, rural roads.

Second, given the high poverty ratio, we continue to be eligible for concessional financing even for the current XIV replenishment cycle; valuable for sustaining the social sector, particularly health, education, rural sanitation, and can be blended with IBRD financing.

Third, given increased market deregulation, public private partnership would need creative financial engineering. Several worthwhile projects may require government subsidy (popularly known as viability gap) to secure financial closure; useful for the proposed Special Purpose Vehicle and Viability Gap financing.

Fourth, from the late 1990s, the Bank's engagement with state governments was concentrated on the better performing states. The new policy of reaching to the poor performing states is an experiment whose outcome would be keenly watched.

Is the Bank imposing conditions which circumscribe our economic sovereignty?

This is a somewhat misunderstood concept. As a banker, prudential lending and long-term viability is a legitimate concern. As borrowers we are free not to accept or re-negotiate terms. In the end, both the borrower and the lender need mutuality of comfort and benefit.

Success they say has million followers while failure is a lonely furrow. India is a success story and the Bank among others would like to be seen as part of this success. We need not grudge it this comfort. In the 57 years of interaction, our needs and their predilections have undergone tectonic shifts. There are not too many borrowers with large demands and a credible record. We need the Bank but the bank needs us as much. That is why Wolfowitz's keenness in embracing us as equal partners reflects the prevalent perception.

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