

# World Bank, Debt and India

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# **Beyond the Notion of Debt Sustainability**

- For a long time, global and national discourse on debt was dominated by an understanding of the debt problem primarily in terms of volume of debt and debt service, the countries' ability to pay, and the impact of debt servicing.

# Beyond the Notion of Debt Sustainability

- This narrow framework sees the debt as a problem only when the debt and debt service is so large that:
  - the country finds it difficult to meet payments in full and on time
  - country credit rating (public and/or private) suffers so borrowing becomes more expensive (higher interest rates) or there is less access to credit
  - debt service or debt payments crowds out other important spending (negative impact of debt service)

# Beyond the Notion of Debt Sustainability

- By this narrow framework, debt is not a problem for India --
- Total External Debt of India is **US\$ 123, 123, 000**

For a country with a population of 1.1 billion, this looks small compared to:

Philippines

Total External Debt - US\$ 61,527,000

Population - 91,077,287

Indonesia

Total External Debt – 138,300,000

Population - 245,452,739

# Beyond the Notion of Debt Sustainability

- Debt Per Capita
  - India – \$73.34
  - Philippines - \$970
  - Indonesia - \$328
  - Nepal - \$119
- Debt as Percentage of GDP
  - India – 16.4% (2007)
  - Philippines – 81.9% (2007)
  - Indonesia – 39% (2006)
  - Nepal – 44% (2006)

*Source: Global Development Finance, World Development Indicators*

# Beyond the Notion of Debt Sustainability

## 2006-2007 Budget (in crore of Rupees)

- Debt Service – *421,219*
- Social Services (Education, Health, etc) – *9,321*
- Economic Services (Agriculture, Industry, Power, Transport, Communications, etc.) – *15,701*

# Beyond the Notion of Debt Sustainability

- Of course the impact of debt service is definitely a critical aspect of the problem -
  - The ability of many South governments to provide for basic services has been severely constrained because a large % of public funds go to debt service. Budget allocations for health, education, housing and other essential services have either been stagnant, declining in real terms, or have not been increasing in proportion to growth in demand

# Beyond the Notion of Debt Sustainability

2. Debt service also hampers the ability of countries to develop --
  - Not enough funds to spend for infrastructures and other requirements for developing the domestic economy and promoting equitable development
  - Constantly borrowing on interest makes capital (or "financing for development" very expensive)



# Beyond the Notion of Debt Sustainability

- But this is not the only impact of the debt or "indebtedness," and neither is the debt simply a problem of impact
- This narrow perspective is at the core of what creditors call the "Debt Sustainability Framework. It has been the framework which the creditors use to determine which countries are to be given debt relief and debt cancellation. This framework reduces the problem to a question of affordability - How much a country can afford to pay....

# Beyond the Notion of Debt Sustainability

- Some debt campaigns have challenged the creditors' definitions of debt sustainability using the human development and human rights approach, but...the alternative framework offered still does not go beyond the question of affordability -- they simply assert other standards of defining affordability:
  - "what level of debt service can a country afford without threatening their capacity to provide for human development, or without their capacity to ensure basic rights to education, health, water, decent housing etc.

# A Critical Perspective on Debt

The debt problem must be understood not only in terms of the staggering amounts & impact of debt servicing.

1. We must understand the debt in terms of broader historical, political and economic context
2. We must also closely examine the circumstances, nature and effects of specific debt transactions --
  - how the debts were contracted (processes and transactions); and the nature of the contracting parties
  - the nature, terms & conditions of the debt contracts
  - how the funds are used, and the impact of the projects and policies financed by the debt
  - the circumstances in which the debts were incurred

## A Critical Perspective on Debt: The Illegitimacy of Debt

- This approach leads us to a critical perspective that takes into account the financial dimension of the debt issue and its varied impacts, but involves a broader discourse. A perspective that does not reduce the rationale for debt cancellation to an issue of affordability even if this is set on higher, human development and human rights standards.
- Debt campaigns refers to this perspective as the **ILLEGITIMACY OF DEBT**

# What is illegitimacy

- Broad concept that touches on the principles of:
  - HUMAN RIGHTS and SUSTAINABLE HUMAN DEVELOPMENT
  - JUSTICE and FAIRNESS
  - ACCOUNTABILITY AND RESPONSIBILITY
  - SOVEREIGNTY of PEOPLES and NATIONS
  - DEMOCRACY - DEMOCRATIC RIGHTS AND PROCESSES
- Those which violates the above principles are deemed to be illegitimate - or unacceptable.

# What is illegitimacy

- Some link the definition of legitimacy to legality --
- There is definitely a relationship since laws are supposed to be founded on these principles and are meant to safeguard and promote these principles.
- However, we cannot assume that prevailing laws can adequately cover the notion of illegitimacy; Nor can we presume that something that is legal is necessarily legitimate
- Hence the need to review, change, develop and expand laws

# What is it about debt that is illegitimate?

1. "Indebtedness" and access to credit is used as power and leverage for external imposition and intervention (violation of sovereignty) and for promoting neoliberal policies with harmful consequences to peoples rights, livelihoods and welfare, to the environment, and to equitable and sustainable development

# What is it about debt that is illegitimate?

2. Specific debts can be illegitimate in various specific ways. Illegitimacy may stem from one or more of the following --

- a. Context and Circumstances of Debt Contraction
- b. Conduct and Processes of Transactions
- c. Terms and Provisions of Debt Contracts
- d. Purpose of the Loans and Actual Use of Funds



# What is it about debt that is illegitimate?

3. Impact of Debt Servicing makes the continuous extraction of debt payments unacceptable and illegitimate
4. To begin with, the accumulation of debt and the "need" to borrow is the result of exploitation -

# 1. The Illegitimacy of Debt: Debt as an Instrument of Power

- Debt is not just a financial construct or reality - debt is power
- Debt is wielded as a powerful instrument to influence and intervene in the economic affairs of borrowing countries and promote neoliberal economic policies
- Access to credit and aggressive debt financing is used as a powerful mechanism to promote projects that promote global corporate investments and interests

# 1. The Illegitimacy of Debt: Debt as an Instrument of Power

- India's external debt and debt service may be comparatively smaller than other South countries - but its continuous access of loans from international financial institutions such as the World Bank enables these IFIs to
  1. Influence, impose on and intervene in the Indian economy (and politics)
  2. Promote neoliberal policies and global corporate interests

# 1. The Illegitimacy of Debt: Debt as an Instrument of Power

The IFIs are able to do this by way of --

- Conditionalities, policy prescriptions, policy advice explicitly attached to loans or put forward in the context of loan negotiations
- Making available or aggressively peddling loan-financing of projects that -
  - a. Create the enabling environment and/or requirements (infrastructure, legal, macro-economic stability, knowledge and research, feasibility studies etc) for neoliberal policies
  - b. Are in direct implementation of neoliberal policies

## ***Example: WB Lending to India***

- Since the year 2000, the Transportation sector has been claiming 41-58 % of WB lending in India.
- Transportation projects from 1991-2005 amount to a total of \$6.324 billion, followed by that of the Energy sector at \$4.512 billion.

<b>Year</b>	<b>Sector</b>	<b>Percentage</b>
<b>1991</b>	<b>Energy</b>	<b>34%</b>
<b>1992</b>	<b>Energy</b>	<b>34%</b>
<b>1993</b>	<b>Energy</b>	<b>46%</b>
<b>1994</b>	<b>Health</b>	<b>28%</b>
<b>1995</b>	<b>Finance</b>	<b>35%</b>
<b>1996</b>	<b>Education, Energy</b>	<b>27%, 27%</b>
<b>1997</b>	<b>Health</b>	<b>29%</b>
<b>1998</b>	<b>Health</b>	<b>51%</b>
<b>1999</b>	<b>Education</b>	<b>29%</b>
<b>2000</b>	<b>Transportation</b>	<b>47%</b>
<b>2001</b>	<b>Transportation</b>	<b>46%</b>
<b>2002</b>	<b>Transportation</b>	<b>56%</b>
<b>2003</b>	<b>Transportation</b>	<b>58%</b>
<b>2004</b>	<b>Transportation</b>	<b>41%</b>
<b>2005</b>	<b>Industry</b>	<b>33%</b>

*Source: Bank Information Center*

PROJECTS, Transportation Sector		
Project Name	Approval Fiscal Year	Total Commitment Amount
RAJASTHAN HEALTH SYSTEMS DEVELOPMENT	Year 2004	89
ELEMENTARY EDUCATION PROJECT (SSA)	Year 2004	500
Karnataka Health Systems	Year 2007	141.8
MAHAR RWSS	Year 2004	181
Madhya Pradesh Water Sector Restructurin	Year 2005	394
DISEASE SURVEILLANCE	Year 2005	68
ALLAHABAD BYPASS	Year 2004	240
TN HEALTH SYSTEMS	Year 2005	110.8
RCH II	Year 2007	360
India AP DPL III	Year 2007	225
AP SAL II	Year 2004	220
Lucknow-Muzaffarpur National Highway	Year 2005	620
Rural Roads Project	Year 2005	399.5

Third National HIV/AIDS Control Project	Year 2007	250
TB II	Year 2007	170
Uttar Wtrshed	Year 2004	69.6
Karnataka Panchayats Strengthening Proj	Year 2006	120
Karn Municipal Reform	Year 2006	216
TN Empwr & Pov Reduction	Year 2006	120
GEF Biosafety Project	Year 2004	1
Orissa SAL I	Year 2005	125
Immunization Strengthening - Supplement	Year 2004	83.4
Karnataka UWS Improvement Project	Year 2004	39.5
Uttaranchal RWSS	Year 2007	120
TN Urban III	Year 2006	300
Hydrology II	Year 2005	105
MAHAR WSIP	Year 2005	325
Assam Agric Competitiveness	Year 2005	154



ODS IV-CTC Sector Phaseout Project	Year 2005	40
Power System Development Project III	Year 2006	400
IN SME Financing & Development	Year 2005	120
Punjab State Roads Project	Year 2007	250
Punjab Rural Water Supply & Sanitation	Year 2007	154
Bihar Rural Livelihoods Project	Year 2007	63
TN IAM WARM	Year 2007	485
NAIP	Year 2006	200
Mid-Himalayan (HP) Watersheds	Year 2006	60
India Tsunami ERC	Year 2005	465
BioCarbon-Livelihoods Project	Year 2007	1
HP State Roads Project	Year 2007	220
Orissa Socio-Econ Dev Loan II	Year 2007	225
Vocational Training India	Year 2007	280
AP Community Tank Management Project	Year 2007	189
Stren India's Rural Credit Coops	Year 2007	600
AP Rural Poverty Reduction Additional Fi	Year 2008	65
Mizoram Roads - Additional Financing	Year 2007	18

**1991-2005**

**World Bank Lending in India**

**in US \$ millions**

Information	62.00
Finance	820.00
Public Administration	1,081.77
Water	1,922.90
Industry	2,109.40
Education	2,585.60
Agriculture	3,529.42
Health	3,821.77
Energy	4,512.00
Transportation	6,324.50
<b>TOTAL</b>	<b>26,769.36</b>

## 2. The Illegitimacy of Specific Debts and Debt Transactions

Specific debts and debt transactions can be illegitimate on the basis of the following:

- ILLEGITIMATE PROCESSES
  - Debts contracted in manners that violated procedures and requirements mandated by constitutional and related national laws -- either laws of the lender or of the borrower or both
  - Processes involving bribery, fraud, coercion, misrepresentation etc

## 2. The Illegitimacy of Specific Debts and Debt Transactions

### ILLEGITIMATE ORIGINS or ILLEGITIMATE PARTIES

- Loans were originally contracted by private corporations but became public debts because of public guarantees
- Loans were contracted by illegitimate governments or authorities

### • ILLEGITIMATE TERMS and CONTRACTUAL OBLIGATIONS

- usurious interest rates
- onerous provisions -- ex. public guarantees of private profits

## 2. The Illegitimacy of Specific Debts and Debt Transactions

### ILLEGITIMATE PURPOSES; ILLEGITIMATE USE OF THE FUNDS

- negative impact of the projects and policies that were financed by loans -- harmful to communities, people's livelihoods and well-being, environment
- funds were wasted through corruption, mismanagement, failure of projects
- Successor debts -- debts contracted to repay illegitimate debts

### **3. The Illegitimate Impact of Debt Servicing**

- Impact on the survival, basic needs and human rights of peoples of the South - health, education, shelter, livelihoods, safety (inc from calamities, disasters etc)
- impact on South economies -- vulnerable to external shocks, creditor demands, dynamics of financial markets
- Impact on the environment
- etc.

## ***"CREDITOR" RESPONSIBILITY***

- Southern governments and members of Southern elites are clearly culpable and bear part of the responsibility for these illegitimate debts.
- But it must be emphasized that it is not just a problem of corrupt, irresponsible and illegitimate South governments

## ***"CREDITOR" RESPONSIBILITY***

- Financial transactions take place in the context of grossly unequal power relations
  - The more powerful of the parties drive the process of lending and shape the terms and purposes of the lending, and most especially the conditionalities of lending
- Furthermore - from a critical historical analysis, and taking into account the broad political and economic context -- lenders clearly bear the primary responsibility because ...



## **4. Illegitimacy of Debt: Debt is the result of colonial, neo-colonial & neoliberal global exploitation**

- The lack of financial resources, the impoverishment and lack of infrastructures, the reliance on imported inputs and commodities -- all of which are used to justify the need for external capital infusion through "aid", loans and foreign investments -- are the outcome of exploitative economic relations throughout the history of colonization and neo-colonization. These unjust and exploitative relations continue today under neoliberal globalization. These economic relations lead to or result in the net outflow of resources from the South to the North, the "poverty" in the South, and consequently established the justification for borrowing

#### **4. Illegitimacy of Debt: Debt is the result of colonial, neo-colonial & neoliberal global exploitation**

- It is not a coincidence that most of the "debtor" countries are former colonies, and for the majority of them the biggest bilateral creditors are their former colonial powers
- Recent history also shows Northern creditors relentlessly pushed loans to governments and private corporations in the South in order to invest surplus finance capital
- Lenders/creditors exploit the vulnerabilities of South countries, vulnerabilities which the creditors themselves are responsible for

**The Illegitimacy of Debt:  
THE DEBT HAS BEEN PAID MANY TIMES!  
ACTUALLY, THE NORTH OWES THE SOUTH!**

- Consider too that the debts have actually been paid many times over by the people of the South, in financial terms, as well as in economic, social and environmental terms
- For all these reasons, these debts cannot be legitimately claimed from the people of the South.
- In fact, we assert that the North owes the South an enormous historical, social and ecological debt

# **AN EMPOWERING PERSPECTIVE**

The perspective on the illegitimacy of debt is based on a critical, holistic and rigorous understanding of historical and prevailing realities. It is also a perspective that is **EMPOWERING** for the peoples of the South.