

How the Bank Works: Governance

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WB Governance and Anti-corruption strategies

- Integral part of second generation reform programmes beginning in the early 1990s with the growing realisation that institutions condition the development process.
- Government is a key player in the process of development but it is also a ‘problem, solution and objective’.
- Primary reason to reform the government sector is to improve its functioning to ensure efficient use public resources to improve delivery of public services, define its territory and infuse market.
- However, efficacy of such policies need to be analysed in the context of a country taking into account the country specific characteristics.
- However, the WB tries to involve the stakeholders/people in the process of consultation while formulating the programme and later in the process of implementation.

The Context: the growing black economy

- The size of the black economy which is synonymous with illegalities has grown over the years.
- Notwithstanding market oriented economic reforms initiated in 1991 the extent of illegalities has grown as evidenced by the frequency with which scams and frauds are reported. Further, size of the scams has gone up.
- It has severely dented the developmental process resulting in pervasive policy failure.

Estimates of the Black Economy

Year	Studies	Estimates as % of GDP
1960-61	Wanchoo Committee	5.3
1965-66	Wanchoo	5.6
1970-71	Wanchoo	5.2
	Chopra	5.7
	Gupta and Gupta	22.5
1980-81	NIPFP	15
	NIPFP	18-21%
	Gupta S. B.	42%
1987-88	Gupta S. B.	51%
1990-91	Kumar, A.	32%
1995-96	Kumar, A.	40% (includes 8% in the illegal sector).

The black economy: nature and its implications

- It has resulted in unemployment, lower levels of human development, more skewed distribution of income, poorer quality of infrastructure, subversion of the political system, weakening of the institutions of democracy, and increasing problems of law and order, which result in poor governance.
- The government is further incapacitated to increase spending on education and health as revenue collection suffers due to widespread tax evasion.
- The black economy is systemic and it is thriving because of a nexus among the business, bureaucracy and the politicians.

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- However, business interest pre-dominate the trinity with the largest share of black incomes being appropriated by the corporate /industry constituting only top 3% of the population.
- Illegalities are being committed in the private sector to extract a larger share in the national income.
- Illegalities can be persistently committed only in collusion with the government and the political entities.
- But the share of the bureaucracy and the political representatives remain much smaller.
- One has to go deeper to understand the situation and prescribe policies.

WB governance strategy

- Focus on transparency, accountability and participation and establish E-governance.
- Resource utilisation: public service agreements, strengthened money management, incentives to spending agencies.
- Example: Modernising Government Programme (MGP) in ADB loan programme in Kerala.
- Service delivery policy: social audit policy and asset renewal policy; Strengthen the functioning of the government (incl LSG) : computerisation, surplus staff redeployment and attrition; Improve the targeting and quality of poverty reduction.

The basic approach to governance: implications

- The WB strategy on governance is institutional reform along neoliberal lines. Focus is mainly on corruption in the government
- Redefine the role of the government and in the process, the size is trimmed.
- Create more space for the private sector in a market enabling environment.
- This line of thought boils down to ‘blame the victim’.

The underlying assumptions are not tenable!

- Since the focus is mainly on corruption, the WB governance strategy misses the crucial point: the large scale illegality in almost every sphere.
- It is actually the drive of the business sector/industry for more profits albeit illegally which co-opt the government machinery in the process.
- The conviction of the WB that market enabling strategy would bring illegalities down is premised on the belief that excessive, unwarranted intervention by the government breeds corruption.
- There is no reason to believe that it would indeed be so.

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- Embracing a market friendly strategy can affect in two ways: it can actually foster illegalities as the business sector gets a free hand. Earlier rules had to be subverted and now when the rules are relaxed, process of making profits gets easier.
- As size of the government shrinks and market principles tend to dominate, poor people get increasingly relegated/marginalised.

- Growing use of technology can lead to a steady rise in operational costs: e.g. E-governance has led to an escalation in the cost of health services.
- Participation: The financial process has been politicised with the emergence of local lobbies.
- The bulk of the users may not have the requisite political power to make changes.

- Examples: E-governance may not always lead to desired result. Duplication of PAN cards is an example. Cornering the shares in DMAT account is another example.
- Legalising the import of gold actually resulted in a much greater inflow of gold albeit legally with no diminution in its adverse implications for the economy.

- The ground reality remains largely immune to these cosmetic policy changes.
- Accountability of the government and participation by the people are steps in the right direction, but
- ...in a society marked by growing individualism and lack of commitment to rules and norms of the society compounded by political interference
- And with no consensus in policy making, and lack of trust, the basic objective would remain unfulfilled.

- It is therefore what matters is not the size of the government and infusion of market principles to combat illegalities but enforcement of rules.
- What is required therefore a strong and assertive government to establish law and order and arrest the growing criminalisation of the society.