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Washington, D.C.

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McNamara Papers

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Travel briefs, India 01

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ITINERARY FOR TRIP TO INDIA and PAKISTAN  
March 21-April 1, 1981

<u>DATE</u>	<u>TIME</u>	<u>GMT</u>		<u>REMARKS</u>
Mar 21	1330	1830	Depart Washington--Dulles	AF054 Concorde nonstop Sofitel-Roissy
Sat.	2335	2235	Arrive Paris--CDG	
Mar 22	1130	1030	Depart Paris--CDG	AF192 B747 one stop Dubai 2055/2210
Mar 23	0140	2010	Arrive Delhi	Taj Mahal Hotel
Mon.	a.m. 1315		Briefing by New Delhi office staff Lunch (by J.D. Roulet) with B.K. Nehru and L.K. Jha	
	1500		Meeting w/Finance Minister	
	1615		Meeting w/Planning Minister and Mammohan Singh	
	1715		Meeting w/Agriculture and Irrigation Ministers	
	2000		Dinner by Finance Minister	
Mar 24	0945		Meeting w/Petroleum, Chemicals and Fertilizer Minister	IAF Chartered plane (HS748) (Avro) Raj Bhavan Hotel
Tues.	1030		Meeting w/Commerce Minister	
	1120		Meeting w/Minister of State for Industry	
	1215		Meeting w/Energy Minister	
	Lunch		Free	
	1600		Depart Delhi for Lucknow	
	1730		Arrive Lucknow	
	1830		Meeting w/Chief Minister of Uttar Pradesh	
	1930		Call on Governor of Uttar Pradesh	
	2015		Dinner by Governor of Uttar Pradesh	
Mar 25	0800		Depart Raj Bhavan	By car
Wed	0850		Arrive Village Parasahiya (50 kms from Lucknow)	
	0950		Depart Village Parasahiya	
	0955		Visit Village Asana, unelectrified hamlet of poorer and marginal farmers	
	1030		Arrive Village Mohna (small shops, blacksmith, carpenter, school, etc.) and talk to villagers	
	1105		Arrive Village Palpur and talk to villagers including progressive farmers and Nyaya Panchayat members. Also see gobar gas plants	
	1205		Depart Village Palpur	
	1250		Arrive Lucknow	
	1315		Lunch by Chief Minister, Uttar Pradesh	
	1530		Depart Lucknow for Varanasi	IAF chartered plane (HS748) (Avro)
	1630		Arrive Varanasi and depart for Village Senapur (Tahsil Kerakat-District Jaunpur) about 51 kms.	By car
	1730		Arrive Village Senapur Meetings w/villagers Night at Senapur	Swiss cottages

<u>DATE</u>	<u>TIME</u>	<u>GMT</u>	<u>REMARKS</u>	
Mar 26 Thur.	0800		Meetings w/villagers and landless laborers at Senapur and nearby villages	
	1230		Lunch Village Senapur	
	1500		Depart Village Senapur	By car
	1515		Visit Village Hat (market) at Bajrangnagar	
	1600		Visit Village Dharsora to see handloom weavers	
	1645		Arrive Varanasi	
	1800		Cruise cum snack on Ganges Evening free	Taj Ganges Hotel
Mar 27 Fri.	0800		Depart Varanasi	IAF Chartered plane (HS748)
	1020		Arrive Delhi	
	1245		Call on Prime Minister	
	1315		Lunch by Prime Minister	
	1530		Briefing session on over-all energy situation by Secretaries Evening free	Taj Mahal
Mar 28 Sat.	1130		Wrap-up meeting w/Finance Minister	
	1230		Lunch by Finance Minister	
	1515	0945	Depart Delhi	PK681 Fokkar nonstop
	1615	1115	Arrive Lahore	
	1700	1200	Depart Lahore	Falcon plane nonstop
	1800	1300	Arrive Rawalpindi--transfer to Islamabad	Holiday Inn
	1900	1400	<del>Private dinner</del> <i>at Subhika residence</i>	
Mar 29 Sun.	1930		<i>Call in P.W. Secretary with P.W. Sec</i> (visit to Baluchistan)	
	0715		Depart for Quetta	Falcon plane
	0830		Arrive Quetta	
	0900		Call on Governor	
	0915		Briefing by Chief Secretary, Additional Chief Secretary (Dev), Provincial Secretaries concerned	Governor's House
			Geological exhibition will be staged	Governor's House
	1045		Depart for Gurkha airfield	
	1100		Visit to Mangocher (Kalat District) and Bund Khushdil Khan (Pishin District) irrigation projects	Helicopter
	1200-1230		Stop at Mastung	
	1330		Return to Gurkha Airfield, Quetta Lunch hosted by Governor	
1600		Depart for Rawalpindi	Falcon plane	
1710		Arrive Rawalpindi--transfer to Islamabad	Holiday Inn	
1900		Dinner by Finance Minister		
Mar 29 Sun.			(visit to North West Frontier Province) <u>Contingency Plan if Quetta Airfield closed</u>	
	0800		Depart for Peshawar	Helicopter
	0930		Arrive Peshawar	Intercontinental Hotel
	1030		Meeting w/Chief Secretary, Additional Chief Secretary (Dev), Secretaries for Irrigation and Agriculture	

<u>DATE</u>	<u>TIME</u>	<u>GMT</u>		<u>REMARKS</u>
Mar 29	1200		Courtesy call on Governor followed by lunch	
Sun.	1330		Visit to SCARP Madan	Helicopter
	1630		Depart for Rawalpindi	Helicopter
	1745		Arrive Rawalpindi	
	1900		Dinner by Finance Minister	
Mar 30	0900		<i>See 9 Plan + Summary on Food + Agric</i> Meeting w/Minister for Food and Agriculture and Secretary, Food and Agriculture Division, Chairmen of WAPDA, PARC and ADBP	
Mon.	1000		Meeting on energy w/Minister for Water and Power, Secretary, Water and Power, Acting Secretary, Petroleum and National Resources, Chairman of WAPDA, OGDC and PAEC	
	1130		Meeting on Industry w/Minister of Industries and Production, Secretaries of Production and Industries	
	1300		Private lunch	Holiday Inn
	1430		Meeting on social sectors (education, population and health) with Minister of Education, Secretaries, Health, Education and Chairman, UGC	
	1600		Meeting w/Advisor to President on Population Planning and Secretary, Population Division	
	1900		<del>Call on President of Pakistan, followed by dinner to be hosted by him</del> <i>Private dinner at Sukkur's house</i>	
Mar 31	0900		Meeting w/Finance Minister, Secretary, Planning and EAO and Finance Secretary	
Tues.	1100		Depart for Karachi--lunch on plane	Falcon plane
	1300		Arrive Karachi	Intercontinental Hotel
	1500		Meeting w/Chief Secretary, Additional Chief Secretary (Dev) and Provincial Secretaries concerned	
	1630		Meeting w/Governor, State Bank, Federal Secretary Industries, Managing Directors, PICIC and IDBP, NDFC and small group of industrialists	
	1730		Depart for Intercontinental Hotel	
	1900		Dinner by Governor of Sind	
April 1	0200		Depart hotel for airport	
Wed.	0300	(2200)	Depart Karachi	LH663 DC10 nonstop
	0700	0500	Arrive Frankfurt	
	0830	0630	Depart Frankfurt	LH030 AB300 nonstop
	0910	0810	Arrive London	
	1245	1145	Depart London	BA277 B747 nonstop
	1500	2045	Arrive Washington--Dulles	

OL  
March 16, 1981

INDIA

Briefing Book for Mr. McNamara's Visit

March 21-28, 1981

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PROGRAMME FOR VISIT OF MR. ROBERT S. McNAMARA, PRESIDENT,  
WORLD BANK, IN U.P. FROM MARCH 24 TO 27, 1981.

<u>Arrival</u>		<u>Details</u>	<u>Departure</u>	
<u>Date</u>	<u>Hrs.</u>		<u>Date</u>	<u>Hrs.</u>
24.3.81	1730	Amausi Airport by IAF air craft.		
24.3.81	1750	Raj Bhavan, Lucknow		
24.3.81	1830	Council House.		
		Meeting with Chief Minister, Uttar Pradesh.		1930
24.3.81	1935	Raj Bhavan.		
		Call on Governor, U.P.		
		Dinner by Governor, U.P.	25.3.81	0800
25.3.81	0850	Village Parshiya. Visit tubewell constructed under World Bank assistance and meet farmers and farm labourers of village.		0950
25.3.81	0955	Village Asana. Talk to small and marginal farmers in unelectrified hamlet (Gadipurwa).		1020
25.3.81	1040	Village Itaunja. Visit village school and talk to people.		1100
25.3.81	1110	Village Palpur. Talk to villagers including progressive farmers and Nayaya Panchyat members. Visit Gobar Gas Plant.		1200
25.3.81	1250	Raj Bhavan.		
		Lunch by Chief Minister, U.P.		1500
25.3.81	1520	Lucknow Airport. Departure for Varanasi by Special Air Craft.		-
25.3.81	1630	Varanasi Air Port.		
		Tea at Air Port.		1650 (By car)



<u>Arrival</u>		<u>Details</u>	<u>Departure</u>	
<u>Date</u>	<u>Hrs.</u>		<u>Date</u>	<u>Hrs.</u>
25.3.81	1740	Village Senapur. Meeting with villagers and night stay in Swiss Cottages.		
		On 26.3.81 from 0800 to 1100 meeting with village small and marginal farmers, landless labourers etc.	26.3.81	1100
26.3.81	1115	Village Auri. Meet villagers and visit Plantation under World Bank (Social Forestry) Project.		1145
26.3.81	1200	Village Senapur.		
		Lunch at village from 1230 to 1400 (at residence of Dr. Rudra Dutt Singh).		1500 (By car)
26.3.81	1510	Village Bajrangnagar. Meeting villagers.		1530
26.3.81	1550	Village Lalpur. Meeting with villagers.		1620
26.3.81	1700	Varanasi Hotel.		1815
26.3.81	1830	Ghats. Cruise on river Ganges		1930
26.3.81	1945	Hotel Taj Ganges.		
		Dinner by Commissioner, Varanasi.	27.3.81	0730
27.3.81	0800	Varanasi Airport. Departure for Delhi by IAF Aircraft.		
27.3.81	0945	Delhi Airport.		

ACCOMMODATION ARRANGEMENTS AT LUCKNOW

Member of the Party

Details of Accommodation

1. Mr. Robert S. McNamara President, World Bank.	:	
2. Mr. W. David Hopper, Vice-President	:	
3. Mr. <sup>Munir</sup> Benjenk Vice-President	:	Stay at Raj Bhawan, Lucknow
4. P.A. to Mr. McNamara	:	
1. Mr. J.D. Roulet Resident Representative World Bank	:	
2. Mr. H.N. Ray Executive Director World Bank	:	Clark Avadh Hotel
3. Mr. R.P. Kapoor Joint Secretary Department of Economic Affairs	:	
1. Mr. Surendar Singh Union Protocol Officer	:	Circuit House
2. IAF Aircraft crew	:	Guest House

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Arrangements for visit of Mr. Robert S. McNamara, President,  
World Bank, in U.P. from March 24 to March 27, 1961.

ACCOMMODATION

At Lucknow

President and two  
Vice-Presidents

: Raj Bhawan

Mr. J.D. Roul et ( )  
Shri H.N. Ray ( )  
P.A. to the President ( )  
2 officials of the GOI ( )

: Hotel Clark Awadh

IAF Crew

: State Guest House

At Varanasi

President and party

: I.T.D.C. Hotel

IAF Crew

: Circuit House of  
Guest House.

At Senapur

Accommodation for the Party

: Swiss cottages

RECEPTION AND SEND-OFF

At Lucknow

By the Minister for Planning and  
Minister for Protocol, Govt. of  
U.P. The Commissioner of Lucknow  
Division/DIG Police (Lucknow Range)  
will also be present.

At Varanasi

By the Commissioner, Varanasi Division/  
DIG Police (Varanasi Range).

TRANSPORT.

3 air-conditioned cars and 6 other cars.

SECURITY

1. Security will be provided by Govt. of  
U.P. throughout in addition to GOI  
personnel.
2. Escort car will be present throughout  
the visit of President, World Bank.

thru 63 1176  
 64-68 750  
 69-73 1740  
 74-78 4200  
 79-83 9050  
 68 25  
 79 1500  
 80 1660  
 81 430  
 82 500  
 83 7100  
 2840  
 116

Statement by Mr. Robert S. McNamara, President of the World Bank,  
on Leaving India, Saturday, March 28, 1981

1. I would like to begin by expressing my thanks to the Government of India for the hospitality extended to me during the past week.
2. <sup>during the past week,</sup> I have had extremely useful conversations with the Prime Minister, the Finance Minister, other Members of the Cabinet and the Planning Commission and senior officials. I am indeed grateful to them for the time they spent in explaining India's problems and prospects, hopes and anxieties, achievements and needs. ~~In the past week, I have also travelled in the rural areas adjoining Varanasi.~~ Let me say right at the outset that I am deeply impressed by what I have seen and heard.
3. It is just over 12 years since I first came to India as President of the World Bank. This will be my last visit to your country in that capacity. Much has happened in the last 12 years to both India and the World Bank.
4. By far the most impressive achievement is the successful agricultural revolution which is going on in your country. In the sixties and early seventies <sup>I recall that</sup> India was importing foodgrains. Today she is not. The year 1979/80 - a year of drought - was an <sup>major</sup> ~~instructive~~ test <sup>of</sup> for the policies and programs which India has been following throughout the seventies. <sup>You will remember that</sup> Rainfall in 1979 was erratic and deficient as it had not been since 1965, the only comparably severe drought <sup>year</sup> in recent history. India's foodgrain production in 1979/80 was 109 million tons - ~~23 million tons lower than in the previous year, but this was still the fifth highest level of foodgrain production on record and was 37 million tons higher than foodgrain production~~

in 1965/66. These facts clearly indicate the impact of the technological transformation brought about by India's investments in agriculture and irrigation. Moreover, using the foodgrain stocks that had been accumulated during the previous several years of record production, India was able to manage this production shortfall with little of the extraordinary distress that had accompanied severe droughts in the past. The ability to produce *large surpluses* in good years, such as the present one which is just drawing to a close, ~~such large surpluses for buffer stocks~~ is ~~further~~ evidence of the tremendous change that has been brought about.

5. In the qualitative aspects of development, as distinct from the quantitative, your record is no less encouraging. Improvement in literacy rates, ~~greater enrollment in educational institutions~~, increased life expectancy, <sup>and</sup> ~~reduction in death rates and population growth rates~~, reflect your conviction and commitment, as well as ours, that human well-being is central to development.

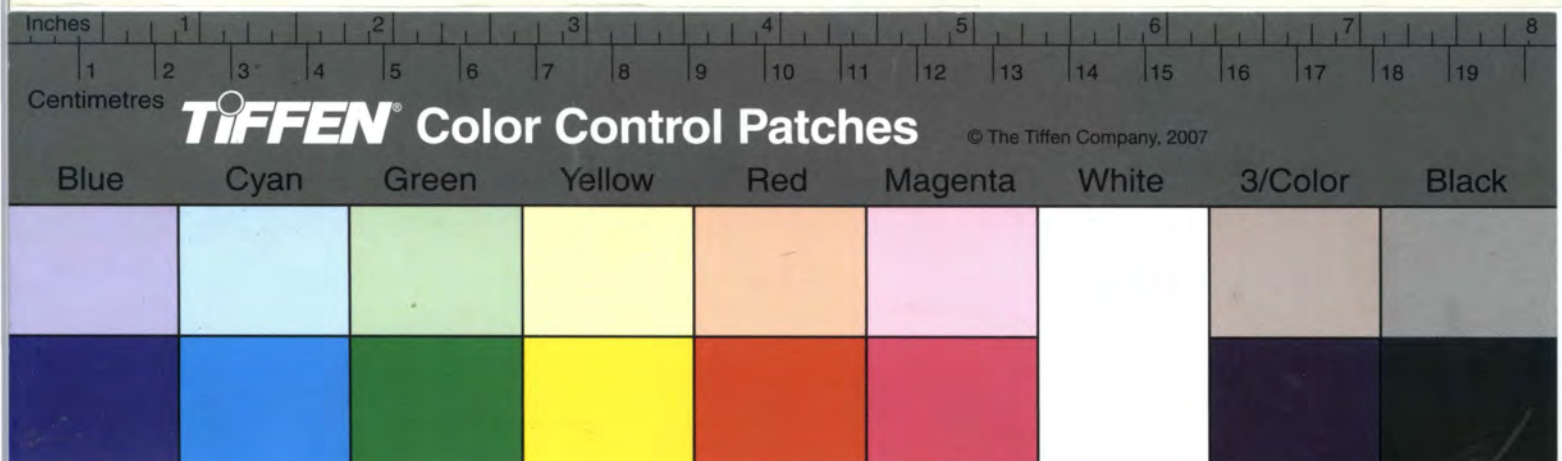
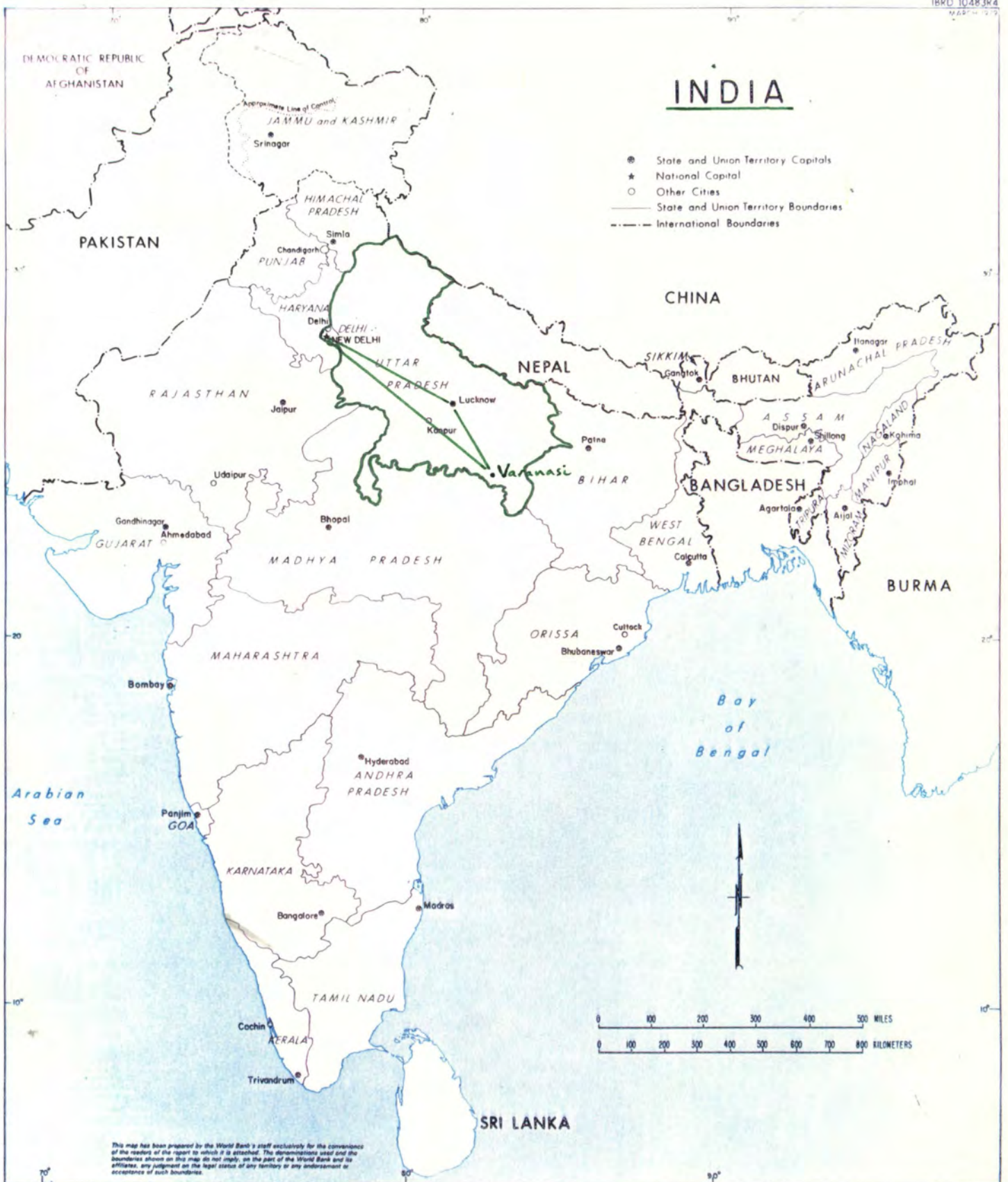
6. Although the World Bank has provided more assistance to India than to any other member nation in the world, ~~we are deeply conscious of the fact that our contribution has been modest in relation to the resources you yourselves have mobilized. Nevertheless, we are proud to have been associated with you in undertaking what constitutes one of the most crucial development experiments of our life time.~~ *and this year will have appropriated 1800 million - as much as the total for years before 1968*

7. <sup>So on</sup> I ~~was~~ deeply impressed by the success you have had in the past. But I am also aware of how much remains to be done. India's new Five-Year Development Plan has ~~effectively~~ laid out an impressive agenda. <sup>However</sup> Inflation and recession in the developed countries and the continuing deterioration

in the terms of trade pose a serious challenge to <sup>you</sup> policymakers in India.

8. To mobilize the resources of wealthier nations <sup>the</sup> is <sup>will</sup> also <sup>be</sup> difficult.

And there seems to be some disappointment in those countries over development assistance, on the grounds that ~~it has been difficult to see~~ the positive results of the development effort, <sup>are not readily apparent.</sup> My visits to India and other <sup>developing</sup> countries have confirmed my view that the results are here to be seen. Economic development is working. I am sure if the governments and legislatures of the rich countries could see what I have seen in the past 12 years in Asia, in Africa, in the Middle East, in Latin America, they would lose their feelings of disillusionment about aid for development. They would realize, as I do, that they can take pride in being associated with the efforts of the developing countries to develop themselves. This is a message I intend to take back to America and Europe.







# background NOTES

## India

department of state \* may 1978

OFFICIAL NAME: Republic of India

### PEOPLE

683m pop  
Although India occupies only 2.4 percent of the world's land area, it supports 14 percent of the world's population. Only the People's Republic of China has a larger population.

Two major ethnic strains predominate in India, the Aryan in the north and the Dravidian in the south, although the lines between them are blurred. An aboriginal, tribal population lives largely in the central forests and mountains; some Mongoloid

peoples live in the far northern mountain regions.

Although 84 percent of the people are Hindu, India is also the home of more than 60 million Muslims, the third largest Muslim group in any one country (after Indonesia and Bangladesh). Adherents to other religions include Christians, Sikhs, Jains, Buddhists, and Parsis.

The caste system, which encompasses the various "classes" of Indian society, is theoretically based on employment-related categories ranked



### PROFILE

#### People

POPULATION: 629 million (1977 est.); urban 20%. ANNUAL GROWTH RATE: 2.01%. DENSITY: 495 per sq. mi. (191 per sq. km.). ETHNIC GROUPS: 72% Indo-Aryan, 25% Dravidian, 3% Mongoloid, others. RELIGIONS: 84% Hindu, 10% Muslim, 2.6% Christian, Sikh, Jain, Buddhist, Parsi. LANGUAGES: Hindi, English, 14 official languages. YEARS OF COMPULSORY EDUC.: 9 yrs. LITERACY: 34%. INFANT MORTALITY (1974 est.): 130 per 1,000 (US: 19/1,000). LIFE EXPECTANCY: 51 yrs.

#### Geography

AREA: 1,211,000 sq. mi. (3,136,475 sq. km.); about twice the size of Alaska. CAPITAL: New Delhi/Delhi (pop. 3.6 million). OTHER CITIES: Calcutta (7 million), Bombay (6 million), Madras (3.2 million).

#### Government

TYPE: Federal republic. INDEPENDENCE: August 15, 1947. DATE OF CONSTITUTION: January 26, 1950.

BRANCHES: Executive—President

(Chief of State), Prime Minister (Head of Government), Council of Ministers (Cabinet). Legislative—bicameral Parliament (Council of States, House of the People). Judicial—Supreme Court.

POLITICAL PARTIES: Janata Party, Congress Party, Congress Party-I, Communist parties.

SUFFRAGE: Universal over 21.

POLITICAL SUBDIVISIONS: 22 States, 9 Union Territories.

DEFENSE EXPENDITURES: 3.1% of GNP (1977 est.).

FLAG: Saffron, white, and green horizontal bands with a blue spoked wheel in the center. Saffron symbolizes courage and sacrifice; white, peace and truth; green, faith and chivalry; and the spoked wheel, India's ancient culture.

#### Economy

GNP: \$87.8 billion. REAL GROWTH RATE: 1.6%. PER CAPITA GNP: \$143. REAL PER CAPITA GNP GROWTH RATE: -0.4%. (All figures for 1976-77.)

AGRICULTURE: Labor 74%. Land 54%. Products—rice, wheat, pulses, oilseeds, cotton, tea.

INDUSTRY: Products—textiles, jute,

processed food, steel, machinery, transport equipment, cement.

NATURAL RESOURCES: Iron ore, coal, manganese, mica, bauxite, limestone.

TRADE (1976-77): Exports—\$6.05 billion: engineering goods, cotton apparel and fabrics, handicrafts, tea, iron and steel. Imports—\$5.97 billion: petroleum, foodgrains, nonelectrical machinery, fertilizer. Major partners—US, Japan, UK, USSR, Iran, FRG.

OFFICIAL EXCHANGE RATE: 8.50 rupees=US\$1 (1977-78).

ECONOMIC AID (1947-1977): Total—\$28.4 billion: multinational lending agencies, OECD, Communist, and OPEC countries. US only—\$10.8 billion, of which AID \$3.8 billion, PL 480 \$6.2 billion, Exim Bank loans \$539 million, wheat loan \$244 million.

MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS: UN, nonaligned movement, the Commonwealth, Colombo Plan, Asian Development Bank (ADB), International Atomic Energy Agency (IAEA), International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD), INTELSAT.

on a theocratically defined hierarchy. Discrimination against castes on the lower end of the ritual hierarchy is outlawed by the Constitution.

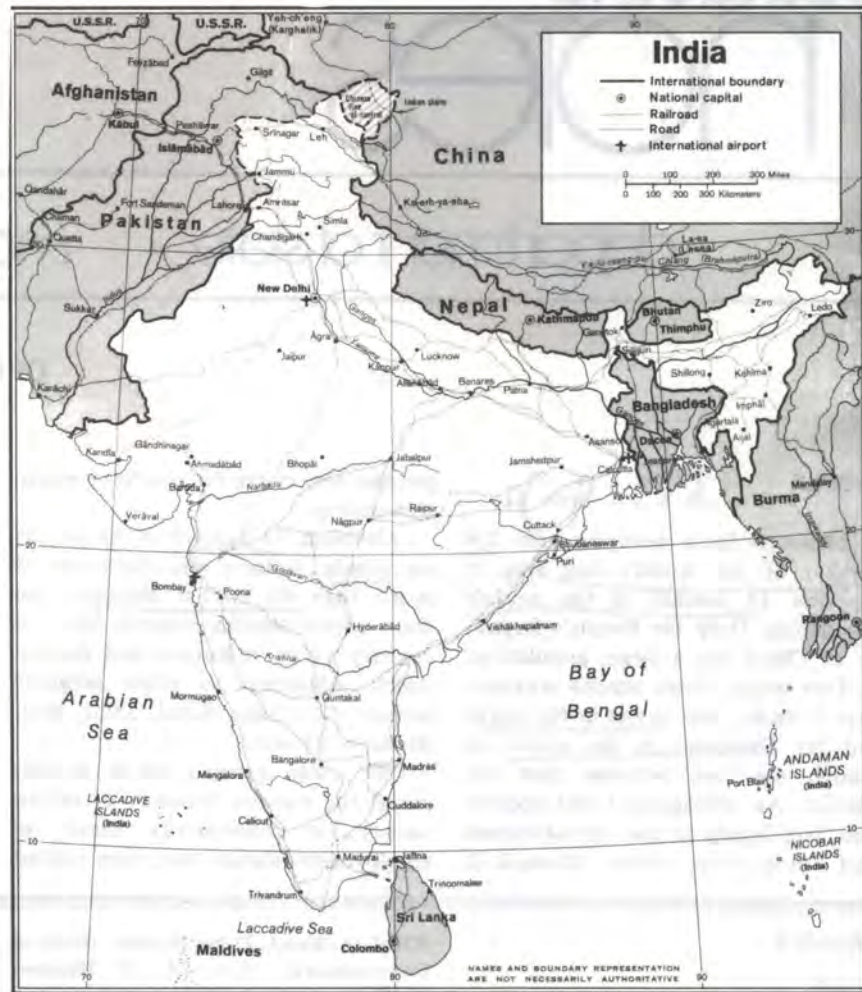
India has 14 official languages; a dozen of these are spoken by more than 10 million people. Hindi and its dialects are spoken by 38 percent of the population. English continues to be widely used in government, business, and education.

## HISTORY

The people of India have had a continuous civilization since about 2500 B.C., when the inhabitants of the Indus River Valley developed an urban culture based on commerce, trade, and to a lesser degree, agriculture. This civilization declined about 1500 B.C., and Aryan tribes originating in central Asia absorbed parts of its culture as they spread out over the South Asian subcontinent.

During the next few centuries India flourished under several successive empires. The Arabs expanded into western India in the seventh and eighth centuries A.D., bringing with them the Islamic faith and beginning a period during which the two systems—the prevailing Hindu and the Muslim—mingled, leaving lasting cultural influences on each other. In the period before the arrival of the British the Mogul Empire (a Muslim dynasty) controlled virtually the entire subcontinent.

The first British outpost in South Asia was established in 1619 at Surat on the northwestern coast of India. Later in that century permanent trading stations were opened by the East India Company at Madras, Bombay, and Calcutta, each under the protection of native rulers. The British gradually expanded their influence from these footholds, until by the 1850's they controlled almost the entire area that was later to become the independent countries of India, Pakistan, and Bangladesh. A widespread mutiny in 1857 led the British Government to remove the last vestiges of political power from the East India Company. From then until independence in 1947 the United Kingdom administered most of India directly and controlled the rest through treaties with local rulers.



NOTE: New Delhi is about 8,000 miles (12,800 km.) by air from Washington, D.C.

Mahatma Gandhi was the Indian leader who, beginning in 1920, transformed the Indian National Congress into a mass movement and used it to mount a popular campaign against British colonial rule. The Congress used both parliamentary and extra-parliamentary means—nonviolent resistance and noncooperation—as it sought its goal.

Independence was finally attained on August 15, 1947, and India became a dominion within the Commonwealth of Nations with Jawaharlal Nehru as Prime Minister. Longstanding frictions between the Hindus and Muslims caused the British to create two countries out of British India: (1) India and (2) Pakistan as the homeland for the Muslims (see map and the *Background Notes* on Pakistan, pub. 7748). India's Constitution was promulgated on January 26, 1950, when the country

became a republic within the Commonwealth.

## GEOGRAPHY

India, located midway between Africa and Australia, dominates the South Asian subcontinent geographically. It is bounded by Bangladesh, Burma, Pakistan, the People's Republic of China, Nepal, and Bhutan.

India's three major topographical areas are: (1) the sparsely populated Himalaya Mountains which extend along the whole of the northern border; (2) the heavily populated Gangetic Plain, a well-watered and fertile area in the north; and (3) the peninsula, including the Deccan Plateau, which is generally of moderate elevation.

The climate varies from tropical in the south to temperate in the north,

with three well-defined seasons throughout most of the area: the cool season from November to March; a dry, hot season from March to June; and a hot, rainy season during the remainder of the year. In addition, much of southeastern India is subject to a second rainy period during the cool season. Precipitation ranges from more than 400 inches (1,000 cm.) annually in the northeast (Assam Hills) to less than 5 inches (12 cm.) in the northwest (Rajasthan Desert).

## GOVERNMENT

According to its Constitution, India is a "sovereign socialist secular democratic republic." Like the United States, India has a federal form of government. However, the central government in India has greater powers in relation to its States, and government is patterned after the British parliamentary system rather than after the American legislative system.

The government exercises its broad administrative powers in the name of the President of India, whose duties are largely ceremonial. Both he and the Vice President are elected indirectly for 5-year terms by a special electoral college.

The real locus of national executive power is the Council of Ministers (Cabinet), led by the Prime Minister. The President appoints the Prime Minister, who is designated by legislators of the political party, or coalition of parties, commanding a parliamentary majority. He then appoints subordinate ministers on the advice of the Prime Minister.

India's bicameral Parliament consists of the Council of States (upper house) and House of the People (lower house). The Council of Ministers is responsible to the lower house of Parliament.

The legislatures of the States and Union Territories elect 232 Members to the Council of States, and the President appoints another 12. They serve 6-year terms, with one-third retiring every 2 years. The House of the People consists of 544 Members, 542 of whom are directly elected to 5-year terms. The remainder are appointed.

India's independent judicial system

had its beginnings under the British, and its concepts and procedures resemble those of Anglo-Saxon countries. The Supreme Court consists of a Chief Justice and 13 other Justices, all appointed by the President.

India has 22 States and 9 Union Territories. At the State level some of the legislatures are bicameral, patterned after the two houses of the national Parliament. The States' Chief Ministers are responsible to the legislatures in the same way the Prime Minister is responsible to Parliament.

Each State also has a Governor, appointed by the President, who has ceremonial powers in normal times but who assumes certain broad powers during any period of breakdown of State parliamentary government. The central government exerts greater control over the Union Territories than over the States, although some territories have gained more power to administer their own affairs.

Local governments in India have somewhat less autonomy than their counterparts in the United States. India is experimenting with *Panchayati Raj*, which seeks to revitalize the traditional village councils and to introduce "grassroots democracy" at the village level, where 80 percent of the people live.

### Principal Government Officials

President—N. Sanjiva Reddy  
Vice President—B. D. Jatti

### Council of Ministers

Prime Minister; Minister of Atomic Energy, Electronics, Planning, Science and Technology, Shipping and Transport, Space—Morarji Desai  
Agriculture and Irrigation—Surjit Singh Barnala  
Commerce, Civil Supplies, and Cooperation—Mohan Dharia  
Communications—Brijlal Verma  
Defense—Jagjivan Ram  
Education, Social Welfare, and Culture—Pratap Chandra Chunder  
Energy—P. Ramachandran  
External Affairs—Atal Bihari Vajpayee  
Finance—H. M. Patel  
Health and Family Welfare—Raj Narain  
Home Affairs—Charan Singh  
Industries—George Fernandes

## TRAVEL NOTES

*Climate and Clothing*—Summer clothing is suitable year round in the south. In the north, lightweight woollens are necessary from mid-Dec. to mid-Mar.

*Customs and Currency*—Travelers other than tourists and tourists traveling overland must have a valid visa for the duration of their stay. Tourists arriving at Indian international airports without a visa may obtain a 30-day "landing permit" on arrival, if they have not traveled to India within the preceding 6 months. The landing permit may be used for two additional trips to neighboring countries, except Pakistan, during its validity. It cannot be extended.

All travelers must have a current international health certificate showing smallpox and cholera inoculations. *Health requirements change. Check latest information.*

Foreign currency (including travelers checks) over \$1,000 must be declared to customs on arrival, but it is not otherwise restricted. Indian rupees may not be imported in any amount.

*Health*—Tap water is unsafe throughout India. In hotels and restaurants, drink only carbonated water and avoid ice cubes. Typhoid, tetanus, and diphtheria shots are recommended.

*Telecommunications*—Telephone service within India and to international points is fair. Telegraph service tends to be unreliable. India is 10 standard time zones (10 hours) ahead of Wash., D.C.

*Transportation*—Many international carriers provide service to New Delhi, Bombay, Calcutta, and Madras. Indian Airlines has daily flights to all major Indian cities. An extensive railway system provides comfortable service between most major cities. The 900-mile (1,450 km.) trip from Delhi to Calcutta or Bombay takes about 24 hours. The 1,535-mile (2,470 km.) trip from Delhi to Madras takes 40 hours. It is possible to travel almost everywhere by road; however, outside urban areas the roads are narrow. Local transportation includes buses, taxis, three-wheeled scooters, cycle rickshaws, horsedrawn tongas, and bicycles. Buses are overcrowded and service is irregular. Taxis are plentiful.

Information and Broadcasting—L. K. Advani

## READING LIST

These titles are provided as a general indication of the material published on this country. The Department of States does not endorse unofficial publications.

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Shanti Bhushan  
Petroleum, Chemicals, and Fertilizer—  
H.N. Bahuguna  
Railways—Madhu Dandavate  
Steel and Mines—Biju Patnaik  
Supply and Rehabilitation; Works and  
Housing—Sikandar Bakht  
Tourism and Civil Aviation—  
Purushottam Kaushik

Ambassador to the U.S.—N. A. Palkhivala  
Ambassador to the U.N.—Rikhi Jaipal

India maintains an Embassy in the U.S. at 2107 Massachusetts Ave. NW., Washington, D.C. 20008 (tel. 202-966-9550), and Consulates General at New York, Chicago, and San Francisco.

## POLITICAL CONDITIONS

India's non-Communist opposition parties in late 1974 offered support to an anticorruption drive against the ruling Congress Party. Following Prime Minister Indira Gandhi's conviction on minor violations of the election law in early June 1975, these parties called for her resignation and announced a national campaign to achieve this end. On June 26, 1975, the government declared a state of national emergency, and a number of the opposition leaders were arrested under the authority of the Maintenance of Internal Security Act. India's Parliament ratified the emergency, and elections scheduled for March 1976 were postponed.

During the emergency, thousands of Mrs. Gandhi's political opponents were imprisoned, and government restrictions on the press, courts, and trade unions were imposed. Widespread resentment of these measures was further increased by a forced sterilization program in a number of north India States and the increasingly intrusive role played in the nation's political and economic life by Mrs. Gandhi's son, Sanjay.

In an effort to seek a broader foundation of legitimacy, Mrs. Gandhi called for national elections to be held in March 1977. In a major upset, the coalition Janata (People's) Party was elected by an overwhelming margin, capturing 331 of the 542 seats in the lower house. The 30-year rule of the Congress Party ended when that party gained only 153 seats. Mrs. Gandhi lost her own seat.

The Janata Party leader, Morarji Desai, who was 81, was sworn in as Prime Minister on March 24, 1977. The new Janata government's attention focused on dismantling the structures of the emergency, including the

release of political prisoners, lifting restrictions on the press and courts, and reaffirming India's commitment to democracy and human rights.

## Political Parties

India's new ruling party, the Janata, actually represents a coalition of five non-Communist opposition parties which allied in January 1977 to oppose the emergency rule of Mrs. Gandhi and her Congress government. Following their March victory, these five parties formally merged into the Janata Party on May 1, 1977. The five parties were:

*Congress (Opposition)*, a splinter party formed in 1969 with the defection from the Congress Party of Sanjiva Reddy (now India's President), Morarji Desai (now its Prime Minister), and several other prominent Congress politicians;

The *Jana Sangh*, a north India-based party which espouses a Hindu-oriented nationalist political philosophy;

The *Bharatiya Lok Dal (BLD)*, a coalition of splinter political groups reflecting a variety of interests, including populist, Socialist, and business;

The *Socialist Party*, which is committed to democratic socialism and drew its chief support from intellectuals disillusioned with the Congress Party; and

The *Congress for Democracy (CFD)*, a group of Members of Parliament who were dissatisfied with Mrs. Gandhi and bolted from the Congress Party in the last days before the March 1977 election.

For the second time in less than 10 years India has two Congress Parties. Both advocate secularism and a loosely defined democratic socialism. One group, known as the Congress-I (for "Indira"), is led by former Prime Minister Indira Gandhi. The second group, known simply as the Congress Party, has stressed its preference for collective leadership. The two parties are nearly equal in terms of parliamentary representation and are currently vying for recognition as the second largest national political party.

There are three Communist parties in India. The *Communist Party of*

*India (CPI)*, which is pro-Soviet; the *Communist Party of India/Marxist (CPI/M)*, which broke with the CPI in 1964 and is nonaligned; and the *Communist Party of India/Marxist-Leninist (CPI/M-L)*, which is pro-Chinese.

The first two parties participate in the parliamentary process and currently hold or share power in the States of West Bengal, Kerala, and Tripura. The third party, whose supporters are sometimes called Naxalites, advocates violent revolution and has occasionally fomented urban terrorism in Calcutta.

India's political parties reflect regional differences based on religion, language, and ethnic group. Most prominent are the DMK and AIADMK parties of the State of Tamil Nadu in south India. These parties, which have controlled the local government in Tamil Nadu and hold 20 seats in the national Parliament, have in the past opposed attempts to make Hindi the national language of India.

## ECONOMY

Domestically, India has made considerable economic progress since independence. A relatively sophisticated industrial base and a large pool of skilled manpower has been created. Nevertheless, agriculture, which is influenced significantly by the monsoons and upon which 74 percent of the population depend, remains the crucial sector (over 40 percent of gross national product).

India's economy, the 13th largest in the world, has been growing relatively slowly (an average of 3 percent annually). The population, estimated at 629 million in 1977, has been increasing in recent years at around 2 percent per year. Consequently, only modest gains in per capita GNP have been achieved.

Agricultural production has been increasing at the average annual rate of 2.6 percent. There was a surge in production in the late 1960's and early 1970's because of the "green revolution" in wheat. A record foodgrain harvest of 121 million metric tons occurred in 1975-76, and foodgrain production of an almost similar magnitude is expected during the 1977-78 crop year. The government has placed

high priority on increasing irrigated land, and nearly 30 percent of total cropped area receives some irrigation water.

Cotton and jute textile production continues to be the most important industrial sector, but public-sector firms in steel, heavy industry, and chemicals have come into prominence since 1960. India now manufactures a variety of finished products for both domestic use and export. Mineral resources (coal, iron ore, bauxite, and manganese) are substantial but have been only partially exploited. Despite industrial development, unemployment and underemployment problems continue to worsen.

## Foreign Trade and Assistance

India's foreign trade in 1976-77 totaled \$12 billion and was essentially in balance. A similar picture is expected for 1977-78. While petroleum import costs have grown substantially since 1974, due largely to OPEC (Organization of Petroleum Exporting Countries) price rises, foodgrain imports have been negligible in 1977-78. Exports have increased notably in recent years, with engineering goods now as the leading category.

Although the U.S. share in India's trade has declined recently, the United States still remains India's largest trading partner. In 1977 total bilateral trade was \$1.56 billion and was in balance.

## FOREIGN BUSINESS INFORMATION

For information on foreign economic trends, commercial development, production, trade regulations, and tariff rates, contact the Bureau of International Commerce, U.S. Department of Commerce, Washington, D.C. 20230. This information is also available from any of the Department of Commerce district offices located throughout the United States.

Total foreign assistance authorized since 1947 has amounted to over \$28 billion. The most important donor in recent years has been the International Development Agency of the World Bank Group. The United States has provided to India over \$10 billion in

aid of various kinds, much of it in the 1960's. A U.S. aid development program was terminated in 1971 but is being resumed with emphasis on agricultural/rural development. Export earnings, substantial foreign aid flows, and remittances from Indians abroad have resulted in record foreign-exchange reserves of \$5.4 billion by January 1978.

## FOREIGN RELATIONS

Since independence, India has played an important role in world affairs. It has been active in the United Nations as a leader of Third World countries and has made important contributions to U.N. peacekeeping operations in Korea, the Gaza Strip, the Congo, and Cyprus. In addition, India served as chairman of the international control commissions that were established in Laos, Vietnam, and Cambodia under the 1954 and 1962 Geneva agreements.

India's role in world affairs has derived from its size and population, the prestige and influence attained as a result of its successful independence struggle, and the personal influence of Jawaharlal Nehru, a chief architect of "nonalignment." More recently, India's broadening industrial base and growing scientific and technical capacity have added to its prominence in international affairs. India continues to be a leader in the nonaligned movement and has an important voice in the North-South dialogue.

## Pakistan and Bangladesh

India's relations with Pakistan have been troubled from the beginning by the centuries-old rivalries between the Hindus and Muslims of the subcontinent, a situation which led to the partition of British India in 1947. Until 1971 the most sensitive issue was the dispute over Kashmir, whose Hindu Maharaja chose to join India, although the majority of his subjects were Muslim. India has maintained that his accession and subsequent elections in Kashmir have led to its becoming an integral part of India. Pakistan has asserted Kashmir's right of self-determination in accordance with an earlier Indian pledge and a U.N. resolution. The dispute triggered open

warfare between the two countries in 1947-48 and in 1965.

In December 1971, following the crisis in what was then East Pakistan and the flight of millions of Bengali refugees to India, India and Pakistan again went to war. The brief conflict ended with the creation of Bangladesh in the east, which quickly established relations with India, and the Pakistani acceptance of an Indian cease-fire offer in the west. In July 1972 Indian Prime Minister Gandhi and Pakistani President Zulfikar Ali Bhutto met at Simla to begin a lengthy process of negotiations to resolve problems resulting from the war and to seek a more stable basis for long-term relations. The two countries subsequently agreed to a repatriation of prisoners of war (with the concurrence of Bangladesh in 1973), the reestablishment of mail, travel, and telecommunications links (1974), a resumption of shipping (1975), the restoration of diplomatic relations and civil air links (1976), and the exchange of sports teams and cultural delegations (1978). The visit to Pakistan of India's Foreign Minister in February 1978 was considered helpful by both countries.

Meanwhile, the overthrow of Sheikh Mujibur Rahman in Bangladesh in 1975 led to a period of tension between that country and India, whose leaders had enjoyed warm relations with him. The passage of time and conclusion of an agreement in 1977 to share the water of the Ganges River have helped to improve relations between India and Bangladesh.

#### People's Republic of China

After independence, India initially sought to maintain friendly relations with the P.R.C. However, competition and tension between the world's two most populous states developed toward the end of the 1950's and

ultimately led to military conflict in October 1962.

After a month's fighting, in which the Chinese forces made deep penetrations into Indian territory, the Chinese proclaimed a cease-fire and generally withdrew to positions held prior to the outbreak of hostilities. Some areas of the border remain disputed. Between 1962 and early 1976, relations remained cool and at the level of *chargé d'affaires*. The P.R.C. has developed a close relationship with Pakistan, to whom it has given military assistance and diplomatic support. Sino-Indian relations were also strained by the Indo-Pakistan war of 1971.

In 1976 India and China exchanged ambassadors after a 15-year interval. The following year the two countries reopened trade and shipping links; they also began exchanging delegations in the fields of agriculture and medicine. A quasi-official Chinese delegation visiting India in March 1978 invited India's Foreign Minister to visit China.

#### Soviet Union

Since independence, India and the Soviet Union have built a relationship based on a general coincidence of views—on international political problems, their mutual proximity to the P.R.C., Soviet support for India's position in the Kashmir dispute, and Soviet economic and military assistance. In August 1971 the two countries signed a 20-year Treaty of Peace, Friendship, and Cooperation which India viewed as an important support for her position in the Bangladesh crisis of that year.

After visiting the Soviet Union in October 1977, Prime Minister Desai characterized Indo-Soviet relations as "a model for any two countries to emulate." He alluded to his earlier-stated intention to pursue a policy of "genuine" nonalignment by adding

that close Indo-Soviet ties did not inhibit either party from developing ties with third countries.

#### U.S.-INDIA RELATIONS

Indo-U.S. relations were particularly strained in the 1971 Bangladesh crisis. Since then, an Indo-U.S. dialogue has aimed at developing a new pattern of relations based on greater mutual understanding and reciprocal concern for each other's interests.

The termination of the 1975 state of emergency in India and the restoration of full democratic freedoms were greeted with considerable public support in the United States and helped set the stage for the development of a more cordial and closer relationship between the United States and India. An atmosphere for greater cooperation and better dialogue evolved, which was reflected in President Carter's January 1978 visit to India. While differences remain, leaders in both countries express confidence that these can be managed amicably.

#### Principal U.S. Officials

Ambassador—Robert F. Goheen  
Deputy Chief of Mission—Archer K. Blood  
Minister for Public Affairs—Jay W. Gildner  
Counselor for Economic Affairs—Natale H. Bellocchi  
Counselor for Political Affairs—Howard B. Schaffer  
Counselor for Scientific Affairs—Thomas Vrebalovich

#### Consuls General

Bombay—William F. Courtney  
Calcutta—Raymond L. Perkins  
Madras—Charles W. McCaskill

The U.S. Embassy in India is located at Shanti Path, Chanokypuri 21, New Delhi (tel. 690351).

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CONFIDENTIAL  
July 21, 1980

COUNTRY PROGRAM PAPER

INDIA

Mid-1978 Population: 643.9 million /a  
Mid-1978 per capita GNP: \$180.00 /a

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**APR 29 2013**  
**WBG ARCHIVES**

	<u>FY75-79</u>	<u>FY80-84</u>	<u>FY81-85 /b</u>
IBRD (TW)	1,318.0 (159.0)	1,685.0	2,360.0
IDA	3,939.6	8,235.0	8,680.0
TOTAL	5,257.6	9,920.0	11,040.0

Current Population Growth Rate: 1.8% p.a.

No. of Loans/Credits	66	80	86
No. of Loans/Credits per mln. population	0.10	0.12	0.13

Current Exchange Rate: Rs 7.872 = U.S. \$1.00  
(floating rate)

Average Lending Per Capita Per Annum: Current \$ (const. FY80 Commitment \$)

IBRD/IDA	1.63 (2.08)	3.08 (2.69)	3.43 (2.80)
IDA	1.22 (1.55)	2.56 (2.24)	2.70 (2.21)

/a World Bank Atlas, 1979

/b The FY 81 - 85 lending program proposed in this CPP compares with the program for the same period approved at the last Bank-wide lending program review (May, 1980) as follows:

	<u>FY81-85 Lending Program</u>		<u>Percentage Change</u>
	<u>Approved</u>	<u>Proposed</u>	<u>Proposed/Approved</u>
No. of Loans and Credits	84	86	+ 2.4%
Current \$ million	10,580.0	11,040.0	+ 4.3%
Constant FY80 commitment \$	8,693.8	9,022.9	+ 3.8%
Per capita per annum (const. FY80 commitment \$)	2.70	2.80	



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INDIA

1. The most recent Country Program Paper for India, dated January 11, 1979, was reviewed by Management on January 31, 1979. A report entitled "Economic Situation and Prospects of India" (No. 2933-IN), dated May 1, 1980, was distributed to the Executive Directors on May 4, 1980.

RECENT POLITICAL DEVELOPMENTS

2. General elections were held in India on January 3 and 6, 1980. The elections capped a year of intense political activity, which engendered a climate of uncertainty and, in some areas, serious problems of control. The Janata Government headed by Morarji Desai had attempted to bring under one roof the entire spectrum of opposition to the Congress Government of Mrs. Gandhi. As soon as it appeared that Mrs. Gandhi no longer posed a threat, following her expulsion from the Lok Sabha in December 1978, the common thread which had held together the socialist, populist, old-line Congress, conservative, and Hindu nationalist elements in Janata unravelled. Failure to deal with conditions which confront any group which would govern India--communal violence and recalcitrant State governments--revealed the weakness of the Janata coalition. In June 1979, the Government fell, a victim of the incompatible personal ambitions and stubbornness of its leaders, notably Desai, Jagjivan Ram and Charan Singh.

3. In this situation, Mrs. Gandhi emerged as the effective power broker, offering and then withdrawing her support to various factions, which led ultimately to the dissolution of Parliament in August 1979. As none of the leaders who had once campaigned so vociferously against Mrs. Gandhi rejected out of hand the prospect of a coalition with her party (the Congress (I)), Mrs. Gandhi's credibility was tremendously enhanced and that of her opponents considerably diminished. While economic factors did not play a major role in the dissolution of the Janata Government, a poor monsoon and consequent decline in agricultural output, the emergence of severe shortages of key inputs and infrastructure, and a highly publicized resurgence of inflation undoubtedly contributed to widespread dissatisfaction with both the Janata Government and the caretaker Lok Dal Government headed by Charan Singh.

4. By January, Mrs. Gandhi's electoral victory had been widely forecast, but the extent of her party's majority, 351 out of 542 Lok Sabha seats, had not. 1/ The sweep was virtually across the board, excepting only Jammu and Kashmir with its usual regional allegiance, and West Bengal and Kerala which gave pluralities to the Communist Party (Marxist). The Congress (I)'s proportion of the popular vote, 42.6%, was considerably less overwhelming; but even this far exceeded the combined total of the Janata and Lok Dal parties. As in the 1971 election, the basis of Mrs. Gandhi's appeal lay with

1/ This majority numbered only four seats fewer than the Congress party had held before the dissolution of Parliament in 1977.

a coalition of interests including Muslims, Harijans, other scheduled castes and tribes, and disadvantaged groups such as landless laborers, capped by the support of big business interests. She did not attract the allegiance of medium and large landowners, small businessmen and traders.

5. The Government put together by Mrs. Gandhi thus far belies her parliamentary strength. Although a few ministers are veteran politicians and/or civil servants--notably R. Venkataraman, the Finance Minister, and K. Tripathi in charge of Railways--only one-third of the Cabinet have had previous experience in the Council of Ministers. Furthermore, many key portfolios remain unfilled (notably Defense) or have been allocated to junior ministers (for example, Industry). Other portfolios were filled in apparent haste with individuals having little following, and still others by political associates of Sanjay Gandhi, such as Zail Singh, the Home Minister. Sanjay Gandhi was himself elected to a Lok Sabha seat along with a large group personally allied with him. His sudden and unexpected death has led to a dramatic return of the political uncertainty that his emerging dominance had begun to dispel.

6. Mrs. Gandhi's initial statements were conciliatory in tone; however, a continuing hiatus in important administrative matters, an atmosphere of intensive behind-the-scenes maneuvering, and a sequence of bureaucratic shake-ups with rumors of more to follow have not alleviated the atmosphere of uncertainty that has characterized India for the past year. In February, nine States were placed under President's Rule, leading to State Assembly elections in May. With victory in eight of the nine States, control of the Rajya Sabha, the upper house of India's Parliament, which is elected indirectly through State legislatures, will also pass to the Congress (I). Several pressing matters were delayed pending this consolidation of legislative power. In particular, the 1980/81 budget was postponed until after the State elections, as was the expansion of the Cabinet. In early June, three new Ministers were appointed including N.D. Tiwari (former Chief Minister of U.P.) as Minister for Planning who will also function as Deputy Chairman of the Planning Commission. The Government has announced that the current Draft Plan will be scrapped and replaced by a new Plan for 1981-86, which is to be prepared by December 1980. In terms of policies and priorities, the new Government has given some indication of its intentions in the mid-June budget. It has reaffirmed the importance of agriculture in the economy and of irrigation for agriculture, noting that the emphasis on agriculture pre-dated the Janata Government. With regard to industry, the emphasis on small-scale operations has been reduced, and the role of core industries--especially steel, coal, and mineral development--has been emphasized. The public sector, in general, is likely to receive greater attention, in terms of both investment and an increased emphasis on resource generation. However, basic continuity may be inferred from the transfer of the Secretaries of both Agriculture and Economic Affairs to the Planning Commission.

7. While the Congress (I) Government is expected to take a strong hand in Center-State relations, there are divisive regional pressures emerging in India's northeastern region which constitute a severe test of this resolve. The Government moved in April 1980 to declare the State of Assam a "disturbed area," which would permit the use of the armed forces to maintain public order. This follows months of protest over the so-called "foreigners" issue--that is,

the in-migration of non-Assamese (primarily Bengalis), a process which has been going on since Independence. Student and worker agitation has periodically closed down the petroleum facilities at Narengi, through which are channeled about one-quarter of India's crude oil for distribution to refineries in Assam and Bihar. This action is estimated to cost India about \$100 million per month in international spot-market purchases of high-speed diesel, kerosene and other products.

#### THE ECONOMIC SITUATION

8. During 1979/80, the state of the Indian economy deteriorated, with a disappointing performance on the part of both the industrial and agricultural sectors. It is estimated that overall output will be about 3% below that of the previous year. Industrial output stagnated in the face of input shortages and infrastructure bottlenecks, while agricultural production, which declined by an estimated 8.5%, was primarily affected by extremely adverse weather conditions.

#### Agriculture

9. The 1979 drought was caused by a delayed, deficient and erratic south-west monsoon during the kharif (summer) season. Total monsoon rainfall (June to September 1979) was deficient in 17 out of the country's 35 rainfall regions. This was added to earlier weather-related problems, including snow and hail storms that did considerable damage to crops in Himachal Pradesh in March 1979, a disastrous cyclone in Andhra Pradesh in May, and flash floods that caused havoc in western Rajasthan, in the Morvi area of Gujarat and in Tamil Nadu. As a consequence, the kharif foodgrain crop was almost 18% lower, at 65 million tons, than the roughly 79 million tons achieved in the 1978 kharif. Given dry soil conditions, it was anticipated that the rabi crop also would be quite adversely affected. In the event, however, a shortfall of two million tons or less from the record 53 million tons of the previous year is now likely, compared with the five-million-ton shortfall forecast earlier in the season. This would bring total foodgrain production for 1979/80 to about 116 million tons as compared to the record 132 million tons of the previous year.

10. Much of the credit for improved rabi performance must go to the significant increases of recent years in irrigation potential and the use of modern inputs. For example, fertilizer consumption during 1979/80 grew an estimated 4%, which must be considered quite remarkable coming on top of an average annual increase of 22.5% between 1977 and 1979. Similarly, irrigation potential, which grew by an average of 1.6 million hectares per annum during 1974-78, has increased by an average of 2.5 million hectares per annum during the three years just completed. While the drought undoubtedly curtailed the utilization of some of this increase during 1979/80, there is no question that an accelerated investment program in agriculture improved the utilization of what rain there was and helped reduce output losses.

11. The impact of the drought on the welfare of the population has been substantially mitigated by the large stocks of foodgrains which the

Government continues to hold and distribute. Despite a drawdown which was almost two million tons greater than in 1978, India's foodgrain stocks were marginally higher, at 17 million tons, at the end of 1979 than at the beginning of the year. By the end of June 1980, stocks are expected to be 17.5 million tons, which is about 4 million less than a year ago. Given the estimated demand and supply balance for 1980, foodgrain reserves should fall by no more than another one to two million tons before December 1980, when procurement from the 1980 kharif crop begins. This would still leave more than sufficient reserves for another year of equally bad or even worse weather. Normal weather in 1980 would imply the replenishment of reserves to a level again sufficient to cover distribution needs for two successive years of drought.

#### Infrastructure and Industry

12. Concomitant with the impressive and continuing modernization of Indian agriculture has come a much greater degree of interdependence in the economy. During 1979/80, the demand for power to provide lift and groundwater irrigation grew sharply. This extra demand exacerbated an already tight situation in the power sector, which was already growing more slowly than expected, due in part to the impact of the drought on hydro-electric generation, which constitutes 42% of India's total generating capacity. Overall, power generation is estimated to have increased no more than 2% during 1979/80, while demand rose sharply, growing by as much as 15-18%. While the year just ended was exceptional, persistent shortages have emerged during the 1970s as the growth of demand has far outpaced that of supply. On the supply side, both the expansion of installed capacity and the rate of its utilization slowed during the 1970s compared to performance through the late 1960s. During 1977/78, the most recent year for which data are available, the sources of capacity underutilization were primarily internal factors related to plant and system operation and management, although labor problems and coal shortages did account for approximately 30% of the shortfall. Power has received the highest priority in the investment program of GOI during both the Fifth and Draft Sixth Plans. During the three years ending in 1979/80, installed capacity increased by more than 12% per annum (the largest physical increments ever attained), but lengthening lead times for stabilization have delayed the contribution of this increment to actual generation. As a result, thermal capacity utilization declined from 51.5% in 1977/78 to 45% in 1979/80.

13. The widening gap between power supply and demand in 1979/80 resulted in a sharp increase in the demand for diesel to run pump-sets and captive power generators. While the supply of diesel grew by at least 16% during the year, demand was far from satisfied, due primarily to logistical problems. In a year of pervasive shortages, great demands were placed on the transportation network, which was required to move many imported bulk commodities, including diesel itself, long distances. Such logistical problems considerably undermine the usefulness of international trade to alleviate short-term shortages, even when foreign exchange is abundant. Freight loadings on Indian Railways peaked at 239 million tons in 1976/77, and then declined to less than 220 million tons in 1979/80. Consequently, a much heavier burden was placed on the road transport system, itself a major consumer of diesel. The main factors contributing to this situation were: (i) shifts in the traffic pattern for key bulk commodities such as foodgrains, fertilizers, and cement; (ii) power and coal

shortages; and (iii) declines in the efficiency and productivity of railway staff with serious labor agitation in the eastern region.

14. Continuing shortfalls from targetted coal production is the link that completes the chain of industrial stagnation in 1979/80. While coal output did increase by an estimated 2.5%, this represents a level barely 5% above that achieved in 1975/76. Furthermore, the quality composition of coal produced in India has deteriorated, with shifts toward lower grades of both coking and non-coking coal. Analysis of the causes of production losses in the past three years points to power shortages, accounting for roughly one-third of the shortfall, and labor unrest, including absenteeism and a general deterioration in law and order, as the other main problem. In addition, coal deliveries were disrupted by transport constraints. Other key intermediate inputs which were also in short supply in 1979/80 were cement and steel. Output of the latter is estimated to have actually declined by 10%, from 9 to 8.1 million tons of saleable steel, in the past year. In the case of cement, demand growth continues to outpace the very slow growth of installed capacity, which has averaged only 2% per annum since 1971/72. This slow growth is a direct result of administered prices set at levels which discouraged investment. Recently price increases have been allowed, and substantial new capacity should come on-stream by 1982.

#### Inflation

15. As might be expected in a year of pervasive shortages, prices increased sharply during 1979. By January 1980, wholesale prices stood 21% above the level of a year earlier. Although price increases for products such as sugar, fruits and vegetables, crude petroleum, and mineral oils accounted for almost 50% of the increase, the 12% rise in all other commodities indicates that inflationary pressures were widespread throughout the economy. These pressures appear to be the result of real, not monetary factors, as the economy adjusted to the shock of externally induced increases in industrial prices superimposed on an upward swing in the cyclical pattern of agricultural prices. 1/ Under these conditions, price rises in the short run would likely have occurred no matter what course of demand management the Government had followed. During the current year the emphasis continues to be on maintaining adequate supplies of basic commodities, such as sugar, edible oils, cement, steel and fibers, through liberal imports as necessary. Recently, the rate of wholesale price increase has moderated somewhat with the annual growth rate now around 15%. While continued international pressures and associated adjustments in domestic energy prices that will be required preclude a return to the unusual price stability that India enjoyed in the late 1970s, a politically stable environment and the high priority attached to reducing inflation should result in a continuing improvement.

16. Demand management, as embodied in the 1980/81 budget, appears to support the supply-oriented policies by steering a middle course between too much expansion, which would further fuel inflation, as Government borrowing is

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1/ This is not to deny the importance of moderating the growth of the money supply as a useful concomitant of policies designed to increase the supply of goods and services in the economy.

now the primary source of money supply growth, and excessive restriction, which would endanger the Government's investment program. As against an estimated deficit of Rs 27,000 million for 1979/80, the 1980/81 budget projects an uncovered deficit of only Rs 14,170 million. Increases in Plan expenditures have been held to 16.6%. Major increases in administered prices for petroleum products, fertilizers, and transportation (rail and air) had been announced prior to the budget. While these increases were entirely appropriate in terms of adjusting relative prices in the economy and reducing the burgeoning budgetary burden of subsidies, they will have an obvious impact on the overall price level. Thus, the real increase in plan outlay proposed by the budget may be quite nominal. Numerous tax concessions were made in the budget which were anticipated to have minimal revenue impact. This may prove too optimistic, giving rise to a larger-than-projected deficit; nevertheless, the budget does appear to steer a middle course so that Government borrowing at least should not frustrate other efforts to hold down prices.

#### Population and Poverty

17. The annual population growth rate declined from 2.2% in the late 1960s to below 2% at present and is expected to continue falling to around 1.6% by the latter half of the 1980s. Despite the declining trend in the rate of population increase, a net reproduction rate of one (replacement level) would be achieved only around the year 2020. At that time, it is projected that the population of India will have reached 1.2 billion persons, an increase of about 81% over the mid-1980 level of 663 million. Family planning has played an important role in achieving the fertility decline in the past decade, and the extent of a further decline will be greatly influenced by the continuation of a successful official family planning program. The family planning performance data for 1978/79 and the first ten months of 1979/80 clearly indicate a come-back from the sharp decline observed in virtually all major contraceptive methods during 1977/78. Except for male sterilizations, the number of acceptors for all contraceptive methods surpassed the 1974/75 levels in 1978/79. While the increase in the total acceptors of IUD and conventional contraceptives was modest, female sterilizations increased by about 40% between 1977/78 and 1978/79. Data for the first ten months of 1979/80 confirm a secular upward trend in overall performance. So far, policy makers have not made major attempts to accelerate the male sterilization program. Instead, they have opted for policies that would yield relatively modest but sustainable results with increased emphasis on non-terminal methods. In the long run, success of the family planning program will depend on an increase in contraceptive demand and improvements in the efficiency of the existing service delivery system. The organizational structure and service delivery capabilities have improved substantially over the years. Today, the program includes virtually all the components of a successful family planning program in use anywhere in the world and long experience in motivational campaigns. With further emphasis, the program could cope with a larger clientele within a relatively short period. On the demand side, progress will, to a large extent, depend on improvements in income, education, health (especially maternal and child health), and employment opportunities in rural India.

18. More than one-third of the world's poor live in India and more than 80% of the Indian poor belong to rural households of landless laborers and small farmers. In addition to marginal holdings of physical assets, the poor are ill-endowed with human resources, being disproportionately represented among the illiterate, the malnourished and those having otherwise poor health status. Improvements in the living standards of the poor will depend to a large extent on the overall growth of the economy, mainly on productivity increases in agriculture and non-farm rural employment, but also on the expansion of employment opportunities in urban areas. These developments will have to stem largely from market forces, although they can be greatly facilitated by appropriate Government policies and investment priorities. There is also a role for direct Government actions in faster implementation of land reform (though the scope for significant reduction in poverty through redistribution is quite limited in India), in increasing the supply of credit available to small farmers and rural artisans, and in broadening the provision of those services which enhance the human capital of the poor and improve living standards. Many of the latter are elements of the Minimum Needs Program, which has been an integral part of Indian planning for the past decade. Progress has been slow but steady in the expansion of primary education, the extension of rural health facilities and the provision of secure village water supplies. Recent innovations, including the community health volunteer program and the national adult literacy campaign, are encouraging evidence that well-targetted, relatively low-cost programs can lead to enhanced prospects for India's poor.

Domestic Resource Mobilization

19. India's savings performance continued to improve during 1978/79 with the attainment of a gross savings ratio of 23.4%. Resource utilization increased even more markedly, reversing the situation of the previous two years in which domestic capital formation had lagged behind domestic savings, implying a transfer of investible resources abroad.

Table 1: INDIA: INVESTMENT AND SAVINGS RATIOS (%)

	<u>1970/71</u>	<u>1975/76</u>	<u>1976/77</u>	<u>1977/78</u>	<u>1978/79</u>
Gross Domestic Savings	17.5	21.1	23.6	22.6	23.4
Gross Capital Formation	18.2	22.5	22.8	21.8	23.0

Source: Central Statistical Organization as modified by Bank estimates.

The composition of savings changed rather markedly during this period with the contribution of the public sector increasing from around 17% of the total in the early 1970s to between 22% and 24% in the three years between 1975 and 1978. During 1978/79 public sector savings performance deteriorated, bringing its share down to little more than 19%. This decline was offset by a corresponding increase in the share of the household sector. In particular, household savings in physical assets, which accounted for almost half of the total increment in savings between 1977 and 1979, was the primary factor in the

achievement of an incremental savings rate of 34% between 1977/78 and 1978/79. <sup>1/</sup> It is quite unlikely that such high marginal rates can be maintained, so that the scope for further increases in the savings rate from the household sector is rather limited. However, considerable improvements are feasible in the generation of public savings, particularly through improved performance of public sector enterprises, whose savings have sustained an average decline of 12% per annum since 1976/77 (in current price terms). Improvement in the savings performance of public administration departments could also contribute. Although receipts from indirect taxes have been sufficiently buoyant to exceed the growth of Government consumption expenditure, the slower growth of direct taxes and other Government income (6.6% p.a. between 1977 and 1979), combined with the rapid growth of subsidies and current transfers (45% p.a. during the same period), led to a fall in the savings of public administration departments of 4% in nominal terms between 1976/77 and 1978/79. While the public sector share in savings is not out of line with its share in domestic product (18.4% and 19.4%, respectively, on a net basis), the public sector share in net domestic capital formation averaged close to 50% during the late 1970s. With stringent restrictions on domestic credit expansion as the main tool of anti-inflationary policy in India, and with tax and pricing policies which discourage the internal generation of private corporate savings, the supply of investible funds to private industry has been perhaps overly restricted during a period in which the growth of demand, combined with the relaxation of Government licensing and import policies, could have led to a considerably higher level of private corporate investment. Better public sector savings performance could directly relieve some of this "crowding out" effect without reducing the resources available for the high levels of public investments, particularly in infrastructure, that will be required in the coming years.

#### Balance of Payments

20. India's balance of payments for the past decade is summarized in Table 2. Analyzed in terms of reserve levels, it is clear that the 1970s fall into three distinct periods. From the beginning of the decade through 1972/73, both imports and exports were approximately in balance, though at low levels relative to the size of the economy. While reserves were adequate, the situation was comfortable only in the context of slow overall growth and considerable artificial suppression of import demand. The next three years were ones of considerable stress on India's foreign account, with both food and POL imports increasing dramatically so that by 1975/76 these two items alone constituted 46% of India's imports (as compared to 15% in 1972/73). By the end of 1975/76 the situation had begun to turn around, assisted by rapidly growing current transfers from increased numbers of Indian migrants working in the Persian Gulf region and by a trebling of net aid disbursements. From 1976/77 through 1978/79 India enjoyed a much more comfortable balance of payments situation. Foodgrain imports dropped to zero as Indian foodgrain production averaged 122.2 million tons during this period. The declining real price of petroleum through 1978/79 could have allowed India to reduce even

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<sup>1/</sup> The Central Statistical Office recently changed the manner of calculating the value of own household labor in valuation of household physical assets; it is not known to what extent this change may have distorted the measurement of savings growth since 1976/77.



**TABLE 2**  
**INDIA - BALANCE OF PAYMENTS**  
(million US\$ at current prices)

Indicator	ACTUAL								ESTIMATE	
	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80
<b>Balance of Payments</b>										
Export of goods and services	2,221.5	2,452.0	2,986.0	3,622.0	4,752.1	5,497.1	6,773.1	7,715.4	8,548.2	9,642.2
- of which: merchandise (f.o.b)	1,950.0	2,160.0	2,558.0	3,239.0	4,173.5	4,672.1	5,753.1	6,315.4	6,976.2	7,800.0
Imports of goods and services	2,457.6	2,734.0	2,694.0	4,115.0	6,028.5	6,964.0	6,543.0	7,888.0	9,176.8	11,771.8
- of which: merchandise (c.i.f.)	2,178.9	2,451.0	2,423.0	2,793.0	5,665.5	6,449.0	5,928.0	7,188.0	8,488.0	11,000.0
Resource balance	- 236.1	- 282.0	- 192.0	- 493.0	-1,276.4	-1,466.9	230.1	- 172.6	-628.6	-2,129.6
Investment income (net)	- 244.0	- 280.0	- 284.0	- 259.0	- 198.0	- 216.0	- 182.0	- 88.9	152.7	486.7
Current transfers (net)	83.0	112.0	96.0	158.0	257.0	471.0	695.0	1,076.5	1,130.4	1,186.9
Current account balance	- 397.1	- 450.0	4.0	- 594.0	-1,217.4	-1,211.9	743.1	815.1	654.5	-456.0
Net aid disbursements	790.0	794.0	542.0	810.0	1,243.0	1,792.0	1,395.0	983.0	993.0	1,219.4
- Gross disbursements	1,176.0	1,196.0	966.0	1,323.0	1,758.0	2,323.0	1,955.0	1,628.0	1,695.0	1,906.4
- Principal repayments	- 386.0	- 402.0	- 424.0	- 513.0	- 515.0	- 531.0	- 560.0	- 645.0	-702.0	-687.0
Use of IMF credit	- 183.0	-	-	75.0	522.0	242.0	- 337.0	- 330.0	-158.0	-
Errors and omissions	- 270.0	- 119.0	- 512.0	- 186.0	- 586.4	- 28.0	- 226.1	607.9	44.5	-563.4
Uncovered gap										
Change in reserves (- = increase)	60.1	- 225.0	- 34.0	- 105.0	38.0	- 794.1	-1,575.0	-2,076.0	-1,534.0	-200.0
Reserve level (end of year)	1,052.0	1,277.0	1,311.0	1,416.0	1,378.0	2,172.1	3,747.0	5,823.0	7,357.0	7,557.0
Reserve as months imports	(5.1)	(5.6)	(5.8)	(4.1)	(2.7)	(3.7)	(6.9)	(8.9)	(9.6)	(7.7)

further the concentration of imports; however, petroleum and petroleum products maintained their share. This resulted primarily from the relatively sluggish growth of other imports, which increased by approximately US\$2 billion while the growth in reserves was almost three times that amount. Nevertheless, the accessibility of imported inputs in many sectors of the Indian economy was considerably enhanced by the import liberalization efforts of 1977/78, and the growth rate of imports other than petroleum in both 1977/78 and 1978/79 was impressive by Indian standards.

21. A comparison of real growth rates for all imports and exports as well as terms of trade changes is indicated in Table 3.

TABLE 3: ANNUAL GROWTH RATES<sup>/a</sup> AND CHANGES IN TERMS OF TRADE  
(% per annum)

	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80
Exports (fob)	10.4	5.1	5.6	12.7	19.5	-6.6	1.8	-1.6
Imports (cif)	-1.1	10.7	-11.7	3.6	-6.6	32.4	10.3	-2.1
Terms of Trade	8.7	-19.0	-30.7	-6.1	5.7	18.5	1.8	-13.3

/a At constant 1978/79 prices

Sources: GOI - 1972/73-1977/78. Staff Estimates - 1978/79-1979/80.

These data clearly delineate two periods during the past decade. Through 1976/77 export volume growth averaged 10.7% per annum while import volume stagnated. Although India's net terms of trade deteriorated, this was not sufficient to prevent the growth of foreign exchange reserves to the equivalent of 6.9 months of imports by 1976/77. Subsequently, the position has been reversed: export volume has declined 2.1% per annum on average, while import volume has increased 13% per annum. The terms of trade recovered significantly in 1977/78 and held roughly constant the following year before deteriorating sharply again in 1979/80 on the strength of the estimated 76% increase in the price of petroleum imports. Foreign exchange reserves continued to accumulate, peaking at approximately US\$8.1 billion at the end of 1979. 1979/80 would appear to portend another turning point in India's external position. Petroleum imports have shot up to almost US\$4 billion, or 37% of the total import bill, having fluctuated between 20% and 25% since 1973/74. In spite of this development, the current account deficit has remained comfortable at approximately US\$450 million. Reserve growth has, of course, tapered off sharply with an addition to reserves of approximately US\$200 million during 1979/80 as a whole. However, the recent trend is sharply downward, with reserve drawdowns approaching a monthly average of US\$100 million so far during 1980. Although the import coverage of reserves is still almost eight months, which provides some cushion to help the Government in short-term supply management, the dynamics of India's foreign account have clearly changed.

EVALUATION OF COUNTRY STRATEGY AND DEVELOPMENT PROSPECTS

Infrastructure and Industry

22. The re-emergence of supply bottlenecks in the Indian economy raises several important issues of past and, necessarily, future development strategy. In each of the major problem sectors of coal, power, transportation, and iron and steel (as well as in the agriculture-related sub-sectors of fertilizer and irrigation), India has invested heavily during the past twenty years. During the 1970s, Indian planners appeared to operate on the assumption that investment programs in coal, transportation, and other key input industries could be cut back in favor of power, irrigation and, more recently, other agricultural infrastructure. This approach, which seemed to be a reaction to the undeniable importance of agriculture and power in the Indian economy, may also have reflected some pessimism regarding both domestic and international demand for India's industrial output, as well as a view that further increases in infrastructural capacity were either less urgent than they had been previously or could be achieved through improvements in efficiency. Major investment planning was done too close to the margin, with the result that the short-run environment dominated the decision-making process to the detriment of longer-term objectives and priorities. This was particularly true with respect to India's energy conversion program. In the event, demand did not prove to be a constraint, as income growth and investment demand, particularly from the agricultural sector, provided more stimulus than could be managed, at least in the context of the political uncertainty and exogenous shocks (especially drought) which the economy suffered in 1979.

23. Although in much discussion of Indian development the assumption has been that basic infrastructure and input industries are "in place," detailed investigations of the power, coal, petroleum, transportation, cement and fertilizer sectors have revealed significant gaps in capacity. Clearly, there are significant gains to be made from improvements in efficiency in each of these sectors as well, though in many cases these improvements themselves require sizeable investment outlays for modernization and expansion programs. In the rest of the industrial sector, there are several adjustments and transformations that must be undertaken in the next few years to accommodate India's current circumstances. First of all, the industrial sector must adjust itself to higher energy prices, and this may entail a contraction in certain energy-intensive sub-sectors. To achieve a gradual adjustment, domestic energy prices must, on the one hand, continue to reflect the high cost of imported oil and, on the other, provide adequate incentives for the efficient expansion of coal and electricity production. Secondly, the anticipated disequilibrium of the balance of payments (discussed below) requires a substantial effort in terms of expanding exports and import-substituting industries. As a result of changing energy prices, new patterns of comparative advantage may have emerged which India can best exploit if domestic energy prices from all sources reflect the changed situation and if access to new technologies, through imports as appropriate, is assured. In the context of serious infrastructural constraints, India can continue to gain from specializing in those export and import-substituting industries in which domestic resources are best used, and relying on imports of those products in which its

relative production capacities are less favorable and where the opportunity cost of using domestic resources in short supply (electricity, steel, cement and others) is highest. Finally, many industries require modernization of their capital stock and technology. Especially in view of high energy costs, investments for modernization of capacity can reduce the operating costs of existing plants and improve the economic efficiency with which resources are used.

#### Agricultural Strategy and Prospects

24. In agriculture, our preliminary analysis of the long-run implications of India's more manageable foodgrain situation indicates that, under plausible demand projections--which allow for varying growth, population, and distribution parameters--foodgrain demand in 1990 will vary between 152 and 158 million tons. This range is considerably exceeded by trends in supply projected under assumptions consistent either with those of the National Commission on Agriculture (2.8% p.a.) and the revised Draft Sixth Plan (2.7% p.a.), or with a simple extension of past performance based on an estimated linear trend growth rate of 2.37% between 1965/66 and 1977/78. Both the NCA and Draft Plan estimates base their projections on increases in input utilization, primarily irrigation and fertilizer, with little change in historical input-output coefficients. The investments required to achieve the higher rates of output growth are quite substantial, with rather low implied rates of return. In these circumstances, considerable attention must be paid to appropriate pricing and procurement policies so that they do not distort the incentive for farmers to diversify into non-foodgrain crops. Less subsidization of inputs also has an important role to play in setting intersectoral terms of trade appropriate to India's longer-term development objectives. The priority for Government investments and programs remains the more efficient utilization of water through the modernization of existing irrigation schemes and the implementation of higher standards in new schemes, complemented by the continued improvement of input delivery schemes affecting credit, fertilizer, HYV seeds, pesticides and extension.

#### Balance of Payments Prospects

25. The balance of payments projections which are reported in Table 4 are based on a growth scenario which assumes a 4.7% growth rate for the Indian economy as a whole, composed of 2.7% per annum in agriculture and 6.4% in industry. <sup>1/</sup> To support this growth, fertilizer imports have been projected to increase at 12% per annum, a rate which takes into account medium-term production plans and some moderation of the very rapid growth in fertilizer consumption since 1975. Petroleum imports are projected to grow by an average of 4% per year in volume terms during the medium term, based on currently planned increases in domestic crude oil production and increases in refinery capacity.

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<sup>1/</sup> These growth rates are consistent with the targets of the Draft Sixth Plan which were widely accepted as feasible medium-term objectives. An objective of 5% p.a. has recently been announced for the new Plan, and there appears to be considerable political pressure to raise the growth target to 5.5% p.a. The latter, however, would appear to mark a return to the unrealistically high targets of earlier Plans.

TABLE 4

INDIA - BALANCE OF PAYMENTS  
(million US\$ at current prices)

	ESTIMATE		PROJECTED							Base Run - Version 1		
	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1990/91	Export Growth: 6.5%	Import Growth: 4.9%	GNP Growth: 4.7%
Export of goods and services	8548.2	9,545.4	11,164.4	12,921.6	14,819.3	16,941.4	19,415.1	21,915.0	40,161.5			
- of which: merchandise (f.o.b.)	6976.2	7,703.2	9,032.1	10,463.1	11,996.5	13,755.1	15,818.5	17,912.1	33,324.7			
Import of goods and services	9176.8	11,672.0	14,373.0	16,241.4	18,750.4	21,454.3	24,626.7	27,725.2	50,377.6			
- of which: merchandise (c.i.f.)	8488.0	10,900.2	13,508.0	15,270.4	17,660.2	20,258.8	23,315.9	26,307.9	48,283.6			
Resource Balance	-628.6	-2,126.6	-3,208.6	-3,319.8	-3,931.1	-4,512.9	-5,211.6	-5,810.2	-10,216.1			
Investment Income (net)	152.7	486.7	455.4	252.7	-171.1	-221.4	-330.7	-426.4	-863.2			
Current Transfers (net)	1130.4	1,186.9	1,310.3	1,408.6	1,514.3	1,627.8	1,749.9	1,854.9	2,482.3			
Current Account Balance	654.5	-453.0	-1,442.9	-1,658.5	-2,587.9	-3,106.5	-3,792.4	-4,381.7	-8,597.0			
Net Aid Disbursements	993.0	1,219.4	1,605.1	2,069.5	2,183.9	2,421.2	2,714.1	2,889.2	4,372.0			
- Gross Disbursements	1695.0	1,906.4	2,335.1	2,844.5	3,003.9	3,244.8	3,525.4	3,855.2	5,250.4			
- Principal Repayments	-702.0	-687.0	-730.0	-755.0	-820.0	-823.6	-812.3	-966.0	-878.4			
Use of IMF Credit	-158.0	-	675	-	-	-	-	-	-135.0			
Errors and Omissions	44.5	-566.4	-142.0	-300.0	-300.0	-100.0	-50.0	-50.0	-50.0			
Uncovered Gap	-	-	-	-	-	-	410.6	2,317.5	5,835.0			
Change in Reserves (- = increase)	-1534.0	-200.0	-695.2	-111.0	704.0	785.3	717.7	-775.0	-1,425.0			
Reserve Level (end of year)	7357.0	7,557.0	8,252.2	8,363.2	7,659.2	6,873.9	6,156.2	6,931.2	12,594.0			
Reserve as Months Imports	(9.6)	(7.7)	(6.9)	(6.2)	(4.9)	(3.8)	(3.0)	(3.0)	(3.0)			
										Base Run - Version 2		
Export of goods and services		9,545.4	11,292.5	13,213.7	15,327.8	17,705.8	20,487.4	23,369.1	44,058.2	Export Growth - 8.0%		
Import of goods and services		11,672.0	14,426.2	16,272.9	18,662.4	21,347.9	24,876.2	27,957.3	50,363.7	Import Growth: 4.7%		
Current Account Balance		-453	-1,368	-1,397.9	-1,991.4	-2,235.7	-2,969.6	-3,159.7	-4,686.4	GNP Growth: 4.7%		
Capital Account Balance		653	2,138.1	1,769.5	1,883.9	2,321.2	2,664.1	2,839.2	4,187.0			
Uncovered Gap		-	-	-	-	-	-	-	1,904.8			
Change in Reserves (- = increase)		-200	-770.1	-371.6	107.5	-85.5	305.5	320.5	320.5			
Reserve Level (end of year)		7,557	8,327.1	8,698.7	8,591.2	8,676.7	8,371.2	8,050.7	12,590.9			
Reserve as Months Imports		7.7	6.9	6.4	5.5	4.9	4.0	3.5	(3.0)			
										Alternative Run		
Export of goods and services		9,545.4	10,930.7	12,328.4	13,827.4	15,473.4	17,166.2	19,124.3	30,457.2	Export Growth - 4.0%		
Import of goods and services		11,611.8	14,373.3	15,854.1	17,800.1	19,942.4	22,402.1	24,696.5	39,692.8	Import Growth - 1.75%		
Current Account Balance		-392.4	-1,676.9	-1,864.4	-2,626.1	-3,059.3	-3,813.3	-4,140.5	-7,616.5	GNP Growth - 3.5%		
Capital Account Balance		592.4	2,138.1	1,769.4	1,883.8	2,321.2	2,664.1	2,974.2	4,187.0			
Uncovered Gap		-	-	-	-	-	306.5	1,740.3	4,132.3			
Change in Reserves (- = increase)		-200.0	-461.2	95.0	742.3	738.1	-1,149.2	-1,166.3	-3,429.5			
Reserve Level (end of year)		7,557.0	8,018.2	7,923.2	7,180.9	6,442.8	5,600.1	6,174.1	-			
Reserve as Months Imports		7.8	6.7	6.0	(4.8)	(3.9)	(3)	(3)	(3)			

Steel imports are expected to remain roughly constant in real terms, but non-ferrous metal requirements are projected to grow more rapidly than the economy as a whole, as are imports of cotton and synthetic fibers. Other imports are projected to grow at the same rate as the economy, giving rise to an overall import elasticity which slightly exceeds unity. <sup>1/</sup> Scope for reducing imports and maintaining the projected rates of economic growth are limited; however, a program of investments and improvements in capacity utilization in key industries--fertilizers, iron and steel, coal and petroleum--could reduce import growth by as much as 10%. Most of the gains from this sort of program should be passed on to the economy through increases in general imports; however, constraining the overall import elasticity to no more than one in the medium term does increase the resource balance by US\$1 billion in 1990/91. Led by petroleum, prices of India's imports are projected to increase substantially more rapidly than the index of international inflation. By 1990, petroleum prices are projected at almost six times their 1978/79 base, while prices of other major import categories increase by a factor of three, which is still 30% greater than the Bank's projection for overall world inflation. As a result, Indian imports continue the process of specialization already begun in the current year, with petroleum and fertilizers accounting for 58% of imports in 1990/91 as compared to the 48% projected for 1980/81.

26. Exports do not constitute a major share of output in either the manufacturing or agricultural sectors (although they are important for some commodities). Consequently, a range of export growth rates is consistent with the projected growth of the economy and the availability of imported inputs implied above. While improvements in incentives will be required even to raise the volume growth rate to 6.5% per annum, that achievement should be feasible within the basic policy structure as it exists now. At the upper end of the feasible range is an 8% volume growth, which would require significant overhaul of the trade policy system but probably would not require significantly higher availability of imported inputs to sustain. To achieve either of these growth rates will require considerable improvement over recent export growth performance, but volume growth rates in this range have been achieved during several periods in the past. Indeed, the 6.5% per annum volume growth in the base scenario simply extrapolates the volume growth which characterized India's exports during the past decade. (The effort required to regain or exceed past momentum is discussed in the following section.) Export prices are projected to grow roughly in line with the index of international inflation, increasing 237% by 1990/91 over the base year, 1978/79.

27. The two balance of payments projections reported in Table 4 bracket the range of current account projections consistent with the base case growth scenario. Current transfers are projected to remain constant in real terms after 1979/80, and the capital account is based on the Bank/IDA lending program of Attachment 1 and constant levels of other concessional and non-concessional commitments with historical disbursement rates. The combination of 6.5% p.a. export growth and a 1.1 import elasticity results in a severe decline in reserves as early as 1982/83 with a failure to maintain three months' coverage

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<sup>1/</sup> Details of the projected import composition are presented in Attachment 3d.

by 1984/85. <sup>1/</sup> Assuming three months' imports to be the minimum sustainable level, the uncovered gap that emerges by 1990/91 approaches US\$6 billion. With the combination of higher export growth (8% per annum) and marginally lower imports, the situation improves sufficiently to prevent reserves from falling below three months' import coverage until 1985/86, and the uncovered gap that emerges by the end of the decade amounts to a more manageable US\$1.9 billion. In contrast, the slow-growth policy designed to cut back drastically on import growth does little to alleviate the balance-of-payments problem in the long run. For example, an alternative scenario also presented in Table 4 in which the overall growth of GNP is reduced to only 3.5% per annum, the import elasticity to 0.5 and export volume growth to 4% per annum, results in the foreign exchange reserve level dropping below three months' import coverage by 1984/85, only one year later than Version One of the base case. By 1990/91 this slow-growth case results in an uncovered gap exceeding US\$4 billion.

#### Adjustment Prospects

28. The balance-of-payments scenarios we have considered underscore the importance of early efforts to reverse current trends, since even the three months' minimum import coverage of reserves is not likely to be regarded as adequate by the Government of India. If an adjustment process is not begun soon, a return to severe import controls and potentially inefficient export subsidization, analogous to the policies of the early 1970s, is likely within two to four years. This would have severe repercussions on India's ability to meet investment needs in industry and infrastructure. Expansion plans in private industry would suffer, as neither inputs nor markets could be assured. This, in turn, would lead to a pessimistic assessment of the demand for basic inputs and infrastructure, thus further delaying public investment and perpetuating the slow growth performance of the Indian economy without actually improving the prospects for successful medium-term adjustments. Fortunately, India remains in a favorable position to respond to the challenges facing its economy through improved domestic policies supported by appropriately larger drafts on foreign savings. Foreign exchange and foodgrain reserves remain at levels which can support at least a two-year adjustment period, during which India must develop a balanced export strategy, move to meet domestically more of her requirements for basic commodities such as edible oils, fertilizer, cement, and steel, and establish an energy rationalization program which could potentially reduce the POL import bill. While the Government has recognized the importance of each of these areas, identification of appropriate strategies and specific policies has only just begun. Similarly, our economic work during FY81 will endeavor to evaluate alternative strategies with the objective of developing the basis for a dialogue on adjustment policies.

29. Exports. In exports, it is clear that the current trade and industrial policy regime does not provide adequate incentive for investment in export capacity. As a result, exports are as constrained in years of rapid economic growth, when the much greater profitability of domestic sales draws down the exportable surplus, as they are in years of supply constraints or

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<sup>1/</sup> Even three months' import coverage is quite low, providing the barest minimum for meeting unforeseen adversity and for avoiding policies of desperation.

other bottlenecks. 1/ Several elements in India's trade regime have led to this situation. First is the general anti-trade bias of the whole policy system. It seems clear that, whatever the Government's intentions, the changes in India's import policy during recent years have not led to sustainable increases in either imports or exports, while they probably have increased the variance in incentives and perhaps have increased the relative bias against exports by generalizing import privileges that were once reserved for exporters. Other elements of trade policy--export incentives and the nominal exchange rate--have remained roughly constant during the past three years. Although constancy in the policy regime is desirable and, indeed, has been an objective of our policy dialogue with GOI, it seems apparent that the overall level of incentives maintained by the GOI has been insufficient to impart any dynamism to export performance under the domestic and world demand conditions recently prevailing. A further factor in the most recent year has been the emergence of significant inflation in India (averaging almost 20% for manufactures during 1979/80), which has led to a revaluation of over 5% in India's purchasing-power-parity-adjusted exchange rate in 1979. An area of highest priority for Indian policy-makers during the coming year will be the identification of a set of trade policies that can provide adequate incentive to export production and still be manageable in terms of domestic fiscal policy and short-term foreign exchange requirements.

30. The major improvement in performance must come from manufactured exports. These originate predominantly in the private sector and cover a very heterogeneous group of commodities. Consequently, policies to increase manufactured exports will, in general, have to rely on decentralized, profit-enhancing incentives. Greater tax incentives for exporters, increased cash assistance, and less rigid exchange rate policies are all likely to contribute to an improved environment. In addition, the relaxation of export bans on several commodities can provide a short-term stimulus and broaden the basis for subsequent growth. Although agricultural exports have been quite buoyant in recent years, there is considerable scope for still further diversification and policy improvements. Reconsideration of export taxation policies could help in the short run, while investment programs for export crops and development of an export policy for foodgrains could help sustain growth over the longer term.

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1/ Both these factors have been at work during the past three years. During 1977/78 and 1978/79, Indian manufacturing increased by 6.5% and 7.5%, respectively, with the larger increases concentrated in the consumer and intermediate goods industries, reflecting the broad-based pick-up in demand that characterized those two years. Even this moderate expansion was sufficient to siphon off the exportable surplus in manufacturing, so that volume growth of manufactured exports, which had grown by over 30% during 1976/77 (and averaged approximately 11% p.a. during the period 1970/71 to 1976/77), fell to less than 8% in 1977/78 and actually declined in 1978/79 by almost 7%. During the year 1979/80, which combined strong domestic demand with infrastructural bottlenecks and constraints on basic inputs, initial estimates suggest that the volume of manufactured exports may have fallen a further 12%.



31. Import Substitution. A second aspect of adjustment to India's deteriorating balance of payments prospects involves production programs or incentives in those industries which offer scope for efficient import substitution. Increased domestic availability of oilseeds, fertilizers, iron and steel, and cement could make a significant difference in India's foreign exchange requirements. Meeting this objective will require above all a significant step-up in both public and private investment. Financing this program will require pricing and tax policies geared to greater internal generation of investible funds. For some industries, notably fertilizers and iron and steel, there is considerable output potential through improvements in capacity utilization; this, however, requires better input availability, particularly of coal and power, improvements in transportation services, and better management. Beyond these general observations, an evaluation of India's program must await the formulation of the new Plan for 1980/81-1984/85, as it is precisely in these areas of industry and infrastructure that departures from the Draft Sixth Plan are most likely to emerge. Issues which require consideration in this context are the balancing of total investment requirements with available resources, and the evaluation of an investment strategy in terms of India's comparative advantage.

32. Energy. A third element of medium-term adjustment involves energy. Improved performance and other adjustments in the energy sector could help achieve three important objectives: (1) removal of the most important supply constraint in the nexus of coal and power shortages, (2) the substitution of cheaper and more abundant energy sources, particularly coal and hydel, for imported oil, and (3) the enhanced supply of domestic oil through more exploration and rapid development of new oil fields. Within the past year, the GOI has undertaken both a review of energy policy with a long-term perspective and a comprehensive study of operational issues in the power sector. In particular, long-term energy utilization goals have been set which would reduce the unsustainably high energy intensity of India's growth by approximately one-third. This would be accomplished through a thorough evaluation of the energy requirements associated with all major investment decisions. In the power sector, goals have been set for improvements in the efficiency of thermal generation, increasing load factors by a multiplier of 1.8 to 2 and reducing losses by 40%. More rapid development of hydro-electric potential, which is estimated at ten times the current availability, is also an important objective of Indian energy policy. But the realization of this hydro potential will only follow from a significant lengthening of the planning horizon in the energy sector. From the 5-year perspective of the standard Indian planning process, the shorter gestating thermal generating units appear more advantageous; but recent analysis indicates that the present value of the capital costs of thermal and hydro units are roughly comparable, which, of course, implies significant total cost advantage to hydro. Achieving these objectives will require not only a continuing sizeable financial allocation, but also a program of operational and managerial reforms. Administrative reforms which have been proposed include the consolidation of all energy-related matters under the auspices of a single ministry and the amalgamation of at least some aspects of the State Electricity Boards into regional bodies. These administrative actions will need to be supplemented by improvements in the management of individual plants and the distribution network if overall efficiency goals are to be met. Over the longer run, India has considerable potential for the

development of non-conventional energy sources, but, even by the year 2000, these are expected to meet only a small proportion of India's energy needs. Rather it is coal and hydel which together now provide 55% of India's commercial energy consumption, that should meet the major part of India's energy needs through the next century (at least on the basis of current reserve and potential estimates). However, the coal industry's financial situation must be strengthened and large investments made to expand existing mines and develop new ones if this prospect is to become a reality. The Government also now recognizes the need to accelerate oil exploration, particularly offshore, and intends to increase the scope of exploration activity carried out by the national oil company (the Oil and Natural Gas Commission). In addition, GOI is reconsidering the possibility of offering concessions to foreign oil companies; this in itself would constitute a radical policy change.

33. India is not constrained in meeting these challenges of trade policy, infrastructure development, and energy by lack of capacity to formulate appropriate strategies. In each of these sectors, policy review and planning exercises have been recently undertaken or are currently underway. Further, these are expected to be translated into a consistent medium-term investment program in the context of the new Five-Year Plan. Expected to be completed by mid-December 1980, this Plan should provide the basic outline for a medium-term program of structural adjustment in the Indian economy. Although specific elements of this program, particularly in energy and exports, are likely to be known in some detail beforehand and can, therefore, form the basis of policy discussions with GOI, the integration of these elements with an investment program in other infrastructure sectors and in important import-substitution activities, as well as the overall impact on India's balance of payments and macro-economic performance, can be best evaluated in the context of the complete Plan after it has gained a measure of political support and commitment.

#### External Financing Requirements

34. Aid. India's requirements for external assistance in undertaking this adjustment process are projected to exceed the amounts available in concessional aid throughout the coming decade. In Version One of the base case, the uncovered gap (in the initial years shown as a drawdown in reserves) is estimated to grow to over US\$1 billion in 1982/83 and to increase by an average of US\$750 million each year thereafter. 1/ By 1985/86, reserves will have fallen below three months' import coverage. In Version Two the initial gaps are smaller, averaging around US\$350 million until late in the decade when they exceed US\$1 billion. The capital account projections which yield these results are based on zero real growth in aid commitments with the exception of the Bank Group, whose commitments are expected to grow by 4.1% in real terms (as shown in Attachment 1) through FY85. Even this performance would represent a significant improvement over recent trends in new non-Bank Group commitments, which have failed to grow, even in nominal terms, since 1974/75. Perhaps some pick-up is possible, given a more widespread appreciation of India's deteriorating balance of payments prospects. But it is

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1/ It should be noted that even under these circumstances, India's current account deficit is projected to rise to only 1.9% of GDP in 1985 and 2.2% in 1990, a figure still well below the 3.2% recorded in the early 1960s.

unlikely that the response will be so generous as to lead to sustained real growth in commitments. Indeed, experience at the recent meeting of the India Aid Consortium, which continues to provide a valuable forum for the discussion of India's development prospects, indicated that the decline in aid commitments in real terms is continuing. In this context, it is important that India and the donors work together to increase the rate of disbursement from the pipeline, which has grown large in recent years. For India, this will involve primarily increasing the speed of project implementation. For donors, there are more options, including: (i) increasing the allowable rate of disbursement against project expenditures in the early stages of implementation; (ii) loosening the various forms of aid tying arrangements; and (iii) increasing the share of aid in various forms of faster-disbursing non-project assistance.

35. Non-concessional Borrowing. In addition to improving disbursements from the aid pipeline, India should consider higher levels of borrowing on non-concessional terms. India's debt service ratio, estimated at 12.3% in 1978/79, is projected to fall to 6.1% in 1985 and 4.4% by 1990. Even without raising the export volume growth rate above the 6.5% per annum used in Version One of the base projection, India should be in a position to borrow moderate amounts on IBRD or even commercial terms, particularly during the next few years. For example, if India were to borrow, on IBRD terms, additional resources totalling US\$4 billion phased over four years from 1980/81 through 1984/85, this would prevent the import coverage of reserves from falling much below four months of imports in 1984/85. The impact on India's creditworthiness in 1990 would be to raise the ratio of debt service to exports from 4.4% to 6.7%. Such borrowing could play an important role in easing the transition process by allowing reserves to be maintained at a more secure level while policies take effect to reduce India's dependence on imports of edible oils, steel, cement and fertilizers and to increase the export growth rate. However, ever-larger borrowings at commercial rates cannot be carried on indefinitely as a solution to the resource problems implied by a situation like Version One of the base case, in which exports grow less than two percentage points per annum faster than imports (in volume terms). Our analysis that if the uncovered gap of Version One were financed throughout the period on commercial terms, India's debt service burden would approach 17%. <sup>1/</sup> Although considerably below the levels of the early 1970s, when India was forced regularly to seek debt relief, this level would undoubtedly be viewed as unacceptably high by the Indian Government.

*What are the plans*

36. Under the more rapid export growth of Version Two, non-concessional borrowing becomes a feasible means to maintain more than three months' import coverage of reserves throughout the decade. If the non-concessional increment in borrowing were equally divided between fast-disbursing loans on commercial terms and somewhat longer-disbursing loans on IBRD terms, the debt service would be quite manageable in the context of an 8% export growth rate; by 1990/91 the debt-service ratio would be only 5.3%, barely above the base case levels with no non-concessional borrowing. Clearly, the rapid attainment of an export volume growth rate in the range of 8-10% provides enormously greater flexibility for India to adjust to any unanticipated adverse developments

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<sup>1/</sup> Terms used for commercial borrowing are 11 years with a 2-year grace period and an interest rate of 9% per annum.

during the coming decade. The levels of non-concessional borrowing in this optimistic scenario approach an increment over the base projection of US\$900 million by 1985/86 and US\$1.6 billion by 1990/91, which are moderate indeed. Greater borrowings could readily provide the resources required to maintain reserves at 5 to 6 months of import coverage.

37. A situation in between Versions One and Two represents perhaps the most probable scenario of successful adjustment. Initially exports grow at 6.5% per annum, but after 1984/85 an 8% growth rate is attained for the rest of the decade. In these circumstances, the uncovered gap that emerges in 1985/86 remains roughly constant in nominal terms at approximately US\$2.3 billion and begins to decline by the end of the decade. If commercial borrowing is utilized to fill this gap, the debt service burden is reduced considerably, reaching only 13.7% in 1990/91, a level comparable to that of the late 1970s. This result underscores the importance of even delayed acceleration of export growth; but it also provides the reassurance that the consequences of more modest export growth early in the decade can be managed without too great strain as long as export growth is eventually accelerated. A balance-of-payments projection which incorporates the parameters of this scenario is presented as Attachment 3(g).

38. Alternative trade and growth assumptions illustrate the relative insensitivity of India's poor balance of payments prospects to all growth scenarios in which imports and exports grow at roughly comparable rates. For example, if India were to opt for an adjustment strategy based on slow growth--say 3.5% per annum (as assumed in Alternative Run of Table 4), an import elasticity of 0.5, and export growth at 4.0% (which is more realistic under these conditions)--the emergence of a significant uncovered gap is not even delayed by one year and the amounts of borrowing required to fill the gap are comparable to Version One of the base scenario. But with the slower growth of exports, and inadequate performance of the economy in general, greater non-concessional borrowing becomes a much less attractive alternative. The debt-service ratio reaches almost 15% by 1988/89 and then accelerates, topping 18% in 1990/91 and clearly implying unacceptably high levels for the following years as the uncovered gap continues to increase. Table 5 summarizes the main parameters of the trade and borrowing scenarios that have been discussed above:

*Key points must grow faster than imports*

Table 5: SUMMARY OF ALTERNATIVE BALANCE-OF-PAYMENTS PARAMETERS,  
1980/81 - 1990/91

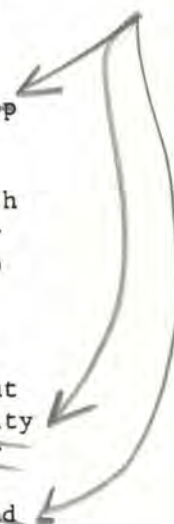
	Base Scenario		Slow Growth	Combined
	Version One	Version Two	Version Three	One & Two
GNP Growth	4.7	4.7	3.5	4.7
Export Growth	6.5	8.0	4.0	6.5/8.0 /a
Import Growth	4.9	4.6	1.75	4.9
Aggregated Borrowing /b 1980/81 - 1990/91	42.45	11.0	36.65	30.95
Debt Service Ratio	16.8	5.3	18.1	13.7
Import Coverage of Reserves	3	5	3	3

/a The switch in export growth rates occurs in mid-period.

/b The aggregated borrowing gap refers to the additional resources that would be required to maintain three months of import coverage, given the trade assumptions and the base scenario capital account. It is assumed these resources would be obtained on commercial terms (11 year terms with 2 years' grace at 9% per annum).

39. The major risk that India faces if it should push for higher economic growth rates, better export performance, and moderate increases in non-concessional borrowing would be a growth in import requirements beyond the levels implied by the base projections. Import elasticities in India have been traditionally quite low; however, the more open trade system required for efficient export promotion could give rise to rapid rates of growth in imported raw materials, intermediate and capital goods. Indeed, more rapid imports in the initial years of a high growth strategy could be a prerequisite for the success of the strategy, particularly if supply bottlenecks continue to plague the domestic economy. India's response to this situation must be trade policy reform that would promote exports sufficiently to maintain the average volume growth rate three to four points above the import growth rate. Given India's still small--and recently declining--share in world markets, this response should have reasonable prospects of success, particularly if supported by increased commitments of concessional assistance and a willingness to borrow more on commercial terms.

40. The alternatives discussed in this paper illustrate that India's top macro-economic priority during the coming years must be an acceleration of export growth combined with programs designed to minimize import dependence, particularly in the agriculture, energy and basic inputs sectors. Slow-growth options, while easing somewhat the demand for energy and other basic commodities, will not provide an environment for export growth sufficiently rapid to overcome the deepening current account deficit. Furthermore, an adjustment process based on slow growth inevitably reduces whatever flexibility remains in the economy to adjust to further external shocks, whether induced by adverse trading conditions or weather conditions. Our analysis indicates that a more open strategy, with 8%-10% export volume growth and an import elasticity between 1.0 and 1.5, not only results in external assistance requirements for less than the slow-growth alternative, but also should lead to considerably greater flexibility for economic management. If this approach can be combined



with a successful medium-term program of import substitution for key imported commodities, including increased utilization of coal as an energy source, India could limit its current account deficit to levels which could be managed with prudent drafts on non-concessional sources of external finance. As a result, India could maintain reserves sufficient to cover at least four months of imports throughout the decade. While such a strategy does incur greater risks of frustration through restrictive practices by India's trading partners, it is not likely to increase significantly the vulnerability of the Indian economy to external shocks. This vulnerability is much higher when imports have already been reduced to the essential minimum or when slow export growth restricts debt service capacity.

#### BANK GROUP ASSISTANCE AND LENDING STRATEGY

##### Developments Since the Last CPP

41. The strategy confirmed in the previous CPP continues to be appropriate to India's development needs. The emphasis on agriculture, particularly irrigation, credit, and research and extension, has demonstrated its relevance. Similarly, events since the last CPP have underscored the importance of increasing capacity in the power sector. Within these major areas of Bank Group activity, there have been two sorts of difficulty encountered during the past year. First, our continuing involvement in India's expanded irrigation and power investment programs has brought to the surface problems stemming from inadequate investment levels of the past. In irrigation, for example, the failure to ensure the adequate development of the minor water distribution network and to evolve suitable schemes of water demand management have constrained the utilization of capacity. In power, past planning has simply underestimated the energy-intensity of the Indian economy. The severe pressures of demand on inadequate supply means that proper and timely maintenance procedures are not followed. This pressure feeds back negatively on the operating efficiency of units and creates a downward spiral of technical and managerial problems in power and related industries. This set of problems in both irrigation and power is under study in our economic and sector work program for FY81 and receives considerable attention in our on-going dialogue with GOI in the context of project preparation.

42. Other problems encountered since the last CPP are primarily the consequence of the unsettled political situation which has characterized India since the split-up of the erstwhile Janata Party in June 1979. Uncertainties and delays have persisted longer than anticipated after the election of the new Government and are expected to be resolved only after the nine new State Governments are firmly established and the impact of Sanjay Gandhi's death has been absorbed. Compounding the political situation in its effect on the implementation of the Bank Group-assisted investment program have been GOI's difficulties in maintaining Plan investments, a traditional problem in drought years. Plan expenditure shortfalls have been compounded this past year by the petroleum price increase. In this context, the Bank program appears to have fared somewhat better than the overall investment program.

Amount of Assistance

43. The proposed IDA lending program for the period FY81-85, aggregating to US\$8.68 billion, represents P&B's lending objectives. (For purposes of the projections summarized in Attachment 3, IDA commitments are assumed to be maintained thereafter in constant real terms.) The remainder of the five-year lending program is based on IBRD lending rising from US\$360 million in FY81 to US\$800 million in FY85 and aggregating to US\$2,360 million over the five-year period. As indicated above, there is no doubt about India's credit-worthiness for at least this amount of IBRD lending, or about her ability to absorb the total proposed amount of Bank Group resources.

Disbursements

44. Recent Bank Group experience with disbursements is encouraging. Between FY78 and FY79, annual disbursements of IDA credits to India increased by about 16%, to US\$375 million. The level of disbursements of IBRD loans, however, was less in FY79 than in the previous fiscal year, which saw an unusually high level of IBRD disbursements. As a result, the overall increase in disbursements in FY79 was modest (8%). According to GOI estimates, the FY80 IDA disbursement level was expected to be on the order of US\$450-500 million; preliminary actual figures indicate an amount of US\$561 million for IDA disbursements in FY80, considerably exceeding GOI's and our expectations. This amount (US\$541 million) provides a projected increase over the FY79 level of about 50%. Disbursements on IBRD loans also increased slightly in FY80, with the result that total Bank Group disbursements, at US\$729 million, were about 36% higher than the FY79 level.

45. This commendable performance has been achieved in spite of the shortages of power, transport and raw materials, discussed above, which have had an adverse impact on the overall capital investment program. The Indian authorities have made a concerted effort in the past year to insulate Bank Group-supported projects from factors likely to cause a slow-down in implementation, so that disbursement levels have remained largely unaffected. As the infrastructure and input supply position improves, the current disbursement performance should be maintained or even surpassed. In addition, the Indian authorities last year began a dialogue with the Bank to seek ways in which project implementation can be accelerated through taking certain advance actions prior to formal Bank approval of projects.

46. A country disbursement table, showing comparative commitment and disbursement data for India and selected other countries, is attached as Annex 5. The table indicates that India's disbursement rate for FY80, calculated as the ratio of its total annual disbursements to the opening undisbursed loan/credit balance, is about 19%. This seemingly low rate is due partly to the significant portion of the FY80 opening undisbursed balance (about 14%) attributable to loans and credits signed or approved but not yet effective, and partly due to the rapid growth in the size of commitments. The FY80 disbursement rate based on the opening undisbursed balance of effective loans and credits (that is, excluding those signed or approved at the start of the year, but not yet effective) amounts to about 23%. In addition, the average size of commitment has been growing steadily at the rate of about 13% per year over the last four years, and about 41% per year over the last two. Even

though disbursement rates have been increasing, they have not been able to keep up with these extremely high growth rates in commitment amounts. A comparable trend is also evident in Bank-wide disbursement rates.

#### Local Cost Financing and Project Cost Sharing

47. As in the past, the program is dominated by projects with high developmental impact and small foreign exchange content. India imports relatively few capital goods because of the capacity and competitiveness of the domestic capital goods industry. Consequently, the foreign exchange component tends to be small in most projects. Therefore, to contribute to India's development through high-priority projects, substantial local cost financing is required. This is also justified on country grounds, as India's long-term needs for external capital far exceed the amounts which could be met through financing only the import content of suitable projects.

48. Bank/IDA participation in projects in India has traditionally ranged between 30% and 50% of total project cost. For large projects, such as those supporting power and fertilizer investments, the upper bound of US\$250 million on loans/credits which has been observed in the past 1/ has restricted our average share of project cost to well below 50%. For projects where this loan/credit ceiling is not a constraint, we have in any case until recently limited our participation to 50% of project cost net of taxes and duties. 2/ The objective of increasing Bank/IDA lending to India would be well served by broadening the range of cost-sharing options at our disposal to allow for Bank/IDA participation of up to 75% of project cost for selected projects, to be judged on a case-by-case basis. To begin with, we propose to focus on projects designed to benefit low-income groups in selecting candidates for higher levels of Bank Group cost sharing. In particular, we are interested in increasing our participation in projects aimed at bringing the benefits of development down to the lowest (i.e., village, farmer, household) level. These are typically operations in which the development of service or distribution systems and institutions is particularly important. These projects often require significant Bank Group involvement in project design and implementation and policy guidance, which enhances our own expertise while furthering project objectives. Moreover, the implementation of such projects is often administratively and even politically difficult. We feel that Government entities which choose to take up such challenges should be provided an extra measure of Bank Group support, especially in States where resource mobilization is particularly difficult. Higher Bank Group participation in such projects would not only be an effective response to the overall resource constraint facing India, but would address this constraint in a manner which would permit us to continue a high level of Bank involvement in the shaping and execution of high-priority projects. Even with Bank Group financing of up to 75% of selected projects, the number of very large projects in the pipeline, in combination with the constraint on the size of any single lending operation, means that the average share of project cost financed would not be likely to exceed 50%.

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1/ In FY80, we processed our first US\$300 million credit.

2/ In FY80, we financed 70% of the cost of the Kerala Extension Project and 60% of the cost of the Karnataka Sericulture Project.



Composition of the Lending Program

49. As in the past, the purpose of Bank Group assistance to India is to support India's efforts to increase the rate of growth of the economy, increase the efficiency with which human and material resources are used, and improve the distribution of the benefits of growth. The sectoral composition of the proposed program designed to achieve these objectives over the next five years, together with the actual composition of lending in the two previous five-year periods, is detailed below:

Table 6: SECTORAL DISTRIBUTION OF BANK/IDA OPERATIONS  
(percent)

<u>Sector</u>	<u>FY71-75</u>		<u>FY76-80</u>		<u>FY81-85</u>	
	<u>No.</u>	<u>Amt.</u>	<u>No.</u>	<u>Amt.</u>	<u>No.</u>	<u>Amt.</u>
Agriculture & Rural Development (of which Irrigation)	49 (10)	30 (9)	54 (16)	38 (19)	46 (28)	40 (27)
Power and Energy	4	6	14	30	13	20
Industry:						
Industrial Imports	8	21	1	3	-	-
DFC and Other	21	23	9	10	15	21
Telecommunications & Transportation	10	15	6	8	10	10
Population, Nutrition, Education	4	1	3	1	2	1
Urban Development & Water Supply	4	4	13	10	14	8
Total	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

Needless to say, the program detailed in Attachment 1 is subject to change, in the earlier years of the program period as well as the outer years, as a result of discussions with the GOI which take place as part of a continuing programming dialogue. However, the basic sectoral emphases are not expected to change.

50. As mentioned above, the two main areas of emphasis in the program continue to be irrigation (including water management) and power, which together account for 47% of our projected lending program. This year's drought and severe power shortages have reinforced our view of the importance of early and appropriate investments in irrigation and power. Moreover, our recent intensive work in these sectors has built up a momentum we feel should not be wasted. Strong cooperative relationships have been established with Government agencies in both sectors and project authorities continue to be highly receptive to the Bank's technical advice. This is particularly crucial, as a fundamental concern in these sectors is to improve the efficiency of capital use, through both rehabilitation of existing systems and introduction of improved managerial and technical standards in new investments. Thus, an important focus of our activities in these vital infrastructure sectors will be the introduction of suitable technical criteria, adequate maintenance standards, and appropriate managerial and pricing policies.

51. As an important complement to the proposed irrigation program, we plan to continue our involvement in general agriculture, agriculture-related <sup>1/</sup> and rural development projects, with three main areas of emphasis: (i) projects aimed at ensuring the availability of other critical inputs to agricultural production (e.g., fertilizer, credit, storage and processing facilities and agricultural extension); (ii) projects which focus on the development of rainfed agriculture and drought protection in areas which cannot be served by irrigation; and (iii) projects which, in recognition of India's expected foodgrain self-sufficiency, foster the diversification of agriculture to non-foodgrain crops.

52. While our emphasis on agriculture (including irrigation and agriculture-related industrial projects) and power accounts for approximately two-thirds of our projected program for 1981-85, the remaining third of the program will be devoted to continuation of ongoing initiatives in telecommunications and transportation, industry, energy, human resource development, urban development, and water supply. Our particular focus in each sector is outlined below (see paras 57 ff).

53. Before proceeding to a more specific discussion of our proposed activities by sector, several general points should be made. First, the nature and design of most of the projects in the proposed program serve the underlying objective of providing direct benefits to the poor. Investments in irrigation, for example, are not only aimed at raising productivity and, therefore, incomes in rural areas, where 80% of the poor reside, but are specifically designed around technical and organizational principles which would maximize benefits to "tail-enders," now among the poorest of small landholders. Extension and research projects focus on identification and dissemination of agricultural practices which lead to increased yields but require little additional cash input, and are thus particularly suited to and consciously directed at small farmers. At least half of the beneficiaries under our agricultural credit projects are, and are expected to continue to be, small farmers. Our efforts in rainfed and diversified agriculture continue to concentrate on identification of programs to increase the incomes of both small farmers and landless rural laborers. And finally, low-cost service systems, designed to benefit the very poor and to ensure that Governments are financially capable of extending critical public health and sanitation services to all of their constituents, including the poor, are the basis of all of our urban development, population and health, and water supply projects. Thus, while major infrastructure investments (e.g., power, ports, railways) continue to be required to spur overall economic growth in India and raise incomes and create employment in all segments of the society, these are strongly supplemented in our program and in the Government's investment plans by projects which specifically address the direct and immediate needs of the lowest income groups.

54. Second, the lending program assumes that the newly-elected State and Central Governments will establish a policy environment which supports the activities we propose. We have attempted, in the proposed program, to concentrate our efforts in a few critical areas where we feel we have the ear

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<sup>1/</sup> E.g., fertilizer, fisheries, forestry, sericulture, pulp and paper projects.

of the Government and have established significant momentum on which we can and should capitalize. Should it appear, however, that the policy framework which emerges in India may frustrate the achievement of our technical and institution-building objectives in any of these areas, we will reassess the emphasis of our program. The opportunities for Bank Group involvement which exist in many sectors in India should enable us to adjust with relative ease to the emerging policy environment. On the other hand, should the Government take initiatives which would open up the possibility of greater-than-anticipated strides in what we regard as priority sectors, we may wish to examine the possibility of expanding our IBRD program. Increased Bank lending may also be warranted if India receives a lower share of IDA resources in the outer years of the program period. Our review of India's creditworthiness indicates that considerably higher levels of IBRD lending would be acceptable.

55. Third, although the program includes no structural adjustment lending at this stage, the prospects for such lending at some time during the five-year period are quite reasonable. 1/ India's balance of payments prospects indicate that, within the next two years, a significant turn-around from reserve accumulation to rapid reserve drawdown will emerge, even if India manages to increase its export volume growth substantially above recent performance. If this turn-around is confirmed, India's need for structural adjustment assistance will be readily demonstrable. During the coming year both the GOI, through the exercise of preparing a new Five-Year Plan, and the Bank, through various components of its economic and sector work program, will consider appropriate policies and programs to accelerate the growth of the Indian economy. On the basis of these activities, not only will we be prepared, as and when the need arises, to consider the appropriateness of structural adjustment lending for India, but we will also be in a position to evaluate rapidly the content of a proposed adjustment program. At the recent Consortium meeting, the representatives of the Indian Government confirmed that an emphasis on appropriate energy pricing, coal and hydro-electric development, and import substitution for key commodities such as edible oils, steel, fertilizers and cement constitute key elements in the Government's adjustment efforts. We are also initiating a comprehensive review of recent trade policy changes so as to better evaluate proposed programs for the acceleration of export growth as they emerge. Any consideration of structural adjustment lending would be conditional on the Government's adopting policies which hold high promise of successfully altering the structure of the Indian economy as it impinges on the balance of payments.

56. Fourth, and finally, the very exercise of classifying the projected lending program by sector, as was done for the purposes of Table 6 and Attachment 1, is extremely misleading. While we have, for example, only two projects formally classified in the human resource sectors (i.e., population, health, nutrition, and education) during the next five years, our actual effort in terms of human resource development will be substantial. Agriculture extension and research, urban development, and water supply projects all contribute to the development and enhancement of human capital, as do the technical

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1/ In recognition of this, we have included structural adjustment loans in our reserve program, although the dollar amounts listed are purely notional.

assistance and training components included in so many of our projects. We also intend to propose to the Government an investigation into the management and delivery of basic education in one or more states, to enhance our understanding of that sector. Similarly, a number of projects discussed above in the context of our priorities in agriculture, such as fertilizer and forestry projects, are classified in the industrial sector, although they form an integral part of an agricultural strategy based on improved supply of inputs and diversification of agricultural production. The complementarity and, indeed, interdependence of investments across sectors must be kept in mind in evaluating the program outlined here and will be emphasized in the sections which follow.

57. Agriculture and Rural Development. In recent years, the emphasis of Bank Group lending to India has been on agriculture and rural development. The core of the Bank Group's strategy has been to support the GOI's objective of increasing foodgrain production by means of improving farmers' access to crucial inputs, especially the reliable and timely supply of water, combined with improved agricultural practices. Development of irrigation potential, production of fertilizer, increase in the supply of high-yielding seeds and provision of storage facilities have received high priority in the lending program. To increase yields by means of improved practices, the Training and Visit System of agricultural extension is being introduced in ten States of India, and additional areas will be covered in the near future. In addition, the Bank Group has been involved in a number of innovative projects in areas such as dairy development, fisheries, tree crops and social forestry development.

58. Given the clear and beneficial impact of irrigation expansion, it is not surprising that India's irrigation development program is one of the most ambitious in the world, nor that the Government is anxious for the Bank to support the program to the maximum extent possible. The Draft Sixth Plan aimed at increasing the area under irrigation by almost 3 million ha per year, about half through the development (mostly private) of groundwater and half through the development of publicly funded surface irrigation systems. Despite the size of these targets, they are being achieved, in part with Bank assistance. A large proportion of private groundwater development is refinanced by the Agricultural Research and Development Corporation, a principal beneficiary of IDA credits during the last decade. The Bank's involvement with surface irrigation has increased steadily over the past four years and will figure even more prominently in the future. In the period FY81-85, about 46% of all Bank Group operations in India are planned to be in agriculture, of which about 62% (excluding minor irrigation financed through ARDC) will be irrigation projects.

59. Last year's CPP described in some detail the technical thrust of the Bank's involvement in irrigation and its efforts to improve water management and the equity of irrigation water distribution. These activities continue and are being progressively refined. A major new development since then is the Bank's involvement with the Narmada Basin, from which a series of investment projects is expected to flow in the next several years.

60. The Narmada is the largest westward-flowing river in India, draining an area of some 98,800 km<sup>2</sup> in the three States of Madhya Pradesh, Gujarat and Maharashtra. The flow of the Narmada (34.5 thousand million m<sup>3</sup>) is greater than the total of the Ravi, Beas and Sutlej flows that feed the Indus Basin system in Punjab, Haryana and Rajasthan. Because of interstate disputes over the allocation of water, the river basin has remained virtually undeveloped. The final award of the Narmada Water Dispute Tribunal in December 1979 now permits between four and five million hectares to be developed for irrigation. Approximately one-third of the dependable yield of the system was allocated by the Tribunal to Gujarat, and most of the remainder to Madhya Pradesh. The Narmada development, if properly planned, implemented and operated, will result in an increase in agricultural value-added of some US\$2 billion annually and will directly generate about one million jobs. In addition, the indirect benefits--when the multiplier effect of increased agricultural production and income is felt in other sectors--will be at least as large as, and probably larger than, the direct effects. Thus, the total impact of the Narmada schemes on India's net domestic product will be in the order of US\$4-5 billion. The engineering task is formidable, however. The two major storage reservoirs (Narmadasagar in Madhya Pradesh and Sardar Sarovar in Gujarat) will have among the largest dams in the world; and the Narmada Main Canal in Gujarat, with a capacity of over 40,000 cusecs, will probably be the largest irrigation canal ever constructed.

61. Clearly, Narmada presents a major challenge to the Bank, not only in financial terms, but in terms of the engineering and other technical assistance that is a concomitant of Bank lending. Narmada should be developed to meet the needs of the twenty-first century; experience indicates that without involvement of the Bank (or a similar external agency), the tendency may be toward a conservative and traditional approach to design that would be more attuned to the needs of the recent past than to the future. The present program contains seven Narmada projects, involving a total lending volume of US\$1,450 million, and this involvement is likely to extend beyond FY85.

62. The large volume of Bank lending to Indian irrigation may create temporary problems for both India and the Bank, stemming from India's present difficulties in preparing and designing irrigation projects that accommodate modern techniques and concepts of efficiency. Aside from basic conceptual problems, a weak data base contributes to these difficulties. Thus, frequently the Bank's first step in the project preparation process is a mission to recommend not only the data to be collected but also how this data should be collected. India is reluctant to employ foreign consultants for project preparation, although in 1979 it did obtain funds from UNDP for this purpose and authorized the Bank to expend these on preparatory work for projects destined for Bank consideration. In addition, GOI plans to spend very substantial sums on improving its indigenous project preparation capacity; US\$10 million was included for this purpose in the recent credit for the Second Gujarat Irrigation Project. These funds will be employed to set up project preparation cells at both Center and State levels. While these developments are encouraging, 18 months to two years are likely to pass before their impact becomes significant. In the interim, the Bank will continue to work with the existing indigenous facilities, which may involve some delays in the start-up of projects included in the early years of the five-year program period.

63. Realizing that the irrigation cannot cover all of India, GOI and the Bank Group have been giving increasing emphasis to the development of agriculture under rainfed and drought-prone conditions. The Drought Prone Areas Project (Cr. 526-IN), which is nearing completion, has been successful in creating a sound basis for development of a number of farming activities under drought-prone conditions. Similarly, GOI and the Bank Group have been involved in the development of a number of projects in rainfed areas. The program for the next five years contains two projects in rainfed agriculture and three in watershed protection in the Himalayan foothills. Results from these projects should point the way for major investment programs in areas which, so far, have received a very small share of the development effort.

64. Finally, we intend to continue our support to projects aimed at ensuring the availability of other critical inputs and post-harvest adjuncts to agricultural production and those aimed at the diversification of agriculture to non-foodgrain crops. Fortunately, a number of strong central organizations have emerged in India, and it is now possible to rely on them to play an important role in project preparation and supervision, thus permitting the Bank's own input to be kept within reasonable levels. Repeater operations involving the Agricultural Refinance and Development Corporation (ARDC), the National Cooperative Development Corporation (NCDC) and the Indian Dairy Corporation (IDC) are an important part of the lending program. ARDC has now evolved into an efficient institution financing medium- and long-term agricultural credit needs all over India. In the coming years, it is expected to expand its operations to include short-term credit and other rural development activities. ARDC would be increasingly used not only to finance minor irrigation, but also for a variety of other diversified activities including dissemination of the innovations achieved through several Bank Group projects in such areas as tree crops and fisheries. Similarly, NCDC would be used for expansion and improvement of storage and crop processing, and IDC would be used for modernization and expansion of the dairy industry.

65. Energy. Proposed lending to the energy sector represents about one-fifth of our total program. Part of this is in the oil and gas and coal sectors. The principal objective of Bank involvement in the oil and gas sector is to assist the Oil and Natural Gas Commission (ONGC) in optimizing the development and utilization of India's oil and gas reserves, in particular the offshore Bombay High and Bassein fields. Planned projects will help finance the acceleration of Bombay High development and the development of the South Bassein gas field and accompanying pipeline to Gujarat. The exploitation of natural gas reserves will provide natural gas as a feedstock for fertilizer and petrochemical plants, as well as for limited use in other industrial sectors. Since India has limited experience in the utilization of gas, the Bank's involvement will help to ensure that the development of this potential will be coordinated and phased with the development of natural gas-based industries. In addition, the Bank is discussing with GOI the possibility of assisting ONGC in accelerating exploration activity, particularly offshore, which is becoming increasingly urgent as the country's demand for oil grows. At the same time, the Bank will continue to consolidate the institution-building objectives of its first loan for Bombay High development, which was aimed at strengthening ONGC's capabilities in planning, budgeting, financial management, and project evaluation methods. In the case of coal, we are undertaking a subsector study in FY81 which, it is hoped, will result in subsequent lending.

Although there is vast scope for productive investment in coal mining, any operation in the sector will have to be approached with caution, given the poor results of our two previous operations in the sector (both in 1961) and the traditional involvement of the U.K. and Eastern Europe.

66. Electric power scarcity remains a major constraint to India's economic development. The bulk of Bank Group lending in the energy sector has been and will remain for electric power. The Bank Group's main objectives in the power sector are: (a) to accelerate the installation of generating capacity and promote measures to improve the technical levels of operation and maintenance of existing plants; (b) to foster the development of a comprehensive long-range regional and national power planning system which would assure implementation of the power development program along least-cost lines; (c) to strengthen the management of the sector; and (d) to improve the finances of the institutions involved in the sector, particularly of the State Electricity Boards (SEBs). While some noteworthy results have been achieved in these areas, much more remains to be done. The Bank Group will focus on these issues through its involvement in the power sector. The Government recognizes that all aspects of the power sector need to be reviewed and that satisfactory solutions have to be found for outstanding sector problems. A high-level Committee on Power, under the chairmanship of V.G. Rajadhyaksha, is expected to submit its findings and recommendations to the Government shortly.

67. Industry. The lending program in industry remains highly tentative, pending clarification of the Government's objectives for the sector and the results of some of our own economic and sector work, described below. Until then, the program is concentrated in large part on the fertilizer sector. The need for increasing the capacity of the domestic fertilizer industry is well-grounded in both demand and supply considerations. As a critical complementary input to water, fertilizer use is projected to continue to grow rapidly during the next decade as the irrigation system expands and as the utilization of the existing system improves with better water management. Even today, fertilizer use is distributed very unevenly among currently irrigated areas, with considerable scope for more intensive use. Although fertilizer could be imported to meet India's needs, this solution would put added pressure on India's already vulnerable balance of payments.

India has large resources of natural gas as well as coal to use as a feedstock and offers a sufficiently large market to support plant sizes of international standard. Under these conditions, augmented by transportation advantages, domestic production of most of India's fertilizer needs is to India's comparative advantage.

68. Given the increasing foreign exchange constraint in India, the industrial lending program will also address other subsectors with substantial potential for export or for import substitution. Our study of the cement subsector in FY80 suggests an important role for the Bank Group in financing the substantial expansion planned for the subsector and in promoting sound pricing and other policy measures. An ongoing survey of handloom export activities suggests that, with careful selection of activities and products, economically sound export-oriented handloom investments may be developed. Among other subsectors which appear to offer promise are bagasse-based paper, petrochemicals, silk and engineering goods.

69. The present program does not earmark any funds for ICICI or IDBI. However, ICICI is a capable institution which offers an opportunity for rapid and sizeable resource transfers. A decision on further lending to ICICI will be based on the pace at which the recent thirteenth loan to ICICI is committed and the institution's success in progressively diversifying its sources of foreign exchange. Lending operations using IDBI as an intermediary have proved less satisfactory, due in part to factors beyond IDBI's control. Operations in support of the State Financial Corporations (SFCs) have moved far more slowly than originally expected; the first such operation--a US\$25 million credit of February 1973--was closed in FY80 with US\$8.4 million unutilized and therefore cancelled. The second such operation--a US\$40 million loan of June 1976--is likely to require at least five years (instead of 18 months as originally expected) for commitment and is not likely to be fully disbursed before March 1983. The third IDBI operation--a US\$25 million loan of March 1978--which is designed to support projects in the joint and public sectors, has been slow in both commitment and disbursement, reflecting the difficulty in launching small projects in these sectors. Institutional improvements at IDBI have not measured up to our expectations, partly because the institution has become over-extended in its effort to supervise some 40 State-level institutions. Moreover, IDBI's effectiveness in encouraging improvements in the operations of the SFCs has been limited by its reluctance to impose effective disciplinary measures in support of its recommendations. Consequently, before further operations using IDBI as an intermediary can be considered, IDBI's own role needs to be clarified and its performance improved.

70. Projects likely to involve IFC financing in India will generally be large and/or technically complex. They would draw upon IFC project evaluation expertise and equity-funding capability. IFC's commitments in India total US\$72.6 million to 13 companies (manufacturing steel products, engineering goods, machinery, cables, ceramics, chemicals and fertilizers) and one financial institution. IFC's most recent investments in India have included an ammonia project (1980) and a participation in a new financial institution designed to provide long-term financing for residential housing (1978). An additional project (iron/steel) is under consideration. IFC maintains a continuing dialogue with Government and local financial institutions to determine future areas of collaboration where IFC can best supplement local resources and institutional capabilities.

71. Transport and Telecommunications. The transport bottlenecks which plagued the Indian economy this year have underlined the importance of rail, road and port development to the development of other sectors. Movement of fuel for power stations, construction materials for irrigation works and agricultural inputs is particularly important in terms of the development priorities identified in this paper. The shortage and inefficiency of coal for steam locomotives and the increasing cost of petroleum-based fuel for diesel locomotives have made it urgent for Indian Railways (IR) to review its motive power policy with a view to increasing the efficiency of its obsolescent electric traction and to considerably shortening the period for replacement of steam locomotives. Although the willingness of the new Government to take the politically difficult step inherent in sanctioning the import of new technology (and the interim import of locomotives embodying the new technology) has not yet been established, there is reason to hope that this critical step will be taken shortly.



In the meanwhile, a number of investment opportunities exist to enhance the efficiency of the railway system, among them the establishment of remanufacturing facilities for parts and components to support a unit exchange maintenance and periodic overhaul program for diesel locomotives, and the introduction of an advanced real-time operating information and control system for motive power and rolling stock distribution designed to improve capacity utilization. Moreover, once the necessary motive power policy has been adopted, substantial investment in track electrification and in the upgrading of electric locomotives will be required.

72. The progress of rural development increasingly requires the construction and improvement of rural roads, especially in backward and remote regions. After a period of indecision on the part of the Government, the first such project, in Bihar, has been revived and is included in the lending program. We hope to continue this initiative in the sector, through further investments in other locations, during the coming five-year period. There is also scope for useful IDA involvement in the ports subsector, especially at Nhava Sheva, across the bay from the existing Port of Bombay, which cannot be expanded further. A formal Government decision to proceed with the construction of Nhava Sheva Port has reportedly been taken recently.

73. In its long association with the Indian telecommunications sector, the Bank's major objectives have been to help the Posts and Telegraphs Department (P&T) improve the quality and quantity of service throughout the country as a whole and to encourage institutional development within P&T. The most recent loan also supported local manufacture of equipment used in the network, and sponsored economic studies related to maximizing the benefits of telecommunications services and to determining appropriate tariffs. A key technological issue in the sector relates to the manufacture and use of switching equipment in telephone and telex networks. The Government is considering the construction and equipping of a new factory to produce electro-mechanical crossbar switching equipment. The Bank, however, has recommended that an electronic digital switching system be adopted, not only because of the potential cost savings, improvement in equipment reliability, and increased capacity, but also because of the clear global trend toward this type of system. Therefore, construction and equipping of the proposed crossbar equipment factory would not be financed from Bank Group sources. However, if a decision to introduce local manufacture of the electronic switching equipment is taken now or in the near future, the associated investment requirements could form the focus of future lending. In the meanwhile, there is scope for Bank Group involvement in specific network upgrading activities designed to improve the performance of the existing plant and to maximize its exploitation, thereby enhancing the value of past investments in the sector.

74. Human Resources. As mentioned earlier, a number of projects across several sectors of our FY81-85 lending program will have a strong element of human resource development. Agricultural extension and research projects will concentrate directly on transmitting knowledge of improved agricultural practices to extension workers and, in turn, to farmers. Proposed urban development projects, which are likely to focus on provision of shelter and primary infrastructure, would not only improve basic public health and sanitation systems, thereby having a considerable impact on the health and welfare of

beneficiaries, but typically provide clinics and schools for residents of sites and services and slum areas. Similarly, water supply investments have a direct impact on the health and living standards of the beneficiary population. And finally, projects in many sectors will include project-related technical assistance and training components.

75. In addition, we feel there is scope for direct Bank Group involvement in the population, health and nutrition sector during the coming five-year period. The problems to be faced in population, health and nutrition relate to the creation of a service delivery system which is more extensive and of better quality than that which now exists. The major constraints will be management, mobility and the social difficulties connected with establishing a community-based system of health and family welfare volunteers. In recent years, concentration on family planning services per se has been replaced--in the Government's thinking and in our own--by a renewed emphasis on the integration of family planning and maternal and child health services and support activities. This approach was incorporated in the design of the second population project, which was signed in April 1980, and which places equal emphasis on basic health care and family planning. Both projects are concerned with establishing, within available fiscal and human resources, an effective health care delivery system from the sub-district level downwards. Efforts to improve family planning management and services also have an impact on health care because the staff and facilities are integrated. The second project will establish by 1985 a pattern of service delivery in selected districts which the Government aims to achieve throughout India by 1988. The same pattern is being tried in ten other States with assistance from other donors.

76. The first nutrition project for India, which was approved in FY80, is also integrated with the rural health care system in the project districts. It is designed to improve the nutrition and health status of children and pregnant and nursing women through a program of nutrition education and of nutrition surveillance and food supplementation concentrated on the most vulnerable age group--children between 6 and 36 months of age. This is a highly innovative project, in the view of both the Government and the Bank. The actual content of the proposed projects in the area of population/health/nutrition will be determined on the basis of our experience with this as well as the ongoing population/health projects.

77. Urban Development and Water Supply. Our urban lending has concentrated on the problems of three of India's largest cities--Calcutta, Bombay and Madras. The first projects in Calcutta and Madras supported an integrated package of urban services (water supply, sanitation, transport, slum upgrading, sites and services); in Bombay and in the recent Calcutta Urban Transport Project, our approach has been to limit support to water supply and transport, respectively. In all cases, strengthening of municipal institutions, particularly their financial and managerial capabilities, has been a major objective of Bank Group lending. Bank support to these three cities will continue during the program period. Future projects are likely to embrace shelter and related services, with special emphasis on municipal institutions and finance.

78. We have also begun to expand our urban development program by addressing the problems and potential of medium-sized cities, where the fastest rates of urban growth are occurring. One such project is now under

preparation, and the Government is expected to develop a proposal to assist a number of other medium-sized cities in two or three States. An issue which will be addressed in this context is the institutional arrangement for project financing, including the possible use of the Housing and Urban Development Corporation (HUDCO) as an intermediary.

79. In the water supply and sewerage sector, we have, in the past, adopted a two-pronged approach, focusing on augmentation and improvement of the water supply and sewerage system in Bombay, where rapid growth of the city has led to serious, health threatening service deficiencies, and on provision of low-cost water supply and sewerage services to hitherto-neglected towns and rural areas. The former objective was served through our support to two projects in Bombay, while the latter approach was followed in more broadly-based projects in Uttar Pradesh, Punjab, Maharashtra, and Rajasthan. The future program will build on this established pattern, including continuing support for critical metropolitan water supply and sewerage investments as well as more broadly-based State-level initiatives to benefit currently unserved or under-served urban and rural areas.

#### ECONOMIC AND SECTOR WORK PROGRAM

80. The program of economic and sector work continues to give prominence, through the annual Economic Report, to the needs of the Consortium and Bank staff outside the region for information on and analysis of developments in the Indian economy. Special economic studies will also continue their traditional role of providing the basis for policy dialogue with the Indian Government as well as shaping the context for Bank Group lending. Two major areas of investigation dominate the program: the first concerns adjustment to recent changes in the international economic environment, and the second continues the analysis of important topics in India's agricultural development.

81. Three important elements of a medium-term adjustment program for India have been identified in the FY80 work program. Further analysis is planned in each of these areas during the next two to three years. In trade policy, an effort will be made to assess the impact of India's recent import liberalization on both import-competing and import-using industries (including, most importantly, export industries). India's growth prospects are contingent not only on a more efficient utilization of resources, to which import liberalization should contribute, but also on a rapid acceleration in export growth. There is accumulating evidence that the current policy environment is inadequate to this task. Studies during the coming year are planned to specify determinants of recent export performance for major commodities or categories and to evaluate export policy options.

82. A second area in which improved performance can greatly facilitate India's adjustment to the international environment is an accelerated program of import substitution in certain industries in which India should have comparative advantage. A study of the cement industry undertaken in the FY80 ESWP analyzes the policies which inhibited adequate investment in the cement industry during the 1970s and led to the current reliance on imports. The

effect of recent policy changes on India's ability to meet its projected cement requirements was also evaluated. During FY81 a review of the fertilizer sector will be undertaken, analyzing plans and prospects for minimizing India's import dependence. The possibility of undertaking a similar review of the steel industry in FY82 will be explored.

83. A third element of India's adjustment program which will figure prominently in the ESWP is energy. It is proposed that several individual studies be undertaken in individual subsectors--coal, petroleum, power--and that these be supplemented by an overview of energy development priorities with a medium- to long-range perspective. In the coal sector, the objective will be to establish the technical and economic basis for an evaluation of India's coal development and energy conversion program, leading to the initial stages of a dialogue with the GOI on sectoral policies and investment plans. Economic work in the power sector will build on the analysis of sectoral performance made during FY80 and will pursue, in particular, an analysis of efficiency in the allocation of shortages among various categories of power consumers. A beginning may also be made on developing a methodology for estimating price elasticities of demand. Further work on the petroleum sector will be conducted in the context of the Economic Report and of further oil and gas projects, which appear in the lending program.

84. A review of economic and sector work on India's industrial sector was completed during FY80. The report urges an intensification of studies on India's industrial exports, supplemented by subsector studies of particular industries. The capital goods industry and textiles have been tentatively identified. These studies will assist in providing industry-specific, and even firm-specific, foundations for the trade and energy studies discussed above.

85. The other main focus of economic and sector work in the next two years will be on agriculture. Work will continue on irrigation planning in various States, particularly Madhya Pradesh and Gujarat, which will share in the massive Narmada development program. Also into FY81, on-going studies of water management will lead to better design of irrigation systems to promote the full utilization of the potential created. Economic studies in the agriculture sector during FY81 will explore in greater depth the options available to Indian agriculture as the overriding requirement to concentrate on foodgrain production lessens.

86. The program of economic and sector work on India draws extensively on India's wealth of human and institutional resources, primarily as consultants in the preparation of individual reports or background papers for the Economic Report. Although full collaboration arrangements have been developed with Indian institutions such as the Institute of Management at Ahmedabad, this practice is more appropriate and successful with COPD (and particularly DPS)-managed work. In the case of work managed within the region, the time devoted to management of local consultants is directly proportional to the quality and operational usefulness of the output. With much of our regionally managed economic and sector work directly tied to operational issues which often materialize at short notice and require relatively rapid analysis, the selection and supervision of local consultants is often logistically difficult as well. However, within staffing constraints we will continue to expand the use

of local resources to contribute to the objectives of our economic and sector work on India.

87. A more detailed description of studies in the FY81 ESWP and a summary table of the FY81 and FY82 programs may be found in Attachment 4. (It should be noted that neither that Attachment nor the above discussion includes all CPS/DPS work on India, which is not managed by the region.)

#### ROLE OF THE NEW DELHI OFFICE

88. Total Bank Group lending to India has increased substantially over the past five years--from a program of 11 projects and US\$894 million in FY76 one of 16 projects totalling US\$1,660 million in FY80. During FY81, we will be responsible for supervision of nearly 90 on-going projects, in addition to processing our programs for FY81 and future years. As the Bank's program in India has expanded, so too has its need for capable staff posted in India to assist in project processing, economic and sector work, and general liaison with the Central and State Governments. In response to this need, the capacity of our New Delhi Office (NDO) has been expanded to allow it to carry out a significant portion of our project identification and supervision responsibilities, particularly in the agricultural sector, and to assist in project appraisal and monitoring of procurement and disbursements, while continuing to bear primary responsibility for the preparation of the Economic Report. In addition, NDO performs an invaluable function in terms of communications with the Government and day-to-day economic and political reporting. In order to ensure the successful continuation and expansion of our program in India, we will continue to rely on the NDO to play a major role in both our lending operations and our economic and sector work.

#### SUMMARY AND CONCLUSIONS

89. India faces the 1980s with a difficult agenda. The projected continuation of seriously deteriorating terms of trade and the re-emergence of infrastructural and supply bottlenecks will put great pressure on the capacity of the Indian economy to adjust through more rapid export growth and an investment program designed to reduce import requirements, improve capacity utilization and provide the basis for continued improvements in agriculture and an acceleration in non-agricultural growth. In contrast to the 1973 crisis, India faces this prospect from a position of unusual strength. Foreign exchange reserves are sufficient to allow a transition to a more export-oriented trade regime without severe curtailment of imports. Similarly, foodgrain stocks are adequate to cushion the impact of one, if not two, years of bad weather in spite of the past year's severe drought. However, without appropriate adjustment, these resources, particularly foreign exchange, will rapidly diminish, a process which has already begun. The crisis that confronts India is, of course, in large part, the crisis that confronts all of the world's poor developing countries; the adoption of appropriate adjustment policies by each of these countries will not be a successful response

in the aggregate without "structural adjustments" in capital and trade flows in the world economy as a whole. Nevertheless, India is well-positioned to do its part and to the extent it succeeds, the burden will be eased for a major portion of the world's poor.

90. The main conclusions of this CPP are:

- (a) The composition of the proposed lending program, with its continued emphasis on irrigation and energy, is appropriate to India's development priorities and policies. The content of the program will be reviewed should the new Plan differ radically from current expectations;
- (b) India is creditworthy for a significant increase in IBRD lending, contingent on the formulation of appropriate policies to accelerate export growth and improve resource allocation, particularly in the energy sector. In addition to increased IBRD borrowing, India should draw on other sources of non-concessional lending;
- (c) In order to facilitate the formulation and timely execution of projects which most directly benefit the rural poor in resource-constrained circumstances, Bank Group participation of up to 75% of project cost is warranted for selected projects, to be judged on a case-by-case basis; and
- (d) Measures to increase India's access to more rapidly disbursing aid are also appropriate. Should India's policies and needs warrant, these may include Bank support of India's structural adjustment program as it evolves in the context of the next Plan.











INDIA - SUMMARY OF BANK GROUP AND OTHER OFFICIAL LENDING

SECTORAL DISTRIBUTION OF BANK GROUP COMMITMENTS (%)	Through FY74	Actual					Current			Program			Total FY70-74	Total FY75-79	Total FY80-84	Total FY81-85
		FY75	FY76	FY77	FY78	FY79	FY80	FY81	FY82	FY83	FY84	FY85				
Agriculture and Rural Development	15	40	21	43	52	23	48	28	46	41	46	39	26	35	42	40
Energy	1	-	-	20	-	-	-	11	-	9	3	-	-	3	5	4
Industry	39	60	39	-	8	17	6	24	17	24	19	18	37	23	19	21
Power	10	-	23	20	24	28	33	14	14	17	18	16	8	21	19	16
Population, Health and Nutrition	1	-	-	-	-	-	5	-	-	2	-	2	1	-	1	1
Telecommunications	7	-	-	11	9	-	-	14	-	-	-	7	8	4	2	4
Transportation	25	-	12	-	-	13	-	-	15	2	3	9	15	6	4	6
Urban Development	1	-	-	6	7	-	3	3	3	4	9	5	2	2	3	5
Water Supply	1	-	5	-	-	19	5	6	3	1	2	4	3	6	3	3
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

BANK GROUP DISBURSEMENTS (US\$)

IRRU o/s	including undisbursed		excluding undisbursed																
	2/	3/	4/	5/	6/	7/	8/	9/	10/	11/	12/	13/	14/	15/	16/	17/	18/	19/	20/
	865.3	821.0	940.4	1163.1	1466.9	1706.0	1744.1	2010.6	2136.0	2558.3	2973.0	3666.7	-	997.4	11422.2	13344.6			
	530.8	519.1	464.2	515.6	670.8	779.3	860.9	992.9	1180.0	1393.9	1648.6	1933.2	-	2949.0	4076.1	7148.6			
IBRD - Gross Disbursements	1093.0	41.5	35.8	94.3	175.3	163.5	168.2	225.6	261.7	291.6	339.9	390.8	198.7	510.4	1287.0	1509.6			
- Repayments	627.8	32.6	55.2	57.6	75.4	73.3	86.6	93.6	74.6	77.7	85.2	106.2	237.6	314.1	417.7	437.3			
- Net Disbursements	465.2	-21.1	-19.4	36.7	99.9	90.2	81.6	132.0	187.1	213.9	254.7	284.6	-38.9	196.3	869.3	1072.3			
- Interest and Charges	473.2	32.3	26.9	33.6	42.6	55.3	58.2	76.2	89.8	106.2	127.6	152.1	149.9	190.9	458.0	551.9			
- Net Transfer	-8.0	-43.4	-46.3	3.1	37.3	34.7	23.4	35.8	97.3	107.7	127.1	132.5	-188.8	3.4	411.3	520.4			
IBRD/IDA	2846.3	480.2	551.5	598.7	497.2	538.3	728.8	975.6	1254.9	1527.0	1810.4	2026.1	962.3	2665.9	6296.7	7594.0			
- Gross Disbursements	834.1	58.2	91.6	66.4	96.0	84.1	100.7	110.6	96.2	107.7	122.4	132.6	243.9	356.3	537.6	589.5			
- Repayments	212.2	422.0	489.9	532.3	411.2	454.2	628.1	865.0	1158.7	1419.3	1688.0	1879.5	718.4	2309.6	5799.1	7004.5			
- Net Disbursements	544.9	48.1	45.7	57.4	69.2	83.4	87.1	114.5	134.6	158.5	190.3	225.1	202.4	303.8	685.0	824.2			
- Interest and Charges	1667.3	373.9	444.2	474.9	342.0	370.8	541.0	750.5	1024.1	1260.8	1497.7	1647.2	516.0	2005.8	5074.1	6180.3			
- Net Transfer																			

Actual 1975/76 1976/77 1977/78 1978/79 1979/80 1980/81 1981/82 1982/83 1983/84 1984/85 1985/86 1990/91

IBRD EXPOSURE (%)

IBRD Disbursement/Total Gross Disbursements	1.7	3.9	9.6	10.6	12.7	10.8	9.4	9.9	10.7	11.0	12.0	12.4
IBRD DOD/Total DOD	3.5	3.4	3.7	4.2	5.0	5.5	5.9	6.4	6.7	7.1	7.4	7.7
IBRD Debt Service/Total Debt Service	11.3	10.6	11.3	12.0	12.9	14.2	13.1	13.1	15.7	19.4	22.2	27.1

COMMITMENTS FROM OFFICIAL SOURCES (US\$)

Grants	695.1	524.5	566.3	606.8	686.6	758.2	815.1	876.2	941.9	1,012.5	1,073.3	1,436.0
Concessional Loans												
DAC	285.6	537.5	443.0	302.2	482.0	532.0	571.9	614.8	660.9	710.4	753.0	1,007.7
OPEC	1,154.3	121.4	225.3	38.8	-	-	-	-	-	-	-	-
IDA	817.0	-	824.0	1,354.5	1,370.0	1,480.0	1,600.0	1,720.0	1,900.0	1,980.0	2,098.8	2,808.7
CPE	-	-	339.8	-	-	-	-	-	-	-	-	-
Non-concessional Loans												
IBRD	100.0	315.0	269.0	275.0	290.0	360.0	400.0	450.0	500.0	550.0	583.0	780.0
Other	149.0	58.1	33.2	58.5	-	-	-	-	-	-	-	-
TOTAL COMMITMENTS	3,201.0	1,556.5	2,700.4	2,835.8	2,828.6	3,130.2	3,387.0	3,661.0	4,002.8	4,252.9	4,508.1	6,032.4

1/ As of the end of the fiscal year.

2/ The exchange adjustment of \$45.3 million as of June 30, 1974, has been included in these figures.

3/ The exchange adjustment of \$64.9 million as of June 30, 1975, has been included in these figures, with a decrease of \$0.6 million since June 1974.

4/ The exchange adjustment of \$29.4 million as of June 30, 1976, has been included in these figures, with a decrease of \$35.5 million since June 1975.

5/ The exchange adjustment of \$44.1 million as of June 30, 1977, has been included in these figures, with a decrease of \$14.7 million since June 1976.

6/ The exchange adjustment of \$99.4 million as of June 30, 1978, has been included in these figures, with a decrease of \$55.3 million since June 1977.

7/ The exchange adjustment of \$116.4 million as of June 30, 1979, has been included in these figures, with a decrease of \$18.3 million since June 1978.

Note: All data in this table reflect o/s amounts and crossactions of loans sold to Third Parties.

## INDIA - SOCIAL INDICATORS DATA SHEET

INDIA	REFERENCE GROUPS (WEIGHTED AVERAGES MOST RECENT ESTIMATE <sup>/a</sup> )			
	1960 <sup>/b</sup>	1970 <sup>/b</sup>	MOST RECENT ESTIMATE <sup>/b</sup>	MIDDLE INCOME ASIA & PACIFIC
LAND AREA (THOUSAND SQ. KM.)				
TOTAL	3287.6			
AGRICULTURAL	1824.0			
GNP PER CAPITA (US\$)	60.0	90.0	180.0	197.9
ENERGY CONSUMPTION PER CAPITA (KILOGRAMS OF COAL EQUIVALENT)	108.0/c	141.0/c	176.0/c	166.0
POPULATION AND VITAL STATISTICS				
POPULATION, MID-YEAR (MILLIONS)	434.9	547.6	643.9	.
URBAN POPULATION (PERCENT OF TOTAL)	17.9	19.7	21.7	20.8
POPULATION PROJECTIONS				
POPULATION IN YEAR 2000 (MILLIONS)			974.1	.
STATIONARY POPULATION (MILLIONS)			1645.0	.
YEAR STATIONARY POPULATION IS REACHED			2150	.
POPULATION DENSITY				
PER SQ. KM.	132.0	167.0	196.0	193.2
PER SQ. KM. AGRICULTURAL LAND	247.0	308.0	353.0	409.6
POPULATION AGE STRUCTURE (PERCENT)				
0-14 YRS.	40.0	42.5	41.4	42.0
15-64 YRS.	56.5	54.6	55.6	55.0
65 YRS. AND ABOVE	3.5	2.9	3.0	3.0
POPULATION GROWTH RATE (PERCENT)				
TOTAL	1.9	2.5	2.0	2.2
URBAN	2.5/d	3.3	3.3	3.9
CRUDE BIRTH RATE (PER THOUSAND)	43.0	40.0	35.0	37.4
CRUDE DEATH RATE (PER THOUSAND)	21.0	17.0	14.0	14.6
GROSS REPRODUCTION RATE	3.2	2.9	2.4	2.6
FAMILY PLANNING				
ACCEPTORS, ANNUAL (THOUSANDS)	64.0	3782.0	4714.0	.
USERS (PERCENT OF MARRIED WOMEN)	..	12.0	16.9	15.6
FOOD AND NUTRITION				
INDEX OF FOOD PRODUCTION PER CAPITA (1969-71=100)	98.0	102.0	103.0	101.4
PER CAPITA SUPPLY OF CALORIES (PERCENT OF REQUIREMENTS)	93.0	92.0	91.0	92.4
PROTEINS (GRAMS PER DAY)	32.0	51.0	50.0	49.8
OF WHICH ANIMAL AND PULSE	17.0	15.0	13.0	12.0
CHILD (AGES 1-4) MORTALITY RATE	28.0	22.0	18.0	17.9
HEALTH				
LIFE EXPECTANCY AT BIRTH (YEARS)	43.0	48.0	51.0	50.8
INFANT MORTALITY RATE (PER THOUSAND)	..	134.0	..	..
ACCESS TO SAFE WATER (PERCENT OF POPULATION)				
TOTAL	..	17.0	33.0	30.2
URBAN	..	60.0	83.0	66.0
RURAL	..	6.0	20.0	20.0
ACCESS TO EXCRETA DISPOSAL (PERCENT OF POPULATION)				
TOTAL	..	18.0	20.0	17.7
URBAN	..	85.0	87.0	71.3
RURAL	..	1.0	2.0	..
POPULATION PER PHYSICIAN	5800.0/g	4890.0	3617.0	6322.7
POPULATION PER NURSING PERSON	9630.0/h	5220.0	5675.0	9459.0
POPULATION PER HOSPITAL BED				
TOTAL	2149.0/f	1629.0	1289.0	1758.4
URBAN	..	..	..	502.9
RURAL	..	..	..	10524.1
ADMISSIONS PER HOSPITAL BED	..	..	..	..
HOUSING				
AVERAGE SIZE OF HOUSEHOLD				
TOTAL	5.2	..	5.2	..
URBAN	5.2	..	4.8	..
RURAL	5.2	..	5.3	..
AVERAGE NUMBER OF PERSONS PER ROOM				
TOTAL	2.6	2.8	..	..
URBAN	..	..	..	..
RURAL	..	..	..	..
ACCESS TO ELECTRICITY (PERCENT OF DWELLINGS)				
TOTAL	..	..	..	..
URBAN	..	..	..	..
RURAL	..	..	..	..

## INDIA - SOCIAL INDICATORS DATA SHEET

	INDIA			REFERENCE GROUPS (WEIGHTED AVERAGES - MOST RECENT ESTIMATE) <sup>/a</sup>	
	1960 <sup>/b</sup>	1970 <sup>/b</sup>	MOST RECENT ESTIMATE <sup>/b</sup>	LOW INCOME ASIA & PACIFIC	MIDDLE INCOME ASIA & PACIFIC
<b>EDUCATION</b>					
ADJUSTED ENROLLMENT RATIOS					
PRIMARY: TOTAL	61.0	72.0	80.0	80.9	98.6
MALE	80.0	87.0	95.0	94.3	99.2
FEMALE	40.0	55.0	64.0	66.7	97.7
SECONDARY: TOTAL	20.0	29.0	28.0	26.8	55.5
MALE	30.0	39.0	38.0	34.8	60.7
FEMALE	10.0	17.0	18.0	18.2	49.9
VOCATIONAL ENROL. (% OF SECONDARY)	8.0	6.0/ <sup>g</sup>	..	9.9	13.7
PUPIL-TEACHER RATIO					
PRIMARY	29.0	40.0	42.0	41.1	34.6
SECONDARY	16.0	17.0	..	20.5	28.5
ADULT LITERACY RATE (PERCENT)	28.0	33.0	36.0	40.9	85.8
<b>CONSUMPTION</b>					
PASSENGER CARS PER THOUSAND POPULATION					
	0.7	1.0	1.3	1.8	9.0
RADIO RECEIVERS PER THOUSAND POPULATION					
	5.0	21.0	24.0	25.8	118.9
TV RECEIVERS PER THOUSAND POPULATION					
	..	0.1	0.5	2.4	39.4
NEWSPAPER ("DAILY GENERAL INTEREST") CIRCULATION PER THOUSAND POPULATION					
	11.0	16.0	16.0	13.4	..
CINEMA ANNUAL ATTENDANCE PER CAPITA					
	4.0	6.3	3.8	..	4.9
<b>LABOR FORCE</b>					
TOTAL LABOR FORCE (THOUSANDS)					
	189761.4	220670.5	252235.8	..	..
FEMALE (PERCENT)					
	31.3	32.6	32.0	29.4	36.8
AGRICULTURE (PERCENT)					
	74.0	74.0	74.0	70.5	51.9
INDUSTRY (PERCENT)					
	11.0	11.0	11.0	11.6	21.9
PARTICIPATION RATE (PERCENT)					
TOTAL	43.0	40.2	39.2	37.9	39.1
MALE	57.1	52.3	51.3	51.3	48.5
FEMALE	27.9	27.1	26.2	23.7	29.6
ECONOMIC DEPENDENCY RATIO	1.0	1.1	1.1	1.2	1.1
<b>INCOME DISTRIBUTION</b>					
PERCENT OF PRIVATE INCOME RECEIVED BY					
HIGHEST 5 PERCENT OF HOUSEHOLDS	16.7	26.3/ <sup>h</sup>	..	..	..
HIGHEST 20 PERCENT OF HOUSEHOLDS	51.7	48.9/ <sup>h</sup>	..	..	..
LOWEST 20 PERCENT OF HOUSEHOLDS	4.1	6.7/ <sup>h</sup>	..	..	..
LOWEST 40 PERCENT OF HOUSEHOLDS	13.6	17.2/ <sup>h</sup>	..	..	..
<b>POVERTY TARGET GROUPS</b>					
ESTIMATED ABSOLUTE POVERTY INCOME LEVEL (US\$ PER CAPITA)					
URBAN	..	..	88.0	107.8	..
RURAL	..	..	76.0	86.5	192.1
ESTIMATED RELATIVE POVERTY INCOME LEVEL (US\$ PER CAPITA)					
URBAN	..	..	..	..	..
RURAL	..	..	..	..	182.5
ESTIMATED POPULATION BELOW ABSOLUTE POVERTY INCOME LEVEL (PERCENT)					
URBAN	..	..	40.7	46.2	..
RURAL	..	..	47.9	51.7	33.2

.. Not available  
 . Not applicable.

## NOTES

- <sup>/a</sup> The group averages for each indicator are population-weighted arithmetic means. Coverage of countries among the indicators depends on availability of data and is not uniform.
- <sup>/b</sup> Unless otherwise noted, data for 1960 refer to any year between 1959 and 1961; for 1970, between 1969 and 1971; and for Most Recent Estimate, between 1974 and 1978.
- <sup>/c</sup> Solid fuel conversion factors revised, <sup>/d</sup> 1951-60; <sup>/e</sup> 1962; <sup>/f</sup> 1958; <sup>/g</sup> 1967; <sup>/h</sup> 1964-65.

April, 1980

## DEFINITIONS OF SOCIAL INDICATORS

**Notes:** Although the data are drawn from sources generally judged the most authoritative and reliable, it should also be noted that they may not be internationally comparable because of the lack of standardized definitions and concepts used by different countries in collecting the data. The data are, nonetheless, useful to describe orders of magnitude, indicate trends, and characterize certain major differences between countries.

The reference groups are (1) the same country group of the subject country and (2) a country group with somewhat higher average income than the country group of the subject country (except for "Capital Surplus Oil Exporters" group where "Middle Income North Africa and Middle East" is chosen because of stronger socio-cultural affinities). In the reference group data the averages are population weighted arithmetic means for each indicator and shown only when at least half of the countries in a group has data for that indicator. Since the coverage of countries among the indicators depends on the availability of data and is not uniform, caution must be exercised in relating averages of one indicator to another. These averages are only useful in comparing the value of one indicator at a time among the country and reference groups.

LAND AREA (thousand sq.km.)

**Total** - Total surface area comprising land area and inland waters.  
**Agricultural** - Estimate of agricultural area used temporarily or permanently for crops, pastures, market and kitchen gardens or to lie fallow; 1977 data.

**GNP PER CAPITA (US\$)** - GNP per capita estimates at current market prices, calculated by same conversion method as World Bank Atlas (1976-78 basis); 1960, 1970, and 1978 data.

**ENERGY CONSUMPTION PER CAPITA** - Annual consumption of commercial energy (coal and lignite, petroleum, natural gas and hydro-, nuclear and geothermal electricity) in kilograms of coal equivalent per capita; 1960, 1970, and 1978 data.

POPULATION AND VITAL STATISTICS

**Total Population, Mid-Year (millions)** - As of July 1; 1960, 1970, and 1978 data.

**Urban Population (percent of total)** - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries; 1960, 1970, and 1978 data.

Population Projections

**Population in year 2000** - Current population projections are based on 1980 total population by age and sex and their mortality and fertility rates. Projection parameters for mortality rates comprise of three levels assuming life expectancy at birth increasing with country's per capita income level, and female life expectancy stabilizing at 77.5 years. The parameters for fertility rate also have three levels assuming decline in fertility according to income level and past family planning performance. Each country is then assigned one of these nine combinations of mortality and fertility trends for projection purposes.

**Stationary population** - In a stationary population there is no growth since the birth rate is equal to the death rate, and also the age structure remains constant. This is achieved only after fertility rates decline to the replacement level of unit net reproduction rate, when each generation of women replaces itself exactly. The stationary population size was ascertained on the basis of the projected characteristics of the population in the year 2000, and the rate of decline of fertility rate to replacement level.

**Year stationary population is reached** - The year when stationary population size has been reached.

Population Density

**Per sq. km.** - Mid-year population per square kilometer (100 hectares) of total area.  
**Per sq. km. agricultural land** - Computed as above for agricultural land only.

**Population Age Structure (percent)** - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentages of mid-year population; 1960, 1970, and 1978 data.

**Population Growth Rate (percent) - total** - Annual growth rates of total mid-year populations for 1950-60, 1960-70, and 1970-78.  
**Population Growth Rate (percent) - urban** - Annual growth rates of urban populations for 1950-60, 1960-70, and 1970-78.

**Crude Birth Rate (per thousand)** - Annual live births per thousand of mid-year population; 1960, 1970, and 1978 data.

**Crude Death Rate (per thousand)** - Annual deaths per thousand of mid-year population; 1960, 1970, and 1978 data.

**Gross Reproduction Rate** - Average number of daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970, and 1977.

**Family Planning - Acceptors, Annual (thousands)** - Annual number of acceptors of birth-control devices under auspices of national family planning program.  
**Family Planning - Users (percent of married women)** - Percentage of married women of child-bearing age (15-44 years) who use birth-control devices to all married women in same age group.

FOOD AND NUTRITION

**Index of Food Production per Capita (1969-71=100)** - Index of per capita annual production of all food commodities. Production excludes seed and feed and is on calendar year basis. Commodities cover primary goods (e.g., sugarcane instead of sugar) which are edible and contain nutrients (e.g., coffee and tea are excluded). Aggregate production of each country is based on national average producer price weights; 1961-65, 1970, and 1978 data.

**Per capita supply of calories (percent of requirements)** - Computed from energy equivalent of net food supplies available in country per capita per day. Available supplies comprise domestic production, imports less exports, and changes in stock. Net supplies exclude animal feed, seeds, nutrients used in food processing, and losses in distribution. Requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distribution of population, and allowing 10 percent for waste at household level; 1961-65, 1970, and 1977 data.

**Per capita supply of protein (grams per day)** - Protein content of per capita net supply of food per day. Net supply of food is defined as above. Requirements for all countries established by USDA provide for minimum allowance of 50 grams of total protein per day and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey; 1961-65, 1970 and 1977 data.

**Per capita protein supply from animal and pulse** - Protein supply of food derived from animals and pulses in grams per day; 1961-65, 1970 and 1977 data.

**Child (ages 1-4) Mortality Rate (per thousand)** - Annual deaths per thousand in age group 1-4 years, or children in this age group; for most developing countries data derived from life tables; 1960, 1970 and 1977 data.

HEALTH

**Life Expectancy at Birth (years)** - Average number of years of life remaining at birth; 1960, 1970 and 1978 data.

**Infant Mortality Rate (per thousand)** - Annual deaths of infants under one year of age per thousand live births.

**Access to Safe Water (percent of population) - total, urban, and rural** - Number of people (total, urban, and rural) with reasonable access to safe water supply (includes treated surface waters or untreated but uncontaminated water such as that from protected boreholes, springs, and sanitary wells) as percentages of their respective populations. In an urban area a public fountain or standpost located not more than 200 meters from a house may be considered as being within reasonable access of that house. In rural areas reasonable access would imply that the housewife or members of the household do not have to spend a disproportionate part of the day in fetching the family's water needs.

**Access to Sanitary Disposal (percent of population - total, urban, and rural)** - Number of people (total, urban, and rural) served by sanitary disposal as percentages of their respective populations. Sanitary disposal may include the collection and disposal, with or without treatment of human excreta and waste-water by water-borne systems or the use of pit latrines and similar installations.

**POPULATION PER PHYSICIAN** - Population divided by number of practicing physicians qualified for a medical school or university level.

**POPULATION PER NURSING PERSON** - Population divided by number of practicing male and female graduate nurses, practical nurses, and assistant nurses.

**POPULATION PER HOSPITAL BED - total, urban, and rural** - Population (total, urban, and rural) divided by their respective number of hospital beds available in public and private general and specialized hospital and rehabilitation centers. Hospitals are establishments permanently staffed by at least one physician. Establishments providing principally custodial care are not included. Rural hospitals, however, include health and medical centers not permanently staffed by a physician (but by a medical assistant, nurse, midwife, etc.) which offer in-patient accommodation and provide a limited range of medical facilities. For statistical purposes urban hospitals include WHO's principal general and specialized hospitals, and rural hospitals local or rural hospitals and medical and maternity centers.

**Admissions per Hospital Bed** - Total number of admissions to or discharges from hospitals divided by the number of beds.

HOUSING

**Average Size of Household (persons per household) - total, urban, and rural** - A household consists of a group of individuals who share living quarters and their main meals. A boarder or lodger may or may not be included in the household for statistical purposes.

**Average number of persons per room - total, urban, and rural** - Average number of persons per room in all urban, and rural occupied conventional dwellings, respectively. Dwellings exclude non-permanent structures and unoccupied parts.

**Access to Electricity (percent of dwellings) - total, urban, and rural** - Conventional dwellings with electricity in living quarters as percentage of total, urban, and rural dwellings respectively.

EDUCATIONAdjusted Enrollment Ratios

**Primary school - total, male and female** - Gross total, male and female enrollment of all ages at the primary level as percentages of respective primary school-age populations; normally includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education enrollment may exceed 100 percent since some pupils are below or above the official school age.

**Secondary school - total, male and female** - Computed as above; secondary education requires at least four years of approved primary instruction; provides general, vocational, or teacher training instructions for pupils usually of 12 to 17 years of age; correspondence courses are generally excluded.

**Vocational enrollment (percent of secondary)** - Vocational institutions include technical, industrial, or other programs which operate independently or as departments of secondary institutions.

**Teacher-student ratio - primary, and secondary** - Total students enrolled in primary and secondary levels divided by numbers of teachers in the corresponding levels.

**Adult literacy rate (percent)** - Literate adults (able to read and write) as a percentage of total adult population aged 15 years and over.

CONSUMPTION

**Passenger Cars (per thousand population)** - Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses and military vehicles.

**Radio Receivers (per thousand population)** - All types of receivers for radio broadcasts to general public per thousand of population; excludes unlicensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.

**TV Receivers (per thousand population)** - TV receivers for broadcast to general public per thousand population; excludes unlicensed TV receivers in countries and in years when registration of TV sets was in effect.

**Newspaper Circulation (per thousand population)** - Shows the average circulation of "daily general interest newspaper", defined as a periodical publication devoted primarily to recording general news. It is considered to be "daily" if it appears at least four times a week.

**Cinema Annual Attendance per Capita per Year** - Based on the number of tickets sold during the year, including admissions to drive-in cinemas and mobile units.

LABOR FORCE

**Total Labor Force (thousands)** - Economically active persons, including armed forces and unemployed but excluding housewives, students, etc. Definitions in various countries are not comparable; 1960, 1970 and 1978 data.

**Female (percent)** - Female labor force as percentage of total labor force.

**Agriculture (percent)** - Labor force in farming, forestry, hunting and fishing as percentage of total labor force; 1960, 1970 and 1978 data.

**Industry (percent)** - Labor force in mining, construction, manufacturing and electricity, water and gas as percentage of total labor force; 1960, 1970 and 1978 data.

**Participation Rate (percent) - total, male, and female** - Participation or activity rates are computed as total, male, and female labor force as percentages of total, male and female population of all ages respectively; 1960, 1970, and 1975 data. These are ILO's participation rates reflecting age-sex structure of the population, and long time trend. A few estimates are from national sources.

**Economic Dependency Ratio** - Ratio of population under 15 and 65 and over to the total labor force.

INCOME DISTRIBUTION

**Percentage of Private Income (both in cash and kind)** - Received by richest 5 percent, richest 10 percent, poorest 10 percent, and poorest 40 percent of households.

POVERTY TARGET GROUPS

**Estimated Absolute Poverty Income Level (US\$ per capita) - urban and rural** - Absolute poverty income level is that income level below which a minimal nutritionally adequate diet plus essential non-food requirements is not affordable.

**Estimated Relative Poverty Income Level (US\$ per capita) - urban and rural** - Rural relative poverty income level is one-third of average per capita personal income of the country. Urban level is derived from the rural level with adjustment for higher cost of living in urban areas.

**Estimated Population Below Absolute Poverty Income Level (percent) - urban and rural** - Percent of population (urban and rural) who are "absolute poor".

## INDIA - ECONOMIC INDICATORS

Indicator	Amount (million US\$ at current prices)	Annual Growth Rates (%)										
		ACTUAL					ESTIMATE		PROJECTED			
		1978/79	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84
<b>NATIONAL ACCOUNTS</b>												
Gross domestic product <sup>a/</sup>	117,405.5	-0.2	9.2	1.6	8.1	4.9	-2.5	4.6	4.6	4.6	4.6	
Agriculture	42,930.8	-1.9	11.8	-5.2	12.6	1.9	-8.5	3.0	3.0	3.0	2.8	
Industry	25,452.1	0.6	5.7	10.2	5.2	6.5	-0.4	6.0	6.0	6.0	6.3	
Services	36,319.8	2.8	6.9	5.4	5.3	5.8	-1.2	5.3	5.3	5.3	5.3	
Consumption	93,535.2	0.5	9.5	-2.1	9.8	5.5	-2.4	5.8	3.1	4.5	4.5	
Gross investment	28,278.1	8.0	6.2	6.6	7.4	9.2	-2.8	0.2	9.1	4.6	4.6	
Exports of GNFS	8,548.2	7.5	14.2	19.8	-1.6	0.9	-0.1	6.2	6.7	6.3	6.3	
Imports of GNFS	9,176.8	-11.3	5.2	-1.5	28.0	7.9	-2.4	4.3	4.9	5.4	4.7	
Gross national savings	29,393.0	-2.4	13.3	19.9	7.7	4.7	-6.7	-1.1	9.0	3.2	4.4	
<b>PRICES</b>												
GDP deflator		92.2	88.0	93.7	97.1	100.0	113.2					
Exchange rate		7.976	8.653	8.939	8.563	8.206	8.104					
<b>Share of GDP at Market Prices (%) (at current prices)</b>												
		1960/61	1970/71	1975/76	1978/79 <sup>c/</sup>	1985/86	1990/91	<b>Average Annual Increase (%) (at constant 1970/71 prices)</b>				
		1960/61-	1970/71-	1975/76-	1980/81-	1985/86-	1990/91-	1970/71-	1975/76-	1980/81-	1985/86-	1990/91-
Gross domestic product		50.8	48.1	43.2	41.0	35.3	31.7	3.7	2.4	3.6	4.6	4.9
Agriculture		19.4	20.9	22.6	24.3	27.5	29.9	1.8	1.5	0.8	2.9	2.6
Industry		29.8	31.0	34.2	34.7	37.1	38.4	5.1	2.7	5.0	6.2	6.6
Services		29.8	31.0	34.2	34.7	37.1	38.4	4.8	3.9	4.1	5.3	5.6
Consumption		86.5	82.7	79.8	79.7	75.7	75.1	3.2	2.0	3.7	4.3	4.7
Gross investment		17.2	18.6	22.5	24.1	24.0	24.0	5.5	4.4	4.4	5.3	4.9
Exports GNFS		4.4 <sup>b/</sup>	4.1	6.4	7.3	8.3	9.0	3.0	7.0	3.2	6.4	6.5
Imports GNFS		7.5 <sup>b/</sup>	4.6	8.2	7.8	7.9	9.3	0.4	0.8	7.8	4.9	4.9
Gross national savings		13.8	16.6	20.9	24.9	24.9	25.3	5.6	4.6	4.9	4.9	4.5
<b>As % of GDP</b>												
		1960/61	1970/71	1975/76	1978/79 <sup>c/</sup>							
<b>PUBLIC FINANCE</b>												
Current revenues		11.8	14.4	18.5	19.1							
Current expenditures		11.3	14.1	16.0	18.4							
Surplus		0.5	0.3	2.5	0.6							
Capital expenditure		6.5	5.2	7.4	8.1							
Foreign financing (net)		2.6	1.5	2.1	0.8							
<b>PER INDICATORS</b>												
GNP growth (%)		3.4	2.6	2.9	4.5	4.8						
GNP per capita growth rate (%)		1.1	0.5	1.2	2.6	3.0						
Energy consumption growth rate (%)		6.7	4.9	5.0	5.0	5.0						
ICOR		4.9	5.6	6.0	5.1	4.9						
Marginal savings rate		0.3	0.3	0.4	0.2	0.2						
Import elasticity		0.7	0.4	2.2	1.1	1.0						

<sup>a/</sup> At market prices; components are expressed at factor cost and will not add due to exclusion of net indirect taxes and subsidies.

<sup>b/</sup> Excluding non-factor services.

<sup>c/</sup> Estimate.

## INDIA - EXTERNAL TRADE

Indicator	Amount (million US\$ at current prices) 1978/79	Annual Growth Rates (%) (at constant 1978/79 prices)									
		ACTUAL				ESTIMATE		PROJECTED			
		1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84
<b>External Trade</b>											
Merchandise exports	6,976.2	5.6	12.7	19.5	- 5.6	1.8	- 1.6	5.5	5.6	5.4	5.6
Jute manufactures	203.0	- 2.6	- 2.9	-12.7	17.7	-40.4	31.6	2.0	2.0	2.0	2.0
Tea	416.9	18.4	- 5.6	14.0	- 7.1	-23.5	2.9	2.5	2.5	2.5	2.5
Cotton textiles	243.8	-40.8	11.5	44.1	-29.6	-14.1	1.5	5.0	5.0	5.0	5.0
Oil cakes	141.1	-33.6	26.8	71.1	-54.3	-25.2	27.8	5.0	5.0	5.0	5.0
Sugar	160.8	192.3	79.3	-53.2	-86.2	621.1	45.6	2.0	2.0	2.0	2.0
Engineering goods	852.3	97.5	-19.3	36.2	1.7	2.1	-15.0	11.0	11.0	11.0	11.0
Iron and steel	140.2	-46.4	207.9	315.5	-29.3	-44.1	-81.1	300.0	3.0	5.0	5.0
Leather products	430.4	-16.3	26.5	-22.2	17.6	9.2	- 3.6	10.0	10.0	10.0	10.0
Others	4,389.7	2.9	17.8	20.2	0.4	9.9	- 0.9	4.7	6.6	6.1	6.5
Merchandise imports	8,488.0	-11.7	3.6	- 6.6	32.4	10.3	-2.1	4.5	4.9	5.5	4.9
Foodgrains	144.0	29.9	44.0	-34.5	-87.5	1.1	-	-	-	-	-
POL	2,043.0	- 7.8	- 5.9	3.2	6.4	4.5	13.0	4.5	-0.8	7.1	5.0
Fertilizers	597.0	29.7	-21.2	-18.2	34.1	23.6	4.8	- 3.2	11.1	13.0	12.0
Iron and steel	572.0	18.7	-45.1	-20.3	25.0	60.9	-22.8	- 0.4	1.5	0.8	-
Non-ferrous metals	324.0	-19.5	-15.4	43.2	20.4	12.6	7.0	10.0	7.0	7.0	7.0
Edible oils	649.0	-89.0	46.1	558.9	700.1	-26.7	4.8	- 9.1	-	-	-
Cotton and fibers	329.9	-58.6	46.0	87.8	130.6	-36.0	6.0	6.0	6.0	6.0	6.0
Others	3,829.1	-40.6	15.0	14.4	83.3	24.8	-12.5	7.8	17.2	7.9	4.5
<b>Prices</b>											
Export price index		75.5	76.5	78.6	91.1	100.0	111.7	123.9	133.4	143.7	154.5
Import price index		94.1	103.2	98.5	92.7	100.0	130.3	153.8	165.7	181.5	198.3
Terms of trade index		80.2	74.1	79.8	98.3	100.0	85.7	79.9	80.5	79.1	79.9

Indicator	Composition of Merchandise Trade (%) (at current prices)							Average Annual Increase (%) (at constant 1978/79 prices)				
	1960/61	1970/71	1975/76	1978/79	1980/81	1985/86	1990/91	1960/61- 1970/71	1971/72- 1975/76	1975/76- 1980/81	1980/81- 1985/86	1985-86 1990/91
	<b>Exports</b>											
Jute manufactures	20.5	12.4	6.2	2.9	3.1	2.7	2.2	- 3.4	- 1.0	- 3.8	1.9	2.0
Tea	18.7	9.7	5.9	5.9	4.8	3.8	3.1	- 0.3	1.3	- 3.1	2.5	2.5
Cotton textiles	8.7	5.1	4.0	3.5	3.2	3.7	3.5	1.8	1.3	- 1.5	5.0	5.0
Oil cakes	2.2	3.6	2.4	2.0	1.8	2.2	1.9	7.1	3.7	- 4.7	5.0	5.0
Sugar	0.4	1.8	11.7	2.3	4.4	4.6	3.7	n/a	108.9	- 7.2	2.0	2.0
Engineering goods	2.7	7.6	10.2	12.2	11.0	13.4	16.2	20.6	13.4	5.9	11.0	11.0
Leather products	4.1	1.0	5.6	6.2	6.1	7.1	8.2	6.6	2.6	0.7	10.0	10.0
Others	42.7	58.8	54.0	65.0	65.6	62.5	61.2	5.1	8.2	7.0	6.4	6.4
<b>Imports</b>												
Foodgrains	15.6	12.5	23.8	1.7	-	-	-	- 3.3	18.5	-54.5 a/	-	-
Fertilizers	1.4	6.1	11.0	7.0	6.3	10.0	12.6	17.0	10.9	6.6	12.0	12.0
POL	6.1	8.3	22.0	24.1	41.6	42.5	45.2	4.9	1.9	5.2	4.2	5.0
Others	76.7	73.1	43.2	67.2	52.1	47.5	42.2	- 1.9	- 4.2	21.7	4.5	4.0
<b>DIRECTION OF TRADE</b>												
	Share of Trade with Industrial Countries (%)			Share of Trade with Developing Countries (%)			Share of Trade with Capital Surplus Oil Exporters (%)			Share of Trade with Eastern Europe and USSR (%)		
	1960/61	1970/71	1975/76	1960/61	1970/71	1975/76	1960/61	1970/71	1975/76	1960/61	1970/71	1975/76
Exports	64.8	49.7	49.8	24.4	20.9	19.9	3.0	5.8	13.3	7.8	23.6	17.0
Imports	77.9	63.7	61.2	13.4	14.7	5.8	4.7	7.7	22.0	4.0	13.9	11.0

a/ 1975/76-1978/79



INDIA - EXPORT DETAIL  
(US\$ millions)

Attachment 3c

Indicator	73/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84
<b>A. Constant (1978/79) Prices</b>											
Jute manufactures	0.1	341.1	331.1	289.2	340.5	203.0	267.2	272.5	278.0	283.6	289.3
Tea	2.7	547.7	511.8	583.5	542.2	414.9	426.8	437.5	448.4	459.6	471.1
Cotton textiles	3.7	250.9	279.7	403.0	283.7	243.8	247.5	259.9	272.9	286.5	300.8
Oil cakes	6.6	190.3	241.3	412.9	188.7	141.1	180.3	189.3	198.8	208.7	219.1
Sugar	5.3	193.8	347.5	162.5	22.3	160.8	234.2	238.9	243.7	248.6	253.6
Engineering goods	3.0	746.4	602.7	820.6	834.4	852.3	724.4	804.1	892.6	990.8	1 099.8
Iron and steel	1.7	27.7	85.3	354.4	250.7	140.2	26.5	106.0	111.3	116.9	122.7
Leather products	3.0	340.6	430.7	335.1	394.0	430.4	406.4	447.0	491.7	540.9	595.0
Others	1.4	2 810.0	3 309.3	3 976.9	3 993.2	4 389.7	4 407.4	4 516.7	4 918.9	5 225.7	5 562.1
Total goods	7.5	5 448.5	6 139.4	7 338.1	6 849.7	6 976.2	6 920.7	7 371.9	7 356.3	8 361.3	8 913.5
NFS	1.4	848.2	1 049.6	1 275.0	1 622.2	1 572.0	1 527.4	1 706.2	1 830.0	1 954.6	2 052.1
Total CNFS	1.9	6 296.7	7 189.0	8 613.1	8 471.9	8 548.2	8 548.1	9 078.1	9 686.3	10 315.9	10 965.8
<b>B. Price Indices (1978/79 = 100)</b>											
Jute manufactures	.4	109.1	87.6	77.8	84.0	100.0	131.0	103.5	114.5	125.6	138.0
Tea	.5	52.2	53.5	56.2	122.7	100.0	98.4	101.2	108.2	116.1	123.6
Cotton textiles	.1	79.3	66.6	74.2	92.5	100.0	106.2	112.6	127.5	143.1	163.4
Oil cakes	.8	63.2	46.2	63.5	82.5	100.0	91.5	88.6	112.3	135.2	143.6
Sugar	.9	219.3	157.1	100.2	101.9	100.0	123.8	168.6	183.7	248.2	270.1
Engineering goods	.5	59.9	79.2	77.2	86.3	100.0	113.2	125.0	134.4	144.5	155.3
Iron and steel	.0	95.2	92.1	91.7	86.3	100.0	113.2	125.0	134.4	144.5	155.3
Leather products	.7	60.9	61.2	78.9	80.6	100.0	113.2	125.0	134.4	144.5	155.3
Others	.0	74.4	73.9	81.7	91.9	100.0	111.3	124.5	134.8	141.9	152.1
Total goods	.8	76.6	76.1	78.4	92.2	100.0	111.3	122.5	133.2	143.5	154.3
NFS	.7	68.2	78.6	80.0	86.3	100.0	113.2	125.0	134.4	144.5	155.3
Total CNFS	.8	75.5	76.3	78.6	91.1	100.0	111.7	123.0	134.4	143.7	154.5
<b>C. Current Prices</b>											
Jute manufactures	10	371.1	290.0	225.0	286.0	203.0	350.0	282.0	318.3	356.2	399.2
Tea	14	285.9	273.8	327.9	265.3	414.9	420.0	442.8	485.2	533.6	582.3
Cotton textiles	24	199.0	186.3	299.0	262.4	243.8	262.8	292.6	347.9	410.0	491.5
Oil cakes	22.7	120.3	111.5	262.2	155.7	141.1	165.0	167.7	223.3	282.2	314.7
Sugar	5.9	425.0	545.9	165.7	22.7	160.8	290.0	402.8	447.7	617.0	685.0
Engineering goods	258.1	447.1	477.3	633.5	720.1	852.3	820.0	1 005.1	1 199.6	1 431.7	1 707.9
Iron and steel	33.1	26.4	78.6	325.0	216.5	140.2	30.0	132.5	149.6	168.9	190.6
Leather products	239.1	207.4	263.6	264.4	317.6	430.4	460.0	558.8	660.8	781.6	924.0
Others	1 693.4	090.4	2 445.1	3 250.4	3 669.1	4 389.7	4 905.4	5 747.8	6 630.7	7 415.3	8 459.9
Total goods	3 238.9	173.6	4 672.1	5 753.1	6 315.4	6 976.2	7 703.2	9 032.1	10 463.1	11 996.5	13 755.1
NFS	383.7	578.5	825.0	1 020.0	1 400.0	1 572.0	1 842.2	2 132.3	2 458.5	2 822.8	3 186.3
Total CNFS	3 622.6	752.1	5 497.1	6 773.1	7 715.4	8 548.2	9 545.4	11 164.4	12 921.6	14 819.3	16 941.4

INDIA - IMPORT DETAIL  
(US\$ millions)

Attachment 3d

Indicator	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84
<b>A. Constant (1978/79) Prices</b>											
Foodgrains	932.8	1,211.8	1,744.9	1,142.7	142.4	144.0	-	-	-	-	-
POL	2,054.6	1,893.6	1,781.8	1,838.5	1,955.9	2,043.0	2,455.8	2,595.7	2,274.4	2,289.8	2,04.3
Fertilizers	431.0	558.8	440.4	360.2	482.9	597.0	625.5	605.8	673.0	760.5	851.8
Iron and steel	548.3	650.9	357.2	284.5	355.6	572.0	441.6	440.0	446.4	449.8	449.8
Non-ferrous metals	244.9	197.2	166.8	238.9	287.7	324.0	346.7	381.4	408.1	436.7	467.3
Edible oils	104.7	11.5	16.8	110.7	885.7	649.0	679.9	618.0	618.0	618.0	618.0
Cotton and fibers	197.0	81.5	119.0	223.5	515.5	329.9	349.7	370.7	392.9	416.5	441.5
Others	2,141.4	1,271.7	1,462.7	1,673.6	3,067.3	3,829.1	3,377.8	3,640.0	4,266.4	4,605.0	4,814.1
Total Goods	6,654.7	5,877.0	6,089.6	5,872.6	7,693.0	8,488.0	8,277.0	8,651.6	9,079.2	9,576.3	10,046.8
NFS	588.7	532.3	655.2	768.8	811.1	688.8	681.8	692.4	722.7	754.9	769.9
Total GNFS	7,243.4	6,409.3	6,744.8	6,641.4	8,504.1	9,176.8	8,958.8	9,344.0	9,801.9	10,331.2	10,816.7
<b>B. Price Indices 1978/79 = 100</b>											
Foodgrains	64.0	78.5	88.1	83.9	85.1	100.0	125.2	155.1	170.4	196.1	211.9
POL	35.0	76.6	79.5	86.0	92.6	100.0	169.6	227.8	258.7	258.1	319.2
Fertilizers	68.4	136.0	161.6	87.6	91.3	100.0	123.1	140.3	159.7	184.1	209.3
Iron and steel	58.4	81.6	100.9	86.3	86.3	100.0	113.2	125.0	134.4	144.5	155.3
Non-ferrous metals	80.5	117.4	83.5	88.1	96.3	100.0	134.5	136.4	153.9	177.7	195.6
Edible oils	69.5	130.2	94.1	100.9	93.6	100.0	117.7	113.2	137.5	161.8	165.2
Cotton and fibers	60.5	103.2	70.9	100.9	97.6	100.0	107.3	114.6	127.1	140.0	156.7
Others	68.7	129.7	149.3	136.2	94.5	100.0	113.2	125.0	134.4	144.5	155.3
Total goods	57.0	96.4	105.9	100.9	93.4	100.0	131.7	156.1	168.2	184.4	201.6
NFS	54.7	68.2	78.8	80.0	86.3	100.0	113.2	125.0	134.4	144.5	155.3
Total GNFS	56.8	94.1	103.2	98.5	92.7	100.0	130.3	153.8	165.7	181.5	198.3
<b>C. Current Prices</b>											
Foodgrains	597.0	951.3	1,537.3	958.7	121.2	144.0	-	-	-	-	-
POL	719.1	1,450.5	1,416.5	1,581.1	1,811.2	2,043.0	4,165.0	5,913.0	5,383.9	6,596.9	7,574.5
Fertilizers	294.8	751.8	711.7	315.5	440.9	597.0	770.0	850.0	1,075.0	1,400.0	1,782.8
Iron and steel	320.2	531.2	360.4	245.5	306.9	572.0	500.0	550.0	600.0	650.0	698.5
Non-ferrous metals	197.2	231.5	139.3	210.5	277.1	324.0	466.3	520.2	628.1	776.0	914.0
Edible oils	72.8	15.0	15.8	111.7	829.0	649.0	800.0	700.0	850.0	1,000.0	1,020.9
Cotton and fibers	119.2	84.1	84.4	225.5	503.1	329.9	375.2	424.8	499.4	583.1	691.8
Others	1,472.9	1,650.1	2,183.6	2,279.5	2,898.6	3,829.1	3,823.7	4,550.0	5,734.0	6,534.2	7,476.3
Total goods	3,793.2	5,665.5	6,449.0	5,928.0	7,188.0	8,488.0	10,900.2	13,508.0	15,270.4	17,660.2	20,258.8
NFS	322.0	363.0	515.0	615.0	700.0	688.8	771.8	865.0	971.0	1,090.2	1,195.5
Total GNFS	4,115.2	6,028.5	6,964.0	6,543.0	7,888.0	9,176.8	11,672.0	14,373.0	16,241.4	18,750.4	21,454.3

INDIA - BALANCE OF PAYMENTS  
(million US\$ at current prices)

Attachment 3a

Indicator	ACTUAL					ESTIMATE		PROJECTED						
	1970/71	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1990/91
<b>Balance of Payments</b>														
Export of goods and services	2,221.5	4,732.1	5,697.1	6,773.1	7,715.4	8,548.2	9,545.4	11,164.4	12,921.6	14,919.3	16,961.4	19,415.1	21,915.0	40,161.5
- of which: merchandise (f.o.b.)	1,950.0	4,173.6	4,672.1	5,753.1	6,315.4	6,976.2	7,703.2	9,032.1	10,463.1	11,996.5	13,755.1	15,818.5	17,912.1	33,324.7
Imports of goods and services	2,437.6	6,028.5	6,966.0	8,543.0	7,888.0	9,176.8	11,676.0	14,375.0	16,261.4	18,750.4	21,454.3	24,626.7	27,725.2	50,377.6
- of which: merchandise (c.i.f.)	2,178.9	5,665.3	6,449.0	8,228.0	7,188.0	8,488.0	10,900.2	13,508.0	15,270.4	17,680.2	20,258.8	23,315.9	26,307.9	48,283.6
Resource balance	- 216.1	- 1,276.4	- 1,466.9	- 230.1	- 172.6	- 428.6	- 2,126.6	- 1,208.6	- 3,319.8	- 3,931.1	- 4,512.9	- 5,211.6	- 5,810.2	- 10,216.1
Investment income (net)	- 244.0	- 198.0	- 216.0	- 182.0	- 88.9	152.7	486.7	455.4	252.7	- 171.1	- 221.4	- 330.7	- 426.4	- 863.2
Current transfers (net)	83.0	257.0	471.0	695.0	1,076.6	1,130.4	1,284.9	1,310.3	1,408.6	1,514.3	1,627.8	1,749.9	1,854.9	2,482.3
Current account balance	- 397.1	- 1,217.4	- 1,211.9	- 743.1	- 815.1	- 654.5	- 453.0	- 1,442.9	- 1,658.5	- 2,587.9	- 3,106.5	- 3,792.4	- 4,381.7	- 8,597.0
Net aid disbursements	790.0	1,243.0	1,792.0	1,395.0	983.0	993.0	1,218.4	1,605.1	2,069.5	2,183.9	2,421.2	2,714.1	2,989.2	4,372.0
- Gross disbursements	1,176.0	1,758.0	2,323.0	1,935.0	1,628.0	1,695.0	1,906.4	2,335.1	2,944.5	3,003.9	3,244.8	3,526.4	3,855.2	5,250.4
- Principal repayments	- 186.0	- 515.0	- 531.0	- 560.0	- 645.0	- 702.0	- 687.0	- 730.0	- 755.0	- 820.0	- 823.6	- 812.3	- 866.0	- 878.4
Use of IMF credit	- 183.0	322.0	242.0	- 337.0	- 330.0	- 158.0	-	675	-	-	-	-	-	- 135.0
Errors and omissions	- 270.0	- 586.4	- 28.0	- 226.1	607.9	44.5	- 566.4	- 144.9	- 300.0	- 300.0	- 100.0	-	- 50.0	- 50.0
Uncovered gap	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in reserves (- = increase)	60.1	38.0	- 794.1	- 1,575.0	- 1,076.0	- 1,536.0	- 200.0	- 495.2	- 111.0	704.0	785.3	717.7	- 775.0	- 1,425.0
Reserve level (end of year)	1,052.0	1,378.0	2,172.1	3,747.0	5,823.0	7,357.0	7,557.0	8,252.2	8,363.2	7,659.2	6,873.9	6,156.2	6,931.2	12,596.0
Reserve as months imports	(5.1)	(2.7)	(3.7)	(6.9)	(8.9)	(9.6)	(7.7)	(6.9)	(6.2)	(4.9)	(3.8)	(3.0)	(3.0)	(3.0)



INDIA - BALANCE OF PAYMENTS  
(million US\$ at current prices)

Alternative Scenario  
Export Growth: 6.3% through 83/86, 3% thereafter  
Import Growth: 4.7%  
Higher non-concessional borrowing

	<u>1979/80</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1990/91</u>
Export of goods and services	9,545.4	11,196.8	12,935.0	14,835.4	16,989.4	19,486.6	21,995.6	42,046.9
- of which: merchandise (f.o.b.)	7,703.2	9,064.0	10,475.5	12,011.0	13,802.2	15,390.1	17,992.6	35,210.0
Import of goods and services	11,671.8	14,373.3	16,241.8	18,680.4	21,406.8	24,570.3	27,666.9	46,367.1
- of which: merchandise (c.i.f.)	10,900.0	13,507.8	15,270.5	17,589.5	20,211.4	23,259.5	26,249.7	46,473.1
Resource balance	-2,126.7	-3,176.4	-3,306.7	-3,846.4	-4,418.7	-5,085.7	-5,668.7	-9,931.6
Investment income (net)	486.7	455.4	252.7	-355.1	-495.1	-689.6	-913.4	-2,421.0
Current transfers (net)	1,186.9	1,310.3	1,408.6	1,514.3	1,627.8	1,749.9	1,854.9	2,432.3
Current Account Balance	-453.1	-1,410.7	-1,645.4	-2,687.2	-3,286.0	-4,025.4	-4,727.2	-6,921.1
Net Aid disbursements	1,219.4	2,605.1	3,144.4	3,251.8	3,404.2	4,180.7	4,375.6	8,742.9
- Gross disbursements	1,906.4	3,335.1	3,919.4	4,159.4	4,487.1	5,396.8	5,900.7	11,918.3
- Principal repayments	-687.0	-730.0	-775.0	-907.6	-1,082.9	-1,216.1	-1,525.1	-3,040.9
Use of IMF Credit	-	675.0	-	-	-	-	-	-135
Errors and omissions	-566.3	-142.0	-300.0	-100.0	-50.0	-50.0	-50.0	-50.0
Change in reserves (= increase)	-200.0	-1,727.4	-1,199.0	-264.6	-18.2	-105.3	401.6	-1,771.3
Reserve level (end of year)	7,557.0	9,284.4	10,483.4	10,748.0	10,766.2	10,871.5	10,469.9	13,513.5
Reserve as months imports	7.7	7.7	7.7	6.9	6.0	5.3	4.5	3.3
Debt-service Ratio	11.0	10.0	9.9	10.3	10.7	10.6	11.3	13.7

ECONOMIC AND SECTOR WORK PROGRAM

FY81, FY82

The objectives and context of the Economic and Sector Work Program have been discussed above in paragraphs 77 to 85. The following individual studies have been proposed. These are summarized, with manpower allocations at approved levels, in Table 1 of this attachment.

Economic Work

1. Economic Report (Country Economic Memorandum). This report which is prepared annually as background to the India Aid Consortium, remains the responsibility of the New Delhi resident mission in FY81. The report will review the current economic situation, balance of payments prospects and significant structural issues in the Indian economy. It is likely to focus on public investment strategy as embodied in the new Plan. It will also incorporate the results of studies discussed below on energy, trade policy and fertilizer production.
2. Population, Family Planning and Human Resources. A review of recent performance in family planning was undertaken during FY80. By FY82 it is anticipated that another review will be appropriate and that this should be supplemented by a general treatment of issues in human resources focussing particularly on the progress of village level schemes in health and adult education.
3. Urban-Agricultural Growth Linkages. In FY80 a case study of the implications of rapid agricultural growth in the Punjab for the pattern of urbanization, including the size distribution of cities, rural urban migration trends and the rate of urbanization has been undertaken by a consultant. This activity may tie in to a DPS research project on national spatial policies, in which India figures as a potential case study. The project would continue in FY81 with an identification and description of policies affecting industrial location and an analysis of the impact of such policies on urban and regional development. DPS support is expected as India is taken up as a case study during the second round of the research project, which is managed by the Urban and Regional Economics Division.
4. Export Policy Options. The current structure of Indian export incentives and import policies affecting exports is scheduled to be extended or reformulated early in 1982; but India's deteriorating balance of payments prospects require that a policy dialogue on alternative option should begin much earlier. This study is intended to lay the groundwork by exploring the potential for across the board reform of Indian export policies. The study will be closely coordinated with an evaluation of import liberalization (see below). The hypothesis motivating the study is that the current, relatively ad hoc, arrangements have not provided the simulated free-trade environment for exports that characterizes successful export promotion strategies. As a result, export performance of the past 3-4 years continues to be mediocre.

DPS or consultant support would be required from someone familiar with export incentive systems in other developing countries and with global trade issues who could put the Indian experience in a realistic comparative framework.

5. Impact of Import Liberalization. This study which began in FY80 reviews the changes in Indian import policy since 1974 focussing on the cumulative impact of liberalization. The study will provide a longer term context for evaluating changes in import policy which the new government may initiate. However, the major focus of the study will be an endeavor to evaluate the effect of import liberalization on the efficiency of production in selected Indian industries. Utilizing firm-level surveys, the evaluation will include both industries utilizing imported inputs and industries competing with imports.

6. Energy Sector Overview. Better performance in energy-related sectors--petroleum, coal, power--is of vital importance to India's development prospects. In order to provide a comprehensive treatment of these issues, it is proposed to update the relevant sections of the 1974 Bank study on India's energy sector. Contributions would be made from relevant sector studies in power and coal (and petroleum, if necessary, though a study is not separately programmed at this time). It is anticipated that the work will be undertaken primarily by the author of the 1974 report (as a consultant).

7. Non-foodgrain Prospects in Agriculture. This study will build a long-term supply and demand framework for major non-foodgrain crops analogous to that developed for foodgrains in studies completed in FY79 and FY80. This framework will then provide the basis for evaluating anticipated shifts in cropping patterns, pricing policies, trade prospects for agricultural commodities, inter-sectoral terms of trade and other important issues affecting India's agricultural economy as it matures beyond the preoccupation with foodgrains that has, rightly, dominated the past decade.

8. Evaluation of Import-Substitution Prospects. This study will review India's production prospects in selected basic commodities which currently are significant factors in India's import bill, namely edible oils, fertilizers, and iron and steel. There is a presumption that India should possess a comparative advantage in the production of each of these but further study would be required, drawing on sectoral expertise, to evaluate the advisability of accelerated investments in these sectors with the objective of attaining a greater degree of self-sufficiency. The study would serve primarily as background material for analyses and recommendations in the 1981 and 1982 Economic Reports.

9. Evaluation of Industrial Policy and Prospects. This activity, scheduled for the second half of FY82, provides for a synthesis of the whole program of sub-sector studies begun in FY80. It would focus on the implications for industrial policy and development and would draw on the program of studies conducted in the mid-1970s as well as on the current series.

Sector Work

10. Industry Sub-sector Studies. Further studies will continue the program initiated in FY80 with a study of the cement industry, now being revised prior to discussion with GOI. During FY81 a review of key issues affecting performance of India's coal sector will be undertaken. This study will contribute to the energy sector review discussed above as well as providing the analytical basis for potential Bank involvement in the sector. Sector studies in capital goods and textiles are also planned to begin in FY81. These will complement the above studies on trade policies as both industries figure prominently among India's exports and both rely to some degree on imported inputs. During FY82 the transport equipment sub-sector would be reviewed. These industries have been selected primarily on the basis of criteria developed in the FY80 exercise on the identification of industrial sector work. Other sectors may also be considered as circumstances change but the principle criterion of contributing to a detailed understanding of the impact of Indian policies and programs on industrial growth prospects remains unchanged.

11. Water Management and Irrigation Efficiency. India has one of the world's largest surface irrigation systems (15 M net irrigated ha). However, design standards, water allocation and canal procedures have changed little since the nineteenth century when the prime objective of irrigation was to provide "insurance" against droughts. As a result, most existing irrigation systems cannot meet the exacting requirements of a modern agriculture based on high yielding crop varieties. Consequently, GOI and the State Governments have gradually adopted higher standards for new projects and started an ambitious program for modernization of existing irrigation systems. The first major step in this direction was the command area development (CAD) program (c. 1972) which involves: (i) better coordination between irrigation and agricultural supporting services, usually through the establishment of CAD authorities for major irrigation projects; (ii) public investments in associated infrastructure (drainage, roads, markets, agricultural extension and research); and, (iii) private farm investments, usually supported by institutional credit (water levelling). The CAD progress so far has been slow because of poor farmer response, organizational problems and a lack of suitable models for land development. The whole concept of CAD requires redevelopment based on evaluation of the past five years experience. The GOI has recently started a major study of the techniques for modernization of existing canal systems and it has asked the Bank to be associated with this study. In addition, the Bank is actively trying to find means to improve the planning, design, construction, operation and maintenance of new irrigation systems. The proposed water management (WM) sector study aims at finding the best organizational and technical means of delivering water from the dam to the plant. Given the complexity of the problem it is not feasible to undertake the WM study as a "one shot" exercise. Instead, it will be built up in a modular fashion over a couple of years. The studies were initiated in FY79 and are expected to be completed in FY83. The focus of the studies has been and will be on:



- (a) A review of the experience of a number of Bank-financed CAD projects;
- (b) A study of suitable models for on-farm development and water management;
- (c) Systematic monitoring and intensive evaluation of a number of on-going Bank projects;
- (d) Association with GOI's study of modernization of existing canal systems, partly through a Bank executed UNDP technical assistance grant; and
- (e) Experimentation with different delivery systems from the end of the conveyance system to the farmgate and to the plant. Experiments will be carried out in Maharashtra, Punjab, Rajasthan and Madhya Pradesh on Bank assisted irrigation developments.

In late FY81, the intention is to pool the experience from these five studies and the five statewide irrigation sector reviews and produce one major report on the modernization of existing projects and one report on general standards and procedures for planning, design, construction, operation and maintenance of new projects.

12. State Irrigation Sector Reviews. IDA is progressively moving in the direction of sector lending for irrigation development in India. The objective for sector lending is to influence, on a statewide scale, the planning, design, construction and operation of all or most projects in the State. The SISRs which are carried out simultaneously with normal project preparation aim at providing specific proposals for technical and organizational improvements. The SISRs also cover sectorwide constraints that might influence project implementation. A SISR for Maharashtra was published in September 1979. Work on a SISR for Gujarat was completed in FY80. A SISR for Madhya Pradesh has been initiated and completion is expected by December 1980. During FY81, SISRs for Uttar Pradesh and Kerala will be initiated.

13. Fertilizer Production and Distribution Review. It is anticipated that a comprehensive review of fertilizer production including an analysis of the distribution system and other supply constraints will be undertaken during FY81. The study will build on recent analyses of fertilizer demand patterns and focus on recent production trends, pricing policies, product balance and import needs. CPS support would be required from the fertilizer unit of IPD and would involve technical and operational specialists many of whom are already quite familiar with India's situation.

14. Appropriate Transport Technology. This study would review appropriate technologies currently (or potentially) in use for road construction, maintenance and transport; relevant backward industrial linkages; institutional set up including credit, technical assistance, etc., with a view to identifying relevant components for inclusion in IDA financed road projects.

15. Economic Studies in the Power Sector. During FY80, work in the power sector focused on the impact of power shortages on the overall performance of the economy. Studies in FY81 will look more closely at the impact of power shortages on particular sectors and industries, analysing the system presently used to ration scarce power in India, both the actual mechanics of power rationing methods and priorities which could allocated power with lesser loss of output. Other possible studies will depend on the analysis of Indian policy reports, but could include an analysis of the operational efficiency and capacity utilization of the power sector.

## INDIA

COUNTRY SUMMARY OF ECONOMIC AND SECTOR WORK  
FY80-82

Task	Total Staffweeks Required		
	FY80	FY81	FY82
<u>Regionally Managed</u>			
I. <u>Economic Reports (ERA)</u>	245	230	240
A. Annual Economic Report	127	120	120
B. Special Economic Studies			
1. Population and Family Planning	15		10
2. Human Resources Review <sup>a/</sup>	16		10
3. Urban-Agricultural Growth Linkages <sup>b/</sup>	15	5	5
4. Industry Work Program Identification	23		
5. State Government Finances	22		
6. Technology Alternatives in Food Processing	20		
7. Export Policy Options		30	20
8. Impact of Import Liberalization	7	20	
9. Energy Sector Overview		20	10
10. Non-foodgrain Prospects in Agriculture		15	15
11. Evaluation of Import Substitution Prospects (Edible Oils, Fertilizers, Iron and Steel)		20	20
12. Evaluation of Industrial Policy and Prospects			30
13. Agricultural Demand Study	12		
II. <u>Sector Reports (SRA)</u>	195	235	255
A. Transport Sector Memo Update	10		
B. Sector Reviews			
1. Statewise Irrigation	40	70	65
2. Water Supply	10		
C. Special Sector Studies <sup>c/</sup>			
1. Industry Sub-Sector Studies	30		
a. Cement		20	
b. Coal		10	20
c. Textiles		10	10
d. Capital Goods			
e. Transportation Equipment			20
2. Transport Technology Study		20	
3. Fertilizer Production and Distribution		20	
4. Water Management	50	35	60
5. Agricultural Monitoring Studies	40	20	40
6. Economic Studies in Power Sector	15	30	40
III. <u>CPE</u>	25	25	25
IV. <u>Unprogrammed Economic Work Sector Work</u>	200	200	210
	133	130	130
	67	70	80
<b>TOTAL</b>	<b>664</b>	<b>690</b>	<b>730</b>

a/ Includes preparation of regional background paper for WDR III.

b/ Allocations in FY82 reflects regional co-ordination with anticipated DPS research project.

c/ Manweeks estimate does not include parallel activity in CPS/DPS co-ordinated with, but not managed by the region.

INDIA  
DISBURSEMENTS

Attachment 5

	<u>FY75</u>	<u>FY76</u>	<u>FY77</u>	<u>FY78</u>	<u>FY79</u>	<u>FY80</u>
1 (a) Undisbursed Balance <sup>1/</sup> at July 1 (T)	1186	1538	1881	2027	2805	3744
1 (b) Undisbursed Balance <sup>1/</sup> at July 1 (P)	1036	1386	1735	2020	2805	3744
2 (a) Commitments During Fiscal Year (T)	631	684	481	952	1192	1660
2 (b) Commitments During Fiscal Year (P)	431	484	481	952	1192	1660
3 (a) Total Disbursed During Fiscal Year (T)	480	551	599	497	538	729 <sup>2/</sup>
3 (b) Total Disbursed During Fiscal Year (P)	282	345	460	490	538	729 <sup>2/</sup>
4 (a) Disbursement Rate (3(a)/1(a)) (T)	41	36	32	24	19	19
4 (b) Disbursement Rate (3(b)/1(b)) (P)	27	25	27	24	19	19
5 Comparators:						
(a) Disbursement Rate for Total of All Other Countries in Region	44	41	32	20	30	N.A.
(b) Bank-Wide IBRD/IDA Average Disbursement Rate	27	27	24	20	20	N.A.
(c) Average Disbursement Rate for 4 comparable countries:						
Kenya	28	44	20	17	17	N.A.
Korea	34	45	49	30	38	N.A.
Brazil	29	20	20	17	15	N.A.
Indonesia	21	35	26	19	14	N.A.

<sup>1/</sup> Undisbursed Balance includes amounts for loans and credits approved or signed, but not yet effective.  
<sup>2/</sup> Preliminary estimate of FY80 actual disbursements.

T - All Loans and Credits; P - Excluding Program Loans



OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: March 13, 1981

FROM: Ernest Stern, SVP, Operations *ES*

SUBJECT: Bank Lending for India

You will recall that some time ago we asked the Region to prepare a further analysis of the potential creditworthiness of India for Bank lending. Their paper is attached and a copy of it will be in the briefing book for your India trip. On the whole the paper presents a reasonable set of alternative scenarios. The discussion of the impact of a shift from IDA to Bank covered in Paragraphs 12 and 13 is of course not the question that is important and the minor impact of such a shift on the balance of payments is almost tautological.

Table 2 presents three alternative blends. The hard blend is clearly impractical in terms of the share of Bank lending to India. The intermediate blend poses more severe problems of Bank exposure than is shown since here, as in the other cases, the percentage of Bank commitment is based on scenario B of the Expansion of IBRD Lending paper. To the extent lending is below that level, India's share in total commitments will be higher than shown. More importantly, there are significant uncertainties in the projections and underlying assumptions. These cannot be resolved now, and I do not suggest the preparation of further alternative scenarios. Some of the major areas of concern are the following. Continued growth of exports in the assumed levels will require an increasingly sophisticated management of the external sector. While there are some changes in Indian policy in this area, exports are still far from a pervasive concern and the supporting policies and data flows are still far from adequate. Second, the projections are of course based on constant average weather conditions, but the Indian economy is subject to severe variations. These affect both agricultural output and such infrastructure as power. How the economy would react to significant variations remains to be seen. Third, the projections assume that concessional assistance from other sources will remain constant in real terms. This is probably optimistic as other sources of aid will have to deal with the same pressures as we, both in terms of claims from China and an increasingly adverse aid climate. Fourth, the costs of commercial capital may be understated.

What this suggests essentially is that we keep India's creditworthiness for Bank lending under careful annual review. During the IDA VI period, when India will still be receiving 40% of the negotiated total, the Bank lending volume ought not to exceed \$500 million per annum. Beyond that, for planning purposes I believe it feasible to consider a Bank lending level of about \$1.2 billion, rising to perhaps \$1.5 billion by the end of IDA VII. Whether those magnitudes are appropriate will of course have to be subject to annual consideration.

*substantiation notes 1/21*

2.4  
 1.2 IDA  
 + 1.2 IBRD  
 -----  
 2.4  
 1.2 IDA  
 1.2 IBRD  
 -----  
 2.4 204

03/15

333

March 13, 1981

You will undoubtedly be asked about future levels of support from the Bank to India. It seems to me desirable not to commit yourself to any specific numbers beyond the IDA VI period. As you know, we told Manmohan Singh some time ago that the annual lending availability would be about \$2 billion per year based on their 40% of \$12 billion, plus approximately \$400 million per year of Bank lending. The uncertainties associated with IDA VII and with Indian creditworthiness are adequate justification not to be excessively precise about financing in FY84 and FY85. At most, I suggest you say that we will make every effort to maintain this level of support in real terms in future years, but stress that our ability to provide Bank financing will depend on changes in India which will sustain a high level of export growth.

1.6 (40213)  
-4  
-1.0

Attachment

cc: Mr. Hopper  
ESTern/lms

INDIA'S BALANCE OF PAYMENTS PROSPECTS --  
RESOURCE REQUIREMENTS AND CREDITWORTHINESS

1. India's balance of payments outlook for the next several years is one of rising current account deficits. The expected further increases in petroleum prices account for much of the problem; petroleum imports in 1981/82 will already be equivalent to about 60% of merchandise exports. Imports of three other items essential to India's development -- fertilizer, iron and steel and edible oils -- are equivalent to another 30% of merchandise export earnings. The analysis of the recent economic mission suggests that, if India is to maintain a GDP growth rate of about 4.2% per annum in the first half of the 1980's, the volume of imports will have to grow at about the same rate. Given export prospects and the adverse trends in the terms of trade, this means that the current account balance of payments deficit is likely to rise from about \$700 million in 1979/80 to about \$5,200 millions in 1984/85 (the final year of the Sixth Plan).

*ask for their estimates*

2. Fortunately, India is entering this period in a relatively favorable financial situation. Foreign exchange reserves peaked in 1980 at \$7.6 billion and are still over \$7 billion; official gold reserves add an additional roughly \$4 billion even when valued at recent lower prices (\$470 per ounce). India's position to borrow on market terms is relatively favorable; the debt service ratio has fallen to 9% of export earnings (and even these service payments are mostly offset by interest earned on reserves). Although large in absolute amounts, India's expected current account balance of payments deficits are expected to stay below 2% of GDP during the first half of the 1980s.

3. Over the medium and longer term there are substantial opportunities for both important savings and export expansion. Although India seems likely to



remain dependent upon imports for much of its petroleum supplies, there are good prospects for reducing the growth of imports through increased domestic production of iron and steel and fertilizer and perhaps also edible oils. Progress in the agricultural sector is making possible substantial increases in agricultural exports. Over the longer run India is in a good position to expand exports of manufactured goods. However, neither the potential for efficient import substitution nor that for export expansion can be realized without major improvements in infrastructure and a sustained effort to develop and maintain appropriate institutions and policies. Most of the benefits of India's structural adjustment efforts will only be realized in the latter half of the decade.

4. This paper explores India's balance of payments prospects for the period through 1995. It examines the effect of three Bank Group lending programs (the present soft blend, an intermediate blend and a hard blend) on both net transfers and creditworthiness indicators and it looks at the consequences of variations from the base case assumptions regarding trends in exports and imports. While for the early 1980s the projections can be looked upon as forecasts, as the projection period is extended they are better seen as simulations of alternative policies and external circumstances. The improvements in the agricultural sector in recent years and the country's substantial industrial base add significantly to India's margin for maneuver in response to adverse external developments. Because international trade is small relative to the economy (e.g., exports this year will be about 7% of GDP), comparatively small switching from domestic to export markets has a large impact upon trade flows. The GDP growth rates used in these projections (4.2% rising to 5%) imply

Assumed FY84-86 Commitment Levels (\$ millions)

	<u>Soft Blend</u>	<u>Intermediate Blend</u>	<u>Hard Blend</u>
Total Bank Group	8600	10320	13760
IDA (% share)	6880 (80%)	5160 (50%)	3440 (25%)
IBRD (% share)	1720 (20%)	5160 (50%)	10320 (75%)
Change from Soft Blend	-	+1720	+5160
IDA	-	-1720	-3440
IBRD	-	+3440	+8600
Substitution Ratio	-	2.0	2.5
India's Share of IDA	40%	30%	20%

substantial import volumes; however, in the event of serious payments difficulties India can cut back on imports with much less than proportional effects on levels of output and income. As a result of these factors India's capacity to adjust to a necessarily uncertain future, and hence its creditworthiness for borrowing on market terms, are considerably greater than suggested by its per capita income figures.

Alternative Lending Programs for the Bank Group

5. The balance of payments simulations analyze the consequences of three Bank Group lending programs. These are:

- (a) A soft blend (the past policy) defined as an 80% IDA/20%IBRD mix with 40% of IDA available for India.
- (b) An intermediate blend defined as a 50%/50% mix of Bank and IDA commitments with 30% of total

IDA resources going to India. Compared with (a), India would receive \$2 in IBRD commitments for each \$1 decline in IDA resources; thus the substitution ratio is 2.0.

(c) A hard blend defined as a 25% IDA/75% IBRD mix with 20% of total IDA resources available to India. In this case the substitution ratio rises to 2.5.

These various blends apply to the IDA VII replenishment period for which total availabilities are assumed to be \$17.2 billion (5% above IDA VI in real terms). Because the focus of this paper is upon India's creditworthiness for borrowing on market terms, the analysis is based on deliberately conservative assumptions regarding concessional aid. For the period beyond IDA VII it is assumed in all cases that IDA commitments for India would stay constant in real terms (while IBRD commitments would grow at 5% per annum in real terms). Commitments of other concessional flows are held constant in real terms at the estimated 1980/81 level. The varying gaps in different balance of payments projections are financed partly by changes in reserves (with gross reserves not allowed to fall below three months imports) but mostly by borrowing from financial markets at a floating interest rate 3.0 percentage points above the assumed rate of international inflation.

*calculate at 0 real = 15%*

*for justifying 84-86 level of reserves  
in real beyond '86 2% inflation again in '87*

Trade and Resource Gaps

6. The base case projection for trends in trade and the terms of trade

can be summarized as follows:

Trade Coefficients and the Terms of Trade (Base Case)  
(Trade including non-factor services)

	<u>In 1979/80 Prices</u>			<u>In Current Prices</u>			<u>Terms of Trade</u>
	<u>Imports /GDP</u>	<u>Exports /GDP</u>	<u>ResBal /GDP</u>	<u>Imports /GDP</u>	<u>Exports /GDP</u>	<u>ResBal /GDP</u>	
1979/80	9.5	7.7	-1.9	9.5	7.7	-1.9	100.0
1984/85	9.5	8.3	-1.2	10.6	7.9	-2.6	86.0
1989/90	9.6	9.7	.1	11.3	9.3	-2.0	81.9
1994/95	9.6	11.4	1.8	12.0	10.9	-1.1	76.9

India's resource balance was a modest -1.9% of GDP in 1979/80. Even though export expansion reduces this deficit to -1.2% of GDP in constant prices by 1984/85, the deficit will rise to -2.6% of GDP in current prices simply because of the deterioration in the terms of trade. By 1989/90 India would need to run a small surplus in 1979/80 prices in order to keep the resource balance to a manageable deficit of about -2.0% of GDP in current prices. A further reduction in the deficit (in current prices) is projected for the first half of the 1990s, although at this point balance of payments management would be sufficiently comfortable that India could opt for a lesser reduction in the inflow of external resources.

7. This base case scenario reflects the approach of the Sixth Plan in that the response to the trends in the international environment is basically to increase exports rather than restrict imports. Import elasticity stays close to unity throughout the projection period. In order to offset the deterioration in the terms of trade, export volumes will have to grow more rapidly than either output or imports.

8. To achieve these results the rates of growth in export volumes in the base case trade scenario are 6.7% until 1984/85, 7.7% in the following five-year period (the Seventh Plan) and 8.5% in the first half of the 1990s. Are these rates feasible? In the case of exports of manufactures, growth rates are projected to reach 8% in 1985, 9% in 1990 and 10% in 1995. For the early 1980s more modest growth rates are assumed; the average is slightly over 6%. As India actually achieved a volume growth rate of about 12% for exports of manufactures between 1970 and 1978, these projected rates do not seem unrealistic (given a reasonable policy environment, the strengthening of infrastructure and the projected import availabilities). Primary exports (agricultural goods plus mainly iron ore) are projected to grow (in volume terms) at nearly 8% per annum until 1984/85 and subsequently at a more modest 5.8% rate. The estimates for the initial five-year period reflect a detailed commodity-by-commodity analysis based on average weather conditions. The export volumes involved constitute very small proportions of projected output and should be readily manageable on the basis of anticipated demand patterns.

9. The sensitivity analysis uses growth rates for export and import volume which are roughly 0.5 percentage points above and below the assumed base

case rates for the years beginning in 1985/86. <sup>1/</sup> In the "smaller resource gap" alternative the margin between the export and import growth rates is increased by about 1.0 percentage point; in the "larger resource gap" alternative the differential is reduced by the same amount. Especially when price as well as volume fluctuations are taken into account, variations of such magnitudes from the base case growth rates of earnings from exports and payments for imports must be considered as well within the range of possibility. Should such variation take place in an adverse direction, and show signs of continuing, it should be relatively easy to bring about a correction. For example, even in the unlikely case of absolutely no possibility of increasing export earnings, a fall in the growth rate of import capacity by a full percentage point might be offset by slowing GDP growth from 4.5% to 4.0% and reducing import elasticity from 1.0 to .875.

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<sup>1/</sup> In the actual calculations for the larger resource gap alternative export earnings were assumed to be  $.995^{(y)}$  times the base case value while import payments were assumed to be  $1.005^{(y)}$  times the base case value where "y" is the number of years beginning with 1985/86. The converse was used for the smaller resource gap alternative. The changes in growth rates appear as 0.5 or 0.6 percentage points depending upon rounding. The period average rates are:

<u>Volume growth rate for 5-year period ending with year shown</u>	<u>Smaller ResGap</u>	<u>Base Case ResGap</u>	<u>Larger ResGap</u>
Exports 1984/85	6.7	6.7	6.7
1989/90	8.2	7.7	7.2
1994/95	9.1	8.5	8.0
Imports 1984/85	4.9	4.9	4.9
1989/90	4.2	4.8	5.3
1994/95	4.5	5.0	5.6

Results of the Simulations

10. Balance of payments projections using the three different aid blends and incorporating the three variations with respect to trade and the resource gap are summarized in Table 1. (See "Detailed Projections Accompanying 'India's Balance of Payments Prospects -- Resource Requirements and Creditworthiness'" for more complete information.) With respect to the different aid blends, the main conclusion is that the simulated switches from IDA to Bank financing with the assumed substitution ratios make only modest differences in India's balance of payments outcome. By contrast, a persisting change of 0.5 percentage points in the trade growth rates would have a large effect upon the outcome. The balance of payments is relatively insensitive to changes in the aid mix in comparison with the impact of what might first seem to be rather modest variations in the growth rates of exports and imports.

11. Under the base case trade assumptions, the Bank Group shift from a soft to an intermediate blend hardly changes the balance of payments deficit on current account. In both cases the maximum deficit would be 1.9% of GDP during 1984-88; the effect in the first half of the 1990s would be to increase the average deficit from 1.28% to 1.38% of GDP because of higher interest charges. The impact upon debt service ratios is minimal -- an increase of less than 0.5 percentage points in 1986-90 and only 1.2 percentage points in 1991-95. The maximum debt service ratio (DRS) increases from 15.7% to 16.7%, but it declines after 1992. Although the interest burden is higher with the intermediate blend, as a result of the substitution ratio of 2.0 the Bank Group's net transfer during the 1980s would be 8% greater with the intermediate than with the soft blend. The substitution ratio also helps hold down the DSR since the "loss"

**Table 1: SUMMARY OF RESULTS OF BALANCE OF PAYMENTS SIMULATIONS  
WITH VARYING AID AND TRADE ASSUMPTIONS**

	Base Case Trade			Intermediate Blend Aid	
	Soft Blend Aid	Intermediate Blend Aid	Hard Blend Aid	Larger Resource Gap	Smaller Resource Gap
<b>1. Current Account Deficit (as % GDP)</b>					
a. Maximum (year)	1.9 (84-88)	1.9 (84-88)	2.0 (86-87)	2.7 (92-95)	1.9 (1984)
b. Average 1981-85	1.54	1.54	1.54	1.56	1.52
c. Average 1986-90	1.84	1.86	1.92	2.34	1.42
d. Average 1991-95	1.28	1.38	1.46	2.68	.08
<b>2. Debt Service Ratio (to G+NFS)</b>					
a. Maximum (year)	15.7 (1991)	16.7 (91-92)	17.8 (92-93)	23.3 (1995)	13.6 (1990)
b. Average 1981-85	9.50	9.54	9.58	9.54	9.52
c. Average 1986-90	13.00	13.46	14.00	14.60	12.38
d. Average 1991-95	15.12	16.34	17.60	21.78	11.94
<b>3. Net Interest Burden (as % GDP)</b>					
a. Maximum (year)	.57 (93-94)	.66 (94-95)	.77 (1995)	1.11 (1995)	.44 (1990)
b. Average 1981-85	.01	.02	.02	.02	.02
c. Average 1986-90	.39	.42	.47	.48	.37
d. Average 1991-95	.56	.64	.73	.94	.35
<b>4. Bank Group Net Transfer (as % GDP)</b>					
a. Maximum (year)	.63 (1983)	.67 (1985)	.84 (1986)	.67 (1985)	.67 (1985)
b. Average 1981-85	.60	.62	.67	.62	.62
c. Average 1986-90	.52	.59	.74	.59	.59
d. Average 1991-95	.40	.39	.44	.39	.39
<b>5. Bank Group Commitments (FY84-86)</b>					
a. Total IDA Commitments (million \$)	17200	17200	17200	17200	17200
b. India's Share of IDA (% Total)	40%	30%	20%	30%	30%
c. Substitution Ratio	-	2.0	2.5	2.0	2.0
d. IDA Commitments for India (million \$)	6880	5160	3440	5160	5160
e. IBRD Commitments for India (million \$)	1720	5160	10320	5160	5160
f. Total Commitments for India (million \$)	8600	10320	13760	10320	10320



from the shift from IDA to IBRD is partly compensated by the lower level of borrowing from financial markets that is made possible by the higher net transfer from the Bank Group.

12. Nothing in the projections suggests that a shift from a soft to an intermediate blend (accompanied by a substitution ratio of 2.0) would create significant balance of payments and debt management problems for India. The hard blend variation (with a substitution ratio of 2.5) would result in somewhat greater changes, but they are still marginal rather than fundamental as far as India's balance of payments is concerned. Compared to the intermediate blend results, the deficit would peak at 2% of GDP instead of 1.9%; the DSR would peak at 17.8% instead of 16.7%. The increase in the net interest burden in the first half of the 1990s is less than 0.1% of GDP. The net transfer from the Bank Group would be substantially higher than in the other cases, even into the 1990s. (The impact upon the Bank's portfolio is discussed below.)

13. Although the precise results will vary depending upon the initial debt burden, the terms of subsequent borrowing and the growth rates of exports and imports, over a wide range of circumstances it appears that countries can for extended periods satisfactorily manage a current account balance of payments deficit in the neighborhood of 2.0% of GDP when this deficit is financed by borrowing upon market terms. With a higher deficit, the DSR soon begins to "explode". With a lower deficit a country is simply missing an opportunity to benefit from a higher level of resource availabilities. The projections that have been done suggest that this conclusion applies to India with an upward shift in the "safe" deficit in recognition of the level of concessional assistance. In the intermediate blend case the net transfer from concessional

assistance slowly declines from 0.6% to 0.4% of GDP over the projection period; the addition to the "safe" deficit level would be somewhat less. In the base case trade scenario the current account deficit, regardless of the aid blend, does not exceed 2% of GDP and in fact falls substantially below it in the first half of the 1990s. A relatively small but persistent deterioration in the trade growth rates, such as that assumed in the "larger resource gap" alternative, however, is enough to produce current account deficits that by 1990 would fall outside the generally "safe" area. Thus the +0.5 and -0.5 percentage point changes in, respectively, the annual growth rates of imports and exports would be enough to increase the current account balance of payments deficit to 2.7% of GDP in 1991-95 (see Table 1). In this scenario the debt service ratio continues to rise throughout the projection period (albeit at a moderate rather than an explosive pace). With the same intermediate aid blend, the burden of interest payments on both exports and GDP would be over 50% higher by the mid-1990s. The "larger resource gap" scenario thus involves very substantial changes in the results and leads to deficit levels beyond those which India can prudently finance.

14. If the trade growth rates both changed by 0.5 percentage points in the opposite direction (the "smaller resource gap" scenario on Table 1), India would by 1994 become a capital exporter (in the sense of running a current account surplus rather than a deficit). Clearly this would be an unnecessarily restrictive policy. Assuming reasonably productive use is being made of the externally borrowed resources, it is desirable for India to be a capital importer at a level consistent with sustained creditworthiness. (While the sensitivity analysis for trade trends has been done only for the intermediate aid blend

**Table 2: INDIA'S SHARE IN TOTAL IBRD COMMITMENTS, INTEREST INCOME AND LOANS DISBURSED AND OUTSTANDING UNDER ALTERNATIVE BANK GROUP LENDING PROGRAMS**

(Millions of US\$ at Current Prices)

	Bank (Scenario B)	Soft Blend Aid		Intermediate Blend Aid		Hard Blend Aid	
		India	% Bank	India	% Bank	India	% Bank
<b>Commitments</b>							
FY80	7644	430	5.6	430	5.6	430	5.6
FY81	8600	460	5.3	460	5.3	460	5.3
FY82	13000	890	6.8	890	6.8	890	6.8
FY83	15500	540	3.5	1620	10.5	3240	20.9
FY84	19000	570	3.0	1710	9.0	3420	18.0
FY85	21600	610	2.8	1830	8.5	3660	16.9
FY86	24700	679	2.7	2036	8.2	4074	16.5
FY87	26200	756	2.9	2267	8.7	4534	17.3
FY88	27800	841	3.0	2523	9.1	5046	18.2
FY89	29400	936	3.2	2808	9.6	5616	19.1
FY90	31200	1042	3.3	3126	10.0	6251	20.0
<b>Interest</b>							
FY80	1801	66	3.7	66	3.7	66	3.7
FY81	2107	75	3.6	75	3.6	75	3.6
FY82	2458	89	3.6	89	3.6	89	3.6
FY83	3024	114	3.8	114	3.8	114	3.8
FY84	3854	152	3.9	155	4.0	161	4.2
FY85	4891	197	4.0	225	4.6	267	5.5
FY86	6043	244	4.0	325	5.4	448	7.4
FY87	7383	291	3.9	449	6.1	688	9.3
FY88	8810	334	3.8	589	6.7	971	11.0
FY89	10335	377	3.6	736	7.1	1274	12.3
FY90	11912	421	3.5	892	7.5	1598	13.4
<b>Disbursed &amp; Outstanding</b>							
FY80	26694	875	3.3	875	3.3	875	3.3
FY81	30179	1082	3.6	1082	3.6	1082	3.6
FY82	34981	1378	3.9	1378	3.9	1378	3.9
FY83	41431	1781	4.3	1814	4.4	1862	4.5
FY84	49775	2226	4.5	2487	5.0	2878	5.8
FY85	60037	2657	4.4	3419	5.7	4561	7.6
FY86	71802	3078	4.3	4569	6.4	6803	9.5
FY87	85029	3479	4.1	5897	6.9	9525	11.2
FY88	99752	3890	3.9	7354	7.4	12550	12.6
FY89	115342	4322	3.7	8940	7.8	15866	13.8
FY90	131373	4784	3.6	10671	8.1	19500	14.8

**NOTES:** "Scenario B" data from "An Examination of Possible Expansion of IBRD/IDA Lending over Levels Presently Planned for FY82-86 and Means of Financing Such Expansion", Dec. 18, 1980. (See Annex Table 2, page 1, for details.) This is the IBRD component of the constrained program (i.e., the program including \$3.3 billion in lending shifted from IDA to IBRD terms). See pages 3, 18 and 23 of the projections prepared for this analysis for details on the Bank Group lending to India under soft, intermediate and hard blends.

case, the aid blend sensitivity projections show that the results are relatively insensitive to the range of assumptions about IDA and IBRD lending levels.)

#### India in the Bank's Portfolio

15. In addition to looking at the effects of varying the blend of IBRD and IDA commitments upon India's balance of payments, the sensitivity runs also looked at how these alternative Bank Group lending policies would affect the place of India in the Bank's portfolio. The results are summarized in the accompanying Table 2. The projections for total IBRD lending are those of "Scenario B" in last December's report to the Board on expanded Bank Group lending levels; this is the IBRD component of the constrained program (i.e., the Bank Group program in which the expanded Bank Group program is reduced by \$1.5 billion over the FY82-86 period and \$3.3 billion is shifted from IDA to Bank terms).

16. At present India accounts for slightly over 5% of IBRD commitments, although this percentage would fall if (a) IBRD commitments to India were strictly linked to IDA as in the soft blend variant and (b) Bank lending expanded at the rate proposed in Scenario B. In the intermediate blend case India's share of total IBRD commitments would be 9.2% in FY83-85 while in the hard blend case this share would be 18.4%. The variations in the shares in the subsequent years shown on Table 2 reflect the fact that IBRD commitments to India are assumed to grow at a constant rate of 5% in real terms following the VII Replenishment period compared to the varying growth rates of total IBRD commitments in Scenario B. For the FY86-90 period as a whole, however, the VII Replenishment period shares are maintained. The shares of India in the Bank's interest earnings and in disbursed and outstanding debt would still be below its

share in commitments in FY90, but these figures are obviously tending toward the 9.2% and 18.4% levels. (In the long run they would slightly exceed these levels if IBRD loans to India continued to have longer than average maturities.)

Board Conclusions

17. The balance of payments projections for India, including the sensitivity runs, support the following general conclusions:

- (1) The Bank Group's choice between the "soft", "intermediate" and "hard" blend will make relatively little difference to India's balance of payments during the 1980s as long as the substitution ratio of Bank for IDA is such that the net transfer is at least sustained. It will, however, make a large difference to the size of India in the Bank's portfolio.
- (2) The indicators of creditworthiness and satisfactory balance of payments management are extraordinarily sensitive to relatively minor changes in the trade growth rates. Significant problems in balance of payments management could be created by changes in the growth rates of exports and imports which are within the normal range of uncertainty. Fortunately such changes would also be within a range manageable by normal rather than heroic policy measures.
- (3) Given the levels of aid on soft terms that can be

mobilized for India, concessional assistance cannot begin to substitute for the structural adjustment measures necessary to the desired trade outcome. Adjustment is inevitable, and the only questions relate to how it can be brought about in a way most consistent with other development objectives.

18. For a number of reasons -- sheer size, variety of resources, industrial base, importance of the agricultural sector -- the Indian economy is less sensitive to external developments than many other economies. In this sense the adjustment problem is in relative terms easier for India. Because of the country's size, however, the balance of payments flows involved are larger in absolute terms. The new investments, policy changes and institutional arrangements that are needed will take time to put in place. For this reason it is expected that the balance of payments situation will become worse over the next few years and will not really begin to turn around until the late 1980s. Given the favorable initial position in terms of reserves and debt structure, the progress that has been made in the agricultural sector, and the potential response to improved policies, India should be creditworthy for the very substantial increases in IBRD and other market terms borrowings that can be projected for the 1980s. Projections can never "prove" creditworthiness, but the analysis suggests that the policy changes needed to maintain reasonable external financial stability are well within what should be feasible with good (albeit not outstanding) economic management.

South Asia Region  
March 6, 1981



ECONOMIC REPORT

1. The 1981 Economic Report is now in draft form and being discussed with the GOI. A copy of the 1980 Report is attached, but to provide more up-to-date briefing material, extracts of the draft 1981 Report have been prepared and are attached as indicated below:

- (i) Current Economic Developments ... Tab
- (ii) Balance of Payments ..... Tab E1
- (iii) Energy ..... Tab E2
- (iv) Exports ..... Tab E3
- (v) Agriculture and Irrigation ..... Tab E4
- (vi) Transport ..... Tab E5

2. In addition, brief notes have been prepared on the following topics:

- (i) Industry ..... Tab E6
- (ii) Forestry ..... Tab E7
- (iii) Family Planning ..... Tab E8

3. The Sixth Five Year Plan (1980-85) was approved in late February, 1981. A brief note summarizing its major macro dimensions is at Tab E9. More sector-specific discussions of the Sixth Plan are to be found at the tabs indicated above.





## 1980 ANNUAL MEETING BRIEFING PAPER

### INDIA

#### General Background

##### The Political Situation.

1. After a year of intense political activity, general elections were held in India on January 3 and 6, 1980. As a result of these elections, Mrs. Gandhi's Congress (I) party was returned to office, having won 351 of the 542 Lok Sabha (lower house) seats and 42.6% of the popular vote, more than the combined total of the Janata and Lok Dal parties. Mrs. Gandhi's dissolution in February of existing opposition governments in nine States led to elections in these States in May, in which the Congress (I) consolidated its hold on the country by garnering majorities in eight of the nine States and thus control of the Rajya Sabha (upper house) of the Parliament, elected indirectly through State legislatures.

2. The political uncertainty of the last year has inevitably affected Bank Group operations in India, as important State-level and Central Government administrative matters and investment decisions have been delayed and bureaucratic insecurity has abounded. Presentation of the 1980/81 budget was deferred until mid-June 1980 and the Government has announced that the draft Sixth Plan (1978-83) would be set aside and a new Plan for 1980-85 prepared by December/January of this year. While the release of the budget and the recent approval by the National Development Council of the Plan Framework Paper (see para 8 below) have provided some indications of the Government's intentions, and the installation of the new State Governments should remove an element of uncertainty, a sense of insecurity in both the economic and political spheres persists. Further changes in high level positions, including some at Cabinet level, are still expected. The civil and political unrest in the north-eastern States, particularly Assam (where the principal issue is the status of Bengali immigrants in Assam), continues, as does the associated oil blockade, which is reported to have cost the country 2.2 million tons in crude oil during the last six months. And finally, the recent death of Sanjay Gandhi has contributed to emerging infighting in the Congress (I) Party, particularly evident between old guard Congress politicians and Sanjay's supporters, who now find themselves leaderless.

##### The Economy.

3. The economic situation in India deteriorated sharply in 1979/80. Real GNP is estimated to have fallen to about 3% below the 1978/79 levels, as industrial output stagnated and agricultural production declined by an estimated 8.5%.

4. In agriculture, a delayed, deficient and erratic monsoon was primarily responsible for the 18% drop in kharif (summer) production and the 3.5-4% drop in rabi (winter) production. Despite the disappointing performance in 1979/80, the sizeable increases of recent years in irrigation

potential and use of agricultural inputs are credited with having significantly reduced potential output losses by improving utilization of what rain there was. Moreover, the large foodgrain stocks the Government had built up during the preceding years' record harvests were sufficient to substantially mitigate the impact of the drought on the welfare of the population while still leaving India with sufficient reserves to weather another year of equally bad or even worse rainfall. Fortunately, the 1980 monsoon thus far appears to have been very favorable, although flood damage in the eastern region has been reported.

5. Industrial production was severely constrained in 1979/80 by shortfalls in power generation as well as shortages of several key industrial inputs, such as coal, cement, steel, diesel fuel and transportation services. The impact of the drought on hydro-electric power generation, combined with additional demand for power to drive irrigation pumps, exacerbated an already tight power supply situation. While power generation increased by about 2% during 1979/80, demand is estimated to have risen 15-18%. Power shortages contributed to shortfalls in coal and steel production, as did labor unrest, particularly in the case of coal. Growth in demand for cement continued to outpace supply growth, largely due to the low level at which cement prices have been fixed.

6. The first months of 1980/81 have seen a continued, though marginal, decline in industrial output, particularly in steel, aluminum, cement, heavy vehicles, cotton, and sugar. Output of crude oil and petroleum products has also been constrained by the disruption of crude oil supplies from Assam. However, recent cement price increases have opened the way for substantial capacity expansion, which should come on-stream by 1982, and there is evidence of improvement in the power situation. The good monsoon has increased hydel reserves and reduced demand for power for irrigation pumping. Moreover, coal production has risen and the system of allocation and transport of coal for power stations has been improved.

7. The extended period of price stability India had enjoyed in the late 1970s ended in early 1979, when shortages of key commodities (e.g., sugar, edible oils) combined with adjustments to important administered prices, higher import prices and the tightening balance between aggregate demand and supply to drive up the wholesale price level. By January 1980, wholesale prices stood at 21% above the level of a year earlier. The rate of wholesale price increase has moderated somewhat since the beginning of this year, now standing at an annualized rate of approximately 15%. Government response to inflation has largely focussed on tightening credit and maintaining adequate supplies of basic commodities, through liberal imports where necessary. The newly released 1980/81 budget seeks to support this policy by reducing the projected Government deficit to roughly half that incurred in 1979/80. However, this deficit reduction is based partially on recent major (and entirely appropriate) increases in the administered prices of petroleum products, fertilizers, and transportation. These necessary domestic price adjustments, when combined with continued international price pressures (particularly for petroleum-based products), will undoubtedly preclude a return to the unusual price stability that India enjoyed from 1975-79.

8. 1979/80 also saw an erosion in India's balance of payments position. Export volume declined (with export value stagnant) as a result of the drought and domestic supply constraints, while the value of imports rose by 27%, largely due to the estimated 70% increase in the price of petroleum imports. Reserve growth tapered off sharply in 1979/80, and the first few months of 1980/81 have seen reserve drawdowns averaging US\$100 million a month. Although reserves are still adequate to cover seven to eight months of imports, the dynamics of India's foreign account have clearly changed.

9. On August 31, the National Development Council (NDC) approved the Planning Commission's draft Framework Paper for the Sixth Plan (1980/81-84/85), consistent with the Government's schedule to present the Draft Plan itself to the NDC by January 1981. At the time of this writing not all the details are available but some broad parameters and policy indications have been reported. In real terms, public sector Plan outlay at Rs 90,000 crores in 1980/81 prices is not likely to be much higher than the now-discarded 1978-83 plan prepared by the previous government. Targeted growth rates, however, are higher at 5-5.3% for NDP, 10% for export volume, 8-9% for industry, and 4% for agriculture. Financing the Rs 90,000 crore public sector outlay is predicated on a major resource mobilization effort by both the Centre and the States. Among the objectives stressed in the framework document are export promotion (through fiscal and exchange rate measures), curbing the rise in POL imports (by conservation through higher domestic prices and by greater efforts at exploration and development of domestic oil and other energy sources), and import substitution. Removal of poverty remains a major objective.

### Issues

#### Economic Policy.

10. You may want to impress on the Finance Minister the crucial importance we attach to progress on the economic policy issues reviewed below. The Plan Framework Paper and recent policy statement on industry ascribe priority to each of these areas, setting forth, for the most part, policy objectives we find appropriate. However, at least with respect to the first four issue areas cited, the task of developing specific strategies and programs consistent with these objectives remains largely undone. It would be appropriate to urge early identification and implementation of concrete measures to serve the Government's stated objectives in these crucial areas.

11. Exports. In view of India's deteriorating balance of payments position, concerted action on three fronts will be required to stave off a return to the growth-inhibiting import control policies of the early 1970s. First, India must develop a strong export strategy. The Government's 10% per annum export volume growth objective will require a vigorous, imaginative effort, particularly in the context of recent disappointing export performance. It is clear that the current trade and industrial policy regime does not provide adequate incentive for investment in export capacity. While, as mentioned above, the Plan Framework Paper stresses the importance of export promotion, identification of appropriate policies, which will provide incentives for export production while being manageable in terms

of fiscal policy and short-term foreign exchange requirements, has only just begun.

12. Energy. As a second thrust in meeting the emerging balance of payments strain, India must establish an energy program designed to substitute cheaper and more abundant energy sources (e.g., coal and hydel) and domestic oil for imported oil. Within the past year GOI has undertaken a review of energy policy and a comprehensive study of operational issues in the power sector. These efforts have led to the setting of entirely appropriate goals in terms of increased capacity utilization in the thermal power sector, accelerated coal and hydel development and oil exploration. Thus the stage is set for the implementation of vigorous energy development policies. Improvements in financial and operational performance in the power sector will be particularly crucial in relation to our own operations program, given the magnitude of our existing and planned involvement in this sector.

13. Import Substitution. Finally, the third element in terms of policy response to emerging external resource constraints is India's increasingly important objective of meeting domestically more of her basic requirements (e.g., edible oils, fertilizer, steel, and cement). This will require pricing and tax policies geared to greater internal cash generation for key industries, increased capacity utilization (notably in fertilizer, iron and steel), and improved input availability (particularly of coal and power) and management.

14. Industry. The re-emergence in India of bottlenecks in infrastructure and supply of several basic inputs (see para 5 above) highlights the importance of improved efficiency, plant modernization and expansion in these sectors. In addition, several adjustments must be made within the industrial sector over the next few years to accommodate India's current circumstances. First, the industrial sector must be encouraged to adjust itself to higher energy prices through appropriate domestic energy pricing policy. Second, as mentioned above, a substantial effort must be made to foster the growth of export and import-substituting industries. Third, many Indian industries are in need of modernization of their capital stock and technology, particularly in view of ever-rising energy costs. A recent policy statement delivered to the Parliament by the Minister of State for Industry lists as key objectives, inter alia, the revival of infrastructure, to be addressed on a "war-footing", improved capacity utilization, promotion of export-oriented and import substitution industries through establishment of new units and expansion of existing units, improved management in the public sector, "optimal utilization of energy", development of "modernization packages" for small and large industries, and increased research and development to up-date existing industrial technology. The initial rumblings, then, are good. However, specific policy proposals have not yet emerged.

15. Agriculture. The priorities for Government investment in agriculture remain the more efficient use of water through modernization of existing irrigation schemes and implementation of higher standards in new schemes, complemented by the continued improvement of input delivery systems providing credit, fertilizer, HYV seeds, pesticides, and extension. As pointed out above (para 4), State and Central Government efforts in these areas have already shown significant results. You might commend the Minister

on the Government's efforts in the agricultural sector and encourage continued emphasis on the identified priority areas.

16. Population. India's family planning performance data for 1978/79 and the first ten months of 1979/80 clearly indicate a come-back from the sharp decline observed in virtually all major contraceptive methods during 1977/78. Except for male sterilizations, the number of acceptors for all contraceptive methods surpassed the 1974/75 levels in 1978/79. So far, policy makers have not made major attempts to accelerate the male sterilization program. Instead, they have opted for policies that would yield relatively modest but sustainable results with increased emphasis on non-terminal methods. The organizational structure and service delivery capabilities of India's family planning program have improved substantially over the years. Today, the program includes virtually all the components of a successful family planning program in use anywhere in the world and long experience in motivational campaigns. With further emphasis, the program could cope with a larger clientele within a relatively short period. We continue to urge a strong emphasis on family planning, recognizing that, on the demand side, progress will to a large extent depend on improvements in income, education, health (especially maternal and child health), and employment opportunities in rural India.

#### Bank Group Assistance.

17. Magnitude of Bank Group Lending. In view of the emerging external resource constraints facing the Indian economy and the financing requirements indicated in the Sixth Plan Framework Paper, the delegation may ask about the likely impact of the entry of China on Bank Group lending to India, the prospects for increased IBRD borrowing, and the prospects for additional resources for structural adjustment lending to India. In the course of our recent CPP review, it was agreed that increased IBRD lending for India was warranted, although determination of the actual amount of IBRD lending for the coming years was deferred until the next Bank-wide lending review. With respect to lending for structural adjustment, the need for the Government to undertake policy reforms in the areas of industry, energy, and trade was stressed. However, given the broad policy changes that would have to accompany a structural adjustment loan, it appears unlikely that agreement on an adjustment program could be reached unless substantial amounts of additional Bank Group resources could be made available. Thus, while we will continue to explore potential structural adjustment strategies with the Government, we also intend to investigate alternative means of supporting proposed sector policy reforms -- in particular, through program components of project lending.

18. Government Decision-Making and Project Preparation. The total commitment of Bank Group resources to India in FY80 reached the record level of US\$1,660 million -- US\$1,535 million in IDA credits and US\$125 million in Bank loans. Our plans for FY81 and FY82 call for further increases in the lending program for India. While we have quite a strong project pipeline for the coming two years, the uncertainties of the last year have slowed the processing of our FY81 and FY82 programs and have made an uncomfortable degree of bunching at the end of this fiscal year unavoidable. It would be appropriate to impress upon the delegation the fact that we

will have difficulty meeting our objectives in terms of total resource transfer to India in the absence of a concerted effort on the part of the Government to expedite decisions required for prompt processing of the lending program.

19. Disbursements. Total Bank/IDA disbursements to India during FY80 were US\$729 million (US\$561 million IDA; US\$168 million Bank), an increase of approximately 36% over the previous year's total of US\$538 million. The increase in the level of IDA disbursements was even more marked -- from about US\$375 million in FY79 to US\$561 million in FY80, an increase of nearly 50%. Moreover, the Ministry of Finance has indicated that it expects a further rise of approximately 30% in Bank/IDA disbursements in FY81, an increase which should be facilitated by procedural simplifications to which we and GOI have recently agreed. Much of the credit for the past year's improved performance goes to the Ministry itself (in particular, the Department of Economic Affairs), which has focussed considerable attention during the year on monitoring project implementation and on streamlining its procedures for preparing and processing withdrawal applications. You may wish to commend the Minister and the Secretary on the performance of their staff and urge them to continue their efforts.

20. Oil Exploration. On a specific matter which the delegation may raise, the Government of India has recently invited foreign participation in off-shore oil exploration and has asked the Bank for assistance in reviewing proposed contractual arrangements with foreign oil firms. This is a welcome development, as India's exploration program has up to now been much smaller than we feel is warranted. GOI has also indicated an interest in adding an oil exploration project to our pipeline. We have agreed to GOI's request that we provide technical assistance in the evaluation of collaborative arrangements with foreign firms. As for the possibility of a Bank-supported oil exploration project, we plan to discuss the Government's intentions and interests in this regard during the negotiations for the Second Bombay High Offshore Development Project, tentatively scheduled for mid-October. The possibility of obtaining commercial financing for the Oil and Natural Gas Corporation's development program will also be discussed.

Biographical Data

Mr. R. Venkataraman, Finance Minister, is 69 years old. A lawyer by training, Mr. Venkataraman was educated at Madras University (M.A., LL.B.). In the early years of his career, he practiced law before the Madras High Court and participated in the trade union movement, rising to the presidency of a number of Madras-based unions. A veteran Congress leader, Mr. Venkataraman has had a long political career. He was active in the Quit India Movement (and, as a result, detained from 1942-44), a member of the Provisional Parliament of 1950, and elected to the first Lok Sabha in 1952, where he remained a member until 1957. From 1957-67, he was Minister of Industry in the Madras State Government, while holding intermittently a number of additional portfolios, and from 1967-71 he was a Member of the Central Government's Planning Commission. In 1971, he became Managing Editor of the Labour Law Journal and since 1977 has served as a member of the Parliament representing Madras. During his career, in addition to taking a particular interest in labor and trade union affairs, Mr. Venkataraman has been active in a number of international organizations. In particular, he served as leader of India's delegation to the ILO in 1958, delegate to six sessions of the U.N. General Assembly between 1953 and 1961, and President of the General Assembly's Administration Tribunal from 1969-79.

Mr. R.N. Malhotra, Secretary, Ministry of Finance, Department of Economic Affairs, is 54 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 Adviser 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 Manmohan Singh's transfer to the Planning Commission in April, as Secretary.

The delegation will also include Dr. R.M. Honavar, Chief Economic Advisor, and Dr. M.D. Godbole, Joint Secretary (Bank/Fund), both of the Department of Economic Affairs, Ministry of Finance, and may include Mr. D. Das Gupta, Special Assistant to the Minister of Finance.





Dec 22, 1981

## Recent Political Developments in India (Addendum)

Over the past year three kinds of political agitation have occurred which have raised fundamental social and political issues. Although these activities have as yet had little direct impact on the Government's authority -- Congress (I) administrations are firmly ensconced at the Center and in most states -- the issues they have raised remain extremely contentious and unresolved.

### The "Foreigners" Issue

Originating in Assam and spreading to some Northeastern states such as Manipur, Tripura, Mizoram, local populations (mostly students) have protested the presence on their territories of foreigners, mainly Bengalis from Bangladesh. They have demanded the expulsion of all foreigners who immigrated after 1951. The Government of India, claiming it has treaty obligations with Bangladesh to repatriate only those Bangladeshis who arrived after 1971, has said it cannot agree to this demand. <sup>1/</sup> The situation is deadlocked, with the agitators demonstrating a capacity to organize strikes and blockades of strategic installations quickly and effectively. Although the Assam pipeline has been reopened after closure of almost a year, it remains vulnerable in any future agitation. Thus far the Government has not used the army to strike-break or to intimidate the agitators but the use of force in the future cannot be ruled out.

### Farmers' Agitation

Following agitations by farmers in seven Western and Southern states in late 1980 for 'remunerative' farmgate prices <sup>2/</sup> both the Center

<sup>1/</sup> Although these movements have been dubbed by the Center as anti-national, and a possible prelude to secession by some N-E States, the continuing and unharassed presence of Punjabis, Marwaris and Biharis in the tea estates indicates it is primarily a problem relating to Bangladesh.

<sup>2/</sup> To be indexed to rises in consumer prices rather than production costs.

and the farmer's organizations have been adopting a wait-and-see attitude. The Gujarat farmers' leader, Sharad Joshi, had promised to restart political agitation after talks in early January with the Minister of Agriculture had failed to produce a settlement of his demands. This has not yet happened though it appears Joshi and farmers leaders in other states do have the capacity to organize disruptive demonstrations. As a possible counter to such moves the Congress (I) and other parties have been organizing rallies of 'kisans' (small, surplus cultivators) in Delhi to try and attract the affiliations of this group of people to the party system. It remains unclear how the farmers demands will be handled.

#### Reservation

The latest agitation, which began in late January, was started by medical students in five colleges in Gujarat. They were protesting a long-standing arrangement whereby a certain percentage of class and faculty positions was reserved ~~from~~<sup>for</sup> Harijans and persons from other scheduled castes and tribes. The protests, led by upper caste Hindus acting through the Anti-Reservation Action Committee, quickly spread to other Government departments. Violence was severe particularly in the cities of Baroda and Ahmedabad, and is continuing. What is ominous about the movement is not merely that it is aimed at undermining well-established rights of minorities and underprivileged groups which have been guaranteed by successive parliaments. It is that the violence has been particularly severe in Gujarat where Harijans comprise only 7% of the population. If similar caste conflicts spread to other states where the lower castes are numerically stronger, the violence could become extremely severe and could pose a threat to the stability of the central Government.

## RECENT POLITICAL DEVELOPMENTS

1. General Situation. Mrs. Gandhi's Government remains firmly in control at the Centre and in all States except West Bengal. By-elections for 15 State assemblies in late November saw a marginal accumulation of support for the Cong (I) (10 seats retained, three gained, two lost). The opposition remains fragmented.
2. Although there have been numerous expressions of a general malaise in the Government, it is difficult to see concrete effects of this. Indeed, a number of specific actions over the past year -- the management of the foodgrain shortfall, the difficult decisions to raise prices of POL, fertilizers and the issue price of selected cereals, and the preparation and approval of the Sixth Plan only slightly behind schedule -- would, if anything, point in the opposite direction. Nevertheless, over the past several months there has emerged among a cross section of Indian public and private leaders a mood of disappointment in the Government's performance and skepticism of its ability to act, which is in itself a matter of concern.
3. Considering the substantial power and authority commanded by Mrs. Gandhi, it was not surprising that two actions taken late in 1980 sparked off national debates about the threat to democracy and the political system in India. First a National Security Ordinance was promulgated which provided for preventive detention without trial for a period of up to one year for a broad spectrum of "anti-social" behavior. Second, Mrs. Gandhi opened a National Conference of Lawyers a call for a national debate on the institution of a presidential form of Government. Some commentators have expressed surprise at the continuing inclination of the Government to obtain more power rather than concentrating on using the substantial amounts it has more effectively. Mrs. Gandhi has recently backed off from suggestions that she wish to change the form of government.
4. Government Appointments. There remain unfilled cabinet vacancies (Defense, Industry, Works and Housing, Steel and Mines, Agriculture, Education, Labor). Changes in Secretarial appointments are frequent. Two recent Ministerial changes have been made: former Petroleum and Fertilizers Minister (Patil) was shifted to Shipping and Transport and replaced by P. C. Sethi; Railways Minister Tripathi resigned (after public criticism of railway performance by Mrs. Gandhi) and was replaced by K. Pande, formerly Minister for Irrigation.
5. In early March, an Economic Administration Reforms Panel was established to be headed by L. K. Jha, who would be given the same status as Deputy Chairman of the Planning Commission and report directly to Mrs. Gandhi. The panel is expected to deal with major economic policy issues and ensure more rapid implementation of Government decisions.
6. Assam. In January a Congress (I) Government under Mrs. Taimur was installed. Previously the Assam Ministry had been headed by various personal advisors to Mrs. Gandhi, seconded from the Central Secretariat.

While it was hoped in Assam that this change to "representative" Government indicated the prospect of a more conciliatory attitude by the Centre, it has brought no appreciable progress towards convening talks. Each side has preconditions for talks which are not acceptable to the other. The 'students' remain militant and capable of organizing spontaneous and successful bandhs. However, their position has been considerably undercut by the resumption of crude oil production and refining in early February.

7. Farmers' Agitation. In November a relatively unknown farmer in Pune, Sharad Joshi, organized local farmers (mainly surplus producing cultivators, it seems) to agitate for what they termed 'remunerative' farmgate prices. They asked that prices be indexed to movements in consumer prices rather than production costs. At the same time they demanded lower prices of inputs. The agitation spread to other States (Tamil Nadu, Gujarat, Bihar, U.P., Karnataka, A.P.) though there seemed to be no uniformity in the way demonstrations were organized. Mrs. Gandhi reacted sharply to anyone who tended to speak out for farmers' interests, publicly snubbing Maharashtra's Chief Minister Antulay and having a Minister of State in Karnataka sacked. She refused to see Joshi in Delhi; he was sent to talk instead with the Minister of Agriculture. Terming these talks 'fruitless', Joshi vowed to resume his demonstrations in late January, to culminate in a march to Delhi in mid-March. Despite the attempts made by some political parties (especially the Lok Dal and Forward Bloc in Bihar) to court the agitators, the farmers' agitations have tended to by-pass political parties. In late February Mrs. Gandhi herself staged a massive "kisan" (farmers) rally in Delhi. She spoke out forthrightly, making clear that concessions to sectional groups would not be considered if they were inimical to the larger economic interests of the country.

8. It is difficult to assess to what extent these agitations are representative of the farming community or only of a certain class of the wealthier farmer-politicians. Objectively their case for higher prices for sugarcane at least appears weak. There is a danger that by their influence on state governments, these farmers' groups could circumvent the efforts of the GOI to establish, through the Agricultural Prices Commission, a rational agricultural pricing policy.

## INDIA

### CURRENT ECONOMIC DEVELOPMENTS

1. The rebound of the Indian economy in 1980/81 from the disappointing performance of the previous year was slow in coming, despite a return to normal weather in 1980. Nevertheless, many economic indicators began improving in the last half of the fiscal year, with some indicators picking up sharply. After the falls in both agricultural and industrial production in 1979/80, many observers had expected a strong recovery in 1980/81, with foodgrain production exceeding the 1978/79 record of 132 million tons, an early easing of basic supply constraints, and industrial production growing by as much as 8%. In the event, foodgrain production will not exceed the 1978/79 level, although the crop will be a good one. Several supply constraints, particularly rail transport and electricity, persisted longer than had been expected, although there had been early improvement in some, such as coal production and port clearance. Industrial production rose by only 4% during 1980/81, although it is now rising at a faster rate, and growth in 1981/82 should be much stronger. Real GDP rose by about 8% during 1980/81.

2. Agriculture. Agricultural production rose by about 14% in 1980/81 after the 16% fall in 1979/80. The 1980 monsoon was one of India's best through August. The rains appeared on time and were well distributed. Unfortunately, the monsoon deteriorated sharply in September and some areas, particularly in the western part of India, experienced long breaks in the rain. This adversely affected all crops; but groundnut and cotton, which are both grown in Western India, were more affected than foodgrains. In broad terms the 1980 monsoon was a normal one, although worse than normal for a few crops. It was much better than 1979's but not nearly as favorable as 1978's. Table 1.1 presents estimates of the 1980/81 crop along with comparable estimates for the previous two years.

3. Fertilizer consumption grew only slowly for the second year in succession. In the three years 1976/77 through 1978/79, consumption grew by 17% to 27%. During 1979/80, consumption grew by only 2.7%, due to drought. During 1980/81, consumption grew by only about 5% despite better weather, because of a 38% price rise during the year and short supplies. Area under irrigation continues to rise at the accelerated rates of over two million hectares per annum, divided about equally between surface and groundwater development.

Table 1.1

AGRICULTURAL PRODUCTION, 1978/79 TO 1980/81

	1978/79 (Revised)	1979/80 (Final)	1980/81 (Provisional)	Percentage Change During	
				1979/80	1980/81
Foodgrains (million tons)	131.9	108.9	125-130	-17.4	15-19
Five Major Oilseeds (million tons)	9.6	8.1	8.4	-15.6	3.7
Cotton Lint (million bales)	1.4	1.3	1.3	-3.0	-
Sugarcane (million tons)	156.5	128.0	155.0	-18.0	21.0
Agricultural Production Index Triennium ending 1969/70 = 100	139.4	117.0	133.0	-16.0	14.0

Source: Ministry of Agriculture and World Bank estimates.

4. The final estimate of the 1979/80 foodgrain crop of 108.9 million tons was much lower than earlier estimates. This meant an unprecedented fall of 23 million tons from the previous year's record crop of 132 million tons. Even though some fall was to be expected as the trend level is below that record, the low production meant a large reduction in the domestic availability of foodgrain during 1980. This was managed in ways that successfully avoided much of the distress that has accompanied low harvests in the past. Government foodgrain stocks were 17.4 million tons at the start of 1980, and during 1980 public agencies procured 11 million tons through price support programs. Public distribution of grain through the Fair Price Shops was 13 to 14 million tons. The Government released another 2 million tons through Food for Work Program, which continued to be needed in 1980 to handle the effects of the 1979 drought on employment and income of agricultural laborers. Thus foodgrain stocks were drawn down by 5 million tons during 1980, and the stock level at the end of December was 12 million tons, 5.5 million tons of wheat and 6.5 million tons of rice. Although foodgrain prices did rise somewhat starting in June 1979, the rise in 1980 of 16.7% has been no higher than that of the total for all commodities.

5. Availability of sugar became strained during 1980, particularly in the last quarter. The very low level of sugarcane production during 1979/80 showed up during 1980 as a severe scarcity of sugar, despite

marginal imports. The proportion of the cane crop sold to the mills also fell because village and small scale processors were able to offer higher prices to the farmers since the prices of their products, unlike sugar, are not controlled.

6. Despite the low production of edible oils in 1979/80, per capita availability was maintained through 1980 at levels only slightly below the high levels of the past four years by continued imports of over 1 million tons of oil. Nevertheless, reports of yet another poor groundnut crop in 1980/81, speculation that the Government would limit imports for 1981 to at most 1 million tons of oil, and reports of an informal agreement between the Government of Gujarat and oil millers to restrict movement of groundnut oil out of Gujarat, caused prices to spurt at the very end of 1980.

7. The Government increased support and procurement prices for a variety of agricultural commodities as part of its pricing policy to encourage expanded production. In general, the procurement prices of foodgrains were raised more than the price of other agricultural commodities. The issue prices of rice and various coarse cereals distributed through the public Fair Price Shops were raised in November 1980 to offset the higher procurement prices. The prices of coarse cereals were raised 10% and rice 9% to 10%, depending on the variety. The levy price of sugar (the price paid to mills for the sugar levied by the Government) was raised 23% at the same time to compensate mills for the increased price of cane which mills are required to pay farmers.

8. Many analysts have argued that the procurement prices of rice and wheat, which become support prices in many markets at harvest time, are already high enough and think that the Government should raise the support prices of certain other commodities, particularly pulses and oilseeds, faster than those for rice and wheat. The fall in the foodgrain stocks during 1980, however, means the Government needs to boost procurement out of the larger 1980/81 foodgrain crop to replenish stocks. The latest rise in the procurement price for rice and the recommendation for the large increase in the procurement price for the 1981 wheat crop can be interpreted as needed to ensure ample procurement. As India expects to export a limited amount of cereals during the next four years, it will also be important to set procurement prices so that export of the cereals is possible at world market prices without a loss to the Government.

9. The procurement and support prices set by the Central Government sometimes are different from those established by State Governments. In the past States have occasionally set foodgrain procurement prices slightly higher than those adopted by the Centre. States sometimes stipulate state advised prices which sugar mills must pay to farmers for sugarcane and which are much higher than the statutory minimum prices fixed by the Central Government. During 1980/81, farmer agitation in



Maharashtra and elsewhere has led some State Governments to fix higher support or minimum market prices for sugarcane, cereals and, in Maharashtra, onions.

10. Industry. Industrial production deteriorated sharply in 1979/80, registering a decline of 1.4% after four years with an average rate of growth of almost 7%. In 1979/80 manufacturing industries declined by 2.1% while electricity generation increased by only 2.1%, and mining and quarrying was virtually stagnant. Shortages of power and essential commodities (coal, steel, cement), agricultural setbacks due to drought and labor unrest contributed to the deterioration in industrial production in 1979/80.

11. During 1980/81 public infrastructure and the supply of certain basic commodities continued to be a constraint to industrial production. Railway transport was perhaps the biggest bottleneck. Even though coal production did increase markedly early in the year, many users of coal complained of shortages as coal stocks rose at pitheads. For the year as a whole, coal production rose about 6% to reach 110-111 million tons. Power generation rose only by 7%. The production of steel continued to decline during 1980/81, as power and coal continued in short supply. Production of fertilizer rose only marginally as a rise of over 10% in the production of phosphatic fertilizer just barely offset a decline of about 1% in the much larger production of nitrogenous fertilizers. Nitrogenous fertilizer production was hurt by power shortages, by labor troubles, and particularly by feedstock supply problems that derived from the Assam situation 1/. The latter directly affected the production of crude oil, which declined 14%, and the production of refined petroleum products, which fell by 9%.

12. Several factors affecting industrial production improved in the second half of 1980/81. Power production rose sharply starting in November, and production of several important commodities, such as steel, cement and aluminum, rose as well. Rail transport also improved with the freight traffic in the last months of the year higher than average. Mandays lost in labor disputes were only one-quarter of the previous year's level.

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1/ Political agitation in Assam resulted in an embargo in the movement of crude oil and oil productions out of Assam during virtually all of 1980. This meant two major refineries, Bungaigon in Assam and Barauni in Bihar, operated very little, resulting in severe shortages of naphtha feedstock as well as other petroleum products. Although no resolution of Assam's political crisis is yet apparent, full production of crude oil was resumed (under Indian army supervision) in February 1981.

13. Overall, the index of industrial production rose about 4% in 1980/81, as improved performance in the second half of the year offset the poor first half. See Table 1.2. In fact, the second half performance has established a rate of growth that, if continued, would indicate quite strongly industrial growth in 1981/82.

Table 1.2

INDEX OF INDUSTRIAL PRODUCTION, 1979/80 AND 1980/81

(1970 = 100)

	<u>1979/80</u>			<u>1980/81</u>		
	<u>Apr-Sep</u>	<u>Oct-Mar</u>	<u>Year</u>	<u>Apr-Sep</u>	<u>Oct-Mar</u>	<u>Year</u> (Provisional)
Mining and Quarrying	139.2 (5.9)	151.0 (-3.7)	145.1 (.7)	135.6 (-2.6)	158.1 (7.6)	149.0 (2.7)
Electricity	195.1 (7.1)	188.6 (-2.5)	191.8 (2.1)	192.5 (-1.3)	218.4 (15.8)	205.4 (7.1)
Manufacturing	140.2 (-1.7)	146.8 (-2.5)	143.5 (-2.1)	140.6 (.3)	157.6 (7.4)	149.1 (3.9)
General Index	145.2 (-)	151.0 (-2.7)	148.1 (-1.4)	144.9 (-2)	163.3 (8.1)	154.1 (4.0)

Source: Bank staff estimates

Note: Figures in parenthesis are percentage change over the corresponding period of the previous year.

14. The Government introduced a variety of policy changes designed to improve the environment for industrial investment and production. Some of these were announced in the June budget speech of the Finance Minister, some in the July Industrial Policy Statement of 1980 and others in various notifications and announcements throughout the year. One of the most important changes was the significant increase in the categories of industrial firms allowed automatic expansions of 25% in five years without a new licence or other permission from the Government, subject to certain

conditions 1/. A virtually identical group of industries qualifying for automatic expansion was allowed to regularize existing capacity in excess of authorized capacity, subject to certain conditions 2/. In the budget speech, the Finance Minister announced modifications in the convertibility clause now included in loan agreements between public financial (term lending) institutions and industrial firms. This clause allows the Government (through the lending institutions) at its discretion to convert loans outstanding into equity. The changes are that now the clause will apply to loans exceeding Rs 10 million (US\$1.25 million) rather than Rs 5 million, and the convertibility clause would not be exercised to raise the Government's holding of a firm's equity above 40% 3/. On December 3, 1980 the Government announced a partial relaxation of its industrial location policy, which had restricted the creation or expansion of industrial capacity within municipal limits. All of these changes were designed to improve industrial efficiency and make better use of existing industrial capacity.

15. The July 1980 Industrial Policy Statement states that "Government would sympathetically consider requests for setting up 100% export oriented units, requests for expansion of existing units exclusively for

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- 1/ The 1975 provision for automatic growth was applied to an initial list of 15 engineering industries producing mainly capital goods. The August 14, 1980 notification (following the July Industrial Policy Statement) added another 19 industries considered to be basic or strategic industries or involving high technology or having long-term export potential. These 19 industries produce mainly intermediate goods -- chemicals other than fertilizers, drugs, pulp and paper, automobile tires and tubes, glass, ceramics and cement, non-ferrous metals, fertilizers. The conditions are that the items produced should not be reserved for the small scale sector; expansions requiring imported capital equipment would attract an export obligation; and the firms should not be a dominant undertaking in the industry.
- 2/ The main conditions are: the item produced is not reserved for the small scale sector, the firm is not a unit controlled under the Foreign Exchange Regulations Act (FERA) or the Monopoly and Restrictive Trade Practices (MRTP) Acts and no additional machinery is installed.
- 3/ However, in the case of persistent default, mismanagement or continuous closure of a unit producing essential goods or services, the lending institutions, with the concurrence of the Government, can raise their equity through this clause to even more than 51%, if need be.

purposes of export and for allowing higher production for exploiting fully the emerging opportunities". By the end of November 1980, the Government had announced the approval by the Cabinet Committee on Exports of a scheme for providing special facilities to 100%-export-oriented units which includes the exemption of tariff duties on imported capital goods, raw materials and components; liberal imports of raw materials and components, and the non-enforcement of the condition under the Foreign Exchange Regulations (FER) Act that foreign shareholders must reduce their holdings to 40% or less of total share capital. The Monopolies and Restrictive Practices (MRTP) Act has also been amended to exclude exports for the purpose of determining the dominance of a unit under the MRTP Act.

16. The 1980/81 budget contained several tax measures favorably affecting profitability of industry, including a reduction from 20% to 10% of the surcharge on corporate income tax, an additional depreciation allowance and a reduction or elimination of excise duties on a wide variety of goods. To attract additional foreign financing for industry, the Government announced a liberalization of foreign private investment from individuals from OPEC countries, whereby investment would be allowed in certain firms up to 40% of total equity, even where no technology transfer or export obligations are involved <sup>1/</sup>.

17. These policy changes are in the direction of liberalization and expansion and have been welcomed in most quarters. They should ameliorate restrictions that have accumulated under India's industrial control policy. Nevertheless, the basic features of the control policy remain in force, so that these changes do not significantly alter the conditions of industrial investment and production prevalent in India. The Government has said that further changes are possible but that it is waiting to see the response from these changes before introducing others.

What kind

18. Prices. The rate of inflation continued to accelerate through the first half of 1980/81 and began to decelerate thereafter. In the first half of the year wholesale prices showed the effects of the bad harvests in 1979/80, increased oil prices and, to a lesser extent, continued infrastructural bottlenecks and supply shortages. Rises in certain administered prices, particularly petroleum products and fertilizers, had a significant effect as well. In the last half of the year, prospects of a normal agricultural harvest and some easing of the infrastructural supply constraints ameliorated a bit the price rise, despite another rise

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<sup>1/</sup> The investment can be in export-oriented companies or one of the 19 core industries. MRTP and FERA companies can also avail themselves of the investment, and joint ventures can raise loans abroad provided the terms are reasonable. Hotels and hospitals also qualify for this investment.

in the price of petroleum products. Nevertheless, the average rise over the year, 17% was about the same as in 1979/80. Consumer prices broadly reflected previous rises in wholesale prices but at the lower rate of about 12% in both 1979/80 and 1980/81.

19. Growth in the money supply was sufficient to accommodate these higher prices, although it was lower than in the recent past 1/. However, the main source of growth in the money supply during 1980/81, an increase in net bank credit to the public sector, may contain more inflationary potential than the higher rise in the period 1975/76 through 1978/79, when the main source of money growth was the rise in foreign exchange and grain reserves. In fact it is the drawdown of these reserves now that is dampening the growth of the money supply despite fairly heavy public sector borrowing.

20. During 1980/81, about half of the price rise was contributed by food items, mainly by very large rises in the prices of a few items in particularly short supply. Almost all of the rise contributed by food and agricultural items derived from shortages of sugar products, oilseeds and pulses. One-quarter of the price rise was contributed by rising energy prices, and almost all of this was due to POL prices. The remainder was fairly evenly spread among other manufacturers (see Table 1.3).

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1/ National product fell about 5% in 1979/80 while the money supply (M3) rose 17%. National product rose 8% in 1980/81 while the money supply rose about 13% to 15%.

Table 1.3

CONTRIBUTIONS OF SELECTED COMMODITIES TO THE ANNUAL INCREMENT IN THE  
WHOLESALE PRICE INDEX a/

	Weight in the Index (percent)	1979/80 (percent)	1980/81 (Apr-Dec) (percent)
<u>Food Items</u>	<u>47.3</u>	<u>41.1</u>	<u>52.4</u>
of which:			
Cereals	(10.3)	( 5.4)	( 5.6)
Pulses	( 2.8)	(-0.2)	( 3.6)
Sugar, Khandsari & Gur	( 7.2)	(19.2)	(29.7)
Edible Oils, Oilseeds & Oilcakes	( 8.8)	( 8.0)	( 8.1)
Others	(17.8)	( 8.7)	( 5.4)
<u>Non-Food Agricultural Items b/</u>	<u> 6.4</u>	<u> 4.5</u>	<u> 1.2</u>
<u>Energy Prices c/</u>	<u> 9.7</u>	<u>21.6</u>	<u>26.1</u>
of which:			
Crude Oil, Natural Gas & POL Products	( 5.5)	(17.0)	(22.7)
<u>Others</u>	<u>36.6</u>	<u>32.8</u>	<u>20.3</u>
of which:			
Fertilizers	( 1.3)	(-0.3)	( 2.1)
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

a/ Based on percentage change in the average level of the index in the period indicated over the average level of the same period of the preceding year.

b/ Excludes oilseeds.

c/ Includes the entire minerals category, which includes a few items of non-energy minerals, which have a small combined weight.

Source: Office of the Economic Adviser, Ministry of Industry, Government of India.

21. The deficit in the 1980/81 Central budget was considerably higher than the Rs 14.5 billion (US\$1.8 billion) anticipated at the time the budget was first presented to Parliament. The main reasons for the rise were larger transfers to the States for plan expenditures and greater

budget transfers to public sector undertakings reflecting their lower earnings, or larger losses than expected. Subsidies for food, fertilizers and export incentives remained large -- but they did not grow significantly because the Government raised food and fertilizer prices during the year. Tax revenue reached its expected level.

22. As noted above, net Bank credit to the public sector rose significantly and more accurately reflected the poor revenue performance of the public sector. Many of India's largest public sector organizations (including The Steel Authority of India, Coal India Limited, The Oil and Natural Gas Commission, Oil India Limited and Indian Railways), experienced disappointing revenue performance due to production at lower levels than expected. Although these organizations encountered special problems in 1980/81-- power, coal and rail transport shortages and political unrest -- their poor performance further accentuated the chronic problem of low public sector saving, despite heavy investment in the public sector. Public sector saving probably fell again in 1980/81, after falling from 4% to 3% of GDP in 1979/80.

23. The broad dimensions of the 1981/82 budget were given in the Finance Minister's budget speech to Parliament on February 28, 1981. The total 1981/82 budget is about Rs 249 billion (Rs 153 billion revenue expenditures and Rs 96 billion capital expenditures), about Rs 20.6 billion higher than the revised 1980/81 budget. Total receipts are estimated to be about Rs 233 billion (Rs 143 billion revenue and Rs 90 billion capital receipts), giving a projected deficit of about Rs 15-16 billion, compared with deficits of Rs 14 billion and Rs 20 billion in the original and revised 1980/81 budgets, respectively. The projected 1981/82 receipts include several measures to mobilize additional resources: additional tax revenues, arising mainly from a 5% increase in duties on imports other than edible oils, POL and fertilizer and excise duties on textiles, expected to net, after some reductions in income taxes, about Rs 2.7 billion; income from bearer bonds of about Rs 10 billion; and increases in telephone and railway rates resulting in about Rs 3.5 billion additional revenue.

24. Balance of Payments. India's balance of payments in 1980/81 turned out to be somewhat worse than projected a year ago. The main reason was the continuation throughout all of 1980 of the embargo on the movement of crude oil and petroleum products from Assam. This required the import of about 3.5 million tons of extra petroleum products at a cost of over US\$1 billion. Fertilizer production fell due to lack of naphtha from the refineries in the eastern Region, and this also increased the import requirements. The import bill rose to almost US\$15 billion. Exports grew in value terms as expected to just over US\$9 billion, although the volume growth was only 4% to 5%, slightly lower than hoped. The resulting trade deficit of US\$6 billion was higher than expected by about US\$1.5 billion. India's increased trade deficit was financed with

modest increases in net invisibles and net aid flows and a very large increase -- from zero to US\$1 billion -- in use of IMF facilities. India also drew down reserves by US\$550 million to US\$6.8 billion, less than six months of imports, the lowest level since the mid-1970s.

Table 1.4

BALANCE OF PAYMENTS ESTIMATES (US\$ Million)

	<u>1979/80</u>	<u>1980/81</u>
Exports	7,958	9,050
Imports	-11,111	-15,000
<u>Trade Balance</u>	<u>- 3,153</u>	<u>- 5,950</u>
Net Invisibles	2,448	2,600
<u>Current Account Balance</u>	<u>- 705</u>	<u>- 3,350</u>
Net Aid	1,105	1,465
Use of IMF Credit	-	1,035
Capital n.e.i.	- 178	300
Change in Reserves (- equals increase)	- 222	550
End of Year Reserve Level	7,357	6,807



Balance of Payments Estimates  
(US\$ millions)

	<u>Estimates</u>		<u>Projections</u>
	<u>1980/81</u>	<u>1981/82</u>	<u>1984/85</u>
Merchandise Exports	9,050	10,300	16,200
Merchandise Imports	-15,000	-16,150	-25,600
<u>Trade Balance</u>	<u>- 5,950</u>	<u>- 5,850</u>	<u>- 9,400</u>
Net Invisibles	2,600	2,850	3,600
<u>Current Account Balance</u>	<u>- 3,350</u>	<u>- 3,000</u>	<u>- 5,800</u>
Net Aid	1,413	1,718	2,055
Other Borrowing (net)	317	612	4,910
Capital n.e.i.	100	-	-
IMF Credit	1,035	-	-
Change in Reserves (- equals increase)	485	529	- 1,169
End of Year Reserve Level (Months of Import Coverage)	7,094 (5.3)	6,465 (4.4)	7,730 (3.2)

Source: World Bank estimates.



## Thal Fertilizer Project

1. The annexed Board statement by Mr. Hopper sets out the sequence of events which led to our refusal to declare this US\$250 million loan effective on December 31, 1980. There was a mixed response to our action by the Indian press. Government reaction was expectedly tough. The Prime Minister, speaking to the press at Calcutta airport, alleged "interference" by the Bank in India's internal affairs, presumably referring to our refusal to accept the Danish firm Messrs. Haldor Topsoe, selected by GOI, as the ammonia plant engineering consultants. Mr. P.C. Sethi, the Minister of Petroleum and Chemicals, has been a more persistent and vociferous critic of the Bank's action. Mr. Sethi has visited Europe recently to try to raise the foreign funds now required to execute the project. Recent press reports of a statement he made in the Lok Sabha (February 12, 1981) indicate that Denmark (US\$30 million), Japan (US\$69.8 million), Italy (US\$20 million) and the UK 1/ (US\$67.5 million) are expected to help out with financing the project, and a French commitment is expected shortly. Costs have, however, increased due to the delay in placing foreign orders and the foreign exchange gap is now considerably higher than the US\$250 million originally pledged by the Bank.

2. In the meanwhile, we have negotiated the Hazira Fertilizer Project, which was also held up pending appointment of ammonia plant engineering consultants. For this project, we have accepted GOI's selection of Messrs. M.W. Kellogg (USA) as the ammonia plant engineering consultants because they have the required qualifications and experience to construct large plants of this size (-1,350 tpd). A US\$400 million Credit for the Hazira project is due to be considered by the Board on March 31, 1981.

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1/ It is not clear whether this amount excludes the US\$45 million of British assistance committed to the Thal project at the time of negotiations.

STATEMENT BY MR. W. DAVID HOPPER TO THE WORLD BANK EXECUTIVE DIRECTORS,  
JANUARY 6, 1981

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Mr. Chairman, in June 1979, this Board approved a Bank loan for India in the amount of \$250 million that would support the construction of a very large fertilizer plant at Thal Vaishet, which is close to Bombay. The loan was presented to this Board with the effectiveness condition being the appointment of an ammonia plant engineering consultant, that is, a consultant to assist in the construction of the ammonia lines for this plant.

The first terminal date for effectiveness was November 20, 1979, and at the request of the Government of India, this was postponed, and it has been postponed seven times, to December 31, 1980.

The condition of effectiveness was that the ammonia contractor appointed by the Government would meet the satisfaction of the Bank. Prior to December the 31st just past, the Government of India had indicated to us the selection of a contractor for this purpose and, I will come to that in a moment, that did not meet the satisfaction of the Bank and, therefore, the loan was not made effective at the end of December, and the effectiveness date was not extended.

If I could, Mr. Chairman, I would like to go back a little bit on the history of this activity.

MR. McNAMARA: Surely.

MR. HOPPER: At the time of presentation of the loan to this Board, there had been agreement reached with the Government of India on the criteria and methods that would be used to judge the technical capabilities that the contractor would bring to the construction of two

large ammonia lines and to the implementation capabilities for this purpose.

Now, it is customary in the Bank that when we have consultants that we are fairly lenient on the selection procedures of the consultants. But for very large plants of this kind, plants that are at the edge of technology, which are exceedingly large, the consultants carry with them basically the technology that they will supervise, and they carry with them a very deep responsibility to oversee, select and oversee, the contractors that will erect the plant. And, therefore, the bulk of the bids were by firms that combine consulting, engineering and contracting capabilities.

The Government of India had requested bids from six firms. C.F. Braun of the U.S., Kellogg of the United States, Humphreys and Glasgow of the U.K., Technimont of Italy, Haldor Topsoe from Denmark--and it was understood that Messrs. Topsoe would have a contractor and would specify that contractor when they submitted their bid, because they are not a contracting firm, and the others are contracting firms--and Toyo Engineering of Japan, were invited to bid.

Under the agreed criteria for judging the bids received, C.F. Braun of the United States was judged the firm that offered the best technology and the best implementation capability. Very close to Braun was Toyo of Japan and Kellogg of the United States.

There was a gulf between those and the three other bidders-- Tecnimont of Italy, Topsoe with its presumed contractor, and Humphreys and Glasgow. Accordingly, and as agreed with the Bank and recommended by the technical committee in India that reviewed the bids, an offer was made to C.F. Braun of the United States by the Indian firm that would be responsible for building and operating the plant.

The contracts were initialled, and Bank concurrence for that initialling was given. The contracts were not ratified as required in India by the Government and, indeed, there was a change of Government and, accordingly, the effectiveness date was extended to permit whatever new Government might emerge from the January elections of 1980 to review the initialled contracts.

The new Government came to power and asked for a review of all the old Government's contracting activities. The firms were again contacted, and several firms indicated continued interest. Tecnimont did not. A new technical committee was established to review the contracts, and the new technical committee again recommended C.F. Braun as the firm to be chosen.

The results of that technical committee's recommendations were reviewed by a Cabinet Committee of Government and, in August, mid-August, the Cabinet Committee of Government recommended that the consultancy contract go to Haldor Topsoe of Denmark. We asked the Government of India for an opportunity to review the technical justification for that

decision, both on the process offered and on the implementation arrangements of Messrs. Topsoe.

Mr. Chairman, we have had a good deal of contact with Messrs. Topsoe and Snam-Progetti in the past. Indeed, Snam-Progetti is the agreed contractor for the urea lines at the Thal Vaishet plant, and at the Hazira plant which is presently under appraisal by the Bank as a second very large fertilizer plant.

This consultancy contract was for the ammonia lines, and these would be very large ammonia lines, I stress again, at the limits of technology, and in the agreed criteria, experience in establishing and building that kind of plant was an important part of our assessment, although as one component of the assessment.

The Government of India was informed on October 29 that in the Bank's view, what had been submitted to us in September as the justification for the change in contractors was not satisfactory. The Government of India asked for an extension of the effectiveness date of the loan from October 31, to December 31, to permit additional submissions to be made. That request was acceded to, and the effectiveness date became December 31. In that period of time, the Bank's technical staff met both with Mr. Topsoe and with members of his staff, and reviewed the documents submitted to us by the Government of India, which gave the technical details of the plant and the justification for the Government's change of decision.

In assessing the technical details offered for the implementation capability that was available, it was decided by me that the risks inherent in accepting the Government of India's desire to change the contractor were greater than the risks that we outlined to this Board when we presented the project to you, and that they were greater than the risks that a prudent lender would encourage a borrower to undertake. We so informed the Government of India and indicated that we would be unwilling to extend further the effectiveness date beyond December 31.

That is the source of the stories in the "Post" and the New York "Times". I might say, Mr. Chairman, that at no time have I been approached either by the U.S. Government or by any other Government with regard to altering the decisions on this. Information has been sought from us, which we have provided. We have reviewed the circumstances of this with the Executive Directors concerned here, and I think that in assessing this, the assessment has been made entirely on the grounds of the offered technical process, its inherent costs, both at the construction and in the operating stages, and our best estimate of the implementation capabilities in terms of the risks involved.

MR. McNAMARA: Very good. Mr. Fuchs is here, gentlemen, if you wish further information on the alternative processes, he would be very happy to give it to you.



Are there any other questions that any of you wish to raise? Is there any other business any Director wishes to raise?

(No response.)

MR. McNAMARA: If not, we'll adjourn.

(Whereupon, at 10:40 a.m., the proceedings were adjourned.)



## THE SIXTH PLAN - 1980-85

1. The Sixth Plan as approved by the National Development Council became available in the second half of February. This note provides some brief highlights of the Plan's macro dimensions. Discussion of specific sectoral aspects can be found in the notes on the individual sectors.

### Objectives

2. The stated objectives of the Plan are as follows:

- "(i) a significant step up in the rate of growth of economy, the promotion of efficiency in the use of resources and improved productivity;
- (ii) strengthening the impulses of modernization for the achievement of economic and technological self-reliance;
- (iii) a progressive reduction in the incidence of poverty and unemployment;
- (iv) a speedy development of indigenous sources of energy, with proper emphasis on conservation and efficiency in energy use;
- (v) improving the quality of life of the people in general with special reference to the economically and socially handicapped population, through a minimum needs program whose coverage is so designed as to ensure that all parts of the country attain, within a prescribed period, nationally accepted standards;
- (vi) strengthening the redistributive bias of public policies and services in favor of the poor contributing to a reduction in inequalities of income and wealth;
- (vii) a progressive reduction in regional inequalities in the pace of development and in the diffusion of technological benefits;
- (viii) promoting policies for controlling the growth of population through voluntary acceptance of the small family norm;
- (ix) bringing about harmony between the short and the long term goals of development by promoting the protection and improvement of ecological and environmental assets; and
- (x) promoting the active involvement of all sections of the people in the process of development through appropriate education, communication and institutional strategies." 1/

3. Selected economic and social indicators for 1979/80 with projections for 1984/85, and compound annual growth rates given in brackets, are presented in the following table.

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1/ Sixth Five-Year Plan: 1980-85, GOI Planning Commission, pp. 101-102 (hereinafter referred to as "Sixth Plan").

Selected Economic and Social Indicators 1/

<u>Item</u>	<u>1979/80</u>	<u>1984/85</u>
Gross Domestic Product (Rs billion at 1979/80 prices)	970.51	1,250.50 (5.2) ←
Electricity generation (Bill KWH)	112	191 (11.27)
Population (millions)	654.1	717.2 (1.86)
Per Capita GDP (Rs)	1,484	1,744 (3.28)
Per Capita Monthly consumption (Rs)	95.62	109.67 (2.79)
Percentage of people below poverty line	48.44 →	(30.00)
Employment (Million standard person years)	151	185
Saving as percent of GDP at market prices	21.24	(24.48)
Investment as percent of GDP at market prices	21.76	25.11
Life expectancy (years)	M 52.6 F 51.6	(55.1) (54.3)

Note: Figures in brackets represent annual compound growth rates

4. The sectoral composition of the overall target growth rate follows:

1/ Sixth Plan, pp. 60-61

Projected Sectoral Growth Rates 1/  
1979/80 - 1984/85  
(% per year, compound)

	<u>Gross Value of Output</u>	<u>Gross Value Added</u>
1. Agriculture	5.20	3.83
2. Mining and manufacturing	7.76	6.90
3. Electricity	11.25	7.15
4. Construction	7.10	5.10
5. Transport	6.70	5.46
6. Services	6.00	5.44
TOTAL	-	5.20

The sectoral growth rates, their composition and feasibility, are discussed under the separate sectoral briefs: Agriculture (Tab 4, Note on Plan and relevant sections of Economic Report), Industry (Tab 6), Energy (Tab 2), Transport (Tab 5), Family Planning (Tab 8). Given the relatively low base year (due to the 1979 drought), the 5.2% GDP growth rate appears feasible even with some allowance for slippage in major projects.

Plan Size and Allocation

5. Total Plan investment is estimated to be Rs 1,587.1 billion over the five-year period. About Rs 840 billion or 53% is estimated to be in the public sector. The implicit incremental capital-output ratio (ICOR) is 5.67. While not entirely out of line with past experience (the Fourth Plan ICOR was 5.7, the average for past Indian plans is around 4.5), nor unreasonable given current capacity utilization and infrastructural problems, the relatively high ICOR suggests there may be scope for higher growth if infrastructural constraints can be reduced and more efficient utilization of capacity can be achieved.

6. Total Plan public sector outlays are expected to be Rs 975 billion in 1979/80 prices, including both public sector investment and recurring expenditures on Plan schemes. In real terms this is about 17% higher than projected public sector outlays in the previous Sixth Plan (1978-83), but in real per capita terms it is about 12% higher. It is clear from the following table that most of the real increase in public sector outlays is offset by a significant decline in the private sector's share of total investment.

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1/ Ibid, p. 110

Plan Resources

	<u>Previous Sixth Plan</u> (1978-83) (in 1979/80 Rs bn)	<u>Current Sixth Plan</u> (1980-85)	Percent Change (%)
1. Investment			
a) Private	824.1	747.1	-9.3
b) Public	711.4	840.0	18.1
c) Total	1535.5	1587.1	3.4
2. Other Plan Outlays	120.0	135.0	12.5
3. Total Public Sector Plan (1b plus 2)	831.4	975.0	17.3
4. Total Plan Resources (1c plus 2)	1655.5	1722.1	4.0

Comparisons with actual outlays under previous plans is hazardous because there is often slippage, particularly in real terms, between plan investment targets and achievements, but if the Sixth Plan investment targets are achieved, it would mean an increase in real per capita expenditures of more than 70% over the Fifth Plan 1/ revised outlays.

7. The sectoral allocation of Sixth Plan public expenditures is broadly similar to that of the previous Sixth and Fifth Plans.

Sectoral Allocation of Plan Public Expenditures  
(%)

	<u>Fifth Plan</u>	<u>Previous Sixth Plan</u> 1978-83	<u>Current Sixth Plan</u> 1980-85
1. Agricultural, Rural Developments & Allied Activities	10.1	11.5	11.3
2. Irrigation & Flood	10.7	12.7	12.5
3. Energy	17.8	21.3	19.8
4. Industry/Minerals	18.7	15.4	15.4
5. Transport	14.1	12.6	12.7
6. Social Services	16.6	16.2	16.6
7. Others	12.0	10.3	11.7
Total	100.0	100.0	100.0

1/ Based on three years actual outlays and two years of projected outlays, as reported in the Economic Intelligence Service, December 1979.

Financing the Plan

8. A public sector expenditure program of Rs. 975 billion (approximately US\$12.2 billion) is proposed in the Sixth Plan. This total, which is to be divided about equally between the Centre and the States, will require a significant step-up in resource mobilization. The following financing plan has been put forward:

Estimates of Resources for the Public Sector Plan  
(Rs. billion)

	<u>Centre</u>	<u>States</u>	<u>Total</u>
Balance from current revenues at 1979/80 tax rates	11.7	133.0	144.7
Contribution of Public Enterprises	99.1	- 5.1	93.9
Market borrowings	150.0	45.0	195.0
Other domestic sources <u>1/</u>	99.4	69.5	168.9
Foreign resources	99.2	-	99.2
Net aid	58.8	-	58.8
Other capital inflows	40.4	-	40.4
Foreign exchange reserve breakdown	10.0	-	10.0
Additional Resource Mobilization	122.9	90.1	213.0
Deficit Financing	50.0	-	50.0
	-----	-----	-----
Total Resources	642.5	332.5	975.0
Central Assistance to States	- 153.5	+ 153.5	-
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Plan Resources	489.0	486.0	975.0

1/ Small savings, provident funds, term loans from financial institutions.

9. This public expenditure program is approximately 37% greater than the one proposed in the Draft Sixth Plan for 1978-83. About half of this increase is accounted for by the change in base period prices from 1977/78 to 1979/80, while the remaining 17% increase in real terms will require even greater efforts at resource mobilization. The anticipated sources of this increment are apparent in the following table which compares the composition of sources of finance of the previous and current Sixth Plans.

Composition of Resources for the Public Sector Plan

	<u>Current Sixth Plan</u> 1980-85 (per cent)	<u>Previous Sixth Plan</u> 1978-83 (per cent)
Balance of Current Revenues	14.8	12.7
Public Enterprises	9.6	12.1
Market Borrowings	20.0	22.5
Other Domestic Resources	17.3	14.2
Foreign Resources	10.2	10.5
Foreign Exchange Drawdown	1.0	1.7
Additional Resource Mobilization	21.8	22.1
Deficit Financing	5.1	4.2
Total	100.0	100.0

10. On balance the composition of projected resource availability for the 1980-85 Sixth Plan has changed relatively little from the financing plan adopted in the final draft of the 1978-83 plan. That plan relied heavily on what appeared to be unrealistically and perhaps undesirably high estimates of domestic savings which were reflected in the large contribution of market borrowings. The current Sixth Plan projects a similarly high marginal savings rate (33.7%) but has reduced the share of market borrowings largely by increasing the expected contribution of small savings, provident funds and other domestic resources. The reduced contribution from public sector enterprises is largely compensated by a more optimistic projection of the balance from current revenues, leaving the contribution of additional resource mobilization at roughly the same level as before. The projected increase in deficit financing is moderate and should not itself exacerbate inflationary trends.

11. The financing program also provides for a similar share of foreign capital inflow, about 10.2% of total outlay during 1980-85. This foreign capital inflow includes, for the first time, a significant (US\$5 billion) amount of commercial borrowing. Our own creditworthiness analysis (see Tab 3) indicates that even greater market borrowings (net of IBRD) of around US\$8 billion could easily be managed and are likely to be required during this period.

12. As noted above, the Sixth Plan targets for additional resource mobilization remain quite ambitious. During the Plan period the contribution of public enterprises is projected to double in real terms. Clearly, extensive revisions in public sector pricing policies will be required if this unprecedented increase is to materialize. Recent developments in the Central budget have been encouraging with tariff increases in railways and telecommunications. However, almost 60% of increased public enterprise savings are projected to come from State enterprises, particularly State Electricity Boards and State Road Transport Corporations. In the past substantial increases in tariffs of these organizations have proved politically difficult.



As noted in the Plan document itself, the additional resources raised by substantial price increases in the past have been largely absorbed by increased wages and other input costs. This pattern may prove quite difficult to reverse, particularly at the State level.

13. The Plan recognizes that the scope for additional taxation is quite limited with the ratio of tax revenues to national income now over the 20% level. Nevertheless the Plan relies on an additional Rs 50.0 billion from new tax measures in the Central budget and as much as Rs 40.0 billion from additional State taxes. Based on measures undertaken through the 1981/82 budget no more than Rs 25.0 billion or 27% of the required Centre and State total have been raised with only three more budgets remaining in the Plan period. The bulk of the shortfall is again with the States.

14. Overall, Plan financing relies heavily on transfers from the private sector which account for 49% of total public sector investment (or 42% of public sector outlay). It is estimated that this transfer will leave approximately Rs 750.0 billion for private investment during the Plan period. The ratio of public to private investment for the Sixth Plan thus becomes 53:47, a significant turnaround from the 46:54 ratio of the 1978-83 Plan. As noted above, total investment, in real terms has not significantly increased between the previous and current Sixth Plans so that the transfer from private to public investment accounts for the bulk of the real growth in public sector investment. Given the low levels of efficiency which have historically characterized public sector investment and which are recognized in the high ICOR of 5.7 projected in the new Sixth Plan, one could question whether greater returns might be expected from a plan which gave greater scope to private investment. Given potential disincentives to private saving and investment from the large size of the private to public transfer, the estimate of private investment as a simple residual may be optimistic. Furthermore, no provision has been made in the financing program for inflation and terms of trade changes. Our own estimates of the terms of trade adjustment alone indicates that it may exceed Rs 60.0 billion. The Plan assumes that all of this, which is equivalent to an external tax on national income, will be borne by the private sector.

15. Finally, the Plan makes no provision for inflation. Taking into account likely Indian inflation during 1980/81 and assuming that Indian prices keep pace with the Bank's projected international price index, by 1984/85, the terminal year of the Sixth Plan, resources will have to be 60% greater simply to maintain the real level of plan outlays. According to Planning Commission estimates, the elasticity of tax revenues with respect to price increases is approximately .75. Consequently additional resource mobilization totalling as much as Rs 146.0 billion could be required simply to maintain the Plan investment targets. This would be supplementary to the Rs 213.0 billion already provided through currently anticipated additional resource mobilization.

16. In summary, financing the Sixth Plan poses many difficult problems. With only three more budgets to be presented during the Plan period, the bulk of additional resources required are yet to be raised. Furthermore the effects of terms of trade changes and inflation are likely to impose even greater burdens. Thus, while

India is unlikely to face a foreign exchange or aggregate savings constraint over the Plan period, the proposed public sector outlays are based on an ambitious, perhaps overly so, financing program. If a public sector resource gap does emerge, difficult decisions will be required on the sectoral distribution of expenditure cuts.



## IMF ACTIVITIES IN INDIA

In 1980/81, India's current account deficit increased by US\$2.6 billion over 1979/80. Almost 40% of this increase was financed through the use of IMF facilities: US\$688 million from the Trust Fund and US\$347 million from the Compensatory Financing Facility.

During April 1981, the Government of India and the IMF are expected to reach agreement on the provision of an Extended Financing Facility. The amount is expected to total no less than US\$6 billion of which 52% will be from the IMF's own resources and 48% from borrowed resources. IMF staff anticipate that the bulk of the funds will be made available toward the end of the three year disbursement period when India's balance of payments situation will require greater support.

The major policy issues likely to be discussed by IMF staff in negotiating the EFF concern interest rates, budget deficits, and exchange rate policy. Recent upward adjustments in RBI interest rates and the modest budget deficit proposed for 1981/82 indicate that agreement concerning the first two of these should be relatively easy to reach. Radical changes in exchange rate policy are probably not required if export promotion efforts and domestic pricing policies are maintained.

The EFF will approach the total estimated external borrowing requirements of India during the Sixth Plan; however, given India's relative underexposure in world credit markets, India should be encouraged to undertake moderate commercial borrowings relying on the EFF as a back-up line of credit.

The size and terms of the various IMF facilities utilized by India are summarized below:

	<u>Trust Fund</u>	<u>Compensatory Financing</u>	<u>EFF</u>	
			<u>IMF Resources</u>	<u>Borrowed Resources</u>
Amount	SDR 525 million	SDR 266 million	Approximately	SDR 5 billion
Grace Period	5 years	3.5 years	4.5	3.5
Repayment Period	5 years <u>a/</u>	3 years	6 years	4 years
Interest Rate	0.5 p.a.	5.875%	<u>a/</u>	<u>b/</u>

a/ Currently under consideration by IMF Board

b/ Based on rates at which IMF is able to borrow