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India's Role in the Evolution of the World Bank: an Analysis of India and World Bank Relations

Abstract

India's relations with the World Bank can be followed back to the last's beginning. India was one of the 17 nations, arranged the plan for the Bretton Woods Conference in June, 1944. It was likewise one of the 44 nations which consented to the last arrangement for "Global Bank for Reconstruction and Development" was first proposed by India to the drafting advisory group. From that point forward the two have been built up a cozy association with each other from encircling the strategies. Role of World Bank in India GDP is one of the most important parameters to mark the growth in Indian economy. The World Bank has been aiding the country with every possible incentive. The World Bank works in collaboration with a number of development associates such as the government of India, the bilateral and multilateral donor organizations, nongovernmental organizations (NGOs), and the private sectors to bring about an overall welfare of the Indian economy. In the present paper an attempt has been made to looks at idea of monetary help for improvement purposes, the foundation, destinations and hierarchical structure of World Bank alongside its subscriptions underlines on India's part and relationship with World Bank.

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Introduction

The World Bank is a worldwide money related organization that gives budgetary and specialized help to creating nations for improvement programs (e.g. spans, streets, schools, and so forth.) with the expressed objective of diminishing neediness. The World Bank has turned into a piece of an expanding stream of monetary and specialized help to the less created nations. Albeit now different sources and foundations have additionally participated in the assignment which the Bank spearheaded with such creative ability and purposiveness, it has not brought down the significance of the part which the Bank is playing in activating global help to creating nations.

The universal budgetary assets or advances originate from principally three contributors: reciprocal leasers, multilateral loan bosses and business banks. Among these three, multilateral loan bosses possess a vital position. These multilateral loan bosses are additionally called the International Financial Institutions (IFIs). Which incorporate the International Monetary Fund (IMF), the World Bank (WB), and provincial advancement banks, for example, the Inter-American Development Bank, Asian Development Bank, African Development Bank among IFIs, is the World Bank, which was set up alongside International Monetary Fund toward the finish of the Second World War at Bretton Woods in the United States.

Aim of the Study

In the present paper an attempt has been made to looks at idea of monetary help for improvement purposes, the foundation, destinations and hierarchical structure of World Bank alongside its subscriptions underlines on India's part and relationship with World Bank.

Review of Literature

Gadde Omprasad has opined that India has played an important role in the establishment of the World Bank. Though at some points of time there are certain frictions in the opinions but still India and World Bank are working wonderfully together.

According to **world development report 2017** the fundamentals of the Indian economy remain strong, with robust economic growth, strong fiscal consolidation, and low current account deficit, higher agricultural output, growing FDI, low inflation and higher wages in rural areas. Favorable monsoons boosted agriculture and rural consumption, while urban consumption remained robust and exports rebounded in the third quarter of 2016-2017.

The World Bank recently released the **World Development Report (WDR) 2018**. Each year, the WDR features a topic of central importance to global development. The 2018 edition, which is the 40th in the series, is the first ever devoted entirely to education. Together with its partners, the World Bank Group showcased the World Development Report (WDR) 2018, and to engage with UN Member States, UN agencies, Funds and Programs, Civil Society, and other stakeholders in a discussion on how to tackle the global learning crisis, which will be critical for achieving quality education (SDG4) and realizing all the SDGs. Now World Bank will work in India in the field of education.

Foundation of the World Bank

The stream of universal money related assets has a long history, yet the extents of the budgetary streams expanded fundamentally since the seventies of the nineteenth century with the mechanical upset in England. It raised the interest for crude material and foodstuffs, which could be fulfilled by making outside speculations that guaranteed not just the supply of sustenance and crude materials yet additionally the attractiveness of British makers. Global capital streams were diverse amid the underlying time frame. Right off the bat, all the loaning originated from the private sources, as stock and bond issues, on the grounds that there were no universal establishments for loaning reason, nor the arrangement of government to government. Furthermore, around 66% of remote capital went to back interests in broad daylight administrations, particularly transport, which laid the reason for local modern improvement and also for the creation and transportation of crude materials for trade. Thirdly, outside speculations streamed into the asset rich nations.

Second World War realized certain adjustments in the stream of this remote fund. The United States rose as a net bank and furthermore the fundamental wellspring of new capital streams. Obtaining by different governments represented roughly 50% of the remote dollar issues in the United States in 1924-28. Yet, this pattern was significantly influenced by the financial melancholy of 1930s. At that point the worldwide political improvements and Second World War compounded the circumstance. The post Second World War crushed economies of Western Europe and, the advancement needs of countries which were getting autonomy from pilgrim govern, required a global association to reproduce and help in the recuperation of the economy of these states. The efforts of war affected countries and developing countries came to fruition conception on the 22 July, 1944, at the conclusion of a 44-nation, three-week conference, officially called the ‘United Nations Monetary and Financial Conference’, held at Bretton Woods, New Hampshire, in the United States. The Articles of Agreement were drafted in 1945 and they came in to constrain on 27 December, 1945. The subsequent foundation was the International Bank for Reconstruction and Development (IBRD) started its tasks on 25 June, 1946. It was later renamed as World Bank. The World Bank comprises of the IBRD, the International Development Association (IDA), and the International Finance Corporation (IFC).

India’s Role in Evolution of the World Bank

India’s relations with the World Bank can be traced back to the latter’s origin. India was one of the 17 countries, prepared the agenda for the Bretton Woods Conference. It was also one of the 44 countries which signed the final agreement for the establishment of the Bank. The name “International Bank for Reconstruction and Development” was first suggested by India to the drafting committee. In the early March 1943, a conference of Finance Ministers of the Allied Governments was held in London to discuss the post-Second World War currency arrangements in Europe. At that time India was under the British rule and considered as its dominion state. This conference was held under the chairmanship Ralph Aheton, who was the financial secretary

to the Treasury of USA, , attended by the finance ministers of all Allied countries, having their headquarters in London, as well as representatives of the French National committee participated and representatives from the US, China, former USSR and British Dominion Governments participated. Ramaswamy Mudaliar, then member of Viceroy’s Executive Council, and Theodore Gregory, the economic advisor, represented India at the Conference. But the participation of India’s representatives in the preliminary discussions was under a seal of secrecy and the discussions were in the nature of a technical examination by experts. After these, technical examinations to form an international institution to help the countries affected by World War II, in May 1944, US President F D Roosevelt issued invitations to ‘United and Associated Nations’ to send their delegates to a conference to be held at Bretton Woods, New Hampshire, USA, for formulating proposals of a definite character for an IMF possibly a Bank for Reconstruction and Development. Forty-four nations, including India participated in the conference, which came to be known as the ‘United Nations Monetary and Financial Conference’, lasting from 01 July to 22 July, 1944. The Indian delegation to Bretton Wood was led by Jeremy Raisman, finance member of the Government of India. The other members included C.D. Deshmukh, the then Governor of the Reserve Bank of India, and later India’s finance minister, Theodore Gregory, the first economic advisor to the Government of India, R. K. Shanmukhan Chetty, independent India’s first finance minister, A. D. Shroff and B. K. Madan. The opening session of the conference at Bretton Woods on July 1, 1944, set up three commissions, namely, ‘International Monetary Fund’, Bank for Reconstruction and Development’, and other means of international financial cooperation. C.D. Deshmukh was nominated the chairman of Commission on Bank for Reconstruction and Development. The rest of the delegation attended and represented India in the Commission on IMF meetings. On behalf of Government of India, the Articles of Agreements relating to the IMF and the IBRD were signed by the Agent General for India in Washington on December 27, 1945, in the Bretton Woods. The approval of the Legislative Assembly for the IMF and IBRD agreements was obtained in October 1946. The discussions were held on allotting quotas or shares to World Bank member countries. A formula suggested by the Division of Monetary Research of the US Treasury Department was used during the discussions at the Bretton Woods conference. They were: (a) two percent of national income by 1940 (b) five percent of gold and dollar balances by 1 July, 1943, (c) ten percent of average imports of 1933-38 and the sum of (a), (b), (c) and (d) increased by the percentage ratio of average inputs to national income, 1934-38. According to this formula, with a quota of $400 million, India came sixth on the list, after the USA, the United Kingdom, the USSR, China and France.

Under the Articles of Agreement, the principle office was to locate in the territory of the member, having the largest quota or holding the largest number of shares, i.e. the USA. The US representative had recommended Washington, but the UK delegation led by Treasury Secretary J. M. Keynes proposed New York, the financial center so as to maintain their international character and to avoid political influence. Moreover, the principle seat of the United Nations was to be in New York, it was desirable to have the IMF and World Bank there, to facilitate cooperation. Canada, France and India supported this view. But the US delegate argued that the IBRD, IMF were institutional organizations dealing with governments and therefore it was more appropriate that it should be situated in the administrative capital of a country, rather than its financial center, where it might be subject to private business interests. Since the choice of site rested with the host country, the United Kingdom agreed to it. As a result, India, France and Canada withdrew their objections to the selection of Washington in order to make the decision unanimously. The Indian delegation at Bretton Woods argued for recruiting staff of the Bank from various countries. The Articles of Agreement echo her voice that "due regard should be paid to the fair representation of the nationals of the member countries". India has been one of the leading members in establishing the IDA. This can be traced back to 1949 when Prof. V.K.R.V. Rao made a suggestion to the UN Sub-commission on Economic Development for the need of a new international development financing agency that could complement and supplement the Bank's effort.

The Objectives & Functions of the World Bank

The purposes and objectives are constantly changing. For instance, in the early years, the Bank's investment concentrated on infrastructural build-up like power, transport, communications and irrigation. During the late 1960s and 1970s, the Bank went on financing agricultural projects more actively—particularly in the promotion of cash crops. However, in the 1980s, agricultural lending declined drastically. Meanwhile, the World Bank decided to put emphasis on the alleviation of poverty in less developed countries in the late 1960s and 1970s. During Robert McNamara's Presidency (1968-81), the World Bank made a radical change in emphasis—the reduction of rural poverty as well as urban poverty. Since then all the Presidents reiterated the commitment to fight poverty, enhance growth with sustainability.

It also introduced structural adjustment programmes (SAPs) in developing countries so that not only macroeconomic stability can be attained but also structural reforms aimed at accelerating growth can be undertaken. It has shifted its emphasis from the financing on specific projects towards non-project linked programmes. It works in developing economies with the focus of helping the poorest people and the poorest countries.

The following objectives are assigned by the World Bank:

1. To provide long-run capital to member countries for economic reconstruction and development.
2. To induce long-run capital investment for assuring Balance of Payments (BoP) equilibrium and balanced development of international trade.
3. To provide guarantee for loans granted to small and large units and other projects of member countries.
4. To ensure the implementation of development projects so as to bring about a smooth transference from a war-time to peace economy.
5. To promote capital investment in member countries by the following ways;
   (a) To provide guarantee on private loans or capital investment.
   (b) If private capital is not available even after providing guarantee, then IBRD provides loans for productive activities on considerate conditions.

Functions of World Bank

World Bank is playing main role of providing loans for development works to member countries, especially to underdeveloped countries. The World Bank provides long-term loans for various development projects of 5 to 20 years duration. The main functions can be explained with the help of the following points:

1. World Bank provides various technical services to the member countries. For this purpose, the Bank has established "The Economic Development Institute" and a Staff College in Washington.
2. Bank can grant loans to a member country up to 20% of its share in the paid-up capital.
3. The quantities of loans, interest rate and terms and conditions are determined by the Bank itself.
4. Generally, Bank grants loans for a particular project duly submitted to the Bank by the member country.
5. The debtor nation has to repay either in reserve currencies or in the currency in which the loan was sanctioned.

6. Bank also provides loan to private investors belonging to member countries on its own guarantee, but for this loan private investors have to seek prior permission from those counties where this amount will be collected.

Organization and Structure of World Bank

The organization of the bank consists of the Board of Governors, the Board of Executive Directors and the Advisory Committee, the Loan Committee and the president and other staff members. All the powers of the bank are vested in the Board of Governors which the supreme policy is making body of the bank.

The board consists of one Governor and one Alternative Governor appointed for five years by each member country. Each Governor has the voting power which is related to the financial contribution of the Government which he represents.

The Board of Executive Directors consists of 21 members, 6 of them are appointed by the six largest shareholders, namely the USA, the UK, West Germany, France, Japan and India. The rest of the 15 members are elected by the remaining countries.

Each Executive Director holds voting power in proportion to the shares held by his Government. The board of Executive Directors meets regularly once a month to carry on the routine working of the bank.

The president of the bank is pointed by the Board of Executive Directors. He is the Chief Executive of the Bank and he is responsible for the conduct of the day-to-day business of the bank. The Advisory committees appointed by the Board of Directors.

It consists of 7 members who are expects in different branches of banking. There is also another body known as the Loan Committee. This committee is consulted by the bank before any loan is extended to a member country.

Capital Resources of World Bank

The initial authorized capital of the World Bank was $ 10,000 million, which was divided in 1 lakh shares of $ 1 lakh each. The authorized capital of the Bank has been increased from time to time with the approval of member countries. On June 30, 1996, the authorized capital of the Bank was $ 188 billion out of which $ 180.6 billion (96% of total authorized capital) was issued to member countries in the form of shares.

Member countries repay the share amount to the World Bank in the following ways:

1. 2% of allotted share are repaid in gold, US dollar or Special Drawing Rights (SDR).
2. Every member country is free to repay 18% of its capital share in its own currency.

A Critical Evaluation of the World Bank Activities

The World Bank offers two basic types of loans investment loans for the support of economic and social development projects, and development policy loans to support countries' policy and institutional reforms. The World Bank grants loans only to the developing countries (and not all the 188 members) annually at nearly $ 20 billion a year usually for a period of 15 to 20 years for the purpose of building roads, dams, and other physical capital that contribute to their economic development. Its lending rate is somewhat low and is fixed every six months.

The Bank offers hard currency loans. It accepts hard currency at the time of repayment. The Bank functions as an agent on the international capital markets for countries which are unable to obtain sufficient loans on concessional terms.

Its loan provisions are:

1. Project loans,
2. Sectoral loans, and
3. Structural adjustments loans (SALs).

The World Bank has made remarkable success in achieving its basic objectives over the last 65 years or so. Its concern for developing countries deserves special attention. It has taken up various poverty-reduction strategies and poverty-focused lending. Bank programmes give high priority to sustainable, social and human development and strengthened economic management. Latin American experience suggest that, during the 1980s and 1990s, inflation rate declined in Mexico, Panama, Costa Rica, Bolivia, Argentina, except Brazil. Further, because of trade liberalization programme, the share of exports to GDP in these countries rose to 21.3 p.c. in 1993 from 14 p.c. in 1980. Still then, the modus operandi of the Bank has come in for sharp criticisms.

One of the serious charges against the World Bank loan is its structural adjustment lending or policy- based lending. The essence of SAL is loans disbursed in exchange for policy reforms like trade liberalization, privatization, financial sector reforms, tax reforms, etc. But various studies have shown that SALs have failed miserably in establishing a basis for healthy economic and social development in debtor countries.

In most of the developing countries, average incomes, investment, import, etc., have fallen drastically. Unemployment and inflation have become major problems. Number of people living below the poverty line does not show any declining trend in these countries. On the contrary, global poverty has increased and its activities are alleged to be detrimental to the environment, public health, and cultural diversity. It seems two institutions now need urgent reforms.

Among the developing countries, the Latin American experience is too hard to digest. After the adoption of SAPs, average incomes fell by 10 p. c. and investment declined from 23 p. c to 16 p.c. of national income during the 1980s. According to a WB estimate, the poverty ratio increased marginally from 15.53 p.c.. to 15.67 p.c. and the number of poor people rose from nearly 64 million to 78 million. Many of the Latin American countries experienced the process of deindustrialization—causing a massive increase in the number of unemployed. Import liberalization policy resulted in an Increase in imports of stable food like rice, corn etc. These costly imports lowered the living standards of masses. The case of sub- Saharan Africa is worst where nearly all children under-5 are malnourished.

A final word about the social and environmental damage caused by the WB project lending is a matter of grave concern. The 'Sobradinho Dam' in Brazil displaced quite a good number of poor families from their homes and livelihoods, but they had never been compensated.

The 'Singrauli Super Thermal Power Plant' in central India resulted in a massive displacement of the local population from their places—about 49,000 in 1994. During a visit of a WB study team in the Singrauli region in 1993, a number of houses in Nimidam were bulldozed and ousters were forced to move without adequate arrangement.

The gigantic investment in this project has resulted in a variety of problems in the area: severe air pollution from coal and ash dust leading to high rates of pulmonary diseases, unemployment, inadequate compensation, inadequate housing, pollution of drinking water, etc. Thus adjustment with a human face' has come under strict scrutiny.

It is also said that the World Bank is an instrument that serves the interests of the USA as well as the Western countries. Its functioning lacks transparency. Thus, the World Bank has not come up to the expectations of many of the developing countries.

World Bank in India

World Bank set up its Resident Mission in India in 1957, in Delhi. The elements of the main Representative were to keep the World Bank educated on all issues pertinent to its exercises in India and to speak to the World Bank's view on the Government of India's improvement projects and arrangements. An Assistant Resident Representative was included 1963 and a designer for venture supervision in 1964, for these World Bank subsidized tasks. By 1966, its essential capacity was characterized as arrangement cooperation, with venture work assuming an auxiliary position. In the next years, the obligations of the Delhi World Bank office, headed by financial experts, gained a staggering spotlight on monetary announcing. Amid the 1970s, a few division masters particularly in farming pros were delegated by the World Bank. The Government of India by and large manages World Bank for credits through its Finance Ministry. The Planning commission in India assigns the assets for the long haul improvement programs. If there should arise an occurrence of requirement for World Bank credits, the Planning Commission examines with the Finance Ministry and additionally with the World Bank for arrangements and methodologies. At that point the Finance Ministry is in charge of the advance transactions. At long last, the Reserve Bank of India is probably going to be engaged with dialogs on the preparation of remote trade assets and for the interface with the local budgetary segment. The External Finance Unit (EFU) in the Finance Ministry actually deals with the World Bank on loans, interventions from Planning Commission and the beneficiary agency, which can be a government department or ministry. This unit understands the objectives, constrains and administrative procedures for arranging and disbursing loans and grants.

As the Bank operates in India through many kinds of projects, the country obviously offers an experimental ground for learning lessons and getting insights. India assisted the World Bank, by facilitating it to study various problems in sectors like agricultural, social and transport sectors to learn and, to "increase its understanding of the fundamental interactions of agriculture, poverty alleviation, and environment development efforts". Since the creation of the IDA, which gives loans on soft and concessional terms, with long-term period, development of the Indian industry has been an important theme of the Bank. According to the World Bank, India because of her limited credit worthiness, offered the clearest justification for the creation of the IDA. It can be argued that with the establishment of the IDA, the Bank has tried to ease the problems of balance of payment deficits. Without the creation of the IDA, the bank could not have continued to be keenly involved in India.

Both the World Bank and India have been working together in meeting the developmental goals of growth, stability and social development. On occasions, there have been minor differences on prioritization of goals. In the 1960s, the World Bank criticized the direction of Indian economic policy. In 1965, a large economic mission, known as Bell Mission, produced a comprehensive report on Indian economic policies. This report drew attention to several dysfunctional features of the highly regulated trade and industrial regimes in India, its overvalued exchange rate and the drawbacks of planning based on economic policies of detailed location and production targets. But the then Indian government did not accept these observations of the Bank. The Bank has attached considerable importance to its relations with India. The close cooperation between India and the IBRD goes far beyond the normal creditor-debtor relations.

Conclusion

India's capacity to create capital gear has been instrumental in anchoring changes in the Bank's strategy on worldwide aggressive offering so as to allow an edge of inclination for residential providers of merchandise. In the social division, destitution mitigation has high need for the Government of India and for the World Bank. The last demands enhancing the HR of poor people, their wellbeing and their training as a focal methods for diminishing destitution (The World Bank, 1994). India is one of the supporters of the Global Environment Facility (GEF) which is together executed by the World Bank, the United Nations Development Program, and United Nations Emergency Fund, to shield nature from harm caused by the Industrial wastage.

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