

**INDIA AND WORLD BANK
GROUP'S ASSISTANCE**

A

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C O N T E N T S

	<u>Pages</u>
Acknowledgements	(1)
<u>Section</u>	
I	1 - 25
II	26 - 47
III	48 - 84
IV	85 - 87
<u>Bibliography</u>	88 - 93

SECTION I

THE WORLD BANK GROUP : SOURCES AND USES OF FUNDS

Origin of the World Bank

The International Bank for Reconstruction and Development (World Bank) was established in 1945 for reconstructing the war-damaged economies of Europe and for assisting in the economic development of poor countries. The Bank started functioning in June 1946. The main objectives of the World Bank are (to provide and facilitate investment for increasing world production and to reduce the disparities between the developed and underdeveloped countries.

('Reconstruction' and 'Development' are therefore the twin goals of the Bank.) (But it was soon realized that the demands of reconstruction of Europe could not be met by efforts of the Bank. The United States under the Marshall plan of 1948, took over direct responsibility of the European reconstruction, and the Bank shifted its focus from Europe to 'Development' of backward countries which were emerging on the world scene as independent nations.)

For achieving its goals the Bank undertook the following functions :

✓1) assistance in development of the territories of (its member governments by facilitating investment of capital for productive purposes)

ii) promotion and encouragement of foreign private investment by guarantees or through participation in loans and other investments made by private investors,

iii) promotion of international trade and the maintenance of equilibrium in members' international balance of payments; by encouraging international investment for development where private capital was not available on reasonable terms the Bank took upon itself the responsibility of granting loans for productive purposes out of its own resources and out of borrowed funds.

The World Bank is not just an ordinary lending and investing institution concerned with rates of interest and conditions of investment and the consequent profit consideration. ("It motivates government, private banks, insurance companies, stock exchange markets and powerful multinational firms of the industrialized countries to invest capital and transfer technology for the development of industrializing countries.) (The Bank acts as a bridge between the donors and recipients of foreign aid for development, and it performs such a role by selecting 'projects' for investment and assuring 'credit-worthiness' of the recipients of aid. The Bank has often organized 'consortia' for helping the less developed countries. Thus the Bank transformed itself from a mere project lending agency into an overall development institution.)¹

1. Bhambhari C.P. "World Bank and India", Vikas Publishing House, (1980), p.45.

(The Bank is composed of a board of governors, executive directors, a president and other staff. The board of governors is vested with all the powers of the Bank, and consists of one governor, and an alternate governor appointed for five years by the member governments. The board of governors has been empowered to take decisions in the matter of new membership, change in the stock of capital, ways and means of distributing the net income, etc. The board delegates its power of routine administration to the executive directors. The president of the Bank acts as the Chairman of the Board of Directors. He is responsible to the Board of Governors of the Bank for the conduct of the ordinary business of the Bank and its organisation.)

Various Presidents of the Bank so far have made a distinct contribution in strengthening the organizational structure and, in shaping the role and direction of the Bank.² The real foundations of the Bank were laid during the presidentship of its third president, Mr. Eugene Black (July 1949 to '62), as first two had short tenures.

(At the time of establishment of the Bank, its authorised capital was \$ 10 billion, of this \$ 9,400 million was actually subscribed. The Capital Subscription of each member country was divided into three parts : (a) 2 percent of the Capital Subscription payable in gold or U.S.dollars

2. Bhambhari C.P. op.cit., p.52.

and was freely available for lending; (b) 18 percent of the Capital Subscription payable in members' own currency and available for lending with the consent of the member whose currency is involved; and (c) the remaining 80 percent of the Capital Subscription was subject to call, as and when required, to meet the obligations on borrowings or loans guaranteed by it, the payments on such calls to be paid either in gold, U.S. dollars or the currency required to discharge the obligations for which the call is made.)

The membership of the Bank was 48 in 1949-50, whereas it had 144 members as on 30 June 1983.

(In 1978 gold was formally abolished as a common denominator of the monetary system. The Bank began expressing its Capital for purposes of the financial statements, on the basis of the 'Special Drawing Right' (SDR).) On June 30, 1983 the authorised capital stood at SDR 71,650 mn., its subscribed capital was SDR 48,756 mn.

The other sources of funds of the Bank are : Gross Revenues generated primarily from the Bank's loans and investments Net income, Bank's liquid assets, borrowing in short-term and medium-term capital markets, currency-swap transactions, and the lending of portfolio securities.

(Borrowing in international capital markets provide a major portion of the Bank's funds.) The trend of the gross borrowings of the Bank during recent years can be seen from the Table 1.1.

Table 1.1 : Gross Borrowings of the World Bank for the
Fiscal Years 1971-83.

Fiscal Year ending-June	U.S. \$ Million
1971	1368
1972	1744
1973	1723
1974	1853
1975	3510
1976	3811
1977	4721
1978	3636
1979	5085
1980	5173
1981	5069
1982	8521
1983	10292

Source : Various Annual Reports of the World Bank.

The gross borrowings of the Bank during the period of a little over the decade has shown continuous increase except for the year 1977-78, during which the borrowings declined by 23 per cent. In the first seven-year period of 1971-77 the borrowings aggregated \$ 18,730 mn., recording

a rather sharp increase during 1974-75. In the last five years ending June 1983, the borrowings increased markedly aggregating \$ 34,140 mn. This latter period is marked by doubling of the borrowings over the previous period. The sizeable increases in the borrowings indicate strengthening of the lending capacity of the Bank.

Another significant feature in recent times is that it has been borrowing in various denomination of currencies which is advantageous to both the Bank and the borrowers, (Table 1.2). The share of the U.S. dollars went down from 46 percent in 1972 to 34 percent in 1983, whereas that of the Swiss Franks trebled in the same period (from 8% to 24%). Similarly, the shares of Deutche mark and Japanese yen rose by 1983. Thus the Bank's borrowing programme became broad-based in the subsequent years. These shifts in the shares of currencies in Bank's borrowings suggest the growing strength of different currencies in World's financial markets. During this period, the ownership of the Bank's shareholdings by different developed countries underwent some significant changes. The first ten largest subscription-holders of the Bank in 1971 and 1983 are shown in Table 1.3. FRG and Japan became more important whereas, the position of U.K. was weakened.

Important changes took place in the Bank's borrowing pattern since its inception : (1) in fifties, the Bank relied more or less entirely on the U.S. capital market,

Table 1.2 : World Bank Borrowings by currency fiscal years 1972 and 1983.

Currency borrowed	Fiscal Year 1972		Fiscal Year 1983	
	U.S.Dollar equivalent (Million)	Percentage to the total	U.S.Dollar equivalent (Million)	Percentage to the total
1. U.S.Dollars	795.9	46.0	3536.9	34.0
2. Swiss Franks	140.9	8.0	2514.0	24.0
3. Deutsche marks	141.4	8.0	1518.8	15.0
4. Japan Yen	150.1	9.0	1325.9	13.0
5. Netherland guilders	16.6	0.9	810.7	8.0
6. Pounds Sterling	24.0	1.0	320.5	3.0
7. Canadian dollars	69.4	4.0	130.7	1.0
8. Belgium Francs	35.0	2.0	42.1	0.4
9. Kuwait KD	140.0	8.0	-	-
10. France Francs	30.9	2.0	-	-
11. Austrian Shillings	-	-	92.3	0.9
Total	1744.2		10291.9	

1. Based on official rates at the time of borrowing.

Source : World Bank Annual Reports 1972 and 1983.

Table 1.3 : Ten largest member countries of the World Bank and their voting power as for the years 1971 and 1983.

Rank in 1971	Fiscal Year 1971		Rank in 1983	Fiscal Year 1983	
	Country	Voting Power No. of votes Percent age of total		Country	Voting Power No. of votes Percent- age of total
1	United States	63,750 23.81	1	U.S.	102,489 19.58
2	U.K.	26,250 9.81	2	West Germany	34,597 6.61
3	West Germany	13,903 5.19	3	Japan	34,456 6.58
4	France	10,750 4.02	4	U.K.	26,250 5.01
5	Japan	10,480 3.92	5	France	23,817 4.55
6	India	9,250 3.46	6	China	23,732 4.53
7	Canada	8,170 3.05	7	India	22,883 4.37
8	China	7,750 2.90	8	Italy	19,842 3.79
9	Nether-lands	6,173 2.31	9	Nether-lands	15,367 2.94
10	Belgium	5,795 2.17	10	Canada	14,212 2.71

Source : Compiled from World Bank Annual Reports 1971 and 1983.

(ii) the sixties witnessed increasing dependence on European capital market (France, Federal Republic of Germany),
 (iii) the seventies saw the emergence of oil rich countries like S.Arabia and other Gulf countries, and Japan.

From September 1982 the Bank began borrowing in the U.S. short-term securities market. The total borrowing of all types by the Bank in the fiscal year 1983 amounted to \$ 10.8 billion.

(Ways of Lending

The Bank makes loans in any of the following ways :

- a) by making direct loans out of its own funds ;
- b) by making or participating in direct loans out of funds raised in the markets of a member or otherwise borrowed by the Bank, (c) by guaranteeing in whole or in part loans made by private investors through the usual investment channels.)

(The loans are repayable over a period of twenty years or less and have, generally, a grace period of five years. The period of the loan is related to the estimated useful life of the equipment of the plant under the project being financed. The interest rate charged by the Bank on its loans is the estimated cost of borrowing to the Bank.) In addition, the Bank charges on all loans a commission of one per cent for the purpose of creating a special reserve against losses and a half per cent charge for meeting

administrative expenses. Moreover, it charges an annual 'commitment charge' of 0.75 percent on undisbursed balances, the loans also carry a one-time front-end fee of 1.5 per cent on the amount of the loan.

At this stage it may be mentioned that [the World Bank established a separate institution called International Finance Corporation (IFC) in 1956 and later the International Development Association (IDA) in 1960.] Their functions will be dealt with later in this section. These three institutions together are now known as the World Bank Group or World Bank and its affiliates.

Use of Intermediary Banking Institutions (DFC)

(The World Bank and its affiliate IFC use local Development Finance Companies (DFCs) in various countries to manage project loans. The World Bank and IFC were instrumental in the formation of many DFCs in the developing countries of the world.) They work in co-operation with these local institutions to provide finance for smaller projects within their respective countries.

(Generally the IDA grants credits to developing countries on concessional terms and conditions commonly known as 'soft' assistance, whereas the World Bank gives assistance on commercial terms.)

Bank's Third Window

(Under the intermediate financing facility, commonly

known as the 'Third Window' established in 1975-76, enables the Bank to provide development assistance on terms intermediate between those of the Bank and the IDA. These loans are made on concessionary terms which are less stringent than the Bank's standard terms.) The Fund under the window began its lending operations in December 1975. Financing during 1976 and 1977 was done on a subsidized basis through an Interest Subsidy Fund created through voluntary subscriptions from the Bank's through the World Bank's Third window were transferred to the IDA in 1977. By the end of fiscal year 1981, the total lending on the Third Window terms amounted to \$ 670.4 mn. for projects.

Cofinancing

(The Bank has co-operated with national governments and national public institutions to provide co-financing for numerous projects. Since 1969 the Bank collaborated with Sweden, Canada, France, the U.S., West Germany, Japan, and the U.K. to provide financing for projects in the developing countries. The Bank has also collaborated with the Asian Development Bank, the African Development Bank and the Kuwait Fund to provide co-financing for projects in their respective areas. Also, it has collaborated with the European Investment Bank and with European Development Fund of the EEC to finance projects in Asia and Africa.)

Changing Trend of the Bank Lending : A Review

(Soon after its inception, the Bank engaged in

monolithic, engineering-oriented projects.) During the early 50's, the concept of the 'Bank Project' got developed into the multifaceted 'policy-and-demonstration projects' of today. The supposed inherent limitations in the concept of lending for "projects" have been greatly modified. (During the 'fifties', in developing countries, Bank's lending was heavily concentrated upon 'basic services' or in the creation of capital infrastructure for project development like generation and distribution of electric power, major irrigation works, roads, railways, ports, natural gas, pipelines, and telecommunications. During the 'Sixties', the Bank involved itself in lending for 'specific development projects' of agriculture, industry, education, population (family planning, public health etc.), urbanization, tourism and project preparation along with the earlier electric power and transportation projects. This shift of lending policy was the outcome of the increasing realisation that the underdeveloped countries need basic transportation and communication facilities to develop their domestic economies and to provide new incentives for production. The Bank has also made loans for the development of transportation, such as including the financing of highways, construction, development of airports, and air-lines, rehabilitation and development of railways, construction of pipelines, development of port and shipping and other modes of transportation.)

(Since 'the seventies', loans for the infrastructural investments have got reduced. Instead the Bank began to finance educational system, in the developing countries, in establishing institutions for the financing of institutional investments, and in the provision of technical assistance in the selection and appraisal of industrial projects, and in helping in the preparation of agricultural development projects. The focus of national and international efforts, including that of the Bank, was to be directed during the 1970's towards increasing the productivity of the poor who generally work in the fields of a small farm, a cottage industry, or a small-scale commercial operation in the Urban sector; This points to the newer trend in the Bank's lending policy that it has been increasingly involved in activities helping to bring up the poor people from their economic backwardness. From this point of view Development Projects resulting in improving the lot of the poor were given priority and the Bank got involved in all essential sectors of the 'Third World' countries economies, i.e. from infrastructure to industry and from agriculture to population control.

In the 70's, the Bank's 'development' strategy placed more emphasis on investments that can directly effect the welfare of the poor people of the developing countries by increasing their productivity and standard of living. In fact, this has been a major theme of the Bank over the last

decade.) This has been increasingly reflected in the Annual meetings of the Bank's Board of Governors dealing with the concepts of 'absolute poverty' 'relative poverty' and in the light of these definitions the 'poor' and 'poorest' countries.

(A distinction was also made between the 'poorest' countries - defined as those with average per capita incomes below \$ 265 in 1975 dollars, where 80 percent of the absolute poor live and which require concessional assistance from the international community - and those middle - income countries with average incomes above \$ 265 which need greater access to international markets, both to sell their manufactures and to obtain capital³.)

Because of the change in the focus of the development policies, it was quite inevitable that the sectoral emphasis of the Bank group lending shifted dramatically.

In mid-sixties, 55% of the lending was devoted to infrastructural projects but it dropped to 30% by 1977. Most of today's lending is allocated to sectors said to be directly contributing to increasing the productivity of the poor. For instance, lending for rural development has increased from a negligible proportion to over 20% of total lending today. For social sectors, such as education and

3. Haq, Mahbub Ul, "Changing emphasis of the Banks lending policy", Finance and Development, June 1978, p.13.

water supply, lending has more than doubled.) The shifts in the changing trends in Bank's as outlined above, can be noticed from Table 1.4.

It is clear that (during the last decade, many new sectors and sub-sectors have been added to the funding programme of the Bank viz., rural development, primary education, population control, nutrition and water supply.) And not only have the lending sectors broadened, but the content and designs of projects have also changed considerably within these sectors. The Bank has increasingly designed "new-style projects" with the objectives of directly benefiting the poor people. A minimum objective of these new-style projects is this : at least fifty one percent of their beneficiaries should fall within the poverty target group constituting the bottom forty percent of the population.

The Bank's lending policies and techniques have also got involved into broader areas helping development of poor economies. For instance, before 1971, the Bank made no loans to government-owned Development Finance Companies (DFC's) are virtually none to small enterprises. In 1976, 60 percent of such bank lending was to government-owned DFCs. By 1980, it was expected that about 30 percent of this DFC lending would be directed towards small business. In 1967, the Bank made few loans to state-owned industrial enterprises. During 1977, virtually all of the Bank's lending to industry went to state enterprises.

Table 1.4 : Sectoral Composition of World Bank Lending
(percentage share)

	FY 1967	FY 1977
1) Infrastructure		
i) Communications	3.6	2.0
ii) Power	29.7	13.5
iii) Transportation	21.2	14.2
Sub-total	<u>54.5</u>	<u>30.3</u>
2) Economic Sectors		
i) Agriculture (of which rural development)	7.7 (-)	32.7 (20.6)
ii) Industry	11.9	21.1
iii) Tourism	-	1.4
Sub-total	<u>19.6</u>	<u>55.2</u>
3) Social sectors		
i) Education	4.6	4.1
ii) Population	-	0.5
iii) Urbanization	-	2.2
iv) Water supply	0.1	4.3
v) Nutrition	-	0.2
Sub-total	<u>4.7</u>	<u>11.2</u>
4) Other (including program loans)	21.2	3.3
Total	<u>100.0</u>	<u>100.0</u>

Source : Finance and Development, June 1978, p.14.

Since 1980, the Bank inaugurated a programme of 'structural adjustment lending' which supports programmes of specific policy changes and institutional reforms in developing countries designed to achieve a more efficient use of resources. This is expected to (a) contribute to a more sustainable balance of payments in the medium and long terms and the maintenance of growth in the face of severe constraints, and (b) lay the basis for regaining momentum for further growth.

The latest trend is that the Bank's commitments for oil and gas development have shown the greatest increase. These changing trends and policies testify that the scope of Bank's assistance to its members countries in their economic development has been considerably widened.

The actual disbursements during the first 35 years of the Bank's lending (upto June 30, 1981) benefitted 103 member countries to the extent of cumulative total of U.S. \$ 68,150.3 million, many of which belonged to the category of world's poorest economies, for financing their development projects. During the eleven-year period (1971-81) the Bank lent more than a total of U.S. \$ 5,000 million to the 'core' less developed countries with annual per capita income below U.S. \$ 371.

As seen above, the Bank's investments and activities expanded during the three decades of its existence. In view of its involvement, primarily in 'development' task

of the 'Third World', the Bank created two other affiliates i.e. (a) International Finance Corporation (IFC) in 1956 and (b) International Development Association (IDA) in 1960. In the following we briefly narrate the role and performance of these two World Bank affiliates.

International Finance Corporation (IFC)

The International Finance Corporation was established in July 1956 to overcome the short comings of the World Bank. It is affiliated to the World Bank as a separate legal entity with a separate fund and functions. In 1983 it had 124 members. It was founded to supplement the activities of the World Bank, viz., (i) The World Bank grants loans only to member countries with the guarantee of the member governments. (ii) The Bank makes only loans and does not provide capital. There was need for such institution which could provide adequate loans to the developing countries and might invest funds in the form of risk capital.

IFC was established to promote the growth of productive private investment and to assist enterprises which contribute to the economic development of its developing member countries. Its principal tasks are to provide and bring together financing, technical assistance and management needed to develop productive investment opportunities in the private sector. It can make both equity investments and loans without government guarantees. In all of its

activities, IFC works to raise investor's confidence. In addition to providing financial and technical assistance, the corporation may help facilitate the process of establishing or strengthening capital markets and financial institutions in the recipient countries. The IFC seeks to encourage the flow of private capital through the establishment or expansion of local capital markets and financial institutions. It encourages efforts to create investment conditions which could attract productive and beneficial domestic and foreign investment.

To further its basic objectives, IFC engages in the following functions :

- direct investments in individual productive private enterprises,
- project identification and promotion,
- helping to establish, finance and improve privately owned development finance companies which assist development of the private sector,
- encouraging the growth of capital markets in the developing countries,
- creating in the capital exporting countries interest in portfolio investments in enterprises located in the developing countries, and
- giving advice and counsel to less developed member countries on measures that will create climate conducive to the growth of private investment.

Like the Bank, the IFC's own resources are the authorised, paid up and working capital with subscription by the member countries. As an affiliate IFC can borrow from the World Bank. As of June 30, 1981 IFC's subscribed share capital was approximately \$ 482.8 million of which about \$ 392 million was paid in. In addition, it had accumulated earning of \$ 159 million.

Every venture in which IFC invests is expected to be commercially viable and should benefit the economy of the country in which it is made.

IFC never invests alone. IFC strives to mobilise and supplement private capital, not to replace it. IFC does not extend finance to projects which, in its opinion can raise sufficient private capital on reasonable terms.

IFC invests in a venture only if there is provision for immediate or eventual local participation. IFC attaches great importance to the extent of the sponsor's participation in the share capital of an enterprise.

IFC is flexible in its terms and makes its investments in such form as may be appropriate in the particular situation. Most IFC's investments consist of a share subscription or a long term loan, or both, or a long term loan with equity participation. Loans are generally expressed in U.S. dollars but may be made in other major convertible currencies.

The type of investment, and investment terms vary

from case to case depending upon the circumstances involved, the risk entailed and the prospective return.

IFC loan normally runs for a term of seven to twelve years. Amortization is usually payable semi-annually after the expiration of an agreed upon grace period. A commitment fee at the rate of one per cent per year is payable on the undisbursed portion of a loan, interest rates vary according to the circumstances of particular transactions.

IFC funds are used for foreign exchange or local currency expenditures, to acquire fixed assets or to meet working capital requirements. Their use is not tied to the purchase of specific equipment or to a specific country.

IFC activities exist on all five continents, with investments highest in Latin America followed by Asia and Middle East, the Europe and Africa.

The International Development Association (IDA)

As an affiliate of the World Bank the IDA came into being with the idea of establishing an international institution for lending on liberal terms to underdeveloped countries for carrying out the process of economic development in their respective countries. In the 50's and 60's a growing number of developing countries emerged as independent countries out of the former colonies and empires of Western European countries. To meet the requirements of capital for economic progress in these newly independent countries, which were by and large, very poor. IDA was

established in 1960 to provide funds for the special financial needs of the least developed countries on 'soft' terms.

The central function of the IDA has been to provide development finance to less developed countries on easy terms that bear less heavily on the balance of payments position of the credit recipient countries that depend on World Bank loans, which are granted on commercial terms. In 1982-83, IDA had 131 members, of which more than, 50 countries were eligible for assistance from IDA, because countries having per capita gross national product of \$ 796 (in 1981 U.S. dollars) or more are not entitled for IDA's assistance.

In performing this function for realising its underlined objectives, IDA (a) finances any project which is of high development priority — whether or not the project is revenue - producing or directly productive, (b) provides finance on more liberal terms of repayment, and (c) is ready to help finance a wider range of projects than the Bank, particularly in the field of social investment. IDA grants credit for periods upto 50 years including 10 years moratorium, without any interest but only on a nominal service charge of 3/4th of one per cent per year.

Capital Resources of the IDA

The following are the sources of capital of the IDA:

- (1) Subscription of member countries, (2) General replenish-

ment from the Association's more industrialised members, (3) Transfers from the net earning of the IBRD and (4) other resources 'derived primarily from releases, by the poorer countries or grant participation in, cancellation of, and repayments on credits.

The subscriptions are the main source. The major source of funds of IDA is contribution from rich countries and, therefore, its membership is divided into part I and part II, the former being the richer and the latter being the poorer countries.

"Replenishments" have been another major source of the IDA funds which, are raised at intervals of three years. Table 1.5 shows the replenishments from 1965 to 1983.

Table 1.5 : IDA Resources¹

	(U.S. \$ million)
	Original amount
Initial	757
Replenishments	
IDA-1 (Fiscal Year 1966-68) ²	745
IDA-2 (Fiscal Year 1969-71)	1,271
IDA-3 (Fiscal Year 1972-74)	2,441
IDA-4 (Fiscal Year 1975-77)	4,501
IDA-5 (Fiscal Year 1978-80)	7,732
IDA-6 (Fiscal Year 1981-83)	12,000
Total :	29,447

Source: Finance and Development (December 1982) p.23.

Table 1.5 (contd.)

Note: 1. This excludes some contribution by countries in their own currencies, which are not available for commitment.

2. Bank fiscal year ending June 30.

As the replenishments considerably helped in extending activities, it was necessary that replenishments increase over time. The six replenishments, have on an average shown growth but the rates of growth were not uniform, because of varying responses to these funds from the part I countries.

In fact for the seventh replenishment, which has already been delayed, the absolute amount declined severely restricting the capacity of IDA to assist the poorer countries.

IDA credits are made only to governments of member countries. It's credits are made in many currencies and contractors and suppliers are normally paid in their own country's currency.

Up to the end of June 1981 the total cumulative amount of credits extended by the IDA aggregated \$ 24,052 million in the form of 1,079 credits for various development projects in 73 poor member-countries.

Thus so far an attempt is made in this section to present the structural-functional framework of the World Bank group constituting the IBRD, IDA and IFC. In the second section, we will discuss the nature of Indian

economy and the need of external assistance for her economic development.

SECTION II

THE NEED OF THE EXTERNAL ASSISTANCE TO INDIA

What is an underdeveloped country? An exact definition is impossible to give, for there are degrees as well as types of underdevelopment. The United Nations group of experts stated we have had some difficulty in interpreting the terms underdeveloped countries. We use it to mean countries in which per capita real income is low when compared with the per capita real incomes of United States of America, Canada, Australia and Western Europe. In this sense an adequate synonym would be poor countries.¹

Then we have a group of countries which fall within per capita income range U.S. \$ 500 to \$ 1,000. These countries may be described as intermediate countries which are less developed than the highly developed countries, but relatively more developed than the underdeveloped countries. The rest of the world population falls in the income range of less than \$ 500 per capita. All these countries are referred to as underdeveloped countries. Most of the countries of Asia, Africa, Latin America are included among them.

Jacob Viner defines an underdeveloped country as one

1. United Nations Measures for the economic development of underdeveloped countries, 1951, p.3.

that "has good potential prospects for using more capital or more labour or more available natural resources or all of these to support its present population on a higher level of living, or, if its per capita income level is already fairly high, to support a larger population on a not lower level of living".² To Eugene Staley, an underdeveloped country is one "characterised (i) by mass poverty which is chronic and not the result of some temporary misfortune, and (ii) by obsolete methods of production and social organization, which means that poverty is not entirely due to poor natural resources and hence could presumably be lessened by methods already proved in other countries."³

Paul G. Hoffman defines an underdeveloped country as "not simply a poverty-stricken version of a developed nation. It is a country lacking in factories of its own, without adequate supplies of power and light. It usually lacks roads and rail-roads, efficient government services, telephones and other communications, outlying areas are terribly isolated. It has few hospitals and few institutions of higher learning. Most of its people cannot read or write. What wealth it has is concentrated in the hands of a few people who live in comparative opulence surrounded by overwhelming poverty. Its banking system is embryonic, small loans have to be obtained through moneylenders who

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2. Jacob Viner, "International Trade and Economic Development" (Gilencoe, Ill; The free press, 1952) p.125.
 3. Eugene Staley, "The Future of Underdeveloped countries; Political Implications of Economic Development" (rev.ed. New York:Frederic A.Praeger, 1961), p.13.

are often little better than extortionists. Not only are there few savings from which investments could be made, the people who have wealth usually refuse to invest productively in their own countries. The underdeveloped Nation's exports typically consist almost entirely of raw materials, ores, fruits or some other staple product with perhaps a small admixture of handicrafts or luxury goods. Often extraction or production of these export commodities is wholly or partly under foreign control, with little of the profit being re-invested in the country.⁴

Numerous indeed are the indicators of an underdeveloped economy such as, lack of knowledge of physical resources, illiteracy, shortage of capital, overpopulation, low per capita real income, lack of organized programmes and development plans, structural unemployment, administrative incompetence and inefficiency, political instability, etc.

Although there are only a few countries in the world today that suffer from all of these denominations of underdevelopment, there are a number of countries that are characterized by many of them, and India is one of them. But fortunately, although India must definitely be classified as an underdeveloped country, she is also a rapidly developing one.

4. Paul G. Hoffman, "Bread Upon the Waters" Britannica Book of the year (Chicago, Ill : Encyclopaedia Britannica, 1962), p.8.

India : Features as an Underdeveloped Economy

Indian Economy is at the very low level of its development, so that it is virtually an underdeveloped economy. Various weaknesses in the key sectors of the economy reflect this backwardness.

i) Heavy Population Pressure : The Indian economy is faced with the problem of population explosion. According to provisional results of the census of 1981, India's population was 685 million as against 548 million in 1971. With 2.4 per cent of the total area of the world India has to support approximately 15 per cent of the world's total population. India's population has been increasing at a very fast rate. The population growth rate for the period 1971-81 was 2.25 per cent per annum, whereas it was 2.5 per cent per annum during the decade 1960-70. These high rates of population growth partly offset the small gains of development which the country had made during the planning period. J.J.Spengler argued that an increase in population raises the ratio of people to land and other sources of raw materials and, as a consequence, production tends to decline per unit of variable cost in the concerned industries.⁵ Over the years, per head agricultural land has steadily declined. The pressure of population on agricultural land

5. J.J.Spengler, "Population Change : Cause, Effect, Indicator, Economic development and cultural change", April 1961, p.253.

in a country can be reduced only if it is possible to transfer some population to other sectors of economic activities. But in India, growth of Industries and commerce has been rather sluggish and intersectoral transfer of population has not been possible.

ii) Predominance of Agriculture : Another aspect, symbolic of underdevelopment, is the predominance of agriculture in the Indian Economy. About 30.47 crore hectares, or 92.7 per cent of the geographical area have been utilised for agricultural purpose. In 1981, about 66.7% of the population was engaged in agriculture and its contribution to national income was 42.25 per cent. Likewise many other facets of the Indian economy bear the stamp of agriculture. There is a lot of trading, internal and external, that pertains to agricultural products. Many industrial activities depend upon agricultural raw materials.

A major problem of Indian agriculture is water. Too much rainfall means deluge and floods and crops are washed away, too little rainfall means drought, and crop failure. The result in either case is famine and misery.

Prior to 1951, the total area irrigated in the country from all sources, was 2.26 crores hectares, of which 97 lakh hectares was from major and medium irrigation. The potential increased to 5.66 crore hectares by the end of 1979-80 of which 2.66 crore hectares were from major and medium irrigation and 3 crore hectares from minor

schemes.⁶ Some of the major irrigation and multipurpose projects are assisted by the World Bank Group.

iii) Industrialization : Industrialization, has, of course, been stepped up during the years since independence. An important feature of industrial growth in the country after independence has been the rapid expansion of the public sector. In 1951, there were only five non-departmental public undertakings owned by the central government with an investment of Rs.29 crores. On April 1, 1981, they numbered 185 with an investment of Rs.21,126 crores.⁷ These enterprises produce diverse products such as steel, coal, aluminium, copper, heavy and light engineering products, fertilizers, basic chemicals, drugs, minerals, petroleum products, locomotives, air craft and ships. Private sector, however, continues to have a prominent place in the development of the economy.

iv) Mass poverty and Low per capita Income : Per capita Gross National Product (GNP), in India, is estimated at about \$ 260 in 1982-83,⁸ is one of the lowest in the World.

Given that the per capita incomes are low, no wonder that stark poverty pervades India. The planning commission has defined a poverty line on the basis of recommended

6. Government of India, Ministry of Information and Broadcasting, Research and Reference Division, "India, 1982" p.215.

7. Government of India, Ministry of Information and Broadcasting, Research and Reference Division, "India, 1982" p.313.

8. World Bank Annual Report, 1983, p.83.

nutritional requirements of 2,400 calories per person per day for rural areas and 2,100 calories for urban areas. On this basis the poverty line turns out to be at the income level of Rs.76 in the rural areas, and Rs.88 in the Urban areas (at 1979-80 prices). At this level it was estimated that 50 per cent of India's total population lives below the poverty line.⁹

Illiteracy retards growth. In 1951 only 16.6 per cent people could read and write. The percentage went up to 24.0 in 1961 and 36.2 in 1981. Despite the rise in the literacy rate, the total number of illiterates increased from 33.4 crores in 1961 to 43 crores in 1981. The quality of human capital is also indicated by the availability of medical facilities. The per capita consumption of medicates in India is one of the lowest in the World. These facts unmistakably bring out the poor quality of human capital.

v) Large Unemployment : Unemployment, open and disguised, is a common feature of underdeveloped countries. In India, however, it takes a particularly acute form because it is at least as serious in cities as it is in the countryside. On account of small growth of economic activities, particularly in the non-agricultural fields, a vast majority are underemployed. With even agriculture not expanding the village population does not work full-time, apparently they

9. Sixth Five Year Plan-1980-85. p.51.

are engaged in work in agriculture, but they do not have enough work to keep them busy throughout the year. In other words, as Nurkse in his problems of capital formation puts it, they are suffering from disguised unemployment. Even if many of them are withdrawn from agriculture, production will not suffer as more are engaged in it than are needed.

In towns and cities, however, besides the under-employed, there is a considerable number of people who suffer from open unemployment. Their unemployment involves not merely the wastage of physical human capacity, but also society's scarce resources spent on education and training.

vi) Scarcity of Capital : Of all factors of economic development, capital is said to be the most important. In fact it is the accumulation of capital that alone can help a country in its attempt to overcome its economic backwardness. Kuznets has very aptly remarked, "low capital formation proportions means low rates of growth of national product, unless capital output ratio declines i.e. unless more output can be turned out per unit of capital."¹⁰ Since there is continuous shift in favour of capital intensive techniques in the third world countries, capital output ratio cannot be expected to fall. Therefore, if these

10. Simon Kuznets, "Six Lecturers on Economic Growth" (Glencoe, 1959) p.70.

countries have to grow, they have no choice except to raise their rates of capital accumulation. This has been precisely the problem before India during the last three decades. In 1950-51 the saving-investment rate was 5 per cent. Obviously at this rate of capital formation, the country could not hope to record only economic growth. There were a number of economic, social and political reasons for extremely low rate of capital formation, of which the most prominent were the small size of the capitalist sector and the conspicuous consumption of the land owning class.

Over the planning period both saving and investment rates have risen. In 1973-74 the saving and investment rates were 13.8 and 14.8 percent respectively. According to preliminary estimates of the C.S.O., saving and investment rates in 1980-81 were 16.9 and 19.0 per cent respectively. Such rates of capital formation are generally considered enough to realise a reasonably high rate of growth, but surprisingly in this country, it has not been possible. Though the rate of capital formation has steadily risen in recent years, the rate of growth stuck at a low level.

vii) Inequalities of Income Distribution : In India there is the prevalence of gross inequalities. Inequalities of income are to be seen in the form of unequal distribution of land in the agriculture sector and concentration of economic power in non-agricultural sector. Inequalities of income distribution are to be observed both in the rural

and urban sectors of the economy. The percentage distribution of household income refers to disparity. The lowest strata of 20% population received 6.7% share of income in 1964-65 which rose to 7% in 1975-76. The highest strata of 10% population received 35.2 share in 1964-65 which decreased to 33.6% in 1975-76.¹¹ This reflects a wide gap of inequalities prevailing in the economy.

viii) Low Level of Technology : Indian economy suffers from technological backwardness. In agriculture, which is of primary importance to the country, primitive technology is prevalent in most of the areas. Modern industry is as yet not of much significance, although some sectors use modern technological processes. However, in terms of innovating products even the modern sector has not much to offer. Small-scale and cottage industries generally use old techniques.

Since new techniques are expensive and require a considerable degree of skill for their application in production, the twin requirements for the absorption of new technology are the availability of capital and training of an adequate number of personnel. It is necessary to have a basic minimum level of education among the actual producers in order that the economy may absorb new technology.

11. World Bank, "World Development Report", 1981 and 1983.

Deficiency of capital hinders the process of scrapping of the old techniques and the installation of up-to-date and modern techniques. Illiteracy and the absence of a skilled labour force are the other major hurdles in the spread of technology in the economy.

We come to the conclusion that Indian economy is an underdeveloped economy, by identifying, Indian economy as a mixed economy on the path of transition - transition from underdevelopment to development from poverty to prosperity, from scarcity to abundance.

Rational for External Assistance

Foreign economic aid (or external economic assistance) to a country is a fluid concept and admits of different definitions. Properly defined [foreign economic aid' or 'external economic assistance' is the transfer of capital and technical know-how from one country to another which is made on concessional terms, that is, on terms more favourable than those obtaining currently in the world capital and labour markets.¹² It is associated with a resource inflow from outside the country.) Resource flow is an omnibus concept, and covers numerous forms. Viewed in financial terms the flows may be (grants, loans, capital investments, and the non-financial counterparts may be goods (such as machinery equipment, raw materials, spare parts, consumption,

12. ✓ Patel I.G. "Retrospect and prospect of foreign aid, in Research Committee on foreign aid". p.107-108.

goods and other inputs) and services, personnel, technical know-how etc. Grants of freely convertible currency constitute aid in full sense, while loans contain only some elements of aid. Aid-components depend on the length of grace and maturity periods as well as low interest rates. Capital investment covers the cost of equipment for projects, while the technical assistance, includes expert advisory service in the field, training facilities in donor countries, and equipment for instruction and demonstration. Commodity assistance can make a significant contribution to economic development in several ways, such as increasing the utilization of productive capital and generating counterpart local funds used for development purposes.¹³⁾

(Aid-flow may be bilateral or multilateral. Bilateral aid is from one country to another, multilateral aid is from a group of countries or an international organization such as the World Bank/IDA, etc.)

(There are two objectives of the foreign assistance; the first is of accelerating the economic growth by meeting the gaps in the economic development and the second is bringing the level of the economy nearer to the point where it no longer needs of foreign capital or its dependence on foreign aid is reduced.)

13. Irving Brecher and S.A.Abbas; "Foreign Aid and Industrial Development in Pakistan", Cambridge University Press, 1972, p.23.

The economic history of most of the advanced countries of the world shows that in the early stages of their development they had to depend upon external assistance to some extent, India, too (since the First Plan, has augmented her developmental programmes relying upon foreign assistance. In the case of developing country like India, the need for foreign capital is all the more on account of the following reasons - (a) The domestic capital, is insufficient to meet the needs, (b) Experienced and skilled entrepreneurship and know-how is lacking in several lines of production, (c) The capital market is not well developed. This makes it all the more difficult for domestic capital to flow easily into various spheres of business activity, (d) With the help of foreign assistance the programmes of modernization of the industrial economy of the country can be speeded up.) While stressing the urgency of foreign assistance to underdeveloped countries the president of the World Bank Mr. McNomara stated that "The developing countries face many difficult issues, and capital alone cannot assure their resolution. But it is clear that, without an adequate supply of external capital, progress cannot be made; investment progress will not be carried out, the productivity of low-income groups will not be raised and economic growth objectives will not be achieved".

Why foreign assistance? the rationale is sought to be established on two grounds. First the ('saving investment gap' thesis which states that external assistance brings in

foreign savings to bolster domestic saving which are inadequate for the investment required in the process of economic growth. Second, the "exchange reserves gap" thesis according to which assistance provides a foreign exchange cushion, to ward off supply bottlenecks in respect of materials and equipment arising from a lack of reserves to purchase these abroad.)

In India, to a large extent we have vaguely (treated these two gaps as interchangeable and looked at foreign capital sometimes in terms of supplementing the budgetary source of development finance and sometimes as an alternative to domestic savings and supplies. Thus the first plan said "In the last analysis, the role of external assistance in relation to the plan will be to supplement the real resources of the country with commodities for which additional demands will be generated in the process of development but the domestic supplies of which are limited. External assistance would help to avoid dislocation and to maintain a certain measure of stability in the economy". The second plan asserted that "the problem of raising resources externally and internally has to be viewed as a whole, and any shortfall in external resources has to be made good by greater domestic effort if the plans for investment are to go forward smoothly". Similarly, the third plan stated that, the role of external assistance is to supplement domestic saving by bridging the gap between

essential import requirement and export possibilities. But the Fourth Plan was more hesitant with regard to it as an essential means for "developing the export promoting and import substituting potentials of our agriculture and industry with possible expedition."¹⁴ The Draft of fifth five year plan emphasised the net inflow of foreign aid to zero, although in the final plan it was realised that it may not be practicable to achieve this goal for quite some time more. The Sixth plan is a further exercise in the same direction. It has visualised self reliance as a part of a long-term development perspective covering a period of 15 years from 1980-81 to 1994-95. The plan was launched in a difficult situation, when the economy was constrained by severe balance of payments problems. This constraint has been caused primarily by a hike in crude oil prices over the last few years. Therefore, under the circumstances, the plan is making a little more resort to foreign assistance than was originally planned in the Draft-five-year plan 1978-83. It may be observed in short, [that foreign assistance has been assigned only stop-gap function and is supposed to be used as an instrument for achieving the goals of self-reliance and self-financing growth.]

India may not be in a position to generate enough

14. Government of India, Planning Commission, 'Draft Outline of the Fourth Five Year Plan : New Delhi, 1969-74.

export (though it may have a high rate of savings) due to low elasticity of demand for its exports, a policy of protectionism pursued by the importing countries, lack of our competitive strength in the international markets, and so on. In such a case the foreign exchange gap would exist even in the absence of a savings gap, and external assistance would be required.

India suffers from numerous handicaps and some of them are interwoven with the fact of underdevelopment itself. Population explosion, prevalence of poverty, capital deficiency, low level-technology, want of entrepreneurship, lack of integrity and low level of efficiency among the people in general and the official machinery in particular, concentration on short-term gains and inability to take a long-term view of the situation are the bane of underdevelopment.

Foreign assistance is thus necessary to initiate and accelerate the process of economic development. "It becomes inevitable not merely to fill up the gap of domestic savings but also to create necessary conditions in which fuller and proper utilisation of human and material resources becomes possible".¹⁵

15. Chenery H.B. and A.Strout, A.M., "External assistance and Economic Development", American Economic Review, Vol.LVI, No.4, part I, Sept.1966, Pp.680,681.

Foreign assistance has three important effects : It supplements domestic savings, makes available additional amounts of foreign capital and enlarges technical resources. However, it should be noted that the extent to which foreign capital can contribute favourable to the economic growth of the country depends on the proper utilisation of foreign capital. We shall discuss the significance of the participation of the assistance in the process of economic development.

Foreign capital has helped to raise the level of investment. Ever since 1956-57, the country has faced serious foreign exchange crisis. But for aid, it would have been well-nigh impossible for the country to tide over this difficulty.

Foreign assistance stabilises food prices and makes possible imports of raw materials. Of the total assistance utilised, a little less than half represents assistance in kind or commodity the bulk of which has been utilized to import foodgrains which played a significant role in stabilising foodgrain prices. A part of the assistance has been used to import raw materials or spare parts that were in short supply in the economy and this contributed in part at least towards price stabilization and also to some extent in the increase in production in the country.

Assistance during plans

Foreign assistance as the powerful apparatus for an underdeveloped country like India in boosting up the economy.

Various sources both institutional and individual countries helped India. We can conveniently divide these different sources into three parts viz., i) consortium members of market economies (ii) U.S.S.R. and the East European countries, and (iii) others.

Table 2.1 shows the amount of external assistance received by India in the plan period.

It is quite evident that, India received 21% of total plan outlay as an external assistance during her planning era. Up to the Third five year plan the total external assistance in the public outlay was only 37 percent. But in the annual plan period it had increasing trend upto 45% which was followed by decreasing trend from fourth five year plan onwards.

It may be mentioned here in brief, these different sources of external assistance.

i) Consortium Members of Market Economies : In the wake of serious foreign exchange crisis that hit the Indian economy during 1957-58, the Aid India Consortium was formed. The object of this formation was to co-ordinate the aid programmes of different sources that were extending financial assistance to India. Among the major members of the aid India Consortium were the IBRD and its affiliate the IDA, and a number of individual countries including the U.S.A., the U.K., Canada, Japan and other member countries of the European Economic community. The consortium has been the major source of financial assistance to India, about 90 per

Table 2.1 : External Assistance to India in the Plan Period

Rs.

(Amounts in crores)

Plan period	Total external assistance	Average of per year ext. assistance	Total plan outlay (public)	% of ext. assistance to plan outlay
Upto the end of Third Five Year Plan (1951-66)	5763.37	384.2	14478	37.0
Annual Plans (1966-69)	3007.11	1002.4	6665	45.1
Fourth Five Year Plan (1969-74)	4174.81	835.0	15902	26.3
Fifth Five Year Plan (1974-79)	8200.01	1640.0	39322	20.7
1979-80	1224.86	1224.9	12601	9.7
First Three Years of the Sixth Five Year Plan	7473.06	2491.0	53460	13.9
Total	29843.22	332.6	142429	21.0

Source : India, 1983, p.217-18, and various Reports on Currency and Finance, Reserve Bank of India.

cent of the total aid, including loans, grants and commodity assistance, utilised in India till the end of 1980-81 has come from this source. Within the consortium our major donor has been the U.S.A. although the aid from this source has been declining since 1972-73. The U.S.A. extended three types of assistance, loans grants and commodity assistance under the PL480 and PL665. The IBRD and the IDA have been providing assistance to India since 1949. While the IBRD arranges market loans at concessional rates of interest, the IDA provides credits free of interest it only levys nominal service charges. Among the other major donor countries within consortium are the U.K., Canada, West Germany and Japan.

ii) Socialist Countries : In 1955 a loan of Rs.647 crores was authorised by the U.S.S.R. for utilisation in the second plan. Since then a number of these countries including the U.S.S.R., Czechoslovakia, Poland and Yugoslavia, have extended financial assistance to us, which uptill the end of 1979-80 has amounted to Rs.909.3 crores, out of which the share of grants has been only Rs.6.1 crores. Among this group of countries, our major donor has been the U.S.S.R. which extended a total assistance of the order of Rs.703.6 crores till now. The type of assistance provided by the East European countries differs from other in many significant ways. Most of the aid has been in the form of loans which carry short maturity periods. The first instalment of the credits has been generally repayable one year after

the presentation of the final invoice and other documents in respect of the last delivery of the machinery and equipment required to be imported under the loan. These loans have been totally tied in nature. On these loans, the rate of interest has varied between 2.5 per cent to 3 per cent only. Both the interest payment and the amortisation are made in rupees. The donor countries utilise the rupees thus obtained for the purchase of goods in India. These loans are, therefore, self-liquidating in nature.

iii) Others : Other includes Australia, New Zealand, and Switzerland and the United Nations Emergency Operation Fund. Most of them have extended only grants. Within this group, a recent development has been the emergence of the Organisation of Petroleum Exporting Countries (OPEC) as significant donors. In the wake of the like in oil prices in 1972-73 and subsequent increases in the price of crude oil, the OPEC have been extending assistance to developing countries to help them tide over the difficulties created by this situation. These countries have been providing assistance under different forms like OPEC Special Fund, Abu Dhabi Fund, Saudi Arabia Fund for development, Kuwait Fund for Arab Economic Development etc. An amount of Rs.1,474 crores by way of loans has been authorised by these Rs.1,216 crores worth of aid has been utilised till the end of 1979-80, or 16 percent of the total external assistance utilised by India during the period 1973-80.

Considering the characteristics of Indian economy

foreign aid was essential. She could derive assistance from World Bank, and its affiliate from the beginning of its planning era. World Bank and its affiliated have tremendously helped India, which cannot be forgotten easily. During the three decades of planning our economy could not have sound economic footing, had such foreign aid totally dried up for this or that reasons. Political inclinations, rigid conditions of aid and rigorous repayment procedure would make it impossible for a country to borrow. But we received aid at our convenience, at proper time and for right purpose and hence its role in Indian economy needs great weightage to achieve its goals of self-sufficiency in short period. Assistance has been received in India from IBRD and its affiliates in the form of loans, grants and technical assistance.

The review of such aid to India in her development programmes during the periods 1971-83 will follow.

SECTION III

ANALYSIS OF WORLD BANK GROUP ASSISTANCE TO INDIA

Increasing population, age old poverty, low level of technology, unorganised capital market, paucity of funds and absence of industrial development have been the main features of Indian economy. The objective of Indian planning is to raise the standard of living of the people in the country by expanding output and services, and amenities for education, health etc. External assistance can play a useful role in the attainment of these objectives.

Sources of External Assistance

External assistance comes from foreign governments, foreign private corporations, and international agencies. But the external assistance given by private foreign corporations and by foreign governments is often tied with certain conditions. Our emphasis was on getting foreign aid which is free to be utilised in a manner most advantageous to India. The Government of India approached the International Monetary Fund, The International Bank for Reconstruction and Development in 1949, and Western governments for aid for development. The World Bank organised 'Aid India Consortium' in 1958, which became useful for India to have links with aid givers. It was set up to grant loans for the implementation of the Third and subsequent

five year plans in India. The U.S., the U.K., FRG, Belgium, Canada, the Netherlands, France, Italy, Denmark, Austria, and Japan are represented in this consortium. The World Bank has through this consortium, encouraged direct foreign investment in India.

The Industrial Credit and Investment Corporation of India (ICICI) was set up in India in 1955 on the basis of a recommendation of the World Bank. The World Bank and its affiliate the IFC have granted loans from time to time to ICICI. The main aim of ICICI is to consolidate the private sector in India by mobilising private capital including that from foreign countries. Private investors from Japan, FRG, U.K., and U.S., are represented on the Board of the ICICI.

Besides, IFCI and ICICI have often negotiated foreign lines of credit and obtained foreign currencies for on-lending to private sector industrial enterprises for acquisition of imported plant and equipment.

Among the multi-lateral sources, of external aid for economic development of countries of the Third World, World Bank and its affiliates are important as they have a lion's share in the contribution to India's economic development during the planning period.

World Bank aims at providing the monetary and financial machinery to enable the poor countries to improve their economies. The Bank has, however, in the seventies

shifted its emphasis to agriculture, population control and the eradication of poverty. The Bank has a number of objectives while extending assistance such as, (a) providing finance in increasingly flexible ways, (b) furnishing technical and planning assistance to member countries, (c) building up local institutions to mobilise and channel capital for productive purposes and (d) forming international consultative groups to coordinate the provision of external assistance.

Such objectives of World Bank are fulfilled by making direct loans to its members, out of its funds or funds raised in international capital market, and by guaranteeing, in whole or in part, loans made by private investors through usual investment channels.

The international assistance to developing countries consists of private foreign investments, bilateral grants, loans, technical assistance and multi-lateral assistance of various types channeled through U.N., W.B., IDA and IFC. Technical assistance is the most favoured source of financing developing projects in India. Such projects include agriculture, industry, power, transport and communication, education and family welfare. Foreign aid is sometimes accompanied by advice, as the lending institution has its own ideas regarding utilization of the loan in the best possible manner.

In 1980 the World Bank designed a new type of

'structural adjustment lending' for its members to introduce an important structural change in their economies and to accomplish difficult economic reforms. It aims at supporting the member countries in their critical financial situation. A country, willing to take this benefit, is required to adopt suitable change in its policies and programmes to enable its economy to adapt over a reasonable period to the changes in the international environment without sacrificing its long term growth objective. The Bank usually assists the governments in formulating the programmes and by providing technical assistance that may be required.

A) India and World Bank Group : (i) The World Bank : India has been recipient of a sizeable assistance from the World Bank. India obtained a loan of \$ 62 mn. in 1949-50; since then loans of the order of \$ 5553.3 mn. from the World Bank have been received upto 1982-83. In fact, in 1977-78, India occupied the first position among World Bank loan recipients. India occupied 'top' position in the Bank's lending programme because of two reasons. Firstly, the Bank and India had evolved a strategy of development with similar priorities. Secondly, by 1968 Bank had virtually stopped lending to the developed countries, and it now lends only to the 'developing' countries. India as a major developing country both in terms of population and social needs had naturally attracted attention of the World Bank.

In what follows, it is proposed to confine attention

to the World Bank's assistance to India during the period 1971-72 to 1982-83.

The period 1971-83 covers partly the fourth plan (1969-74) fifth plan (1974-79) and a part of the sixth plan. This plan-wise analysis of the capital inflow from international resources carries significance as it can be assessed against the planned development of Indian Economy.

India's Share : The external assistance that India received was mainly from World Bank and IDA. The comparative position of India's share in total loans from World Bank is given in Table 3.1.

Table 3.1 : India's share in World Bank loan.

Year	World Bank loans		India's share		
	Total projects	Amount	Projects	Amount	Percentage in total loans
1971-74	250	7235.5	3	182.0	2.5
1974-79	703	28142.8	15	1318.0	4.7
1979-83	570	37919.0	19	2907.7	7.8
Total	1523	73292.3	37	4407.7	6.0

Source : Various World Bank Annual Reports.

Note: Joint Bank/IDA operations are counted only once, as Bank operations.

World Bank gave total of \$ 73292.3 mn. to its member countries between 1971 and 1983, for 1523 projects, and India was benefitted to the extent \$ 4407.7 mn. for her 37 projects. This financial help to India is insignificant in the total aid that World Bank gave, as it was hardly 6% of the total loans, however, this share increased during the three sub-periods. Out of total 37 projects, 50% projects that were financed, were in the first three years of sixth plan period and remaining were spread over fourth and fifth plan period.

As regards average finance per project India received \$ 60.6 mn. In 1971-74, \$ 87.9 mn. in 1974-79 and \$ 153 mn. in 1979-83 as against \$ 28.9 mn. \$ 40.03 mn. and \$ 66.52 mn. respectively overall assistance by the Bank. Evidently the Indian projects were generally bigger than the average for other countries, presumably because of the size of the country.

ii) International Development Association (IDA) : The World Bank provided loans either directly or through private investors for productive investment to the member countries. But the demand for finance from the Third World developing countries started rising. The countries needed loans mainly on a long term basis in order to develop the infrastructure. The rising demand for such loans which had to be provided at nominal rates of interest led to the establishment of IDA in 1960 as an affiliate of the World Bank. IDA has a specific role, to promote development through the provision of finance of meet their (developing countries) important

development requirements on terms which are more flexible and bear less heavily on the balance of payments than those of conventional loans. It supplements the financial facility provided by the World Bank.

IDA as an affiliate of the World Bank has extended its credit facilities to India, right from its inception in 1960. The IDA is known as the 'soft loan window' of the Bank for giving loans in hard currency to underdeveloped countries.

Table 3.2 shows the India's share in total assistance approved by IDA.

Table 3.2 : India's share in IDA Credits between 1971-83.

Year ending	IDA Credits		(U.S. \$million)		
	Total projects (No.)	Total credits	Projects (No)	Amount	Percentage in total credits
1971-74	212	3451.6	28	1296.2	37.6
1974-79	412	9873.5	51	3939.6	39.9
1979-83	413	13346.7	37	4779.0	33.6
Total	1038	26671.8	116	10014.8	37.5

Note: Joint Bank/IDA operations are counted only once as Bank operations.

Source : Various Annual Reports of the World Bank.

This contribution of IDA in raising funds for plan outlay was significant. The fall in share of India in the

credit from IDA after 1979-80 was due to the cut in the U.S. contribution to the IDA from \$ 1000 mn. to \$ 700 mn. in 1982 resulting in IDA having only \$ 2600 mn. to lend instead of the original \$ 4100 mn.

The average credit per year by IDA was \$ 1150 mn. in 1971-74, \$ 1974.6 mn. in 1974-79 and \$ 3336.5 mn. in 1979-83 for all the borrowing countries, whereas average credit per annum to India were \$ 432.06 mn. in 1971-74, \$ 787.9 mn. in 1974-79 and \$ 1391.7 mn. in 1979-83.

The loan per project was \$ 16 mn. in 1971-74, \$ 24 mn. in 1974-79 and \$ 32 mn. in 1979-83 for all the borrowing countries. However the credit per project of India was \$ 46 mn. in 1971-74, \$ 77 mn. in 1974-79 and \$ 129 mn. in 1979-83. This suggests that India received more loan per project.

From the comparison of the funds available for India from the World Bank and the IDA it is clear that the IDA gave more finance than the World Bank. India had a larger share in total credit given by IDA than that in the loan issued by the World Bank. Evidently, India was keen on getting more funds from IDA because its credits are cheaper (without interest) while loan from the Bank are on commercial basis, secondly, India was also all along eligible for concessional funds from IDA because of its relatively low per capita G.D.P.

Purpose-wise loan/credit to India : World Bank and IDA gave financial assistance for a number of projects in

India during 1971-72 to 1982-83 period, as seen in Tables 3.3 and 3.4. The Bank and the IDA usually gave loan assistance for the same kind of projects and spheres of activity.

The Bank advanced loans for specific development projects in the field of agriculture, electric power, energy, transportation, telecommunication, industry, water supply and urban development. Table 3.3 presents purposewise loans of the IBRD to India for the period 1971-72 to 1982-83.

The assistance was the highest for electric power (27%) followed by industry (18.4%), energy (17.9%), Development Finance (14.2%) and agriculture and rural development (12.4%). It is seen that the infrastructure development (viz. electric power and energy) received over two fifths of the total assistance from World Bank, during this period.

Electric power, energy and transportation assumed significance in the Sixth plan, whereas agriculture and rural development, industry and development finance had been major beneficiaries of the assistance during the Fifth plan period. The changed emphasis of World Bank assistance can be said to show the changing thrust of the plans.

The loan for power in the Sixth plan was meant for both hydroelectric power plants and thermal power stations as well as transmission lines. The fertilizer plant, viz. Thal-Vaishet, Nangal and Sindri fertilizer plant were developed with this help. The Bank financed agricultural programme, such as development of a seed processing, irrigation,

Table 3.3 : Purposewise loan by IBRD to India between 1971/83.

Purpose	(U.S. \$ million)			
	Year			
	1971-74	1974-79	1979-83	Total
Agri. and Rural Development	52.0 (28.6)	184.0 (13.9)	309.2 (10.6)	545.2 (12.2)
Industry	-	509.0 (38.6)	300.0 (10.3)	809.0 (18.4)
Development Finance	130.0 (71.4)	245.0 (18.6)	250.0 (8.6)	625.0 (14.2)
Transportation	-	-	200.0 (6.9)	200.0 (4.5)
Telecommunication	-	200.0 (15.2)	-	200.0 (4.5)
Electric power	-	155.0 (11.8)	1036.6 (35.7)	1191.6 (27.0)
Energy	-	-	787.8 (27.1)	787.8 (17.9)
Urbanization	-	25.0 (1.9)	24.1 (0.8)	49.1 (1.1)
Total	182.0	1318.0	2907.7	4407.7

Note: 1) Operations have been classified by the major purpose of finance. Many projects include actively in more than one sector or subsector.
2) Figures in brackets indicate the percentage of the total.

Source : Various World Bank Annual Reports.

agricultural research institutes, agricultural universities and changes in agricultural extension practices in the country.

The purpose-wise break-up of loans from World Bank is as follows :

A) Electric power : Tata Electric Company received a loan of \$ 105 mn. for its Third Trombay Thermal power project, and Ramgundam Thermal power project received \$ 50 mn. in 1974-79. Of that loan \$ 1036.6 mn. in 1979-83, \$ 304.5 mn. was paid in 1982 for third rural electrification project, and a loan of \$ 300 mn. was given second Ramagundam Thermal Power Project.

B) Industry : During the period 1974-79 India received loan for three different projects viz., \$ 250 mn. in 1979 for Thal-Vaishet fertilizer plant, \$ 150 mn. for Bombay high and North Bassein off-shore development and \$ 109 mn. for Indian Farmers Fertilizer cooperative. During 1979-83 two loans were sanctioned first \$ 200 mn. for Refineries Rationalization project in 1982 and second of \$ 100 mn. for Tamil Nadu newsprint project in 1981.

C) Development Finance Companies : Development Finance Companies received \$ 625 mn. (14.2%) loan during the period under study. During 1971-74 ICICI received \$ 60 mn. to cover the import component; in addition it obtained \$ 70 mn. to meet the foreign exchange crisis. In 1974-79 ICICI received \$ 100 mn. to meet part of foreign exchange requirement. Another loan of \$ 40 mn. was granted to provide

foreign exchange to 18 states Financial Corporation for on-lending to small and medium scale industries. The twelfth loan to ICICI of \$ 80 mn. for helping the industrial project which had highest priority due to their export - oriented production and their location in backward areas. In 1979-83 IBRD sanctioned \$ 250 mn. for this purpose in order to meet the foreign exchange requirements.

D) Energy : During 1979-83, loans were given for three different projects, viz., \$ 400 mn. for second Bombay high off-shore development in 1980, \$ 165.5 mn. for Godavari petroleum exploration project in 1982 and \$ 222.3 mn. for South Bassein Gas Development project in 1982-83. These loans were received to explore and to unearth the energy available on Indian sea-shore.

E) Agriculture and Rural Development : During 1974-79 irrigation programme received \$ 145 mn., agricultural seed production \$ 25 mn., Fisheries project \$ 14 mn. in Gujarat state. In the period of 1979-83, agricultural Refinance and Development Corporation received loans for Himalayan Watershed management project, Kandi Watershed and area development and Maharashtra Water Utilisation Project.

ii) IDA and India : Table 3.4 explains purpose-wise credit given by IDA to India between 1971-83.

It is quite evident that 40.6% of total credit became available for agriculture and rural development, followed by electric power and energy with a share of 21 per cent

Table 3.4 : Purpose-wise credit by IDA to India between 1971/83.

Purpose	(U.S. \$ million)			Total
	1971-74	1974-79	1979-83	
1. Agri. and Rural Development	282.0 (21.6)	1651.6 (41.9)	2136.0 (44.7)	4069.6 (40.6)
2. Forestry	-	27.0 (0.7)	99.0 (2.1)	126.0 (1.3)
3. Industry	138.0 (10.6)	196.0 (4.9)	400.0 (8.4)	734.0 (7.3)
4. Development Finance	25.0 (1.9)	-	-	25.0 (0.2)
5. Non-project	325.0 (25.1)	200.0 (5.1)	-	525.0 (5.2)
6. Transportation	238.0 (18.4)	300.0 (7.6)	235.0 (4.9)	773.0 (7.7)
7. Telecommunication	80.0 (6.2)	-	314.0 (6.7)	394.0 (3.9)
8. Electric power and Energy	85.0 (6.6)	932.0 (23.7)	1095.0 (22.9)	2112.0 (21.1)
9. Urbanization	35.0 (2.7)	111.0 (2.8)	270.0 (5.6)	416.0 (4.2)
10. Water supply and sewerage	55.0 (4.2)	322.0 (8.2)	152.0 (3.2)	529.0 (5.3)
11. Education	12.0 (0.9)	-	-	12.0 (0.1)
12. Population planning	21.2 (1.6)	-	-	21.2 (0.2)
13. Population health and Nutrition	-	-	78.0 (1.6)	78.0 (0.8)
14. Maintenance Finance	-	200.0 (5.1)	-	200.0 (1.2)
Total	1296.2	3939.6	4779.0	10014.8

Note: 1) Operations have been classified by the major purpose it finance. Many projects include actively in more than one sector or subsector.
2) Figures in brackets indicate the percentage of total.

Source: Various World Bank Annual Reports.

and then by Transportation (7.7%) and Industry (7.3 percent). It also seen that agriculture and rural development along with electric power received increasing attention during the period as regard IDA credit.

The purposewise position of credit from IDA is as follows :

A) Agriculture and Rural Development : During 1971-74 period first loan was given to Maharashtra State to the tune of \$ 30 mn. to provide credit facilities for 45,000 farmers for well construction, and land improvement. Further \$ 40 mn. were sanctioned for on-farm irrigation, land improvement, mechanization in the state of Mysore state. This was utilised to increase agriculture output by extensive cultivation on about 7 lakhs acres. Similarly, U.P., M.P., Rajasthan, Karnatak received assistance for minor irrigation, wells, pump-sets etc.

During 1974-79, Rajasthan got a credit of \$ 83 mn. for irrigation two hundred thousand hectares of land. The Agricultural Refinance Corporation received \$ 75 mn. for giving credit facilities to about 6 lakhs farmers. The Godavari river project was aided to the extent of \$ 45 mn. which would extend irrigational facilities to 4 lakhs hectares of land in Andhra Pradesh.

In 1979-83, \$ 250 mn. was given for two-year programme of lending by the Agricultural Refinance and Development Corporation to small farmers. IDA gave \$ 210 mn. to Maharashtra which was to benefit 1.2 lakhs farm families

from the second irrigation project. Another credit of \$ 175 mn. given for Gujarat irrigation project was to benefit 1.36 lakhs farmers. Karnataka received \$ 54 mn. to improve quality of silk and expand the production of raw-silk. Similarly, M.P., U.P., West-Bengal, Bihar also received assistance for extensive cultivation programme, rural roads, tube-wells, improvement of canal conveyance and drainage work etc.

B) Electric Power and Energy : In 1971-74, first loan of \$ 85 mn. was utilised to build 2500 circuit miles of transmission line and 60 substations in six states.

During 1974-79, IDA gave assistance for the investment in high voltage transmission, for rural electrification which was to benefit 55,000 small farmers, and to increase power generating capacity by 2000 M/W. of thermal power station in M.P. State.

In 1979-83, the second stage of the coal-fired Singrauli power generating station was completed, assistance was given for three 500-M/W generating units and 1,100 km. associated transmission lines in Madhya Pradesh.

C) Transportation : In 1971-74, railway improvement and modernization programme received \$ 75 mn. A credit facility of \$ 80 mn. was utilised for expansion of railways, including replacement of steam locomotives with diesel or electric ones.

During 1974-79, IDA credits helped improve railway transport system and manufacture of 350 locomotives, above 300 electric multiple units, 1500 coaches, and 20,000 freight

cars. The operational efficiency of Indian railways was improved through rationalization and modernization of maintenance, removal of existing bottlenecks in manufacturing capabilities.

In 1979-83, the rural road construction programme of 700 kilometers length was undertaken along with a railways project for upgrading the maintenance and reliability of the fleet of existing diesel, electric locomotives of Indian railways.

D) Industry : Between 1971 and 1974 IDA gave assistance for expansion of fertilizer industry for plants located in Kerala, Punjab, Maharashtra, and U.P. During the subsequent periods also fertilizer industry received assistance.

The comparative study of the loan/credit facilities from IBRD and IDA to India during the period from 1971-74 to 1979-83 brings out some interesting features. IDA credit to India was 227% of the IBRD loan. Further World Bank gave loan to six major items whereas IDA gave the credit for fourteen items. This indicates a wider coverage of items for the loan purposes by IDA than IBRD.

Agriculture and rural development ranked high in getting credit from IDA while energy received highest rank in getting loan from IBRD. In respect industry, the loan given by IBRD was \$ 809 mn. which was more than the credit of \$ 734 mn. from IDA. The Development Finance Companies received nominal assistance from IDA, because they operate on commercial loan basis within the country. Electric power

and energy received primary from IDA as against the Bank.

iii) International Finance Corporation (IFC)

The IFC was set up as a part of the World Bank group in 1956 primarily for assistance through the provision of equity and loan capital to eligible enterprise. It operated in the developing countries to help finance private enterprise without government guarantee. India is one of the founder member of the IFC. The first project in India which received assistance from IFC was in 1959, IFC had invested in a limited number of Indian projects since then till the end of 70's. During the sixties IFC assisted several companies such as Laxmi Machine Works, Mahindra UGINE Steel Company Ltd., Indian Explosives, Zuari Agro-chemicals, among others. IFC assistance came both in the form of loans and equity participation. ICICI was associated in most of the projects financed by IFC.

IFC with its emerging closer relationship with IDBI and ICICI helps entrepreneurs obtain technology and financial resources from overseas. In addition, IFC, has also given some assistance to Indian joint ventures set up in other developing countries in recent years. IFC also associated itself with the activities of the newly set up Export-Import Bank of India and assisted the latter.

The global assistance committed by IFC till 30.6.1981 was U.S. \$ 2256 mn. in 432 projects of which the share of India totalled \$ 123 mn. in respect of 18 projects forming

5.2 per cent of the total assistance.

In 1963-64 IFC helped Mahindra UGINE Steel Company Ltd. (MUSCO). IFC's biggest investment (loan and equity) was in March 1969 in Birla's Zuari Agro-Chemicals Ltd. In this fertilizer plant of the U.S. Steel, the Birlas, the First City Bank, New York and many other American institutions guaranteed by the USAID were participants. Out of a total of Rs.12.43 crores, the Birlas provided Rs.1.78 crores of share capital in this project. The IFC helped Birla's Fertilizer project in 1970 along with investors from Japan like Mitsui. Such financial assistance and the guarantee from the IFC for private foreign investment made a way easy for foreign collaboration for industrial concerns in India. Jayshree Chemicals Ltd. got financial support in 1966 from ICI (Ltd.) of the U.K.

The IFC has had a long association with the Indian private sector, and by the end of fiscal 1982, IFC had approved investments of \$ 238 mn. in 28 ventures having total projects cost of almost \$ 1.6 billion. Of these, 10 investments mounting to \$ 165 mn. were made in fiscal years 1981 and 1982.

The largest part of IFC's Indian investments has been in the iron and steel industry. Almost one-third of its financing has been for this sector-\$ 77 mn. for seven projects costing about \$ 408 mn. In fact one of IFC's first two Indian investments, made in 1959, was to help

establish a steel forging plant.

During 1981 and 1982 the following industries got loans from IFC.

(i) Coromandal Fertilizers, which received IFC's assistance of \$ 15.9 mn. has made considerable progress in setting up its \$ 100 mn. cement project in Andhra Pradesh, (ii) Ashok Leyland, the second largest producer of commercial vehicles in India, received \$ 28 mn. loan from IFC for its expansion and modernisation programme.

IFC's activities in the Indian private sector are best evaluated in the context of its overall involvement in Asia. The Corporation, since it was established in 1956 has invested approximately \$ 946 mn. in Asian enterprises. These ventures cost an estimated \$ 4.8 billion. The biggest share, by far, was the \$ 238 mn. invested in India.

Some of the characteristics of the IFC's investment in India need mention here. First, IFC's resources may appear, to be small relative to the needs of the private concerns in India. But it should be assessed in the context of the assistance by it from catalysed other sources. Secondly, the contribution of IFC lending is limited due to its own financial position. The third aspect is IFC's equity financing, often the critical element in putting together a financial package for a venture. IFC has not made substantial equity investment in Indian projects, principally because Indian recipient of loan assistance were themselves quite large established enterprises. However, IFC equity

financing is available and may become more important if and when the corporation becomes more active in assisting medium sized and new firms. Typical of the IFC's support of intermediate enterprises is its recent investments in the three Nagarjuna Steel Companies to increase cold rolling capacity and produce steel strippings and galvanised steel tubes. Moreover, IFC had assisted investment activities of Indian investors in other Asian and African countries.

B) Plan Outlay in the Public Sector and IBRD/IDA's Assistance

The plan outlay in public sector and the assistance from IBRD/IDA are given in Table 3.5.

The IV plan outlay in public sector was Rs.15,902 crores and the share of IBRD and IDA was 7.5% of the total outlay.

Out of total outlay of Rs.39,322 crores during the V plan these two international institutions together contributed 8.9 per cent.

During the first three years of sixth plan total plan outlay is estimated at Rs.53,460 crores and the share of World Bank and IDA was 8.9 per cent. It is thus clear that the Bank and IDA shares kept pace with increasing plan outlays between 1969 and 1983.

Share of IBRD and IDA in Total External Assistance

After independence India approached a number of countries to seek financial help for her planned economic development. Amongst them U.K., U.S.A., U.S.S.R., France,

Table 3.5 : Plan outlay in the public sector and IBRD/IDA's assistance

(Rs.crores)				
Particular	Fourth five year plan 1969-74	Fifth five year plan 1974-79	1979-80	First three year of the sixth plan (1980-85)
Total outlay	15902	39322	12601	53460
External aid				
i) IBRD	30.38	540.75	187.50	1618.2
ii) IDA	1168.95	2942.69	387.00	3120.0
iii) Total	1199.39	3483.44	574.50	4738.2
Percentage of external aid	7.5	8.9	4.6	8.9

Source : India, 1983, Pp. 217-18, and various Report on Currency and Finance, RBI.

Germany and Japan are important. The analysis of total external assistance that India received between 1971 and 1983 and the share of Bank and IDA in it is attempted with the help of Table 3.6.

The World Bank and IDA had contributed more than half of total assistance to India, IDA contributed 38% and World Bank 15% of total external assistance. It is also to be noticed that the share of World Bank/IDA assistance in total external assistance increased in each subsequent subperiod. The Bank's share had increased from 4 per cent in 1971-74 to 23 per cent in 1979-83.

Table 3.6 : Assistance from World to India and share of IBRD and IDA.

Years	Total external assistance to India	(Rs.crores)		
		World Bank and IDA Assistance	IBRD	IDA
1971-74	2530.48	97.50 (3.9)	959.40 (37.9)	1056.90 (41.8)
1974-79	8200.01	837.44 (10.2)	2942.69 (35.8)	3780.13 (46.0)
1979-83	8697.92	1993.20 (22.9)	3507.00 (40.3)	5500.20 (63.2)
Total	19428.41	2928.14 (15.0)	7409.09 (38.0)	10337.23 (53.0)

Note: Figures in brackets indicate the percentage to total external assistance.

Source : Various Reports on Currency and Finance, RBI.

Authorisation and Utilisation

More important than the authorisation of assistance is its utilisation because the more it remains utilised, it increases the cost of assistance in addition to the loss it entails to the economy of the benefits of its utilisation. If proper and efficient arrangements for its utilisation are not made expeditiously, it is better to go without such assistance since it cannot be efficiently and productively utilised in the economy.

The comparative position of the loans authorised and utilised, which were received by India from World Bank and

IDA, during the period from 1966-74 and 1979-83 is given in Table 3.7.

Total loans authorised by IBRD to India during the period from 1966 to 1983 amounted to Rs.2818.34 crores and the amount actually utilised was Rs.1371.59 crores less than half of the authorised amount. Similarly, in respect of IDA, the loan utilised was only 60.7 per cent. This indicates that the rate of utilisation was better and faster in case of IDA.

During the period 1966-74 the percentage of loan utilised was 127.9% of the total authorised loan from IBRD. This percentage in respect of the credit from IDA was 63% of the Rs.1484.04 crores in the same period. This apparently higher utilisation of the loan from IBRD was the result of the utilisation of the loan authorised prior to 1966.

The utilisation of credit from IDA and the Bank brings out the poor follow-up action and unsatisfactory progress in implementation of the programmes for which external assistance was sought. Incidentally, such poor utilisation results in two adverse effects. Firstly, the rate of interest on loans goes on increasing which is made effective from the date of disbursement and hence the servicing cost of the debts is more likely to increase because of delays in availment of funds. Secondly, delays also entail cost-escalation causing further time lags in the fruition of the projects, or programmes undertaken.

The average amount of loan/credit authorised and

Table 3.7 : Authorisation and Utilisation of loan/credit from IBRD/IDA.

(Rs. Crores)

Years	IBRD Loan			IDA Credit		
	Authorisa- tion	Utilisa- tion	% of Utili- sation to Authorisa- tion	Authorisa- tion	Utilisa- tion	% of Utilisa- tion to Authorisation
1966-74*	175.80	224.87	127.9	1484.04	935.36	63.0
1974-79	836.84	873.52	44.6	2937.17	1563.00	53.2
1979-83	1805.70	773.20	42.8	3507.00	2316.11	66.0
Total :	2818.34	1371.59	48.6	7928.21	4814.47	60.7

* Figures for April 1 to June 5, 1966 are expressed in rupees at the pre-devaluation rate of exchange and for the subsequent period at the post-devaluation rate of exchange for the rupees or at the pre-December 1971 IMF par values.

Source : Report on Currency and Finance - 1982-83.

utilised is more interesting to look into (Table 3.8).

Table 3.8 : The average amount of loan/credit authorised and utilised from World Bank and IDA.

Years	(Rs.crores)			
	Total Average amount per year of the loan			
	IBRD		IDA	
	Authorised	Utilised	Authorised	Utilised
1966-74	21.97	28.1	185.50	116.92
1974-79	167.36	74.7	624.53	312.60
1979-83	451.42	193.3	876.75	579.02
Total	165.78	80.68	517.93	283.20

Source : Compiled from Table 3.7.

The overall per year average amounts of loans authorised by IBRD during the whole period 1966 to 1983 indicate that the amount utilised is less than half of authorised amount.

The table shows that the average amount of loan/credit utilised went on increasing sharply from the first subperiod to the third.

Purpose-wise Authorisation and Utilisation of loan from World Bank (IBRD)

A) Public Sector : Table 3.9 indicates purpose-wise authorisation and utilisation of loans from IBRD to the public sector in India.

During the period 1966 to 1983 total amount of loan

Table 3.9 : Purposewise Authorisation and Utilisation of Loan in public Sector from World Bank (IBRD)

Sr. No.	Year	(Rs. Crores)											
		1966-74*			1974-79			1979-83			Total		
Purpose		Autho- risa- tion	Uti- lisa- tion	% of Uti. to Autho	Autho- risa- tion	Uti- lisa- tion	% of Uti. to Autho.	Autho- risa- tion	Uti- lisa- tion	% of Uti. to Autho.	Autho- risa- tion	Uti- lisa- tion	% of Uti. to Autho.
1. Transport and Communication		29.65	36.46	122.9	168.75	68.59	40.6	150.00	73.96	49.3	348.40	179.01	51.4
2. Power Project		1.40	51.43	3673.5	116.25	5.77	4.7	472.13	63.85	13.5	589.78	121.05	20.5
3. Industrial Development		-	-	-	112.50	51.49	45.8	815.85	357.09	43.8	929.35	408.58	44.0
4. Agricultural Development		8.59	2.34	27.2	177.00	37.66	21.3	157.72	89.89	56.9	343.31	129.89	37.8
5. Steel and steel Projects		-	-	-	-	-	-	-	-	-	-	-	-
6. Miscellaneous		-	-	-	-	-	-	22.50	3.52	15.6	22.50	3.52	15.6
Total :		39.64	90.23	227.6	574.50	163.51	28.5	1618.20	588.31	36.4	2232.34	842.05	37.7

* Figures for April 1 to June 5, 1966 are expressed in rupees at the pre-devaluation rates of exchange and for the subsequent period at the pre-December 1971 IMF par values.

Source : Report on Currency and Finance, 1982-83.

authorised and utilised were Rs.2232.34 crores and Rs.842.05 crores respectively. This performance of utilisation of the loan comes to 37.7% of the total authorised amount of loan and that too became of the unrealistic of sums for 1966-74.

The very high utilisation rates for 1966-74 reveal a huge backlog in 1966 of the unutilised authorisations. The low utilisation of authorised loans before 1966 in case of power projects is clear. In fact poor utilisation persisted in power projects. Relatively, the utilisation was somewhat better in case of Transport and communication.

B) Private Sector : The purpose-wise authorisation and utilisation of loan in private sector in the period from 1966 to 1983 is given in the Table 3.10.

Juxtaposed with Table 3.9, it is seen that IBRD assistance to private sector was very small and its utilisation was better.

Average annual utilisation of loans from IBRD

Considering the average position of loan utilisation per year in public sector, as is given in Table 3.11, it can be said that the average amount of loan utilisation per year was rising in the three subperiods.

It is also seen that in the period 1979-83, the average amounts utilised were higher than previous particularly in the fields of industrial and agricultural development.

Table 3.10 : Purposewise Authorisation and Utilisation of loan in private sector from World Bank (IBRD)

		(Rs. Crores)											
Sr. No.	Year	1966-74*			1974-79			1979-83			Total		
		Autho- sisa- tion	Uti- lisa- tion	% of Uti. to Autho	Autho- risa- tion	Uti- lisa- tion	% of Uti. to Autho.	Autho- risa- tion	Uti- lisa- tion	% of Uti. to Autho.	Autho- risa- tion	Uti- lisa- tion	% of Uti. to Autho.
1.	Transport and communication	-	-	-	-	-	-	-	-	-	-	-	-
2.	Power Projects	-	0.08	-	-	-	-	-	-	-	-	0.08	-
3.	Industrial Development	134.86	123.03	91.2	180.59	149.52	82.8	187.50	153.64	87.3	502.95	436.19	86.7
4.	Agricultural Development	-	-	-	81.75	60.49	73.9	-	21.26	-	81.75	81.75	100.0
5.	Steel and steel projects	1.30	11.52	886.2	-	-	-	-	-	-	1.30	11.52	886.2
Total		136.16	134.63	98.8	262.34	210.01	80.1	187.50	184.90	98.6	586.00	529.54	90.4

* Figures for April 1 to June 5, 1966 are expressed in rupees at the pre-devaluation rate of exchange and for the subsequent period at the pre-December 1971 IMF pre-values.

Source : Report on currency and Finance, 1982-83.

Table 3.11 : Average of per year Utilisation of loan in public sector from IBRD to India.

Purpose	(Rs. crores)		
	1966-74	1974-79	1979-83
1. Transport & communication	4.55	13.72	18.49
2. Power projects	6.42	1.15	15.96
3. Industrial Development	-	10.29	89.37
4. Agri. Development	0.29	7.53	22.47
5. Steel and steel project	-	-	-
6. Miscellaneous	-	-	0.88
Total	11.27	32.70	147.07

Source : Compiled from Table 3.9.

Table 3.12: Average of loan Utilisation per year in private sector from IBRD.

	(Rs. crores)		
1. Transport and communication	-	-	-
2. Power projects	0.01	-	-
3. Industrial Development	15.38	29.90	40.91
4. Agri. Development	-	12.09	5.31
5. Steel and steel projects	1.44	-	-
Total	16.82	42.00	46.22

Source : Compiled from Table 3.10.

Purpose-wise average of utilisation of loan from IBRD to private sector is given in Table 3.12.

Total average of loan utilisation per year in total period was Rs.31.15 crores. It increased progressively in the three sub-periods. Industrial development had lion's share in the total assistance throughout the period.

Purpose-wise Authorisation and Utilisation of Credit from IDA to India

Table 3.13 explains the position of purposewise authorisation and utilisation of credit from IDA in the period from 1966-74 to 1979-83.

During the period of 1966-1983 total credit utilisation comes to about 60.7 per cent.

In the first two subperiods, industrial development had the highest share in total utilisation. In the latter periods, 1979-83, agricultural development acquired importance. After poor utilisation upto 1979 in case of power projects, it improved to 76.7% during 1979-83.

The average of Credit Utilisation per year from IDA

The average per year purpose-wise credit utilisation from IDA to India is given in Table 3.14.

It is observed that per year utilised amount increased markedly in the fields of agricultural development and then in power projects. There was thus a pick-up in the programmes in later years.

The average per year utilisation of loan from IBRD

Table 3.13 : Purposewise Authorisation and Utilisation of loan/credit from IDA to India

(Rs. Crores)

Sr. No.	Year	1966-74*			1974-79			1979-83			Total		
		Autho- riza- tion	Uti- lisa- tion	% of Uti. to Autho	Autho- riza- tion	Uti- lisa- tion	% of Uti. to Autho.	Autho- riza- tion	Uti- lisa- tion	% of uti. to Autho.	Autho- riza- tion	Uti- lisa- tion	% of uti. to Autho.
1.	Transport and Communication	409.88	281.12	68.6	225.00	240.70	107.0	453.75	198.40	43.7	1088.63	720.22	66.2
2.	Power Projects	135.50	31.72	23.4	567.75	180.84	31.9	825.00	632.78	76.7	1528.25	845.34	55.3
3.	Industrial Development	454.92	490.85	107.9	412.50	435.98	105.7	-	0.47	-	867.42	927.30	106.9
4.	Agricultural Development	391.34	130.98	33.5	1404.18	610.50	43.5	1808.25	1225.90	67.8	3603.77	1967.38	54.6
5.	Miscella- neous	92.40	0.66	71.4	327.75	94.99	29.0	420.00	258.56	61.6	840.15	354.21	42.2
Total :		1484.04	935.33	63.0	2937.18	1563.01	52.2	3507.0	2316.11	60.3	7928.22	4814.45	60.7

* Figures for April 1 to June 5, 1966 are expressed in Rupees at the pre-devaluation rate of exchange and for the subsequent period at the post-devaluation rate of exchange for the rupee or at the pre-December 1971 IMF par value.

Source : Report on Currency and Finance - 1982-83.

was Rs.49.53 crores and from IDA was Rs.283.2 crores for public sector during 1966-83. It shows that the average per year loan utilisation of IDA was more than 5 times then that of the World Bank.

In 1966-74, the average loan utilisation per year of IBRD was Rs.11.27 crores as against that of IDA of Rs.116.91 crores. In the same period the loan utilisation for transportation and communication was better in respect of IDA than the loan from World Bank.

In 1974-79 the average of loan utilisation per year of IBRD was Rs.32.7 crores. The performance of average credit utilisation from IDA was comparatively better in all purposes than the loan utilisation from IBRD. Between 1979 and 1983 the average per year utilisation of loan from IBRD was Rs.147.07 crores and from IDA was Rs.579.02 crores.

Table 3.14 : Average per year credit utilisation from IDA

Purpose	(Rs.crores)		
	1966-74	1974-79	1979-83
1. Transport and communication	35.14	48.14	49.60
2. Power projects	3.96	36.16	158.19
3. Industrial Development	61.35	87.19	0.12
4. Agricultural Development	16.37	122.10	306.47
5. Miscellaneous	0.08	18.99	64.64
Total:	116.91	312.60	579.02

Source : Compiled from Table 3.13.

Generally, the loan facilities from IDA were better utilised in comparison with the loan facility from World Bank.

The international financing agencies had a lion's share in extending credit facilities to India for her economic development. Moreover, IDA had a generous outlook in extending credit to developing countries and hence India had favoured borrowings from IDA. World Bank and IDA had more than 50% contribution in total external assistance to India and hardly 10% in total ^{plan} outlay of India.

Eventhough both IDA and IBRD sanctioned the loan to the public sector the contribution of IDA was more than that of IBRD.

Critical Appraisal of External Assistance

The pace of industrialization in India got a momentum only because of capital investment in public sector by World Bank and in private sector by IFC. After industrial policy resolution of 1956 the industrial growth originated in public sector and spread over the economy.

External assistance always accompanied by the pressures of foreign donor countries. During the British rule the preferential treatment to British manufactures made India a source of industrial raw material and an assured market for her industrial products. After independence, the external assistance from the World Bank has moulded economic policies of Indian government as devaluation effected in 1966 is

testimony of it. The World Bank put a condition, based on reports of its expert team to India on the eve of inception of Fourth Plan that Indian rupee should be devalued before it receives loan from World Bank. Further the Bank mission suggested radical reforms and emphasised that liberal import policy should be accepted by India.

Technical assistance given by the Bank to India no doubt contributed to industrial development. The Bank took keen interest in different projects from formulation to its implementation and main sphere among them were agriculture and rural development, power, and energy, transportation etc.

Apart from its benefits to India it is often argued that the loan of World Bank is costly. Recently, India received a loan from the World Bank at 8% per year, including 1% charge to be credited Bank's special reserve funds.

If the World Bank is assumed to be beyond political considerations, it should be proved from its activities towards the developing countries. The influence of developed member countries of World Bank never allowed to function in right direction and it forces the borrowing countries to adopt conditions favourable to these donor members of the World Bank.

On the other hand, IDA helped generally in promoting her economy. It is a supplementing agency of finance. In fact India had centimenting a large of share of around 40 per cent in total global assistance by IDA. Many economically sound proposals like the steel plant, fertilisers and

machine tools factories besides the other several projects for creating infrastructure industries and social overhead projects like roads, slum clearance, education and urban development, etc. have been financed by IDA.

IDA faces certain problems, with changing world situation. The developing countries are facing the problems of 'growth', such a shortage of resources, inequalities, inflation. The industrialised countries with their problems of stagnation and balance of payments deficits are reluctant to give additional funds.

IFC as an international development institution takes the responsibility of financing private investment and business in developing countries. Along with mobilisation of funds, it extended technical help for projects from the formulation stage to its implementation. Its primary goal is to inspire private investors to undertake risk in projects of underdeveloped countries. A strong capital market is sought to be developed by the IFC in these countries. However, the bulk of the IFC's assistance has benefitted large industrial houses in India. The managerial and technical skills are scarce and hence IFC's assistance favours the modern industrial entrepreneurs.

The World Bank and its affiliates extended credit facilities and technical know-how to the Third World countries which helped in their economic development. Though the Bank is supposed to function above politics, its activities are naturally politically influenced because of

the interests of the developed member countries. The satisfaction of donor countries weighed more than what the borrowing country needed. The Bank's programmes are sold in aid receiving countries by the indigeneous elite like the large industrial homes in India,

In spite of all these limitations of the World Bank and its affiliates, their participation in overall development in Third World countries has proved to be helpful.

SECTION IV

CONCLUDING REMARKS

This study of loans/credits from World Bank to India during the period 1971-72 to 1982-83 highlights the extent to which India benefitted from such assistance.

India has had a long and constructive relationship with World Bank and its two affiliates IDA and IFC. The Bank's first loan to India now fully repaid - was made in 1949 and was one of the Bank's earliest developmental as opposed to reconstruction loans. India's share in aggregate loans from World Bank is 6 per cent. A sizeable portion of loans to India have been approved in recent year and so the disbursements constitute only 48.6% of the loans granted. This reveals the considerable timelag between approval and utilisation.

India has been the largest borrower by far from IDA, since IDA's inception in 1960, India has secured IDA credits of the order of US \$ 11.5 billion or 37 per cent total IDA's credit up to June 1983. Taking Bank and IDA approvals together, Brazil is next to India.

The lending policy of the World Bank Group over the last few years reveals two main features. One is that unlike in the past, when the emphasis of these institutions was on financing only major industrial and agricultural projects, now they are meeting a substantial part of the cost of works relating to social benefits and improvement of

civic life such as urban development, education and human resources training, water supply and sewerage, population control, health and nutrition etc. Secondly, in the case of India the greater part of the assistance by the World Bank Group is now mostly through interest-bearing credits from the World Bank rather than from the interest-free IDA. Therefore, hereafter the cost of borrowings for India from the Bank group will go up.

The level of replenishment of IDA by donor governments has fallen in current prices to U.S. \$ 9.0 billion for the seventh replenishment (1984-87) down from U.S. \$ 12.0 billion in the sixth. The drop in real terms is even greater. India's share of this diminished total will also tend to decline. Assuming that India's credit worthiness (which is determined mainly by export performance and efficiency in resource use) is satisfactory, it should be possible for IBRD lending to rise as IDA lending falls.

India continued to be the largest beneficiary among the recipients of aid from the World Bank group. However, the per capita aid from the group to India was very low, viz., \$ 3 only.

The number of projects in India for which the World Bank and the IDA agreed to give loans in the period under study has increased. However, the share of the cost met through such loans varied from project to project.

On the other hand, IFC gave loans to promote private

sector in India. IFC gave aggregate amount of \$ 1,505 mn. for 271 enterprises in 61 countries from 1956 to 1976, out of them 11 projects in India got \$ 584 mn. The IFC resources are small in relation to needs of private enterprises. IFC also participated in raising equity financing. It financed Iron and Steel, cement, fertilizer, motor vehicles and accessories, etc. In fact in relation to India's effort for industrialisation, IFC assistance can be said to be very small.

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