

*High growth rates in an emerging economy can mask persistent and devastating poverty. A major goal for global institutions like the World Bank is reducing poverty by extending technological and financial assistance to developing nations. But targeted programs that flounder due to corruption or lack of local support, as well as those that cannot be replicated to serve a broader population, are not only inefficient but can delay achieving the overall goal, argues Devesh Kapur, director of the Center for the Advanced Study of India at the University of Pennsylvania. In the second article of a two-part series, Kapur examines the relationship of the World Bank and India, and notes funding organizations must actively promote self-reliance among recipients or risk becoming implicated in any tale of failure. –
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Developing Countries Worse Off Than Once Thought – Part II

Perhaps the World Bank should stop helping those unwilling to help themselves

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PHILADELPHIA: Recent revelations of widespread corruption in World Bank health programs in India have led to the usual expressions of outrage. Like the policeman in “Casablanca” professing shock that gambling was going on at Rick’s, the World Bank and the Indian government expressed pro forma shock as well. The revelations go beyond details of the specific programs, revealing more about the World Bank and India: The bank is more interested in being seen as doing good, and countries like India play along, with little impact on the poor for whom the programs are intended.

Since the 1950s India has rolled out more targeted poverty programs than almost any other country. Yet successful targeted poverty programs in India have been a rarity, if the yardstick is replication over space and time. Each new program is successful when applied in a specific location over a fixed period. But over time, as they expand across states, they begin to fail. Over the decades, literally hundreds of reports from India’s



Comptroller and Auditor General say pretty much what the World Bank's audits now report.

Support drips: A cholera patient is treated in a rundown Indian public-health center

Like Sisyphus pushing the rock uphill, the Indian government has persisted, pouring tens of billions of dollars into these programs with inputs from the best and brightest in India and abroad. This year alone total spending on all these programs will be around \$40 billion, but only a small fraction will actually reach the poor. While politicians have an obvious interest in pushing these programs, a range of other actors – NGOs, aid agencies, multilateral organizations and academics – have also acquired a vested interest in these programs. Leading the pack is the World Bank.

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Since the bank has made poverty its raison d'être and no country has more poor people than India, the two have obvious reasons for deep engagement. But the World Bank–India relationship is unique, stemming both from India being the bank's largest borrower and the perceived sophistication of Indian policymakers and their ability to articulate programs, as distinct from ability or willingness to implement them.

The reality is that India has always been treated more favorably than most other borrowers. In the past India's democracy, the exigencies of the Cold War, extreme poverty and eloquent interlocutors long made the country the poster child for development aid – and in the bank's case, raising resources for its soft-loan arm, the International Development Association. Analytical work on India has been one of the World Bank's singular strengths, but it shied away from criticizing the country's implementation record, fearing that would weaken the case for IDA. In holding itself back, the bank became deeply implicated in the failures of India's poverty programs.

These failures are more glaring given the visibility of the bank's recent anti-corruption over-drive. This has meant countless papers, conferences and a profusion of rules and bureaucratise. But to what end? Consider the Indian health projects. Even if one were to make the heroic assumption that the bank can ring fence its projects, these are but a small fraction of overall health spending in India. Nearly four-fifths of all health spending in India is private out-of-pocket – far more important, but conveniently ignored. And even if there's no corruption in procurements, but doctors and nurses don't show up – a chronic problem in Indian public-service delivery – do such projects really improve the health of India's poor? So much of what the bank does is to make itself look virtuous to its major shareholders rather than produce long-term development outcomes. India's politicians and bureaucrats, like their counterparts elsewhere, blithely run circles around the bank, knowing they will be around long after the most well-meaning bank staff have moved on to new programs.

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Regrettably the bank – aided and abetted by major shareholders – has conflated what's good for poverty reduction with what it should do. In reality, the bank's poverty projects are rarely better than the implementation capacity of local public administration, and the bank cannot micromanage thousands of operations without itself expensively substituting for state machinery. The more it tries to ensure fiduciary control, the more it undermines efforts at self-reliance in areas that are the most basic responsibilities of any government. And the fungibility of public expenditures means that the substitution effects extend to overall patterns of government spending. If a country is unwilling to act vigorously on its own behalf in matters of primary education and health, that country is clearly uninterested and deserves little support from the international community. And if a country is unable to undertake these basic tasks, then the problem is much deeper.

The broader poverty goals would be better served if the bank reached an understanding with countries like India, whereby the country would strive to provide citizens with key elements that

address needs of poor citizens – especially basic education and health, water and sanitation – and in return the institution would fund the complementary inputs for development. Most poverty projects do not require foreign capital or great foreign expertise. By incessantly confusing what's good for development with what the bank should be engaged in, borrower countries get saddled with poverty projects, with multiple criteria and implementation standards, often with little effect.

In India's case, the state's inability to discharge this most basic obligation to its citizens in education and health, even as it seeks to be a global power, is a troubling portent of the country's future. While India is not a failing state, it is, to evoke economist Lant Pritchett, a "flailing" state. While the implementation capacity of the Indian state has always been its Achilles heel, these weaknesses become more glaring as the private-sector economy powers ahead. Malnutrition in India is higher than in Sub-Saharan Africa. More than half of children aged 7 to 14 in rural India cannot read a simple paragraph of second-grade difficulty. Infant and maternal-mortality rates are awful even as the nation proudly exports more doctors abroad than any other country and promotes a thriving medical-tourism industry.

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The reasons for these failures are manifold, but ultimately have to do with the troubling condition of the Indian state at all levels. The failures are not just due to poor incentives but to weak abilities in the quality of the human capital of public officials. Compared to the past, fewer people with talent join state institutions, and there's no sign that the state can or will do much about it.

With power now residing at the sub-national level, state politicians have little incentive in decentralizing power to local governments lest they lose control of rents. Little wonder that employees who do not show up to work and collect a good salary are rarely disciplined. Why take responsibility when the bogeymen of neoliberalism and globalization are so handy? The failings of the Indian state to deliver basic goods and services are a specter that haunts the country – ignored by the hoopla of India's high growth rates.

The World Bank's well-intentioned efforts – and it's by no means alone – exacerbate the problem. It could be argued that this would mean abandoning millions of desperate poor people. Could the bank not instead give grants to the many committed NGOs and other civil-society organizations that try to reach out to India's poor? Attractive in the short-term, such a plan is dangerous in the long term since it further weakens incentives for the Indian state to discharge its responsibilities to its citizens.

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The abject failure of the Indian state to improve the quality of life of hundreds of millions of its citizens is as unconscionable as it is deeply rooted in the country's political economy. Any solution squarely lies there. Perhaps the biggest error the bank has made in India has been not to walk away earlier and realize that non-lending might serve the country – especially its poor – better.

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