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FROM: The Secretary

December 27, 1966

MEETING OF INDIA CONSORTIUM, NOVEMBER 7 & 8, 1966

Attached is the Chairman's Report of Proceedings of the India Consortium meeting held in Paris on November 7 and 8, 1966.

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IND 66-18

December 23, 1966

MEETING OF THE INDIA CONSORTIUM

REPORT OF PROCEEDINGS

Prepared By The Chairman

1. The consortium met in Paris on November 7 and 8, 1966 under the chairmanship of the World Bank to hear a report on India's economic policies and development plans and to have a preliminary discussion of Indian foreign aid requirements. (The Agenda for the meeting is attached as Annex I). The meeting was attended by Delegates from the Governments of Austria, Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, the United Kingdom and the United States. The International Monetary Fund and the Organisation for Economic Cooperation and Development (D. A. C.) sent observers. (A list of Delegates is attached as Annex II).

2. The documents circulated previously in connection with the meeting were: (a) "Summary Minutes of the Discussions Between Minister Asoka Mehta and Mr. George D. Woods, April 21 to May 6, 1966;" (b) "Report to the President of IBRD/IDA on India's Development Effort," 13 volumes, dated October 1, 1965; (c) "Fourth Five Year Plan - A Draft Outline" (published in August 1966 and available from the Government of India); (d) "Indian Debt Relief - Staff Paper For Consortium Discussion" (IND 66-13); and (e) "Further Questions on Non-Project Aid to India, 1966/67, Report and Second Request" (IND 66-14).

Introduction

3. In his opening remarks (attached as Annex III), the Chairman noted that the new economic policies adopted by India provided the basis for accelerating Indian economic growth. Their success would depend on continued action by the Indian Government and on financial support from consortium members. In this connection, the Bank mission's observations--although still tentative--on Indian implementation of these new policies, on the Fourth Plan, and on further policy measures, could be usefully discussed. The Chairman hoped that it would be possible to arrive at a consensus in favor of some action on the Indian debt problem and, if so, to decide what the consortium's next steps on this problem should be. The Chairman next emphasized the importance of a consortium meeting to consider the Fourth Five Year Plan before the end of the current Indian fiscal year. The Bank was planning to circulate the main report of the recent mission to India in time to meet this schedule; supplementary reports would be circulated later on.

Recent Developments and the Fourth Plan

4. Mr. Bell reviewed the recent shifts in India's economic policies and programs and the Bank's role in relation to these. He referred to the Report to Mr. Woods by the 1964/65 mission which he had headed, subsequent discussions with the Government of India in which Mr. Woods was represented by Mr. Andre de Lattre assisted by Mr. Bell, and the discussions between Minister of Planning Mehta and Mr. Woods in Washington in May 1966, pointing out that the Mission Report to Mr. Woods and the minutes of the Woods-Mehta discussions had been made available to all consortium members. He referred also to the discussions which Minister Mehta and his associates had in Washington with the International Monetary Fund concurrently with their discussions with the Bank. Mr. Bell cited most particularly the intentions, in fact the undertakings, of the Government of India, as expressed in the minutes of the Woods-Mehta discussions, with respect to reduction and eventual elimination of administrative controls over imports, relaxation of controls over investment and production, undertaking of an effective program to increase agricultural production involving the actual assignment of much higher priority to agriculture in the allocation of resources, an effective program to control and reduce population growth, and steps toward increased mobilization of domestic resources in the interests of an accelerated investment program. He cited also the decision of the Government of India, following their discussions with the IMF (IMF document EBS/66/135 dated June 4, 1966), to devalue the rupee.

5. Mr. Bell stated that in each of these areas the Government of India had taken action in accordance with the understandings reached in May 1966. It was far too early to see or to assess the results of the actions. The changes in policy and the shifts in program, however, represented major changes in Indian thinking and afforded a reasonable basis for hope that India's economic performance would significantly improve. The devaluation, which the Government of India had undertaken and to which the IMF had concurred, together with the substantial removal of administrative controls over imports and over investment and production, which had occurred in accordance with the Woods-Mehta understandings, provided a basis for the expansion of exports, more efficient use of imports and more effective market-determined allocation of resources. The complex of measures significantly altered the industrial environment in India and introduced pressures toward efficiency and cost reduction by permitting competition among Indian industrial producers and, if further steps along these lines were taken, competition between Indian and foreign producers. Complaints being heard from Indian industrialists in part reflected their anxieties about the new, more competitive environment in which they were being placed.

6. The most dramatic changes visible in India and the most promising for the future were in agriculture. The conjuncture of three factors was responsible for this. First, the fact that what the Indians refer to as a new technology was available. A genuine breakthrough had been achieved in the development and trial of new high-yielding seed varieties, including wheat, rice, corn, sorghum and millet. The new varieties, given adequate

moisture conditions and heavy fertilizer applications, provided not marginally but sensationally higher yields, of 100% or more. The second factor was that Indian cultivators, with the favorable agricultural commodity prices which now prevailed, were fully aware of the opportunities, were responding vigorously, and were demanding enlarged supplies of the necessary physical inputs. The third factor was that the Government of India was now, in contrast to the past, responding to these demands, had given top priority to the provision of the necessary input supplies, and seemed determined to pursue this course even at the expense of other, hitherto desired objectives. The change in Indian thinking did not seem to be temporary. It had not come about because the consortium, the Bank, or any of the individual governments had been especially persuasive, but rather because the drought of 1965/66 had brought vividly home to the Government and responsible public in India the threat which lagging food production constituted to economic progress and political stability. Furthermore, the wider consequences of the drought, its effect on income, on demand for manufactures, on Government revenues, on savings, and on exports and the balance of payments, had demonstrated that, contrary to what had been widely believed, substantial growth in agricultural production was fundamental to continued economic progress in India. Furthermore, the Government now confronted a situation in which it was becoming politically dangerous not to meet the increasing demands of the farmers for the ingredients of agricultural production.

7. In the area of fertilizer production, the Government had taken a number of steps to accelerate the expansion of India's fertilizer production capacity, including steps to make investment in fertilizer production more attractive to private capital, both domestic and foreign. These steps had not been as vigorous or as fully fruitful as desired, and did not ensure that fertilizer production would match fertilizer demand and requirements at any time in the next five years, but they had not been entirely without result./ Existing nitrogen production capacity was about 450,000 metric tons per year, although actual production was not likely to be much more than 350,000 tons in 1966/67. Approximately 1,000,000 tons of additional nitrogen capacity was now in construction, much--about two-thirds--of it only just started. Approval in principle has been given to the establishment of an additional 600,000 tons of nitrogen capacity, principally in three large new plants at Goa, at Kanpur and at Mangalore. If all three should materialize, total production capacity by sometime in 1970/71 would be about two million tons, though production in that year would, even in that event, be less than two million. The Government of India estimates that nitrogen requirements and demand in that year will be at least two million tons and may be 2.4 million tons. Our own tentative estimate is that 1970/71 requirements, if the agricultural production targets are to be achieved, will be in the neighborhood of the higher figure. Mr. Bell pointed out that although virtually all existing nitrogen production capacity was in public sector plants, some of the plants under construction as well as some of those approved in principle were either partly or entirely private and involved some

foreign private capital. Specifically, of the one million tons of nitrogen capacity under construction, 100,000 tons represented additions to three existing plants, of which 8,000 tons was an addition to a small private plant. The remaining 900,000 tons of capacity under construction represented eight new plants. Of these, four plants with an aggregate annual nitrogen production capacity of 415,000 tons were 100 percent public sector plants, two plants with a combined capacity of 285,000 tons were mixed private-public, with the Centre Government and foreign private capital the partners in one case, and a State Government and private Indian capital the partners in the other. The other two plants, with a combined capacity of 200,000 tons per year, were entirely private, one of them 100 percent domestic Indian capital and the other Indian and foreign capital together. The 600,000 tons of capacity approved in principle was in three plants, two of which were partnerships of Indian and foreign private capital and the other a partnership of the Centre Government and a private foreign firm. Although these facts were encouraging, it was clear that fertilizer production would lag behind requirements throughout the five-year period and that they were not likely to catch up unless there was much more participation in the effort by foreign companies with the requisite experience and management as well as capital. ~~Mr. Bell said that~~ the phosphate fertilizer production situation more or less paralleled that of nitrogen. Existing production capacity, in terms of P_2O_5 per year, was a little more than 200,000 tons. Some 300,000 tons of capacity was under construction and some 200,000 tons of additional new capacity had been licensed and might materialize. The estimated 1970/71 requirement was one million tons. Potash fertilizer was entirely a matter of import since there were no potash deposits and no, or little, processing was required of the imported potash materials.

8. Mr. Bell cautioned that the problems of increasing agricultural production were by no means solved but that the important changes and developments in the past year or even six months provided a basis for the belief that the agricultural output targets of the Fourth Plan could, in fact, be met provided that the input supplies, price incentives and the credit were available in the full measure required. The principal physical inputs required were fertilizers, high-yielding seed varieties, irrigation water, and chemical plant protection materials. Adequate supplies of fertilizer would be available if each year in the five substantial imports were effected to supplement domestic production of nitrogen and phosphates, to provide the rock-phosphate and sulphur required for domestic phosphate production, and to provide potash. This would require substantial foreign exchange expenditure, and probably more than the Government of India was estimating since domestic production targets would probably not be met in full in the Plan period. Production and multiplication of the new high-yielding seed varieties was going forward quite well but with the increasing scale of the operation there were both production and distribution problems still to be met and solved. Thus far, fortunately, disease and

insect problems with the new varieties had not been serious and the much invigorated work being done in Indian research centers in breeding and adaptation encouraged one to believe that when, as and if such problems were encountered, they would be successfully overcome. Development of additional water supplies was going forward. In part, this was a matter of providing intermediate credit to individual farmers and permitting Indian producers of pumps, drilling rigs, well casings, and diesel and electric motors to import necessary materials freely, to expand their production and capacity and their distribution and servicing facilities. In part, it was a matter of completing irrigation projects under way, and here it was encouraging that the Government of India planned in the Fourth Plan period to start no new major projects but to concentrate all resources allocated to this purpose on the completion of the many projects under way and the improvement of existing ones. On the other hand, considerable investigation needed to be undertaken, especially of ground water resources, and effective action in this area was slow. Efforts were in progress to expand or initiate production of the agricultural chemicals required, but here enlarged imports would also be required, though the expenditure involved would be much smaller than in the case of fertilizers. Some additional tractor power would be needed as well, although here again the expenditures involved were not enormous. These were problems, however, in expanding domestic production as well as import, and in getting the necessary system of distribution and service.

9. In the case of industry, where he believed that the decontrol of imports of production materials and the large flow of such imported materials offered the possibility of significant increases in efficiency and in output, Mr. Bell cautioned that the measures taken so far were not irreversible and that their continued and further extension would depend in considerable part on continued external support. He suggested that the moves thus far made away from comprehensive and detailed Government controls toward freer decentralized entrepreneurial decision-making represented a significant swerve in economic policy but not yet an unalterable and continuing shift in direction.

10. Mr. Bell noted that in the case of the family planning or population control program, it had been concluded at the time of the original mission that the chances of measurable success were good provided that the program were attacked with a will and a determination not evident up to that time. It was clear that a great change had occurred in the last 18 months and that the program was now being conducted in this spirit and with a drive and vigor which offered real hope for successful restraint of population growth. Among other items of evidence in support of this conclusion were the following: the Department of Family Planning within the Health Ministry was now virtually autonomous and free of many of the usual administrative and procedural obstacles to effective action. Those in charge were men of demonstrated ability and effectiveness and they had been provided with supporting personnel commensurate with the needs of the

program and with unlimited funds. Effective steps had been taken to staff and launch a program in all States, to train the additional personnel required, and to mobilize personnel with the necessary qualifications. The necessary supplies of I.U.D.'s were fully available. The beginnings of results from all this were evidenced by the fact that at the end of 1964, after 10 years of an official family planning program, there were 2 million couples in India employing one or another means of contraception. By mid-1966, 18 months later, this number had doubled. Again it was too early to speak of or record results which had any significant impact on the rate of population growth but there was now basis for optimism.

11. The current economic situation was dominated by the effects of the 1965/66 drought, and the War with Pakistan plus the related partial interruption in aid flows. India was closer to what might be termed an economic recession than in recent years. Although rainfall conditions generally were better this year than in 1965/66, the current drastic crop failure in the eastern part of Uttar Pradesh and in Bihar and the absence of needed September rains elsewhere in a belt across the country was having a serious effect. The present outlook was for production of 80-82 million tons of foodgrains in 1966/67 whereas as recently as early September, 90-92 million tons had been anticipated. Foodgrain output had been 88 million tons in 1964/65, which was about on the long-term 3 percent per year trend line increase, and only 72 million tons in 1965/66. In this past year the existence of some carry over from 1964/65 plus large-scale imports of some 10 to 12 million tons had prevented acute hardship although they had not prevented substantial rises in foodgrain prices. A crop of 80 to 82 million tons in 1966/67 would almost certainly mean further price rises and great, perhaps insurmountable, difficulty in supplying even minimal quantities to the people in the severely drought-stricken areas of eastern Uttar Pradesh and Bihar. The consequence was that 8 to 10 million tons of foodgrains entailing additional outlays of not less than $100 million for freight alone would be required from abroad. Industrial production was at about the same level as last year, and there was a slowdown in private investment, due in part to uncertainties about demand and in part to the restricted availability of long-term credit. In response to questions posed by the Italian Delegate, Mr. Bell, in elaborating on the factors underlying the current economic malaise, cited the War with Pakistan, which led to the partial interruption of aid commitments and flows, smaller allocations for maintenance imports in 1965/66, and a budget deficit much larger than had been anticipated with consequent price and cost effects. He cited also the drought-caused shortages of electric power, which together with the constriction of maintenance imports restricted industrial production, and also the fall in agricultural incomes and the rise in agricultural commodity prices due to the drought, which depressed demand for textiles and ultimately for other manufactures. Mr. Bell pointed out that this situation was now being altered by increased licensing and the anticipated increased imports and by the fact that agricultural production, although still below what

had been hoped for, would, at 80 million tons, be some 10 percent higher in 1966/67 than in the preceding year.

12. It was too early for the Bank mission to express any except the most preliminary judgments about the Fourth Plan. Most of the information obtained in the course of the mission had not been assimilated, analyzed, or integrated. Nevertheless, a few observations could be made. One was that the Plan did seem clearly to embody the recent policy shifts. It expressed the priority assigned to agriculture, particularly if account were taken of investments in manufacturing facilities to produce agricultural inputs, such as fertilizers, chemicals, pumps, motors, well casings, etc. The share of projected imports going to agriculture further reflected this priority, and Government officials assert that if choices should need to be made as a result of the availability of lesser foreign exchange resources than hoped, agricultural outlays would be made at the expense of programs in other sectors. The Plan, on the base of 1964/65, projected an increase in foodgrain production of about 5 percent per year and a somewhat smaller increase in total agricultural production. It was this target which we were inclined to believe could, in fact, be achieved if the physical input and other requirements mentioned earlier, were provided. It projected, from the same 1964/65 base, growth of industrial output at the rate of about 9 percent a year and a growth of GNP at the rate of 5-1/2 to 6 percent per year to a level equivalent, at the new rate, to about $48 billion in 1970/71 or perhaps $90 per capita. Measured from 1965/66, the rate of growth required to achieve the 1970/71 targets was higher because GNP and agricultural output were lower in 1965/66 than in 1964/65, but the latter year was clearly abnormal and measurement from that base probably exaggerated the difficulty and magnitude of the projected growth in output. The Plan projected an investment program which in real terms might be some 50, perhaps 60, percent higher than actual investment in the Third Plan period, and which, at the present exchange rate, was the equivalent of about $28 billion in the five-year period. It provided for a higher level of utilization of existing production capacity, though we could not yet determine how adequately. The Plan projected exports over the entire Plan period at $10.7 billion, as compared with $8.0 billion aggregate exports in the Third Plan period or about a 35 percent increase; for 1970/71 they were estimated at almost $2.6 billion which would be 50 percent higher than either 1964/65 or 1965/66 exports which were approximately $1.7 billion. The Plan estimated that as a result of the projected growth of some 40 percent in output and income between 1964/65 and 1970/71, substantially larger internal resources would be available to finance the investment program than in the Third Plan period. The internal savings rate (gross) was expected to increase from about 12 to about 16 percent, and the marginal rate was expected to be about 23 percent. Increased Government savings were expected to contribute significantly to the increase in total internal savings, and, to this end, increases in non-Plan Government expenditure were to be held to 3-1/2 percent per year. Budgetary deficits were to be strictly avoided. The projected growth of output was to be obtained partly from existing

capacity, more fully and effectively utilized, and partly from new capacity which would come into operation during the Plan period. Some of the new production capacity represented facilities or projects started in earlier periods and to be completed and come into operation in the Fourth Plan period and some of the new capacity was to be created entirely within the period. In either case, it was investment in the Fourth Plan period which was required to put new capacity into operation; internal savings and capital inflow from abroad were required to finance this investment and, if the level of either was lower than necessary, the additional output and income would not be realized as projected. Correspondingly, if the projected additional output and income was not fully realized, the estimated additional internal savings would not materialize and investment would be smaller than projected, unless the shortfalls were made up by increased capital inflow from abroad. Correspondingly, also, if capital inflow from abroad were less than estimated, investment would be lower along with output, income and internal savings. The inflow of foreign capital either as aid or as private investment was critical, since the fuller utilization of existing capacity and the expansion of capacity were so much dependent on a much larger volume of imports than India could finance in this period out of any conceivable growth of export earnings in the period. This was not an indorsement of the specific figures in the Plan, but an explanation of what, generally, it involved. One of the important facts, perhaps most important of all, was that the Government recognized the necessity for, and seriously intended to make, the annual plan and budget rather than the original Five Year Plan the operational basis, and to frame each annual plan on the basis of developments which had occurred and the resources which had actually proved to be available at the time.

13. The United Kingdom Representative asked whether a mechanism or institution had been established within the Government of India to keep close watch on developments to support the process of annual planning. Mr. Bell replied that action to establish such a mechanism was being considered in the Government of India but that no action had in fact as yet been taken and that the absence of such an institutional mechanism and the deficiencies in information and its timeliness were serious problems. Mr. Bell continued by stating that there was certainly room for considerable doubt that the planned industrial production targets could be reached even if the external resources estimated to be needed were available. He said further that failure to achieve the industrial production targets would affect correspondingly the income and internal savings targets. The target of restricting current Government expenditures to a 3-1/2 percent increase per year was also a doubtful one. Failure of industrial production in some sectors to materialize as rapidly as hoped would not, however, imply a reduction in the need for imports or aid but was more likely to imply the reverse, if the investment and production targets in other sectors were not to suffer. Even a reduction in the size of the planned investment program would not on balance necessarily reduce aid requirements since this

might mean only that domestic substitutes for essential imported materials and equipment were not available. Fertilizer was the simplest illustration. A shortfall in domestic production of fertilizer, which incidentally was not unlikely, might involve a reduction in investment in fertilizer production capacity and might, therefore, involve smaller imports of capital equipment for the purpose, but this would be far more than offset by the increase in imports of finished fertilizers required if the agriculture production targets were to be achieved.

14. Mr. Bell stated that the Government of India estimated that imports in the Fourth Plan period, excluding those financed by PL 480, would need to be $16.7 billion as compared with about $11-1/2 billion in the Third Plan period. Thus, as projected, imports in the Fourth Plan period would be more than $5 billion higher than in the Third Plan period and exports, as indicated earlier, less than $3 billion higher - $10.7 billion as against $8.0 billion. The trade gap in the Fourth Plan period would be about $6 billion or almost $3 billion higher than in the Third Plan period. In the Fourth Plan period there would be, in addition to the trade gap of about $6 billion, debt service of about $3 billion, including repayment of amounts drawn from the IMF. The total gap to be covered by capital inflow was therefore projected to be about $9 billion. About $1.5 billion of the total was expected by the Government of India to come from non-consortium sources and private investment. The balance of $7.5 billion was hoped for from the consortium. This amount, which was a disbursement figure, was less than 40 percent higher than the consortium aid commitments of $5.5 billion to India in the Third Plan period, and exactly 50 percent higher than the level of consortium commitments in each of the last years of that period.

15. Although the trade and the balance of payments gaps were projected by the Government of India to be wider in the Fourth Plan than in the Third Plan periods, the projections foresaw these gaps narrowing sharply at or immediately after the end of the Fourth Plan period and the complete elimination of the trade gap by the end of the Fifth Plan period in 1975/76. This was on the basis of continued marked growth of exports and very little further growth of imports in the Fifth Plan period. This objective was ambitious and in general laudable but it was again too early for us to express a view on either the feasibility of the 1975/76 target or the wisdom of attempting to achieve a trade surplus by so large a measure of import substitution as was implied.

16. Perhaps the only other major point that could be made at this point about the Plan was that, in relation to India's needs for additional output, income and employment, the Plan was certainly not too big - in fact was pitifully small. This was merely a statement of the obvious, however, and not a comment on feasibility.

17. For the next fiscal year, 1967/68, India would need a further $900 million, or perhaps more, of non-project aid from consortium members. Further decontrol of imports, Mr. Bell pointed out, would probably not increase that figure materially. More immediately, however, India was faced with a possible short-term payments problem arising in part from the timing of and the restrictions surrounding the non-project aid provided for the current year. As a result of the fact that some of the promised non-project aid was not in fact available to pay for licensed imports, free foreign exchange would need to be used on a larger scale than had been anticipated earlier in the year. This could have serious, adverse effects on India's modest exchange reserves during the next few months, if import payments from free exchange were to materialize on the scale that might well develop, judging from actual payments during the first half of 1966/67 and the volume of licenses outstanding. Relief from debt service due at least to major creditors during the remainder of 1966/67 had accordingly been requested by the Indian authorities as part of the $900 million in order to help offset this drain. It was interesting to note that the payments problem was not the result of larger licensing, after decontrol, than we had estimated earlier in the year. Actually it appeared that total licensing might be somewhat smaller than we had estimated. PL 480 freight payments and food purchases, however, were somewhat higher than we had anticipated, and as we had said in the June and July meetings, the main problem was that more of the aid provided needed to be in a freely and quickly usable form.

18. The Delegates from the United States, the United Kingdom, the Netherlands, and Germany stated that their respective Governments had been impressed by the more pragmatic attitudes and courageous economic measures taken by India. The German Delegate noted that a period of slower economic activity was an expected product of devaluation inasmuch as some adjustment to the new situation was necessary. He counseled that India not be pressed into taking too rapid additional liberalization steps, since time would be required to expand exports sufficiently to cover some of the costs of added imports. While Germany's preference was for project aid, the need for non-project aid in the Indian case was clear. Requiring further clarification were the amounts of, and relationships between, project and non-project aid, especially in light of the fact that for next year, India was requesting aid to cover non-project imports alone in an amount equal to what had previously been provided to cover project and non-project imports combined, and additional aid was being requested for projects. Perhaps, the Delegate suggested, investment in new projects should be deferred while consideration was given to how much aid the consortium could afford and over what period aid would have to continue before India approached self-sustained growth. Mr. Bell stated that additional imports would be needed for the increase in investment necessary to reach, eventually, a self-sustaining growth. This applied to both maintenance and project imports, and it was important to recognize that increased non-project

aid to finance maintenance imports did not reflect any relative shift in production from investment to consumption purposes. India was aiming at self-reliance in terms of a balance in the external current account by 1975/76. This might not be unrealistic if the investment and export targets were met.

19. A member of the Delegation for France who had recently returned from India was less optimistic about the Indian picture. While it was too soon to judge the effects of devaluation, he noted that imports have increased and exports appeared to be unchanged. The Delegate questioned the realism of the Draft Plan--particularly the 5.5 percent growth rate--and asked whether highest priority had in fact been assigned to agriculture. The projected Fourth Plan investment program seemed to support the impression he had gained in New Delhi that industrial development was being pursued with equal priority. On the issue of self-reliance, the French Delegate observed that India should not follow a policy of import substitution regardless of the economic costs, but should direct more efforts toward exporting. The planned increase in exports did not appear feasible, and the current suppression of land taxes by the States was not consistent with the intention to increase the mobilization of domestic resources. The Delegates from Belgium and Austria had found India's progress in agriculture encouraging, although the Belgian Delegate joined the French Delegate in questioning whether the agricultural sector was getting sufficiently high priority. The Austrian Delegate also pointed to the need for information on India's economic prospects in order to support continued requests for aid.

20. In responding to these questions on the economic situation, Mr. Bell affirmed the Bank mission's preliminary conclusion that the agricultural output targets could be achieved provided that adequate physical inputs were available, sufficient credit were provided to cultivators, relative prices continued to provide incentives, and multiplication of high-yielding seed varieties went forward. There was some doubt that industrial output targets would be reached by the end of the Plan period. While it was true that some States were talking of abolishing the land taxes, this might not occur, or the Center might enact an agricultural income tax as a substitute. Certainly devaluation and decontrol were steps away from a policy of achieving self-sufficiency by import substitution at any cost, as had been mentioned by the Delegate from France.

21. The Delegate from Canada associated the Canadian Government with the views previously expressed by the United States and the other members who had commented on the courageous economic steps being taken by India. These, he said, should be matched by the consortium members in encouraging and supporting Indian efforts in spite of their own short-term problems, and he emphasized the importance of advance commitments of aid covering a period of several years. In line with this, the Canadian Government

was prepared to do its share and, as a start, had indicated to the Government of India that at least $10 million of aid would be made available for non-project imports in each year of the Fourth Plan period. The Delegate noted that the Indian estimate of Fourth Plan aid requirements did not include food aid and asked for the Bank's guess on what this might involve. Also, he asked what priority should be given to requests for assistance in expanding fertilizer production capacity. Mr. Bell noted that while fertilizer plant capacity sufficient to meet Fourth Plan targets had been licensed or was under discussion and was in part already in production or under construction, some of these plants might not go forward, and some might not produce fertilizer as early as planned. In addition, Mr. Bell observed that 1970/71 demand might have been underestimated, and demand would, in any case, continue to rise after that year. Increasing fertilizer production capacity was therefore of continuing high priority. Even if foodgrain production targets were to be met by the end of the Plan period, India would still need imports during the period to meet current demand and to build buffer stocks. The initial estimate of Fourth Plan foodgrain imports had been 19 million tons, which might cost $1-1/4 billion to $1-1/2 billion, but the current year's shortfall would likely make this estimate too low. The $9 billion estimate of Fourth Plan external capital requirements, which, Mr. Bell emphasized, had not as yet been evaluated by the Bank mission, included freight on foodgrain imports but not the costs of the foodgrain. The Chairman added that, on balance, the aims and objectives of the Fourth Plan were not overly ambitious, especially the overall growth rate of 5.5 percent. The Plan aimed at achieving self-reliance within a reasonable period, certainly not an unacceptable objective. Perhaps 1975/76 was optimistic, but any cut in the Plan that would seriously reduce the growth rate and postpone self-sufficiency indefinitely would be an unacceptable basis for economic aid.

External Debt

22. The Chairman believed that it was appropriate for the consortium to consider the Indian debt question since it was a part of the overall aid picture. This was not a case where the question of default arose, nor was it the typical case of smoothing out a peak in the servicing burden. Rather, it was a question of doing something about the fact that service on debts was absorbing a growing share of India's export earnings. Debt servicing, he pointed out, now amounted to 20 percent of export earnings and, under present arrangements, would rise to 25 percent. The important factor for the consortium to keep in mind was the net amount of resources provided to India, and the Chairman noted that of the $9 billion of gross capital inflow estimated by the Indian Government as required during the Fourth Plan period, about $3 billion would be offset by debt service. Aside from the possibility of increasing total aid, another reason for providing aid in the form of debt adjustment was the flexibility and speed with which the resources could be used. Unless one or both of these objectives could be served, there was little purpose in discussing the

debt rescheduling question further. The consortium could consider the matter of India's debt if there were a consensus in favor of doing so; meanwhile, the Bank would continue its efforts to refine Indian external debt data.

23. The Chairman again adverted to the Government of India's request that debt service payments due at least to major creditors in the remainder of the current fiscal year be deferred, not as an addition to, but as part of the $900 million of non-project assistance for 1966/67. In this connection, Mr. Bell pointed out that last May, the Bank had indicated that much of the $900 million of non-project aid for the current year would be required in a very freely usable form if payments difficulties were to be avoided. Since some of the $900 million was still not available, and because the use of some of this aid was restricted, India has had to use free foreign exchange to meet payments for imports that were to have been covered by aid. As a result, by late October, Indian reserves would have been drawn down by about $130 million, had it not been for a net IMF drawing of $137 million earlier in the year. Indian officials forecast a further decline in reserves which could reach nearly $200 million during the balance of this fiscal year. If reserve drawings should approach that amount, India's reserve balances would be reduced to approximately their legal limit. Mr. Bell added that further reserve drawings of the magnitude estimated might not occur if imports were at a slower rate than anticipated; and, in any event, so large a drawing could be averted if the current year's non-project aid were made more freely usable to cover import licenses already issued.

24. The Austrian Delegate indicated that her Government was not in a position to consider debt rescheduling for the entire Fourth Plan period. However, Austria was refinancing $700,000 of principal repayment due in the current year as part of its $4.7 million contribution to the $900 million aid requirement. This refinancing would bear the same terms as the rest of Austrian aid; i.e., interest at 5-1/2 percent, and repayment in 15 years, including 5 years of grace.

25. The Belgian Delegate stated that new program aid provided to India would take account of India's needs within the limits of Belgium's financial possibilities. The Belgian Government did not, in principle, favor debt rescheduling but would expect that such an effort could be carried out bilaterally with some coordination by the World Bank.

26. The Canadian Delegate agreed that it was time to discuss Indian debt. He suggested that some form of debt adjustment be considered as part of Fourth Plan financing but separate from new aid, since it was a function of past lending. He suggested that debt adjustment should be provided in proportion to the payments due each of the respective creditor countries, preferably in relationship to the lending which gave rise to the payment obligations. The extent of participation in any debt rescheduling should be based on a country's position as a creditor, not

merely as part of its share of a larger total which included new aid. (The Canadian Delegate's Statement on Indian debt is attached as Annex IV.)

27. The French Representative expressed his Government's concern over the fact that the paper on debt prepared by the Bank gave the impression that the principle of debt consolidation had been decided upon and that the Indian Government was ready to request debt relief. It was somewhat Utopian, he stated, to believe that debt relief would bring more aid to India. On the contrary, it appeared that new private credits would be held up when it became known that rescheduling of debt was being considered, and public funds would have to take the place of private credits. France was reluctant to go ahead with multilateral debt consolidation and would prefer that total aid requirements be discussed and that within that total each country decide how it would provide its aid.

28. The German Delegate stated that uncertainty about aid in Bonn precluded a decision on any form of debt adjustment at this point and enumerated some of the difficulties faced by Germany in rescheduling debt. He noted that the debts involved in the coming period involved mainly private funds, and rescheduling them would raise difficulties. Also, the German aid authorities could not undertake financing arrangements extending for more than one year without using aid authorizations, and refinancing of supplier credits was permitted by governing legislation only in an emergency, such as bankruptcy, and on a multilateral basis. In a more positive light, the Delegate noted that present aid terms are sometimes more lenient than those provided in the past. He suggested that it might be possible to find certain norms or criteria--for example, annual interest at 3 percent--which could be applied to debt falling due that could be rescheduled.

29. The Delegate from Italy advised the meeting that his Government faced the same type of problems as France and Germany in attempting to deal with private exporter credits. The Italian Delegate suggested that the question of debt could be most fruitfully pursued on a bilateral basis.

30. The Japanese Government's preliminary views were that all creditors should be covered by a debt operation so that all would receive equal treatment. Interest payments should be excluded from consideration, and terms of aid should continue to be a subject for bilateral negotiation. The proportion of debt service to be adjusted would be difficult to fix because of legal restrictions, and the Japanese Government would not expect to extend untied loans in lieu of debt adjustments. The Netherlands Delegate was concerned that the Bank appeared to be recommending non-payment of obligations. He felt that the Bank might wish to pay attention to the possibilities of debt rescheduling, but it should refrain from taking active responsibility for organizing debt arrangements. An exception might be made with respect to debts resulting from aid provided within the consortium framework.

31. The Chairman pointed out that the Bank's paper on debt had been prepared at the request of the consortium members during their July 7 meeting in advance of any agreement on the principle of providing debt adjustment. At the request of the members, it had been drafted as if

the principle of adjusting India's debt had been agreed upon in order to assist members in their consideration of the problems involved. The fact that the paper had been drafted in that form did not imply that the principle had been accepted by any members of the consortium. The object was to determine if it would be worthwhile for the consortium to pursue the matter further. The Delegates from the United States and the United Kingdom affirmed that the consortium had requested a study on the basis noted by the Chairman. The Chairman added that the consortium's discussion of Indian debt was no secret; it had been intimated to the press by the Indian Finance Minister some time ago. The Indians believed, contrary to some of the views that had been expressed, that the flow of private credits would be increased if private creditors knew that public sector credits were to be refinanced.

32. The United Kingdom Delegate reminded the consortium that aid was intended to further Indian development, but that this objective was being frustrated by excessive return flows in the form of debt servicing. The Delegate proposed that the Bank chair a separate meeting dealing with the problem of debt during which the questions raised in the Bank's paper could be discussed by the consortium members. The United States agreed that the Bank should continue to take the lead in seeking an equitable solution to the debt problem, and noted that an additional objective of such an exercise should be a more equitable sharing of the burden of assistance for India among the aid-giving nations.

33. In light of member comments on the debt question, the Chairman proposed that further work might be carried out by a smaller working group. This approach was favored by the United Kingdom, the United States, Canada, Germany, and other members. They also stated that it would be most appropriate for the Bank to act as chairman. The French Delegate expressed some reservations about setting up a working group since the French Government did not see its role in such a group. France might be less reluctant to participate, however, if it could consider the terms of reference of the working group. The Chairman agreed that terms of reference and general lines of inquiry for the suggested working group would be drawn up and communicated to consortium members.

Aid to India in 1966/67

34. In response to the Chairman's request for member country reports on the status of their aid to India for 1966/67, the following amounts and conditions were indicated (See Annex V for a summary of non-project aid coming within the $900 million requirement):

United States: Two agreements totaling $250 million had been signed, the first for $100 million on May 13, usable to make payments on orders placed after March 1; and the second for $150 million on July 9, with a corresponding eligibility date of June 1. These loans were available for a very wide variety of commodities, were repayable in 40 years including 10 years of grace, with interest of 1 percent during the grace period and 2-1/2 percent thereafter. The first loan had been fully committed and was expected to be entirely disbursed by June 30, 1967. About $82 million of the second loan had been committed, and full disbursement was expected by June 30, 1968. The United States Delegate expressed the hope that negotiations could be started shortly on another loan for $132 million on similar terms. In addition, a $13 million Export-Import Bank loan for locomotive parts for the Varnasi plant was made in October. AID was making an extended risk guarantee for $15.7 million for a fertilizer plant in Madras, and Food for Peace foodgrain shipments were at a rate of $40-$50 million a month.

United Kingdom: The United Kingdom signed three loans on May 10, all interest free and repayable in 25 years, including 7 years of grace. The first, a general-purpose loan for Ŀ 10 million, was usable to cover payments made from 18 March, and about Ŀ 8 million had already been disbursed. The second, a loan for spares, equipment, etc., was for Ŀ 4 million. Some Ŀ 2 million of orders had already been placed under this loan, and full disbursement was expected by the end of 1967/68. The third loan was for Ŀ 3 million to finance materials and components for the Bhopal heavy electrical plant, and was expected to be disbursed in full by mid-1969. The United Kingdom had also been prepared to make a loan of Ŀ 7.5 million either for general imports or,as part of a consortium scheme, for debt adjustment, and in addition to a Ŀ 6 million loan, they were now prepared to convert this into a Ŀ 13.5 million non-project loan to take account both of India's service payments on previous aid loans due this financial year and of her special need for maintenance imports.

Netherlands: Aid to India in the current year was $11 million, of which $7 million was repayable in 25 years, including 7 years grace, at 3 percent interest, and $4 million was in the form of financial credits at market rates. The total amount could be used for non-project imports from the Netherlands, at the discretion of the Indian Government. Some funds were still available from last year's credit, and formal agreement on the current year credits was expected shortly.

Japan: A yen credit to India equivalent to $45 million has been announced, $3 million of which could be used for debt rescheduling. The terms of the credit, the eligible imports, and the effective date were under consideration. Japan planned to start negotiations with the Indian authorities shortly and believed that they could be completed in the near future.

Italy: A $2 million loan for fertilizers was signed on August 4 which should be fully disbursed by the end of the fiscal year. The loan was repayable in 16 years, including 3 years of grace, and interest was at 2.3 percent. In addition, $32 million of supplier credits for general imports was being offered, $2.5-$3 million of which would be available for refinancing of principal repayments. Interest on these credits would be about 6 percent and repayment would be over 10 years, including 2 years of grace.

Germany: A DM 12 million ($3 million) loan for fertilizers, repayable in 25 years, including 7 years of grace, and with interest of 1 percent was signed early last year and was now nearly fully disbursed. Germany's contribution to the $900 million had been delayed by the Parliament's recess. However, the Budget Committee had approved additional aid of DM 240 million ($60 million) for India, so that Germany's total contribution would be DM 252 million ($63 million). Of this total, DM 160 million ($45 million) would be available for maintenance imports, including fertilizers and imports by Indo-German enterprises. DM 20 million ($5 million) would be made available for the current requirements of three Indian investment banks for which India has provided credits in the past, and the remaining DM 40 million ($10 million) would be for the current requirements of the railways, telecommunications, and similar purposes. These credits would be repayable in 25 years, including 7 years of grace and would bear interest at 3 percent. About DM 80 million ($20 million) would be available to cover orders placed after July 1. Negotiations of these loans were now in progress.

France: An agreement signed on July 4 provided $17 million of non-project aid which was repayable over 10 years with interest of 5-1/4 percent. Of this total, $7 million was to be used for small equipment, spares, etc., (with a minimum purchase of $40,000), and $10 million was for raw materials, principally fertilizers and perhaps steel (with a $200,000 minimum purchase). It was expected that this aid would be fully used within the next six months.

Canada: Canadian aid in 1966/67 would amount to Can$109 million. This total included Can$12 million of grants, Can$20 million of long-term development loans, Can$8.7 million of free foreign exchange arising from debt cancellation, Can$12.5 million of long-term credits, and Can$56 million of food aid. Canadian aid within the $900 million non-project definition amounted to Can$41.75 (US$38.65 million). This total included Can$19.9 million of grants and Can$21.8 million of loans. The grant total included Can$1.2 million of previously unallocated aid, Can$10 million of commodities, and Can$8.7 million of interest and principal cancellation. The loan total included Can$2.4 million previously unallocated, Can$9.5 million diverted from projects, and Can$10 million of advance licensing authorizations. Agreements covering Can$20 million had been signed, agreements for an additional Can$12 million were in process, and the remaining Can$10 million was awaiting India's proposals as to its uses. About 26 percent of the Canadian non-project aid had already been disbursed and about 59 percent would be disbursed by the end of 1966/67. A carryover of Can$3 million was also available for payments on non-project imports.

Belgium: Belgian program aid for the current year would amount to $1.2 million, and budget formalities and negotiations were expected to be completed by the end of December. The credits would be repayable in 15 years, including 5 years of grace, would bear interest at 3 percent, and would be available for commodities purchased in Belgium. A carryover of previous balances was also available to cover project imports this year.

Austria: Aid for 1966/67 amounting to $4.7 million was now under negotiation. The $0.7 million would cover principal repayments due this year. The $4 million balance would be available for commodity purchases in Austria, including orders placed before the agreement was concluded. The credits would be repayable in 15 years, including 5 years of grace, with interest at 5-1/2 percent.

Procedures and Administrative Arrangements

35. In turning to the timing of the next consortium meeting, the Chairman underlined the importance of a continuous aid flow for maintaining the momentum of the import decontrol program. India would be understandably reluctant to continue licensing if there were a gap in the availability of financing for the resulting imports. The Chairman believed that it would not be possible to have a report on the Fourth Plan and aid requirements ready and circulated in time for a meeting before February, at the earliest. The Bank would aim at preparing a report in time to meet that schedule, with supplementary reports to follow.

36. Austria and the Netherlands indicated no objection to a meeting as early as February. The Belgium Delegate noted that it might be too early for his Government to make a commitment for 1967/68. Both Canada and the United Kingdom agreed that the consortium should look at India's requirements, not its own convenience, in scheduling future meetings. The Canadian and German Delegates emphasized the need for continuing contacts at various levels between the Bank and the member Governments. France would be willing to consider 1967/68 requirements when a full appraisal of Fourth Plan requirements had been made and project and non-project aid figures were firm. The German Delegate did not know if the German budget would have been passed in time for his Government to indicate its aid by February. Italy agreed to an early meeting but urged that it be adequately prepared with complete information on aid needs. Japan reserved its position, since it was unclear whether its aid for 1967/68 could be decided upon by February. The United States, although uncertain as to whether it could indicate a commitment for 1967/68 by February, agreed that a meeting might be required by then. The Chairman noted that the Bank would be in much the same position as some of the member countries because of the uncertainty about the IDA replenishment. He agreed that the timing of the next meeting should meet India's schedule. However, it was still too early to know what Indian requirements would be, and, in view of the uncertainty on the part of some members with respect to their aid, it might be possible to postpone the next meeting--provided

that it could be done without adverse effects on India.

37. With respect to consortium procedures, the Canadian Delegate stated that his Government's approach to the work of the consortium was based on the need for a considerable degree of coordination among member countries in pursuing their common purpose of promoting India's economic development. One of the advantages of the consortium approach was that it allowed each country to see its aid program in the perspective of India's real requirements and of what others were doing. As a country with a relatively small number of officials directly involved in the administration of aid and in following economic events in developing countries, Canada has benefitted from reports of World Bank missions and from discussions at consortium meetings of India's economic progress and prospects.

38. Canada placed considerable importance on the preparatory work done by the Bank staff, both in general reports and in longer studies of particular problems and sectors. While the present form of these economic reports was broadly satisfactory, a summary report, of perhaps thirty pages or so should be prepared as the basic briefing for any meeting dealing with general economic matters. There was also a need for longer reports for those officials who followed the work of the consortium most closely. It was important that reports be made available to participating governments sufficiently far in advance of meetings to be studied properly. The minimum time should be one month; where possible, longer reports should be made available at least six weeks in advance.

39. Sector studies were useful in that they provided a frame of reference for officials concerned with developing a specific program for the recipient country, and such reports could often have great impact on the effectiveness of a given aid program in India. Canada hoped that the Bank would consider more extensive work of this type, particularly in terms of identifying priorities in the sectors most in need of external financing. Where large projects were concerned, especially those that were part of an overall sector program, the Canadian Government would consider some attempt at project evaluation an appropriate task for the Bank in its role as adviser to the consortium.

40. A rather different function which the consortium had fulfilled was in its annual review of India's economic policies, performance and prospects. The advantages of such an annual review, conducted with representatives of the Government of India present and in full frankness by both sides seemed very considerable both to India and the consortium. Reports of the Bank and the Fund were essential for an informal discussion of this kind.

41. The Canadian Delegate was pleased at the prospect of an ad hoc Working Party to consider India's debt servicing problem; closely related to this problem was the question of the terms of further consortium assistance. There were considerable inequities in the present wide variation in terms,

particularly when it resulted in a need to reschedule repayment obligations. A more detailed examination of this problem, with the implications for both lender and recipient frankly and openly set out, would be an appropriate subject for discussion at a subsequent meeting.

42. The consortium members must each consider the appropriateness of the terms on which assistance was being provided to India. All have seen the need to adjust terms in consortia or consultative groups in an effort to reduce existing differences. Clearly some progress must now be recorded. Considerations of equity aside, it was becoming increasingly inappropriate for the consortium to count on India to accept assistance on terms which created debt problems such as those now facing the Indian Government. The Delegate believed that it might be appropriate to list pledges with regard to their net rather than to their gross contribution.

43. The possibility of special meetings with more limited terms of reference related to particular problems or sectors (such as the proposed working party on the debt problem) had been raised before. It might be useful to hold occasional meetings of this type attended by officials at the working level. Only those members of the consortium which wished to participate needed to be represented, and the atmosphere could be more that of a technical seminar.

44. The United Kingdom Delegate agreed that the consortium should meet more than twice a year and suggested that smaller group discussions and more regular Bank contacts with members would be helpful. He also underscored the need for examining the terms of aid, and welcomed the Bank's talking to India on behalf of the members, although more advance consultation might be appropriate. France agreed with the need for continuing the Bank-India dialogue and cited the need for strengthening the Bank's mission in India. The Chairman agreed that discussion of the terms of aid would be necessary in the future since it was impossible to consider debt servicing problems and new aid without also considering aid terms.

45. The Chairman noted that, on the basis of the figures provided by the Delegates, non-project aid indicated for 1966/67 amounted to $901.2 million (See Annex V).

46. A press release was then discussed and approved (Annex VI).

Asia Department

ANNEXES

ANNEX	I	Agenda (IND 66-15)
ANNEX	II	List of Delegates
ANNEX	III	Chairman's Opening Statement
ANNEX	IV	Statement by the Canadian Delegate on Indian Debt
ANNEX	V	Aid Indicated Toward $900 Million Non-Project Requirement for 1966/67
ANNEX	VI	Press Release

ANNEX I

CONFIDENTIAL

IND 66-15

October 25, 1966

MEETING ON INDIA'S FOREIGN EXCHANGE SITUATION

November 7, 1966 - 10.00 a.m.
Room D at OECD, Chateau de la Muette, 2 rue Andre Pascal, Paris XVI

AGENDA

1. OPENING STATEMENT BY CHAIRMAN

2. RECENT ECONOMIC DEVELOPMENTS IN INDIA

Mr. Bernard R. Bell, returning from India, will report, giving special attention to policies recommended by earlier Bank missions and summarized in Mr. Woods' conversations with the Minister for Planning earlier this year. Following Mr. Bell's presentation there will be time for questions and general discussion.

Documents:

(a) "Summary Minutes of the discussions between Minister Asoka Mehta and Mr. George D. Woods, April 21 to May 6, 1966", circulated under Mr. Wilson's note of June 1, 1966.

(b) "Report to the President of IBRD/IDA on India's Economic Development Effort", 13 volumes, dated October 1, 1965 and circulated to consortium members under cover of Mr. Woods' letter of July 28, 1966.

3. REPORT ON AID TO INDIA DURING 1966/67

Members will report on the status of their negotiations with India on non-project (and project) aid for 1966/67, indicating agreements signed, expected uses of aid and probable rate of disbursement.

4. PRELIMINARY REPORT ON INDIA'S FOURTH PLAN

Oral presentation by IBRD staff economists, who have been in India during October to appraise the 1966-71 Development Plan. Following this presentation there will be time for questions and general discussion.

Document:

"Fourth Five Year Plan - A Draft Outline" published by the Planning Commission in August 1966 and available from the Government of India.

5. INDIA'S EXTERNAL DEBT

Discussion of proposal that arrangements be made to relieve India of some of the burden of debt service payments falling due during 1966-71.

Document:

"Indian Debt Relief - Staff Paper for Consortium Discussion", prepared by IBRD and circulated as IND 66-13, October 24, 1966.

6. CONSORTIUM PROCEDURES AND ADMINISTRATIVE ARRANGEMENTS

General discussion of procedures to be followed by the consortium in future.

7. OTHER BUSINESS

8. CHAIRMAN'S REPORT OF PROCEEDINGS

Asia Department

ANNEX II

CONFIDENTIAL

November 8, 1966

MEETING OF THE INDIA CONSORTIUM

PARIS, NOVEMBER 7 AND 8, 1966

LIST OF DELEGATES

BANK	Mr. I.P.M. Cargill	Head of Delegation
	Mr. Bernard Bell	
	Mr. William M. Gilmartin	
	Mr. Gregory B. Votaw	
	Mr. Stanley Katz	
	Mr. John D. Miller	
	Mr. Arthur Karasz	
AUSTRIA	Dr. Maria Pilz	Head of Delegation
BELGIUM	Mr. Jan Vanormelingen	Head of Delegation
	Mr. Hynderick de Theulegoet	
CANADA	Mr. Peter M. Towe	Head of Delegation
	Mr. R. W. McLaren	
	Mr. A. J. Barry	
	Mr. L. H. Brown	
	Mr. L. A. H. Smith	
FRANCE	Mr. Dominique Chatillon	Head of Delegation
	Mr. Jacques Hirsch-Girin	
	Mr. G. Lapeyre	
	Mr. Bernard Prague	
GERMANY	Dr. Gunter Keiser	Head of Delegation
	Mr. Rolf Pluisch	
	Mr. Wolfgang Seeliger	
	Dr. Karl Heinz Penning	
	Mr. Georg Schneider	
	Mr. Erich Bachem	
	Dr. W. Ritter	
	G. Graf von Westphalen	
ITALY	Mr. Girolamo Trotta	Head of Delegation
	Mr. Mario Orazi	

JAPAN	Mr. Takaaki Kagawa Mr. Tarao Maeda Mr. Takao Kawakami Mr. Masanao Matsunaga	Head of Delegation
NETHERLANDS	Mr. E. A. Liefrinck Mr. F. Kupers Mr. K. J. Bordewijk Mr. G. H. Ledeboer	Head of Delegation
UNITED KINGDOM	Mr. R. H. Belcher Mr. H. A. Harding Mr. E. P. Haslam Mr. D. G. Holland Mrs. M. E. Hedley-Miller Mr. G. S. Whitehead Mr. J. C. Edwards	Head of Delegation
UNITED STATES	Mr. William B. Macomber, Jr. Mr. C. Herbert Rees Mr. Guy C. Mallett Mr. Michael Cross Mr. Edward Fei Mr. Wendel Whiting Mrs. Barbara Bergmann	Head of Delegation

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OBSERVERS

INTERNATIONAL MONETARY FUND	Mr. W. John R. Woodley Mr. Aldo Guetta	Head of Delegation
O.E.C.D. (D.A.C.)	Mr. J.P. Hayes	

Secretary's Department

ANNEX III

CONFIDENTIAL

Paris, November 7, 1966

OPENING REMARKS OF THE CHAIRMAN

AT THE MEETING OF THE INDIAN CONSORTIUM, NOVEMBER 7, 1966

It is a pleasure to meet you here this morning and to have this opportunity to exchange views on recent economic developments in India as well as to consider the future role of the Indian Consortium.

Mr. Woods has asked me to convey his kindest regards to all of you. He believes, as I am sure you do, that these are critical months for India and months of considerable importance for the Consortium. During the past year, a number of new economic policies have been adopted in India, culminating in the devaluation this June and the subsequent relaxation of administrative control over imports. Taken together these policies represent a hopeful new beginning and, if pursued vigorously and developed further, offer a basis for hope that India can substantially accelerate its economic growth. But such policies will require forthright action on a continuing basis by the Government of India and sustained financial support from the Consortium, if they are to succeed.

* * * * * * *

Shortly, I will call upon Mr. Bell to report to you on what India has done in recent months to implement and to expand the policies and programs outlined by the Minister for Planning, Mr. Asoka Mehta, in his discussions with Mr. Woods six months ago. The minutes of those discussions have been circulated to all of you. Later we will hear from Mr. Bell and Mr. Gilmartin how these policies are incorporated in the Fourth Five-Year Plan and what additional action may be expected from the Government during the next few years.

I must emphasize that these reports, and particularly the mission's comments on the Plan, are necessarily preliminary and tentative. We have not yet collected all of the information we shall need for a full appraisal of the 1966-1971 investment program nor have we had sufficient time to analyse fully such information as is already available. Nevertheless certain broad contours are already clear, and we have therefore decided that it would be useful to you (and to ourselves) to discuss the mission's impressions at this time. This exchange of views, even on the clear understanding that it is of necessity a preliminary estimate, will give us all time to think about the very serious decisions that lie ahead.

* * * * * * *

Later today we will be turning our attention to the question of debt relief. The staff paper which was circulated two weeks ago presents some of the major facts and issues involved in this problem. Moreover, Mr. Bell and Mr. Gilmartin will also have something to say in their report, about the implications of the debt problem during the remaining five months of the current Indian fiscal year.

The question of debt relief was raised in a tentative way more than a year ago. It has reappeared in several of our meetings since then. I would hope that during discussions today and tomorrow we can at the very least decide whether or not there is a consensus favouring some action on the debt problem, and if so, what next steps would be appropriate and effective for working out the details of that action.

* * * * * * *

At the end of this meeting, when we all have a better feeling for the substance of problems to be dealt with during the next few months, we will want to set a tentative date for our next meeting. I would also welcome members' views on the more general question of how often it would be desirable to meet during the next year.

In considering a date for our next meeting, we will want to keep in mind that a major element in the all-important decontrol program is the policy of continuous licensing, which can be sustained during the coming year only if the Consortium provides adequate and timely support. On the other hand it may not be possible to complete a full and considered appraisal of India's longer-run program, especially if further consultation with the Government is required, before next March. Therefore, in order to avoid any discontinuity in meeting essential aid requirements, we are aiming to circulate a summary report for discussion by the Consortium somewhat earlier than that. Of necessity this summary report would give primary emphasis to 1967/1968 requirements, and would serve as the basis for further pledging, particularly of non-project aid, to help ensure continuation and appropriate broadening of the decontrol program. Later we would expect to circulate a supplementary report with additional analysis of the Plan and major sector programs.

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It is a happy coincidence for me that my first meeting in the Chair also marks the resumption of some of the customary procedures for Consortium gatherings, which had to be interrupted during the last 18 months by delay in formulating India's Fourth Plan investment program as well as by the Bank's desire to come to some minimum understanding with India on the policy environment of that Plan. These procedures include for example a return to the practice of circulating an agenda in advance. At the end of this meeting, I also expect to prepare a Summary Report of matters covered during our discussions (although I understand the former practice was to circulate the Chairman's Report in final form before adjournment, which is something I would not like to promise). So far as I am aware, the only practice of the Indian Consortium which is not now being resumed is that of numbering each meeting. I can assure you that my decision in this regard has nothing to do with the fact that this would have been the Thirteenth Meeting; it just seemed to me that the numbers no longer served any useful purpose. There is one other practice which I want to discuss later in the meeting to which I personally object - that is the issue of a press release.

* * * * * * *

I would now like to call upon Mr. Bell for his report on recent economic developments in India. I have proposed that he merge this topic -- Number 2 on the Agenda -- with a preliminary report on India's Fourth Plan -- which was Agenda Item 4. We will take up Item 3 a little later. I am hopeful that we can complete at least the first round of discussions on these topics before adjourning for lunch. This would leave most of the afternoon for consideration of the debt relief proposal.

Asia Department

ANNEX IV

CONFIDENTIAL
Paris, November 8, 1966

STATEMENT BY MR. PETER M. TOWE
HEAD OF THE CANADIAN DELEGATION
TO THE INDIA CONSORTIUM
ON NOVEMBER 7, 1966 (AFTERNOON)

We would agree with the Bank that the time to discuss the problem of the Indian debt has arrived. Canada is prepared to approach this matter with sympathetic understanding although we must consider the present discussions as exploratory only and without commitment. The policy measures which India has embarked on in recent months have laid a reasonable basis for a consideration of the external financing requirements of the Fourth Plan, including the possibility of a more realistic structuring of India's foreign debt obligations.

The financing of India's development plans is what the Consortium is all about, and it seems clear that all of us in the Consortium must be concerned with a question as basic to the financing of the Fourth Plan as the repayment obligations on India's current debt. A review of the debt problem is therefore very much a question for the Consortium as a whole.

It seems to us that debt rescheduling, if it is to be examined, can most usefully be viewed as a distinct problem to be solved within the overall context of financing the Fourth Plan. It can be, as the Bank's paper points out, a particularly effective way of giving India a very much needed flexibility in the licensing of a higher level of maintenance imports, and it could contribute to an early increase in the overall level of assistance; but it is a function of past lending, and it raises somewhat different problems from the extension of new aid. The question of debt relief should be treated on the basis of an agreed approach which defines the problem as one to be solved by the countries concerned in proportion to the payments due to each of them - preferably in some relationship to the lending which gave rise to the payment obligations. In other words, the extent of participation in any debt rescheduling should be based on a country's position as a creditor, and should not be viewed merely as part of its share of a larger total which includes new aid. This is the question raised in the Bank's paper on page 7 in sub-paragraph (d) and on page 8 in sub-paragraph (b). In our view, the extent of a country's participation in a debt rescheduling and its participation in the pledging of new aid should be viewed separately.

The proportion of total service payments deferred by each creditor, however, need not necessarily be the same provided that it is based on an agreed set of principles which apply to all creditors.

With respect to the other questions raised in the Bank's paper, we would think that in the event of a rescheduling all members of the Consortium could reasonably be expected to participate in it and we would see advantages in reaching agreement on the proportion of present debt service payments to reschedule during the balance of the Fourth Plan. Whether such an agreement would be subject to review at the end of two or three years could be a matter for consideration.

Some of the other questions are ones which we could answer only tentatively at this stage, and they can perhaps be given further consideration at a later date along with possible approaches to a rescheduling.

On the basis of past experience, it would seem that any rescheduling should exclude unguaranteed private export credits as well as credits under 180 days. All other public and publicly guaranteed credits could in principle be reasonably included, whether or not they were actually part of pledges made in the Consortium. Deferment or waiving of interest would raise difficult problems. A ceiling on each country's participation equal to the total of principal payments due to that country would overcome the difficulty. A period of grace of 5 years, and a subsequent period of repayment of 10 years, the figures suggested in the paper, would require further study.

We would agree that there would not seem to be any need to attach special policy conditions to any possible debt relief operation, since India has already met, and will be expected to continue to meet, the basic policy conditions required as part of the Consortium's overall approach to financing of the Fourth Plan.

With respect to a possible approach to the debt rescheduling exercise, there are, as the Bank's paper points out, a number of factors which could be taken into account. As already suggested, however, agreement may be easier if the problem is limited to that of the specific payments due by India in the period in question. In the past, reschedulings of debt have generally been based on a certain percentage of either the principal or the total amount of principal and interest payable to each creditor on the debts included within the rescheduling. This approach has the advantage of isolating the problem by defining it in terms of the amount of debt servicing payable in the year or years in respect of which rescheduling has been requested. It has the disadvantage, however, of in effect offering two alternative formulae which take different factors into account. The formula based on principal alone makes no allowance for loans made at concessional rates of interest, while the one based on both principal and interest takes insufficient account of differences in maturities.

It may be useful to consider variations of the basic approach which would combine the advantages of both formulae. An illustration of what we have in mind is given in an internal Canadian paper prepared some time ago, and which we are circulating to others at the meeting. The approach set out in that paper is only a possible approach but one which might be helpful as a basis for later discussion should the Consortium agree in principle to consider a rescheduling.

ANNEX V

INDIA: AID INDICATED AT NOVEMBER 7/8, 1966 CONSORTIUM MEETING
TOWARD THE ESTIMATED $900 MILLION NON-PROJECT REQUIREMENT FOR 1966/67
($ million)

Country	Amount
Austria	4.7 a/
Belgium	1.2 b/
Canada	38.7 c/
France	17.0 d/
Germany	63.0 e/
Italy	34.0 f/
Japan	45.0 g/
Netherlands	11.1 h/
United Kingdom	89.6 i/
United States	382.0 j/
Bank/IDA	215.0 k/
Total	901.2

a/ Negotiations in progress, $700,000 available for refinancing of principal.
b/ Negotiations expected to be completed by end December.
c/ Includes US $8.0 million of debt service cancellation. Agreements covering US $18.5 million have been signed; agreements covering an additional US $11 are in process and the remaining US $9.2 million are awaiting Indian proposals as to use.
d/ Covering agreement signed July 4.
e/ $60 million pending approval by Parliament.
f/ Fertilizer credit for $2 million signed August 4; balance under discussion.
g/ Includes $3 million for debt rescheduling; negotiations to start shortly.
h/ To be made available as non-project aid.
i/ Includes three loans signed May 10 for $28 million, $11.2 million, and $8.4 million; two loans under negotiation for $21 million and $16.8 million; and a $4.2 million emergency loan signed last February.
j/ Includes loans for $100 million signed on May 13 and for $150 million on July 9; agreement covering remaining $132 million to be negotiated.
k/ IDA credit for $150 million signed August 19; balance under discussion.

Asia Department
November 22, 1966

ANNEX VI

CONFIDENTIAL

PRESS RELEASE

MEETING OF THE INDIA CONSORTIUM

November 8, 1966

The Consortium of governments and institutions interested in development assistance to India met in Paris on November 7-8, 1966, under the chairmanship of the World Bank. The meeting was attended by representatives of the Governments of Austria, Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, the United Kingdom and the United States. The International Monetary Fund and the Organization for Economic Cooperation and Development sent observers.

This meeting was convened to discuss recent economic developments in India and to hear a preliminary report on India's Five-Year Plan from representatives of the World Bank mission which has spent the past month in consultations with officials of the Government of India. The Consortium agreed to meet again as soon as practicable for a more detailed examination of the mission's findings.

The Consortium also reviewed India's aid requirements and in particular the status of implementation of the $900 million of non-project aid previously recommended for the current Indian fiscal year and noted with satisfaction that most of this amount had already been committed and that the balance is in the final stages of consideration.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CONFIDENTIAL OFFICE MEMORANDUM

TO: Files DATE: July 22,1966

FROM: Stanley Katz

SUBJECT: INDIA - Meeting of Consortium Members on July 7, 1966

1. A meeting was held in the Bank on Thursday, July 7, 1966, at 2:00 p.m. to review recent efforts by consortium members toward meeting the estimated Indian requirement for $900 million of non-project aid in the current (1966/67) fiscal year. Mr. Geoffrey M. Wilson was in the chair; a list of consortium member representatives in attendance at the meeting is attached as Annex 1.

2. Mr. Wilson noted that the meeting had been prompted by a number of inquiries within the past several weeks on the status of commitments of new non-project aid toward the $900 million estimated requirement. In this connection, he promised to circulate a note setting out the definition of non-project aid that had been used in deriving the estimated Indian non-project aid requirement (circulated as IND 66-8, on July 20, 1966). The Chairman also suggested that since the question of debt rescheduling would likely be coming up, some preliminary discussion might be useful at this time. The Chairman then requested the representatives to indicate, insofar as decisions had been taken by their respective countries: (a) the amount of non-project aid being provided for the current year and whether or not the Government of India had been so informed; (b) the terms and conditions of such aid; and (c) the element of debt rescheduling--if any--included in the total. For its part, the Bank/IDA would expect to extend some $215 million of IDA credits to India within the next few months, as had been outlined by Mr. Woods at a meeting of Executive Directors of IDA on June 28, 1966 (SecM66-217). This amount represents 24 percent of the $900 million non-project aid total and corresponds to the Bank Group's share of 1965/66 consortium aid pledges. This information had been communicated to the Government of India; the aid does not contain any element of debt rescheduling. The Chairman also asked the delegations to inform the Bank with respect to the non-project aid being provided against the $900 million estimated total (and preferably in writing): (a) the extent to which such aid would be available without prior commodity, country, or other restrictions; (b) the specific limitations (such as on commodities, sectors, source, etc.) on the use of such aid; and (c) the extent to which the aid would be available for orders and payments from April 1, 1966 forward. (A note setting out these questions in more detail was circulated subsequently as IND 66-9.)

3. Mr. Macomber stated that the U. S. would shortly be announcing a $150 million program loan from funds already appropriated to AID (actually announced the following day), this amount representing a second "downpayment" on the U. S. share of India's 1966/67 non-project aid requirement. When the U. S. Congress has acted on the current AID appropriation, AID would expect

to be able to make an additional $130 million of non-project loans. These two loans, together with the $100 million loan announced on May 13, 1966, would bring the total U. S. aid commitment to $380 million, approximately 42 percent of the $900 million. The terms of U. S. non-project aid to India provide for a 10-year period of grace during which interest is charged at 1 percent per annum, and repayment of principal is over the subsequent 30 years with interest at 2½ percent per annum. While the first $250 million does not include any debt rescheduling, the U. S. has not precluded this possibility with respect to the remaining $130 (or $132) million. Mr. Macomber indicated that the difference between the indicated $380 million and the $382 million which would correspond to the previous U. S. share of 42.4 percent, as is shown in the "Possible Pattern of Consortium Pledges..." circulated (as Table No. 1) at the June 7, 1966 meeting on India, (Annex 2 of this memorandum) was possibly due to a rounding of numbers; the U. S. was, in any event, prepared to provide aid equal to its prior (1965/66) share of the total consortium contribution.

4. Mr. Belcher stated that the U. K. had not calculated its aid in relation to the $900 million estimate, but rather, his figures represented the amount of non-project aid that the U. K. had offered to India in the current fiscal year (over and above fulfilling the U. K.'s 1965/66 pledge). The U. K. had already offered and announced £18.5 million of such aid and had offered--but had not yet announced--an additional £7.5 million. The total of £26 million ($72.8 million) was to be provided on an interest-free basis and was repayable over 25 years including 7 years of grace. If suitable arrangements for coordinated debt refinancing were to be agreed upon in advance among consortium members, the U. K. would be in a position to consider making its latest £7.5 million available to India in the form of debt relief. Mr. Belcher noted that this aid indicated by the U. K. was additional to contemplated project aid for the expansion of the Durgapur Steel plant.

5. Mr. Grooters advised the consortium members that the Netherlands had recently offered the Indian Minister of Finance assistance equivalent to just over $11 million for 1966/67. Of this total, approximately $7 million represented general purpose aid which was repayable in 25 years with a 7-year grace period at 3 percent interest per annum. The remaining $4 million is to be provided as 10-year supplier credits. Mr. Grooters noted that the Netherlands assistance was $1 million more than indicated in Table No. 1 (Annex 2). In principle, all of the Netherlands' $11 million of aid could be used for non-project imports if the Indian Government so chose, but that would mean a corresponding reduction in the balance remaining for projects. In view of the small amounts of debt repayments due from India in 1966/67, aid from the Netherlands did not include debt rescheduling.

6. Mr. Yamashita stated that Indian aid was being considered by the Japanese Government in the context of increasing similar requests from Japan's neighbors, and that Japan had not as yet had sufficient time to reach a decision on the amount of new non-project aid to be provided to India in 1966/67. Questions that were still under examination, however, involved the manner in which the $900 million was estimated, the component of that total that represented "fresh" aid, the major types of items to be imported, and the nature and effects of India's recent trade liberalization, including

India's prospects for increased exports. In response to a question from the Chairman, Mr. Yamashita stated that he was unable to say how long it might take for his Government to reach a decision on Indian aid (but informal indications after the meeting were that the Japanese decision might be announced toward the end of July).

7. Mr. Gianani indicated that the Italian Government had decided to extend the equivalent of $32 million of non-project aid to India in 1966/67, of which $3 million would be in the nature of debt relief. Since the Delegation from India had just then arrived in Rome, other details of this aid remained to be determined and would be communicated to the Bank subsequently.

8. Dr. Rau informed the consortium members that the German Cabinet had decided on DM 240-252 million ($60-63 million) of non-project assistance for India. Although the terms of the proposed assistance were not specified, Dr. Rau pointed out that German aid terms have improved in recent years, and he expected that this trend would continue. The Cabinet's decision had been approved by the Foreign Aid Committee but not by the Budget Committee of the Parliament, and this matter could be reconsidered only at the end of September when the Parliament reconvened. While the indicated German aid figure is not confidential, it has still to be communicated to the Government of India. Meanwhile, the German Government is considering ways in which this aid could be made available to India most expeditiously. The German Government believes that debt rescheduling should be discussed further.

9. Mr. Hirsch-Girin stated that earlier in the week the French Government had informed the Indian Finance Minister that it was prepared to provide $17 million of non-project aid. Such aid would bear interest at 5.25 percent per annum and would be repayable in 10 years. The proposed French aid did not involve debt rescheduling.

10. Mr. Reid expressed Canada's disappointment that the consortium had not made a more rapid and full response to the Indian non-project aid request which, he believed, represented a minimum estimate. Mr. Reid indicated that, as had already been communicated to Indian authorities, Canada was providing U. S. $42.3 million (Can$45.7 million) of non-project aid--although part of this amount might not be considered a contribution toward the $900 million requirement --compared with $36 million shown in Table No. 1 and $34 million in Table No. 2 circulated on June 7, 1966 (Annex 3). Comprising this total were (i) Can$2.7 million of non-project aid carried over from 1965/66 (ii) Can$13.5 million of "normal" non-project loans on IDA terms for 1966/67 (out of a total "normal" program of Can$44.5 million offered as Can$12 million of grants, Can$20 million of loans on IDA terms, and Can$12.5 million of export financing), (iii) Can$10.0 million representing the cancellation of interest and principal due in the current and next fiscal year, (iv) Can$9.5 million of financing to be shifted from project to non-project imports (with fresh aid for the project to be provided when needed), and (v) Can$10.0 million for non-project imports which can be committed by India in terms of orders during the current fiscal year but which can be used for payments only after April 1, 1967. All Canadian non-project aid is provided either as grants or on IDA terms, and Mr. Reid

indicated that Canada expects to be able to remove the 3/4 of 1 percent service charge in the future. Mr. Reid pointed out that in addition to the increased non-project aid already mentioned, Canadian aid to India included food aid, the amount of which had been raised to Can$35 million in the past year and to Can$56 million in the current year, compared with a "normal" level of Can$10 million. While it was generally concluded that the $10 million of non-project assistance that would be available for disbursement only after April 1, 1967 (item v, above), was within the definition of non-project aid used in estimating the $900 million (since the aid requirement was not computed as a balance of payment gap but rather as the amount of aid required on a commitments basis to support the placing of orders), some doubt was expressed subsequently about (a) whether the full $10 million of debt cancellation (item iii) should be counted as 1966/67 aid since $1.3 million was payable only in the next fiscal year and (b) whether it was appropriate to count the $2.7 million of aid pledged for the past fiscal year that remained uncommitted (item i), a procedure that had not been followed by other consortium members.

11. Mr. van Campenhout said that the Belgium Government was not yet in a position to respond to the Indian request for non-project aid in 1966/67.

12. Mr. Haushofer stated that while details were still to be negotiated, the equivalent of $4.7 million had been set aside for India from Austria's aid funds. Of this amount, $4 million would be in the form of a new, general purpose loan, and the remaining $0.7 million represented refinancing for repayment of principal on debts due from India this year. Austrian aid is to be available for purchases from Austrian suppliers, but is not tied to specific projects. It is expected that the aid is to be repayable in 15 years including 5 years of grace with interest of 5-1/2 percent per annum.

13. In summing up, the Chairman noted that aid indicated so far toward the $900 million of non-project aid required (counting the Canadian contribution in full) amounted to about $835.7 - $838.7 million (Annex 4 provides the relevant details), and pointed to the consequent importance of the pending aid decision by Japan.

14. In response to a query from Mr. Belcher, Mr. Bell stated that the U.S.S.R. may provide some $30 - $35 million of aid on an annual basis for use in importing spare parts and equipment for U.S.S.R.-financed projects. Such aid would, of course, be of a non-project type; but, given the minimal nature of the $900 million estimate, any non-project aid from the U.S.S.R. would serve as a margin of safety rather than as a deduction from the estimated total requirement.

15. The Chairman turned next to the question of Indian indebtedness. As indicated in his remarks on this matter (circulated as IND 66-7 on July 8), he felt it prudent to alert the members of the consortium to the likely necessity for examining the question of debt rescheduling, probably in the context of aid requirements for the Indian Fourth Five-Year Plan. He accordingly asked the representatives to express any preliminary views they might have on how this matter might be handled. He noted that he had referred to debt rescheduling rather than to refinancing advisedly, since

the former method would provide India with free foreign exchange, while the latter might not.

16. Mr. Belcher said that his Government welcomed the Chairman's words on this matter and shared the view that debt relief would have to be considered seriously in the near future. It was, therefore, necessary to agree on how--in a technical sense--such an operation might proceed so that equity was preserved. He suggested that this question--as well as those of commercial debt, Soviet bloc obligations, and the budgetary impact--be examined so that the consortium would be ready to act on this matter if and when it was decided to do so. Mr. Belcher suggested that a technical group meet, perhaps under the chairmanship of the Bank, to look into these questions. Mr. Macomber agreed that debt relief is a problem that should be examined, although the U. S. was not able at that time to express a view on the desirability, timing, or form of such action. He shared the U. K. view that it would be useful to get a technical study underway, perhaps looking at the precedents already established in this area, so that the "how" of such arrangements could be used as a basis for considering the questions of "when" and "how much." Mr. Reid said that Canada also believed it necessary to start considering the "how" of a debt relief operation.

17. Mr. Wilson said that it would be for Mr. Cargill to consider these suggestions and also any further thoughts there might be on the question of debt relief and how the issues involved might best be handled.

18. The U. S. Delegate expressed, on behalf of the member countries, the consortium's appreciation for Mr. Wilson's able chairing of the past meetings of the consortium and wished him well on his new assignment with the Government of the United Kingdom.

Annexes:

1. List of Delegates.
2. Table No. 1, "Possible Pattern of Consortium Pledges of Non-Project Aid Required in 1966/67"
3. Table No. 2, "Possible Pattern of Consortium Pledges of Non-Project Aid Required in 1966/67"
4. Table No. 3, "Preliminary Indications of Non-Project Aid for India, 1966/67"

Asia Department

Cleared with and copy to: Messrs. G. Wilson, A. Stevenson, B. R. Bell and G. Votaw

Copy: Messrs. I. P. M. Cargill and O. J. McDiarmid, Miss M. Copeland, and Delhi Office

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ANNEX 1

INDIA: MEETING OF CONSORTIUM MEMBERS ON JULY 7, 1966

LIST OF DELEGATES

AUSTRIA	Mr. Othmar Haushofer
BELGIUM	Mr. Andre van Campenhout Mr. H. Biron
CANADA	Mr. Patrick M. Reid
FRANCE	Mr. Jacques Hirsch-Girin Mr. Jean Malaplate
GERMANY	Dr. W. Rau Dr. Rudolph Zaddach Mr. Georg Schneider Miss Helga Steeg
ITALY	Mr. Felice Gianani
JAPAN	Mr. Taketoshi Yamashita Mr. Michiya Matsukawa Mr. Hidetoshi Ukawa Mr. Toshisada Uchida Mr. Takao Kawakami Mr. Yukinori Watanabe
NETHERLANDS	Mr. Jan Grooters
U.K.	Mr. R.H. Belcher Mr. H.A. Twist Mr. D.J. Holland
U.S.	Mr. William B. Macomber, Jr. Mr. William Courtney Mr. Bernard Zagorin Mr. C. Herbert Rees Mr. Michael Cross Mr. Walter Furst Mr. Douglas Smith Mr. Edward Zimmermann
INTERNATIONAL MONETARY FUND	Mr. W. John R. Woodley
BANK	Mr. Geoffrey M. Wilson Mr. I.P.M. Cargill Mr. Alexander Stevenson Mr. Bernard Bell Mr. Gregory Votaw Mr. Stanley Katz Mr. Alexander Kirk Mr. Jean Baneth Mr. Stanley Please

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ANNEX 2

Table No. 1

POSSIBLE PATTERN OF CONSORTIUM PLEDGES OF NON-PROJECT AID REQUIRED IN 1966/67

	Past Pledges - Total Aid		Possible Pattern of 1966/67 Non-Project Aid Pledges
	5 Year Total	1965/66	
	Percent		$ million
Total	100.0	100.0	900 a/
U.S.	41.8	42.4	382
IBRD/IDA	21.7	23.9	215
Germany	11.8	8.4	76
U.K.	9.5	8.2	74
Japan	5.3	5.8	53
Canada	3.2	4.0	36
Italy	3.1	3.5	32
France	2.2	1.9	17
Netherlands	0.8	1.1	10
Belgium	0.4	0.4	4
Austria	0.3	0.5	5

a/ Distributed in accordance with 1965/66 percentages.

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ANNEX 3

Table No. 2

SUGGESTED PATTERN OF CONSORTIUM PLEDGES OF
$900 MILLION NON-PROJECT AID REQUIRED IN 1966/67

	1965/66 Total Aid Pledges		Suggested 1966/67 Non-Project Aid Pledges $ million			
	$ million	%	Debt Principal Deferment	New Aid a/	Total	%
Total	1027	100.0	172	728 a/	900	100
U.S.	435	42.4	34	309	343	38
IBRD Group	245	23.9	49	174	223	25
Germany	86	8.4	26	61	87	10
U.K.	84	8.2	33	60	93	10
Japan	60	5.8	17	42	59	6
Canada	41	4.0	5	29	34	4
Italy	36	3.5	3	25	28	3
France	20	1.9	4	14	18	2
Netherlands	11	1.1	- b/	8	8	1
Belgium	4	0.4	- b/	3	3)	1
Austria	5	0.5	- b/	4	4)	

a/ New aid distributed by applying 1965/66 percentages to total of $728, regarding proposed IDA $50 million credit as "debt deferment".

b/ Less than $1 million.

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ANNEX 4

Table No. 3

INDIA: PRELIMINARY INDICATIONS OF NON-PROJECT AID FOR INDIA, 1966/67

($ million)

Country	Suggested Allocation No. 1 (%)	Suggested Allocation No. 2 (%)	Amount Indicated July 7, 1966
Austria	5 (0.5)	4) (1)	4.7
Belgium	4 (0.4)	3)	*
Canada	36 (4.0)	34 (4)	42.0 a/
France	17 (1.9)	18 (2)	17.0
Germany	76 (8.4)	87 (10)	63.0 b/
Italy	32 (3.5)	28 (3)	32.0
Japan	53 (5.8)	59 (6)	*
Netherlands	10 (1.1)	8 (1)	11.0 c/
United Kingdom	74 (8.2)	93 (10)	72.8 d/
United States	382 (42.4)	343 (38)	380.0 e/
Bank/IDA	215 (23.9)	223 (25)	215.0 f/
TOTAL	904(100.0)	900 (100.0)	837.5

* Amount still to be determined.

a/ Includes $2.7 million of uncommitted pledges carried forward from 1965/66 and $1.3 million cancellation of debt due in 1967/68. Net of these amounts, Canadian aid commitments would be $38 million and the consortium total would be reduced by $4 million.

b/ $60-63 million proposed by the German Cabinet; amount still to be approved by the Parliament.

c/ Available in total as non-project aid, depending on how it is used by the GOI.

d/ Counted as $73 million during the meeting.

e/ The U.S. initial indication was for $380 million, will add $2 million if necessary.

f/ IDA credits.

Files March 31, 1966

Alexander Stevenson

India - Consortium

Mr. Matsukawa and Mr. Ukawa came to see me this afternoon to ask about the April 5 meeting. They said they had heard rumors that certain high officials from the Indian Government would be coming to Washington in the next week or so and wondered if the meeting would be held. I said it was going forward as scheduled and they would have a background paper today or tomorrow.

Mr. Matsukawa asked whether the meeting would be an informational one and I told him that it would, but added that if any country was in a position to state what it was doing or had promised to do, this would be most helpful. He mentioned that Japan was making a grant of rice to India as emergency aid.

cc: Mr. Wilson
Mr. Bell
Mr. Votaw

AS/uz

Files March 23, 1966

Alexander Stevenson

India - Consortium Timetable

Mr. Wilson discussed with Mr. Macomber this morning a possible line of action concerning aid to India by the consortium members this year. Mr. Bell and I were also present.

Mr. Wilson said that for the time being at least the debt rescheduling issue was dead but the issue of interim aid was very much alive. Mr. Bell had now returned from India and was putting together the information which the February 17 meeting had requested. Mr. Bell would have a paper ready next week and a meeting of the Washington representatives of the consortium countries would be convened on April 5. Mr. Wilson went on to say that the Government of India had agreed to the release of the Bell Report and that it would be made available to consortium members, hopefully in May. A meeting of the consortium might be held in June to obtain comments of members on the Bell Report and Mr. Bell would thereafter go to India in July to carry out the appraisal of the Fourth Five-Year Plan. Hopefully this would be done before the Plan had been presented to the National Development Council, since Mr. Bell would be carrying the views of consortium members on major issues of Indian economic policy. On this schedule, a meeting of the consortium to discuss the Fourth Plan could be visualized from September on, probably in the fourth quarter of 1966.

There followed some discussion of this timetable and the implications on it of Mrs. Gandhi's Washington visit and possible consequences of that visit. It was agreed that while the later parts of the timetable outlined above might very well be affected by decisions taken as a result of Mrs. Gandhi's Washington visit, there was little use in speculating on these implications now.

Mr. Wilson and I later discussed plans for the April 5 meeting with the representatives of the other consortium members.

cc: Mr. Wilson
Mr. Bell
Mr. Pollan
Delhi Office

AS/uz

Mr. Bell

CONFIDENTIAL

IND 66-2

FROM: The Deputy Secretary

March 23, 1966

INDIAN AID REQUIREMENTS

A meeting will be held in the Bank's Board Room, 1818 H Street, N.W., Washington D.C., at 3:00 p.m. on April 5 to discuss India's request for interim aid during 1966/67. A background note for these discussions will be distributed shortly.

Distribution:

Executive Directors for:

Austria
Belgium
Canada
France
Germany
Italy
Japan
Netherlands
United Kingdom
United States

Embassy of Japan
Managing Director, IMF

Chairman, India Consortium
Director, South Asia Department

For information:

President
President's Council
Executive Vice President (IFC)
Executive Director for India
Department Heads (Other)
Resident Representative, India

Files March 11, 1966

Alexander Stevenson

India - Consortium

Mr. Patrick Reid called on me this morning. He said he had instructions from his Government that Canada would like to have a meeting of the consortium countries at an early date after the end of March to be informed about the Indian situation. Such a meeting should be quite low-key with no publicity. It should not be concerned specifically with the problem of debt relief but rather with the whole matter of Indian emergency or interim aid requirements. Canada, he said, was "off the debt roll-over kick". At such a meeting there would be no thought of any pledging but it would be more like a consultative group meeting and would serve the function, necessary in Canadian opinion, of keeping the consortium members in touch with the Indian situation.

The line now taken by Canada is for all intents and purposes the same as that of the U.K. as expressed by Sir Alan Dudley in his recent conversation with Mr. Bell. (See my memorandum to Mr. Wilson, dated March 2, 1966, "India - Debt Relief and Creditor Equity".)

I told Mr. Reid that I would be discussing these matters with Mr. Woods and would be in touch with him.

cc: Mr. Woods
Mr. Wilson
Mr. Hoffman
Mr. Bell
Mr. Votaw
New Delhi Office

AS/us

Mr. Wilson

March 2, 1966

Alexander Stevenson

India - Debt Relief and Creditor Equity

Here is a paper which Mr. Katz has prepared on the debt relief question. I think you will find it very helpful. Though not confined to the Turkish example, the formula outlined in it is, I believe, entirely consistent with that example. Mr. Katz will stop in Paris on his way to India to pick up more information on the Turkish experience.

As far as I know in the Hague and Paris club, etc. the creditors have not got into the question of trying to equate past and prospective sacrifice. I would hope that in any further Indian debt rescheduling operation they would also look only forward, otherwise the problem can become very complicated and it may be more trouble than it is all worth.

I have just spoken to Mr. Bell in London who has seen Sir Alan Dudley at the latter's request. Sir Alan made two points. The U.K. feels there should be a meeting of the consortium members before the one on the Fourth Plan. They hope that the next (end March) meeting would prepare this. They conceive the problem as an examination of the aid requirements and plans for 1966/67 and Sir Alan said he hoped this would be the context of the next meeting rather than the narrow one of debt rescheduling.

Sir Alan said further that the U.K. takes a serious view of the Indian economic situation and is alarmed about it. (This may be contrasted with the U.S. position as expounded by Mr. Macomber.)

AS/uz

attachment

cc: Mr. King
Mr. Votaw
Mr. Katz
New Delhi Office