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Washington, D.C.

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Clausen's: India

Vol 2

The World Bank Group
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1774867

A1990-013 Other #: 10

209493B

India Country Files - Presidents Papers - A W Clausen - Correspondence - Volume 2

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WBG Archives

OFFICE MEMORANDUM

DATE: November 18, 1985

TO: Files

FROM: Russell J. Cheetham,  Director, ASA

SUBJECT: INDIA: Government Delegation Meeting with Mr. Clausen

1. The India delegation led by Finance Minister Vishwanath P. Singh met with Messrs. Clausen, Stern, Hopper and Cheetham on Thursday, October 10, 1985 at 2:30 p.m.
2. After an exchange of pleasantries, the Minister noted that there now appeared to be an agreement to expand the Bank's lending program and an implied understanding for a General Capital Increase (GCI). The Minister did say, however, that he would have preferred a more positive decision in terms of the size and timing of the GCI. Mr. Clausen concurred with this assessment, saying that there was considerable agreement that the Bank's ability to expand its lending operations should not be constrained by either lack of capital or lack of borrowing capacity.
3. In commenting on the U.S. proposal relating to the problems of the high debt countries, the Minister asked whether the World Bank assistance under this proposal would be additional. Mr. Clausen, in quite emphatic terms, indicated the Bank assistance is intended to be additional. There are no plans to cut anything back to accommodate these new initiatives.
4. The discussion then turned to IDA-8, with Mr. Clausen indicating that he was now more hopeful about the outcome than he was prior to the Annual Meetings. He said the U.S. Government is showing greater readiness to focus on the important issues. Mr. Stern added that the U.S. and other donors feel that they can settle the outstanding issues well before the next meeting of the IDA Deputies.
5. Bank Group lending to India was then taken up. Mr. Stern expressed concern about the poor disbursement performance last fiscal year - a trend that seems to be continuing this year. He added that the commitment fees paid by Government are not insignificant and it does not make much sense to continue expanding commitments without increases in disbursements. He asked that the Government look carefully at measures to improve disbursements, including a close look at internal procedures. He suggested that by setting up a revolving fund some of the procedural constraints might be overcome. The Minister said he would look into the matter and went on to say that constraints on rupee resources have sometimes posed a problem in utilizing Bank Group loans and credits. It was for this reason that GOI had been asking for a higher cost sharing in Bank projects.

6. The Minister then indicated that he expected to borrow a total of about \$2.5 billion from IDA and IBRD during FY86. Mr. Clausen said that \$2.5 billion during FY86 may be somewhat high and suggested that a figure of \$2.3 billion seemed more likely.

cc: Messrs. Clausen, Stern, Hopper, Holsen
Lerdau, Geli, Haynes, Senner, Waide
ASN Division Chiefs

Th., Oct 10
5:00

ANNUAL MEETING BRIEF

Name of Country: INDIA

Date: September 4, 1985

Meeting with: (1) R. N. Malhotra, Governor, Reserve Bank of India
(2) Vishwanath Pratap Singh, Minister of Finance
(3) S. Venkitaramanan, Finance Secretary

Population: 765 M (1985) Estimate Growth Rate 2.1% (1985)

GNP per capita: \$260 (1985)

(million)

(million)

Total Commitments:	\$13,401.1	FY85: Commitments	:	\$2,241.0
		Disbursements	:	\$1,851.4
of which: Bank	\$ 4,277.7	Amortization	:	\$ 149.5
IDA	\$ 9,123.4	Total Undisbursed:	:	\$ 389.6

Lending Program: FY86-87 \$ 4,470.0

<u>Summary Data</u>	<u>Avg 82-84</u>	<u>1984/85 (est)</u>	
GDP growth (% p.a)	6.1	4.0	Aid Group Meeting : Consortium
Export growth (% p.a)	4.4	4.3	Last meeting : June 18-19/85
Import growth (% p.a)	2.3	0.5	IMF status as of : Feb. 8, 1985
Current Account Deficit (% GDP)	-1.5	-1.7	(Art. IV; Active/Lapsed : Active
Gross Debt Service Ratio (% Exports)	13.2	15.5	standby; EFF; n.a. : EFF
Annual Inflation Rate (% p.a)	9.1	7.5	

Issues likely to be raised by delegation:

1. Request for raising Bank's share in total project cost beyond 50% and increasing loan size beyond \$300 million (paras 2 and 3 below).
2. Flexibility in applying the 10% portfolio share in future IBRD lending (para 4 below)

Issues to be raised by Bank Management:

1. Economic Policy Reform (para 5 below).
2. Poor disbursement performance during FY85 (para 6 below).
3. Deterioration in the financial strength of State Governments (para 8 below).

The Economy

1. India's economic performance this past year has shown a number of encouraging developments. The GDP is estimated to have grown by 4%. Agriculture has grown by 1%, industry by 7%, and services by 5%. Agricultural output during 1984/85 exceeded the bumper crop of the previous year despite a mediocre monsoon and the failure of winter rains in the northwest. This year's harvest on top of the bountiful harvests of the last few years has increased public foodgrain stocks to a record level of 22.4 million tons. The 1985 monsoon has been very good. It should bolster Government's efforts to maintain high agricultural growth rates attained during the last two years and help depress price pressures. Especially gratifying also was the expansion of power supply. However, manufacturing growth at about 5.5% was below expectations, and export growth was equally disappointing in relation to India's needs for mobilizing external resources. Price pressures weakened in the second half of the year, primarily due to the increased supply of cereals. Wholesale price increases decelerated from about 9% in 1983/84 to about 7% during the past year. The balance of payments remained stable despite a modest 4.3% growth in the volume of exports. The current account deficit stood at 1.5% of GDP and remained at approximately the previous year's level of US\$2.5 billion. Imports increased by 3% in value terms but remained essentially stable in volume terms, as imports of investment goods declined from earlier high levels.

Issues Likely to be Raised by the Indian Delegation

2. We understand that the Indian delegation may follow up on the issues of increasing the Bank/IDA share of total project costs from the present 50% to 75% and raising the US\$300 million limit for a single operation. Following up on your discussions in Delhi, we have reviewed the case for some changes in our present policies. We are currently managing our lending program so as to finance the equivalent of the foreign exchange content of the program (about 35%). Bank Group financing, together with cofinancing, has accounted for about 50% of total project costs. This means in effect that we finance local costs to the extent that we succeed in mobilizing cofinancing for the program. We do not see any reasons for modifying our current practice.

3. However, within the above policy, there will be room in selected individual projects for Bank Group financing to cover as much as 75% of total project costs. In fact, this is also within present guidelines which stipulate that we would routinely finance up to 50% of individual project costs and, in very exceptional cases, up to 75%. With respect to the maximum size of loans/credits, as Mr. Stern had indicated to the Indian delegation during the 1984 Annual Meetings, we would be prepared to recommend larger operations for Board approval in selected cases.

4. The Indian delegation may also want to follow up on their request for more flexibility in the application of 10% portfolio limit in IBRD lending. IBRD commitments to India were US\$1.7 billion in FY85 and are expected to amount to US\$1.6 billion per year in the medium term. At this level, India's share in the Bank's loan portfolio would increase from just under 5% at present to 10% in FY90, 11.3% in FY95 and a stable 11% for the rest of the decade. If there were to be eventual agreement on a substantial General Capital Increase, some more room would be created for expanding IBRD lending while keeping within prudent exposure limits. In any case, as you discussed with the Minister in August, the Bank's 10% guideline on exposure in any single borrowing country will continue to be applied flexibly. Even so, it should be emphasized that lending at the envisaged level would have to be predicated on meaningful and sustained expansion of India's debt service capacity which, in turn, depends on improvements in policies with respect to industry and exports. Unless such improvements are made and sustained, a significantly lower exposure of the Bank in India than currently envisaged would have to be imposed.

*Dependent
performance*

Issues to be Raised by Bank Management

Economic Policy Reform

5. You should reiterate your strong support for the liberalization and tax reform measures and commend the Government on their recent decision to focus on the revamping of the indirect tax system.

Disbursements

6. India's performance with respect to disbursements is important in order for the Bank to continue to justify high levels of IBRD and IDA lending to the country. In this respect, India's very poor disbursement performance during FY85 hinders our ability to make such a case. In the Bank's FY85, disbursements on IBRD loans of about US\$240 million were 50% below the FY84 level, and disbursements on IDA credits of slightly more than US\$800 million were 11% below those of FY84. While we recognize that unforeseen events during FY84 (Mrs. Gandhi's assassination, and the appreciation of the US dollar) had a negative impact on disbursements, the combined IBRD/IDA shortfall of 25% is a major decline which must be reversed.

*Poor
Disbursement
performance
limits our
activities*

7. We appreciate India's initiative in sending their Controller of Aid Accounts and Audit (Mr. Radakrishnan) to the Bank last May to consider ways to improve disbursement performance. A number of procedural improvements to accelerate disbursements were identified and put into effect on July 1, 1985. In addition, the establishment of revolving funds within India in order to simplify and accelerate disbursements is under active consideration by the GOI. While we will continue to encourage GOI to adopt such funds, this may take some time as a number of administrative constraints will need to be overcome. Given the importance of this issue,

*Revolving
Funds*

however, we plan to undertake our own in-depth review of disbursement performance in order to try to identify the particular substantive problems which are causing the continuing shortfalls in disbursement levels. We plan to undertake the review during September, and would hope to discuss the findings with GOI officials during the visits of Messrs. Robless and Cheetham in October. We would appreciate your mentioning our intentions to the Government and the hope that we can count on their assistance in resolving this important issue.

Mention
Concluding
Funds.

State-Level Finances

8. The financial strength of the States has deteriorated significantly during the Sixth Plan period and adversely affected implementation of the investment programs, especially in the power and irrigation sectors. The financial constraints at the State level have also been partly responsible for slower than usual disbursements for Bank-supported projects during the same period. There are strong indications that financial difficulties experienced by most States will extend to the Seventh Plan period. To ensure timely disbursements for ongoing, as well as future Bank-assisted projects, it would be useful for you to alert the authorities about our concerns and the need to study further the financial strength of States where large Bank lending is planned in the next five years.

mention



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Document Date 04 September, 1985	Document Type CV / Resumé			
Correspondents / Participants				
Subject / Title Bio-data of Mr. S. Venkitaraman Finance Secretary, Government of India				
Exception(s) Personal Information				
Additional Comments		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td>Withdrawn by Chandra Kumar</td><td>Date 30-Mar-15</td></tr></table>	Withdrawn by Chandra Kumar	Date 30-Mar-15
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Document Date 04 September, 1985	Document Type CV / Resumé			
Correspondents / Participants				
Subject / Title Bio-data of Mr. Vishwanath Pratap Singh				
Exception(s) Personal Information				
Additional Comments		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td>Withdrawn by Chandra Kumar</td><td>Date 30-Mar-15</td></tr></table>	Withdrawn by Chandra Kumar	Date 30-Mar-15
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Document Date 04 September, 1985	Document Type CV / Resumé			
Correspondents / Participants				
Subject / Title Biographical Statement - R. N. Malhotra				
Exception(s) Personal Information				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.		
		<table border="1"><tr><td>Withdrawn by Chandra Kumar</td><td>Date 30-Mar-15</td></tr></table>	Withdrawn by Chandra Kumar	Date 30-Mar-15
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INDIA

FY86-90 Lending Program a/

<u>Project</u>	<u>Amount</u>		<u>Appraisal</u>	<u>Board</u>
	<u>IBRD</u>	<u>IDA</u>	<u>Date</u>	<u>Approval Date</u>
	(US\$m)			
<u>FY86 Regular</u>				
Kerala Water Supply		41	5/84	7/85
West Bengal Population		51	11/84	7/85
West Bengal Minor Irrigation		99	9/84	7/85
Maharashtra III Irrigation		160	8/84	7/85
NARP II		55	10/84	9/85
Industrial Export Dev. Finance	250		8/84	10/85
NAEP III		55	3/85	10/85
Gujarat Rural Roads	50	50	11/84	11/85
Gujarat Urban		54	10/84	11/85
Cement Energy Savings	200		5/85	12/85
Combined-Cycle Power	350		5/85	1/86
NABARD	300		11/84	4/86
Narmada Sagar Dam and Power	300		2/85	4/86
Narmada Sagar R & R		50	2/85	4/86
Aonla Fertilizer	<u>150</u>	<u> </u>	9/85	6/86
TOTAL	1,600	615		
	=====	===		

a/ This Lending Program is to be revised in late September to bring the number of lending operations down to 13 in each year from the present 16-17, while adhering to the current lending objectives of IBRD US\$1.6 billion and IDA SDR 600 million. In the process, formulation of the FY90 program will now be completed and will comprise, to a large extent, projects deferred from earlier years. Prior to the departure of the Bank's Senior Management to the Annual Meetings, the revised Lending Program will be forwarded for inclusion in this Annual Meeting brief.

<u>Project</u>		<u>IBRD</u>	<u>IDA</u>	<u>Appraisal</u>
		<u>(US\$m)</u>		<u>Date</u>
<u>FY87 Regular</u>				
	Bombay Water Supply III	70	70	2/85
	Gevra Coal	140		3/85
S	A.P. Irrigation		195	3/85
S	Telecommunications IX	300		4/85
S	Bihar Tubewells		50	9/85
S	Capital Region Thermal	300		10/85
	Kalinadi Hydroelectric	270		1/86
	Forestry Research & Training		65	3/86
	National Water Management		100	4/86
	Metropolitan Cities Pop.		50	4/86
	Liquified Petroleum Gas	100		4/86
	Capital Goods	220		NS
	U.P. Urban and Water		80	9/86
	National Highways III	300		11/86
	TOTAL	1,700	610	
		=====	===	

<u>Project</u>	<u>IBRD</u>	<u>IDA</u>	<u>Appraisal</u>
	<u>(US\$m)</u>		<u>Date</u>
<u>FY87 - Reserve</u>			
HBJ Pipeline	190		9/84
Rajasthan Irrigation III		150	9/86
Automotive Industry	100		N.S.
Power Unidentified	250		N.S.
Railways OIS	200		N.S.
Refinery Exp. & Modification	150		N.S.
Oil India Limited	100		N.S.
Pulp and Paper	<u>150</u>	<u> </u>	N.S.
TOTAL	1140	150	
	=====	=====	

<u>Project</u>	<u>IBRD</u>	<u>IDA</u>	<u>Appraisal</u>
	<u>(US\$m)</u>		<u>Date</u>
<u>FY88 Regular</u>			
Cauvery Delta Modernization		80	1/86
Fertilizer Rehabilitation	150		3/86
Telecommunication Manufacturing	100		3/86
Narmada Sagar Complex II	200		3/86
Karnataka Irrigation II		150	4/86
Industrial Exports II	250		9/86
Gas Distribution I (Bombay)	200		11/86
National Social Forestry II		100	NS
Naphtha Zhakri Hydro	250		NS
Rihand Thermal II	250		NS
Kerala Urban		100	NS
Madhya Pradesh Water Supply	100	40	NS
Uttar Pradesh Population		70	NS
Nutrition Unidentified		60	NS
Electronics/Technology Dev.	<u>150</u>	<u> </u>	NS
TOTAL	1650	600	
	=====	=====	

<u>Project</u>	<u>Amount</u>		<u>Appraisal Date</u>
	<u>IBRD</u>	<u>IDA</u> (US\$m)	
<u>FY88 Reserve Projects</u>			
Agricultural Markets	45	45	9/85
Bihar Water Supply		50	11/86
MP Major II	60	50	N.S
National Seeds II		50	N.S.
Maharashtra Major II		150	N.S.
Manguru Thermal	300		N.S.
Fertilizer Distribution	150		N.S.
Telecoms/New Technology	50		N.S.
Steel Energy Savings	<u>150</u>	<u> </u>	N.S.
TOTAL	755	345	
	===	===	

<u>Project</u>	<u>Amount</u>		<u>Appraisal Date</u>
	<u>IBRD</u>	<u>IDA</u> (US\$m)	
<u>FY89 Regular</u>			
Narmada (Gujarat) Canal		180	NS
MP Medium II		125	NS
National Watershed Dev		95	NS
NABARD II	100	100	NS
NARP III		75	NS
Narmada (MP) Canal	75	73	NS
Bihar Sone Modernization		100	NS
Industrial Exports III	250		NS
Thermal Rehabilitation II	200		NS
Chandrapur Thermal II	250		NS
Tamil Nadu Urban	100	30	NS
Haldia Water Supply		100	NS
Population Nat. Training		75	NS
Population Tamil Nadu		80	NS
Gas Unidentified	225		NS
Telecommunications X	300		NS
Bhir Bhum Thermal	<u>250</u>	<u> </u>	NS
TOTAL	1750	1033	
	=====	=====	

<u>Project</u>	<u>Amount</u>		<u>Appraisal Date</u>
	<u>IBRD</u>	<u>IDA</u> (US\$m)	
<u>FY89 Reserve Projects</u>			
State Sector Irrigation		100	
Karnataka Tanks II		50	NS
HUDCO Urban		100	NS
Agro Processing	200		NS
Puyankutti Hydro	150		NS
Rural Water Supply		100	NS
Coal Unidentified	<u>150</u>	<u> </u>	NS
TOTAL	500	350	
	===	===	

<u>Project</u>	<u>Amount</u>		<u>Appraisal Date</u>
	<u>IBRD</u>	<u>IDA</u>	
	<u>(US\$m)</u>		
<u>FY90 Regular</u>			
Subernarekha Orissa	100	40	NS
National Water Mgnt II		95	NS
Haryana Canal Operation		50	NS
NCDC IV	80	100	
Subernarekha Bihar		100	NS
	<u>—</u>	<u>385</u>	
TOTAL	180	385	
	<u>===</u>	<u>===</u>	

<u>Project</u>	<u>Amount</u>		<u>Appraisal Date</u>
	<u>IBRD</u>	<u>IDA</u>	
	<u>(US\$m)</u>		
<u>FY90 Reserve</u>			
Kerala Kallada II		50	NS

Th. Oct. 10
2:30

INDIA

India is traditionally skeptical about MIGA. It must be expected to raise problems within the Group of 24. Mr. Rao Sahib has actively participated in the discussions of the Committee of the Whole, but has abstained in the Board meeting on September 12. Mr. Sahib, as per New Delhi's instruction, made a reservation against Article 57 (b) of the draft Convention which deals the settlement of disputes between MIGA as subrogee of indemnified investors and host countries.

You might wish to express your satisfaction about the agreement reached on the MIGA convention and note your appreciation for the active and constructive role which Mr. Rao Sahib played in the discussions of the Committee of the Whole. You might point out that the Convention represents a well-balanced package and adequately reflects the interests of developing countries in general and the points made by India in particular. You might further allude to the Indian position that disputes between MIGA as subrogee of indemnified investors and host countries should be subject to the jurisdiction of the host country and explain that, in response to India's concerns, the Convention provides for the possibility of an agreement between MIGA and individual host countries on dispute settlement. Such an agreement could be concluded before the ratification of the signatory country and could provide for the exhaustion of local remedies. You might furthermore wish to point out that India would benefit from MIGA not only in its efforts to attract foreign investment on more advantageous terms but also in its capacity as an exporter of capital and technology since MIGA could cover exposures of Indian business operators in other developing countries.

You might request India's support for the approval of the proposed resolution on MIGA, indicating that this would not commit India to sign. You might finally note that MIGA is, in any case, a timely response to pressing difficulties for many other developing countries and urge India not to raise problems at this stage, as this would be likely to invite industrial countries to reconsider their concessions made in the course of the negotiation of the Convention and thus jeopardize the delicate compromise underlying the agreed Convention.

CONFIDENTIALTh. Oct 10
2:30FORM NO. 26
(4-69)INTERNATIONAL DEVELOPMENT
ASSOCIATIONINTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENTINTERNATIONAL FINANCE
CORPORATION

INCOMING CABLE

DATE AND TIME
OF CABLE: SEPTEMBER 27, 1985

LOG NO.: TELEX /27

TO: INTBAFRAD

FROM: NEW DELHI

DECLASSIFIED**MAR 15 2015****WBG ARCHIVES**

ROUTING

ACTION COPY:	✓ LEGVP (MR. SHIHATA)
	SVPOP (MR. STERN)
INFORMATION COPY:	ASNVP (MR. HOPPER)
DECODED BY:	mc

TEXT: 3024

FOR SHIHATA (LEGVP) E. STERN (SVPOP), HOPPER (ASNVP)
FURTHER TO MY 2946 OF SEPT 23 ON ^{MIGA} (ALPHA) CVMH, POSITION OF MINISTER OF
FINANCE IS AS STATED IN MY EARLIER TELEX, ALTHOUGH MANY OFFICIALS SYMPATHETIC
WITH MANAGEMENT'S VIEW. INTERNAL POLITICAL OBJECTIONS ARE THAT A VOTE FOR
^{MIGA} (ALPHA) CVMH WOULD BE SEEN TO BE ACTION ENHANCING THE INTERESTS OF FOREIGN
INVESTORS ESPECIALLY MULTI-NATIONALS RELATIVE TO HOSTAGE GOVERNMENTS, AND
EXTERNAL OBJECTIONS ARE THAT A VOTE FOR ^{MIGA} (ALPHA) CVMH WOULD BE SEEN BY
INDIA'S FRIENDS AS AN ENDORSEMENT BY INDIA OF THE LIKELIHOOD THAT THE RISKS
TO BE INSURED AGAINST ARE REAL.
HOWEVER I HAVE ARGUED THAT VOTE FOR ESTABLISHMENT OF ^{MIGA} (ALPHA) CVMH IS NOT
THE SAME AS A DECISION TO JOIN IT. INDIA COULD EXPRESS ITS MISGIVINGS YET
VOTE FOR THE RESOLUTION. INDEED INDIA MAY BENEFIT FROM (ALPHA) CVMH AS AN
EXPORTER OF CAPITAL AS WELL AS FROM THE GENERAL IMPACT OF ENCHANCED CAPITAL
FLOWS. THESE ARGUMENT MAY HAVE HAD SOME IMPACT. IT WOULD INCREASE THE LIKE-
LIHOOD OF A POSITIVE VOTE IF INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOP-
MENT (I.B.R.D.) COULD ARRANGE FOR SUCH POINTS TO BE MADE BE THE MINISTER OF
FINANCE BY OTHER COUNTRIES ANXIOUS TO SEE (ALPHA) CVMH ESTABLISHED PRESUMABLY
NIGERIA, KENYA, ETC. CONTACT WOULD BE DIRECT IN SEOUL OR VIA EXECUTIVE
DIRECTOR OR AMBASSADOR HERE. DELEGATION ALSO LIKELY TO BE RECEPTIVE IF THESE

FOR INFORMATION REGARDING INCOMING CABLES, PLEASE CALL THE COMMUNICATIONS SECTION, EXT. 2021

DUPLICATE

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OF CABLE: SEPTEMBER 27, 1985

LOG NO.: TELEX /27

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MAR 15 2015

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	SVPOP (MR. STERN)
INFORMATION COPY:	ASNVP (MR. HOPPER)
DECODED BY:	mc

TEXT:

PAGE TWO

POINTS ARE REITERATED BY MR. CLAUSEN, MR. STERN AND YOURSELF IN SEOUL.

V.P. SINGH WILL BE IN DELHI NEXT WEEK.

REGARDS

WAIDE

ABOVE MESSAGE RECEIVED IN CODE.

---AS RECEIVED.

mc



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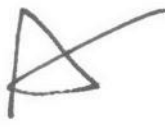
OFFICE MEMORANDUM

DATE : April 12, 1985

TO : Mr. A. W. Clausen

THRU : Mr. Ernest Stern, SVPOP 

FROM : Russell Cheetham, Director, ASA 

SUBJECT : INDIA - Your April 15, 1985 Meeting with
the Indian Finance Minister 

I. Introduction

You may recall that you met Mr. Vishwanath Pratap Singh as UP Chief Minister in 1982. Before his present appointment, he was President of the State Congress Committee (I) in which position he played an important role during the December 1984 elections. (His bio-data is attached.)

In welcoming Mr. V.P. Singh to the Bank in his capacity as the new Finance Minister, it would be appropriate for you to repeat your congratulations to the Minister and his colleagues on the very strong electoral victory of Congress (I) led by Mr. Rajiv Gandhi and on the courage and determination with which the new Government is dealing with the great political and economic challenges facing the nation. It is a tribute to the Government and people of India that neither the serious political disturbances in Punjab, nor the assassination of the late Prime Minister Indira Gandhi, resulted in significant disruptions to the concerted and successful efforts to counteract a mediocre monsoon and to maintain the impetus for improved performance in all sectors of the economy.

In the substance of your discussions with the Minister, you may wish to enquire about the new directions in economic policy which the Government appears to be charting. The Minister in turn could be expected to enquire about the Bank's assistance plans in India in the medium term.

II. Current Economic Situation and New Policy Initiatives

Overall growth of the economy during 1984/85 is likely to range between 4-4.5%. On this basis, growth under the Sixth Five Year Plan (1980/81 - 1984/85), will be close to 5% per year and thus significantly exceed the past 30-year average of 3.5% per year. In spite of a mediocre monsoon during the past year and the failure of winter rains in the northwest, foodgrain production is expected to exceed the record production of 151 million tons achieved last year. The manufacturing sector's performance has remained relatively weak but will nevertheless be an improvement over the sluggish growth rates of the previous two years.

With industrial growth being crucial to the achievement of the Government's overall growth and development objectives, the new Government has repeatedly emphasized its intentions to review both industrial and trade policies with a view to accelerating growth and encouraging greater efficiency and productivity. The 1985/86 Budget contained the first round of measures for accelerated industrial growth and improved export performance, and was followed up this week with the announcement of a New Trade Policy which extends the open economy approach to industry and

exports. The Minister should be congratulated on the frankness with which India's economic problems were dealt with in his recent Budget Statement and Economic Survey. The new measures do not yet mark a radical break with the basic policy framework; but there is clearly evidence of a more pragmatic approach to industrial and trade policies. A momentum for change has built up and we would hope that it will be maintained. There is, for example, the need for much greater reliance on indirect policy instruments in preference to direct physical/administrative controls on imports, production, capacity and prices.

The Bank's next Economic Report on India (in draft now) stresses the urgency of these policy changes. The working level discussions that we have had with the Government on the draft have been constructive throughout. Officials agree with the basic thrust of our recommendations for more liberal trade and industrial policies and for a marked acceleration in export growth but argue that in the transition, sizeable external assistance, in particular concessional assistance, will be very important. Clearly, India faces considerable risks that the economy may take longer to react to policy change and/or that unforeseen contingencies intervene such that the balance of payments situation could deteriorate for a period at least. It is to help cushion India against such risks as it liberalizes her economic policies that external assistance, in particular concessional assistance, can be most strongly justified. You should emphasize that, provided that GOI was willing to continue energetically with its efforts for more liberal trade and industrial policies which bring about accelerated export growth and a strengthening of the balance of payments position, the Bank could give every assurance that it would continue to make the strongest possible case for adequate concessional assistance for India from the donor community.

III. Bank Group Assistance

(1) IDA

The primary concern of the Minister will be India's share of IDA, and the disproportionate burden that India is being asked to bear in the reduction of IDA lending. The Minister may remind you that as recently as the 1984 Annual Meetings, you had indicated that India's share in IDA would only come down gradually. He will refer to the progressive reduction that has already been effected in India's share of IDA from 38% in FY81 to 28% in FY84 and express grave concern at the expected acceleration of this downward trend to 22% in FY85. He may imply that while the broad distribution of IDA resources is beyond the ability of Bank management to control, Indian officials are not satisfied that Bank Management is playing a sufficiently aggressive role in advancing India's case for a more equitable share of IDA resources. He may also allude to Bank Management requests that GOI support the Africa initiative because, inter alia, this would help protect the traditional recipients' shares in IDA.

quite right - in the context of the pressures to eliminate India & China altogether.

You should assure Mr. Singh, as you did with his predecessor Mr. Mukherjee, that the Bank as an institution and you personally are vigorously and continuously exploring every possibility for larger concessional resources so as to make possible larger allocations for India itself. In this connection, you may wish to share with the Minister your perceptions of the future of IDA, your plans for a mid-term review of IDA and for a third window. The benefits to India of an enlarged volume of concessional resources would far exceed the effects of what could at best be only marginal adjustments in India's share of any IDA total. For its part, you may wish to reiterate the point that India itself must make its own case for external assistance, and in particular concessional assistance, by energetically reforming its trade and industrial policies and increasing efficiency throughout the economy. In addition, it is also important that:

(i) continued attention be given to the development of a strong pipeline of attractive, high priority poverty-oriented projects in the fields of population, agriculture and social forestry. The forthcoming IDA-supported National Social Forestry Project to be co-financed by USAID with its stress on the "poorest of the poor" is an excellent example of the kind of project that is needed to buttress India's case for large volumes of concessional assistance.

(ii) continued action to improve disbursement performance. In this connection, you might express your concern that India's IDA and IBRD disbursement performance has not been good in the last 2-3 years.

(2) IBRD

Recognizing that an expansion of the Bank's capital base is essential for more rapid expansion of IBRD lending to India without an undue rise in India's share in the portfolio, the Minister could be expected to ask you for your plans with respect to the next GCI.

On present portfolio constraints on the growth of IBRD lending, you should assure him that the volume of our lending program will be as large as would be consistent with prudent management of the Bank's portfolio. We would continue to apply the guidelines for the purpose with flexibility. The Minister should appreciate, however, that the current IBRD lending program of \$1.6 billion per year for FY85-89 already implies increases in India's share in the portfolio from under 5% in FY85 to 10% in FY90 and 11% in FY95. You should stress that to maintain such a level of lending and certainly if higher amounts are to be provided, it is necessary that the Bank's lending activities be seen to be justified by policy and program actions by the Government which strengthen India's creditworthiness through accelerated export growth and greater efficiency.

*I would not
push this.
Prospects
are
almost nil
and if it
materialized
it would be
strongly argued
that this should
be substituted
for IDA to
India*

IV. India's Capital Subscription

Mr. Singh may raise with you the question of when it can expect to receive the full allocation of 819 additional shares granted it under the recent Selective Capital Increase, Special Allocation Scheme. India received 231 shares in the first phase of the special allocation scheme on September 12, 1984. You can advise Mr. Singh that, while the Bank has repeatedly urged members to review unsubscribed shares allocated to them and release those shares that they do not wish to subscribe, it has been unable to secure an adequate number of unallocated shares. Consequently, it is now proposed that the acceptance of subscriptions under Resolutions Nos. 258, 313, 314, 334 and 335 be terminated on September 30, 1985 (except for those members which specifically notify the Bank of their intention to subscribe by a specific date, and request a further extension to do so). The proposed arrangement will allow the Bank to reallocate shares that remain unsubscribed after September 30, 1985. The Board discussion on this proposal is scheduled on May 7. It is hoped that this procedure will produce a sufficient number of shares for reallocation to complete the special allocation scheme.

Cleared with and cc: Mr. Lerdau

cc: Messrs. Hopper (o/r), Waide, Robless



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File Title India Country Files - Presidents Papers - A W Clausen - Correspondence - Volume 2		Barcode No. 1774867		
Document Date 12 April, 1985	Document Type CV / Resumé			
Correspondents / Participants				
Subject / Title Bio-Data of Mr. Vishwanath Pratap Singh				
Exception(s) Personal Information				
Additional Comments		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td>Withdrawn by Chandra Kumar</td><td>Date 30-Mar-15</td></tr></table>	Withdrawn by Chandra Kumar	Date 30-Mar-15
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File Title India Country Files - Presidents Papers - A W Clausen - Correspondence - Volume 2		Barcode No. 1774867		
Document Date 05 April, 1985	Document Type Letter			
Correspondents / Participants To : Mr. C. R. K. Rao Sahib - Executive Director From : A. W. Clausen - President				
Subject / Title Luncheon in honor for Finance Minister, Mr. Singh				
Exception(s)				
Additional Comments Declassification review of this record may be initiated upon request.		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td>Withdrawn by Chandra Kumar</td><td>Date 30-Mar-15</td></tr></table>	Withdrawn by Chandra Kumar	Date 30-Mar-15
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OFFICE MEMORANDUM

DATE: January 30, 1985

TO: Mr. A. W. Clausen, President

FROM: W. David Hopper, RVP, South Asia *wdh*

SUBJECT: Your ³February 2, 1985 Meeting with the
Indian Ambassador to the U. S.

2-3-85
A

1. We have not been informed of any special issues Mr. Bajpai wishes to raise with you during your dinner with him on Sunday evening, although your discussions can be expected to touch on some or all of the points outlined briefly below. Mr. Bajpai's bio-data are attached.

2. It would be appropriate for you to congratulate the Government on its very strong showing at the December 1984 elections. In addition to securing about three-quarters of the seats in the new Parliament, Mr. Gandhi's Congress Party obtained a little over 50% of the popular vote, the first time since independence that any party has won more than 43% of votes cast. The clear mandate given to the Government bodes well for the country in its efforts to cope with continuing communal problems internally while at the same time striving to sustain the momentum of its development efforts.

3. We are gratified at the positive approach being taken by Indian officials towards the Bretton Woods Institutions. Earlier this week Mr. Gandhi said publicly that "A new and unfortunate development is the undermining of the various multilateral agencies in the U.N. system. These agencies have played a notable part in assisting poorer countries in the last four decades. If they are weakened, the ideals of the United Nations, indeed the very basis of International Cooperation, would be shaken. A campaign has to be launched in the capitals of the world to reverse this unfortunate trend." We are looking forward to knowing what India proposes to do in this respect.

India's Development Efforts

4. Overall economic performance under the Sixth Plan (which began in 1980/81) has been very creditable. The growth rate of GDP during this period has been above 5% per annum, a significant improvement over the historical trend up to 1980/81 of about 3.5% per annum. Investment levels under the Sixth Plan are expected to be about 30% above the previous Plan period. The Seventh Plan (1985/86 - 1990/91) is at an advanced stage of preparation. We are encouraged that improved efficiency and productivity are among the principal objectives of the proposed Plan. We suggest that you express full support from the Bank for Government efforts directed at increasing the efficiency of resource use. One central aspect of the efficiency issue that will attract considerable attention is the policy environment in which both public and private industrial enterprises operate. India has used an extremely elaborate administrative system to control prices, capacity and production of industrial and consumer goods. Together with high tariffs and import restrictions, these controls have

curtailed competition both domestically and internationally. Recently there have been signs that India is moving--admittedly somewhat hesitantly, but the shift is demonstrable nevertheless--towards a relaxation of controls and improvements in the pricing and incentive regimes governing industrial production. You should say that the Bank is very encouraged by these movements, and stands ready to increase its industrial lending substantially over past lending levels to industry in support of policy initiatives in that critical sector.

Bank Group Resources

5. If increasing amounts of Bank Group resources are to be allocated to industry this will, of course, have to be accommodated within a Bank Group lending program of about US\$11 - US\$11.5 billion for FY85-89, a level considerably below the US\$16 billion requested by the Government. You should repeat to the Ambassador what we have been saying to his colleagues in the Department of Economic Affairs, that we recognize that India's external capital requirements, the effectiveness with which it utilizes aid and the strides it continues to make in its development efforts are all strong arguments for increasing Bank Group allocations to India. Nevertheless the claims of China and sub-Saharan Africa on IDA will necessitate reducing real IDA transfers to India. We shall continue to moderate this decline by increasing IBRD transfers to the extent possible given the overall constraints on IBRD funds and the need for vigilance with respect to the Bank's exposure in India.

RPBrigish/rb

cc: Mr. Stern, SVPOP



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Document Date 30 January, 1985	Document Type CV / Resumé			
Correspondents / Participants 				
Subject / Title Curriculum Vitae - K. Shankar Bajpai				
Exception(s) Personal Information				
Additional Comments 		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td>Withdrawn by Chandra Kumar</td><td>Date 30-Mar-15</td></tr></table>	Withdrawn by Chandra Kumar	Date 30-Mar-15
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Indian Delegation

Pranab Mukherjee - Min. of Fin.

Pratap Kishen Kaul - Finance Sec.

V. K. Shunglu - Jt. Sec., Min. of Fin.

Bimal Jalan - Sp. Secretary & Chief
Econ. Adviser

G. K. Arora - Additional Sec. to P.M.

H. N. Ray

From the Bank

Ernie Stern

Shahid Husain

David Hopper

Russell Cheetham

Cosmas Robles

Bevan Waide - Res. Rep.



OFFICE MEMORANDUM

DATE: September 25, 1984

TO: Mr. A.W. Clausen (through Mr. E. Stern, SVPOP) *ES.*

FROM: W. David Hopper, VP, South Asia *W.D.H.*

SUBJECT: Meeting with Mr. Mukherjee, Minister of Finance, India *A*

1. This serves to update the Annual Meeting brief for your meeting with Mr. Mukherjee at 5:00pm on September 26, 1984.

NABARD (paras 3 and 4 of Annual Meeting Brief)

2. Should Mr. Mukherjee raise the issue with you, we suggest you:
- (i) note the active discussions now underway between Bank and GOI staff on the project; and
 - (ii) stress that Bank Group support could only be justified if it was clear that GOI was coming to grips with the fundamental problems of improving the quality of India's agricultural credit system.

Book Presentation by Mr. Mukherjee

3. Mr. Mukherjee, in his personal capacity, is likely to present you with a copy of his recently published book, "Beyond Survival: Emerging Dimensions of the Indian Economy".

4. Based on his own vast experience, the book traces India's development efforts since Independence in the major sectors of the economy. In dealing with the international economic environment currently facing India, the book comes down hard on the US (whose "opposition does not seem to have any rational basis"). It has, however, a good word for the World Bank not only for its "important role in the transfer of resources ...", but also "as a partner in the dialogue with Governments in overall economic policy and sectoral strategies".

cc: Messrs. R. Cheetham (ASADR); E. Lerdau (ASPDR); C.L. Robless (ASAIN);
E. Waide (NDO)

CLRobless:ns

IndiaMultilateral Investment Guarantee Agency

India is skeptical about MIGA. However, it operates a national investment guarantee scheme and might be attracted by prospects of obtaining multilateral insurance and reinsurance for its investments in other LDCs. You might mention that the proposed MIGA is more attractive to LDCs than previously discussed schemes in that it would operate separately from the Bank, would have its own capital resources, would be controlled equally by developing and developed countries and would pay particular attention to the promotion of investments and trade among LDCs.

9/26

ANNUAL MEETING BRIEF

INDIA

14 August, 1984

Population:	750 million (mid-1984)
GNP per capita:	\$260 (in FY83 terms)
Total Bank/IDA Commitments:	\$19.8 billion
FY84: Commitments:	\$2722.4 million
Disbursements:	\$1397.3 million
Amortization:	\$312.8 million
4.Lending Program: FY85-86:	\$4.8 billion

The Economy

1. The economy rebounded strongly from a disappointing performance in 1982/83 (when GDP growth was around 2%) to an encouraging 7% in 1983/84. Particularly impressive was the gain in agriculture--which grew at 10-12%--with foodgrain production having reached 150 million tons--a record harvest for India. Performance in the industrial and infrastructure sectors was, however, somewhat disappointing with output growth reaching only about 5.4%, having been constrained by continued structural problems within the sector, sluggish demand and input supply constraints, most notably in power availability. Wholesale prices rose by about 9% in 1983/84, due principally to poor operational performance during the previous year. Placed in the perspective of price behaviour during similar cyclical growth periods (1973/75, 1979/81), experience during 1983/84 represents a marked improvement, but developments will require continued careful monitoring. The balance of payments continued to improve, with the current account deficit as a percentage of GDP falling from 2.3% in 1982/83 to 2.1%. This improvement enabled the Government of India to forego drawing the last tranche of its Extended Fund Facility from the IMF. Progress during the first four years of the Sixth Five Year Plan (1980/81 - 1984/85) indicates significant strides towards achieving accelerated economic growth principally through the alleviation of basic infrastructure and supply constraints, increased energy independence, continued relaxation of imports and promotion of exports, greater domestic resource mobilization and expanded commercial borrowing. The prospect for attaining the Plan growth target of 5.2% per annum in real terms, as compared to the historical growth rate of about 3.5% per annum is extremely good. Achievement of this growth rate is all the more remarkable, in that it has been accompanied by manageable increases in the burden of debt service--the ratio of debt service payments to exports rose from 8.2% in 1979/80 to 12.9% in 1983/84.

2. The Seventh Five Year Plan is due to be launched next year. Its central theme will be "Food, Work and Productivity". The Government's strategy will focus on raising agricultural production yet further (153-4 million tons is the target for foodgrain production for 1984/85). It sees a faster rate of growth in the production of rice, edible oil and pulses as a means of achieving price stability, decreasing poverty in the rural areas, and stimulating the demand for industrial goods. Of particular interest is the stress that will be given to improved efficiency and productivity. Recognizing the need for efficiency in resource use, the Plan will be based on better utilization and low-cost expansion of existing capacity.

Issues Likely To Be Raised By the Indian Delegation

3. We understand that the Indian delegation may raise with you the Bank's slow progress in processing the NABARD I project (National Bank for Agriculture and Rural Development) a US\$300 million agricultural credit project which was postponed from FY84 because of very poor loan recovery performance (about 50% overdues in 1983).

4. The current position is that, in July 1984, we and GOI/NABARD discussed an Issues Paper prepared by the Bank that outlined our perceptions of the fundamental problems that need to be addressed in agricultural credit. We should urge GOI to come to grips with these fundamental problems more effectively. We are awaiting a response from GOI on the specific steps that it will take to address and deal with these problems. Upon receipt of a response which provides a reasonable basis for proceeding, we shall establish a timetable for processing a credit.

Issues To Be Raised By Management

Population Growth

5. The Government should be commended on its successful economic management under the Sixth Plan. The impressive gains in agricultural production are particularly noteworthy. However, difficult hurdles and choices remain if recent performance is to be sustained during the Seventh Plan period--1985/90. Overall, population growth has not yet decelerated. Government programs in this area have achieved some success, in that total fertility is declining, from about 5.1 in 1978 to an estimated 4.8 in 1980/85. However, there have also been improvements in life expectancy, on account, probably, of improved food availabilities and health services. While these developments are to be welcomed, they indicate that much more needs to be done to slow the rate of population growth. If the gains in economic growth are to lead to increases in living standards, continuing efforts to strengthen a broad range of family planning, health services and primary education will be needed.

The Seventh Plan and Export Development

6. It would also be appropriate to stress the Bank's support for the Government's strategy for the Seventh Plan especially insofar as it emphasizes the need to increase the efficiency with which resources are used. (At the Consortium meeting in June, all members expressed general support for this strategy.) Like other consortium members, we look forward to learning the details of the strategy and to seeing the manner in which it will be translated into specific investments. ★

7. A facet of the Government's strategy that is disturbing, and warrants mentioning, is the low level of attention given to the role of export development in India's economic growth prospects. The volume of India's manufactured exports increased by 8% in 1983/84 and we believe India's export growth will need to be sustained at this high level if the economy is to continue growing at 5% per annum while maintaining its creditworthiness. Since only one-half of total exports are to OECD industrial countries, and India's share of total world exports is only around 0.4%, there is ample potential to significantly raise exports even under relatively adverse world market conditions. India is to be encouraged to modernize its technological base and increase competition to stimulate its industry. Additional measures will be needed to increase the profitability of exports relative to domestic sales; liberalize access to imported inputs, machinery and technology, and reform the tax structure to ensure business efficiency and profitability. The exchange rate will need continued careful monitoring so that it does not emerge as an impediment to the profitability of Indian export products. Exports

Bank/IDA Lending Levels

8. The Minister is likely to re-iterate the Government's concern at the levels of Bank Group support for India. Our current plans call for commitments of about US\$12 billion for FY84-88, as opposed to the US\$15-16 billion requested by India. The sheer size of India's external capital requirements, the effectiveness with which it has utilized external assistance, and the determined efforts the Government is making to implement structural adjustments in the economy indeed are strong arguments in favor of sustaining substantial Bank Group lending to India. However, you may need to reiterate that, much as we would like to be fully responsive to these efforts, we too are facing extremely severe resource constraints. We shall attempt to moderate declines in India's access to IDA resources by supplementing declining IDA transfers with IBRD funds to the extent prudent, given the limit on the exposure the Bank can effect in any one country and the overall availability of IBRD funds.

Policy Dialogue

9. In addition, you should stress that our lending program to India will need to be justified on the basis of the Bank's contribution to key development issues facing India. This entails preparing an adequate supply of

well-designed projects (which should not pose a problem in India), and even more importantly promoting a resolute dialogue between the Bank and GOI to ensure that appropriate policies are in place or are being formulated which will optimize each investment. To the extent that this means increased conditionality in our lending to India, the Delegation may argue that it is an unreasonable expectation at a time when Bank Group resource availabilities are not being increased. While we do appreciate possible political difficulties confronting the Indians in this respect, we should point out that the very success of their Government in managing the economy makes it opportune to take difficult policy decisions designed to build on the successes achieved. It would be unfortunate if India were to postpone such decisions to a time when the economy is less buoyant and less able to sustain change. India is by far our largest borrower (\$2.7 billion in FY1984) and we are by far the largest single source of external capital for India. It is clearly not feasible to be less concerned in India with the policy framework than in much smaller borrowers. We must ensure that our activities and operations in India, as in any other country, contribute to addressing the country's critical development problems. You may want to remind the Minister that the Bank's concern for ensuring that appropriate policies are being pursued by our borrowers is a matter of continuing concern of our Board in satisfying itself that our scarce resources are being put to good use.

INDIA

FY84-87 LENDING PROGRAM

(US\$ Million)

<u>SECTOR</u>	<u>FY84</u>		<u>FY85</u>		<u>FY86</u>		<u>FY87</u>	
	<u>Bank</u>	<u>IDA</u>	<u>Bank</u>	<u>IDA</u>	<u>Bank</u>	<u>IDA</u>	<u>Bank</u>	<u>IDA</u>
<u>AGRICULTURE</u>								
<u>Irrigation</u>								
Orissa Medium II		105						
Periyar Vaigai II		35						
Upper Ganga		125						
Gujarat Medium II		172						
Narmada Dam			150	150				
Narmada Canal			75	75				
Narmada M.P. Dam						100		
A.P. Major					75	75		
West Bengal Minor						90		
Narmada M.P. Canal							100	100
Bihar Major								150
Delta Major								100
Total Irrigation		437	225	225	75	265	100	350
<u>General Agriculture</u>								
Watershed Dev. (Rainfed)		31						
Karnataka Soc. Forestry		27						
Watershed Composite				60				
NAEP I				54				
NAEP II				90				
Kerala Forestry				25				
National Water Mgmt I						100		
NARP II						50		
National Soc. Forestry						100		
National Water Dev.								95
NAEP III								100
Nat. Forestry Res. & Training								100
Total General Agriculture		58		229		250		295

SECTOR	FY84		FY85		FY86		FY87	
	Bank	IDA	Bank	IDA	Bank	IDA	Bank	IDA
<u>Agro-Industry and Credit</u>								
NCDC III		220						
NABARD I			100	200				
Tamil Nadu Markets						90		
Edible Oils		—	—	—		—	100	50
Total Agro-Industry and Credit		220	100	200		90	100	50
<u>TOTAL AGRICULTURE</u>		715	325	654	75	605	200	695
<u>TRANSPORT</u>								
Nhava Sheva Port	250							
Railways Electrification	280.7							
Highways			150					
Railways Unidentified	—		—				250	
Total Transport	530.7		150				250	
<u>TELECOMMUNICATIONS</u>								
Telecomms IX						250		
Total Telecommunications						250		
<u>INDUSTRY</u>								
M.P. Fertilizer	203.6							
Dudhichua Coal	151.0							
Maharashtra Petrochem.			250					
Jharia Coal			200					
Ind. Export Dev.Fin. I						200		
Fertilizer Energy Cons.						150		
Capital Goods						200		
Gas-Based Fertilizer							175	
Steam Coal							160	
Ind. Export Dev.Fin. II							250	
Industry Unidentified	—		—		—		300	
Total Industry	354.6		450		550		885	

SECTOR	FY84		FY85		FY86		FY87	
	Bank	IDA	Bank	IDA	Bank	IDA	Bank	IDA
<u>ENERGY</u>								
<u>Oil and Gas</u>								
Cambay Basin Petroleum	242.5							
Hazira-U.P. Gas Pipeline			260					
Gas Dist. I - Bombay					200			
Gas Dist. II - Gujarat							250	
Total Oil & Gas	242.5		260		200		250	
<u>Power</u>								
Bodhghat Hydro	157.4	143						
Farakka II	300.8							
Trombay IV	135.4							
Kerala Power			150					
Chandrapur Thermal			250					
Central Power Trans. II					200			
Capital Region Thermal					300			
Thermal Rehab.					100			
Naptha Zhakri Hydro							300	
Total Power	593.6	143	400		600		300	
Energy Unidentified							300	
<u>TOTAL ENERGY</u>	836.1	143	660		800		850	
<u>URBAN AND WATER SUPPLY</u>								
Tamil Nadu Water Supply		73						
Bombay Urban			140					
Gujarat Urban						100		
Bombay III Water Supply					100			
Kerala Water Supply						100		
U.P. Urban & Water							80	
Tamil Nadu Urban							65	
Total Urban and Water Supply		73	140		100	200		145

SECTOR	FY84		FY85		FY86		FY87	
	Bank	IDA	Bank	IDA	Bank	IDA	Bank	IDA
<u>POPULATION, HEALTH AND NUTRITION</u>								
Population III		70						
Population IV		—				70		
Total Population, Health and Nutrition		70				70		
<u>TOTAL LENDING PROGRAM</u>	1721.4	1001	1585	794	1775	875	2185	840
	2,721		2,379		2,650		3,025	
<u>RESERVE PROJECTS</u>								
Cement Energy Saving			100					
Maharashtra Majalgaon				80				
Coal Unidentified					140			
Steel Energy Sav/Mod					100			
Rural Elect. IV					175			
Western Region Thermal					300			
Reservoir Fisheries						70		
National Seeds III						50		
Gujarat Rural Roads						50		
Manguru or Talcher Thermal							250	
Synthetic Fibres							100	
Petro Expl. - Mahanadi							200	
Estn Reg. Petro II - Assam							100	
Kerala Kallada II								50
Bihar or M.P or Haldia Water Supply								50-80
Population V								70
<u>TOTAL RESERVE PROJECTS</u>			100	80	715	170	650	170-200

Biographical Data

Mr. Pranab Mukherjee Finance Minister

Age 47. Mr Mukherjee held the portfolio of Minister of Commerce, and Steel and Mines from January 1980 until January 16, 1982. Educated at the University of Calcutta, Mr. Mukherjee spent the first ten years of his career as a university lecturer (History and Political Science) and journalist. In 1967, he joined the "Bangla Congress", a breakaway Congress Party group in West Bengal. In 1971, with the merger of the Bangla Congress with the main body of the party, he was elected to the Parliament as a member of the Rajya Sabha (Upper House). Mr. Mukherjee was appointed Deputy Minister of Industrial Development in 1973 and served as a Minister of State for Shipping and Transport during the greater part of 1974. In October 1974, he was shifted to the Finance Ministry where he was responsible for the Departments of Revenue and Banking under the overall charge of Mr. C. Subramaniam. In December 1975, when these departments were delinked from the Finance Ministry, Mr. Mukherjee was placed in independent charge. Mr. Mukherjee was a close associate of the late Sanjay Gandhi which, coupled with his drive and pragmatism, made him an influential member of the Cabinet.

During the Janata regime (1977-80), Mr. Mukherjee again served as Member of the Rajya Sabha. With Mrs. Gandhi's return to power in January 1980, he was appointed Minister of Commerce, and Steel & Mines, He is also leader of the Rajya Sabha.

Mr. Mukherjee is married and has one son and one daughter.

Dr. Manmohan Singh, Governor, Reserve Bank of India and Alternate Governor, IMF

Age 50. Educated at the University of Punjab, Cambridge University and Oxford University (where he received a D.Phil. in 1962), Dr. Singh has alternated academic posts with assignments in the United Nations and Government. He has taught at the University of Punjab and the Delhi School of Economics and, from 1966-69, held the post of Chief of the Financing for Trade Section of the UN Secretariat. Having joined the Government in 1971 as Economic Advisor in the Ministry of Foreign Trade, Dr. Singh was appointed Chief Economic Advisor in the Ministry of Finance in 1972. He represented India on the IMF Ministerial Committee on the Reform of the International Monetary System from 1972 to 1974, and in November 1976 was promoted to the post of Secretary in the Department of Economic Affairs. In May 1980, he was appointed to the post of member-Secretary to the Planning Commission and as appointed to his present position in early 1982.

Mr. Pratap Kishen Kaul, Finance Secretary,
Department of Economic Affairs, Ministry of Finance

Age 53. Mr. Kaul, who entered the Indian Administrative service in 1951 was Defence Secretary before his appointment as Finance Secretary. He has varied experience in the fields of industry, general administration, finance, etc. After serving in the district administration, for about five years, he worked in Uttar Pradesh State Administration in the Departments of Industry, General Administration, etc. On his return from Harvard University (School of Public Administration, one year), he was appointed Deputy Secretary and Director in the Department of Economic Affairs and Joint Secretary in the Department of Expenditure between 1965 and 1973. Between 1973 and 1975, he was Commissioner and Secretary, Department of Industries, Uttar Pradesh. In 1975, he was appointed Joint Secretary, Department of Mines, Government of India. Between 1976 and June 1983, he held positions of Chief Controller of Imports and Exports, Additional Secretary (Commerce), Secretary (Export Promotion), Secretary (Textiles), Secretary (Commerce) and Defence Secretary. He was twice Chairman of the State Trading Corporation.

Mr. Kaul is a member on the Boards of Reserve Bank of India, Industrial Development Bank of India, and National Bank for Agriculture and Rural Development. He is Alternate Governor for India in the World Bank, the Asian Development Bank and the African Development Fund. He is also Member for Finance in the Atomic Energy Commission and the Space Commission. He is Chairman of the Indian Investment Centre.

The delegation will also include Mr. Bimal Jalan, Special Secretary and Chief Economic Advisor; Mr. V. K. Shunglu, Joint Secretary, Ministry of Finance; and Mr. H. N. Ray, Executive Director for India.

DEVELOPMENT PROFILE: INDIA

APRIL 1984

A large and growing population and severe poverty underline the need to accelerate India's development efforts. In mid-1982, India had a population of about 700 million. The economy is dominated by agriculture which employs more than two-thirds of the labor force. The annual per capita income is \$250.

In the period 1950 to 1980, per capita income has risen by about 1.4% per year. Despite the large population base, India has been able to eliminate persistent dependence on foodgrain imports through significant improvements in agricultural production. In the second half of the 1970s, the Indian economy was buoyed by higher levels of investment and an expanding level of foodgrain output. In 1979/80, this momentum was broken when the worst drought in recent years, combined with doubling in international oil prices and domestic supply shortages, led to a sharp fall in foodgrain production, a decline in GDP, and the opening up of a large trade deficit. Severe inflationary pressures also emerged after several years of virtual price stability. These setbacks in 1979/80 coincided with the preparation of a Sixth Five-Year Plan which laid down a program of adjustment that aimed at: (1) improving the trade deficit, (2) removing infrastructural bottlenecks, and (3) ensuring price stability with an overall growth of the economy of 5.2%, which is 1.6 percentage points above the trend growth of 3.6%.

In 1980/81 and 1981/82, the Indian economy substantially recovered with real GDP growing by 6.9% and 5.7%, respectively; the recovery was particularly robust in agriculture, where normal weather helped output to rise by more than 15.3% in 1980/81 and by 5.5% in 1981/82. However, after two years of fairly solid performance, the Indian economy faced a difficult year in 1982/83 due to the drought in mid-1982. The GDP growth rate was brought down to around 2% and further strains were put on the already difficult balance of payments and domestic resource situation.

In 1982/83, foodgrain production, which had reached a record 133 million tons in 1981/82, declined to 128 million tons. Production of most other major crops also declined in 1982/83. Corrected for weather variations, this still represented a creditable performance. The Government was able to mitigate the effects of the 1982 drought through efficient management of foodgrain procurement and distribution, careful timing of foodgrain imports, and appropriate allocation of power to irrigation pumps. These policies helped to avoid disruptions in basic food supplies and contributed to price stability during the year. The performance in the recent past and probable future trends suggest that, on the average, foodgrain supplies will meet demand. The balance, however, remains delicate; thus, programs to expand irrigation, strengthen extension, and encourage the efficient use of other agricultural inputs continue to receive high priority.

The World Bank and India

Since 1959, the World Bank Group has made 76 loans and 160 development credits to India totaling \$5.18 billion and \$11.8 billion (both net of cancellations), respectively. Of these amounts \$1.38 billion has been repaid and \$6.22 billion was still undisbursed as of September 30, 1983. Since 1959, the International Finance Corporation, the Bank's affiliate, has made 29 commitments to private enterprises in India totaling \$224 million.

The thrust of Bank Group assistance to India has been consistent with the country's development objectives in its support of agriculture, energy, and infrastructure. Of particular importance have been investments in irrigation, extension and on-farm development designed to increase agricultural productivity, as well as efforts to improve the availability of basic agricultural inputs to farmers through credit, fertilizer, marketing, storage and seed projects.

The major elements of the Bank's lending program have also been directed at helping to meet the energy needs of the economy while curbing the growth of oil imports, and to ease the infrastructure bottlenecks which have hampered economic growth in India, particularly through power generation and distribution, and railways and telecommunications projects. Further, the Bank Group has provided financing for a broad range of medium and small-scale industrial enterprises, primarily in the private sector, through its support of development finance institutions. Recognizing the importance of improving the ability to satisfy the essential needs of urban and rural populations, the Bank Group has supported nutrition and family planning programs, a rural roads project, as well as water supply and sewerage and other urban infrastructure projects.

The above pattern of assistance remains consonant with Government priorities, as reflected in the Sixth Plan.

India's ability to generate resources to meet its development objectives has become increasingly linked to the balance of payments. India's current account balance recorded surpluses in 1976/77 through 1978/79. However, this sharply deteriorated to deficits of nearly \$2.9 billion in 1980/81 and \$3.6 billion in 1981/82 (1.8% and 2.2% of GDP, respectively). This was partly due to a sharp rise in the oil import bill and to a more liberal import policy aimed at providing producers with access to inputs for higher capacity utilization, greater efficiency, improved technology and capacity expansion. The current account deficit in 1982/83 increased to \$3.8 billion or 2.2% of GDP. This deficit reflects in part the need to rebuild, through imports, food stocks which had been reduced as a result of the drought.

The above changes in the balance of payments are, to a significant degree, the result of India's development and adjustment efforts over the

past three years. They also also reflect a reduction in the trade deficit from \$7.7 billion in 1980/81 to \$6.2 billion in 1982/83. The decline was due to continued export volume growth, coupled with containment in import growth due to import substitution of petroleum products, metals and fertilizers while allowing substantial growth in "other" imports through more liberal import policies.

Need for Increased External Assistance

The need for a substantial net transfer of external resources in support of India's development has been a recurrent theme of World Bank economic reports; and of discussions within the India aid consortium. Such increased external assistance is essential not only to help the Indian economy adjust to the more recent oil price increases and the overall deterioration of the trade environment, but also to maintain the relatively higher growth rates achieved during the first two years of India's Sixth Plan.

India's poverty and needs are such that, whenever possible, external capital requirements should be provided on concessionary terms. Accordingly, a major portion of the World Bank Group's assistance to India has been, and should continue to be provided by, the International Development Association (IDA). Given its development prospects and policies, India is judged creditworthy for Bank lending to supplement IDA assistance. A continuation of efforts already underway to achieve growth in productive capacity, trade expansion, higher levels of savings, foodgrains self-sufficiency and a reduction in the population growth rate result in continued economic growth and improvement in the balance of payments.

Despite recent setbacks, India's external payments position is still manageable. The ratio of India's debt service to the level of exports was about 11% in 1982/83 and is projected to remain below 20% through 1995/96.

April 10, 1984

Memo for the file

This will record that Minister Mukherjee, as he was leaving, pulled me aside and asked me for special consideration for senior appointments of Indians.

A. W. Clausen

Note for Mr. Clausen's Meeting with the Honorable P. Mukherjee,
Minister of Finance, India at 3:00 pm on Tuesday, April 10, 1984

1. Mr. Mukherjee is an academician turned politician. He has been a Member of the Indian Parliament since 1971 and an influential member of Mrs. Gandhi's Cabinet since she was returned to power in 1980, first as the Minister of Commerce, Steel and Mines and, since January 1982, as Minister of Finance. His biographical data is attached (Annex A).

2. In his overall discussions with you, you may expect Mr. Mukherjee to enquire about the status of the SCI and IDA 7 discussions. More specifically, you may expect him to focus on the level of Bank Group lending to India and the two inter-related questions of: (i) India's share in IDA 7; and (ii) the extent of the Bank's portfolio limits on India's ability to increase borrowing from the IBRD. You may also expect him to stress the need for continued Bank support for India's energy investment program.

I. Overall Size of Bank Group Lending

3. You had an earlier opportunity to address the likely level of overall Bank lending to India in response to Mr. Mukherjee's letter of December 15, 1983 (Annex B) and more recently in your meeting with Mr. K.S. Bajpai, India's ambassador to Washington. (A copy of your reply to Mr. Mukherjee is at Annex C). Mr. Mukherjee's letter argued for a US\$15-16 billion FY84-88 Bank Group lending program. Your reply referred positively to India's development program and adjustment efforts, and indicated that the Bank Group would respond to India's external finance requirements as fully as possible within the serious resource constraints which have emerged simultaneously with an increase in the need to provide for other member countries. You noted that IDA 7 would be substantially below earlier expectations, but that to protect the Bank Group's real lending to India you were prepared, within prudent bounds, to substitute the loss of IDA credits with increased IBRD lending. This could result in a FY84-88 Bank Group program on the order of US\$11 billion, perhaps reaching as high as US\$12 billion, with the ultimate size depending on India continuing to strengthen its creditworthiness.

(1) IDA

4. India is concerned that with the progressively reducing overall size of the IDA 7 Replenishment, it will have to bear a disproportionate burden of the cut in IDA lending. It is further concerned that the combined India/China allocation will be below even the 40% floor previously indicated and that within the combined India/China share, India will bear the brunt of the cut in overall IDA availability. In responding, you may wish to assure Mr. Mukherjee that the Bank as an institution and you personally are vigorously and continuously exploring every possibility

for larger IDA resources. More specifically, you may wish to make the following points:

- (i) The 40% combined India/China IDA share indicated to the IDA Deputies earlier for purposes of illustration assumed an IDA 7 replenishment in the SDR9-12 billion range. It now appears likely that the IDA replenishment will be even lower than the lowest level previously assumed. This, combined with the further deterioration in the economic situation in Sub-Saharan Africa, could result in the combined allocation to India and China falling below 40%;
- (ii) It is the disappointingly small size of IDA which will make the already difficult allocation decisions so much more painful. Efforts should be concentrated on increasing the size of IDA. The benefits to India of a larger IDA would far exceed the effects of marginal adjustments in India's share of a US\$9 billion IDA.

(2) IBRD

5. You should assure Mr. Mukherjee that we are expanding our IBRD lending to India as rapidly as is consistent with prudent management of the Bank's loan portfolio. Thus on the basis of our present lending plans, India's share in the Bank's loan portfolio is expected to rise from 5% in FY84 to 9% by FY90 and 10% in FY94. There is negligible scope for further increasing India's share on the basis of the Bank's present capital base and current planned lending levels for the other major borrowers. You should however stress that even to maintain our present lending plans and certainly to increase lending beyond these levels (if additional resources become available) will require that the Government should:

- (i) continue with its efforts to bring about structural change and liberalization (through export promotion and import liberalization, reduced controls on the private sector, more liberal provisions for technology transfer etc.) (1)
- (ii) while assuring that its total external borrowing is within prudent limits, continue to expand and widen its access to the international private capital market alongside increased borrowing from the World Bank. (2)

II. India's Seventh Plan (1985/86-1989/90)

6. The Mid-Term Appraisal of India's Sixth Five Year Plan (1980/81-1984/85) was completed in August 1983; preparation of the Seventh Five Year Plan is now actively underway. The Mid-Term Appraisal indicated that good progress was being made along a number of fronts: the growth

rate of the economy has been on target; there has been a significant improvement in public resource mobilization efforts (public savings have risen steadily from 3.6% of GDP in 1980/81 to an estimated 5.6% in 1983/84); physical achievements and real outlays in several critical sectors like oil and gas, power, railways and irrigation are well above the levels of recent Plans. But with the exception of oil and gas, physical achievements and outlays in a number of sectors - in particular power and irrigation - are well below original Plan expectations. You may wish to enquire about

- (i) the priorities envisaged for the Seventh Plan;
- (ii) the efforts to be made to expand capacity and improve efficiency in key sectors like energy, transport and irrigation; and
- (iii) the role that the Government would like the Bank to play.

III. Energy Lending

7. In assuring the Minister of the Bank's continuing commitment to support India in its energy development program, you may wish to commend the Government for the dynamic and effective way in which it has been reducing the country's dependence on imported commercial energy. You should stress however that achievement of India's growth and development objectives requires that the momentum of these efforts be maintained. The Bank will be supportive of these efforts through its lending (which however cannot be significant in terms of India's overall requirements); in leveraging other sources of finance through cofinancing; and in assisting with institutional building, technology development and improved efficiency in the use of energy supplies.

8. A brief discussion of recent economic and political developments is attached as Annex D.

Attachments

Biographical Data

Mr. Pranab Mukherjee, Minister of Finance

Age 47. Educated at the University of Calcutta. He spent the first ten years of his career as a university lecturer (History and Political Science) and journalist. In 1967, he joined the "Bangla Congress", a breakaway Congress group in West Bengal, founded by Ajoy Mukherjee. In 1971, with the merging of Bangla Congress with the main body, he was elected to the Parliament as a member of the Rajya Sabha (Upper House). In 1973, he was appointed Deputy Minister of Industrial Development under Mr. C. Subramanian. He served as a Minister of State for Shipping and Transport during the greater part of 1974. In October 1974, he was shifted to the Finance Ministry where he was responsible for the Departments of Revenue and Banking under the overall charge of Mr. C. Subramanian. However, in December 1975, these departments were delinked from the Finance Ministry, and Mr. Mukherjee was placed in independent charge. Mr. Mukherjee was a close associate of the late Sanjay Gandhi which, coupled with his drive and pragmatism, made him an influential member of the Cabinet.

During the Janata regime (1977-80), Mr. Mukherjee again served as Member of the Rajya Sabha. With Mrs. Gandhi's return to power in January 1980, he was appointed Minister of Commerce, and Steel and Mines. He was appointed Minister of Finance in the January 16, 1982 Cabinet reshuffle.

Mr. Mukherjee is married and has one son and one daughter.

1798
D.O. NO: 5533/60/83

भारत
MINISTER OF FINANCE
INDIA
NEW DELHI-110001

December 15, 1983

Dear Mr Clausen,

ANNEX B

As you would know, a team of Senior World Bank officials led by Mr. Wiehen, Director, South Asia Programmes, visited India last month to discuss the Bank's lending programme to India for the next five years. At the conclusion of those discussions, I am told Mr. Wiehen informed Finance Secretary that the Bank envisages a lending programme to India of about \$11 billion over the period FY 1984-1988. This would mean an annual programme of \$2.2 billion, which is roughly the level we received in FY 1982-83. Should this level continue for the next 5 years, it would mean a considerable decline in lending to India in real terms. Considering that the IBRD will be undertaking a modest increase in lending in real terms in the future and that under IDA VII, we all hope to maintain atleast the same real level of lending as in IDA VI, such a decline in India's case would be quite unjustified. I am not aware of how the South Asia Division of the Bank has assumed \$11 billion as an appropriate figure. The programme of adjustment that we have put in place and our development needs would fully justify a level of Bank lending that provides for a degree of modest real growth, and a figure of \$15 - 16 billion would seem to be appropriate in this context.

Pranab Mukherjee

Yours sincerely,

Pranab Mukherjee

(PRANAB MUKHERJEE)

Mr. A.W. Clausen,
President,
The World Bank,
Washington,
U.S.A.

January 11, 1984

The Honorable Pranab Mukherjee
Minister of Finance
New Delhi 110001
India

Dear Mr. Minister:

I thank you for your letter of December 15, 1983 in which you propose that we consider a level of Bank Group lending to India of US\$15-16 billion during the FY84-88 period.

The sheer size of India's external capital requirements, the effectiveness with which it has utilized external assistance and the determined efforts your Government is making to implement structural adjustments in the economy indeed are strong arguments in favor of substantially increasing Bank Group lending to India.

But, much as we would like to be fully responsive to your efforts, we ourselves, as you know, are facing extremely severe resource constraints. This stringency, moreover, is affecting us at a time when, in addition to the increased assistance requirements of all our borrowing member countries, adequate provision has to be made for China's regular participation in IDA as well as for the special needs of the least developed countries and those of sub-Saharan Africa. I can assure you, nevertheless, that within the IBRD and IDA resources available to us, we will continue to respond as fully as we can to India's external finance needs.

The lending program of US\$11 billion which Mr. Wiehen discussed with your Finance Secretary, calling it "our current planning assumptions", was based on a set of planning assumptions current at that time. They included an IDA-7 funding level of SDR 14 billion, and an IBRD lending level which would not violate the guidelines we had set ourselves for individual countries in our loan portfolio. An important objective of Mr. Wiehen's programming mission was to work towards a common understanding of policy objectives to be pursued through our lending, and towards strengthening considerably the current pipeline of projects in India, in order to ensure not only that a lending program - with strong substantive content - of the order of US\$11 billion can be implemented but also to enable us to carry out an even larger lending program if additional funds should become available.

January 11, 1984

Since then it has become clear that an IDA-7 of SDR 14 billion cannot be expected. A significant reduction in the IDA allocation under the US\$11 billion Bank Group program has therefore become necessary. To cushion the effect of this reduction and to safeguard as far as possible the maintenance of Bank Group lending to India in real terms, we are prepared to relax our current guidelines on the share of India in the Bank's loan portfolio. We will be going as high as will be consistent with prudent management of the Bank's overall loan portfolio. There are, however, clear limits on the extent to which India's share in the portfolio can be raised if undue portfolio concentration among the largest borrowing member countries is to be avoided.

On this basis, we hope to be able to go forward with a Bank Group lending program in the order of US\$11 billion, perhaps US\$12 billion, for FY84-88, the ultimate size depending not only on overall resource availabilities but also on the extent to which India deals effectively with its present development constraints and thus strengthens its creditworthiness. While this amount is significantly lower than you would consider appropriate, it is a program that in our judgement is at a maximum given the severe shortage of IDA resources and the need to exercise prudence in the management of the Bank's loan portfolio. Please accept my assurance that, provided India continues to move broadly toward establishing a foundation of sound economic policies for its structural adjustment and growth, the Bank Group will lend its very strongest support to that effort.

Sincerely,

A.W. Clausen
President

cc: Messrs. Stern (SVPOP) and Hopper (ASNVP)

MWiehen/CLRobless:jl

Recent Economic and Political Developments

1. After the severe drought and slow growth (1.8%) of 1982/83 (Indian fiscal year), the Indian economy recovered strongly in 1983/84. The GDP grew by 6%-7% led by robust growth in agriculture. Foodgrain production is estimated to have reached 142 million tons in 1983/84, significantly higher than the previous "normal" year's (1981/82) production level of 133 million tons. Growth in the industrial sector is likely to have been lower than earlier expectations (4.2%), partly due to slack demand in the economy on account of the lingering effects of the drought and the severe power shortages in Eastern India.
2. Power generation grew by only 6% in 1983/84 (compared to 7% in 1982/83), mainly due to delays in commissioning new plants and relatively low capacity utilization. Coal production, however, grew more strongly (6%) than last year (4.6%).
3. Price increases were a cause for concern in 1983/84 as prices came under pressure towards the end of 1984/83, and the rate of inflation began to rise through 1983/84. The wholesale price index increased by 9.7% up to mid-January 1984 compared with 5.2% during the same period of the previous year. The Government acted on several fronts to contain the inflationary pressure. On the demand side, monetary policy was geared to

mop up excess liquidity and steps were taken to reduce Government expenditure. On the supply side, incentives were given to stimulate production of key commodities and steps were taken to supplement supplies through imports. Inflationary pressures are expected to subside in 1984/85.


4. Aided by accelerated growth in oil production, as well as successful import replacement of key items such as cement and iron and steel, the balance of payments position improved in 1983 leading to a modest increase in foreign exchange reserves and the decision not to take advantage of the last tranche of the IMF loan.

5. The Mid-Term Appraisal of the Sixth Plan's (1980-85) public sector investment program was completed in August 1983. While outlays in several key sectors--most importantly power and irrigation--are well below original Plan expectations, they are still well above the outlays of recent Plans in real terms. The progress in physical terms, while below targets, is also both substantial and significantly greater than in the previous Plan. There has also been a significant improvement in public sector resource mobilization efforts with public savings rising steadily from 3.6% of GDP in 1980/81 to an estimated 5.6% in 1983/84. Despite improvements in resource mobilization, the investment needs, of course, remain far greater than available resources. The 1984/85 Budget, presented to the Parliament on February 29, suggests no major changes in economic policy.

6. Despite serious setbacks in several State elections and growing tensions between the Centre and the States, Mrs. Gandhi and her Congress(I) party do not have an effective challenge, either within the Parliament or outside. So far, none of the opposition parties has been able to develop a national political base.

7. At present, the most critical political development is the serious law and order problem in the Punjab resulting from the fundamental religious, political and economic demands of the Sikh community as represented by the Akali movement. The State has been disrupted during the past year as the Akalis periodically resort to violence and are arrested in large numbers. To defuse tension, the major religious demands of the Akalis have been accepted by the Centre. Further, on the initiative of the Centre, talks between the Government, the conference of major political parties, and the Akalis have begun on the critical issues of sharing Ravi-Beas waters with Rajasthan and Haryana, and transfer of the Union Territory of the Chandigarh to Punjab, though these talks have been interrupted by sporadic violence. In recent weeks, the violence in Punjab has escalated and spread to predominantly Hindu neighboring States of Haryana and Himachal Pradesh. The Government has informed Parliament that it intends to tighten up administration and improve the law and order situation in the Punjab while awaiting a resumption of the talks. While national elections had previously been anticipated early in 1984, it now appears that, given the disturbed situation in the Punjab, the Government

is likely to delay calling elections until much closer to the January 1985
statutory deadline.

ROUTING SLIP		DATE: March 27, 1984	
NAME		ROOM NO.	
Mr. Stern			
APPROPRIATE DISPOSITION		NOTE AND RETURN	
APPROVAL		NOTE AND SEND ON	
CLEARANCE		PER OUR CONVERSATION	
COMMENT		PER YOUR REQUEST	
FOR ACTION		PREPARE REPLY	
INFORMATION		RECOMMENDATION	
INITIAL		SIGNATURE	
NOTE AND FILE		URGENT	
REMARKS:			
<p><u>Indian Ambassador Bajpai's Courtesy Call on Mr. Clausen, Wednesday, March 28</u></p> <p>The attached briefing note has been prepared for the above meeting.</p>			
FROM:  M.H. Wiehen		ROOM NO.: H-5049	EXTENSION: 32240

Note for Mr. Clausen's Meeting with Mr. K.S. Bajpai,
Ambassador of India to the USA

1. Mr. K.S. Bajpai is a career diplomat. He took over his duties in Washington only this month. A brief curriculum vitae is attached.
2. Mr. K.S. Bajpai's visit is essentially a courtesy call. However, you may expect him to raise two interrelated issues: (i) the size of the Bank's overall lending program for India; and (ii) India's share in IDA VII. Paragraphs 3 and 4 deal with these issues while the rest of this note provides background on recent political and economic developments.
3. You had addressed the first issue earlier in your letter to India's Minister of Finance, Mr. P. Mukherjee (January 11, 1984) in response to his letter dated December 15, 1983. Copies of both letters are attached. Mr. Mukherjee's letter argued for a US\$15-16 billion FY84-88 Bank Group lending program. Your reply referred positively to India's development program and adjustment efforts, and indicated that the Bank Group would respond to India's external finance requirements as fully as possible within the serious resource constraints which have emerged simultaneously with an increase in the need to provide for other member countries. You noted that IDA-7 would be substantially below earlier expectations, but that to protect the Bank Group's real lending to India you were prepared, within prudent bounds, to relax current guidelines on India's total share in the IBRD portfolio. This could result in a FY84-88 Bank Group program on the order of US\$11 billion, perhaps reaching as high as US\$12 billion, with the ultimate size depending on India continuing to strengthen its creditworthiness.
4. The second issue, India's IDA share, continues to be of major concern to India, as was reemphasized by Mr. Ray during the recent (March 22) discussion of the draft President's Report to the Development Committee on Current Development Issues (SecM84-206) by the Executive Directors. Mr. Ray stressed India's need for concessional funds, the need for an equitable share of IDA, and the need for a larger overall IDA replenishment. India is concerned that the combined India/China allocation will be below even the 40% floor previously indicated and that within the combined India/China share, India will bear the brunt of the cut in overall IDA availability. In responding, you may wish to make the following points:
 - (a) ~~The IDA allocation decisions have not yet been made.~~ ← This is not true. Also, let's keep it flexible
Nevertheless, the 40% combined India/China IDA share indicated to the IDA Deputies earlier for purposes of illustration assumed an IDA-7 replenishment in the SDR9-12 billion range. It now appears likely that the IDA replenishment will be even lower than the lowest level previously assumed. This, combined with the further deterioration in the economic situation in Sub-Saharan Africa, could result in the combined allocation to India and China falling below 40%;
 - (b) It is the disappointingly small size of IDA which will make the already difficult allocation decisions so much more painful. Efforts should

be concentrated on increasing the size of IDA. The benefits to India of a larger IDA would far exceed the effects of marginal adjustments in India's share of a US\$9 billion IDA;

(c) The Bank as an institution and you personally are vigorously and continuously exploring every possibility for larger IDA resources;

(d) The Bank recognizes India's vast needs as well as good performance. If more resources become available, India's access to IDA will increase. In the present IDA environment we are, through the limited relaxation of IBRD portfolio norms referred to in paragraph 4, making the strongest commitment we can to maintaining the pace of India's development effort; and

(e) There is a need for India to build and sustain a substantial pipeline of high quality, high priority projects, and to keep IDA disbursement rates high, to demonstrate clearly India's continued ability to use funds effectively and to be ready to take advantage of any improvement in IDA availability.

Recent Economic Developments

5. After the severe drought and slow growth (1.8%) of 1982/83 (Indian fiscal year), the Indian economy recovered strongly in 1983/84. The GDP grew by 6%-7% led by robust growth in agriculture. Foodgrain production is estimated to have reached 142 million tons in 1983/84, significantly higher than the previous "normal" year's (1981/82) production level of 133 million tons. Growth in the industrial sector is likely to have been lower than earlier expectations (4.2%), partly due to slack demand in the economy on account of the lingering effects of the drought and the severe power shortages in Eastern India.

6. Power generation grew by only 6% in 1983/84 (compared to 7% in 1982/83), mainly due to delays in commissioning new plants and relatively low capacity utilization. Coal production, however, grew more strongly (6%) than last year (4.6%).

7. Price increases were a cause for concern in 1983/84 as prices came under pressure towards the end of 1984/83, and the rate of inflation began to rise through 1983/84. The wholesale price index increased by 9.7% up to mid-January 1984 compared with 5.2% during the same period of the previous year. The Government acted on several fronts to contain the inflationary pressure. On the demand side, monetary policy was geared to mop up excess liquidity and steps were taken to reduce Government expenditure. On the supply side, incentives were given to stimulate production of key commodities and steps were taken to supplement supplies through imports. Inflationary pressures are expected to subside in 1984/85.

8. Aided by accelerated growth in oil production, as well as successful import replacement of key items such as cement and iron and steel, the

balance of payments position improved in 1983 leading to a modest increase in foreign exchange reserves and the decision not to take advantage of the last tranche of the IMF loan.

9. The Mid-Term Appraisal of the Sixth Plan's (1980-85) public sector investment program was completed in August 1983. While outlays in several key sectors--most importantly power and irrigation--are well below original Plan expectations, they are still well above the outlays of recent Plans in real terms. The progress in physical terms, while below targets, is also both substantial and significantly greater than in the previous Plan. There has also been a significant improvement in public sector resource mobilization efforts with public savings rising steadily from 3.6% of GDP in 1980/81 to an estimated 5.6% in 1983/84. Despite improvements in resource mobilization, the investment needs, of course, remain far greater than available resources. The 1984/85 Budget, presented to the Parliament on February 29, suggests no major changes in economic policy.

Political Developments

10. Despite serious setbacks in several State elections and growing tensions between the Centre and the States, Mrs. Gandhi and her Congress(I) party do not have an effective challenge, either within the Parliament or outside. So far, none of the opposition parties has been able to develop a national political base.

11. At present, the most critical political development is the serious problem in the Punjab resulting from the fundamental religious, political and economic demands of the Sikh community as represented by the Akali movement. The State has been disrupted during the past year as the Akalis periodically resort to violence and are arrested in large numbers. To defuse tension, the major religious demands of the Akalis have been accepted by the Centre. Further, on the initiative of the Centre, talks between the Government, the conference of major political parties, and the Akalis have begun on the critical issues of sharing Ravi-Beas waters with Rajasthan and Haryana, and transfer of the Union Territory of the Chandigarh to Punjab, though these talks have been interrupted by sporadic violence. The Government has informed Parliament that it intends to tighten up administration and improve the law and order situation in the Punjab while awaiting a resumption of the talks. While national elections had previously been anticipated early in 1984, it now appears that, given the disturbed situation in the Punjab, the Government is likely to delay calling elections until much closer to the January 1985 statutory deadline.

1798
D.O. NO: 5533/FM/83

वित्त मंत्री
भारत
MINISTER OF FINANCE
INDIA
NEW DELHI-110001

December 15, 1983

Dear Mr Clausen

As you would know, a team of Senior World Bank officials led by Mr. Wiehen, Director, South Asia Programmes, visited India last month to discuss the Bank's lending programme to India for the next five years. At the conclusion of those discussions, I am told Mr. Wiehen informed Finance Secretary that the Bank envisages a lending programme to India of about \$11 billion over the period FY 1984-1988. This would mean an annual programme of \$2.2 billion, which is roughly the level we received in FY 1982-83. Should this level continue for the next 5 years, it would mean a considerable decline in lending to India in real terms. Considering that the IBRD will be undertaking a modest increase in lending in real terms in the future and that under IDA VII, we all hope to maintain atleast the same real level of lending as in IDA VI, such a decline in India's case would be quite unjustified. I am not aware of how the South Asia Division of the Bank has assumed \$11 billion as an appropriate figure. The programme of adjustment that we have put in place and our development needs would fully justify a level of Bank lending that provides for a degree of modest real growth, and a figure of \$15 - 16 billion would seem to be appropriate in this context.

Yours sincerely,

Yours sincerely,

Pranab Mukherjee

(PRANAB MUKHERJEE)

Mr. A.W. Clausen,
President,
The World Bank,
Washington,
U.S.A.

January 11, 1984

The Honorable Pranab Mukherjee
Minister of Finance
New Delhi 110001
India

Dear Mr. Minister:

I thank you for your letter of December 15, 1983 in which you propose that we consider a level of Bank Group lending to India of US\$15-16 billion during the FY84-88 period.

The sheer size of India's external capital requirements, the effectiveness with which it has utilized external assistance and the determined efforts your Government is making to implement structural adjustments in the economy indeed are strong arguments in favor of substantially increasing Bank Group lending to India.

But, much as we would like to be fully responsive to your efforts, we ourselves, as you know, are facing extremely severe resource constraints. This stringency, moreover, is affecting us at a time when, in addition to the increased assistance requirements of all our borrowing member countries, adequate provision has to be made for China's regular participation in IDA as well as for the special needs of the least developed countries and those of sub-Saharan Africa. I can assure you, nevertheless, that within the IBRD and IDA resources available to us, we will continue to respond as fully as we can to India's external finance needs.

The lending program of US\$11 billion which Mr. Wiehen discussed with your Finance Secretary, calling it "our current planning assumptions", was based on a set of planning assumptions current at that time. They included an IDA-7 funding level of SDR 14 billion, and an IBRD lending level which would not violate the guidelines we had set ourselves for individual countries in our loan portfolio. An important objective of Mr. Wiehen's programming mission was to work towards a common understanding of policy objectives to be pursued through our lending, and towards strengthening considerably the current pipeline of projects in India, in order to ensure not only that a lending program - with strong substantive content - of the order of US\$11 billion can be implemented but also to enable us to carry out an even larger lending program if additional funds should become available.

January 11, 1984

Since then it has become clear that an IDA-7 of SDR 14 billion cannot be expected. A significant reduction in the IDA allocation under the US\$11 billion Bank Group program has therefore become necessary. To cushion the effect of this reduction and to safeguard as far as possible the maintenance of Bank Group lending to India in real terms, we are prepared to relax our current guidelines on the share of India in the Bank's loan portfolio. We will be going as high as will be consistent with prudent management of the Bank's overall loan portfolio. There are, however, clear limits on the extent to which India's share in the portfolio can be raised if undue portfolio concentration among the largest borrowing member countries is to be avoided.

On this basis, we hope to be able to go forward with a Bank Group lending program in the order of US\$11 billion, perhaps US\$12 billion, for FY84-88, the ultimate size depending not only on overall resource availabilities but also on the extent to which India deals effectively with its present development constraints and thus strengthens its creditworthiness. While this amount is significantly lower than you would consider appropriate, it is a program that in our judgement is at a maximum given the severe shortage of IDA resources and the need to exercise prudence in the management of the Bank's loan portfolio. Please accept my assurance that, provided India continues to move broadly toward establishing a foundation of sound economic policies for its structural adjustment and growth, the Bank Group will lend its very strongest support to that effort.

Sincerely,

A.W. Clausen
President

cc: Messrs. Stern (SVPOP) and Hopper (ASNVP)

MWiehen/CLRobless:jl



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File Title India Country Files - Presidents Papers - A W Clausen - Correspondence - Volume 2		Barcode No. 1774867		
Document Date 30 January, 1985	Document Type CV / Resumé			
Correspondents / Participants 				
Subject / Title Curriculum Vitae - K. Shankar Bajpai				
Exception(s) Personal Information				
Additional Comments 		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td>Withdrawn by Chandra Kumar</td><td>Date 30-Mar-15</td></tr></table>	Withdrawn by Chandra Kumar	Date 30-Mar-15
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THE WORLD BANK
Washington, D. C. 20433
U. S. A.

A. W. CLAUSEN
President

January 11, 1984

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New Delhi 110001
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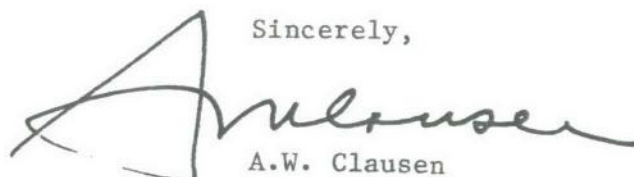
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A.W. Clausen
President

1798
D.O. NO: 5533/Fm/83

वित्त मंत्री
भारत
MINISTER OF FINANCE
INDIA
NEW DELHI-110001

December 15, 1983

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Yours sincerely,

Pranab Mukherjee

(PRANAB MUKHERJEE)

Mr. A.W. Clausen,
President,
The World Bank,
Washington,
U.S.A.

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OFFICIAL DEPT/DIV
ABBREVIATION

MESSAGE NUMBER

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1 THE HONOURABLE PRANAB K. MUKHERJEE, MINISTER OF FINANCE, MINISTRY
2 OF FINANCE, NEW DELHI, INDIA. DEAR MR. MINISTER: I SHOULD LIKE
3 TO SEND YOU MY BEST WISHES FOR THE NEW YEAR WITH MY HOPE THAT
4 THE CLOSE RELATIONS BETWEEN INDIA AND THE WORLD BANK WILL CONTINUE
5 TO BE STRONG IN 1984. I HAVE TODAY SENT THE FOLLOWING CABLE TO
6 PRIME MINISTER GANDHI, THE CONTENTS OF WHICH ARE SELF EXPLANATORY.
7 I VERY MUCH HOPE THAT YOU WILL SUPPORT OUR ENDEAVOUR TO OBTAIN
8 THE MAXIMUM POSSIBLE REPLENISHMENT FOR IDA. QUOTE DEAR MADAM
9 PRIME MINISTER: I SHOULD LIKE TO BEGIN THE NEW YEAR BY THANKING
10 YOU FOR THE EFFORTS YOUR GOVERNMENT AND YOU PERSONALLY HAVE MADE
11 IN ORDER TO ENSURE THE HIGHEST POSSIBLE REPLENISHMENT LEVEL FOR
12 IDA. I REGRET TO SAY THAT IN SPITE OF OUR JOINT EFFORTS WE HAVE
13 NOT BEEN ABLE TO MOVE THE UNITED STATES GOVERNMENT AWAY FROM ITS
14 POSITION ON THIS MATTER AND THAT THE FINAL NEGOTIATING MEETING
15 NEXT WEEK IS LIKELY TO RESULT IN A REPLENISHMENT AGREEMENT AT THE
16 LEVEL OF US\$9 BILLION IN SPITE OF THE FACT THAT ALL THE OTHER 32
17 DONORS WOULD HAVE BEEN READY TO AGREE TO A FIGURE OF US\$12 BILLION
18 FOR THE 3 YEARS 1984-87.

20 I SHOULD NOW LIKE TO ASK FOR YOUR HELP IN ORDER TO MITIGATE
21 THE NEGATIVE EFFECTS OF SUCH A CONCLUSION. A NUMBER OF THE MAJOR

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DONOR COUNTRIES OTHER THAN THE UNITED STATES WOULD BE WILLING TO
CREATE A SPECIAL FUND FOR IDA, TO WHICH THEY WOULD CONTRIBUTE ON
A PRO RATA BASIS THE DIFFERENCE BETWEEN THEIR CONTRIBUTION TO AN
IDA REPLENISHMENT OF US\$9 BILLION AND A REPLENISHMENT AT THE LEVEL
OF US\$12 BILLION. IF ALL THE DONORS OTHER THAN THE U.S. AGREED TO
THIS, THIS WOULD RESULT IN IDA HAVING AVAILABLE TO IT A TOTAL OF
US\$11.25 BILLION, WHICH WOULD BE A GREAT IMPROVEMENT OVER A SIMPLE
US\$9 BILLION REPLENISHMENT. THIS SPECIAL FUND WOULD BE USED BY
IDA UNDER ITS NORMAL RULES EXCEPT THAT ONLY DONOR COUNTRIES
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ELIGIBLE FOR PROCUREMENT. IT WOULD BE SO STRUCTURED THAT THE
U.S. COULD EVENTUALLY JOIN IF IT FELT ABLE TO DO SO IN DUE COURSE.

THE KEY TO A SUCCESSFUL CONCLUSION OF SUCH AN AGREEMENT
ON A SPECIAL FUND LIES IN THE PARTICIPATION OF GERMANY AND JAPAN,
OTHER COUNTRIES SUCH AS THE U.K. AND FRANCE HAVING ALREADY
DECLARED THEIR WILLINGNESS TO PARTICIPATE IF THE ABOVE TWO
COUNTRIES WERE PART OF THE SCHEME. I THINK IT WOULD BE OF THE
UTMOST BENEFIT IF YOU, MADAM PRIME MINISTER, COULD SEND A
PERSONAL COMMUNICATION TO BOTH THE FEDERAL CHANCELLOR OF GERMANY
AND THE JAPANESE PRIME MINISTER ON THIS MATTER. THE FINAL IDA

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MEETING IS DUE TO TAKE PLACE ON THE 12TH AND 13TH OF THIS MONTH
AND ACTION IS THEREFORE MOST URGENT. UNQUOTE SINCERELY,
A.W. CLAUSEN, PRESIDENT, THE WORLD BANK, WASHINGTON, D.C.

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OF
TEXT
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TELEX NO.: **953-313546**

DATE: **1/6/84**

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M.P. BENJENK

7-2466

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1 OF 2 7-2466

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10

TO: PRIMINDIA, NEW DELHI, INDIA. THE RIGHT

HONOURABLE INDIRA GANDHI, PRIME MINISTER OF INDIA. DEAR MADAM
PRIME MINISTER: I SHOULD LIKE TO BEGIN THE NEW YEAR BY THANKING
YOU FOR THE EFFORTS YOUR GOVERNMENT AND YOU PERSONALLY HAVE MADE
IN ORDER TO ENSURE THE HIGHEST POSSIBLE REPLENISHMENT LEVEL FOR
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DRAFTED BY:

M.P. BENJENK

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DEPARTMENT:

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File Title India Country Files - Presidents Papers - A W Clausen - Correspondence - Volume 2		Barcode No. 1774867		
Document Date 12 January, 1985	Document Type Letter			
Correspondents / Participants From : Prime Minister of India - Mrs. Indira Gandhi To : German Chancellor Kohl and Japanese Prime Minister Nakasane				
Subject / Title IDA-VII				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence Communications of Executive Directors' Offices				
Additional Comments		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td>Withdrawn by Chandra Kumar</td><td>Date 30-Mar-15</td></tr></table>	Withdrawn by Chandra Kumar	Date 30-Mar-15
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ANNUAL MEETING BRIEF

INDIA

Resource Mobilization
EXPORT PERFORMANCE
POPULATION

1. Key Points: In your discussions with the Minister, you may wish to focus on the major areas of concern which continue to be (i) the availability of resources to finance the public investment program; (ii) the efficiency of the economy; and (iii) export performance.

2. The Economy: After two years of fairly good performance, the Indian economy faced a difficult year in 1982/83 due to the drought in mid-1982 and world recession, which brought down the GDP growth rate to around 2% and put further strains on the already difficult balance of payments and domestic resource situation. The negative effects of the drought were reduced by continued improvements in the infrastructure sectors, although at a slower pace than in the previous two years, and by the timely implementation of various economic policies such as those related to food procurement and distribution. India is continuing an adjustment program which calls for liberalization of imports and of capacity licensing for a broad range of industries, reduction of infrastructure constraints through greater efficiency and higher investment, and increased resource mobilization both domestically, through increases in administered prices, and externally through the use of foreign savings. This program resulted in a decline in the current account deficit and a reduction of inflationary pressures.

3. IMF Relations: Extended Fund Facility (EFF) - update: As of April 1983 all performance criteria recommended by the Fund had been observed by India and purchases of SDR 2400 million had been made. The program for Indian FY83/84 calls for additional purchases of SDR 1300 million, which, due to reduced balance of payment requirements, is lower than the figures projected in November 1981 when the EFF was approved. It is still too early to tell whether India will need to draw the remaining SDR 1300 million of the extended arrangement. An assessment of balance of payments needs in April 1984 will indicate the amount to be drawn in April-November 1984, the last period of the current IMF program.

4. Issues: Recent analysis of progress in the implementation of the public investment program (based on data for the first three years of the Sixth Five-Year Plan) have shown shortfalls in Plan outlays and/or physical achievements in some key sectors such as power and irrigation. Similarly, the allocations for railways and coal in the 1983/84 Plan budget seem small in relation to their requirements. In order to arrest possible negative medium- and long-term consequences of significant investment shortfalls, various concrete measures need to be taken to increase plan allocations and resource mobilization. Faced with resource constraints, it is advisable that the Government continue recent efforts to increase resource mobilization to ensure that essential investment needs in key sectors are met. Recent measures which enhanced public savings such as increases in taxes and duties, and increases in petroleum prices, rail tariffs, and other administered prices are welcome. High priority should continue to be given to timely pricing adjustments to maintain or restore the profitability of public

enterprises. For example, unless coal prices are increased, Coal India Limited will be unable to cover its operating costs this year. Efforts should also be made by the States to raise additional revenues. These include increases in electricity tariffs and road transport fares, improved tax administration, additional sales and excise taxes, increased irrigation fees, among others. Despite these efforts, however, it may still be necessary to reallocate plan expenditures to protect investment in key sectors. In this regard, the recently drafted mid-term review of the Plan is a key document that is expected to define the measures required to safeguard plan objectives. This review has now been submitted to Parliament and it is important to inquire about its status while indicating our concern that further delays in the implementation of concrete measures contained in that review may jeopardize the achievement of Plan objectives. W

5. Since the availability of capital remains the binding constraint to economic growth in India, it is important to improve the efficiency with which capital is employed. Although there is substantial scope for increasing productivity throughout the economy, the sectors which require greater attention, due to their importance, are those in the infrastructure area: irrigation, railways, coal and power. Capacity utilization in all of these sectors improved in 1981/82 and 1982/83 as a result of better management. However more progress is possible through better project formulation and implementation and more judicious allocation of funds to improve the returns of existing investment. As examples, we can cite the power sector, where several plants are operating at low efficiency and reliability levels, partially through lack of an adequate rehabilitation strategy; the railways sub-sector in which productivity improvements should have the highest priority (the prompt implementation of the Operating Information System (OIS), for instance, would allow an increase of about 10% in traffic movement with only a nominal addition to railway assets); the coal sector where a rationalization of the transport and distribution processes would reduce transport bottlenecks and improve the overall efficiency of the transport sector; the fertilizer sector in which some indigenous plants have costs of production substantially higher than international costs and where it is important to devote attention to cost reduction through increases in the utilization of existing capacity (and timely completion and stabilization of new fertilizer plants, thereby helping reduce the level of fertilizer subsidies which have increased substantially over the past few years); and the oil/gas sector, where gas is being flared at the Bombay High fields due to delays in policy decisions with regard to gas utilization. ★

6. You should also raise the issue of export performance. Exports increased by about 6.5% in volume terms during 1982/83 despite an unfavorable international environment. This improved export performance reflected increases in both primary and manufactured exports. Maintaining export growth at this or even higher levels is essential to reduce the strain in the balance of payments, but given sluggish world market conditions, this will only be possible through continued efforts in export promotion and import

liberalization. Export promotion should include cost reduction in key sectors, better quality control and infrastructural support, more aggressive marketing, and more efficient implementation of export incentive policies already in place. In addition, the exchange rate should be maintained at a level which does not erode Indian export profitability and competitiveness.

7. Cofinancing: India has not enthusiastically endorsed the Bank's initiatives in cofinancing. It claims that it is borrowing the maximum amount permitted it under the terms of the IMF guidelines and believes there is little or nothing to be gained, either by way of additionality or better terms by entering into "B" loan or other cofinancing arrangements. We need to reiterate that this attitude may prove detrimental to India's prospects for longer-term access to the commercial markets at competitive rates. To the extent India is not disadvantaged by entering into cofinancing arrangements, there are valid reasons for accepting cofinancing including possibly longer loan maturities and increased commercial bank confidence in India at a time when its total indebtedness to private institutions is increasing and interest rates firming.

8. IBRD/IDA Lending: The Minister is likely to raise with you, the declining level of IBRD/IDA lending allocated to India. The FY83 and FY84 lending levels, and India's share of total lending is as follows:

	<u>FY83 (Actual)</u>	<u>FY84 (Projected)</u>
<u>IBRD (\$ million)</u>		
India's volume	1087.9	1030
India's share of total	10%	9%
<u>IDA (SDR million)</u>		
India's volume	974.3	846
India's share of total	32%	28%

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India's exposure, or share of the total IBRD loan portfolio in FY83 and FY84 increased from 4.3% to 4.7%, respectively.

August 19, 1983

INDIA

FY83-86 LENDING PROGRAM

(IBRD US\$ million; IDA SDR* million)

	<u>FY83</u>		<u>FY84</u>		<u>FY85</u>		<u>FY86</u>	
	<u>IBRD</u>	<u>IDA</u>	<u>IBRD</u>	<u>IDA</u>	<u>IBRD</u>	<u>IDA</u>	<u>IBRD</u>	<u>IDA</u>
<u>Agriculture:</u>								
Haryana/J & K Social Forestry		29.4						
Chambal (M.P.) Irrigation II		27.6						
Subernarekha Irrigation		116.3						
Haryana Irrigation II		139.0						
Uttar Pradesh Tubewells II		91.6						
Himalayan Watershed Development	46.2							
Maharashtra Water Utilization	22.7	29.6						
Orissa Medium Irrigation				97.1				
Rainfed Agriculture				26.1				
Karnataka Social Forestry				28.4				
Narmada Canal				142.1				
Narmada Dam				284.2				
Engineering Education				4.7				
Upper Ganga Irrigation			85.3	28.1				
National Agricultural Extension						85.3		
NABARD I						246.3		
Narmada MP I						189.5		
Jayakwadi Irrigation II						118.4		
National Agricultural Research II						94.7		
Periyar Vaigai Irrigation II						39.8		
National Coop. Dev. Corporation III						94.7		
Sri Salem Canal								189.5
Rajasthan Canal II								189.5
West Bengal Composite Irrigation								94.7
Narmada Gujarat Irrigation II								236.8
Forestry Research & Training								71.0
Agricultural Exports								75.8
Subtotal	<u>68.9</u>	<u>433.5</u>	<u>85.3</u>	<u>610.7</u>	<u>-</u>	<u>868.7</u>	<u>-</u>	<u>857.3</u>

	FY83		FY84		FY85		FY86	
	IBRD	IDA	IBRD	IDA	IBRD	IDA	IBRD	IDA
<u>Power/Energy:</u>								
Upper Indravati Hydro	156.4	156.0						
Central Power Transmission	250.7							
Krishna-Godavari Exploration	165.5							
South Bassein Gas Development	222.3							
Trombay IV			100.0					
Cambay Basin Petroleum					182.0			
Bodhghat Hydro					200.0			
Gas Distribution I							170.0	
Hydro Power Unidentified							250.0	
Subtotal	<u>794.9</u>	<u>156.0</u>	<u>100.0</u>	<u>-</u>	<u>382.0</u>	<u>-</u>	<u>420.0</u>	<u>-</u>
<u>Transport:</u>								
Railways Mod. & Maintenance II	200.0	184.7						
Nhava Sheva Port			215.0					
Highways						77.7		
Railways Elec./Telecommunications					300.0	47.4		
Subtotal	<u>200.0</u>	<u>184.7</u>	<u>215.0</u>	<u>-</u>	<u>300.0</u>	<u>125.1</u>	<u>-</u>	<u>-</u>
<u>Industry:</u>								
Maharashtra Petrochemicals			250.7					
Madhya Pradesh Fertilizer			175.0					
Coal Mining			204.0					
Cement Energy Saving					100.0			
Haldia Refinery Expansion					150.0			
Export Industry (ICICI)							150.0	
Gas-Based Fertilizer							175.0	175.3
Capital Goods							225.0	
Subtotal	<u>-</u>	<u>-</u>	<u>629.7</u>	<u>-</u>	<u>250.0</u>	<u>-</u>	<u>550.0</u>	<u>175.3</u>

	FY83		FY84		FY85		FY86	
	IBRD	IDA	IBRD	IDA	IBRD	IDA	IBRD	IDA
<u>Urban/Water Supply:</u>								
Calcutta Urban III		136.3						
Madhya Pradesh Urban	24.1							
Gujarat Water Supply		63.8						
Tamil Nadu Water Supply				71.0				
Bombay Urban				113.7				
Gujarat Urban						75.8		
Tamil Nadu Urban							50.0	
Kerala Water Supply								47.4
Bihar Water Supply								47.4
Uttar Pradesh Urban & Water Supply								85.3
Subtotal	24.1	200.1	-	184.7	-	75.8	50.0	180.1
<u>Population, Health & Nutrition:</u>								
Population III				54.0				
Subtotal	-	-	-	54.0	-	-	-	-
Total Lending Program	1087.9	974.3	1030	849.4	932.0	1069.6	1020	1212.7
	=====	=====	=====	=====	=====	=====	=====	=====
	2062.2		1876		2001.6		2232.7	
<u>Reserve Projects:</u>								
Chambal Rajasthan II				47.4				
Tamil Nadu Markets						28.4		
Inland Fisheries II								47.4
Edible Oils								94.7
Farakka II Thermal				156.3				
Thermal Power Plant Rehabilitation					200.0			
Petroleum Unidentified					100.0			
Thermal Power Unidentified							300.0	
Railways Unidentified							250.0	
Haldia Water Supply								47.4
Population IV								47.4
Telecommunications IX							200.0	
Total Reserve Projects	-	-	-	203.7	300.0	28.4	750.0	236.9
	=====	=====	=====	=====	=====	=====	=====	=====

* For projects not yet approved, conversion rate is 1 SDR = US\$1.05563 in effect on July 1, 1983.

Biodata to be submitted when composition of Indian delegation
known.

Biographical Data

Dr. Manmohan Singh, Governor, Reserve Bank of India and Alternate Governor, IMF, is 50 years old. Educated at the University of Punjab, Cambridge University and Oxford University (where he received a D.Phil. in 1962), Dr. Singh has alternated academic posts with assignments in the United Nations and the Government. He has taught at the University of Punjab and the Delhi School of Economics and, from 1966-69, held the post of Chief of the Financing for Trade Section of the UN Secretariat. Having joined the Government in 1971 as Economic Advisor in the Ministry of Foreign Trade, Dr. Singh was appointed Chief Economic Advisor in the Ministry of Finance in 1972. He represented India on the IMF Ministerial Committee on the Reform of the International Monetary System from 1972 to 1974, and in November 1976 was promoted to the post of Secretary in the Department of Economic Affairs. In May 1980, he was appointed to the post of Member-Secretary to the Planning Commission and was appointed to his present position in early 1982.

Mr. Pratap Kishen Kaul, Finance Secretary, Department of Economic Affairs, Ministry of Finance, is 53 years old. Mr. Kaul, who entered the Indian Administrative service in 1951 was Defence Secretary before his appointment as Finance Secretary. He has varied experience in the fields of industry, general administration, finance, etc. After serving in the district administration for about five years, he worked in Uttar Pradesh State Administration in the Departments of Industry, General Administration, etc. On his return from Harvard University (School of Public Administration, one year), he was appointed Deputy Secretary and Director in the Department of Economic Affairs and Joint Secretary in the Department of Expenditure between 1965 and 1973. Between 1973 and 1975, he was Commissioner and Secretary, Department of Industries, Uttar Pradesh. In 1975, he was appointed Joint Secretary, Department of Mines, Government of India. Between 1976 and June 1983, he held positions of Chief Controller of Imports and Exports, Additional Secretary (Commerce), Secretary (Export Promotion), Secretary (Textiles), Secretary (Commerce) and Defence Secretary. He was twice Chairman of the State Trading Corporation.

Mr. Kaul is a member on the Boards of Reserve Bank of India, Industrial Development Bank of India, and National Bank for Agriculture and Rural Development. He is Alternate Governor for India in the World Bank, the Asian Development Bank and the African Development Fund. He is also Member for Finance in the Atomic Energy Commission and the Space Commission. He is Chairman of the Indian Investment Centre.

The delegation will also include Mr. Bimal Jalan, Special Secretary and Chief Economic Advisor; Mr. V. K. Shunglu, Joint Secretary, Ministry of Finance; Mr. K. L. Deshpande, Advisor, Department of Economic Analysis; and Mr. H. N. Ray, Executive Director for India.

OFFICE MEMORANDUM

DATE: June 20, 1983

TO: Mr. A.W. Clausen (through Mr. Stern) *AS.*

FROM: Mr. W. David Hopper, VP, South Asia *wdh.*

R

EXTENSION: 3000

SUBJECT: INDIA - Mr. L.K. Jha's Visit

1. Mr. L.K. Jha, Chairman of the Economic Administration Reform Commission, has an appointment to call on you on Wednesday, June 22 at 9:15 a.m. Notes on the Commission and Mr. Jha's biography are attached.
2. You may remember that Mr. Jha met with you in New Delhi in January 1982 and in Washington in July 1982.
3. I am not aware of any specific points that he wants to raise with you at this time. However, the most likely topics that might come up include IDA Allocation to India and the Extended Fund Facility.
4. During his visit to Washington, he is also expected to meet a number of senior US officials.

cc: Mr. E. Stern (SVPOP)

JUpadhyay:br

Meeting with Mr. L.K. Jha

Chairman, Economic Administration Reforms Commission

Background

A biographical note on Mr. L.K. Jha is attached.

Work of the Commission

The Economic Administration Reforms Commission was established in March 1981 to deal with major economic issues and ensure a more rapid implementation of Government decisions. Its principal areas of study were:

1. tax administration, its rationalization and improvement;
2. the use of non-tax devices for raising the level of savings;
3. the examination of proposals under consideration in international bodies for the establishment of new economic order with a view to formulating a well coordinated national approach to them; and
4. the examination of rent control laws in force in different States and recommendations regarding a model law.

As an Advisory body the Commission is under the administrative control of the Cabinet Secretariat and reports to the Prime Minister. The term of the Commission is expected to end within the next few months.

The Commission is understood to have submitted a number of interim reports but the timing of its final report is not known. In the beginning, the Commission concentrated its investigations and recommendations in two areas of procedural reform: taxation and industrial control policy. The Commission presented a report proposing changes in procedures relating to approvals for companies coming under the Monopoly and Restrictive Trade Practices (MRTP) Act. The Commission has also considered questions of procedural improvements in cases involving industrial licensing, capital goods imports and foreign collaboration. As a result, a number of significant changes in imports and industrial licensing policies were announced.

Biographical Data

Mr. L. K. Jha - Chairman, Economic Administration Reforms Commission

Age 70. Educated at Banaras Hindu University and Trinity College, Cambridge, Mr. Jha joined the Indian Civil Service in 1936. He came to the Central Government in 1942 as a Deputy Secretary in the Supply Department. He served as Chief Controller of Imports and Exports (1947-50); Secretary, Ministry of Heavy Industries (1950-56); Secretary, Department of Economic Affairs (1960-64); Secretary to two Prime Ministers, Mr. Shastri and Mrs. Gandhi (1964-67); Governor, Reserve Bank of India (1967-70); and Ambassador to the United States (1970-73).

During these tenures, Mr. Jha was also given a number of responsibilities with international organizations, especially in the field of economic relations. He served as Chairman, GATT (1957-58), represented India at GATT, IMF and IBRD Meetings and was for many years India's main spokesman at the India Consortium Meetings. He was also Governor, IMF, from 1960-70. Besides this he was a member of the UN Committee on Multi-national Corporations, one of India's delegates to the Non-Aligned Conferences in Cairo and Tashkent, and Leader of the Indian Mission to discuss Nuclear Non-Proliferation. He was a member of Brandt Commission (1978) and is rated very highly in both national and international affairs, and known to be consulted by the Prime Minister on economic matters. After his retirement from the Civil Service, Mr. Jha was appointed Governor of Jammu and Kashmir State in 1973, a post he relinquished in February 1981. At that time, he returned to New Delhi to head the Economic Administration Reforms Commission with the same rank as Deputy Chairman, Planning Commission; this gives him the status of a Cabinet Minister without being a Member of the Government. A note on the Commission is attached.

Mr. Jha is the author of a number of books on Economic Development, India's Foreign Trade, Shortages and High Prices and Tax Reforms.

Mr. Jha is married to a social worker who has worked for the cause of lepers in India. They have three children.

Tom

Note Taken!

The May 6 numbers
came from India
programs. I checked
in the annual report
and found a mistake
in the FY'81 IDA figures.
The others are correct

Roy

5/26/83

5-9

Ray -

Please note

that everytime one
asks for the figures
new & different
figures surface! Hard
to reconcile. Frustrating
when one can't truly
rely on what ought to be
"facts". What are the
facts for 1979-82. There
seemed to be no difference!

PLEASE RETURN!
THIS NOTE IS OWNED BY

A

INDIA - IBRD AND IDA COMMITMENTS

FY1979-83

(million \$)

	<u>FY79</u>	<u>FY80</u>	<u>FY81</u>	<u>FY82</u>	<u>FY83(Est.)</u>
IBRD	300.0	125.0	430.0	1,264.8	1,077.5
IDA	1,192.0	1,535.0	1,535.0 1,281.0	900.0	1,071.0
Total	1,492.0	1,660.0	1,965.0 1,711.0	2,164.8	2,148.5
India's Share of IDA	39.5%	40.0%	36.8%	33.5%	36.5%

R.Southworth
May 6, 1983

6-17-82

INDIA - Lending

	<u>FY81</u>	<u>FY82</u>	<u>FY83</u>
<u>Total</u>	<u>1711</u>	<u>2185</u>	<u>2100</u>
Bank	430	1285 ¹²⁶⁵	1050
IDA	1281	920	1050
Blend		58/42	
Bank/IDA	25/75	59/41	50/50
IDA share	37.5%	33.4%	31.8%
	36.7%	34.2%	

920
2680

12 '82
#2185 '81

-1711

+474

1711
~~1220~~

27.700
INCREASE
OVER FY.
1981

Share Total 213.900 '81
16.800 '82

July 8, 1982

Mr. Clausen --

Some further thoughts on our telephone conversation of this morning:

(1) You mentioned an IDA figure of \$1,050 million for India in FY83 -- which would be 31.8% of a total IDA availability of \$3.3 billion in the current year (compared to 33.4% in FY82). Alas! the latest programming figures we have received show IDA lending of only \$978 million, or 29.6% of \$3.3 billion. (That program shows IBRD lending of \$1,058 million, which may be the source of some confusion.) However, Ernie has indicated that the IDA amount will probably increase somewhat in FY83, so I hope your figures are simply more current than ours.

(2) You also pointed out that a figure of 28% was being bandied about as India's share of IDA. Although that could be almost anything in these days of fast-changing numbers, it is not far off on the basis of the present programming figures available to us, which show India's share at 28.9% in FY84, 27.8% in FY85, and 28.1% in FY86.


Ann Hamilton

OFFICE MEMORANDUM

TO: Memorandum for the Record
FROM: W. David Hopper, ASNVP
SUBJECT: Meeting of the Hon. Mr. L.K. Jha with Mr. A.W. Clausen - June 25, 1982

DATE: July 5, 1982

The meeting began shortly after 9 a.m. with opening pleasantries. Mr. Clausen expressed the hope that Prime Minister Gandhi's forthcoming visit to the U.S. would be successful.

Mr. Clausen expressed his appreciation for Mrs. Gandhi's eloquent interventions on IDA in order to de-link the contributions of other countries from the pro-rata clause of the IDA agreements. He expressed particular gratification over Mrs. Gandhi's intervention with Mrs. Thatcher which succeeded in "breaking the serious impasse" on IDA funding. Mr. Jha indicated that India was a little unhappy with the outcome of the present IDA allocations. He pointed out that Mrs. Gandhi's efforts were to strengthen IDA and were not a special plea for India but that India had expected a larger share of the additional IDA resources than they had received. He added that he was fearful that countries not yet ready to absorb larger IDA allocations were receiving IDA monies that might be better used elsewhere, particularly in India. Mr. Clausen responded that IDA funds were now exhausted; that the total amount available in FY82 after exchange rate adjustments had been taken into account was \$2.65 billion, of which India received \$900 million in the fiscal year. He said he realized that India's share was less than 40 percent and the Bank fully appreciated the longer term cost to India of decreasing allocations from IDA. He added that the Bank will do what it can in a period of IDA stringency to give every chance to India for additional assistance should more funds be available in FY83 and 84. He pointed out that India was doing an excellent job in managing its economy and reiterated his appreciation for Prime Minister Gandhi's efforts on behalf of IDA because "as IDA benefits, India will benefit". He expressed the belief that India's allocation from IDA in FY83 would be from \$1.0 billion to \$1.1 billion, and he stated again that if more funds should materialize India's need for additional IDA would be carefully reviewed.

Mr. Jha pointed out that the Prime Minister will be coming to the U.S. to meet with President Reagan and he sought Mr. Clausen's advice on the extent to which Mrs. Gandhi should raise with Mr. Reagan American thinking on India's share of IDA and IBRD lending - i.e., the total institutional lending from the World Bank Group. Mr. Jha asked Mr. Clausen if Mrs. Gandhi should try to convince American leaders of India's needs while reviewing the U.S. attitude to these needs.

Mr. Clausen felt that Mrs. Gandhi should try to stress in her meeting with U.S. Administrative and Congressional leaders that the Indian economy is doing well and that the funds invested in India have yielded high economic returns. It was his view that Mrs. Gandhi should express to the U.S. leadership, and particularly to members of Congress, India's appreciation for U.S. support pointing out especially that India has done well and that Congress has not given enough credit to India for its success in helping itself. He said that a number of people on the Hill have the wrong perceptions of India and its economic advance, although he felt there was a greater appreciation for India today than there was a year ago.

Mr. Jha then reviewed India's recent economic performance and expressed his concern that a continued draw-down of India's foreign exchange reserves (in support of its recently liberalized import and industrial policies) would place in jeopardy the present economic policies of adjustment and growth. He expressed particular concern that the Bank and the Fund views of what needs to be done in India are not sufficiently coordinated. He indicated that the Bank was seemingly not too worried about the balance of payments problem and that the Fund was not concerned enough with the immediate prospects for the growth of the Indian economy. He made specific reference to the Fund's constraints on monetary expansion as a factor that is inhibiting growth. He pointed out especially the difficulties in the sugar and industrial sectors where inventories were accumulating because of a lack of credit for potential purchasers. He then referred to the fact that the Bank's lending program for India seemed to ignore the heavy draw-down on reserves in India's last fiscal year of approximately \$1.4 billion necessary to cover the nation's current account deficit. He expressed again his concern that there could be a backlash in India that would throw the liberalization policy into reverse gear to the grave detriment of India's longer term economic advance. He reiterated that the Bank and the Fund must strive to provide India with assistance that would ensure easy disbursement if India is going to be able to survive the next two to three years until present efforts to expanded domestic oil production permitted the nation to ease its import burden. He pointed out that in his discussions in the U.S. he has been urged to recommend that India enlarge its borrowing from commercial financial markets. He argued that this advice was based on India's present relatively small overhang of past commercial borrowings. Past prudence meant that India's present debt service ratio was low but that resort to commercial borrowings of the magnitude required to meet India's trade imbalance would place a heavy burden on the country in the years ahead and that India must be careful in contracting for such a burden. Mr. Jha expressed his desire to have a joint Bank/Fund examination of what inflows of official development assistance should be available to India if growth with stability is to be sustained. He felt that open market borrowings should be a residual in any such review of India's external financial needs. He expressed the belief that a Bank/Fund study might provide a sound rationale for further IBRD lending should IDA funding remain difficult. Mr. Jha felt it was superficial for critics of India to ask "why can't you borrow more in the market?" He pointed out that the balance of payments problem for 1957 led to both the establishment of the Indian Consortium and the extensive system of economic controls that India is now trying to dismantle. He stated that the World Bank's vision and leadership had played an important role in India's economic management in the past and that it is much needed now. Mr. Jha stressed that the World Bank take the leadership in reviewing India's needs at the present time. And through this leadership the World Bank must recognize that the IBRD lending to India will need to outmatch the newly constrained resources of IDA.

At this point Mr. Clausen expressed a caveat by pointing out that the World Bank Group is only one source of credit for India and that there is a limit on what the IBRD can do for a single borrower - that in the case of India the IBRD could not repeat the FY82 experience in FY83, i.e., the experience whereby India received approximately \$1.3 billion of IBRD lending, about 13 percent of IBRD lending for the year. Mr. Clausen expressed the belief that in FY83 India should plan on roughly a 50:50 mix of IBRD:IDA lending, i.e., approximately \$1.0 to \$1.1 billion from each window. He believed that IDA should

have a little larger level of resources in FY83 - thanks in part to the efforts of Mrs. Gandhi - and that he hoped the Executive Directors of the Bank would permit the Treasurer to access the short term market for IBRD borrowing to give the Bank more flexibility in financing its lending. Mr. Clausen concluded that any shortfall in IDA could only be made up from the IBRD to a definite limit and that the limit he saw was \$1.0 - \$1.1 billion; this, in turn, would mean that the upper limit in FY83 Indian lending would be about the same as the \$2.2 billion provided to India from IBRD and IDA in FY82.

Mr. Jha then expressed his belief that a problem India has in dealing with donor institutions is its constitution as one nation. He pointed out that the population of India is larger than that of Africa and Latin America combined and that if India were made up of several nations it probably would justify donor agencies providing twice as much as India is now receiving. He stated that on a per capita basis India has always been a small recipient of aid. He returned again to the suggested Bank/Fund study to determine how much assistance should go to India so that India's needs would receive a careful review and an adequate weightage in international assistance flows. He concluded that the IBRD was established to help less developed areas of the world and that India was now embarked on a development path in which they were doing well but if development was to be sustained more support was needed, indeed, any weakening of support could have most serious consequences. He said that IBRD/IDA access indicated by Mr. Clausen was, in his view, too low.

Mr. Clausen responded that the World Bank Group's assistance in FY82 was a substantial increase from that provided in FY81 - an increase of approximately 25 percent in a year in which there was an actual decrease in total IDA/IBRD resource availabilities. He pointed out that he could not accept an argument that India should get an increase every year. Mr. Jha interjected that he was not seeking an increase every year but that the Bank's sensitivity to India's needs expressed in the FY82 figures should continue. Mr. Clausen assured Mr. Jha that the sensitivity would continue but that he could not increase India's allocation each year. As proof of the sensitivity he pointed to the fact of India's FY82 increase in IBRD/IDA lending.

Mr. Jha expressed his appreciation of the role the World Bank has played in the Indian Consortium and particularly his satisfaction with the outcome of the recent consortium meeting. He hoped, however, that a Bank/Fund study could put a better perspective before the world community on India's assistance needs. Mr. Clausen agreed that such a study might be useful to undertake citing the development of Dr. Lawrence Kline's econometric model as an example. Mr. Jha expressed the view that a more definitive picture was needed for donor discussions in the consortium if the donors were to work together to achieve results useful for India.

Mr. Clausen concurred with Mr. Jha's view but expressed the need for India to recognize that external commercial borrowing will need to be a part of India's financial strategy and that it might be useful for India to consider expanding the present consortium meeting arrangements to include discussions with private financial institutions interested in lending to India. He pointed out that the modalities of such arrangements could be worked out in consultations between the Bank and the GOI.

RECAP

FY 81

430

1281
1711

FY 82

1265

920

2185

FY 83

1050

1050

2100

INDIA
PORTION { BANK
IDA
TOTAL

BANK + ~~MM~~
IDA
TOTAL

8809

3482

12291

10340

2680

13020

14300

3300

14500

INDIA'S 007
Total Bank/IDA

INDIA'S 007
Total IDA

13.900

36.700

16.800

34.200

15.100

31.800

Mr. Jha expressed some misgivings about this idea pointing out that if the commercial lenders were brought together it might lessen competition among them and India would pay more for its borrowed funds. Mr. Clausen expressed understanding of this fear but added that he did not see this as being a significant issue for a nation that has always been forthcoming with its creditors and candid in its disclosures to its lenders. As the country is doing a good job of economic management, India should not have too much to worry about in an open give-and-take with potential commercial sources of assistance.

Mr. Clausen concluded the meeting by assuring Mr. Jha that the Bank is pleased with the progress India is making on its economic management and with the open dialogue it has with the Government. That India is a large and valued client and that the Bank Group will do its best to give India what it can from its all too limited IBRD/IDA resources. That on the basis of present indications for FY83 and probably FY84 about all that can be generated for India is \$2.1 to \$2.2 billion in roughly a 50:50 mix of IBRD:IDA. He ended by saying that the Bank Group was confronted with several new clients and a set of difficult world circumstances that had to be taken into account in providing India with access to Bank Group resources.

The meeting ended at 10.05 a.m.

cc. Mr. L.K. Jha - GOI
Mr. Tun Thin (IMF)
Mr. Stern
Mr. Wiehen
Mrs. Hamilton

Handwritten calculations and notes:

1982 - India Rec'd 16.870
Total IBRD/IDA resources = 16.870

2185 / 13.000 = 16.870

920 / 2680 = 1711 / 12.290 = 13.970

1981 - 10A share = 34.270

1281 / 3482 = 10A share = 36.770

2680 + 10340 = 13.000

3482 + 8809 = 12.291

1983
Total IBRD + IDA = 15.270
2200 / 14.500 = 15.270
10A share = 1050 / 3300 = 31.870

RECEIVED

1982 JUL 12 PM 6:42
OFFICE OF THE PRESIDENT

2/14

Meeting with Dr. Singh has been confirmed for
3:30 today. Mr. Ray and Mr. Hopper will also
attend. Also, Mr. Drona, Joint Secretary
in the Ministry of Finance.

MR. HOLSEN

Biographical Data

Dr. Manmohan Singh - Member-Secretary, Planning Commission

Age 49. Educated at the University of Punjab, Cambridge University and Oxford University (where he received a D.Phil. in 1962), Dr. Singh has alternated academic posts with assignments in the United Nations and the Government. He has taught at the University of Punjab and the Delhi School of Economics and, from 1966-69, held the post of Chief of the Financing for Trade Section of the UN Secretariat. Having joined the Government in 1971 as Economic Advisor in the Ministry of Foreign Trade, Dr. Singh was appointed Chief Economic Advisor in the Ministry of Finance in 1972. ~~He represented India on the IMF Ministerial Committee on the Reform of the International Monetary System from 1972 to 1974, and in November 1976 was promoted to the post of Secretary in the Department of Economic Affairs. In May 1980, he was appointed to his present post as Member-Secretary to the Planning Commission.~~

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: September 20, 1982

FROM: Michael H. Wiehen, Director, ASA SUBJECT: Meeting of Mr. Clausen with Indian Delegation
to Annual Meeting in Toronto

1. The Finance Minister of India, Mr. Mukerjee, called on Mr. Clausen on Saturday, September 4, at 5:00 p.m. He was accompanied by Messrs. Malhotra, Narasimham, Arora, Ray and Jalan. Also present were Messrs. Stern, Hopper, Humphrey and Wiehen.
2. After Mr. Clausen had welcomed the Minister and his delegation, the Minister thanked Mr. Clausen for his forthcoming statement at the G-24 meeting and expressed his hope that there would be an improvement in the IDA resource situation in FY83 and '84. Mr. Clausen said he was somewhat optimistic about having more commitment authority for IDA in FY83 than in '82. The working figure for IDA availability in FY83 was now \$3.3 billion but he hoped some more would be forthcoming. For FY84, IDA was asking for contributions equaling one-third of the IDA-6 shares; he indicated that while a number of donors supported this one-third concept, others, including the U.K. and Germany, were proposing a lower level.
3. The Minister expressed his hope that with a higher IDA availability situation, India's share in the total would improve; there were projects ready to absorb large amounts; and the adjustment program was moving ahead well but required large flows of concessional resources if it was to succeed. Mr. Clausen responded that he hoped for some increase of the Bank/IDA dollar aggregate lent in FY83 but he suggested that any increase on the IDA side would in the first place be used to soften the Bank/IDA blend. The Bank would take a mid-year look at the IDA situation and then decide what the appropriate blend would be; he was sanguine that it would be less severe than in 1982.
4. The Minister then referred briefly to the ideas which had been aired recently, i.e., that different terms might be applied to different IDA borrowers based on GNP per capita terms or other criteria. He suggested that India should not be made to suffer from such a differential approach. Mr. Clausen responded that there had been some discussions about revised IDA terms but said that of course India would fully participate in the deliberations on this issue, if and when they are held with respect to IDA-7.
5. In response to the Minister's question when the IDA-7 negotiations would start, Mr. Clausen expressed his hope that the start would be in early November but that there was no way that the IDA-7 agreement could be in place by July 1, 1983. Therefore FY84 would require special treatment, assuming that IDA-7 would begin July 1, 1984. He indicated that for FY84 probably "a parallel account" would be created as suggested by a number of donor countries, with "a sharper focus as far as procurement is concerned", although we in the Bank would like the FY84 account to be as close to the regular IDA operations as possible. Mr. Clausen and Mr. Stern indicated, however, that the FY84 account would not be an extension of IDA-6 and that new members like China would have to be accommodated.

6. Mr. Malhotra intervened at this point to say that, while there were more countries in FY84 with claims on IDA money, the FY84 IDA account had some IDA-6 funds in it, and the beneficiaries of IDA-6 would be short-changed if those funds were distributed among a larger number of recipients than originally agreed. He acknowledged that new countries could not be kept out in FY84 but in determining the shares of newcomers, the position of the original IDA-6 beneficiaries had to be kept in mind. Finally, he said that India had built up a healthy project pipeline, and if Mr. Clausen should find it difficult to spend all IDA funds in FY83 or '84, India would be happy to help out. Mr. Clausen agreed that there was "much logic" in Mr. Malhotra's argument that the FY84 account was in some way an extension of IDA-6 but he reiterated that additional countries would have to be accommodated.

7. The Minister then turned to a brief discussion on co-financing. He welcomed Mr. Clausen's statement to the G-24 that no pre-conditions would be imposed on borrowing countries, and that co-financing amounts would be additive. Mr. Clausen indicated that a paper on co-financing would soon be considered by the Executive Directors and that he would press forward a more active co-financing stance. We would change our operations somewhat, if that was necessary to bring other Banks in. He said the objective of co-financing was to mobilize more resources on easier terms. The Bank had talked to a number of commercial banks and many of them did see advantages and attractions in co-financing. When Mr. Ray commented that even Mr. Stern, in an illuminating talk to the Executive Directors recently, had admitted that there was perhaps no global additionality in co-financing but only additionality for individual countries, Mr. Stern replied that that was just fine if it benefitted India, was it not?

8. Mr. Clausen commented briefly on the very good progress India had made in its economy and its development program and said he would give credit to India in his annual address. The Minister and Mr. Malhotra expanded somewhat on the theme of economic progress and thanked the Bank for its strong support, particularly the assistance given for energy projects despite the issues raised by some Executive Directors. Mr. Clausen agreed that the energy sector was of paramount importance for India's economy, and suggested that India had not yet fully exploited its energy potential.

9. The meeting concluded with Mr. Clausen congratulating the Minister and India on the very considerable achievements in the economic sphere, the Minister once again thanked Mr. Clausen and the Bank for all their support.

cc: Messrs. Stern (SVPOP), Humphrey, Southworth (EXC), Hopper, Holsen (ASN)
Jansen, Roulet, Mrs. Hamilton (ASA)

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INDIA

1982 ANNUAL MEETING BRIEFING PAPER

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*apologizing for
not going to
Dinner!*

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August 1982

INDIA

Key Points

1. The issues for your meeting with the Finance Minister are much the same as those for your recent meeting with Mrs. Gandhi. Our chief point of emphasis relative to the economy is the importance of maintaining the momentum established through recent policy initiatives designed to increase the efficiency of the public and private sectors, expand infrastructure and industrial capacity, boost exports and the production of appropriate import-substitutes, and mobilize increased domestic and external resources. We are particularly concerned, as explained in the following paragraphs, about domestic and external resource mobilization. For his part, the Minister is expected to use this opportunity to reiterate a number of basic policy positions that India has taken recently in the Board and the Development Committee vis-a-vis the Bank Group's activities, and to emphasize once again the importance the Government attaches to increasing Bank Group transfers to India during this critical period in India's economic adjustment program.

The Economy

2. Background. The performance of the Indian economy in 1981/82 showed considerable strength. Real GDP grew by 5%-6%, with industrial output rising by 8% and agricultural output increasing by about 4%, despite weather-related difficulties. Improved performance in key infrastructure sectors led to growth in capacity utilization, production, profitability and investment across a wide range of industries. The year saw significant progress in India's efforts to increase exports, reduce the growth of imports of goods India produces efficiently itself, and slow POL imports through increased domestic production and dampened demand. Finally, 1981/82 brought a sharply reduced rate of inflation, with annual average wholesale prices rising by less than 9%, compared with 17% to 18% in each of the two preceding years.

3. A number of recent policy measures have been introduced to help sustain this momentum. Steps have been taken to liberalize imports and capacity licensing for a broad range of industries. Constraints on the range of industrial activities that can be undertaken by large companies and companies with substantial foreign participation have been eased. And finally, administered prices for a number of key commodities have been raised (or controls lifted in whole or in part), in order to raise more resources for investment, provide more accurate signals to the economy, and increase profitability and investment incentives in key industries.

4. Issues. Against this background, our central concern is that the Government continue its commendable efforts to enhance the efficiency of the economy and the strength of the external account. It is important that the momentum generated through recent measures not be lost.

5. On a more specific level, we are particularly concerned about foreign and domestic resource mobilization. India's external account has come under strong pressure in the past two years, despite increased domestic production of oil and key commodities such as steel, cement, and fertilizer. Our projections indicate continued, strong short- and medium-term pressures on the current account. Yet India's successful adjustment to the changed external environment will require policies that ensure relatively liberal access to imports, policies which will be difficult to sustain if there is a further erosion of the nation's foreign reserves. Thus, further measures to increase export capacity and efforts to raise funds, both

on concessional terms and in foreign commercial markets, assume particular importance. In this context, you might commend India's maintenance of a relatively liberal import policy and its efforts over the past two years to spur exports and to take advantage of financing available on commercial and concessional terms, and inquire what further steps are being contemplated in each of these areas.

6. As for domestic resource mobilization, despite considerable efforts in this regard (e.g., increases in interest rates, new savings instruments, increased tax deductions for interest and dividend income, increases in prices of commodities produced by public sector enterprises), it is clear that additional resources need to be mobilized in the public sector, particularly by the State Governments. In several key sectors--notably power and irrigation--real investment levels in the first two years of the Plan suggest that substantial increases in outlays will be needed if Plan objectives are to be met. You might ask the Minister what measures are under consideration to increase public sector savings and what the prospects are for increased savings and profits from public sector enterprises. You might also ask what measures the Government intends to take to maintain real investment levels in the core sectors (e.g., power, irrigation, and other infrastructure) in the event of a shortfall of resources.

7. Finally, an important question for the performance of the economy this year, as in every year, is the progress of the monsoon. Early monsoon reports caused much concern in India, with many areas experiencing potentially serious rainfall deficiencies. If this situation persists, which we will be better able to judge as the meetings approach, you might express our concern over the weather reports and ask about the Government's evaluation of the monsoon thus far, and any measures underway to limit the possible adverse impact of the monsoon on foodgrain production and on the balance between power generation and demand.

Bank/India Relations

8. As you know, the Indian Government holds relatively strong views on a number of Bank Group-related policy issues or perceived operational trends (e.g., levels and allocation of Bank and IDA lending, energy lending, conditionality related to co-financing, proposals for varying IDA terms across Borrowers). The Minister is expected to use the opportunity of his meeting with you to reiterate a number of these basic policy positions, emphasizing in particular the Government's concern that the Bank maintain its character as a multilateral development institution, as opposed to a purely financial institution in the mode of the commercial banks or an institution overly influenced by a relatively narrow constituency.

9. The Minister is also likely to raise once again the question of Bank Group lending to India, and emphasize the need for a larger capital transfer from the Bank Group as a whole, and IDA in particular, than that indicated in current planning figures. While we hope to be responsive, it is important to avoid the creation of unrealistic expectations about Bank Group lending levels to India. The current planning figure for IDA in FY83 is US\$3.3 billion, of which US\$1.050 billion, or 31.8%, is India's current allocation. As you know, the Bank's position thus far has been that if we find, in the course of the year, that total IDA availability is higher than US\$3.3 billion, we will consider softening the blend, with any increase in IDA availability above the planning level being used in the first instance to offset planned IBRD lending. You could add that prospects for obtaining all IDA VI allocations in FY83, other than from the U.S., are reasonably good. With respect to FY84 we should mention that FY84 requirements will be met from Special Contributions from most Part I countries. Even if there are grounds for optimism about the volume of IDA availability, however, the Government should be aware that China will be

entitled to participate fully in FY84 IDA funding. As for IBRD lending, our analysis indicates that India is creditworthy for substantially higher levels of IBRD lending than currently planned (i.e., US\$1,058 million in FY83 or 9.5% of total projected IBRD lending). However, we should indicate that the Bank faces portfolio constraints with a number of our larger borrowers (including India), and that we will keep the situation under review.

Biographical Data

Mr. Pranab Mukherjee, Finance Minister, is 47 years old. Educated at the University of Calcutta, Mr. Mukherjee spent the first ten years of his career as a university lecturer (History and Political Science) and journalist. In 1967, he joined the "Bangla Congress", a breakaway Congress Party group in West Bengal. In 1971, with the merger of the Bangla Congress with the main body of the party, he was elected to the Parliament as a member of the Rajya Sabha (Upper House). Mr. Mukherjee was appointed Deputy Minister of Industrial Development in 1973 and served as a Minister of State for Shipping and Transport during the greater part of 1974. In October 1974, he was shifted to the Finance Ministry where he was responsible for the Departments of Revenue and Banking. In December 1975, when these departments were delinked from the Finance Ministry, Mr. Mukherjee was placed in independent charge. Mr. Mukherjee was a close associate of the late Sanjay Gandhi which, coupled with his drive and pragmatism, made him an influential member of the Cabinet. During the Janata regime (1977-80), Mr. Mukherjee again served as Member of the Rajya Sabha. With Mrs. Gandhi's return to power in January 1980, he was appointed Minister of Commerce, and Steel & Mines, and in January of this year he was relieved of that portfolio and appointed Finance Minister.

Dr. I. G. Patel, Governor of the Reserve Bank of India, is 58 years old and holds his Ph.D in economics from Harvard. Before joining the Government, Dr. Patel was a Professor of Economics at Baroda University and an Economist with the IMF (1950-54). From 1955-58 he was Deputy Economic Advisor, Ministry of Finance. He served as Alternate Executive Director for India in the IMF from 1958-61 and then took over as Chief Economic Advisor, Ministry of Finance, and Economic Advisor, Planning Commission. After one year as visiting professor at the Delhi School of Economics, Dr. Patel again returned to the Government as Chief Economic Advisor, Ministry of Finance, in 1965. He held the positions of Special Secretary and Secretary, Department of Economic Affairs from 1968 until the end of 1972, when he left Government for five years to assume the post of Deputy Administrator of the United Nations Development Program in New York. Dr. Patel returned to India in 1977 to take over the Governorship of the Reserve Bank, a post from which he is scheduled to retire next month. 1/

1/ Dr. Patel's successor will be Dr. Manmohan Singh, currently Member-Secretary to the Planning Commission, who will take over from Dr. Patel after the Annual Meetings.

Mr. R. N. Malhotra, Secretary, Ministry of Finance, Department of Economic Affairs, is 56 years old. Educated at the Punjab University and Lucknow University, Mr. Malhotra holds a B.Sc. in Physics and Mathematics as well as a Bachelor's Degree in Law (LL.B). In 1951, he joined the Indian Administrative Service and was assigned to the Madhya Pradesh cadre. Between 1951 and 1970, he held a variety of posts at the State level, concentrating in the areas of public finance and banking. From 1970 to 1975, he served as Fiscal Advisor in the IMF, posted in Indonesia, Tanzania, and Washington. Since 1975, Mr. Malhotra has been in the Ministry of Finance's Department of Economic Affairs, first as Joint Secretary (Bank/Fund), then Additional Secretary, and, since April 1980, as Secretary.

The delegation will also include Mr. Bimal Jalan, Chief Economic Advisor, and Mr. Gopi K. Arora, Joint Secretary (Bank/Fund), both of the Department of Economic Affairs, Ministry of Finance; Mr. R. Vasudev, Special Assistant to the Minister of Finance; and Mr. H. N. Ray, Executive Director for India.

INDIA

FY83-84 LENDING PROGRAM

(US\$ million)

	FY83		FY84	
	IBRD	IDA	IBRD	IDA
<u>Agriculture:</u>				
Haryana/J & K Social Forestry		33		
Chambal (Madhya Pradesh) Irrigation II		31		
Subernarekha Irrigation		127		
U.P. Public Tubewells II		90		
Chambal (Rajasthan) Irrigation II		60		
Haryana Irrigation II		150		
Orissa Medium Irrigation II		80		
Rainfed Agriculture				30
Himalayan Watershed Development				30
ARDC V				340
Rengali Irrigation				80
Narmada Gujarat Irrigation I				220
Subtotal	<u>-0-</u>	<u>571</u>	<u>-0-</u>	<u>700</u>
<u>Power/Energy:</u>				
Krishna Godavari Exploration	165.5			
Bassein Gas Development	150.0			
Upper Indravati Hydro Power	300.0			
Oil and Gas Unidentified			150	
Power-Hydro			300	
Power Transmission V			200	
Subtotal	<u>615.5</u>	<u>-0-</u>	<u>650</u>	<u>-0-</u>
<u>Transport:</u>				
Nhava Sheva Port	27.5	235		
Railway Modernization & Maintenance II	415.0			
Railways Telecommunications			196	
Subtotal	<u>442.5</u>	<u>235</u>	<u>196</u>	<u>-0-</u>

	FY83		FY84	
	IBRD	IDA	IBRD	IDA
<u>Industry:</u>				
Madhya Pradesh Fertilizer			175	
Fertilizer Distribution				70
Subtotal	<u>-0-</u>	<u>-0-</u>	<u>175</u>	<u>70</u>
<u>Urban/Water Supply:</u>				
Calcutta Urban II		100		
Gujarat Water Supply		72		
Bombay Urban				100
Madhya Pradesh Urban				22
Water Supply Unidentified				34
Subtotal	<u>-0-</u>	<u>172</u>	<u>-0-</u>	<u>156</u>
<u>Lending Program</u>	<u>1,058</u>	<u>978</u>	<u>1,021</u>	<u>926</u>