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Dates:	01/01/1984 - 08/31/1991
Subfonds:	Records of President Barber B. Conable
Fonds:	Records of the Office of the President
ISAD Reference Code:	WB IBRD/IDA EXC-11-49S
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THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

August 26, 1991

The Honorable William Clark, Jr.
Ambassador of the United States of America
New Delhi, India

Dear Ambassador Clark:

Thank you for your letter of August 12, 1991 and for forwarding a copy of the invitation from Mr. Mazumdar for me to address the Annual General Meeting of the Associated Chambers of Commerce & Industry of India during the week of September 23rd.

As much as I would like to be able to participate in this special one-day seminar, especially given the economic reforms recently announced by India's government, it just is not possible. As you know, I will leave the World Bank at the end of this month. Because of transition and relocation activities associated with our move back home to Western New York after five years, Mrs. Conable and I do not plan any international travel for the remainder of the year.

Mr. Mazumdar has planned an excellent program, and his interest to include me is greatly appreciated. Please extend to him my sincere thanks, and my best wishes for the success of this meeting as well as his continuing efforts to promote economic development in India.

Thank you, also, for the kind invitation to stay at the Roosevelt House. Perhaps there will be another opportunity in the future for Mrs. Conable and I to accept your kind hospitality.

Sincerely,

Barber Conable

bcc: Mr. A. Mazumdar

*2m

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

TO:	DATE:
Mr. B. Conable (E-1227)	8/27/91

SUBJECT:

Document From: William Clarke
To: bbc
Dated: 8/12/91 Reference No.: EXC910814002

Topic: US Ambassador to India: supporting an inv. from Mr. Mazumdar to speak/participate in a Seminar on Sept. 23, 1991 in India.

ACTION INSTRUCTIONS: | DUE DATE:

_____ HANDLE
_____ REVIEW AND RECOMMEND
_____ FOR YOUR INFORMATION
_____ DISCUSS WITH _____
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*__XXX__ PREPARE RESPONSE FOR _BBC'_ SIGNATURE
_____ FOR YOUR FILES
_____ RETURN TO _____
_____ OTHER: _____

Remarks: LM handling.
US Embassy in India called to follow up.
FAX 91-687-2391. (CP-8/22)

Copy of letter was typed to Amb. Clark
M 8/27/91.

CP

Embassy of the United States of America

U.S. & FOREIGN COMMERCIAL SERVICE
U.S. EMBASSY, NEW DELHI 100 021, INDIA

TEL: 91 11 600651 EXT. 2252; TLX: 031 82065 USEM IN
FAX: 91 11 6872391

FACSIMILE MESSAGE

DATE: August 13, 1991

TO: Secretary to World Bank President Conable

FAX No. (202) 477 1305
NO. PAGES 4

FROM: James A. Moorhouse, Commercial Counselor

Attached is a letter from U.S. Ambassador William Clark inviting Mr. Conable to address a meeting in New Delhi. Also retransmitted, President of Associated Chambers of Commerce invitation in case Mr. Mazumdar's FAX of August 9 has not been received.

AUG 13 '91 11:11 TO WB-EXCP 202477[illegible]05 FROM USDO TIEFER T-265 P.01

AMBASSADOR OF
THE UNITED STATES OF AMERICA

NEW DELHI

August 12, 1991

Mr. Barber B. Conable
President
The World Bank
1818 H Street, N.W.
Washington, D.C. 20433

Dear Mr. Conable:

Mr. Avijit "Bobby" Mazumdar, President of the Associated Chambers of Commerce & Industry of India (ASSOCHAM), visited with me last week to discuss his organization's planned Annual General Meeting to be organized in New Delhi during the week of September 23rd. He has sent you an invitation to keynote the meeting. The ASSOCHAM is the largest association of Chambers in the country with company membership over 50,000.

Bobby, who is also the CEO of TIL Ltd. of Calcutta - a joint venture partner of Caterpillar Tractors, has been for years an outspoken supporter of economic liberalization in India. As you know, Prime Minister Narasimha Rao's Government has announced sweeping economic reforms and more recently many of India's industrialists and trade association executives have come around to ASSOCHAM's point of view.

ASSOCHAM plans to present a day long meeting on "The Vision of a New India" and to highlight the economic models of Indonesia, Mexico, South Korea, and Turkey. Since you and the Bank have played such a key role in helping restructure those economies, an address by you would doubtless help the Prime Minister maintain momentum for his economic reform package and support ASSOCHAM in breaking through the remaining protectionist sentiments in some segments of Indian industry.

I hope that your schedule permits you to accept Mr. Mazumdar's invitation. Judith and I would be honored if you and Mrs. Conable would stay with us at Roosevelt House.

Sincerely,

William Clark, Jr.

AUG 13 '91 11:11 TO WB-EXT [illegible] FROM WDO TDEF6C

ASSOCHAM

09 1991

THE ASSOCIATED CHAMBERS OF COMMERCE & INDUSTRY OF INDIA

FAX NO. : 11-312193, TELEX : 031-61754 ASSO IN, 031-61384 ASSO IN, GRAMS : ASSOCHAM NEW DELHI-110001
PHONES : EPABX 310704, 310749, 310779, 344031, 344252
ALLAHABAD BANK BUILDING, 17, PARLIAMENT STREET, NEW DELHI - 110001

A. Mazumdar
President

August 9, 1991.

Dear Mr. Conable,

Knowing your deep interest in the welfare of India, you must have been watching with satisfaction the dramatic changes that are now taking place in our country. After 44 years of independence, we are now finally moving away from a 'command' and 'control' mechanism to a 'market' and 'competitive' mechanism, something that we should have done in 1947.

ASSOCHAM, as you may know, is the oldest (1920) and largest (55,000 companies and 110 chambers) association of chambers in the country. For some years now, particularly during the last few years, we have been strongly advocating a fundamental change in India's economic policy from a socialist and command mechanism to a market and competitive mechanism. We have been lobbying with the various authorities on these and other related matters such as removal of controls and permits, encouraging direct foreign investment, disinvestment in public sector, removal of foreign exchange control and other matters which are so essential for economic development.

We are planning to have our Annual General Meeting sometime during the week of September 23, 1991 in New Delhi, where we wish to break away from normal tradition and structure a one day meeting to discuss a vision of a new India and the international experience of Indonesia, Mexico, South Korea, Turkey and others. Subject to availability, we are planning to have our Finance Minister, Dr. Manmohan Singh, as the Chief Guest. The morning session will include leading industrialists as speakers such as Mr. Keshub Mahindra, Mr. Russi Mody, some former Governors of the Reserve Bank of India. For the lunch session, we plan to have as the Guest Speaker our Commerce Minister, Mr. P. Chidambaram. For the afternoon session, the theme of which will be the international experience, our great desire is to have you as the Keynote Speaker, followed by international speakers who will talk about the experiences in Indonesia, Mexico, South Korea, Turkey, etc. We are working closely with the UNDP in Delhi for arranging such speakers. For the Valedictory Address, we are planning to have someone like Dr. I. G. Patel or a person of equal status.

AUG 13 '91 11:12 TO MB-EXCOF [illegible] FROM WDO TDEFGC T-265 P.03

Mr. Conable, I am very conscious of your many commitments and, particularly, during the month of September when you will be leaving the Bank. Nevetheless, many senior industrialists from India, including Mr. Keshub Mahindra, have strongly recommended to me that I should approach you for your participation in our Seminar. This Seminar will be attended by 500/600 leading businessmen from all parts of the country, including many bureaucrats and diplomats. Your keen interest in India and its development prompts us to take the liberty of encroaching on your time.

My colleagues and I and, in fact, the entire business community in India, would be extremely obliged to you if it is at all possible for you to participate in our Seminar and share your global thoughts with us. I would be very grateful to know your initial reaction, which, I hope, will be positive.

With kindest regards,

Yours sincerely,

A. MAZUMDAR

Mr. Barber B. Conable
President
The World Bank
1818 H Street, N.W.
WASHINGTON D.C. 20433
U S A

AUG 13 '91 11:13 TO WB-EXCOP 2024771305 FROM WDO TDEFGC T-265 P.04

ASSOCHAM

THE ASSOCIATED CHAMBERS OF COMMERCE & INDUSTRY OF INDIA

FAX NO. : 11-312193, TELEX : 031-61754 ASSO IN, 031-61384 ASSO IN, GRAMS : ASSOCHAM NEW DELHI-110001
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ALLAHABAD BANK BUILDING, 17, PARLIAMENT STREET. NEW DELHI - 110001

7814

A. Mazumdar
President

August 9, 1991.

Dear Mr. Conable,

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.....2

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With kindest regards,

Yours sincerely,

A. MAZUMDAR

Mr. Barber B. Conable
President
The World Bank
1818 H Street, N.W.
WASHINGTON D.C. 20433
U S A

Encl:

A NEW ECONOMIC ORDER... OUR NATIONAL PRIORITY

The Associated Chambers of Commerce and Industry of India
17, Parliament Street, New Delhi 110 001

A NEW ECONOMIC ORDER...

OUR NATIONAL PRIORITY

BY

A. MAZUMDAR

PRESIDENT, ASSOCHAM

ASSOCHAM

THE ASSOCIATED CHAMBERS OF COMMERCE & INDUSTRY OF INDIA

FAX NO.: 11-312193, TELEX: 031-61754 ASSO IN, 031-61384 ASSO IN, GRAMS: ASSOCHAM NEW DELHI-110 001
PHONES: EPABX 310704, 310749, 310779, 344031, 344252
ALLAHABAD BANK BUILDING, 17, PARLIAMENT STREET, NEW DELHI-110 001

A. Mazumdar
President

July 4, 1991

Dear Friend,

The economic and political crisis facing the country today is unparalleled in the history of independent India. On the one hand, **our budgetary deficit continues to grow alarmingly and, on the other, we are facing a Balance of Payments crisis of unprecedented magnitude.** Unfortunately, just at the present critical juncture, for the Indian nation, due to a series of events, the political scenario is also confused and unsettled.

The people of India have given their verdict in the recent general elections and have chosen their new leaders. Irrespective of alignment of political forces, there is no getting away from the fact that the economic problems facing the country need to be tackled with the utmost sense of urgency and determination. **The new government must take some very hard, bold, innovative and even unpleasant policy decisions, so that we can overcome the current economic crisis and prepare India to become a major player in the world economic arena.**

ASSOCHAM, which is the oldest and largest apex organisation of the business community of India has, during the last twelve months, deliberated in its various seminars, meetings, round tables and conferences on major economic issues, and what should be India's new economic policy on various matters. We have also closely studied the dramatic events that have been taking place in many countries of the world in the last few years, and from all these efforts have distilled what we believe is an urgently needed **New Economic Agendà for the country.**

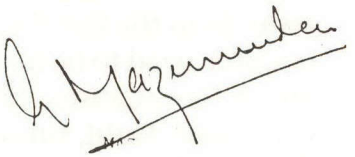
To overcome the current BOP crisis, ASSOCHAM believes that it is absolutely essential for us to obtain large foreign currency loans from international institutions on the best possible terms available under the circumstances.

We are placing before you our views on a number of key issues which, we believe, are crucial for our great nation to move quickly out of its present difficult situation and of economic stagnation to create for itself a 'niche' in the global economic arena.

Ultimately, it is only through this process of extensive reform and abandonment of populist measures we believe we will be able to raise the standard of living of our people, improve the quality of their life and finally achieve the aspirations of the vast majority of the people of our country.

With kind regards,

Yours very truly,



(A. MAZUMDAR)

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Introduction

Economic Achievements

Since Independence, India has made tremendous strides in the economic front. **Today, we are self-sufficient in our requirement of food, clothing, wide range of consumer durables and medicine. We are, by and large, self-sufficient in our requirement of transport and engineering goods, heavy and fine chemicals, petrochemicals, etc.** Much of the technology and machinery required for establishing a steel plant, cement plant, sugar plant, fertiliser plant, a major petrochemical plant, oil refinery, thermal power plant, etc., is available from indigenous sources. We have developed a vibrant capital market and a strong financial system.

In the process, India has emerged as one of the largest producers of scooters, bicycles, chemicals, engineering and electronic goods and cotton yarn in the world. We occupy the first six positions in many other items on a global basis, as for example, tea, coffee, sugar, iron ore and other minerals, etc. All of this is no mean achievement and we are all indeed very proud of it.

India also has the world's third largest scientific manpower and a good R & D base. In the field of agriculture, the country achieved the miracle of transforming itself from a major grain importer till the seventies to a net surplus producer today. Energy sources have also been diversified and production considerably increased, although the demand is growing faster than supply. The composition of exports has also undergone significant change with nearly a third of our exports being non-traditional manufactured items.

Looking at our achievements from the common man's point of view, have we really been able to raise his standard of living adequately, improve his quality of life and have we been able to

meet his aspirations? Progress does not mean only development of the metropolitan cities or the urban sector. Have we been able to achieve enough for the people who live in five lakh villages in India? The answer certainly is 'no'. One of the ways this assessment can be made is by looking at the per capita production and consumption of essential commodities and social goods. With these indicators, India's position in the world very quickly drops from amongst the top ten industrial nations to the bottom twenty or so nations of the world. This is a hard reality and unless we recognise this, corrective measures cannot be taken.

Need for Change

Where have we gone wrong ? **Our commitment to a command and controlled economy based on 19th century socialism perhaps could have been partially justified in the forties on the grounds of social justice, but is no longer valid in the vast and changing global economic scenario.** The very authors of socialism, command economy and controlled economy are dismantling their systems faster than we are, having seen their futility.

Nations that have made the greatest economic progress in the last five decades in terms of raising the standard of living of its people, improving their quality of life and meeting their aspirations, have been able to do so only in an environment of open market economy and competitiveness. Controls breed inefficiency, high costs, poor quality, shortages, lack of international competitiveness, islands of prosperity and parallel economy.

India can no longer continue with its earlier economic beliefs and policies. If we are to improve the quality of life of our people and meet their aspirations and this we must, **we have no alternative but to immediately move away from our present system to an open market economy and a**

competitive one by dismantling controls on a priority basis.

Tables giving India's relative global position in terms of select economic and social indicators are appended in the end of this report.

Basic Economic Policy

History shows that command economy and controlled economy cannot meet the aspirations of the people and raise their standard of living. It is, therefore, essential that India immediately moves away to an open market economy and competitive economy.

Domestic Economy

All controls relating to establishment of an undertaking, its capacity expansion and diversification, and location must be removed. Forcing an industry to go to a backward area has not been a success. Incentives can be offered for a backward area, but it is for the entrepreneur to decide on a location based on the economics of his project. There should be no control on capital structuring or raising resources from the capital market, as this is essentially a management prerogative. By opening up the domestic economy to the market forces, the following benefits will result:

a) **Quality of goods will vastly improve as only the best value for money would survive.**

b) **Shortages will disappear.**

c) **Prices will come down.**

d) **Productivity will improve.**

e) **Technology upgradation will take place and a totally new commitment to quality by the Indian entrepreneur will emerge.**

f) **More employment will be generated.**

g) **It will greatly help Indian goods to be more internationally competitive, which is not the case today.**

h) **Exports will increase.**

i) **Prosperity will come to the common man.**

The benefits accrued to the people of India by partially opening up the consumer goods, the textiles, consumer electronics, and two and four wheeler industry are well known to all.

International Economy

We have lived in an environment of protection with barriers from international competition. True, if international barriers were removed overnight, it would create serious socio-economic problems in the country. Bearing this in mind, it is suggested that the economy should be gradually opened up to international competition in a time span of two to three years. If we continue our protection against international economy any longer, it is feared that the rest of the world will go past us. History has demonstrated over and over again that opening international competition to a domestic arena has accelerated rather than decelerated the growth of the domestic economy in terms of productivity, technological upgradation, quality, prices, greater market access, after-sales service, etc,. There is no reason why it should be any different for our country.

Economic Policy

For the last several decades, we in India have resorted to adhocism in our various economic policies where rules and regulations change every six to twelve months. If India has to make rapid progress in the economic front, and also become a major player in the international arena, we must have a long term integrated economic policy which will cover basic matters relating to monetary, fiscal, industrial, energy, import-export and industrial relations policies. Indian businessmen have out of necessity learnt to live with adhocism, but in the international arena, we will not be able to survive with such adhocism.

Our New Economic Policy must also take into account the need for integration of our rural economy with the urban economy and our domestic economy with the international economy.

Operational Constraints

India has earned the dubious reputation of being a country with complex policies and procedures. Where it takes just one to two years for a major project to be commissioned from conceptual stage in other countries, it takes three to five years or more in India due to the elaborate administrative clearance procedures. Finally, Centre-State differences and political considerations needlessly interfere with the economics of a project. The regime of restrictive policies and procedures need urgent review. **Liberalisation process initiated in the eighties, has clearly shown the way. We should deregulate the economy in several sectors. What we need is a system change and not a step change within the existing system.**

M.R.T.P.

The provisions of M.R.T.P. Act may have been valid twentyfive years ago for protection of the weaker sections of the community, but the provisions as to the size of a company in the changed global context is no longer valid. Indeed even the biggest of our corporate groups are only pygmies by world standards. Barring the Government-owned Indian Oil Company, there is hardly any Indian company which finds a place in Fortune 500 ! We have limited the size to a Rs. 100-crore group when in fact we are trying to become a global player and compete with companies who in size may be a Rs. 5,000 or Rs. 10,000 crore company at the least. We, therefore, believe that there should be no restriction as to the size of a group. **Our current policies are designed to restrict the activities of large houses like the Tatas, the Birlas and their likes. What we really need to do is to create conditions where India generates a hundred Tatas and Birlas and their like.** This is not an impossible dream, given the entrepreneurial base. It is only then that the economic activity of our country will grow, and the aspirations of the

people will be met. **A cursory study of growth of giants in Japan, Taiwan and South Korea and other countries in the last three decades is adequate proof of our belief.**

ASSOCHAM, however, is totally in agreement with the Government that there should be necessary legislation and policing to ensure that there is no restrictive trade practice. These practices can take place even in a 5-crore or 20-crore company and need not necessarily be a 100-crore company.

F.E.R.A.

Our approach to foreign investment and TNC's in particular must undergo a major qualitative change. The provisions of F.E.R.A. are to-day out-dated, out-moded and impractical, and are a major hurdle to our economic development particularly in our technology upgradation and export efforts. World economic history clearly shows that a nation's capacity to earn foreign exchange does not come about through restrictions in foreign exchange, but liberalisation in its policy on foreign exchange. The experience of Turkey, Taiwan, Thailand, Indonesia, Mexico, Brazil and more recently, Pakistan, are already there as working examples for one to see and judge.

It is, therefore, necessary that **much of the provisions of F.E.R.A. need to be taken out of the statute and there should be minimum controls initially, which should eventually be totally dispensed with.** Contrary to a misplaced belief, controls cause surreptitious outflow whereas no controls invariably result in legal inflow.

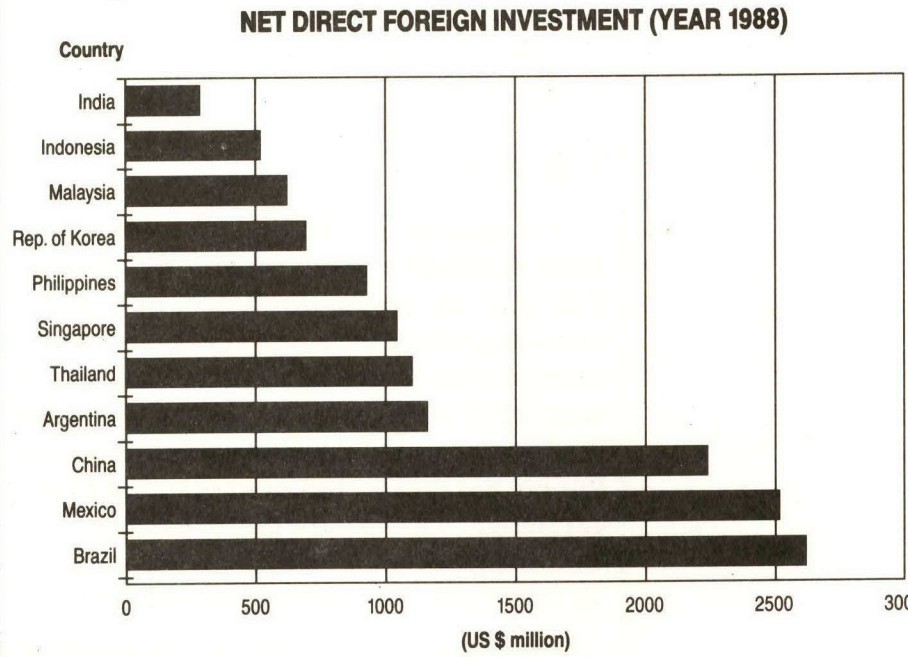
Direct Foreign Investment (DFI)

Developing countries with only a fraction of the potential of India in terms of manpower, resources, infrastructure and market are to-day receiving Direct Foreign Investments anywhere from ten to thirty times more than what we receive.

India: Average US$ 200 to 300 million p.a.

Indonesia/Malaysia/Thailand: Average US$ 1 to 2 billion p.a.

Even China which remained a closed economy until recently is today attracting DFI to the extent of US$ 3 to 4 billion per annum.



What are the reasons for poor D.F.I. in India ?

1) Our archaic policies based on the erroneous belief that D.F.I. will lead to a new form of economic colonialism. We seem to forget the strength and capability that the Indian business community has developed since Independence.

2) Bureaucratic controls and myriads of rules and regulations popularly known as "Hassle Factor". While in Singapore, all permissions for a foreign investment can be settled in 48 hours, and some other countries in a week or two, statistics show that in our country, to

obtain all permissions, it may take from 18 to 30 months.

3) With our ever changing policies, regulations and delays, a foreign potential investor does not feel as welcome and wanted in India as in other countries. There is need for total procedural and attitudinal change in this regard.

4) Administrative controls, rules and regulations under which a unit has to operate after it has gone into production are far more than in other countries and a deterrent for the potential investor.

D.F.I. has the following advantages:

1) **It is an inexpensive form of acquiring foreign exchange and reducing the B.O.P. problem as no regular payment is due, unlike a loan, until the unit makes a profit and declares a dividend.**

2) **It brings new technology into the country.**

3) **It provides employment opportunities to the people of India.**

4) **It provides goods and services of international standards to the people of India.**

5) **It imparts new skills to the Indian employees.**

6) **It establishes a linkage for exports through the foreign partner's international distribution system and thereby enhances export opportunities.**

7) **Improves quality.**

8) **Generates many new ancillary industries and helps in expanding the entrepreneurial base.**

Finally, it must be remembered that **the foreign investor has limited technology and resources. He will look in the direction of least resistance.** It must also be borne in mind

that **the Western world is committed to make Eastern Europe a success and, therefore, a large part of the available resources will automatically be diverted to that region.** The developing world will, therefore, be bidding for what is left and the DFI will flow in the direction of least resistance and greatest opportunity.

Public Sector Undertakings

India's Public Sector

While the investment in the private organised sector is approximately Rs. 75,000 crores, the investment in Central and State Public Sector Undertakings is in excess of Rs. 130,000 crores. If to this we add the investment in Departmental undertakings such as the Railways, P&T, etc., the total investment by Central/State Undertakings would be in excess of Rs. 300,000 crores. This is the money of the people of India. **What is the return on this massive investment? In PSUs, the aggregate return is less than 1%. The return in the organised private sector on an average is around 10 per cent.**

In the forties, when Industry in India was in its infancy, perhaps it was necessary for the State to initiate large undertakings such as steel plants, oil refineries, thermal power plants, chemical plants, etc. as India had no real private capital market nor did it have entrepreneurs who could undertake such large projects. The situation since then has changed dramatically. India has capable entrepreneurs and a vibrant capital market which can undertake creation of such plants quite successfully.

Privatisation

Over the years, the public sector has extended its operations to the service and consumer goods sectors which have traditionally been reserved for the private sector. This has resulted in tremendous misallocation of resources. Further, annual budgetary support to loss making public sector enterprises at low interest rates has compounded the problem of budgetary deficits.

It is recommended that the ownership of the Public Sector Undertakings should gradually be changed from

the President of India to the people of India. Initially, at least 51% of the shares of PSUs should be sold to the Indian public including non-resident Indians. A mechanism should however be established to ensure that no large house or large group can take control of any such undertaking and the ownership is widely spread. **Total management and control should be with the Board of Directors duly elected by their shareholders and not the Department in the Ministry, which is the case to-day.** We believe that with this change, these undertakings will become far more efficient, far more productive and will earn larger return on investment for the shareholder. **Total authority and accountability must lie with the Board of Directors and its management, and any interference from the Ministries and politicians must stop.** This can be possible only if the ownership is changed.

The present practice of subsidizing their losses through budgetary provisions will no longer be necessary. On the other hand, through better management these enterprises will yield economic surplus and contribute to revenue.

The sale proceeds of these undertakings could be profitably utilised by the Government for development of the infrastructure which is so badly needed in India.

For select PSUs, we should also consider sale of 49 per cent shares with 10-15 years management contract to NRIs or the top 1000 international companies. This would result in immediate technology upgradation and also open doors to the international market.

Energy Policy

Oil and Gas

While Oil & Natural Gas Commission and Oil India Ltd have done commendable work in exploration and exploitation of our oil and gas reserves, the fact remains that we are still deficient in meeting our requirements, and the single biggest outflow in foreign exchange is for purchase of crude petroleum. Put in another way, purely on trade balance, if POL imports are excluded, on rest of merchandise trade, India's trade deficit will be easily manageable. India is a vast country with large tracts of sedimentary basins which remain unexplored both on-shore and off-shore. Oil and gas exploration requires high technology, large capital investment, large down side risk and highly capable technological personnel. We are short in all of these.

Our new oil and gas policy should be to open up the entire country, both on-shore and off-shore, for exploration and exploitation by foreign and Indian companies. Different tracts of land could be demarcated and companies could bid for the same. ONGC and Oil India should also bid on level terms and in the same manner for new areas.

International norms already exist for terms of the exploration and sharing of oil/gas and/or profits which are currently in vogue all over the world. In the event oil is discovered, it must be remembered that it is India's oil. The foreign company cannot run away with it. **Majority of the benefit of such discovery will come to India not only in terms of revenue, but also in terms of reduction of import cost, technology upgradation and development of many ancillary industries leading to higher employment. We should not be overly concerned with what profits the foreign company will be making after tax. We should look at the benefit that India will reap in totality.**

If this policy is adopted, we believe India can become self-sufficient in oil in the next five years, and to achieve this, India will not really have to spend any money either in rupees or in foreign exchange. The benefits will continue to flow to India for the next twenty to thirty years.

Currently, about Rs. 2000 crores worth of gas is being flared annually from oilfields in the Western and Eastern parts of the country. Our own ability to establish pipelines and the end-user industries is very limited. Besides it is very time consuming and expensive. Perhaps, the gas which we are flaring to-day could be given to two different internationally established companies one in each region with the stipulation that they are to arrange for pipelines and down-stream industries which obviously will be located in India. The benefit to the country is obvious—development of a new industry, total stoppage in losses of flared gas, relief from crippling fuel and power shortages, many new petroleum products, employment opportunity, new technology coming to India and revenue for the Government, in addition to development of a host of ancillary industries.

The prosperity that has flowed to the people of Middle Eastern countries by following this policy is universally known.

Coal

Coal India Ltd. and Singareni Collieries have done a commendable job and are progressively raising their outputs of coal in the country. Because of historical reasons, technology, labour laws, etc. per man output of coal in India is one of the lowest in the world. As in the case with oil and gas, it is recommended that unexplored areas or exploitation of known reserves should be given to Indian/foreign companies on a turnkey basis. These operations should be totally delinked from Coal India, so that they are not influenced by the same problems that Coal India faces. India has one of the largest

reserves of coal in the world. Our targets so far have been to meet our own demand. It is time we also thought of becoming a major coal exporting nation of the world, and to achieve this we need large investment, new technology to upgrade quality, higher productivity and international marketing linkages. Much of this can be obtained by inviting foreign partners.

Electricity

Barring one or two exceptions, the bulk of electricity production and its distribution in our country is either in the hands of State Electricity Boards or NTPC. NTPC has performed well and they should be encouraged. The private sector companies have also performed very well and they should also be encouraged. Their expertise should be utilised in further expansion of this crucial infrastructure sector.

SEBs perhaps, with one or two minor exceptions, have performed miserably throughout the country because of local political interference, over-employment, poor plant maintenance, lack of financial control and accountability, etc. All these result in low plant load factor and low productivity. The country has made massive investment in SEBs and methods must be found for making them efficient and productive. Plant load factor must be improved. If this means taking private sector partners or bringing in foreign consultants with full authority for plant management, we should not shy away from it. A mere five per cent improvement in PLF will mean an equivalent of five super thermal plants of capacity of 500 MW each! This can be easily achieved by better house-keeping, professional management and uncompromising adherence to productivity and performance targets.

Agriculture

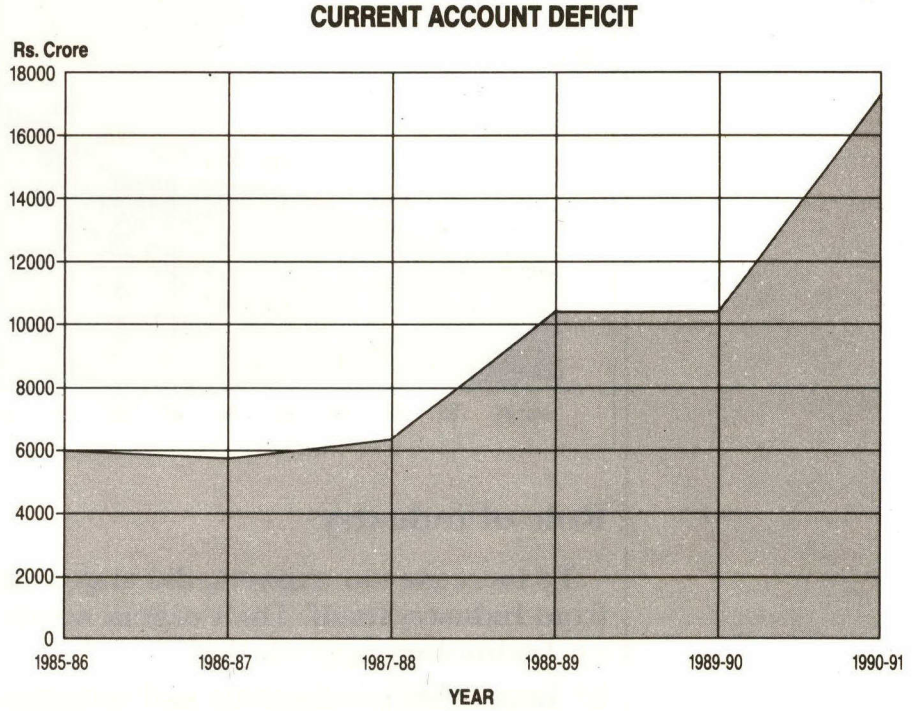
Export of agricultural products is a major earner of foreign exchange. The need for food will continue to grow with the growth of human population. In India, we have had considerable success in meeting our own needs for food. Somehow, our efforts for increasing agricultural output seem to have slowed down as we seem to be content with 180 million tonnes of grain output and buffer stock of 20 to 25 million tonnes.

With the potential in India, we should think in terms of increasing our foodgrain output to around 350 million tonnes and all surplus to our needs could be a major export item for us, thus earning valuable foreign exchange. **According to estimates available, India has the potential to generate export of agriculture, agriculture processed goods and horticultural products to the tune of Rs. 20,000 crores in the near future.** Our agricultural land reform policies need to be adequately amended to achieve this objective. Research effort in crop and soil science, particularly under dryland conditions must be intensified.

India has vast tracts of waste and fallow land. This should be given under long lease, say for fifty years, to the organised sector which will undertake to cultivate such crops as would either result in import substitution (palm oil) or enhance export of specified agricultural products. This cannot be done by the individual farmer and needs to be done in the organised sector as large amounts of money have to be spent and new technology has to be brought in to first convert the waste and fallow land into land fit for agricultural purposes. Thereafter, massive investment has to take place in nurturing the crop, nursing it through the gestation period and arranging for distribution and marketing on an international scale.

Exports

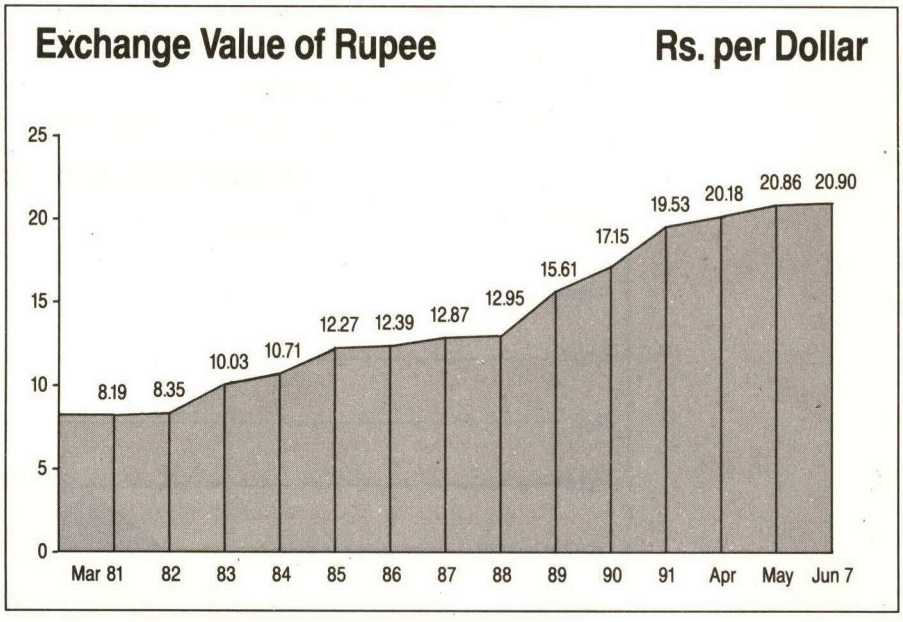
Increasing our exports by quantum jumps is a major national need and priority. The need to export more is not because exporting is fashionable, but ultimately it is the only way India can earn foreign exchange so vitally required for its imports and internal development. We cannot continue to borrow from the International Institutions or commercial banks. We must plan to earn our own foreign exchange on a sustained basis. With its historical and cultural points of interest, India can develop tourism as a major foreign exchange earner. Development of adequate infrastructure, hotels and charter services will greatly help in this endeavour. Currently India has a mere one per cent share in world tourist income. This can be increased manifold.



While we believe that India has the potential of becoming a

major exporting nation, it cannot achieve this objective merely through additional export processing zones. India will become a major global player only when the major manufacturing units in the country through their own volition make an effort and succeed in exporting part of their production either in the form of components or raw material for some other Indian exporters, or their own finished goods.

Export Processing Zones will help, but these will only be incremental in the total need.



Role of Industry

To increase our exports, the major thrust has to come from Industry itself. Their urgent needs are:-

a) **Technology upgradation**

b) **Improving productivity and reducing costs.**

c) **A totally new commitment to quality.**

d) **A totally new commitment to commercial terms such as delivery, after-sales service, etc. as acceptable by the international marketplace.**

e) **Establishing market linkage by those who are large enough to do so on a global basis on their own and for others through current established third party linkages, to make the marketing efforts cost effective.**

f) **Developing tourism as a major export sector.**

g) **A commitment by the top management of the top 2000 companies of our country that within three years every effort will be made to export minimum 25% of their production.**

Role of the Government

India is considered to be a high-cost economy because prices and distribution of many basic inputs for industry are administratively controlled. This includes petroleum and chemical products, energy, coal, steel, non-ferrous metals and money. Unless these are progressively brought down to international levels, it will be difficult for Indian products to be competitive as these are major inputs for many industries.

Bureaucratic controls and rules and regulations governing export are cumbersome. They are really designed to deter a small minority of defaulters instead of facilitating the vast majority of the honest exporters. Our rules and regulations and controls need a sea change with minimum of controls. The defaulters or law-breakers should be severely dealt with.

Port operations and infrastructure performance need to be vastly improved.

The Commercial Sections of our overseas Missions should be strengthened to promote Indian goods and services besides providing timely market intelligence service. **These sections in selected areas should be manned on a contract basis by people who have vast experience of the Indian industry**

and foreign trade rather than foreign service officers. This is a practice followed by many countries.

International marketing organisations with global linkages should be given easy access for establishment of offices in India, which would enable them to pick up goods from the Indian producer for the international market. Similarly, **Indian enterprises with good track record in export performance should be permitted to establish international marketing offices abroad without the cumbersome bureaucratic control (FERA) that exists to-day.**

Taxation and Monetary Policy

Taxation

India has one of the most complex tax structures in the world and the rates of taxation in some areas continue to be among the highest in the world. The following reform is suggested:-

a) **The tax structure should be simplified**

b) **The tax net should be widened which would enable rate of taxation to come down to a maximum of 35 %.**

c) **Indirect taxation should be rationalised.**

d) **Tax evasion should be severely dealt with.**

e) **While the world is moving towards a borderless village, after 43 years of Independence, there is no free trade between States in our own country. All barriers for entry of goods from one State to another in the form of Octroi, entry tax, etc. should be abolished forthwith. The revenue loss could be made up through addition to existing taxes such as Sales Tax, etc.**

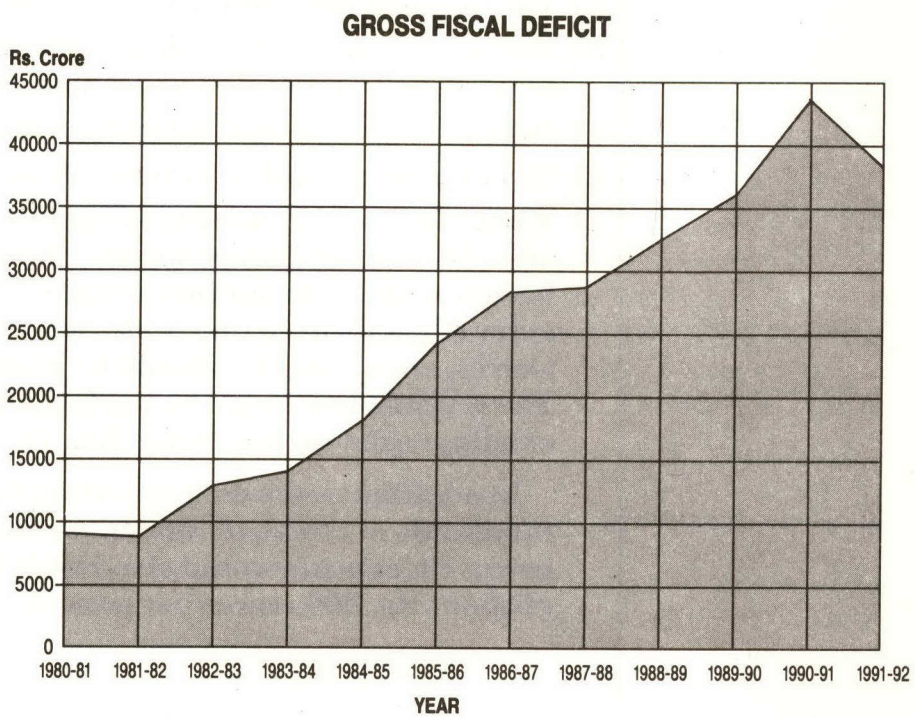
In addition to the delays costing the nation thousands of crores of rupees, we believe, removal of octroi checkposts would also result in saving of fuel bill of about Rs. 900 crores per annum.

Budget

Budget deficit has to be drastically curtailed in the greater interest of domestic economic recovery and reduction in BOP crisis. The following measures are suggested:-

1) **Drastic reduction in non-plan government spending including freeze in all new and replacement employment.**

2) **Disinvestment in PSUs so that annual budgetary support is no longer required.**
3) **Progressive elimination of subsidies such as farm subsidy, electricity subsidy, etc.**
4) **Bold decision to close down non-viable PSUs with appropriate compensation to their employees.**
5) **Energise export through proper environment.**



Gross Fiscal deficit is the difference between aggregate revenue receipts and disbursements.
Source: GOI Budget documents and RBI Annual Reports.

Monetary Policies

Because of the high rate of taxes and controls in our country, it is a fact that a very strong parallel economy exists in India. This is both in rupee and foreign exchange terms.

Pragmatic and remunerative schemes should be devised immediately to bring in as much of this into the legitimate economy. Many schemes have been formulated. These need to be evaluated and the Government should institute such schemes as they consider appropriate which will yield the desired results.

Industrial Relations

Since our Independence, we have enacted many legislations to protect the labour which is obviously necessary in an environment of large scale unemployment and to avoid their exploitation. Through passage of time, in many instances, the situation has turned around. **To-day, in several cases, it is the management and society at large that is being exploited by the Union leaders (not the workers). This is a very unhealthy phenomenon which has to be totally curbed.**

Ideally, all unions must be progressively delinked from political parties, Workers' rights must be maintained. However, earnings must be linked to productivity.

A clear legislation on exit policy of 5 to 10 % of the workforce per annum should be introduced which would enable over-manned, high-cost, inefficient units to gradually become efficient and internationally competitive. In an arena of free market and competitive economy where there is freedom to entry, there has to be some policy for freedom of exit, otherwise the system will fail.

To create a sense of belonging, **ownership of an enterprise by all its employees should be encouraged and to achieve this, special assistance should be given by the management of the enterprise.**

Role of the Government

It is our belief that the primary role of any elected Government in a democracy such as ours is to look after all defence matters, relationships with foreign countries, internal law and order, development of infrastructure and such minimum regulatory controls which will facilitate economic activity rather than hamper its growth.

We believe, Government should be totally out of the business of business. This should be left entirely to the people of India. Production of defence items should gradually be shifted to the private sector.

Many of the legislations, rules and regulations of our country in all walks of life though designed to catch the erring few, in effect impede rather than facilitate the progress of the vast majority of the honest. **This basic philosophy must change where laws will be basically to facilitate progress, otherwise the vast majority suffers for the erring few.**

All efforts must be made to curb Government expenditure. There should be a total freeze on any new or replacement employment. With the new role of the Government in a free market economy of facilitating rather than policing, it should be its endeavour to drastically reduce its workforce over the next ten years.

Conclusions

ASSOCHAM firmly believes that India could in a decade or so easily emerge as a major industrial nation of the world. The basic ingredients of men, material, enterprise and innovativeness already exist in large measure with our population. Indians who have had an opportunity to operate in a free market environment, invariably, throughout the world, have excelled themselves whether it is in the field of commerce, industry or professional pursuits.

It is only in India the same Indian is struggling for a place under the Sun. ASSOCHAM believes that it is the controls, the plethora of regulations and the basic mistrust of each other which has hampered our economic development.

ASSOCHAM believes that if the New Economic Agenda as given here is followed, in a very short time the following transformation will occur:-

1) **A quantum jump in our export efforts with continued high growth rate.**
2) **A quantum jump in our per capita GNP.**
3) **Real industrial R&D by all major undertakings to keep abreast. To-day, barring a few, it is only lip service.**
4) **Massive technology upgradation by every major industry in the country, and a new awareness on quality which will make us internationally more competitive.**
5) **Higher productivity.**
6) **New employment opportunities.**
7) **Our current and future BOP crises will be totally eliminated and India will gradually develop a trade surplus.**

8) **The growing budgetary deficit will gradually reduce, because with higher production and wider tax net, the income of the Government will increase.**

9) **Improvement in the standard of living and in the quality of life of the average Indian.**

10) **India will eventually emerge as a major economic global player.**

11) **Finally, we will be rapidly moving towards meeting the aspirations of the people of India.**

12) **The high economic credibility of India will soon be regained.**

Appendices

Economic Indicators for some Selected Countries

Sl. No.	Country	GNP Per Capita		Population		Merchandise Exports (a)	
		US $ (a)	Growth Rate 1965-88 % p.a	Million	Growth Rate (c)	Per Cap. US $	as % of GNP
1.	Australia	16050	1.7	17	1.2	2256	14.1
2.	Bangladesh	179	0.4	116	2.7	13	7.2
3.	Brazil	2000	3.6	153	1.9	221	11.0
4.	Canada	20195	2.7	27	0.8	4614	22.8
5.	China	325	5.4	1150	1.4	54	16.6
6.	Egypt	753	3.6	55	2.2	56	7.5
7.	France	20850	2.5	57	0.4	3021	14.5
8.	Germany	20510	2.5(b)	79	0.0	4427	21.6
9.	Hongkong	12069	6.3	6	0.9	14386	119.2
10.	**India**	**350**	**1.8**	**843**	**2.1**	**23**	**6.5**
11.	Indonesia	545	4.3	187	1.8	143	26.3
12.	Italy	15055	3.0	58	0.0	2436	16.2
13.	Japan	23570	4.3	124	0.4	2335	9.9
14.	Malaysia	2305	4.0	18	2.3	1590	69.0
15.	Mexico	1860	2.3	83	2.0	271	14.6
16.	Pakistan	365	2.5	115	2.9	52	14.3
17.	Philippines	727	1.6	63	2.3	131	18.0
18.	Saudi Arabia	5838	3.8	15	3.8	1500	25.7
19.	Singapore	11575	7.2	3	1.1	17400	150.3
20.	South Korea	5569	6.8	43	0.9	1508	27.1
21.	Sri Lanka	430	3.0	17	1.3	103	24.1
22.	Taiwan	7990	n.a.	21	1.2	3243	40.6
23.	Thailand	1418	4.0	55	1.4	372	26.2
24.	Turkey	1280	2.6	58	1.9	202	15.8
25.	U.K.	17506	1.8	57	0.2	3172	18.1
26.	U.S.A.	21653	1.6	252	0.7	1427	6.6

(a) Relates to latest available data.
(b) Relates to Federal Republic of Germany.
(c) Percentage increase over one year.

Social Indicators for Selected Countries

Sl. No.	Country	Infant Mortality (a)	Literacy in % (b)	People per Physician (c)	Average Calorie Supply
1.	Australia	7	99.5	438	3326
2.	Bangladesh	108	33.1	6219	1927
3.	Brazil	57	79.3	684	2656
4.	Canada	7	95.6	491	3462
5.	China	27	72.6	724	2630
6.	Egypt	57	44.9	616	3342
7.	France	7	98.8	399	3336
8.	Germany	8	100.0	378	3528(d)
9.	Hongkong	6	88.1	1024	2859
10.	**India**	**88**	**40.8**	**2522**	**2238**
11.	Indonesia	65	74.1	8010	2579
12.	Italy	9	97.0	234	3523
13.	Japan	5	100.0	635	2864
14.	Malaysia	20	72.6	2986	2730
15.	Mexico	36	90.3	1102	3132
16.	Pakistan	98	25.6	2086	2315
17.	Philippines	40	88.7	1090	2372
18.	Saudi Arabia	58	57.2	950	3004
19.	Singapore	8	90.1	888	2840
20.	South Korea	21	92.7	1216	2907
21.	Sri Lanka	24	86.1	7253	2400
22.	Taiwan	5	91.2	1010	n.a.
23.	Thailand	24	88.8	5564	2331
24.	Turkey	62	65.6	1361	3229
25.	U.K.	8	100.0	611	3256
26.	U.S.A.	8	95.5	413	3645

Notes:

a) Relates to recorded death rates per 1000 live births.

b) Relates to population over 15 years.

c) Physicians who meet World Health Organisation standards.

d) Relates to Federal Republic of Germany.

Per Capita Production of Selected Commodities
Index with India = 100

Sl. No.	Country	Coal + Lignite	Cement	Crude Steel	Electricity	Gasolene	Kerosene and Jet Fuel
1.	Australia	4469	747	2489	2914	20382	2516
2.	Bangladesh	n.a.	6	n.a.	24	15	37
3.	Brazil	17	327	1106	516	1773	315
4.	Canada	1030	818	3687	6468	28720	3386
5.	China	349	331	357	175	488	54
6.	Egypt	n.a.	354	n.a.	n.a.	1906	813
7.	France	94	843	2147	2157	9405	1270
8.	Germany	2381	943	3881	2355	8942	387
9.	Hongkong	n.a.	675	n.a.	1389	n.a.	n.a.
10.	**India**	**100**	**100**	**100**	**100**	**100**	**100**
11.	Indonesia	10	160	n.a.	n.a.	609	542
12.	Italy	10	1256	2733	1214	7701	1008
13.	Japan	32	1187	5473	2028	6098	2572
14.	Malaysia	n.a.	n.a.	n.a.	415	2207	810
15.	Mexico	n.a.	513	547	469	5295	568
16.	Pakistan	9	116	n.a.	107	234	121
17.	Philippines	9	109	n.a.	143	620	224
18.	Saudi Arabia	n.a.	n.a.	n.a.	n.a.	19439	4806
19.	Singapore	n.a.	1157	n.a.	1735	n.a.	n.a.
20.	South Korea	172	1293	3492	739	1084	510
21.	Sri Lanka	n.a.	65	n.a.	55	270	235
22.	Thailand	62	492	n.a.	223	n.a.	n.a.
23.	Turkey	268	764	858	278	1234	242
24.	U.K.	672	525	2042	1802	13093	2494
25.	U.S.A.	1336	525	2232	3992	34812	4355

Per Capita Consumption of Selected Commodities
Index with India = 100

Sl. No.	Country	Overall Energy Consumption per capita	Motor Cars per person	Tele-phones per person	Fertilizer per arable area
1.	Australia	2444	n.a.	10000	55
2.	Bangladesh	24	14	29	149
3.	Brazil	385	3200	1636	94
4.	Canada	4589	23273	13846	94
5.	China	275	41	134	457
6.	Egypt	288	n.a.	529	678
7.	France	1755	20480	12000	578
8.	Germany (a)	2095	24381	10000	814
9.	Hongkong	732	1600	8571	n.a.
10.	**India**	**100**	**100**	**100**	**100**
11.	Indonesia	109	264	93	207
12.	Italy	1236	21333	9000	368
13.	Japan	1567	12800	10000	837
14.	Malaysia	372	3580	1636	309
15.	Mexico	618	3200	1800	146
16.	Pakistan	100	212	113	160
17.	Philippines	116	298	269	118
18.	Saudi Arabia	1468	n.a.	2118	711
19.	Singapore	2116	4830	7826	2660
20.	South Korea	718	1422	5455	758
21.	Sri Lanka	77	470	145	212
22.	Thailand	157	753	340	63
23.	Turkey	390	n.a.	1636	123
24.	U.K.	1780	18963	9474	688
25.	U.S.A.	3628	28444	13846	181

(a) Relates to Federal Republic of Germany, except for No. of Telephones per person.

India

8/23
9:45 am

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

TO:	DATE:
Mr. B. Conable (E-1227)	8/22/91

SUBJECT:

Document From: P. Riddleberger
To: bbc
Dated: 8/22/91 Reference No.: EXC910822001

Topic: PRESS INTERVIEW: By Seema Sirohi of the Telegraph (Calcutta, India) on FRIDAY, AUG. 23 @ 9:45 am.

ACTION INSTRUCTIONS:	DUE DATE:

_____ HANDLE
_____ REVIEW AND RECOMMEND
_____ FOR YOUR INFORMATION
_____ DISCUSS WITH _____
_____ AS WE DISCUSSED
_____ PREPARE RESPONSE FOR _____ SIGNATURE
_____ FOR YOUR FILES
_____ RETURN TO _____
_____ OTHER: _____

Remarks: cc: Messrs. Sandstrom, Khanna
JV (original)

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: August 22, 1991

TO: Mr. Barber B. Conable, President
(Through Mr. S. Lateef, Acting Director, EXT)

FROM: Peter Riddleberger, EXTIPA

EXTENSION: 31786

SUBJECT: **Press Interview**

1. You are scheduled to be interviewed by Ms. Seema Sirohi of the Telegraph (Calcutta, India, daily circulation 500,000) at 9:45 a.m. on Friday, August 23.

2. You can expect her questions to include the following:

a. What have you learned about development? How has it changed your thinking about international relations?

b. Are you satisfied that the role of women in development is adequately appreciated, both by Bank staff and outsiders?

c. How do you view large military budgets of developing countries? Do they divert resources away from genuine economic development?

d. India. Has India invested World Bank funds wisely? (Ms. Sirohi attended a press conference on India given by Attila Karaosmanoglu on August 21.)

3. I will come to your office at 9:30 a.m. to brief you further.

Summary of Points Noted in August 21, 1991 Press Conference
Conducted by ATTILA KARAOSMANOGLU, Vice President, Asia Region

Mr. Karaosmanoglu related that the World Bank feels that the new government in India is implementing policies that will restore macroeconomic balance to the economy. Moreover, the government has indicated its commitment to making those policies in close collaboration with the members of Parliament. This democratic process augurs well for the sustainability and soundness of reforms. The World Bank is currently undertaking a review of the impact of the new government's reforms on the economy in order to assess the feasibility of a Structural Adjustment Operation in India.

The India Aid Consortium will meet on September 19 & 20, 1991. Although the late date means that many donor nations have already discussed and budgeted their aid, Mr. Karaosmanoglu indicated that he hopes that donor pledges will at least equal the $6.1 billion pledged last year and it is hoped that pledges will increase by 10% or more for FY93. He expressed the desire that the Bank will be able to increase lending to the previous peak level of two years ago, which was $3 billion.

A quick disbursing Structural Adjustment Operation will help alleviate the Balance of Payments difficulty which currently confronts India. Mr. Karaosmanoglu also indicated the need for private commercial banks to refrain from decreasing their exposure and return to a pre-crisis mode of commitments including short-term credits.

BILATERAL DONORS

There is a profound willingness on the part of the members of the India Aid Consortium to help India get out of difficulty. This may require some flexibility, including a change in the composition of aid among bilateral donors to quick disbursing mechanisms. Last year (FY91), over one-third ($2.4 billion) of the $6.1 billion in aid earmarked for India came from bilateral donors.

PERMANENCE OF REFORM

The Minister of Finance indicated that he will do everything possible to institute continued reforms but only after close consultation with members of

Parliament. Dialogue between political groups results in policies which will endure despite political and personnel changes.

The lively dialogue going on in India between different political groups has occasionally resulted in a withdrawal of a new policy. However, the Bank makes decisions based on the totality of the picture. The government of India has taken a course of action which includes a consistent set of decisions and actions in order to restore macroeconomic balance.

TRADE POLICY

Changes in trade policy for India confront a thorny dilemma. On the one hand, to restore the balance of payments it is necessary to liberalize trade. On the other hand, revenue has traditionally been derived from tariffs. To liberalize trade while avoiding an increase in the domestic financial deficit, the Government must come up with new sources of revenue.

FINANCIAL SECTOR ADJUSTMENT

The financial sector in India needs to (1) improve prudential standards in the financial sector, (2) provide freer entry to the private sector and (3) ensure active competition within the sector. The government has just appointed a committee to consider what actions should be taken. Policies to liberalize the financial sector may include allowing cooperative or private sector banks freer entry or equalizing the footing of public and private banks within the sector

GENERAL ECONOMIC CONDITIONS

India is fortunate in that although it is initiating reforms at a comparatively late date, it has started to put them into place at an relatively early stage economically. The inflation rate is relatively low and external obligations are still being honored. This puts India in a comparatively advantageous economic position relative to other countries who began their reforms at an earlier date but who also often had higher inflation rates and repayment difficulties.

INDIA X

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

August 19, 1991

Dear Mr. Minister:

I have learned of your appointment as Governor for India on the Boards of Governors of The World Bank Group. I realize this is incident to your responsibilities in your own Government, but I hope you will be in a position to actively participate in the affairs of the Bank Group, as well.

The Executive Directors, Officers and Staff of The World Bank Group believe very strongly in its development mission and in the battle against poverty. We look forward to working with you to make the Bank Group even more effective during the coming years. Congratulations on your appointment and thank you for your willingness to take on this additional responsibility.

I look forward to meeting you in the near future, and send my best personal wishes.

Sincerely,

(Signed) Barber B. Conable

The Honourable
Manmohan Singh
Minister of Finance
Ministry of Finance
North Block, Central Secretariat
New Delhi 110 001
India

cc: Mr. Baijal
Mr. Vergin
Mr. Kassum

ETSanidad:se

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Country Files: India - Correspondence 01	1779730

Document Date	Document Type	
30 July, 1991	Memorandum	

Correspondents / Participants

From: P.V. Bhide EDS12
To: Ms. Estela T. Sanidad, SECGE

Subject / Title

India's Goverrnor in the Bank

Exception(s)

Additional Comments

Declassification review of this record may be initiated upon request.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Ann May	April 21, 2023

India

B. side : * Power sector → financial covenants.
pbr * education → part. primary
* size of program : → ES better.
* disbursement performance → poor.
* macro : deficit & BOP.
* Liberalization & deregulation
around '90 : sec. Env. Protection

IFC involvement ↑.

India's side : 1) IDA size & %
2) IDA savings & reflows.
3) macroeco. issues. → eg. coal price ↑
and PFP.
4) maps. Quraishi's.

Both sides : poverty

c.f. : continuity of actors

India

The President of the World Bank and the Managing Director of the International Monetary Fund issued the following statement today:

Mr. Rajiv Gandhi's death is a tragic loss for India and for the international community at large. The Bank and the Fund have long been associated with India's economic development. This will continue.

During the recent Interim and Development Committee meetings in Washington in April, an informal meeting of the major donors of the India Consortium was held to discuss India's economic and financial situation. The Indian authorities said then that they were preparing, in consultation with the Fund and the Bank, a program of corrective policies aimed at strengthening their economy.

We fully expect the Indian authorities to complete soon the preparation of a comprehensive stabilization and adjustment program, which the Indian Government formed after the election can adopt. Such a program would provide the basis for support by the Bank, the Fund and other members of the India Consortium, which remains strongly committed to India's economic development.

Mr. Sandstrom

India

① ~~IFK~~

② ~~BBC~~

The World Bank

1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.

With the compliments of

Koji Kashiwaya
Vice President, Cofinancing and
Finarıcial Advisory Services

You may wish to show this to Mr. Conable.

Office Memorandum

DECLASSIFIED
JAN 18 2011
WBG ARCHIVES

DATE: June 4, 1991 URGENT AND CONFIDENTIAL

TO: Mr. Moeen A. Qureshi, Senior Vice President, Operations

Mr. Attila Karaosmanoglu, Vice President, AS1

FROM: Koji Kashiwaya, Vice President, CFS

EXT.: 80809

SUBJECT: **Emergency Assistance to India**

1. The Ministry of Finance, Japan (MOF) has conveyed to me its grave concerns over the possible financial crunch in India. If India fails to service its debt, official and or private, the creditstanding of India will further deteriorate and trigger commercial banks' withdrawal of their deposits from Indian banks and rejection of rollover of short-term financing. This may cause greater difficulty for India to service its debt to MDBs including the Bank, which might affect the creditstanding of the Bank itself and the perception of the market towards LDC financing in general.

2. In view of this, the Japanese Government (GOJ) decided to disburse $150 million cofinancing with ADB at the end of May, followed by an additional $150 million in lending to SIDBI. MOF has taken the following position that GOJ's further contributions (including Central Banks' short-term lending) should be coincident with India's agreement with the IMF and the Bank.

3. In this context, on June 3, MOF (Mr. Utsumi) pressed Mr. Camdessus to consider the following:

(1) Unless the Fund takes extraordinary action like the Compensatory and Contingency Financing Facility (CCFF), Japan and other donors will not be able to continue further assistance to India. MOF urged the IMF to go ahead with CCFF.

(2) Without assistance of external resources by the end of June, India may face the financial crunch. (Mr. Camdessus apparently repeated again the necessity of policy reform, and said that not only the IMF but also the Bank could bear separately some of the burden.)

4. When GOJ contacted the U.S. Treasury, Mr. Utsumi received the impression that Mr. Mulford had not been well-informed of the financial crunch in India. Mr. Dallara had been handling this and told Mr. Utsumi that the financial crunch should be basically handled by the IMF rather than the Bank. Mr. Utsumi tried to persuade Mr. Dallara that the financial position of India is very fragile, and that IFIs as well as bilateral donors should take concerted and joint action. He advised Mr. Dallara to further negotiate with the Bank in order to use some extraordinary facilities.

5. In my view, although IFIs should not easily relax their traditional financial discipline and adamant insistence on policy reform, we should consider the cost of the financial crunch to be borne by ourselves, the international capital markets, and eventually the debtors themselves. We should take into account the implications of the Indian financial crunch on the general behavior of the international markets towards LDC

financing, and the current financial systems, including the role of IFIs, in the case of financial difficulties of major debtors. We sometimes have to use brinkmanship in our negotiations with debtors on policy reforms. But if the debtor cannot commit anything during an election period or during political turmoil, but is strongly motivated to recover from difficulties, we should consider the political limits and be practical in assessing the real cost of the financial crunch without our assistance. I believe the Bank can make a strong case to render emergency assistance.

cc: Messrs. Vergin, Niehuss, Brigish

KKashiwaya:jed

4/5
4:30

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

TO:	DATE:
Mr. B. Conable (E-1227)	4/04/91

SUBJECT:

Document From: Mr. Vergin (MAQ)
To: bbc
Dated: 4/04/91 Reference No.: EXC910404032

Topic: Briefing: visit of the Governor of the Reserve Bank of India, Mr. Venkitaramanan on Friday, April 5, 1991 at 4:30 pm

ACTION INSTRUCTIONS:	DUE DATE:

_____ HANDLE
_____ REVIEW AND RECOMMEND
__XXX__ FOR YOUR INFORMATION
_____ DISCUSS WITH _____
_____ AS WE DISCUSSED
_____ PREPARE RESPONSE FOR _____ SIGNATURE
_____ FOR YOUR FILES
_____ RETURN TO _____
_____ OTHER: _____

Remarks: cc: SS/JWS
_____
_____

DECLASSIFIED
JAN 18 2011
WBG ARCHIVES

STRICTLY CONFIDENTIAL

Visit of the Governor of the Reserve Bank of India,
Mr. Venkitaramanan - Briefing Note

Friday, April 5, 1991, 4:30 p.m.

The Governor is coming from New York where he has had two days of discussions with the Federal Reserve Bank and with Money Center Banks about the ongoing withdrawal of India's short-term credit lines and the management of India's liquidity crisis. With RBI having taken the lead in crisis management, the Governor is naturally preoccupied with the short-term actions needed to prevent a default while a new Government is being elected to stabilize the situation. However, among the members of the GOI's economic management team, Mr. Venkitaramanan is also the one most seized with the need for a bold medium-term program of stabilization and structural reform.

The Government is attempting to manage the balance of payment crisis primarily by sharply reducing imports. It is also trying to stabilize its $4 billion short-term debt which recently has been "called" at the rate of $250-300 million per month. Simultaneously, it is approaching friendly donor governments for fast disbursing aid. So far without any results.

The Fund/Bank mission currently in the field reports that there is an understandable presumption on the side of the Government that the key to managing the Indian economy in FY91/92 lies in external liquidity management during the next three to six months. Regrettably however, very little effort is being directed toward formulating a more comprehensive policy framework on which the new Government could act with all due haste. The Government has made it clear and the mission confirms the assessment that there is an urgent need for fast-disbursing assistance: the net financing requirement for April/May/June is likely to be in the range of $1.5-2.0 billion on the assumption of moderate, continued withdrawal of short-term funding from commercial banks and convertible deposits of non-resident Indians. The financing gap for July/August/September is estimated to be of a similar magnitude. The financing for India's entire FY91/92 is estimated to be in the order of $4-5 billion even in a forceful stabilization scenario.

We suggest that you pass the following messages:

- Only concerted action by friendly donors can provide the resources needed by India during the next three months.

- Clear evidence of program preparation would allow Bank and Fund to reassure friendly donors that the needed short-term relief can and most likely will be used in the context of forceful stabilization and reform actions as soon as the new Government has taken office.

- Clear evidence of program preparation would also allow Bank, Fund and friendly donor governments to reassure the credit markets and make the point that nothing is gained by withdrawing credit from a Government poised for decisive action.

- Under any constructive adjustment scenario, India will confront medium-term external financing needs which can only be met by concerted action of the multilateral lending institutions and the members of the India consortium with heavy reliance on fast-disbursing, policy-based lending instruments. This requires that GOI adopts and implements a bold program of stabilization and structural reform which also gives explicit attention to the social dimension of adjustment.

- The Bank stands ready to assist India in this difficult period: as an advisor (through high-quality, timely and relevant ESW and intensified policy dialogue), as a lender (through lending vehicles that improve the utility and reliability of the Bank's resource transfers to India and provide significant support for structural reforms), and as an aid coordinator.

ASADR
4/4/91

BBC

The World Bank
Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

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JAN 18 2011
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PERSONAL

May 31, 1991

Mr. Conable

Barber -

India

As you know, the situation in India continues to be very uncertain, but the current speculation is that the elections will be completed in an orderly fashion, and a Government will be formed before the end of June. Of course, alternative scenarios are possible, particularly, if the Congress Party does less well than expected. But, even if this scenario materializes, negotiations with the IMF could start only in July and, if a decent reform program is to be agreed, these would take some time. We, therefore, face two problems:

(a) How to respond to the current external finance crisis, and;

(b) What our position should be on the longer-term.

Foreign exchange reserves are believed to be down to less than 30 days requirements, and no funds are left to deal with any emergency. We are being pressed by the Indians to consider contribution to a short-term program of support as well as by the Japanese, who are prepared to make additional financing available if others will contribute. And, if I understand yesterday's comment at lunch correctly, the IMF will look to us for support if they proceed with a Compensatory Financing Facility.

Mr. Utzumi will be in Washington next week, and he has been pressing the case for Bank participation in a short-term program. I do not know whether he will see you, but he certainly will press these views with the U.S. and others. It is not that Japan has developed a sudden affinity for India but, as they make clear in private conversation, Japanese commercial banks have the largest exposure in India.

I would hope we would not be swayed by that argument, since the Bank has not in the past been willing to provide short-term funding to avoid servicing of commercial debt. Given the need for major structural changes in India, it would be a mistake to proceed on this line of argument.

So far, the Japanese commitment of $300 million has only been supported by the U.K., which is arranging to draw forward disbursements out of their pipeline of about $50 million. In my view, the IMF is the agency responsible for providing short-term balance-of-payment support, if warranted. Early action on their part, combined with more credible bilateral effort, might suffice to bridge India to the end of August. We should also be clear that, under normal circumstances, access to the CFF requires little by way of conditionality.

Our basic position ought to be that we cannot participate in the financing of the short-term balance-of-payment problem. Although circumstances in India are extraordinary, the only justification for providing any quick-disbursing assistance from the Bank, as a component of an already prepared project, is if we could agree on a significant liberalization, even if that is limited to a single important area. For instance, liberalization of all deposits and lending rates for non-agricultural borrowers would be such an important step. This could be considered as a down-payment on a more comprehensive program and, thus, justify a modest quick-disbursing component.

You should also be aware that we proposed to the Country Department an increase in the deposits of project revolving funds. We had identified some $100 million, which could be justified within present guidelines, but, using what were narrow project grounds, this was reduced by the CD to $40 million. If we wanted to, we could also temporarily extend the 4-month disbursement equivalent to 6, in which case a total of $150-175 million could be made available. But such an approach could not be public, and this would not help with the Japanese package. But it would help India.

For the longer-term, it is absolutely fundamental that large-scale lending, including adjustment loans, be based firmly on a comprehensive and consistent domestic reform package. India is already close to the upper limit of our concentration guideline. The scale of lending under consideration would raise that to 12-13% without assuming any change in portfolio behavior. But, if the reform program permitted accelerated disbursements out of the project pipeline, our exposure in India would rise to over 13%.

This level of exposure will, inevitably, attract a good deal of attention, which is not to say that that should inhibit our lending if the structural program really holds our promise for a substantially increased growth in the Indian economy and its exports, and an environment which could attract external capital, particularly equity.

Given these circumstances, I think we need to be cautious in responding to the immediate emergency situation, while being clear about the scope of adjustment that must be undertaken quickly by the new Government. Not only am I

concerned about an expanded exposure to India in the absence of a solid program for reform, but also that an effort by Management to present loans of this magnitude in the absence of such a program will eventually lead to strong Board resistance and fuel the Board's interests in participating with Management in this decision-making process.

Ernest Stern

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

July 9, 1991

Dr. Manmohan Singh
Finance Minister
Government of India
New Delhi 110 011
India

Dear Dr. Singh:

Thank you for your letter of July 1.

My colleagues and I are most encouraged by the forceful measures already taken by the Indian Government and your commitment to further fundamental reforms. I believe we share the view that these very difficult times have created the opportunity to institute far-reaching changes in India's development strategy that can address not only the immediate fiscal and balance of payments difficulties but also set India on a path of accelerated longer term growth and more rapid attainment of its poverty alleviation objectives.

As I stated in my earlier letter, the World Bank will lend its full support to India for implementing a major program of economic reforms. We are also making every effort to assist in dealing with the pressing liquidity problems your country is facing.

With best wishes,

Sincerely,

(Signed) Barber B. Conable

cc: Mr. J.S. Baijal

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

(1) BBC (2.30 mtg.)

TO:	DATE:
Mr. M. Qureshi (E-1241)	7/01/91

(2) CP (FF)

Nicola checking

SUBJECT:

Document From: Mr. Manmohan Singh
To: bbc
Dated: 7/01/91 Reference No.: EXC910701004

Topic: Finance Minister, India: seeking immdediate support from IMF/WBank devising necessary measures re liquidity problems.

ACTION INSTRUCTIONS: | DUE DATE:

_____ HANDLE
_____ REVIEW AND RECOMMEND
_____ FOR YOUR INFORMATION
_____ DISCUSS WITH _____
_____ AS WE DISCUSSED
__XXX__ PREPARE RESPONSE FOR _BBC's SIGNATURE 7/08/91
_____ FOR YOUR FILES
_____ RETURN TO _____
_____ OTHER: _____

due 7/10

Remarks: NOTE: letter was hand-delivered by ED's office 7/1/91. Mr. Baijal requested an appt. to see BBC re this letter. The meeting is scheduled for 2:30 this afternoon. (CP)

URGENT

सत्यमेव जयते

वित्त मंत्री
भारत
नई दिल्ली-110011
FINANCE MINISTER
INDIA
NEW DELHI-110011

1st July, 1991

Dear Mr. Conable,

I am most grateful to you for your message of congratulations on my appointment as the Finance Minister of India. Our country is passing through a very difficult phase but I am firmly convinced that we are capable of overcoming the present difficulties.

Our Prime Minister has in his opening statement to the nation, mentioned about the firm resolve of his Government to adopt determined measures to improve our balance of payment situation, correct fiscal imbalances and to undertake meaningful structural reforms. Discussions are already underway with the International Monetary Fund regarding a credible stabilisation programme and we are confident that we can work out such a programme acceptable to the International Monetary Fund.

The structural reforms that we contemplate include reforms in the area of industrial licensing policies as well as policies relating to foreign direct investment. Prime Minister has also mentioned our Government's commitment to undertake necessary steps including trade policy reforms so as to make India an internationally competitive economy which can take advantage of the opportunities of the new global economy. He has also reiterated our Government's resolve to remove all the cobwebs which come in the way of full utilisation of the immense creative potential of India's entrepreneurs. He has also mentioned that we will not tolerate waste, inefficiency and indifference to quality in the public sector or any other sector. I hope to outline the overall thinking of the Government in my Budget Speech later this month.

While we are committed to these reforms, it will take time to work out the details. We are discussing with the staff of the International Monetary Fund and the World Bank for devising necessary measures. In the meanwhile, we have urgent liquidity problems and we need effective immediate support of the International Monetary Fund and the World Bank

....2

सत्यमेव जयते

वित्त मंत्री
भारत
नई दिल्ली-110011
FINANCE MINISTER
INDIA
NEW DELHI-110011

to deal with this liquidity problem. In particular, we need your help to ensure that the commercial banks do not create any problems for us during the next week and two weeks thereafter.

I would be most grateful if in cooperation with the International Monetary Fund and the donor community, you would take effective action to help us in dealing with the pressing liquidity problems.

I am confident that when I present my Budget on 24th July, 1991 I will be able to convince the world public opinion that India has an effective strategy and a credible programme of growth oriented adjustment and an adjustment package with a human face, a package which will bring credit both to our friends abroad and to the people of India.

With warmest regards,

Yours sincerely,

Manmohan Singh
(MANMOHAN SINGH)

Mr. Barber B. Conable,
President,
World Bank,
WASHINGTON.

The World Bank
Washington, D.C. 20433
U.S.A.

MOEEN A. QURESHI
Senior Vice President, Operations

June 26, 1991

Mr. Conable

Herewith, for your approval, is a note that I would like to give to Mr. Baijal who leaves tomorrow.

MAQ

The World Bank
Washington, D.C. 20433
U.S.A.

MOEEN A. QURESHI
Senior Vice President, Operations

June 26, 1991

Mr. J. S. Baijal

Mr. Baijal:

Gas Flaring Reduction Project: Addition of a Fast-Disbursing Component

You had asked for a note on the actions that would need to be taken by the Government in order to enable IBRD to provide India with a fast-disbursing component added to the Gas Flaring Reduction Project. I have discussed this matter with Mr. Conable and he would be prepared to recommend to our Board a $150 million addition to the loan provided the following conditions are met:

(a) The Fund decides to go ahead with a further tranche under the CCFF.

(b) GOI accepts and implements the most important initial steps toward stabilization which the Fund is urging the Government to take.

(c) GOI expresses its willingness to open its oil sector to domestic and foreign private investment. As a first step towards that objective, GOI permits its national oil companies to seek the participation of private investors in their operations and, in particular, permits them to enter into joint ventures with international oil companies for the exploration and development of their oil fields.

(d) Finally, we should reach a clear time-bound understanding regarding the Government's detailed formulation of a comprehensive stabilization and structural adjustment program and the formulation and processing of an IBRD-SAL based on this Government program.

In addition, the conditions that would allow us to make the Gas Flaring Reduction Project effective would have to be met. These conditions are:

(a) announcement inviting domestic and foreign oil companies to participate in a fourth round of bidding for offshore and onshore parcels selected by GOI for exploration;

(b) obtaining of the environmental clearances for all components of the Gas Flaring Reduction Project; and

(c) establishing of a body in the Department of Petroleum and Natural Gas which would monitor the implementation of gas supply and utilization plans.

BBC
AK
(FYI)

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION MIGA

Office Memorandum

DATE: June 25, 1991

TO: Mr. Masaki Shiratori, EDS02

FROM: Koji Kashiwaya, Vice President, CFS

EXT.: 80809

SUBJECT: **Cofinancing for India: Gas Flaring Reduction Project**

1. We appreciated your strong support for the abovementioned project at the Board meeting today. As you know, Mr. Qureshi announced to the Board that the Bank is now considering a loan for this project on a quick-disbursing basis. This supplementary loan will also be contingent upon the upcoming IMF CCFF, subject to Board approval, which will be approved by the IMF Board early in July. The amount of this supplementary loan may be in the order of $150 million. We would like to ask your Government to consider the possibility of JExIm's cofinancing for this supplementary loan on a quick-disbursing basis.

2. We also recognize that your Government and JExIm is now favorably considering cofinancing this project, which is vital for its success.

3. On this occasion we would like to express our thanks to your Government for making strenuous efforts to help India with her financial difficulties.

Cleared with and cc: Mr. H. Vergin

bcc: Messrs. Qureshi, Karaosmanoglu, Sandstrom

KKashiwaya:jed

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

June 26, 1991

Dear Mr. Prime Minister,

On behalf of myself and the staff of the World Bank and IFC, I would like to congratulate you on your appointment as Prime Minister. Your first statements in this high office have already given us great hope that under your leadership India will tackle with vigor the pressing issues of stabilization and economic adjustment and will continue to progress in its efforts at eradication of poverty and sustainable development.

We look forward to continuing our close partnership in India's development and, in particular, stand ready to assist your Government's efforts to address the immediate priorities of stabilization and restoration of sustainable growth.

With warmest regards,

Sincerely,

Barber Conable

The Right Honorable P.V. Narisimha Rao
Prime Minister of India
South Block
New Delhi
India

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

June 26, 1991

Dear Dr. Singh:

Thank you for your letter of June 24 and your kind words.

Please accept my congratulations on your appointment as India's Minister of Finance. This would have been a demanding portfolio under the best of circumstances but as you have recognized, it is a particularly onerous responsibility in the current state of the Indian economy.

At the same time, Mr. Minister, you and your colleagues face a major opportunity to introduce fundamental economic reforms, which will help ensure that India's growth and poverty alleviation objectives can be met. For our part, please rest assured that the Bank will lend its full support to India for a comprehensive program of stabilization and structural reforms.

In this context, I would hope that the discussions between the Government and the Bank could be accelerated and brought to an early conclusion under your leadership.

With best wishes,

Sincerely,

(Signed) Barber B. Conable

Dr. Manmohan Singh
Finance Minister
Government of India
New Delhi 110 011
India

cc: Mr. J.S. Baijal, Executive Director

AK
SS

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

TO:	DATE:
Mr. M. Qureshi (E-1241)	6/25/91

SUBJECT:

Document From: Mr. J.S. Baijal
To: bbc
Dated: 6/24/91 Reference No.: EXC910625003

Topic: Conveying a letter from the new Finance Minister of India, Dr. Manmohan Singh.

ACTION INSTRUCTIONS: DUE DATE:

_____ HANDLE
_____ REVIEW AND RECOMMEND
_____ FOR YOUR INFORMATION
_____ DISCUSS WITH _____
_____ AS WE DISCUSSED
__XXX__ PREPARE RESPONSE FOR _BBC's SIGNATURE 7/08/91
_____ FOR YOUR FILES
_____ RETURN TO _____
_____ OTHER: _____

Remarks: cc: Mr. Thahane

वित्त मंत्री
भारत
नई दिल्ली-110011
FINANCE MINISTER
INDIA
NEW DELHI-110011

June 24, 1991

Dear Mr. Conable,

Following the General Election in India, a new Government has assumed office and I have the privilege of being appointed as the Finance Minister. Given the critical state of our economy, the difficulties in the management of our Balance of Payments and the recognised need for basic structural reforms, this is an awesome responsibility. We are determined to adopt all necessary measures to overcome the present difficulties and to ensure that the growth momentum of the economy is kept up. In this task we seek continuing and active support from you and your colleagues in the World Bank.

The Bank has a long and distinguished record of helping India to realize its development objectives. You have personally shown great understanding and sensitivity to the changing needs of our economy. I greatly look forward to a further strengthening of cooperation between the World Bank and our country.

With warmest regards,

Yours sincerely,

Manmohan Singh

(Manmohan Singh)

Mr. Barber B. Conable,
President,
The World Bank,
WASHINGTON. D.C.

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION MIGA

Office Memorandum

DATE: July 18, 1991

TO: Mr. Moeen A. Qureshi, Senior Vice President, Operations

Mr. Attila Karaosmanoglu, Vice President, AS1

FROM: Koji Kashiwaya, Vice President, CFS

EXT.: 80809

SUBJECT: Cofinancing for the Bombay Gas Flaring Reduction Project

1. In response to my request for JExIm's quick-disburing cofinancing with the Bank's $150 supplementary loan for the above project, the Government of Japan (GOJ) has replied as follows.

2. The Bank's quick-disbursing loan which will be discussed at the Board on July 23 is supplementary to the Gas Flaring Reduction project. For a decision to be made by GOJ the original loan must be appraised. JExIm expects to receive a request from India when it sends a mission for its own direct lending in late August or early September. If appraisal results in the green light, it may be possible to sign the loan in October or November 1991. This arrangement has already been agreed with the Government of India (GOI).

3. GOJ believes that it has already taken the following measures to assist India with its current financial crisis.

(1) **OECF**: After the donor meeting on April 28, 1991, OECF disbursed $150 million cofinancing with ADB's energy sector loan, and a $150 million two-step loan to SIDBI, in addition to OECF's $150 million loan to SIDBI last January. Since early this year OECF has committed and disbursed $450 million in quick-disbursing loans. OECF will also send a mission to India to consider additional loans in the very near future.

(2) **Bank of Japan (BOJ)**: At the initiative of the Bank of Japan (strongly encouraged by GOJ), BOJ has decided to extend $400 milion in bridge loans jointly with the Bank of England (BOE). $220 million (BOJ $110 million, BOE $110 million) was already disbursed on July 11, the remaining $180 million will follow if GOI will transfer gold to London.

(3) **JExIm**: JExIm decided to disburse upfront the $100 million two-step untied loan to IDBI. JExIm intends to finish the disbursement by the end of August, if the necessary procedures go well.

(4) **Commercial Banks**: GOJ (MOF) has advised Japanese commercial banks not to withdraw their deposits from India, and to accept the rollover of short-term lending.

4. GOJ will strongly support the Bank's supplementary loan at the Board meeting on July 23, and may suggest that it is doing preparatory work for cofinancing. I do not believe we can push Japan any further. According to Japanese sources in India, the country does not have strong support from other bilateral donors.

cc: Messrs. Conable, Vergin, Shirazi, Niehuss, Chaffey

KKashiwaya:jed

AK
SS
BBC

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION MIGA

Office Memorandum

DATE: July 1, 1991

TO: Mr. M. A. Qureshi, OPNSV

FROM: Koji Kashiwaya, CFSVP

EXT.: 80809

Strictly Confidential

DECLASSIFIED
JAN 18 2011
WBG ARCHIVES

SUBJECT: **INDIA: Current Crisis**

1. After our conversation this afternoon, I checked with the Japanese ED at the IMF on the current situation. IMF is sending a mission to India, and will discuss the issue tomorrow. There seems to be no critical issue after the Indian devaluation. The IMF mission will return to Washington next week, after which a document will be prepared for CCFF. The possibility of obtaining approval, at the earliest, may be during the week of July 22.

2. The Bank of Japan (BOJ) and the Bank of England (BOE) have already agreed to finance India with a total of $400 million. The IMF Managing Director asked them to combine their financing with CCFF. In addition, BOJ has raised the question about the delay of India's response to its detailed questionnaires. If CCFF is available in the week of July 22, would it be possible for the Reserve Bank of India (RBI) to get through the financial difficulty without any money from the Bank, IMF and central banks? If not (unfortunately nobody can get the exact short-term financial position of RBI), we should urgently ask GOI: (a) to persuade the Managing Director to delink central bank loans from CCFF; (b) to ask RBI to contact BOJ and BOE for quick disbursement of their loans. In this context, RBI should respond quickly to questions raised by BOJ.

3. I asked the Region to convey this message to Mr. Vergin, who is now in India.

4. As I told you, the critical issue at the moment is how to accelerate the disbursement of BOJ's and BOE's loans, possibly in conjunction with CCFF. The $150 million quick disbursing portion of Gas Flaring Reduction Program and its cofinancing will follow CCFF, and I already requested MOF to consider this cofnancing favorably.

KK:lgv

cc: Messrs. Conable, Karaosmanoglu, Vergin, Ms. M. Haug

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India

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Brief on India

Economic Update

1. India continues to face a critical external payments position, which has been exacerbated by the delay in completing the elections, caused by the assassination of former Prime Minister Rajiv Gandhi. Faced by the continued withdrawal of short-term credit the country has started to liquidate the government's holdings of "confiscated" gold by "swapping" about $200 million worth of it. Also in the past few days Japan has released a fast-disbursing loan of $150 million and is preparing another fast disbursing $150 million dollar loan. Together with the import compression measures put in place in March and April, these exceptional inflows have allowed India to increase its foreign exchange reserves to about $1.5 billion (4 weeks of imports at their reduced level) in early June, from about $1.2 - 1.3 billion a month earlier. However, the non-resident deposits (about $10 billion) and the short-term debt (about $4 billion) remain vulnerable, particularly if the election outcome is perceived to lead to further political instability and equivocation on stabilization and reform policies. In the meantime, the political uncertainty continues to take its toll on economic decision making on a very broad front.

2. Given its large external and fiscal deficits and an external debt of about $70 billion, India has no choice but to adjust in major respects. The only real options are whether the adjustment takes place in the context of a comprehensive program of stabilization and structural reform implemented with Bank, Fund and bilateral financial assistance, or through a disorderly and painful process entailing arrears and severe disruptions in economic activity.

Bank Assistance Strategy

3. The Bank's assistance strategy is to give the highest priority to encouraging and supporting India to restore macroeconomic equilibrium as rapidly as possible and to undertake bold, decisive structural reforms. Our dialogue with GOI has been carried out on this basis and the caretaker Government has in fact requested policy-based lending. It realizes that India needs substantial resource flows from the Bank, from the Fund and from other official sources in the near and medium term, in support of a program which would be designed to promote growth and restore the country's creditworthiness and access to international capital markets. GOI also understands that in the absence of an adjustment program, creditworthiness considerations would lead to a sharp reduction in Bank lending.

4. A clear understanding has been reached with the Government officials that as soon as the newly-elected Government is in office, staff will begin negotiations on a program which would be the basis for a series of SALs and SECALs in parallel with the Fund. The preferred response by the Bank is to start policy-based lending to India with a SAL which might be ready for Board consideration in the fall (October/November). We would also propose to prepare a series of fast-disbursing IDA operations to deal with the social dimensions of adjustment. In helping India to design an adjustment program,

we are working closely with the Fund Staff. Specifically we are discussing how to divide our efforts to support the Government's overall adjustment program. Discussions to date point to trade reform, industrial deregulation, public enterprise reform and financial sector reform as the focal points for our SAL and SECALs.

5. Meanwhile, however, India confronts an external liquidity crisis, severed access to private capital markets, and dangerously low level of reserves. To help Government cope with this perilous situation while elections were scheduled, we convened an informal donors' in late April at the time of the Interim/Development Committee meetings to review the situation with selected donors and secure some immediate fast-disbursing assistance for India. While a modest amount of such assistance totalling about $300 -400 million was secured, it also became clear that the amounts required to tide the country over until a newly-elected Government could begin to address itself to stabilization and reform would only be forthcoming if both Fund and Bank were to participate in formulating and financing the desired interim, emergency program. When further delays in the electoral process occurred as the result of Rajiv Gandhi's assassination, we held a second informal meeting with the G-10 Executive Directors to brief them on the new situation. The general sense of the meeting was that:

> Provided Government could take action on three fronts -- some further stabilization measures acceptable to the Fund (such as a substantial devaluation and/or further tightening of monetary policy), some modest structural adjustment action, and mobilization of its gold reserves -- the Fund and Bank, with the Fund in the lead, would be prepared to consider making a small contribution to the financing of the interim emergency program in the firm expectation that this in turn would trigger some further assistance from Japan and the other donors.

So far only the gold reserves have been mobilized by Government. However, it is likely that the new Government soon after its installation will take further meaningful actions. In that case we should be prepared to consider a modest amount of fast-disbursing assistance possibly in the form of a fast-disbursing supplement to the Gas Flaring Reduction Project (Board presentation on June 25) which could be presented to the Board in July. Such Fund/Bank action together with some fast-disbursing bilateral assistance, would create a 2-3 month "breathing space" which would also make for a more orderly preparation of a GOI program. In turn this approach would also provide a better setting for the India Consortium Meeting now scheduled to be held on or about September 19-20.

Management of Exposure

6. India's total IBRD debt outstanding and disbursed as of May 31, 1991, was $7.7 billion, representing 8.1% of total IBRD exposure. Net IBRD disbursements were $1020 million in FY90 and are expected to amount to $700 million in FY91. The committed but undisbursed volume of IBRD loans stands at $7.3 billion as of May 31, 1991 (compared with only $3.6 billion in June 1984), reflecting average annual lending levels of about $2.2 billion during FY87-89. Despite this large increase in the pipeline of undisbursed loan

amounts, the increase in exposure over the next few years resulting from disbursements out of the existing pipeline will decline significantly because of (i) growing repayments; (ii) anticipated cancellations; (iii) impending suspensions in the power sector; and (iv) the rapid depreciation of the rupee which is resulting in lower US$ value of disbursements.

7. Over the period July - December 1991, disbursements from the existing IBRD portfolio are expected to amount to about $400 million. An emergency operation of $150 million, the first $250 million tranche of a (say) $500 million SAL, and initial disbursements for the routine establishment of special accounts for newly-approved projects, could further increase the exposure by about $500 million during the second half of this calendar year. Repayments due to IBRD during the same period are projected at about $300 million, resulting in an estimated net increase in exposure of about $600 million during July - December 1991. During the same period, new IBRD FY92 commitments involving projects at an advanced stage of processing held up by the Governmental hiatus could total $1.0 billion spread over four investment loans. We would propose to pace these investment lending activities in such a way that the IBRD investment lending preceding the commitment of the SAL does not exceed $500 million.

8. The review of the CSP by the PC is currently scheduled for July 19. The key recommendations of the draft CSP are reproduced in Attachment A.

Country Operations Division
India Department

June 12, 1991

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Attachment A

DRAFT
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INDIA

COUNTRY STRATEGY PAPER

1. India is confronted with a balance of payments and fiscal crisis at a time when it is also facing substantial social tensions and political instability. Weakened by several years of excessively expansionary macroeconomic policy and by the impacts of recent events in the Middle East, the external payments position is particularly precarious, and requires concerted government action and donor support. However, the Parliamentary elections are dominating the political agenda for now, and there are no prospects for further decisive actions on the economy before the installation of the new Government towards the end of June.

2. The Bank's interests, both its narrowly defined risk management interests and its long standing commitment to India's economic development, call for a flexible and supportive response to this volatile environment. India is at a juncture where it has no choice but to adjust in major respects. The only real options are whether this is done in the context of an orderly, growth-oriented adjustment program with external financial support, or through a disorderly and painful process that would leave the country cut off from international capital markets for years to come and significantly reduce its growth.

3. The Bank's strategy should give highest priority to encouraging and supporting India to restore macroeconomic equilibrium, accelerate structural reforms, and regain access to private credit markets abroad. These reforms are the keys to unleashing India's considerable untapped economic potential, and to achievement of its longer-term poverty eradication goals. To these ends, we must (i) sharpen the focus of our CESW and policy dialogue, (ii) maintain readiness and headroom to undertake policy-based lending, in concert with the IMF and other donors, if and when India chooses to proceed with a significant stabilization and structural reform program, (iii) strengthen our support of efficiency-improving sectoral reforms and institutional development in agriculture, infrastructure, human resources and poverty alleviation through investment and sector lending operations, and (iv) structure our lending strategy to manage risk and exposure carefully in view of India's weakened creditworthiness.

I. Key Recommendations

4. The main elements of the strategy recommended by the Region on which senior management guidance is sought are spelled out below.

5. The Bank should make a major effort to support forceful stabilization and bold structural reform. The proposed strategy develops and maintains readiness to support a comprehensive program of structural reforms with quick-disbursing IBRD policy-based lending of about $1.0 billion per year for about four years within an IBRD lending plan of about $2.0 billion annually. Given the large external financing needs of India's stabilization cum reform program, this IBRD program would have to be executed with major emphasis on its catalytic effects

in concert with IMF and other donors. It would also entail major efforts to restart India's stalled commercial borrowing program. The proposed use of quick disbursing lending would push India's IBRD portfolio share somewhat above the guideline level.

6. If structural reform or stabilization is inadequate, IBRD lending would have to be reduced to as little as US$200 - 300 billion per annum, with a view towards protecting the Bank's preferred creditor status and conserving headroom for supporting stabilization and structural reform when and if undertaken by the Government.

7. Our policy dialogue should aim to make private sector development and orderly public sector retrenchment dominant elements of the adjustment program. To that end, lending in industry and finance should be closely linked to policy reform. Future lending in these sectors will be primarily policy based, or in investment operations that have either a strong policy content (e.g., FILs) or involve important public good externalities (e.g., industrial pollution control).

8. The Bank should support reforms to improve the targetting and increase the cost-effectiveness of social services and enhance the poverty alleviation impact of agricultural investments through regionally/state-focused IDA and blend lending operations. The proposed strategy programs IDA resources for investments in social sectors and for poverty-related agricultural investment projects. In the adjustment scenario, fast disbursing IDA credits should be used to address the social dimensions of adjustment.

9. The increase in disbursement percentages on existing projects authorized under the Gulf Initiative should be extended beyond December 1991. This is essential to orderly completion of projects addressing core development priorities under the tight budgetary situation India faces.

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Country Operations Division
India Department

June 12, 1991

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Attachment A

DRAFT
STRICTLY CONFIDENTIAL

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Mr. Sandstrom | Khanna
E1229

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION/MULTILATERAL INVESTMENT GUARANTEE AGENCY

OFFICE MEMORANDUM

DATE June 12, 1991

TO Mr. Wilfried P. Thalwitz, PRESV

FROM Michael Walton, DECVP

EXTENSION 38418

SUBJECT Informal PC on India, June 14th, 1991.

1. Discussion of a revised CSP is now likely to take place in mid-July, after there is more clarity on the post-election situation. This meeting is to review the short-run situation and decide on the Bank's position in the next month. No major mission to discuss a program is planned, but Heinz Vergin may visit India in the coming weeks.

2. In the OC we supported a strategy of working now on the design of an effective program of stabilization and structural reform, so that the Bank has a clear position for an incoming government. However, we had problems with the position of the region (in the OC draft of the CSP) both on the design of policy reform and proposed Bank strategy. These are described in the attached note from Larry Summers to Mr. Qureshi.

-- On design, our main concerns were: first, that more substantial fiscal adjustment than currently envisaged would be necessary for effective stabilization; and second, that structural reform should be sequenced to support the stabilization effort (with early action on quantitative restrictions, subsidies via the financial system and broadening the VAT, but later action on financial liberalization).

-- On Bank strategy, we advocated: first, differentiation of IDA as well as IBRD total lending levels depending on the strength of the overall program; second, smoother management of IBRD commitments to avoid a sharp rise and fall in net transfers, since India's difficulties are not going to be solved in a few years; and third, postponing a decision on the level and composition of lending under the "intermediate" scenario of partial adjustment until it is better specified and we are clearly facing that situation.

3. The OC discussion (also attached) was broadly consistent with our position, emphasizing the gravity of the current situation, the necessity for strong fiscal adjustment, the costs of a "muddling through" scenario and the desirability of a clearly graduated response from the Bank group.

4. Subsequent to the OC we have worked out with the region a program of analytical work that we are undertaking to support the design of a stabilization and reform program. This focuses on macroeconomic and fiscal management and covers both analysis of India and lessons of international experience.

5. For this informal PC, I would recommend emphasizing the two points in para 2: that it is in India's best interests for the Bank to take a very strong position on the gravity and depth of the current crisis, its links with the insolvency of the exchequer and to structural impediments to growth. While any reform effort will take many years to implement, a major initial adjustment, especially with respect to fiscal action, should be a precondition for either adjustment support or sustaining large overall Bank group support for India. This is the signal the Region should be giving to an incoming government.

cc: Messrs. L. Summers; V. Rajagopalan; P. Isenman; A. Shakow

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: May 8, 1991

TO: Mr. Moeen Qureshi

FROM: Lawrence H. Summers LS

EXTENSION: 33774

SUBJECT: Re: India Country Strategy Paper

1. I welcome the development of three sharply differentiated scenarios in response to the highly uncertain situation now faced in India. However, I am not convinced the adjustment scenario as now laid out is credible. In contrast to a common tendency to think of India as unique, I believe international experience is highly relevant to the current crisis. This experience indicates a stronger program will be necessary. I hope that concern to maintain external confidence does not in any way moderate the message the Bank gives as to the gravity of the situation and the scale of policy action required.

2. The priority now should be to develop a coherent set of recommendations for the adjustment scenario in the event a new government comes in with a will for action. I would be happy to provide staff support for this. This case would warrant both substantial IBRD and IDA support. I found the intermediate scenario insufficiently well-specified to comment on. While its probability may be higher than the adjustment scenario, it would be preferable to revisit the situation later rather than agree to any substantial support for this case now.

3. There are four areas where I believe the current adjustment scenario needs modification.

(a) **The pattern of macroeconomic adjustment.** The projections look too smooth. Successful adjusting countries usually have temporary declines in investment and, to a lesser extent, output. An investment decline helps smooth consumption and makes sense if the period of transition is used to put in place policies that can underlay a subsequent investment recovery. It can also bring valuable gains in reduced import demand, that can be appropriately distributed between a reduced current account deficit and higher consumption: a back-of-the-envelope calculation suggests a decline of investment of 3 percent of GDP could lead to a reduction in import demand of 0.9 percent of GDP.

(b) **The scale of fiscal adjustment.** The public accounts are a major part of the macroeconomic crisis, but the proposed pace of adjustment looks very modest by international standards. As the attached note shows, successful adjustors, such as Malaysia, Mexico and Morocco, moved much more decisively. Failed fiscal adjustment, as in Brazil, leads either to accelerating inflation or repeated foreign exchange crises. In addition, the design of fiscal adjustment places too much emphasis on current spending. While reducing subsidies should have high priority, more attention needs to be given to capital spending, especially outside essential infrastructure (central government spending for industrial investment is one percent of GDP, for example), and on revenue increases, from both user charges and taxation. Our tax work shows the potential strength of a VAT; broadening India's present VAT-

type tax could be a promising area. Structural reforms would need to be designed with attention to their fiscal impact.

(c) **Structural reform.** More work on design and sequencing is needed here. India is more likely to pursue a path of fundamental reform over an extended period, as in Indonesia, than a Mexico-style big bang. However, Indonesia's experience is not one of overall gradualism, but of a sequence of decisive actions in the most pressing areas. I expect the priorities for early, decisive action in India would lie in the areas of removal of import licensing (that is also a form of domestic control), further deregulation of investment, especially for foreign investors, and exchange rate action. More fundamental deregulation of the labor market, relaxation of exit restrictions and privatization are also of great importance, but may take more time to implement. While some tariff adjustments may be necessary as quantitative controls are relaxed, a broader tariff-reducing trade liberalization will be of lower priority in India than a small open economy and can come later. In the financial sector, early action to tackle losses due to directed credit and loan forgiveness is urgently required, but financial liberalization could come later, after the fiscal deficit comes down and the product and labor markets are in better shape. Such a sequence, if combined with early fiscal action, is consistent with the results of the RALs. Any adjustment loans should be designed in accordance with an appropriate sequence of policy change.

(d) **External finance.** This looks too optimistic with respect to private money--from banks and via NRIs. I am also very worried that the dynamics of IBRD creditworthiness and portfolio considerations mean we have three to four years of high positive net transfers followed by significant negative net transfers. Every effort to raise concessional inflows in the event of strong reform should be made--including increasing or accelerating IDA flows--but a smoother path of non-concessional money seems essential for a sustainable effort in what will certainly be both a prolonged and uncertain process. This is likely to imply a need for a lower current account deficit--and my above remarks on imports and sharper fiscal deficit reduction are directly relevant to this. While optimism on short-term foreign investment inflows would be foolhardy, a couple of facts give some hope for the future: foreign investment inflows to India were $1 bln in 1986-90, compared with $11 bln for China, and the performance of the Bombay stock exchange prior to the recent crisis would give heart to potential investors.

4. Finally, I am fully aware of the need to manage any support for policy action in a manner that is sensitive to India's political circumstances. I would support as low-key approach as is feasible, provided it is linked to strong policy action.

cc: Messrs. W. Thalwitz, E. Jaycox, A. Karaosmanoglu,
S. Husain, V. Rajagopalan, I. Shihata,
K. Kashiwaya, J. Wood, D. Bock, E. Grilli,
P. Isenman, H. Vergin, J. Khalilzadeh-Shirazi

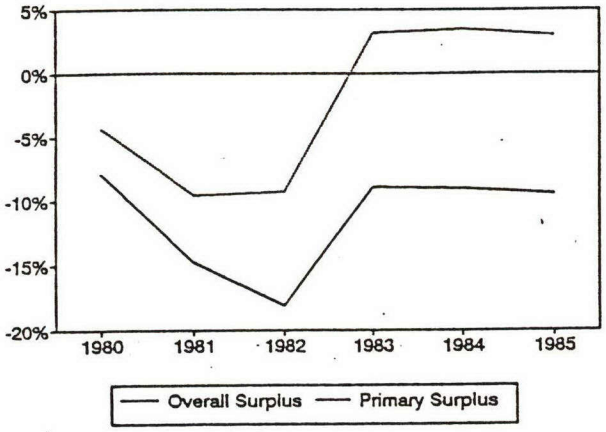
Some International Experiences with Fiscal Adjustment

The pace and scope of fiscal adjustment in some selected countries in the aftermath of the debt crisis are shown in the attached graphs. The sharpest adjustment was that of Mexico, which improved its primary balance by around 12 percent of GDP in just one year. Costa Rica also succeeded in reducing quickly its public imbalance: the deficit of the overall public sector (including those of the Central Bank and the public enterprises, that accounted for most of the public imbalance) was cut by over 10 percent of GDP in only two years. In Morocco, the adjustment was somewhat less dramatic, but still substantial (a 7 percent of GDP increase in the primary surplus in four years). Moreover, these three countries succeeded in maintaining the fiscal adjustment in later years. In contrast, Brazil only managed to reduce its fiscal imbalance by less than 3 percentage points of GDP in 1981-85, made no further progress in later years, and ran into increasing difficulties in terms of inflation and external payments.

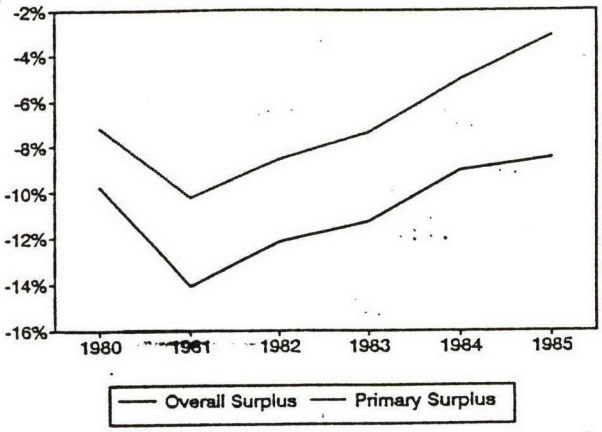
What is the experience of Asian countries ? Malaysia and Korea also succeeded in adjusting their public finances in the early eighties. Malaysia adjusted sharply, reducing its public deficit by 12 percent of GDP in three years. Korea (whose public imbalance was much more modest than those of the other countries in the figures) also adjusted quickly, cutting the public deficit by 3 percent of GDP over just two years. As before, both countries have succeeded in preserving their fiscal improvement.

Fiscal Adjustment in Selected Countries (Percent of GDP)

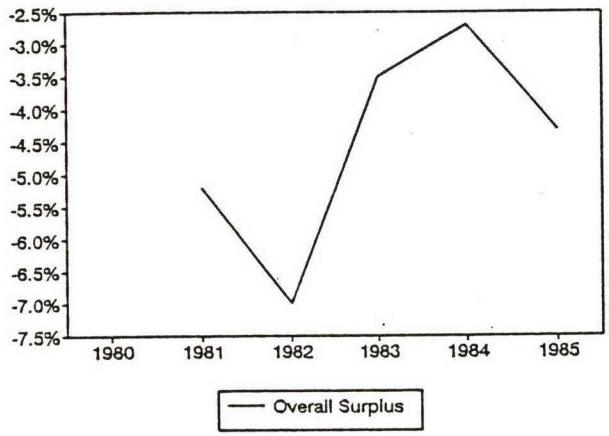
Mexico



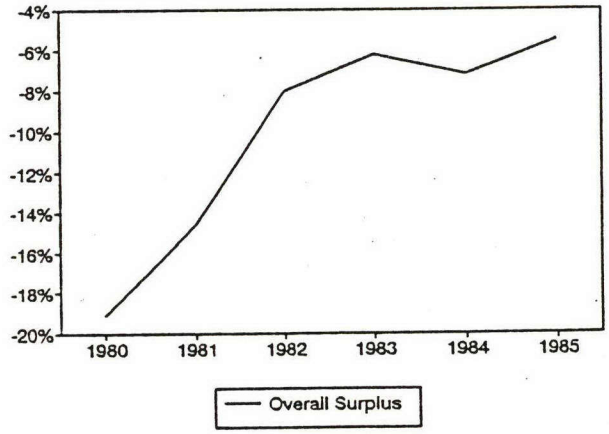
Morocco



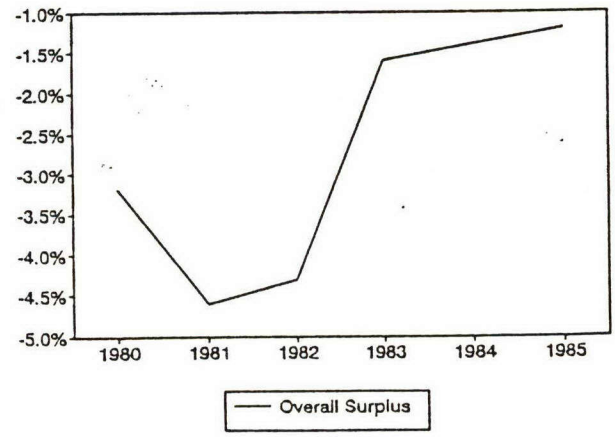
Brazil



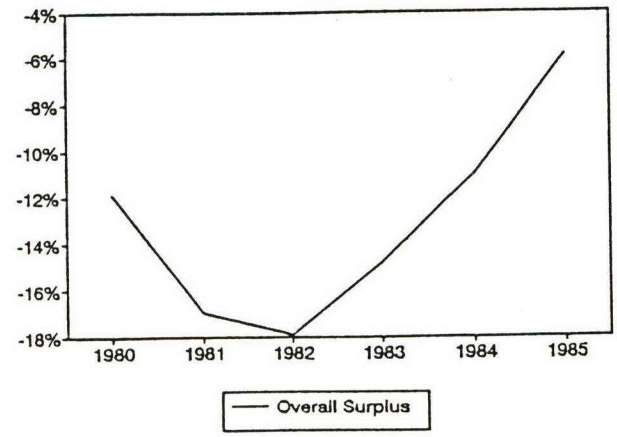
Costa Rica



Korea



Malaysia



THE WORLD BANK

Operations Committee

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JAN 18 2011
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91 MAY 22 PM 4:25 CONFIDENTIAL

INDIA

RECEIVED
DEVELOPMENT ECONOMICS
VP & CHIEF ECONOMIST

COUNTRY STRATEGY PAPER

Postscript

95. The Operations Committee met on May 9, 1991, to consider the Country Strategy Paper (CSP) for India. In a brief opening statement, the Region noted that the economic situation had continued to deteriorate. The caretaker government had acted to compress imports, contain speculative hoarding, control the budget deficit and induce more repatriation of funds from abroad. Still, the anticipated budget deficit was now worse and the foreign exchange reserves were lower than when the CSP had been drafted. It was encouraging, however, that the caretaker government, after consultations with the major parties, had requested that the Bank initiate the preparation of a structural adjustment loan. The subsequent discussion broadly followed the agenda prepared by EAS.

96. In opening the discussion, the Chairman expressed his appreciation of the Region's strategy for dealing with this important client who faced an exceptionally difficult situation. To do justice to the strategy envisaged, the Chairman felt that the CSP should convey even more directly the message that the macro-economic situation was deteriorating rapidly, and pure and simple stabilization measures would not suffice to restore India's creditworthiness. Therefore, unless the Government undertakes, at the same time, a strong structural adjustment program, which renews the confidence of the Bank and India's other creditors, the Bank will have to reduce its financial assistance. The Chairman also noted that the nature and implications of the intermediate scenario was not fully spelled out in the CSP. The new Government was bound to take immediate action to stabilize the macroeconomic situation but it might stop short of the needed structural reforms. Such a "muddling-through" scenario could have serious negative consequences for future growth and creditworthiness of India. He was fully aware that the Region was working hard to persuade the civil servants and the main political parties to take strong structural measures in order to prevent this outcome. The CSP should present the Region's strategy as clearly and forcefully as the situation deserved.

97. Turning to the reform agenda, the Chairman stressed the importance of strong fiscal adjustment. In containing the budget deficit, cutbacks should apply not only to current expenditures but also to some capital expenditures, especially in areas where the private sector could play a greater role. He noted the need for enhanced revenues from user charges and a broadening of the VAT. It was important, given the fiscal situation, that reforms be designed and sequenced taking their impact on the budget into account. In the subsequent discussion, several Committee members agreed on the importance of cutting the budget deficit (at least in part to avoid a surge in inflation) and noted that the fiscal adjustment outlined in the "strong reform" scenario presented in the CSP might be more modest and gradual than required by the current situation. The Region responded that the Central Government deficit was expected to decline from 9.2 percent of GDP in 1990/91

to 6.5 percent in 1991/92. The IMF representative noted that since one-third of the 1991/92 fiscal year would pass before the new Government would be able to act, this target implied some rather drastic expenditure cuts in the short run. The Chairman, however, stressed the importance of bringing down substantially the consolidated public sector deficit.

98. The Chairman agreed with the Region on the need for domestic deregulation and liberalization of trade and direct foreign investments. He added that the Bank should press for public sector retrenchment in areas where private enterprises were likely to fill the void but warned against getting into an ideological debate with the Government about privatization of state enterprises. One member added that a more comprehensive program for privatization might have a beneficial impact on the budget. There was a general agreement among the Committee members, however, on the need for drastic deregulation and internal liberalization of the economy. Another member observed that the quality of governance appeared to be deteriorating, indicating the need for a broader reform of the legal and administrative frameworks.

99. One member recommended caution in the implementation of significant tariff reductions. Such reforms appeared less urgent in India than in small open economies. Given the size of the Indian economy, the Government's heavy reliance on tariff revenues and the need to reduce the budget deficit, it might be appropriate to delay the tariff reforms. A too rapid trade and tariff reform might also put too much pressure on India's fragile balance of payments. Internal deregulation was essential, trade liberalization could be implemented later. The Region responded that the average tariff was 117 percent and, for capital goods it was a staggering 130 percent. Without being able to import more cheaply, Indian enterprises--with their often obsolete and inefficient equipment--cannot be competitive on the world markets and the expected resumption in export and GDP growth will not materialize. Both internal and external liberalization were needed. The Chairman noted that demand management should help contain imports and stressed the importance of continuing an active exchange rate policy in reducing the balance of payments deficit.

100. The IMF representative reported that the Fund agree with the approach taken in the CSP. However, the Fund was concerned about the shorter term risks present in the economic and financial situation of India. A set of strong emergency stabilization measures, supported by a convincing financing package were urgently needed. The Government might have to use part of its gold reserves to help meet India's external payments. The caretaker government had failed to adopt all the required measures. Hopefully, the new government would be able to take quick action.

101. The fragility of the present situation was also stressed by one Committee member. He agreed that there was a risk that India might have to default on some of its external obligations and reschedule its debt. This would dry up new commercial lending to India and make economic recovery exceedingly difficult. Such an event could also have implications for the World Bank's own credit rating. He added that some US$1,000 million in external financing would be needed to avoid a financial crisis before an IMF program could be approved in the fall. So far, bilateral donors had pledged only half of it. To help fill the remaining gap, he suggested, that the Bank

should do whatever it could--without jeopardizing its principles--to provide some quick disbursing assistance.

102. In addressing the issue of IBRD lending volume and exposure, one member noted that the political situation in India was fragile and the past record of policy reform was mixed. The country was saddled with large external and internal debt. Under these circumstances, would it really be prudent for India to borrow very large amounts on commercial terms? IBRD was highly exposed and this exposure was expected to increase. Another member added that the "adjustment" scenario--under which India's creditworthiness would be gradually restored--assumed a rather optimistic export growth. On the first point, the Region responded that even under the high case scenario, commercial debt was expected to grow considerably more slowly than it had since the early 1980s. Addressing the second point, it noted that there had been exchange rate and trade policy changes in recent years and, as a result, exports had increased very rapidly. Given this record, the export projections could not be regarded as too optimistic. One speaker noted that there were significant downside risks and that the financing plan did not appear to be robust enough to absorb possible shocks or performance slippages. This point was echoed by another member who observed that the experience from other countries taught us that "things might get even worse before they get better." In this connection, several speakers noted that the downside scenarios were not fully spelled out in the CSP. Especially, what would happen if stabilization was forceful but structural reforms only hesitant. The Region responded that the volume of Bank lending it envisaged would depend largely on the assessment of India's creditworthiness, with a maximum annual amount of US$1.2 billion. Below this ceiling, the volume and composition of lending would be determined by the extent of structural reforms and the availability of quality projects. Indeed, this mode was already reflected in this year's IBRD lending program which was likely to be in the range of US$600-1,000 million.

103. Several speakers felt that there was a strong need to keep IDA lending volume tied to performance. The Region felt that the linkage should not be carried too far, given the large investment needs presented in the social sector and noted that even in the worst case scenario the donor community would probably like to maintain substantive IDA lending flows in order to help prevent deprivation. The Chairman noted, however, that IDA lending had to be linked with performance.

104. Several members questioned the heavy reliance on IBRD funds for the financing of adjustment operations. A different mix of lending instruments should help improve India's debt profile. The Chairman said that consideration should be given to providing a higher proportion of IDA resources in the form of quick disbursing credits.

105. There was a general consensus that, as far as possible, India should rely on concessional borrowings. It was acknowledged that even if India undertook strong reforms, only small amounts of additional IDA funds could--possibly--be made available. Similarly, adjusting disbursement percentages on IDA credits were likely to have only a negligible impact. Given this situation, one member proposed a more drastic approach: if India adopted a strong adjustment program, management should be prepared to go to the Board and recommend that part of the large amounts of undisbursed IDA project

credits should be canceled and replaced with quick disbursing adjustment credits. The Region cited policy objections to this approach.

106. Burden sharing issues were also raised by other speakers who noted that most of the financing was expected to come from IBRD, IDA and IMF. Indeed, in 1991 and 1992 around one-third of the financing--under the adjustment scenario--was expected to come from the Bank. This kind of burden--and risk--sharing was not appropriate for the Bank. More support was needed from both bilateral donors and regional development banks. The Chairman noted that the Bank should push for more concessional aid in the Consortium, but he doubted that large additional amounts would be forthcoming. He observed that the Fund and India appeared to have ruled out the use of SAF and ESAF resources for the financing of the stabilization program. The IMF representative responded that the Fund presently envisaged a stand-by arrangement for India since it could be prepared much more quickly. However, if agreement could be reached on a multi-year program, the possibility of an ESAF arrangement would be kept open.

107. In passing, one member expressed his surprise that, in a period when India faced an economic crisis, the Region proposed to cut the manpower allocation for economic and sector work by 20 percent.

108. In summing-up, the Chairman endorsed the proposed strategy but directed the Region to revise the CSP before it was submitted to the President's Council for review. The CSP should present more clearly both the strategy that the Region was pursuing to deal with the immediate liquidity crisis, and the present efforts to get a "flying start" with the new government. In particular, it should deal more fully with the downside risks present in the full adjustment scenario and take into account the useful comments and suggestions received during the meeting. Given the complexity of the Indian situation, the Chairman encouraged the Committee members and others to send additional comments directly to the Region.

109. The CSP should make clear that the situation had continued to deteriorate and that this had required a fundamental reassessment of our lending and country assistance strategy. Credit worthiness considerations would lead to a major reduction in IBRD lending unless the Government undertakes strong and credible structural reforms--in addition, of course, to the appropriate stabilization measures. The paper should downplay the notion that there are three discrete scenarios (or likely policy outcomes). Rather, it should elucidate further the type of graduated response that the Bank envisaged in case of a mixed policy performance. Thus, it should elaborate on the implications of partial reforms, on both economic performance and Bank lending. Finally, the CSP should dwell more on the fiscal aspects of the relationship between the Federal and State Governments.

PLjung:vl
May 15, 1991

LIST OF PERSONS ATTENDING THE OPERATIONS COMMITTEE MEETING

INDIA - COUNTRY STRATEGY PAPER

THURSDAY, MAY 9, 1991

Operations Committee

Messrs. M.A. Qureshi (Chairman)
S. Husain (LACVP)
S. O'Brien (AFRVP)
A. Karaosmanoglu (ASIVP)
P. Hasan (EMNVP)
L. Summers (DECVP)
I. Shihata (LEGVP)
K. Kashiwaya (CFSVP)
D. J. Wood (FPRVP)
D. Bock (OPNSV)

Other Attendees

Messrs. E. Grilli (EAS)
P. Ljung (EAS)
A. Ray (EAS)
(Ms.) N. Okonjo-Iweala (OPNSV)
O. Yenal (ASIVP)
H. Vergin (AS4DR)
J. Khalilzadeh-Shirazi (AS4CO)
M. Gould [AS4IF]
R. Anderson (AS4CO)
A. Vorkink (LEGAS)
E. J. Stoutjesdijk (FRSDR)
H. Neiss (IMF)

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: June 13, 1991

TO: Mr. Wilfried Thalwitz, PRESV

THROUGH: Mr. Frank Earwaker, Acting Chief, PRDRA

FROM: Mohsen Fardi, PRDRA

EXTENSION: 31263

SUBJECT: India - Country Strategy Paper

Regarding your meeting with Mr. Conable on June 14, 1991 on the review of India's short-term situation, the Operations Committee, restricted to senior management, reviewed the CSP on May 9, 1991. Mr. Michael Walton (VPDEC) has provided you with a note on issues discussed by the OC. Attached for your information are the PRDRA briefing note for the OC meeting and a summary news dispatch on recent development on the external finance situation.

attachments

cc: Messrs. Summers, Rajagopalan, Isenman, Shakow

bcc: Messrs. Sandstrom/Khanna, Liebenthal, Lamb, Walton, PRD Reviewers

Mfard/mf

INDIA SEEN COMING THROUGH FINANCIAL SQUEEZE

Reuters reported from Basel that central bankers believe India will manage to scrape through its current financial crisis without halting foreign debt payments. The bankers, attending the BIS annual meeting, said Governor of The Reserve Bank of India S. Venkitaramanan told them he was determined to maintain India's record of never having to reschedule its debts. Venkitaramanan told bankers Germany was expected to provide $125m soon, Britain $50m, and the Netherlands $35m. Bankers said a BIS bridging loan was also possible once India had agreed terms for IMF help.

The agency reported from New Delhi that Japan agreed Tuesday to lend India $150m to help overcome the foreign exchange shortage. A Japanese embassy statement said the loan, the second such this year from Tokyo, demonstrates Japan's firm support of India's efforts to tide over the current difficulties.

Some banks that hold India's short-term debt of $4b-$5b dollars had called in their loans but most were renewing them, albeit at sharply higher interest rates.

The agency reported from Washington that IBRD Vice President Attila Karaosmanoglu told reporters Monday that India is facing one of its most serious crises of recent times. Although it has until now met its external obligations, there are very major pressures on its balance of payments, he said.

Diplomats said the country has asked the IMF and the IBRD for a show of support in coming weeks to bolster foreign confidence in its finances. So far both institutions seem to be holding back, insisting that India first must carry out economic reforms, they said. Karaosmanoglu denied Indian press reports that the Bank is pressing India for a 22% devaluation of its currency. However, diplomats said that the IMF has made a big currency devaluation a precondition for a $220m loan.

Source: IMF Blue Sheet 6/11/91

~~JAK~~
~~JSS~~
3/ File
India

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

TO:	DATE:
Mr. B. Conable (E-1227)	5/31/91

SUBJECT:

Document From: Mr. Stern
To: bbc
Dated: 5/31/91 Reference No.: EXC910531011

Topic: Note (personal) ----- India

ACTION INSTRUCTIONS: | DUE DATE:

_____ HANDLE
_____ REVIEW AND RECOMMEND
__XXX__ FOR YOUR INFORMATION
_____ DISCUSS WITH _____
_____ AS WE DISCUSSED
_____ PREPARE RESPONSE FOR _____ SIGNATURE
_____ FOR YOUR FILES
_____ RETURN TO _____
_____ OTHER: _____

Remarks: SS: I copied BBC/LM for info/reading.

The World Bank
Washington, D.C. 20433
U.S.A.

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JAN 18 2011
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ERNEST STERN
Senior Vice President
Finance

PERSONAL

May 31, 1991

Mr. Conable

Barber -

India

As you know, the situation in India continues to be very uncertain, but the current speculation is that the elections will be completed in an orderly fashion, and a Government will be formed before the end of June. Of course, alternative scenarios are possible, particularly, if the Congress Party does less well than expected. But, even if this scenario materializes, negotiations with the IMF could start only in July and, if a decent reform program is to be agreed, these would take some time. We, therefore, face two problems:

(a) How to respond to the current external finance crisis, and;

(b) What our position should be on the longer-term.

Foreign exchange reserves are believed to be down to less than 30 days requirements, and no funds are left to deal with any emergency. We are being pressed by the Indians to consider contribution to a short-term program of support as well as by the Japanese, who are prepared to make additional financing available if others will contribute. And, if I understand yesterday's comment at lunch correctly, the IMF will look to us for support if they proceed with a Compensatory Financing Facility.

Mr. Utzumi will be in Washington next week, and he has been pressing the case for Bank participation in a short-term program. I do not know whether he will see you, but he certainly will press these views with the U.S. and others. It is not that Japan has developed a sudden affinity for India but, as they make clear in private conversation, Japanese commercial banks have the largest exposure in India.

I would hope we would not be swayed by that argument, since the Bank has not in the past been willing to provide short-term funding to avoid servicing of commercial debt. Given the need for major structural changes in India, it would be a mistake to proceed on this line of argument.

So far, the Japanese commitment of $300 million has only been supported by the U.K., which is arranging to draw forward disbursements out of their pipeline of about $50 million. In my view, the IMF is the agency responsible for providing short-term balance-of-payment support, if warranted. Early action on their part, combined with more credible bilateral effort, might suffice to bridge India to the end of August. We should also be clear that, under normal circumstances, access to the CFF requires little by way of conditionality.

Our basic position ought to be that we cannot participate in the financing of the short-term balance-of-payment problem. Although circumstances in India are extraordinary, the only justification for providing any quick-disbursing assistance from the Bank, as a component of an already prepared project, is if we could agree on a significant liberalization, even if that is limited to a single important area. For instance, liberalization of all deposits and lending rates for non-agricultural borrowers would be such an important step. This could be considered as a down-payment on a more comprehensive program and, thus, justify a modest quick-disbursing component.

You should also be aware that we proposed to the Country Department an increase in the deposits of project revolving funds. We had identified some $100 million, which could be justified within present guidelines, but, using what were narrow project grounds, this was reduced by the CD to $40 million. If we wanted to, we could also temporarily extend the 4-month disbursement equivalent to 6, in which case a total of $150-175 million could be made available. But such an approach could not be public, and this would not help with the Japanese package. But it would help India.

For the longer-term, it is absolutely fundamental that large-scale lending, including adjustment loans, be based firmly on a comprehensive and consistent domestic reform package. India is already close to the upper limit of our concentration guideline. The scale of lending under consideration would raise that to 12-13% without assuming any change in portfolio behavior. But, if the reform program permitted accelerated disbursements out of the project pipeline, our exposure in India would rise to over 13%.

This level of exposure will, inevitably, attract a good deal of attention, which is not to say that that should inhibit our lending if the structural program really holds our promise for a substantially increased growth in the Indian economy and its exports, and an environment which could attract external capital, particularly equity.

Given these circumstances, I think we need to be cautious in responding to the immediate emergency situation, while being clear about the scope of adjustment that must be undertaken quickly by the new Government. Not only am I

concerned about an expanded exposure to India in the absence of a solid program for reform, but also that an effort by Management to present loans of this magnitude in the absence of such a program will eventually lead to strong Board resistance and fuel the Board's interests in participating with Management in this decision-making process.

Ernest Stern

India Mr. [illegible]
cc: AR.

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION MIGA

Office Memorandum

DATE: May 23, 1991

Confidential

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JAN 18 2011
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TO: Mr. Moeen A. Qureshi, Senior Vice President, Operations

Mr. Attila Karaosmanoglu, Vice President, ASI

FROM: Koji Kashiwaya, Vice President, CFS

EXT.: 80809

SUBJECT: **Financial Crisis in India**

1. In order to avoid a possible financial crunch in India, senior people in the Government of India (GOI) have been travelling the globe, since December 1990, requesting extraordinary assistance to India.

2. The Japanese Government (GOJ) intends to help India out of her financial difficulties and has requested joint action by the Bank and Fund. As you are aware, GOJ wished to advance the donor meeting last March, but it was postponed due to the political situation in India. Although the Fund disbursed $1.8 billion to India last March, it seems that the Bank is unable to make a quick-disbursing loan for the time being. Based upon the Bank's suggestion, GOJ would have originally liked to take joint action with the IFIs -- a combination of GOI's commitment to IFIs on policy reform, and commitment of financial support from IFIs, GOJ and other donors. The Ministry of Finance (MOF) was thinking of cofinancing the Bank's adjustment loans, as advised by the Bank. With India sliding into political inertia, however, there seemed to be little expectation that IFIs would take action to help the country. Therefore, last April, GOJ indicated they would provide $150 million in quick-disbursing cofinancing with ADB, in addition to OECF's ¥30 billion SDBI loan last January.

3. At the informal donors' meeting held in Washington last month under the chairmanship of Mr. Karaosmanoglu, informal pledges totalling approximately $500 million were made by donors. However, it is uncertain whether, and how much, of these commitments can be utilized for rescuing the current financial crunch. According to India, the financial situation is further deteriorating with only $600 million usable reserves by the end of this month.

4. During my stay in Japan during the week of May 13, Mr. Venkatraman, Governor of the Reserve Bank of India and Mr. Heinz Vergin were in Japan to discuss various measures to help India. MOF, (especially Mr. Utsumi) had thought of a concerted G-7 effort to press IFIs' facilities but recognized that IFIs are afraid of breaking established procedures or stringent financial discipline, thus setting a precedent for the future. Thus, GOJ had to pursue various possibilities and has concluded for the time being, based upon our advice, that GOJ will accelerate disbursement procedures of OECF's cofinancing with ADB and consider the additional $150 million SDBI loan. In addition if the Bank or Fund is able to extend a quick-disbursing loan, it may be possible for JExIm to cofinance such a loan. GOI is a little concerned about the possibility of GOJ delaying the procedures for disbursement of ADB cofinancing. GOI has asked major commercial Japanese banks to bridge this loan, but in vain.

5. Based upon our advice on May 23, MOF has pledged $150 million cofinancing with ADB, which will be disbursed by the end of May, and will pledge another $150 million loan to SDBI, disbursements for which will start in the middle of June.

6. Mr. Venkatraman may also propose that the newly-elected Government use official gold as collateral for short-term borrowing from official sources (e.g. Bank of Japan) or commercial banks. It is uncertain whether commercial banks may lend to or deposit money in India by using gold as collateral. The Bank of Japan (BOJ) cannot decide on this bridge loan without strong support from MOF. Thus, after consulting with Mr. Vergin, I asked MOF to consider favorably the possibility of BOJ and other central or commercial banks extending short-term bridge loans to India, if India requests utilizing the gold as collateral. (Since the use of gold as collateral is a politically sensitive election issue, Reserve Bank of India does not wish to discuss this publicly).

7. There are many reasons for the financial difficulties in India -- the Gulf crisis, collapse of bilateral trade with USSR, change of market perceptions towards India's creditstanding aggravated by an uncertain domestic political situation. Reviewing India's negotiations with donors and commercial banks in the past, I would like to emphasize two points that may have broader implications.

(i) It is important for a relatively-indebted country like India to have a well-established relationship with donors, especially a few major donors, in order to be prepared to address future financial crises; and

(ii) IFIs, donors or creditor banks, as well as indebted debtors, may not be fully aware of the costs of these financial crunches, and thus are complacent in using or developing various fora or facilities to prevent them.

8. The first question reminds me of the Indonesian experience in 1986. After the collapse of oil prices, the Indonesian Government requested quick disbursing assistance from GOJ by using various facilities. GOJ eventually put in $900 million as a JExIm/OECF loan, followed by syndicated loans by commercial banks. IGGI also held a successful meeting, including financing of the local costs of multilateral and bilateral donors' projects. It is important that GOJ and other donors develop mutually trusting relations with India through frequent meetings This is indispensable for India in overcoming her financial difficulties and restoring sustainable growth.

9. Until one year ago, many investment bankers and commercial banks rushed into India to obtain a mandate for lending. They may not have informed the borrower of the actual reactions of traditional investors who were concerned with the exposure to India, and their behavior versus LDC financing. There is some tendency that such business interest spoils the indebted borrowers and makes them overestimate their own creditstanding. Thus, domestic political or economic events or a change in the market will suddenly suspend normal lending, which may expose these countries to a financial crunch. In my view a few borrowers are still susceptible to this kind of risk (e.g. Algeria, Hungary).

10. It is obvious from past and current experiences that the loss of confidence by commercial banks, ECAs, or the private sector throws the LDCs into a financial crunch, and that they retreat from lending to those countries after the rescheduling by those countries. It has typically taken more than five years for the rescheduling countries to regain their creditstanding from the markets (e.g. Turkey). The rescheduling countries, even those who have performed well after DDSR, like Mexico and Chile still have to pay very high margin (LIBOR plus 3-5%) for short-term borrowing from the markets. In the past few years many relatively good performing countries have suddenly cut their normal borrowing from the markets and asked donors, BIS banks, and commercial banks for emergency type support without adequate preparation.

11. In view of these episodes as well as the current problems in India, I believe that the Bank should have a stronger capacity to advise and assist those countries near a financial crisis. I propose that CFS develops with the Regions and other units a system of providing advice to relatively-indebted countries on how to prevent possible financial difficulties. CFS can utilize its daily contact with major donors and major banks. Although this advice should be based upon debtors' request, and require experts from the markets, the need for such services is likely to increase in view of the poor environment for LDC financing in the 1990s.

cc: Messrs. Sandstrom,Vergin, Niehuss, Chaffey, Elwan, Rajasingham, Shilling

Ohashi, Brigish

KKashiwaya:jed

Country: INDIA
April 28 @ 5:00 pm

Delegation: Mr. Y. SINHA, Minister of Finance
Mr. S. VENKITARAMAN, Gov. Reserve Bank
Mr. S.P. SHUKLA, Finance Secretary

BACKGROUND

- External payments position is precarious (severed access to private capital markets, declining Non-Resident Indian (NRI) deposits; some difficulty in rolling over $4 billion short-term debt.) Requires concerted government action and donor support to meet estimated unfinanced BOP gap of $3 billion over April-September 1991.
- Government, committed to remaining current on debt-service, has taken several measures to reduce import demand and encourage more timely repatriation of export earnings. While generating foreign exchange savings, this will also lead to industrial slowdown.
- End-March reserves estimated at $2-3 billion. Government thinks it can draw down $1 billion during April-September.
- Requested selected members of Aid Consortium to provide financing of $1 billion. Informal meeting today convened by Bank, if successful, may yield pledges of up to $700 million of fast disbursing aid from bilateral donors. (France, Germany, Japan, Netherlands, UK and US attending).
- Parliamentary elections scheduled for end-May are dominating the political agenda for now. Limited prospects for decisive actions on the economy before June-July.
- Earliest a Fund program can be envisaged is September.

POINTS TO MAKE TO DELEGATION

1. **Commend authorities** (particularly the Reserve Bank) for steps taken so far. Urge further steps to prevent arrears on India's external payment obligations.

2. **Urge speedy preparation of a stabilization and reform program** so that new government coming to power in June can act swiftly and decisively. Emphasize that earliest possible presentation of suitable budget is needed to allow multilateral agencies to come to India's help.
3. **Inquire about outcome of today's informal donors meeting.**

IF THE DELEGATION ASKS:

1. What the Bank can do to assist

   YOU SHOULD INDICATE that we are prepared to support forceful stabilization and bold structural reform. Level of support would depend upon quality of program and Bank's own risk management concerns. In any case, given large financing needs support would have to be in concert with IMF and other donors.

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

TO:	DATE:
Mr. B. Conable (E-1227)	4/26/91

SUBJECT:

Document From: M. Qureshi
To: bbc
Dated: 4/24/91 Reference No.: EXC910426004

Topic: INDIA: Mtg. with Min. of Finance, SINHA --
SUNDAY, APRIL 28 @ 5:00 pm.

ACTION INSTRUCTIONS: DUE DATE:

_____ HANDLE
_____ REVIEW AND RECOMMEND
_____ FOR YOUR INFORMATION
_____ DISCUSS WITH _____
_____ AS WE DISCUSSED
_____ PREPARE RESPONSE FOR _____ SIGNATURE
_____ FOR YOUR FILES
_____ RETURN TO _____
_____ OTHER: _____

Remarks: NOTE: This brief to be used for meetings on April 28 & 29th.

cc: JV (original for FF), Sandstrom, Khanna

FORM NO. 75
(6–83)

THE WORLD BANK/IFC

ROUTING SLIP	DATE: 4/25/91

NAME	ROOM NO.
Mr. Moeen A. Qureshi	
(Through Mr. R. Cheetham)	

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	CLEARANCE		PER OUR CONVERSATION
	COMMENT		PER YOUR REQUEST
	FOR ACTION		PREPARE REPLY
	INFORMATION		RECOMMENDATION
	INITIAL		SIGNATURE
	NOTE AND FILE		**URGENT**

REMARKS:

India - Briefing Note for Senior Management Meetings - April 28 & 29

FROM:	ROOM NO.:	EXTENSION:
Heinz Vergin		

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JAN 18 2011
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STRICTLY CONFIDENTIAL

INDIA - BRIEFING NOTE FOR SENIOR MANAGEMENT MEETINGS
WITH THE INDIAN DELEGATION -- APRIL 28 AND 29, 1991

1. India continues to face an exceedingly difficult and deteriorating external payments position. Its access to private capital markets is severed; non-resident Indian deposits, an important foreign exchange source for the country, are declining on a net basis; and some of India's US$4 billion short-term debt is not being rolled over.

2. Recent Bank-Fund estimates indicate that between April to September 1991 (the earliest a Fund program is envisaged), India has an unfinanced balance of payments gap of $3 billion. In addition, short-term debt of about $1 billion will fall due for a second rollover.

3. The authorities have committed themselves to remaining current on debt-service obligations. Despite the hiatus created by the upcoming elections (May 20 onward), they have taken a number of steps to cope with the situation. The more recent ones, announced on April 24, include: (i) an increase in the cash margin requirements for "specific" license imports to 150% and for "open general" license imports to 200%; (ii) a major increase in post-shipment export credit interest rates for exporters who fail to remit their earnings within 90 days of the export date; (iii) introduction of a requirement that exporters can henceforth obtain a share of their foreign exchange earnings for own use or for sale at a premium only upon presenting proof of having remitted the proceeds. These and earlier measures in the same vein, are expected to reduce import demand and encourage more timely repatriation of export earnings. They will, of course, also lead to a slowdown in the pace of industrial activity.

4. Assuming the above measures generate a foreign exchange savings of about $1 billion over the period April - September, India will need $2 billion to finance the remaining gap during April - September. The authorities have suggested that they could draw down reserves by $1 billion (from $2.3 billion at end-March), thus leaving a gap of $1 billion, which they have requested to be financed by selected members of the Aid Consortium.

5. The Bank is convening an informal meeting of six bilateral donors (France, Germany, Japan, Netherlands, U.K. and U.S.) on April 28 to consider India's near-term economic management program and, if possible, to obtain pledges of assistance. Provided that the GOI delegation with the support of Fund and Bank staff can convince the donors that the actions taken to manage the immediate liquidity crisis are sufficient and that the post-election Government will be in a position to manage the crisis with despatch while also addressing the broader agenda for stabilization and structural reforms, GOI may be able to obtain up to $700 million of fast disbursing aid from the bilateral donors. Nevertheless, the scenario outlined above is a precarious one, particularly in light of reports that the reserves have already declined by $1 billion, and continued difficulties in rolling over the short term debts.

6. The authorities (particularly the Reserve Bank which bears the brunt of the crisis management) should be commended for the steps they have taken and urged to take further steps as needed to prevent arrears on their external payments obligations. They should also be urged to speed up the preparation of a stabilization and reform program so that the new government can act swiftly when it comes to power in early June. Specifically it should be emphasized that earliest possible presentation of a stabilization and reform budget is needed to allow the multilateral agencies to come to India's help.

7. Attachment A, which is the summary of the India CSP, provides an overview of our proposed assistance strategy for India beyond the immediate crisis. The CSP has been approved by the Regional Management and will be discussed by the Operations Committee on May 9.

8. The Indian Delegation is listed in Attachment B. The Finance Minister, Mr. Yashwant Sinha, is standing for election from Patna (State of Bihar) under the banner of Janata Dal (S).

Attachments

India Department
April 25, 1991

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Attachment A

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INDIA

SUMMARY OF THE CSP

1. India is confronted with a balance of payments and fiscal crisis at a time when it is also facing substantial social tensions and political instability. Weakened by several years of excessively expansionary macroeconomic policy and by the impacts of recent events in the Middle East, the external payments position is particularly precarious, and requires concerted government action and donor support. However, Parliamentary elections, scheduled for the end of May, are dominating the political agenda for now, and the prospects for decisive actions on the economy before June-July are limited.

2. The Bank's interests, both its narrowly defined risk management interests and its long standing commitment to India's economic development, call for a flexible and supportive response to this volatile environment. India is at a juncture where it has no choice but to adjust. The only real options are whether this is done in the context of an orderly, growth-oriented adjustment program with external financial support, or through a disorderly and painful process that would leave the country cut off from international capital markets for years to come and significantly reduce its growth.

3. The Bank's strategy should give highest priority to encouraging and supporting India to restore macroeconomic equilibrium, accelerate structural reforms, and regain access to private credit markets abroad. These reforms are the keys to unleashing India's considerable untapped economic potential, and to achievement of its longer-term poverty eradication goals. To these ends, we must (i) sharpen the focus of our CESW and policy dialogue, (ii) maintain readiness and headroom to undertake policy-based lending, in concert with the IMF and other donors, if and when India chooses to proceed with a significant structural reform program, (iii) strengthen our support of efficiency-improving sectoral reforms and institutional development in agriculture, infrastructure, human resources and poverty alleviation through investment and sector lending operations, and (iv) structure our lending strategy to manage risk and exposure carefully in view of India's weakened creditworthiness.

I. Key Recommendations

4. The main elements of the strategy recommended by the Region on which senior management guidance is sought are spelled out below.

5. The Bank should make a major effort to support forceful stabilization and bold structural reform. The proposed strategy develops and maintains readiness to support a comprehensive program of structural reforms with quick-disbursing IBRD policy-based lending of about $1.0 billion per year for about four years within an IBRD resource envelope of about $2.0 billion annually. Given the large external financing needs of India's stabilization cum reform program, this IBRD

program would have to be executed with major emphasis on its catalytic effects in concert with IMF and other donors. It would also entail major efforts to restart India's stalled commercial borrowing program. The proposed use of quick disbursing lending would push India's IBRD portfolio share somewhat above the guideline level.

6. If stabilization is forceful but a comprehensive structural reform program is not undertaken, IBRD lending should be reduced to a maximum of $1.2 billion annually. Lending up to this maximum would be determined by the extent of structural reform undertaken, our assessment of the effect of that reform on India's creditworthiness, and the availability of quality projects.

7. If stabilization is inadequate, IBRD lending would have to be reduced further to a level consistent with protecting the Bank's preferred creditor status and with conserving headroom for supporting stabilization and structural reform when and if undertaken by the Government.

8. Our policy dialogue should aim to make private sector development and orderly public sector retrenchment dominant elements of the adjustment program. To that end, lending in industry and finance should be closely linked to policy reform. Future lending in these sectors will be primarily policy based, or in investment operations that have either a strong policy content (e.g., FILs) or involve important public good externalities (e.g., industrial pollution control).

9. The Bank should support reforms to improve the targetting and increase the cost-effectiveness of social services and enhance the poverty alleviation impact of agricultural investments through regionally/state-focused IDA and blend lending operations. The proposed strategy programs IDA resources for investments in social sectors and for poverty-related agricultural investment projects. In the adjustment scenario, fast disbursing IDA credits should be used to address the social dimensions of adjustment. While the IDA operations will continue to be subject to ordinary project-related conditionalities, no linkage of IDA allocations to macroeconomic performance is proposed.

10. The increase in disbursement percentages on existing projects authorized under the Gulf Initiative should be extended beyond December 1991. This is essential to orderly completion of projects addressing core development priorities under the tight budgetary situation India faces.

Attachment B

LIST OF INDIAN DELEGATION

1. Hon. Yashwant Sinha
   Minister of Finance

2. Mr. S. Venkitaramanan
   Governor
   Reserve Bank of India

3. Mr. S. P. Shukla
   Finance Secretary
   Ministry of Finance

4. Dr. C. Rangarajan
   Deputy Governor
   Reserve Bank of India

5. Dr. Deepak Nayyar
   Secretary and Chief Economic Advisor
   Ministry of Finance

6. Mr. J. L. Bajaj
   Additional Secretary
   Ministry of Finance

7. Mr. Navin Kumar
   Private Secretary to Finance Minister
   Ministry of Finance

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JAN 18 2011
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AK
SS

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION MIGA

Office Memorandum

Urgent/Strictly Confidential BBC

DATE: April 12, 1991 (Sent by Mr. Kashiwaya by fax)

TO: Messrs. B. B. Conable, M. A. Qureshi, A. Karaosmanoglu

FROM: Koji Kashiwaya, CFSVP

EXT.: 80809

SUBJECT: Assistance to India

1. On April 11, Mr. Sinha, Finance Minister of India, and Mr. Shukla, Permanent Secretary, MOF, India, visited Mr. Hashimoto, Finance Minister of Japan and Mr. Utsumi, Vice Minister, MOF, and requested emergency assistance to India.

2. Although India did not explain the details of the current financial difficulty, Mr. Hashimoto replied that Japan was ready:

(a) to extend $150 Million of cofinancing with Asian Development Bank, and

(b) to consider the possibility of further assistance at an informal donors' meeting held by the World Bank on the occasion of the Interim Committee, if India will:

(i) agree with the IMF and the World Bank on its own economic reforms, and

(ii) agree with other donors, including IFIs, to join the multilateral support for India.

3. Mr. Sinha seemed a little disappointed that Japan did not commit a substantial amount of assistance. The Japanese Government was a bit annoyed about the arrogant attitude of the Indian Government who is overdemanding and never seems satisfied with the cooperation extended to it.

4. Mr. Shukla later expressed and confirmed to Mr. Utsumi that:

(a) India is expressing its thanks to Japan's cofinancing with ADB the amount of $150 Million;

(b) India wishes to pursue further assistance from Japan at the informal donors' meeting late April; and

(c) Japan's aid should be extended in the context of multilateral support scheme for India, in coordination with the World Bank and IMF.

5. In parallel, MOF-Japan advised major creditor banks (BOT, IBJ, Sanwa, Fuji, Taiyo-Kobe-Mitsui) not to take a negative position toward their exposure to India for the time being, e.g. the withdrawal of deposits, and to roll over short-term lending. So far, Mr. Sinha requested only BOT to extend additional short-term lending to India.

6. It seems that the Japanese commercial banks understood the position of the Japanese Government. and followed its advice.

cc: Messrs. J. M. Niehuss - o/r, H. Vergin, K. Ohashi - o/r/

AK
SS
BBC
MF file

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

TO:	DATE:
Mr. B. Conable (E-1227)	3/25/91

SUBJECT:

Document From: Mr. Qureshi
To: bbc
Dated: 3/25/91 Reference No.: EXC910325016

Topic: India - Foreign Exchange Crisis

ACTION INSTRUCTIONS:	DUE DATE:

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_____ OTHER: _____

Remarks: _____
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JAN 18 2011
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STRICTLY CONFIDENTIAL

March 25, 1991

Mr. Barber B. Conable

Barber.

India - Foreign Exchange Crisis

India is facing an exceedingly difficult external payments position. The situation has been deteriorating for sometime with foreign exchange reserves continuing to decline, notwithstanding a drawing of $1.8 billion from the Fund in late January. With the delay in the submission of the budget for the fiscal year starting April 1, the resignation of Chandra Shekar's government, and the paralysis in economic decision making until after the general elections scheduled for late May, external confidence in India is rapidly eroding and short-term credit lines are being reduced in the major credit markets. While the Government is attempting to manage the liquidity crisis primarily by sharply reducing imports, it is quite possible that India will go into arrears on its external debt obligations. Indeed, first cases of delayed payment are being reported. The Government is approaching friendly donor governments for fast-disbursing aid but so far without any results.

India's debt servicing obligations to IBRD and IDA are large (about $1.66 billion in CY 1991 with $500 million due over the course of the next four months). The Government has assured us that they will do their utmost to remain current with their repayment obligations to IBRD/IDA. With our net transfers being positive, their incentive to do so is strong.

We have implored the authorities to give very high priority to preparing a bold program of stabilization and adjustment for the new Government to consider and act upon with due haste. Clear evidence of program preparation would allow Bank and Fund to reassure the credit markets and make the point that nothing is gained by the commercial banks' withdrawing credit from a Government poised for decisive action.

The Fund's Article IV consultation mission is now in the field and Bank staff are participating in the discussions. We will take this opportunity to once again reiterate to the officials the need for immediate planning and forceful actions as soon as the new Government has taken office. However, the immediate problem is to prevent a default before a new Government can act to stabilize the situation. Thereafter, even with a bold program of stabilization and reform, the magnitude of the crisis is such that it will take time to restore access to new commercial credit. Therefore, India's adjustment process in the first instance will have to be supported by significant amounts of fast disbursing official assistance not only from the Fund, but also from the Bank and bilateral donors. Our planning and preparatory work is proceeding on this basis and we will keep you informed.

Moeen

Moeen A. Qureshi

India

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: February 1, 1991

TO: Mr. J. William Stanton, EXC

FROM: Fred D. Levy, EAS FDL

EXTENSION: 81947

SUBJECT: Brief for Conable-Camdessus Lunch of February 7, 1991

Attached are briefs for the President on issues concerning India and Zambia, plus a note for information on Mr. Camdessus' upcoming trip to southern Africa.

cc: Messrs. Qureshi, Bock
Ms. Okonjo-Iweala

FDLevy:cmc

BRIEF FOR CONABLE-CAMDESSUS LUNCH MEETING
February 7, 1991

1. **India**

India, facing a major liquidity crisis, obtained some $1.8 billion in late January 1991 under the Fund's CCFF program and a first tranche Standby. Discussions between the Government and the Fund on a follow-up program are starting in the week of February 4, and Mr. Camdessus may inquire about the possibilities of Bank adjustment support.

India's external payments position will remain fragile for some time to come. Despite a more restrictive fiscal stance, it still faces great uncertainties associated with the Middle East crisis, recession in the US, and rapid changes in relationships with its European (east and west) trading partners. The capital account outlook is also uncertain, complicated by a debt service bunching in the mid-1990s associated with debt contracted in the 1970s and 1980s, and with IMF repurchase obligations following from the recently approved CCFF and Standby arrangements. At the same time, private creditors have sharply curtailed India's access to international capital markets and are likely to remain reticent about increasing exposure to India until a balance of payments recovery is well underway.

Should the topic arise, Mr. Conable may wish to emphasize that stabilization based on fiscal restraint, while essential, will not alone extricate India from its economic crisis. A program of structural reform to improve the efficiency and competitiveness of the economy, carried out in tandem with stabilization, is essential to achieving the export growth required to support the future growth and development of the economy. In broad terms, such a program would need to emphasize fiscal structure and performance; trade liberalization; financial intermediation; public sector enterprises; industrial regulation; and social sectors and safety nets.

In undertaking such a program, given the fragility of the external payments situation over the next few years, India would have to be exceedingly careful to finance this program in a way that recognizes the inherent uncertainties in the timing and extent of the export supply response. As much of the financing as possible should be long term, with a substantial concessional component.

The Bank would be prepared to moblize bilateral concessional support, and to come forward with a signficant volume of quick disbursing policy based lending. The Bank is well-positioned by virtue of recently completed sector work in finance, trade, and industrial regulation to provide support in the structural reform areas outlined about. We believe that IMF financing should take the form of an EFF to avoid exacerbating the debt service bunching, and should leave India a reserve access cushion at the Fund that could be called upon should the mid-Nineties be even more difficult than now expected.

Bank-Fund working relationships on India are excellent. In the coming months, efforts should be fully complementary, and a division of labor worked out.

2. **Zambia**

There are no pressing issues to raise with the IMF on Zambia at this time, although the situation evolves on a daily basis, and may need a further update. The earlier issue of how to close the financing gap in 1991, particularly the first quarter, has been solved by the "35/35/35" plan, in which Zambia will draw down reserves by $35 million, the IMF will defer payments in the first quarter by $35 million, and IDA will contribute $35 million in the second tranche of the Economic Recovery Credit. Mr. Conable might express appreciation for the IMF's help in reaching this solution.

In proposing this solution to the financing plan, the IMF noted that it was seeking a special payment arrangement, under which Zambia would pay each month into an SDR account an amount sufficient to cover IMF debt service, and the IMF would have authority to make withdrawals as payments fell due. We have accepted this proposal on the understanding that the Bank would have a similar arrangement for its debt service payments.

One issue Mr. Camdessus might raise is whether the IMF current arrears (i.e., arrears accruing since the freeze date, less the $35 million deferred) would actually be paid by the time of Bank Board presentation of the Economic Recovery Credit. With respect to the Bank arrears in FY91, we are expecting payment by the time of signature, not the time of Board presentation. We propose similar treatment of the IMF current arrears.

If there are further developments on Zambia, we will provide an update.

3. **Mr. Camdessus' trip to Southern Africa**

Mr. Conable should be aware that Mr. Camdessus is about to set out on an extensive tour of countries in Southern Africa, including Botswana, Zimbabwe, Zambia and Mozambique. We have no particular issue to raise. Collaboration with the IMF in all these countries is good. However, if Mr. Conable wishes briefing on Bank/IMF subjects in these countries, we shall be happy to provide it.

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

January 18, 1991

Dear Mr. Secretary:

I have learned of your appointment as Alternate Governor for India on the Boards of Governors of The World Bank Group. I realize this is incident to your responsibilities in your own Government, but I hope you will be in a position to actively participate in the affairs of the Bank Group, as well.

The Executive Directors, Officers and Staff of The World Bank Group believe very strongly in its development mission and in the battle against poverty. We look forward to working with you to make the Bank Group even more effective during the coming years. Congratulations on your appointment and thank you for your willingness to take on this additional responsibility.

I look forward to meeting you in the near future, and send my best personal wishes.

Sincerely,

(Signed) Barber B. Conable

Mr. S.P. Shukla
Finance Secretary
Ministry of Finance
North Block, Central Secretariat
New Delhi 110001
India

cc: Mr. Baijal
Mr. Vergin
Mr. Kassum

ETSanidad:jlk

...ार-इकोफेयर्स
TELEGRAMS-ECOFAIRS

संख्या No.1/1/90-FB.II
भारत सरकार Government of India
वित्त मंत्रालय Ministry of Finance
(आर्थिक कार्य विभाग) (Department of Economic Affairs)

नई दिल्ली/New Delhi, 26th Dec. 1990.

The Secretary,
International Bank for Reconstruction
and Development
1818-H Street, HW
Washington DC 20430
U.S.A.

Sir,

I am directed to state that the Government of India have under Article V, Section 2(a) of the Articles of Agreement of International Bank for Reconstruction and Developments appointed Shri S.P. Shukla, Secretary to the Government of India, Ministry of Finance, Department of Economic Affairs to be India's Alternate Governor on IBRD vice Dr. Bimal Jalan with effect from 17th December, 1990.

Yours faithfully,

(Hardeepak Singh)
Director(FB)

DISTRIBUTION

TO- Executive Director
Executive Vice President, MIGA
Country Director, Bank
Investments Director, IFC
File Credential

FROM - E. T. Sanidad
SECRETARY'S DEPARTMENT

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

January 9, 1991

Dear Mr. Minister:

I have learned of your appointment as Governor for India on the Boards of Governors of The World Bank Group. I realize this is incident to your responsibilities in your own Government, but I hope you will be in a position to actively participate in the affairs of the Bank Group, as well.

The Executive Directors, Officers and Staff of The World Bank Group believe very strongly in its development mission and in the battle against poverty. We look forward to working with you to make the Bank Group even more effective during the coming years. Congratulations on your appointment and thank you for your willingness to take on this additional responsibility.

I look forward to meeting you in the near future, and send my best personal wishes.

Sincerely,

(Signed) Barber B. Conable

His Excellency
Yashwant Sinha
Minister of Finance
Ministry of Finance
North Block, Central Secretariat
New Delhi 110 001, India

cc: Mr. Baijal
Mr. Vergin
Mr. Kassum

ETSanidad:jlk

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Date January 4, 1990

To Mr T.T. Thahane, Vice President & Secretary

From P.V. Bhide, EDS12

Extension 81048

Subject India's Governor in the Bank

Government of India has informed that with effect from December 17, 1990, Mr Yashwant Sinha, Minister of Finance, Government of India, will be India's Governor in Bank Group vice Mr Madhu Dandavate.

Official communication received from Government of India in this regard is attached.

DISTRIBUTION

TO- Executive Director
~~Executive Vice President, MIGA~~
Country Director, Bank
Investments Director, IFC
File Credential

FROM - E. T. Sanidad
SECRETARY'S DEPARTMENT

तार-इकोफेयर्स
TELEGRAMS-ECOFAIRS

संख्या No. F.1/44/90-FB.II

भारत सरकार Government of India
वित्त मंत्रालय Ministry of Finance
(आर्थिक कार्य विभाग) (Department of Economic Affairs)

नई दिल्ली/New Delhi, 17th December, 1990

The Secretary,
International Bank for
Reconstruction and Development,
1818-H Street, N.W.,
Washington D.C ,20433
U.S.A.

Sir,

I am directed to state that the Government of India have under Article V Section 2(a) of the Articles of Agreement of International Bank for Reconstruction and Development appointed Shri Yashwant Sinha, Minister of Finance, Government of India to be India's Governor on IBRD with effect from 17th December, 1990 vice Shri Madhu Dandavate.

Yours faithfully,

(A.K.KHURANA)
Director (FB)

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

TO:	DATE:
(3) * Mr. B. Conable (E-1227)	12/12/90

SUBJECT:

Document From: A. Karaosmanoglu
To: bbc
Dated: 12/12/90 Reference No.: EXC901212001

Topic: INDIA - Primary Education

ACTION INSTRUCTIONS: | DUE DATE:

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Remarks: # NOTE: Mr. Karaosmanoglu's earlier memo of Sept. 26 is attached for reference. (CP)

THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

DATE: December 12, 1990

TO: Mr. Barber B. Conable

FROM: Attila Karaosmanoglu AK

EXTENSION: 81430

SUBJECT: INDIA - PRIMARY EDUCATION

1. This is a follow-up to the September 26, 1990 note we sent you on the above subject where we informed you that we were supporting the Government of India's (GOI) organization of a Seminar on Education for All: Uttar Pradesh.

2. The seminar was held in New Delhi on November 6-9 and attended by senior staff from the Population and Human Resources Department and operational staff of the India Country Department. They have reported that the Seminar was a success for several reasons:

(a) the seminar provided a country forum for Bank staff to stress the institution's strong support for basic education as outlined by you at the World Conference of Education for All, in Jomtein, Thailand;

(b) Bank staff were exposed to a wide range of Indian educators and learned to more fully appreciate GOI's approach to basic education; and

(c) we were able to reach agreement with the GOI on the desired outcomes of and on a timetable for an FY92 lending operation.

3. We expect that the proposed project would cover Basic Education For All in Uttar Pradesh, a State whose population would rank it as the sixth largest country in the world. The project would include support for formal primary schooling, non-formal primary education, adult literacy and post-literacy skill training. The GOI has emphasized, and we agree, that all of the activities must be targetted primarily at disadvantaged people. Specifically, the project would include special strategies to increase access and participation of females, scheduled castes, and scheduled tribes in basic education.

4. The Government has constituted a project preparation team and begun preparation. Government has also asked for assistance with preparation, mainly in the form of local and foreign expert services. We have just received a Japan Grant for that purpose.

5. Despite the fact that project preparation is beginning in earnest, we expect the development of this project to remain very sensitive. The India Department therefore, plans to manage project development very carefully. We shall continue to keep you informed.

cc: Messrs/Mmes. Qureshi (OPNSV, o/r), Husain (Acting OPNSV), Humphrey (AS4DR), Shirazi (AS4CO), Andonyadis, Odeh, Sigl (AS4PW), Bredie, Segerstrom (ASTPH), Kraske, Heaver (NDO), Hamilton, Haddad (PHRDR), Verspoor, Middleton, Lockheed (PHREE), Heyneman (EMTPH), Herz (PHRWD)

RCambridge/RSkolnik:swp

1) AK
2) SS
C.F.

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 90/09/26 DUE DATE : 00/00/00
LOG NUMBER : 901002011 FROM : Mr. Karaosmanoglu
SUBJECT : INDIA - Primary Education

OFFICE ASSIGNED TO FOR ACTION : 3) Mr. B. Conable (E-1227)

ACTION:

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_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS :

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 26, 1990

TO: Mr. Barber B. Conable

THROUGH: Mr. Moeen A. Qureshi

FROM: Attila Karaosmanoglu

EXTENSION: 81430

SUBJECT: INDIA - PRIMARY EDUCATION

1. This note informs you of recent progress in the development of a Primary Education project in India.

2. The Government of India has now formally asked us to assist in developing a Basic Education project. The proposed project would increase access to primary schools, especially for girls and would also improve the quality and efficiency of primary schooling. The proposed project would also support non-formal programs for adult literacy and post-literacy skill training.

3. The proposed operation is planned for ten districts in the eastern part of the State of Uttar Pradesh. This is the most backward area of the State with primary school enrollment and dropout rates above the national average. Girl enrollments are abysmally low, and there is a serious lack of trained teachers and school facilities. The adult literacy rate is also well below the national average, while unemployment and underemployment are endemic.

4. The proposed project is in our FY92 lending program. The project preparation process will officially begin with a Workshop organized by the Department of Education of the Ministry of Human Resources Development and will be held in New Delhi from November 6-9.

5. We are assisting the Government in preparing this Workshop by financing the travel costs of ten interntional experts and supplying relevant Bank publications in the area of Basic Education. Several senior PHR Sector Staff from the Bank will attend the Workshop.

6. We appreciate your interest in and support of this operation and plan to keep you informed as further developments take place.

cc: Messrs. Humphrey (AS4DR), Shirazi (AS4CO), Sigl, Andonyadis (AS4PW), Bredie, Segerstrom, Demetriou (ASTPH), Kraske Heaver (NDO), Middleton, Verspoor (PHREE), Odeh (EM3PH) Heyneman (EMTPH), Haddad (PHRDR)

Mms. Hamilton (PHRDR), Herz (PHRWD)

RCambridge/RSkolnik/HVergin:swp

(3) Mr. Conable
~~(2) Mr. Sandstrom~~
(1) Mr. Khanna

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 27, 1990

TO: Files

FROM: Jochen Kraske, Chief of Mission, AS4ND

EXTENSION: 80340

SUBJECT: INDIA -- Mr. Conable's Meeting with the Annual Meetings Delegation

1. The Minister of Finance, Mr. M. Dandavate, called on Mr. Conable on September 23. He was accompanied by Messrs. Jalan, Finance Secretary, Deepak Nayyar, Chief Economic Advisor, J. Bajaj, Additional Secretary (Economic Affairs), Kumar, Economic Minister, J. Baijal, Executive Director, and P. Bhide, Advisor to the Executive Director. In addition to Mr. Conable from the Bank side the meeting was attended by Messrs. Qureshi, Karaosmanoglu, Vergin, Anupam Khanna, and Kraske.

2. Mr. Conable opened the meeting by welcoming the Indian delegation to the Annual Meetings. He said he would be very interested to hear the Minister's views on how India was expecting to deal with the two principal economic problems: the large budget and balance of payments deficit, and the impact of the current Gulf crisis.

3. The Finance Minister replied that the Government estimated the impact of the Gulf crisis to add up to an additional cost in foreign exchange of $2.4 billions for the next 12 months. This included the impact of the increased oil price, assuming an average price of $25 per barrel; it also included the impact on the flow of remittances and the loss of important export markets. The Minister explained that in response the Government was making additional efforts to increase export earnings. There also will be special efforts to increase the utilization of available aid resources. However, in addition the Government was hoping to receive extra assistance both from the IMF and the World Bank. The Minister suggested that a special facility to be created by the IMF which he had proposed would be very helpful. As far as the World Bank is concerned an increase in the ratio of cost of projects covered by the World Bank would be very helpful. The Minister continued by ensuring Mr. Conable that the Government stood firm in dealing with the reduction of the large budget deficit. He considered that the increase in the oil price had to be passed on in increased gasoline and diesel prices. The recent four monthly budgetary review which he had presented to the Parliament confirmed that this year's budget deficit was substantially reduced as compared to last year's.

4. Mr. Jalan went further to elaborate that the Government had been able to contain the balance of payment crisis; the level of foreign exchange reserves at the end of August was higher than at the end of August 1989. At the same time the Government had kept up its scheduled payments to the IMF; $2.8 billion had been repaid to the IMF in the course of the last year so that the total foreign exchange position of the country had in fact significantly improved. He further explained that the fiscal action taken by the Government on the revenue side and

on the expenditure side was beginning to show results. To absorb the additional cost resulting from the Gulf crisis the Government had embarked on a strategy to increase exports, successful negotiations for the additional export of iron ore, and software products had been concluded with Japan. In addition, the Government was making comprehensive efforts to step up aid disbursements. Mr. Jalan thought that in addition to the measures taken by the Government it would be helpful in expediting the utilization of the Bank/IDA pipeline of funds if (i) the level of cost sharing could be increased, (ii) the time required to restructure individual projects could be reduced, and (iii) the utilization of IDA savings facilitated. Mr. Jalan said that he was hopeful that on this basis additional disbursements to the tune of $400-500 million might be generated in the next 12 months.

5. Mr. Conable assured the Indian delegation that the Bank was willing to do what could be done to facilitate the use of the available commitments, including the utilization of available savings, provided, of course, India was taking care of expeditious project implementation. He further emphasized the importance for the Government to look to the IMF for additional assistance and enquired what the Government's view was in this regard.

6. Mr. Jalan explained that at this point the Government was exploring the possibility of assistance under the compensatory financing facility. The possibility of further IMF assistance was not at present considered although the Government was keeping an open mind and considered further IMF assistance as one of the several available options. Further, for the time being India was trying to solve the pending problems and the impact of the Gulf crisis by relying on its own efforts.

7. Mr. Qureshi also assured the Delegation that the Bank stood ready to expedite disbursements; he felt that in view of the Gulf emergency, there was good reason to provide some additional support in the form of increasing the share of projects funded by the Bank. He stressed, however, that this should not lead the Government to delay action in carrying out the necessary restructuring of projects where appropriate. He then referred to the change in the assessment of India's creditworthiness which he had noted. He felt that a weakening of India's creditworthiness was to a large extent based on the perception in the capital markets that India's macro-economic problems were not being addressed with sufficient vigor. He suggested that it was important for the Government to change this perception and to spell out more clearly what was being done to deal with the macro-economic situation.

8. Mr. Conable expressed his pleasure and gratitude for the fact that at last the Bank was getting involved in primary education. Likewise he expressed his pleasure about the Government's decision to prepare a National Forestry Action Plan in the context of Tropical Forestry Action Planning. He felt it was important to demonstrate the Government's determination to deal with environmental and resettlement issues and to overcome some of the criticism and misunderstanding which had arisen, especially in the context of the Narmada Project. He also referred to

the fact that unresolved issues in the power sector have recently attracted sharp criticism in the Board and required the Government's urgent attention. Mr. Jalan assured Mr. Conable that the Government shared the Bank's concern about the mobilization of resources; power tariff revisions had recently taken place in all major states and the amount of arrears owed by State electricity boards to NTPC and to other central organizations, such as Indian Railways, and Coal India, was being brought down through deductions from Central assistance to the State Governments.

9. The meeting concluded with the Finance Minister reiterating his hope that the Government could count on special assistance from the Bank in the difficult circumstances which they were confronted as the result of the recent oil crisis. Mr. Conable responded with assurances of assistance emphasizing however that the burden of the required stabilization and adjustment would have to be shouldered by the Government.

JKraske:abk

cc: Messrs. Conable/Sandstrom/Khanna
Qureshi
Karaosmanoglu
India Management Team
New Delhi Office

Mr. Sandstrom

File / India

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 27, 1990

TO: Files

FROM: Jochen Kraske, Chief of Mission, AS4ND

EXTENSION: 80340

SUBJECT: INDIA -- Mr. Conable's Meeting with the Annual Meetings Delegation

1. The Minister of Finance, Mr. M. Dandavate, called on Mr. Conable on September 23. He was accompanied by Messrs. Jalan, Finance Secretary, Deepak Nayyar, Chief Economic Advisor, J. Bajaj, Additional Secretary (Economic Affairs), Kumar, Economic Minister, J. Baijal, Executive Director, and P. Bhide, Advisor to the Executive Director. In addition to Mr. Conable from the Bank side the meeting was attended by Messrs. Qureshi, Karaosmanoglu, Vergin, Anupam Khanna, and Kraske.

2. Mr. Conable opened the meeting by welcoming the Indian delegation to the Annual Meetings. He said he would be very interested to hear the Minister's views on how India was expecting to deal with the two principal economic problems: the large budget and balance of payments deficit, and the impact of the current Gulf crisis.

3. The Finance Minister replied that the Government estimated the impact of the Gulf crisis to add up to an additional cost in foreign exchange of $2.4 billions for the next 12 months. This included the impact of the increased oil price, assuming an average price of $25 per barrel; it also included the impact on the flow of remittances and the loss of important export markets. The Minister explained that in response the Government was making additional efforts to increase export earnings. There also will be special efforts to increase the utilization of available aid resources. However, in addition the Government was hoping to receive extra assistance both from the IMF and the World Bank. The Minister suggested that a special facility to be created by the IMF which he had proposed would be very helpful. As far as the World Bank is concerned an increase in the ratio of cost of projects covered by the World Bank would be very helpful. The Minister continued by ensuring Mr. Conable that the Government stood firm in dealing with the reduction of the large budget deficit. He considered that the increase in the oil price had to be passed on in increased gasoline and diesel prices. The recent four monthly budgetary review which he had presented to the Parliament confirmed that this year's budget deficit was substantially reduced as compared to last year's.

4. Mr. Jalan went further to elaborate that the Government had been able to contain the balance of payment crisis; the level of foreign exchange reserves at the end of August was higher than at the end of August 1989. At the same time the Government had kept up its scheduled payments to the IMF; $2.8 billion had been repaid to the IMF in the course of the last year so that the total foreign exchange position of the country had in fact significantly improved. He further explained that the fiscal action taken by the Government on the revenue side and

on the expenditure side was beginning to show results. To absorb the additional cost resulting from the Gulf crisis the Government had embarked on a strategy to increase exports, successful negotiations for the additional export of iron ore, and software products had been concluded with Japan. In addition, the Government was making comprehensive efforts to step up aid disbursements. Mr. Jalan thought that in addition to the measures taken by the Government it would be helpful in expediting the utilization of the Bank/IDA pipeline of funds if (i) the level of cost sharing could be increased, (ii) the time required to restructure individual projects could be reduced, and (iii) the utilization of IDA savings facilitated. Mr. Jalan said that he was hopeful that on this basis additional disbursements to the tune of $400-500 million might be generated in the next 12 months.

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8. Mr. Conable expressed his pleasure and gratitude for the fact that at last the Bank was getting involved in primary education. Likewise he expressed his pleasure about the Government's decision to prepare a National Forestry Action Plan in the context of Tropical Forestry Action Planning. He felt it was important to demonstrate the Government's determination to deal with environmental and resettlement issues and to overcome some of the criticism and misunderstanding which had arisen, especially in the context of the Narmada Project. He also referred to

the fact that unresolved issues in the power sector have recently attracted sharp criticism in the Board and required the Government's urgent attention. Mr. Jalan assured Mr. Conable that the Government shared the Bank's concern about the mobilization of resources; power tariff revisions had recently taken place in all major states and the amount of arrears owed by State electricity boards to NTPC and to other central organizations, such as Indian Railways, and Coal India, was being brought down through deductions from Central assistance to the State Governments.

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JKraske:abk

cc: Messrs. Conable/Sandstrom/Khanna
Qureshi
Karaosmanoglu
India Management Team
New Delhi Office

Country: INDIA
September 23 at 12:30 P.M.

Delegation: Mr. M. DANDAVATE, Minister of Finance
Mr. R.N. MALHOTRA, Gov. Reserve Bank
Mr. B. JALAN, Finance Secretary
Mr. Deepak NAYYAR, Chief Econ. Adv, MOF

BACKGROUND

- Major macro-economic balances urgently require correction. Consolidated budget deficit has remained in 8-10% of GDP range over the last three years, while current account deficit has averaged 3% of GDP.
- Export growth this year (14% in $ terms) is below last year. Reserves down to two months' imports.
- Real Government effort to restrain expenditures -- evidence of some success.
- Decisive action on stabilization and economic reforms hampered by political weakness of coalition government and preoccupation with security issues.
- Gulf crisis compounds difficulties. Loss of remittances from 200,000 workers in Iraq and Kuwait estimated at $300m annually. Substantial repatriation costs also. Increased costs of oil imports estimated at $2 billion. Overall BOP effect could exceed 10% of exports or 1% of GDP leading to significant slowdown in growth.

POINTS TO MAKE TO DELEGATION

1. **Acknowledge the difficulties** faced by the Government due to the **Gulf crisis**. repatriation and resettlement of workers, loss of remittances, export of goods and services, and rise of oil import bill.

   Bank trying to help both with emergency assistance and over the medium-term.

   Ask delegation what steps are being taken to deal with the crisis.

2. Stress the **urgency of economic stabilization and major reforms** to sustain medium-term growth. Three critical areas are the **budget deficit**, **export development** and general **economic policy reform**.

   Inquire how they plan to press ahead (which they must) without jeopardizing the budget or the balance of payments.

3. **Lending Program**. Appreciate progress made in key areas of social development. Personally pleased that Bank will work with Government in the Education For All program emphasizing primary education. Growing involvement of IDA in such activities and in agriculture strengthen India's case for the next replenishment.

   For IBRD lending, stress our difficulty in continuing commitments with unresolved sector policy issues (especially power and finance) and implementation problems in other (e.g. highway, urban) sectors.

4. **Environment, Forestry and Resettlement**. Commend Government initiative in preparing National Forestry Action Plan (TFAP). We want to work closely in developing Environmental Action Plan (IDA-9 understanding). Finally, urge Government to develop guidelines and improve resolution of resettlement issues which are increasingly prominent.

IF THE DELEGATION MENTIONS:

1. **IDA Savings**

   YOU SHOULD ASSURE the delegation that we are doing all we can. It would help if project performance can be improved.

   Moeen has your approval for his proposal on increased cost sharing.

Estimated GDP Growth: 4.5% p.a. (1990)
Lending Program: (FY91-92) $5,403m

FY90 Commitments: $1,940.4m
Disbursements: $1,991.65m

B BC

INDIA

Stabilization

India's economic management faced a major stabilization task even before the onset of the Middle East crisis. Macro imbalances, particularly the public sector deficit, had grown to potentially unmanageable proportions. GOI had undertaken, in its FY90/91 budget, to reduce its budget deficit by 1.4 percent of GDP. The increased oil import bill (about $2 billion for 12 months) and its associated fiscal cost call for more decisive actions on the stabilization front. These would include:

- Containment of the fiscal deficit through expenditure control and revenue measures (including pricing and cost recovery in the public sector). The target of 1.4 percent of GDP reduction in the deficit should not be relaxed and needs to be followed up by similar reductions in the next two fiscal years;

- Passing on of increased petroleum prices to domestic consumers. While India's petroleum prices (on the average) are broadly in line with the new higher international prices, international price increases must be passed on if the fiscal imbalance is to be reduced and consumption of petroleum products curtailed to help reduce the oil import bill; and

- Even with the adjustment of domestic oil prices and conservation measures, India's current account deficit would widen this year. An essential policy measure is a more aggressive depreciation of the domestic currency which would strengthen export performance and help reduce imports through the price mechanism. Coupled with the above measures, a faster Rupee depreciation would send a strong signal to the international capital markets that India is intent on protecting its creditworthiness.

1990 ANNUAL MEETINGS

INDIA

SENIOR MANAGEMENT UPDATE (BULLET POINTS)

Impact of Oil Crisis

Based on IEC's scenario "B" we estimate that India's oil import bill will increase by as much as $2 billion over the next 12 months in the absence of major new conservation or substitution initiatives. In addition, India faces the loss of remittances of about US$300 million per year from almost 200,000 workers located in Iraq and Kuwait at the onset of the crisis, as well as the costs of their repatriation. The overall foreign exchange losses would exceed 10% of exports and may amount to almost one per cent of GDP. Given India's already weak balance of payments position and a very low level of reserves, a substantial slowdown in GDP growth would ensue, unless India obtains additional concessional assistance to facilitate its adjustment to this latest shock. You should express the Bank's appreciation of the difficulties faced by the Government in managing the situation, but you should emphasize the importance of developing an economic plan to deal with the emergency and to sustain medium term growth.

September 11, 1990

1990 ANNUAL MEETINGS BRIEF

INDIA September 23, 1990 at 12:30 P.M.

Meeting with: M. Dandavate, Minister of Finance
R.N. Malhotra, Governor, Reserve Bank of India
B. Jalan, Finance Secretary
Deepak Nayyar, Chief Economic Advisor, Ministry of Finance

Population: 830.7 m (1989); **Estimated Growth Rate:** 2.1 % (1989);

GNP per capita: $ 338.7 (1988)

	(US$ million)		(US$ million)
Total Commitments to FY90:	35,274.90	**FY90** Commitments:	1,940.40
of which:		Disbursements:	1,991.65
Bank (134 operations)	18,319.20	Amortization:	474.73
IDA (178 operations)	16,955.70		
Total Undisbursed:	12,786.30		
Lending Program FY91-92:	5,403.00		

Summary Data	Average 1985-89	Projection 1990
GDP growth	5.6	4.5
Export growth	10.8	9.9
Import growth	7.2	5.7
Current Acc. Balance % GDP	-2.9	-3.1
Gross Debt Service Ratio	26.5	26.0
Annual Inflation Rate	9.0	7.5

Aid Group Meeting: Consortium
Last Meeting: 6/18-19/90
IMF Status as of: August 1990
Article IV: Active

Background: India has entered the 90s with major macro-economic imbalances which require urgent correction. The dual tasks of economic stabilization and major reforms have been made more urgent and difficult by the oil crisis. Over the next 12 months, the highest priority should be given to: (a) reducing the budget deficit and developing and implementing a contingency plan for dealing with both the budgetary and balance of payments implications of the oil crisis; (b) intensifying export development efforts; and (c) sustaining the momentum of economic policy reform.

Issues likely to be raised by Delegation

1. IDA Savings and Allocations

Issues to be raised by Bank Management

1. Stabilization and Economic Reform
2. Lending Program
3. Environment and R&R

Attachments

Five Year Lending Program: FY90-94 (FY90 actual)
Biographical Information

Background

1. Indian has entered the 90s with major macro-economic imbalances which require urgent correction. The consolidated (Centre and states) budget deficit has remained in the range of 8% to 10% of GDP over the last three years and the current account deficit has averaged almost 3% of GDP. Since 1987, its foreign exchange reserves have declined by about US$3 billion; as of July 31, 1990 gross reserves (excluding gold) totalled only US$3.7 billion, less than 2 months of imports. Export growth this year (14% in dollar terms) is below last year's rate. The real effective depreciation of the rupee has been slowed and the rupee/US dollar rate has been held stagnant. Over one-half of India's exports are dollar denominated. The dual tasks of economic stabilization and major reforms have been made more urgent and difficult by the oil crisis. In the absence of major new energy conservation/substitution and/or rationing measures, for each US$1 per barrel increase in the price of oil, India's import bill would increase by about US$200 million per year, or by about US$1.2 billion per year for a US$6 per barrel increase. On the budgetary side, a parliamentary review of budget performance during the first four months of the fiscal year has just been completed. Due to technical difficulties of correcting for timing problems, this review is more important for its symbolic value than for any hard conclusions about whether the budget is on track. It does, however, suggest that the Government is making a real effort to restrain expenditures. Data for the first months of the year on money supply growth and roughly constant inflation despite significant administered price increases also indicate that the Government's efforts may be having some effect. Terrorist activity in Kashmir, Punjab and Assam, as well as the political uncertainties faced by the multi-party coalition government, compound the difficulties of dealing decisively with stabilization and economic reform issues.

Issues Likely to be Raised by the Delegation

IDA Savings and Allocations

3. The Indians are likely to again raise concerns about the slow progress in responding to their requests for utilizing IDA savings in ongoing projects and the unacceptability of cancelling large amounts of committed IDA resources. Substantial efforts have already been made to address this issue through case-by-case restructuring of 14 projects in which performance-to-date regarding essential covenants makes such action possible. However, it will be extremely difficult to identify meaningful restructuring of individual projects to absorb the significant additional savings expected to be realized over the next few years. We have preliminarily estimated that at least US$700 million of committed IDA resources under our existing portfolio could remain unutilized by the expected closing dates in the absence of additional restructuring. You should assure the delegation that we are actively exploring all possible approaches to keep these resources dedicated to India's development efforts. You should seek the Government's close cooperation in these efforts and urge the Indian authorities to work closely with the Bank to improve the performance of the projects in which these prospective savings have been identified. The delegation may also raise again the issue of India's share in IDA allocations, including IDA reflows.

Issues to be Raised by Management

Stabilization and Economic Reform Issues

3. You should stress that while recent developments in the Persian Gulf make the tasks of stabilizing and reforming the economy more difficult, they also make it all the more urgent. You should ask the Minister what steps the Government is taking to deal with the serious consequences of increased oil prices and reduced remittances. You should also emphasize the three critical areas in which the Government needs to focus its efforts during this year. First, it is essential that it succeed in reducing the budget deficit. In this regard, you should commend the Government for meeting its commitment to a four-monthly Parliamentary review of the budget, and for the evident effort it has made to restrain expenditure growth. You should stress the importance of maintaining this discipline throughout the year and the need for developing and implementing a contingency plan for dealing with both the budgetary and balance of payments implications of the oil crisis, should prices remain high. Second, efforts to develop exports must be intensified. In this connection maintaining the flexible exchange rate policy of previous years is particularly important. Third, the hard-won momentum of economic policy reform must not be lost. You should stress the importance of not rolling back reforms previously taken, and pressing ahead with reforms that can be undertaken without jeopardizing the budget or balance of payments.

Lending Program

5. You should commend the Government on the progress that has been made in key areas of social development. You should also convey the Bank's satisfaction that IDA has been invited to work with the Government in developing a lending program in GOI's Education for All program with emphasis on primary education. You may want to emphasize that the use of IDA funds in agriculture coupled with the growing involvement of IDA in most of the other key social programs will make a strong case for continued sizeable IDA assistance for India in the next replenishment. With respect to IBRD lending, however, you should convey the Bank's concern with the prevalence of unresolved sector policy issues (particularly in power and finance) and of implementation issues in areas such as highways and the urban sector which undermine the quality of our ongoing and upcoming lending operations. You should stress the difficulty of continuing to commit IBRD resources in these areas in the absence of action to deal with sector policy issues and implement lessons learned from ongoing operations.

Environmental and R&R issues

6. You should commend the Government's initiatives on the preparation of a National Forestry Action Plan in the context of the global effort of Tropical Forestry Action Planning (TFAP) and emphasize the Bank's new requirements, under the IDA 9 understandings, for development of an Environmental Action Plan. You should inform the delegation that we will be approaching India about this in the near future and want to work closely with them on its development. You should also express the Bank's concern on the increasing prominence of R&R problems and urge the Government to follow up with its development of guidelines to improve the resolution of resettlement problems.

08/30/90

INDIA: FIVE YEAR LENDING PROGRAM (FY90 - FY94)

(US $ MILLION)

ATTACHMENT 1

COUNTRY OPERATIONS (NON-SECTOR)	FY90	FY91	FY92	FY93	FY94
SUB-TOTAL	0	0	0	0	0
AGRICULTURE					
1 Watershed Dev.(Plains)	62				
2 Watershed Dev.(Hills)	88				
3 Punjab Irrig. II	165				
4 Integ Horticulture (NWHR)		72			
5 Dam Safety Assess & Rehab		250			
6 Agric Devel (TN)		100			
7 AP Cyclone Emerg Recons		200			
8 Subernarekha Irr II (Orissa)			280		
9 Narmada River Basin Dev I			150		
10 Forestry I (Mahar)			150		
11 Inland Fisheries II			150		
12 Kangsabati Modernization				200	
13 State Ag Devel II				100	
14 Subernarekha Irr II (Bihar)				200	
15 Forestry II (WB)				150	
16 NABARD II				300	
17 Agric Devel III					200
18 UP G'water/Lnd Dev					200
19 Nat'l Water Man II					150
20 NCDC IV					150
SUB-TOTAL	315	622	730	950	700
INDUSTRY AND FINANCE					
1 Technology Development	200				
2 Cement Industry Restruct	300				
3 Petrochemicals		245			
4 Indust Pollution Control		250			
5 Indust Energy Conservation		250			
6 Bagasse Paper Plant			150		
7 Financial Interm/DFI			300		
8 Capital Goods				200	
9 Industrial Polln Cont II				200	
10 Technology Devel II					200
11 Steel Marketing					200
12 Financial Interm/CBs					300
SUB-TOTAL	500	745	450	400	700

TRANSPORT AND ENERGY	FY90	FY91	FY92	FY93	FY94
1 Priv Power Utils (TEC)	98				
2 Northern Region Trans.	485				
3 Regional Power Systems		375			
4 Power Utils Eff Imp		265			
5 Priv Power Util (BSES)		168			
6 Nat. Highways II		192			
7 NTPC Gas-Based Gen			200		
8 Offshore Gas Util'n			300		
9 Mini Hydro			70		
10 Railways Modern IV			300		
11 Baglihar Hydro				250	
12 Bombay Gas Distrb'n				125	
13 Port Modernization				250	
14 Power (Uniden)					250
15 Coal Sector Efficiency					300
16 Highways (Uniden)					200
17 Urban Trnspt Bombay					150
SUB-TOTAL	583	1000	870	625	900
POPULATION AND HUMAN RESOURCES					
1 Hyderabad Water & Sew	90				
2 TN Int Nutrition II	96				
3 Technical Education I	260				
4 Popn Training (VII)	97				
5 ICDS I (Orissa & AP)		106			
6 Technical Education II		250			
7 Rural Water Supply		90			
8 ICDS II (Bihar & MP)			170		
9 Population VIII			100		
10 Primary Education			200		
11 Housing Finance II			200		
12 Bombay Sewage Disposal			100		
13 Health I				200	
14 Primary Educ II				200	
15 Madras Water				200	
16 Rural Water II				200	
17 Popn/Nutrition (Uniden)					150
18 Education (uniden)					200
19 Rural Water III					150
SUB-TOTAL	543	446	770	800	500

	FY90	FY91	FY92	FY93	FY94
TOTAL ALL SECTORS:	1940	2813	2820	2775	2800
of which: IBRD	1108	1907	1910	1865	1900
IDA	833	906	910	910	900
Number of Projects	11	14	15	14	14

ATTACHMENT 2

BIOGRAPHICAL INFORMATION

Professor Madhu Dandevate, Finance Minister (Governor, World Bank)

Professor Dandevate has served as Minister of Finance since December 1989. Prior to his election to the Lok Sabha, where he has represented the same constituency since 1971, he was a professor of physics at the Siddartha College of Arts and Science in Bombay. He served for two years as Railway Minister under the first Janata Government. He led the Indian delegation at the Interim Development Committee meetings in May.

Mr. R.N. Malhotra, Governor, Reserve Bank of India (Alternate Governor, IMF)

Mr. Malhotra has been Governor of the Reserve Bank since 1985. He served as Executive Director of the IMF from 1982-85. He is a member of the Indian Administrative Services and has served in many senior positions, including Secretary of Finance. Mr. Malhotra has been a member of India's delegation for five years.

Mr. Bimal Jalan, Finance Secretary (Alternate Governor, World Bank)

Mr. Jalan was Executive Director for India at the IMF from mid-1989 until December 1989 when he was appointed Finance Secretary. Previously, he had been Secretary, Economic Affairs in the Finance Ministry. He was influential in shaping India's economic policy in the early and mid-1980s as Chief Economic Advisor in the Finance Ministry, favoring reduction in direct controls over economic activity.

Mr. Deepak Nayyar, Chief Economic Advisor and Secretary, Economic Affairs, Ministry of Finance

Mr. Nayyar, an academic who has held Chairs in Economics at Jawaharial Nehru University and the Indian Institute of Management in Calcutta, was appointed to his present position in July 1990. He had previously been Economic Advisor, Ministry of Commerce when Mr. V.P. Singh was Commerce Minister and Mr. Abid Hussain was Commerce Secretary. He was a Rhodes Scholar and has a D.Phil from Oxford where he has also taught. His economic leanings are left of center.

WP+287

1990 ANNUAL MEETING BRIEF

INDIA

1. Meeting Time and Place: Tuesday, September 25, 1990. at 3:30 PM, Sheraton Washington Hotel, Room 5045.

2. Representing India:

Hon. Madhu Dandavate	Minister of Finance
Mr. Bimal Jalan	Finance Secretary
Mr. J. L. Bajaj	Additional Secretary, Dept. of Economic Affairs
Mr. J. S. Baijal	Executive Director, IBRD
Mr. Pradeep Bhide	Adviser to the Executive Director

3. Representing IFC:

Sir William Ryrie
Mr. Judhvir Parmar
Mr. Wilfried E. Kaffenberger
Mr. Jemal-ud-din Kassum
Mr. Daniel Adams
Mr. Athishdam Tharmaratnam
Mr. Mohan R. Wikramanayake
Mr. Khalid Mirza

4. Issues or Discussion Topics to be Raised by IFC:

- We appreciate the support shown for our operations by GOI and the local institutions.

- We will continue to need their support as lending volume this year is uncertain. We will be emphasizing equity.

- We are placing increased emphasis on mobilization: where B loans are possible, we would appreciate GOI's clearance. (This would be a change from the recent past.)

- MARUTI: We are encouraged by the prospect of extending significant help to MARUTI's privately-owned component suppliers. However, one issue we face is the shareholding structure of MARUTI: 60% GOI, 40% SUZUKI.

  - Apparently, GOI has agreed to divest, over a period, up to 9% to employees thus reducing its percentage ownership to 51%. How about divesting a further 11% to UTI?

  - This would be good for the company (greater independence of management) and good for GOI (cash from the sale).

- IFC would like to be more actively involved in institution-building investments in the financial sector, including venture capital, leasing, and financial services. However, the GOI appears to be applying a net foreign exchange surplus requirement (foreign exchange earnings to be a multiple of five times foreign exchange outflows) to allow foreign investment in the financial sector. This requirement will severely limit IFC's activities in the financial sector.

- In the area of technical assistance, IFC would like to work with SEBI in providing advice on various aspects of capital markets development.

- IFC is also keen on promoting collective investment vehicles for foreign portfolio investment (e.g. country funds) and the access of Indian industrial groups and financial institutions to the international capital markets.

COUNTRY BRIEF

INDIA

A. Current Strategy and Work Program

1. Strategy of Asia II

a) Expansion of Operations

- In FY90, the Board approved a record $147 million, including $39 million in equity and $80 million in the power sector alone. India is now fifth in IFC's country exposure list, with 7.1% of held portfolio (up from 6.5% in FY89).

- However, the pipeline for this year looks weak mainly because GOI is going slow on large capital intensive projects (such as petrochemicals) and smaller projects can be easily financed by the local institutions using ERAS funds.

- IFC's strategy is therefore to:

  - focus on equity, particularly straight equity;

  - give high priority to the very few large lending prospects still moving whilst positioning ourselves in others for the future; and

  - explore further ways in which we might wholesale our funds.

b) Areas for Investment

- Equity: Our objective is to achieve a good mix of large equity investments, both in greenfield projects and in the expanding equity base of large industrial companies as well as in small straight equity investments, particularly where transfer of technology is involved. GOI is sensitive to our achieving a good mix and also to our holding period. Small equities will largely be channeled through our $25 million arrangement with ICICI. Larger equities, with an emphasis on straight equities (acquired through the convertible debenture route) will be handled directly from Washington.

- Power: We plan to conclude BSES ($50 million) with the Bank and to work with the Government of Gujarat to promote a greenfield electricity generating project. This is going to be difficult and will take time as new regulations are needed and collecting revenue from the State Electricity Board is a major problem. However, if successful, it could pave the way for other such projects in other states.

- Manufacturing: There appear to be no new large individual lending prospects at this time. Instead, we are focusing on developing a $50 million loan facility to be channeled through MARUTI to help develop and expand its component suppliers.

- Shipping: We have been approached by a second shipping company (VARUN) for both loan and equity. The sponsors appear to be acceptable.

- Future Prospects: We are continuing to pursue broader opportunities in the petrochemicals, steel making and ferrous products sector and in general manufacturing, automobile manufacturing, textiles and agri-business. However, realistically, we expect these efforts to constitute more a positioning for the future rather than to result in near-term investment volume.

2. Strategy of CMD

- IFC would like to be more actively involved in institution-building investments in the financial sector, including venture capital, leasing, and financial services. However, the GOI appears to be applying a net foreign exchange surplus requirement (foreign exchange earnings to be a multiple of five times foreign exchange outflows) to allow foreign investment in the financial sector. This requirement will severely limit IFC's activities in the financial sector.

- In the area of technical assistance, IFC would like to work with SEBI in providing advice on various aspects of capital markets development.

- IFC is also keen on promoting collective investment vehicles for foreign portfolio investment (e.g. country funds) and the access of Indian industrial groups and financial institutions to the international capital markets.

- Until recently CMD's investments in India have mainly been in the leasing and housing finance sectors. Lately, CMD has focused on the development of a broad range of financial services in India and on the growing Indian venture capital industry. CMD is currently examining investment opportunities in a financial services company, a venture capital fund and new India country funds. A rights issue in the Housing Development Finance Corporation was approved in early FY91; we are also considering a loan to expand HDFC activities.

B. IFC's Project Approvals and Pipeline

1. Approvals (FY87-FY90) [a]

Approvals ($ Million)	FY87	FY88	FY89	FY90
Number of Projects	5	4	7	9
Loan	97.87	6.16	99.78	108.60
Equity	1.59	1.59	25.43	38.57
Total	99.46	7.75	125.21	147.17

[a] Includes transactions of Capital Markets Department and Energy Unit.

2. Last Year's Approvals (FY90) [a]

Approvals	Net IFC Investment Loan	Equity	Total	Project Cost ($Million)	Activity
CESC Ltd.	20.10	0.00	20.10	92.20	Electricity distribution
Herdillia Oxides & Electronics Ltd.	0.00	0.32	0.32	13.40	General manufacturing
India Lease Development Ltd.	3.50	0.44	3.94	13.37	Leasing
ICICI Equity	0.00	25.00	25.00	25.00	Equity line
Infrastructure Leasing & Financial Services	15.00	1.95	16.95	16.95	Leasing
Mahindra & Mahindra Ltd.	10.00	6.37	16.37	212.00	Automobile manufacturing
Mahindra Ugine Steel Co. Ltd. (MUSCO)	0.00	1.32	1.32	26.20	Steel/tourism
Tata Electric Companies (TEC)	60.00	0.00	60.00	273.70	Electricity generation/ distribution
Tata Keltron Ltd.	0.00	0.13	0.13	0.68	General manufacturing
Technology Development & Information Company of India	0.00	2.87	2.87	60.00	Venture capital
Titan pre-emptive rights	0.00	0.17	0.17	9.10	General manufacturing
	108.60	38.57	147.17	742.60	

[a] Includes transactions of Capital Markets Department and Energy Unit

3. This Year's Pipeline (FY91)

Project	Net IFC Investment	Project Cost ($ Million)	Activity
a) Asia II Investment Department			
High Probability			
Bihar Sponge Iron Ltd.	0.10	2.40	Rights issue (approved)
Triveni Pool Intairdril Ltd.	4.29	13.50	Oilfield development
Bombay Suburban Electricity Supply Corporation	50.00	653.00	Electricity generation
Medium Probability			
Mukand Aluminium	4.80	96.10	General manufacturing
Maruti Line	50.00	n.a	Automobile manufacturing
Varun Shipping	n.a	115.00	Shipping
Low Probability			
JK Synthetics	55.00	750.00	Petrochemicals
Nestle Foods	3.50	n.a	Agri-business
ITC Agro-Tech	0.70	6.50	Agri-business
Essar	n.a.	425.00	Iron ore pelletization
Kelloggs	5.40	35.00	Agri-business
Bharat Forge	n.a	n.a.	Steel-making
Gujarat Power	55.00	600.00	Electricity generation
Gujarat Textiles	n.a.	n.a.	Textiles
Gujarat Compressed Gas	n.a.	n.a.	Gas autofuel
GSFC	n.a.	600.00	Petrochemicals
Titan	n.a.	n.a.	General manufacturing
b) Capital Markets Department			
High Probability			
Indus Venture Capital Fund	1.40	6.25	Venture capital
Alliance India Fund	5.00	100.00	Country fund
HDFC Rights Issue (approved)	0.44	23.85	Housing finance
HDFC Term Loan	50.00	200.00	Housing finance
UTI Country Fund	5.00	100.00	Country fund
Low Probability			
Kotak Mahindra Finance	0.10	n.a	Financial services
Godrej & Great Eastern	1.00	n.a.	Financial services
Nicco Hambros	1.00	n.a.	Financial services
Credit Capital Venture Fund	0.70	7.00	Venture capital

C. Environment for IFC Activity

(Further details are given in Appendix 2)

- o There has been an overall improvement in India's economic performance during the 1980s, accompanied by similar improvements in the investment climate and the performance of the private corporate sector.

- o In the last five years, the economy has come under increasing stress from persistent fiscal and balance of payments deficits (respectively, 10.7% and 3.3% of GDP in 1989/90) and a growing external debt (total external debt of about US$63 billion in March 1990 and debt service ratio of about 27.3%).

  - The risk that the public sector deficit (10.7% of GDP) will continue to put upward pressure on prices and destabilize the balance of payments is of considerable concern. The new Government has acted to reduce the high fiscal deficit (through the 1990/91 Budget) using a combination of additional taxation and expenditure controls. Budget results for the first quarter of 1990/91 indicate the measures are succeeding thus far.

  - The steady increase in the current account deficit to over US$8.8 billion in 1989/90 (from 1.7% of GDP in 1980/81 to 2.7% in 1985/86 and to 3.3% in 1989/90), which was due largely to increasing interest payments abroad and stagnating private remittances, resulted in a large buildup of external debt.

  - Much of the increase in external borrowing has been from private creditors, and the share of public and publicly-guaranteed MLT debt owed to commercial sources has risen from 24% in March 1985 to 41% in March 1990.

  - Some hardening of terms on external commercial borrowings can be expected in the first half of the year.

- o Recent developments in the Middle East could have serious consequences for India due to the direct effects on the balance of payments, fiscal deficit and external debt of higher oil prices, higher prices for other imported raw and intermediate materials and reduced remittances.

  - Gross imports of crude oil and petroleum products (26.03 million mt in 1989/90) comprise about 24% of total crude oil and petroleum product supplies and account for 17.8% of the total import bill (total crude oil and petroleum products imports were about $3.8 billion in 1989/90).

  - Each $1.0/barrel increase in the international oil price increases India's oil import bill by $237 million. Total international reserves (minus gold) were $3.533 billion at end-July 1990.

- Austerity measures were in place prior to recent developments, but India also drew down heavily on oil stocks to reduce imports and save foreign exchange. Replenishing stocks may prove difficult and expensive.

o In the short-term, India's major challenge is to sharply reduce the high fiscal deficit and improve the external accounts. This may prove doubly difficult given recent events in the Middle East and the absence of a major adjustment program for the domestic economy.

  - The 1990/91 Budget provides for a bold reduction (1.4% of GDP) in the Central Government deficit (from 8.4% to 7.0% of GDP), to be achieved by a combination of additional taxation effort and expenditure constraint.

  - On the balance of payments, preliminary targets call for a decline in the current account deficit of 1.3% of GDP (from 3.3% to 2.0% of GDP) by 1994/95; to be achieved by continued active management of the exchange rate, fiscal restraint to consumers, domestic demand and additional measures to encourage exports.

  - In the short-run, GOI will attempt to supplement reserves by exporting surplus wheat, non-basmati rice and iron ore (for about US$500-700 million); adjusting the composition of imports; and taking additional bilateral aid, if offered.

o There are no indications yet as to whether the Government will seek balance of payments support through IMF arrangements or whether the Bank is considering providing stabilization support (via quick disbursing loans or accelerated disbursements).

o The effects of increased oil prices, reduced remittances (and NRI deposits) and generally higher import prices will probably not be reflected in growth performance until the latter part of FY91 and early FY92. The budget and balance of payments situations will continue to be difficult and the trade balance could deteriorate if the economies of India's main trading partners slow down.

o The Government has indicated that large, capital intensive projects, particularly those with large foreign exchange requirements, would not be considered high priority, at least for the time being.

RIGale:glb
WP+286

WP+286

1990 ANNUAL MEETING BRIEF

INDIA

1. Meeting Time and Place: Tuesday, September 25, 1990. at 3:30 PM, Sheraton Washington Hotel, Room 5045.

2. Representing India:

Hon. Madhu Dandavate	Minister of Finance
Mr. Bimal Jalan	Finance Secretary
Mr. J. L. Bajaj	Additional Secretary, Dept. of Economic Affairs
Mr. J. S. Baijal	Executive Director, IBRD
Mr. Pradeep Bhide	Adviser to the Executive Director

3. Representing IFC:

Sir William Ryrie
Mr. Judhvir Parmar
Mr. Wilfried E. Kaffenberger
Mr. Jemal-ud-din Kassum
Mr. Daniel Adams
Mr. Athishdam Tharmaratnam
Mr. Mohan R. Wikramanayake
Mr. Khalid Mirza

4. Issues or Discussion Topics to be Raised by IFC:

- We appreciate the support shown for our operations by GOI and the local institutions.

- We will continue to need their support as lending volume this year is uncertain. We will be emphasizing equity.

- We are placing increased emphasis on mobilization: where B loans are possible, we would appreciate GOI's clearance. (This would be a change from the recent past.)

- MARUTI: We are encouraged by the prospect of extending significant help to MARUTI's privately-owned component suppliers. However, one issue we face is the shareholding structure of MARUTI: 60% GOI, 40% SUZUKI.

  - Apparently, GOI has agreed to divest, over a period, up to 9% to employees thus reducing its percentage ownership to 51%. How about divesting a further 11% to UTI?

  - This would be good for the company (greater independence of management) and good for GOI (cash from the sale).

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- IFC is also keen on promoting collective investment vehicles for foreign portfolio investment (e.g. country funds) and the access of Indian industrial groups and financial institutions to the international capital markets.

INDIA
STATEMENT OF IFC INVESTMENTS AS OF JUNE 30, 1990 a/
(US$ Million)

Fiscal Year	Obligor	Business	Original Investment Equity	Original Investment Loan	Original Investment Total	IFC Holding Equity	IFC Holding Loan	IFC Holding Total	Total Undis. (Incl/Part.
1959	Republic Forge Co.	Steel for forging	0.00	1.50	1.50	0.00	0.00	0.00	0.00
1959	Kirloskar Oil	Diesel engine	0.00	0.80	0.80	0.00	0.00	0.00	0.00
1960	Assam Sillimanite	Refractory bricks	0.00	1.40	1.40	0.00	0.00	0.00	0.00
1961	K.S.B. Pumps Ltd.	Pumps	0.00	0.20	0.20	0.00	0.00	0.00	0.00
1963/66	Precision Bearings India Ltd	Bearings	0.40	0.60	1.00	0.00	0.00	0.00	0.00
1964	Fort Gloster	Transmission	0.40	0.80	1.20	0.00	0.00	0.00	0.00
1964/ 75/79	Mahindra Ugine Steel Co. Ltd.	Steel products	2.60	11.80	14.40	2.50	0.00	2.50	0.00
1964	Lakshmi Machine Works	Textile machinery	0.30	1.00	1.30	0.00	0.00	0.00	0.00
1967	Jayshree Chemicals	Chemicals	0.10	1.10	1.20	0.00	0.00	0.00	0.00
1967	Indian Explosives	Fertilizers	2.90	8.60	11.50	0.00	0.00	0.00	0.00
1969	Zuari Agro Chemicals	Fertilizers	3.80	15.10	18.90	0.00	0.00	0.00	0.00
1976/87	Escorts Ltd.	Engine parts	0.00	15.60	15.60	0.00	0.00	0.00	0.00
1978/87	Housing Dev. Finance Corp.	Capital markets	1.60	4.00	5.60	1.00	0.20	1.20	0.00
1980/82	Deepak Fertilizers & Petrochemicals	Chemicals	4.20	7.50	11.70	2.90	3.70	6.60	0.00
1981/86/ 89	Tata Iron & Steel	Steel manufacture	21.40	72.00	93.40	12.30	28.80	41.10	3.00
1981/89/ 90	Mahindra & Mahindra Ltd.	Motor vehicles and accessories	6.40	25.00	31.60	6.40	10.00	16.40	10.00
1981	Nagarjuna Steels	Iron and steel	0.20	3.00	3.30	0.30	1.20	1.50	0.00
1981/86	Nagarjuna Signode	Iron and steel	0.30	3.00	3.30	0.30	1.20	1.50	0.00
1981	Nagarjuna Coated Tubes Ltd.	Iron and steel	0.20	1.50	1.70	0.30	1.50	1.80	0.00
1981	Coromandel Fert. Ltd.	Cement and construction materials	0.00	15.90	15.90	0.00	0.00	0.00	0.00
1982	Ashok Leyland	Motor vehicles and accessories	0.00	28.00	28.00	0.00	0.00	0.00	0.00
1982	India Equipment Leasing	Money and capital mkts	0.30	2.50	2.80	0.30	0.00	0.30	0.10
1982	Bombay Dyeing	Chemicals & petrochems	0.00	18.80	18.80	0.00	0.00	0.00	0.00
1982/87	Indian Rayon (I & II)	Cement & construction materials	0.00	14.60	14.60	0.00	4.00	4.00	0.00
1982	Bharat Forge	Iron and steel	0.00	15.90	15.90	0.00	0.00	0.00	0.00
1984/86	Grasim Industries (I & II)	Cement & construction materials	0.00	16.00	16.00	0.00	0.00	0.00	0.00
1984	Modi Cement	Cement & construction materials	0.00	13.00	13.00	0.00	22.20	22.20	0.00
1985	India Lease Development	Money and capital mkts	0.80	5.00	5.80	0.80	0.00	0.80	0.00
1985	Bajaj Auto Ltd.	Motor vehicles and accessories	0.00	23.90	23.90	0.00	0.00	0.00	0.00
1985	Bihar Sponge	Iron and steel	0.60	15.20	15.80	0.60	16.60	17.20	0.00
1986	Larsen & Toubro Ltd.	Cement & construction materials	0.00	21.80	21.80	0.00	0.00	0.00	0.00
1986	Bajaj Tempo Ltd.	Motor vehicles and accessories	0.00	30.50	30.50	0.00	0.00	0.00	0.00
1986	Great Eastern Shipping Corporation Ltd.	Shipping	5.90	6.00	11.90	5.90	6.00	11.90	0.00
1986	WINCO Ltd.	Food and food process	0.00	4.70	4.70	0.00	0.00	0.00	0.00
1987	Gujarat Fusion Glass	Sheet glass	1.70	7.50	9.20	0.00	0.00	0.00	0.00
1987	Gujarat Rural Housing	Money and capital mkts	0.20	0.00	0.20	0.20	0.00	0.20	0.00
1987	Hero Honda	Motor vehicles and accessories	0.00	7.70	7.70	0.00	7.50	7.50	0.00
1987	Export-Import Bank	Money and capital mkts	0.00	15.00	15.00	0.00	14.20	14.20	9.60
1987	Gujarat Narmada Valley Fert	Fertilizers	0.00	38.00	38.00	0.00	39.20	39.20	18.20
1987/ 88/89	Titan Watches Ltd.	Watch manufacturing	0.60	21.80	22.40	0.60	20.60	21.20	1.40
1987	Hindustan Motors Ltd.	Motor vehicles and accessories	0.00	37.80	37.80	0.00	29.50	29.50	29.50
1988	Invel	Motor vehicles and accessories	1.00	0.00	1.00	1.00	0.00	1.00	0.00
1989	Keltron	Utilities	0.40	0.00	0.40	0.40	0.00	0.40	0.00
1989	WTI	Software services	0.20	0.00	0.20	0.40	0.00	0.40	0.00
1989	Gujarat State Fert. Co Ltd.	Petrochemicals	0.00	29.50	29.50	0.00	30.00	30.00	22.40
1989	Ahmedabad Electricity	Utilities	0.00	21.40	21.40	0.00	21.40	21.40	21.40
1989	Tata Electric Companies	Utilities	0.00	42.70	42.70	0.00	42.70	42.70	42.70
1990	J. M. Share	Money & capital mkts	0.40	0.00	0.40	0.40	0.00	0.40	0.40
1990	UCAL Fuel Systems	Motor vehicles	0.60	0.00	0.60	0.60	0.00	0.60	0.00
			57.50	627.60	685.10	37.10	299.60	336.70	158.70

a/ Including transactions of Capital Markets Department and Energy Unit.

INDIA: Portfolio Movements[a/]
June 30, 1990
(US$ millions)

	FY86	FY87	FY88	FY89	FY90
1. Disbursed Portfolio					
Beginning Balance	76.44	72.30	76.11	85.69	116.13
+ Disbursements	19.42	23.90	40.18	44.33	56.48
- Repayments	7.32	5.54	7.08	2.17	5.03
- Prepayments	22.79	22.28	23.15	3.70	0.43
- Investments Sold	1.85	0.03	0.06	1.90	9.17
- Write-offs	0.00	0.00	0.00	0.00	0.00
+ Currency Revaluation	8.40	7.76	(0.31)	(6.09)	13.08
Ending Balance	72.30	76.11	85.68	116.14	171.06
2. Undisbursed Portfolio					
Beginning Balance	33.65	72.41	151.90	100.98	130.83
+ Commitments	52.22	124.90	2.94	99.31	54.10
- Disbursements	19.42	23.90	40.18	44.33	56.48
- Cancellations	0.00	27.12	14.83	16.69	0.00
+ Currency Revaluation	5.96	4.68	2.09	(8.46)	19.93
Ending Balance	72.41	151.97	100.98	130.82	148.38
3. Held Portfolio					
Beginning Balance	110.09	144.71	228.01	186.67	246.96
+ Commitments	52.22	124.90	2.94	99.31	54.10
- Repayments	7.32	5.54	7.08	2.17	5.03
- Prepayments	22.79	22.28	23.15	3.70	0.43
- Investments Sold	1.85	0.03	0.06	1.90	9.17
- Write-offs	0.00	0.00	0.00	0.00	0.00
- Cancellations	0.00	27.12	17.47	16.69	0.00
+ Currency Revaluation	14.36	12.44	1.78	(14.55)	33.01
Ending Balance	144.71	227.08	186.67	246.96	319.44
4. Held Portfolio as % of IFC's Held Portfolio	6.06%	8.24%	5.53%	6.11%	6.72%

a/ Excluding transactions of Capital Markets Department and Energy Unit.

INDIA: Portfolio[a/]
June 30, 1990
(US$ millions)

	FY87	FY88	FY89	FY90
1. Loan Portfolio				
Number of Companies	18	17	16	17
Amounts Held	221.1	175.0	212.3	285.3
Amounts Disbursed and Outstanding	69.9	75.7	92.2	136.9
Prepayment & Cancellations	49.4	38.0	20.4	0.4
Non-Accruing Loans				
Number	1	1	1	1
Principal Outstanding	1.5	1.5	1.5	1.5
% of Loan Portfolio	2.1%	2.0%	1.6%	1.1%
Total Specific Provisions	0.0	0.0	0.4	0.8
2. Equity Portfolio				
Number of Companies	8	10	10	14
Amounts Held	6.9	11.7	34.6	34.2
Amounts Disbursed and Outstanding	6.2	10.0	24.0	34.2
Dividend Income	0.3	0.4	0.9	0.6
Capital Gains	0.1	0.1	0.9	0.0
Specific Reserves	0.2	0.3	0.3	0.2
3. Approvals				
Number of Projects	4	4	6	6
Loan	97.9	6.2	121.1	90.0
Equity	0.8	1.6	3.6	33.3
Total	98.6	7.8	124.7	123.3

a/ Excluding transactions of Capital Markets Department and Energy Unit.

INDIA: Sectoral Distribution of Held Portfolio [a/]
June 30, 1990
(US$ Millions)

Sector	Loan	Equity & Quasi-Equity	Total	Percentage
Automotive/Accessories	46.9	8.1	55.0	17.2
Capital Markets	-	-	-	-
Cement/Const. Material	22.2	-	22.2	7.0
Chemicals/Petrochemical	34.2	-	34.2	10.7
Development Financing	-	-	-	-
Energy	64.1	-	64.1	20.1
Fertilizers	43.0	2.8	45.8	14.3
Food & Agribusiness	-	-	-	-
Industrial Equip./Mach.	-	0.4	0.4	0.1
Iron & Steel	48.4	16.2	64.7	20.3
Manufacturing (other)	20.5	0.7	21.2	6.6
Mining	-	-	-	-
Pulp, Paper & Timber	-	-	-	-
Services (other)	-	-	-	-
Shipping	6.0	5.9	11.9	3.7
Textiles	-	-	-	-
Tourism	-	-	-	-
Total	285.3	34.2	319.4	100.0

a/ Excluding transactions of Capital Markets Department and Energy Unit.

ECONOMIC DEVELOPMENTS AND PROSPECTS

- The Seventh Five-Year Plan (1985/86-89/90) ended in March 1990, drawing to a close a decade of considerable economic achievement. The overall improvement in India's economic performance during the 1980s has been accompanied by a similar improvement in the investment climate and in the performance of the private corporate sector.

  - The improvement in the investment climate has been aided by the relaxation and, in some cases, removal of price, distribution and licensing controls, and reduction in corporate taxation. Regulations governing the expansion, diversification and modernization of MRTP and FERA companies were also relaxed and procedures simplified.

  - Private sector industrial companies fared extremely well during 1988/89 and 1989/90, following poor sales and absolute declines during the preceding two years. The strong performance has continued during the first quarter of 1990/91. For the twelve-month period July 1989-June 1990, gross sales (a sample of 956 companies) increased by 23% over the previous period and net profits after tax increased by 52%.

  - Capital issues increased consistently during the 1980s. They absorbed nearly 22% of total net domestic savings in 1989, against less than one percent in 1980. For the twelve-month period ended June 1990, total capital flotations were 66% higher (at Rs103.870 billion) than the previous twelve months.

  - Stimulated by excellent corporate results, the share market continued to experience buoyant conditions during 1989/90. After dipping at election time (November 1989) to 180 (IFC Emerging Markets Database), the market quickly recovered to end the year at 200 (March 30, 1990). The Index was at 305 at the end of the week of August 31, 1990.

- Results for the first quarter of 1990/91 (April-June) indicate that investments by the private corporate sector may be slowing down because of the political uncertainties and economic difficulties facing the country. Total capital issues in the first quarter (Rs3.1 billion) were only 20% of capital issues in the first quarter of 1989/90 and 49% of capital issues in the first quarter of 1988/89. The aggregate sanctions of the three leading term-lending institutions -- IDBI, ICICI and IFCI -- declined by nearly 39% in the first quarter of 1990/91 compared to the first quarter of 1989/90 (from Rs26.0 billion to Rs16.0 billion). However, first quarter results for industry as a whole show a significant rise in industrial output and Assocham had predicted a significant improvement in the sector's performance.

- Notwithstanding the successes achieved during the decade, in the last 5 years there has been a buildup of stresses in India's macroeconomic balances -- persistent fiscal and balance of payments deficits (respectively, 10.7% and 3.3% of GDP in 1989/90) and a growing external debt (total external debt of about US$63 billion in March 1990 and debt service ratio of about 27.3%).

  - On public sector finances, current spending has outstripped the impressive revenue raising efforts and as a result GOI has swung from being a net saver to a dissaver, and the overall deficit has risen from about 5% of the GDP at the end of the 1970s to an average of 10.1% of GDP over 1985-90. The risk that the public sector deficit (10.7% of GDP) will continue to put upward pressure on prices and destabilize the balance of payments is of considerable concern.

  - There has been a steady increase in the current account deficit from an average of about US$3.2 billion over 1980-85 to US$7.2 billion in 1985-90. This has largely been due to increasing interest payments abroad and stagnating private remittances. Gross foreign reserve losses during 1985-90 amounted to about US$2.0 billion. Gross reserves (excluding gold) stood at US$4.108 billion in March 1990 equivalent to less than two months of imports. Reserves were US$3.533 billion at end-July 1990.

  - The large current account deficits have resulted in a rapid buildup of external debt. Total external debt outstanding and disbursed amounted to US$63.011 billion at end March 1990 (comprising long-term debt of US$57.288 billion, IMF credit of US$1.702 billion and net short-term capital of US$4.022 billion). Much of the increase in external borrowing has been from private creditors, and the share of public and publicly-guaranteed MLT debt owed to commercial sources has risen from 24% in March 1985 to 41% in March 1990. The Institute of International Finance reports a higher total DOD of US$69.0 billion and debt service ratio of 37.6%. Both estimates exclude debts owed the Soviet Union.

  - These persistent stresses, combined with perceived political uncertainty/instability have caused the world's capital markets to reassess India's credit worthiness. Some hardening of terms on external commercial borrowings can be expected in the first half of the year.

- Recent developments in the Middle East could have serious consequences for India due to the direct effects on the balance of payments, fiscal deficit and external debt of higher oil prices, higher prices for other imported raw and intermediate materials and reduced remittances.

- Gross imports of crude oil and petroleum products (26.03 million mt in 1989/90) comprise about 24% of total crude oil and petroleum product supplies and account for 17.8% of the total import bill (total crude oil and petroleum products imports were about $3.8 billion in 1989/90).

- India has rapidly developed its energy resources during the 1980s (in 1980/81, total petroleum imports were $6.7 billion or 42% of total imports and about 41% of total petroleum supplies). If oil prices were to average $24/barrel over the next 12 months, the increase in the import bill would be about $1.9 billion, using up half of the available foreign exchange reserves (reserves were $2.920 billion at July 31, 1990). Each $1.0/barrel increase in the international oil price increases India's oil import bill by $237 million.

- Proposed imports of crude oil and petroleum products for 1990/91 were 18.0 million mt and 9.0 million mt, respetively. Of the crude oil imports, 8.3 million mt (46%) were to have been directly or indirectly sourced from Kuwait and Iraq. Of the imported petroleum products, only 1.2 million mt (13%) were to be sourced from Kuwait. No imports from Iraq were planned. New term contracts have been concluded with Malaysia and Abu Dhabi and supplies are being increased from Saudi Arabia and Indonesia.

- GOI has been attempting to curb consumption of petroleum products in an effort to reduce oil imports and save foreign exchange. Austerity measures were in place prior to recent developments, but India also drew down heavily on oil stocks to reduce imports and save foreign exchange. Replenishing stocks may prove difficult and expensive.

o In the short-term, India's major challenge is to sharply reduce the high fiscal deficit and improve the external accounts. This may prove doubly difficult given recent events in the Middle East and the absence of a major adjustment program for the domestic economy. A lower fiscal deficit would help slow further deterioration in the fragile balance of payments and reserves position and reduce inflationary pressures. The 1990/91 Budget provides for a bold reduction (1.4% of GDP) in the Central Government deficit (from 8.4% to 7.0% of GDP), to be achieved by a combination of additional taxation effort and expenditure constraint. The Government has instituted a system of four-monthly Parliamentary Budget reviews, the first of which was held on August 28, 1990. The Finance Minister reported a reduction of Rs15.0 billion (12.8%) in the budget deficit at the end of the first four months of the current financial year as compared to the deficit in the same period of the preceding financial year.

- The Government also expects a reduction in the budget deficit to reduce pressures on the balance of payments. Preliminary targets call for a decline in the current account deficit of 1.3% of GDP (from 3.3% to 2.0% of GDP) by 1994/95; to be achieved by continued active management of the exchange rate, fiscal restraint to consumers, domestic demand and additional measures to encourage exports. In the short run, GOI will endeavor to shore-up (or brace) the balance of payments by: one-off exports of surplus wheat and non-basmati rice (following good monsoon harvests) and iron ore for approximately $500-$700 million; readjusting the composition of the current account (i.e. "less imports of this and more of that"); and by taking any additional bilateral aid offered as compensation for higher oil prices (some is expected). GOI does not propose increasing the administered price of petroleum products as yet, since prices were increased in April 1990.

- There are no indications yet as to whether the Government will seek balance of payments support through IMF arrangements or whether the Bank is considering providing stabilization support (via quick disbursing loans or accelerated disbursements).

o In the near term (1990/91), economic growth will be favorable at around 5% due to good monsoons and hence a good performance from the agriculture sector and a strong growth in industrial production. The effects of increased oil prices, reduced remittances (and NRI deposits) and generally higher import prices will probably not be reflected in growth performance until the latter part of FY91 and early FY92. The budget and balance of payments situations will continue to be difficult and the trade balance could deteriorate if the economies of India's main trading partners slow down. Higher interest payments abroad and the need to maintain a modest cushion of foreign exchange reserves suggest that the balance of payments will come under severe pressure.

o The Government has been formulating its development strategies and policies in the light of the current macroeconomic and structural problems. The outlines of this strategy are contained in recently issued documents, including: (i) the 1990/91 Central Government Budget; (ii) the Three Year Import-Export Policy for 1990/91 - 92/93; (iii) the Approach to the Eighth Five-Year Plan; and (iv) the Industrial Policy Paper. The Government's development objectives remain those of earlier years, with heightened importance attached to poverty alleviation and equity. However, it recognizes that persistent fiscal and balance of payments problems, now exacerbated by the effects of developments in the Middle East, and the legacy of internal and external debt inherited from the 1980s will sharply limit its options in the early 1990s. Moreover, the difficult political environment in which the Government must operate suggests that it may experience difficulties in implementing its economic

policies. The Government has given priority to delineating policies needed to stabilize the economy and to promote efficient, sustainable growth. Macroeconomic policy will be significantly more restrictive than in recent years, but the emphasis on growth through greater efficiency and productivity that characterized the 1980s will continue. The Approach Paper indicates a provisional GDP growth target of 5.5% for the Eighth Plan period, but all available evidence suggests it will be difficult to achieve.

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CAPITAL MARKETS DEPARTMENT

ANNUAL MEETING 1990

BRIEFING PAPER

INDIA

Investment Officers: R. Vish/S. Kapur/
K. Ahmed
Division Manager: K. Mirza

I. Background

Until recently CMD's investments in India have mainly been in the leasing and housing finance sectors. Lately, CMD has focused on the development of a broad range of financial services in India and on the growing Indian venture capital industry. CMD invested in a private housing finance company (HDFC) in 1978 and in a rural housing finance company (GRUH Finance) in 1985. In 1987 CMD participated in the first rights issue of shares by HDFC and intends to subscribe to its forthcoming second rights issue. The Department has played a major role in developing the leasing sector in India and has promoted two major leasing companies (ILDL in Delhi and IEL in Madras). This year CMD participated in a second round financing package to ILDL. An agency credit line of US$15 million was signed in 1986, with Export-Import Bank of India as agent. In 1989, CMD's equity participation in the first stock brokerage company able to operate on all of India's stock exchanges was approved. Earlier this year, the IFC Board approved CMD's investment in a venture capital fund that will finance technology-based commercial ventures in India. In the wake of the Government's measures to liberalize investment in infrastructural projects, the IFC Board has recently approved CMD's investment in a leasing and financial services company principally devoted to financing infrastructural development projects.

II. Portfolio

(a) Name: Housing Development Finance Corporation Limited (HDFC)

Equity Amount:	US$1,001,000
Loan Amount:	US$4,000,000 (US$400,000 outstanding)
Years Approved:	1978, 1987
Disbursement to Date:	Fully disbursed

Remarks

HDFC is a premier housing finance institution. Together with adherence to prudential operating standards, HDFC has a track record of high growth and increasing profitability. Later this year, HDFC will undertake a sizeable increase in its share capital including a rights issue for its existing shareholders, in which IFC's participation (for approximately US$435,000) has recently been approved. HDFC has consistently expanded its range of services by introducing a host of innovative financial products and has promoted several specialized institutions in the housing finance and financial services sectors in India.

(b) Name: India Equipment Leasing Limited, Madras (IEL)
Equity Amount: US$354,000
Year Approved: 1986
Disbursement to Date: US$180,112

Remarks

IEL was originally licensed to engage in lease financing and related activities. Because leasing became relatively less attractive owing to a change in tax laws, the main thrust of the Company's activity was later directed towards the hire purchase business. However, as the regulatory authorities required the Company to secure prior specific-approval to engage in this activity, the Company had to cease hire - purchase financing in April, 1988. Following the successful outcome of a dialogue with the regulatory authorities IEL has recommenced hire - purchase operations from October, 1989. The setback in its operations in the years 1988-89 and 1989-90 has resulted in a decline in the net income of IEL. The Company is also beginning to experience some arrears problems as regards which its management is taking remedial action and building-up reserves. The Company also plans to diversify its operations and augment its capital resources.

(c) Name: India Lease Development Limited, Delhi (ILDL)
Equity Amount: US$352,000
Year Approved: 1984
Disbursement to Date: Fully disbursed

Remarks

ILDL has been very successful, both in terms of profitability and growth of its operations since it was established in late 1987. To meet the funding requirements of ILDL's rapidly expanding business, recently a second round financing package was provided for the company by its main lenders. IFC participated in this financing package by subscribing to a rights issue of Convertible Debentures and providing a loan of US$3.5 million. The Company anticipates rapid business expansion over the next three years and also intends to significantly diversify its operations.

(d)	Name:	Gujarat Rural Housing Finance Corporation Ltd. (GRUH)
	Equity Amount:	US$195,000
	Year Approved:	1985
	Disbursement to Date:	Fully disbursed

Remarks

GRUH was established as India's first rural housing finance institution to extend financing mainly to low income house purchasers. The Company commenced business in January 1988 and has since developed to a modest, though profitable level of operations. GRUH has progressed in raising resources from institutional sources, but it still needs to mobilize a significant level of funding from commercial sources to meet its envisaged lending objectives and service its target market effectively.

(e)	Name:	Export-Import Bank of India
	Loan Amount:	US$14.7 million
	Year Approved:	1986
	Disbursement to Date:	US$5.3 million (approximately)

Remarks

Though the agency credit line was approved in 1986, it did not become operational until late 1987 due to delays in securing various necessary government approvals. The line is moving more slowly than expected partly because of competitive funding available from other financial institutions which are able to provide risk cover at lower than market determined rates. The disbursement program of the line has picked up recently after IFC restructured the pricing and other terms of the credit to the benefit of the sub-borrowers; full disbursement is expected by October 1991.

(f)	Name:	J.M. Share & Stock Brokers Private Ltd. (JSB)
	Equity Amount:	US$444,000
	Year Approved:	1989
	Disbursement to Date:	None

Remarks

JSB has experienced problems in acquiring corporate membership of the Bombay Stock Exchange and it now appears unlikely that the project will proceed as envisaged.

(g) Name: TDICI-Managed Venture Capital Fund (VECAUS-II)
Equity Amount: US$3,125,000
Year Approved: 1990
Disbursement to Date: None

Remarks

VECAUS-II is a closed-end fund which is expected to provide risk capital financing for high risk technology-based private enterprises in India. The fund will be launched shortly and its promoters plan to secure a listing of the fund's units in the fourth year after its launch.

(h) Name: Infrastructure Leasing and and Financial Services Limited (ILFS)
Equity Amount: US$2,000,000
Loan Amount: US$15,000,000
Year Approved: 1990
Disbursement to date: None

ILFS is an equipment leasing and financial services company principally involved in structuring and participating in the financing of large infrastructural projects in India. The Company commenced operations in May 1988 and has been highly successful in developing its operations and mobilizing resources. It has been profitable since its first year of operations. The principal sponsor of ILFS is a nationalized commercial bank which has a 51% shareholding in the Company. The recently approved IFC investments are expected to lead the way to an increase in the level of private sector ownership of ILFS shares and in general to broaden its shareholder base.

III. Pipeline (FY91 Priority Projects)

(a) Kotak Mahindra Finance Co.

Kotak Mahindra is a financial services company in the business of bill discounting which is expected to broaden its activities to factoring and trading in corporate commercial paper, bonds, foreign exchange and stock markets. The Government's approval for IFC's investment is awaited.

(b) Indus Venture Capital Fund

Indus Venture Capital Fund is proposed to be a two-tier venture capital operation based in Western India. The fund will be approximately US$12 million in size. It will be managed by a new management company headed by the former Chairman of Hindustan Lever Limited. IFC is proposing to invest in both the fund and the management company, subject to final approval by IFC's board.

(c) Alliance India Fund

A new country fund for US$100 million is being developed with Alliance Capital Management of New York to invest in listed and unlisted securities (up to 35%). The fund probably will be incorporated in Holland. The local fund manager is currently being selected. IFC has been approached to be the co lead placement agent.

(d) India Investment Fund

IFC has long been in discussion with Unit Trust of India (UTI) regarding a US$50-100 million fund which would primarily invest in listed securities. UTI now appears to be ready to address the concerns raised by IFC regarding management arrangements for the fund. IFC is expected to co-manage the placement of the fund and also make a small investment.

IV. Business Prospects and Promotional Efforts

Underwriting of International Securities Issues - IFC has been in touch with several leading Indian corporations to discuss prospects for international securities issues based on straight debt and convertible issues.

Venture Capital - IFC is continuing discussions in relation to further venture capital projects, primarily through specialised funds sponsored by private sector groups.

IFC is also exploring other investment opportunities including a term loan to HDFC, and has been asked to participate in a few financial services projects.

V. Technical Assistance Activities

In 1986 IFC participated in the India Credit and Capital Markets Study led by the World Bank, reviewing the operations of the corporate securities markets. Partly as a result of the findings of the study, a consultant was sent to assist the Bombay Stock Exchange to modernize and computerize its operations. The consultant's report has been circulated

to the Bombay Stock Exchange, the Government, and other key members of the financial community. In addition, discussions have taken place with various financial institutions regarding possible IFC assistance in the establishment of a central depositary. IFC has also offered to assist the Government in its efforts to develop an OTC market. CMD has been assisting the Securities and Exchange Board of India (SEBI) on an ongoing basis in many areas since its inception. CMD participated in the World Bank mission to promote venture capital operations in India and in the World Bank Financial Sector Review mission to India in the fall of 1989.

MIGA - ANNUAL MEETINGS BRIEFS

The following issues related to MIGA, which you may wish to raise in your meetings with delegations. In summary:

(a) Non-member countries would be encouraged to sign and/or ratify the MIGA Convention;

(b) Some countries would be asked to complete their subscription payments promptly; and

(c) Other countries would be asked to give favorable considerations to facilitate MIGA operations.

India

Has not signed the Convention. Last May I met with a number of Indian officials in New Delhi at ADB's Annual Meeting but their attitude were still very cautious. You might want to mention that the Indian investors would benefit from India's membership to MIGA.

OFFICE MEMORANDUM

B
file

DATE: July 19, 1990

TO: Mr. D. Ritchie, Director, AST

FROM: R. Grimshaw, Chief, ASTAG RG

EXTN: 76227

SUBJECT: **Mission to Asia - May 25 - July 4, 1990**
Back to Office Report

INDIA

1. I visited India from May 29 to June 6 and met with staff of the Central Soil and Water Conservation Research and Training Institute (Dehra Dun), Watershed Management Directorate (Uttar Pradesh), Upper Ganga Canal Project, and scientists researching into vegetative conservation systems under the Banks' ongoing watershed development project in south India.

2. Central Soil and Water Conservation Research and Training Institute. This is a large research center with a number of out reach operational research programs. In the past the Institute concenterated mainly on "engineered" conservation practices; but recently has broadened out in researching into biological systems. The institute is now comparing Vetiver and other vegetative barriers with graded bunds, terraces, etc. The results are not yet conclusive but indicate comparable results between systems. The Vetiver hedges appears to improve over time (as you would expect) through increased density and filtering capability. It seems quite evident that research results under the rather 'sterile' and micro conditions of a research center are not replicable under farmer conditions. Research relating to soil and moisture conservation needs to be done under farm conditions involving a minimum of 5 hectares in order to capture the total impact (including management) of the technologies under test. Under such conditions soil and moisture losses, particularly when using engineered systems, are generally much higher than research station trials.

3. Watershed Management Directorate. This Directorate, located at Dehra Dun, has responsibility for a number of projects including the Bank financed "Hill Watershed Project" located in the foot hills of the Himalayas in Uttar Pradesh. There appears to have been a significant improvement in the implementation of the project and in the general attitude and comprehensive approach of the project staff. The project was orginally designed primarily as a reafforestion program (80% of project investment for forestry). From the outset of implementation it was quite clearly an agricultural (farmer) project, but managed by foresters. Thus the conflict in approach and attitudes that surfaced in the early years. More recently under the leadership of Dr. Verma (now working for NDO) the agriculture aspects have been fully recognized. Farmer involvement has increased significantly due mainly to the identification of appropriate technologies. The most important have been the introduction of high yielding wheat varieties (procured from the University of Pantnagar and then multiplied by farmer's insitu), and fodder crops such as birseem. One of the wheat varieties VL 616 from Almora is yielding 2-1/2 times other local varieties. Pigeon pea is also a popular crop as its stalks can be used for fuel. The use

of Vetiver grass for soil conservation is now being applied on very steep slopes and its impact needs close monitoring. Farmers have accepted Vetiver more readily as they appreciate its fodder value, particularly under dry conditions. A lesson to be learnt from this project is that the offering of a 'menu' of technologies to farmers is essential for project success, and greater efforts are needed in identifying suitable technologies for inclusion in that 'menu.'

4. The project has introduced improved designs of stoves which are reported to be much more acceptable to women due to an improved chimney that does not leak smoke into the house. Fuel species such as shrubs (Dodonia sp.) are now being tested and appear to grow well as hedge rows.

5. I was pleased to meet project staff who had started with the project in 1984. These people are now much more confident and have greater credibility now that they have technologies that are in demand and are acceptable to farmers.

6. Although the introduction of Vetiver hedges has been slow we can expect an acceleration in their use since the fodder value has been recognized. Also Vetiver nurseries are now totally in the hands of the farmers; with farmers receiving appropriate benefits from Vetiver sales. Establishment of Vetiver hedges has also improved by planting in February/March (taking advantage of winter rain) resulting in good establishment prior to the main monsoon rains in July/August/September. Next year is likely to be fairly important for Vetiver expansion.

7. Upper Ganga Canal Project. I visited the parallel canal under construction from Km 6 to Km 36. This section includes major construction and design works including a new aquaduct at Solani and a 10 to 12 meter high approach embankment in the same area. My overall impression was that the work on the canal is of high quality both in design and construction. The quality control is excellent. Compaction standards are being met and the production of high quality clay tiles (made under a mechanized system) is resulting in a first class lined canal. I was interested to see a simple method of water curing the mortar between the tiles. This was done by constructing a small (20 cm wide) water channels along the top lip of the canal and siphoning water from this channel to the lining - the result, a very even and continuous spread of water over the side slope lining. The U.P. Irrigation Department has demonstrated quite clearly that high quality work is obtainable in India, given the commitment by engineers and contractors.

8. Chilla Hydel Canal: This canal (not financed by the Bank) diverts the dry season flow of the Ganga River at Rishikesh through a hydel cannel (25,000 cusec. capacity) and returns the flow just upstream of Hardwar through a power station at Cheetal. It is an interesting scheme and well constructed. At one point the canal passes over a 7 km fill section. Embankment erosion problems are severe. Vetiver conservation systems are being tested on this section.

9. Review of Vetiver Hedge Technology in India. I met with Mir Mustafa Hussain (Andhra Pradesh Agricultural. University), Dr. Bharad (University of Arcola-Maharashtra) and Dr. Hedge (Agricultural University of Karnataka - Bangalore) to review research progress relating to Vetiver grass hedges. Research is being carried out under varying conditions and comparisons are difficult. However, it is fairly evident from three years of results that as a vegetative barrier Vetiver grass has to be ranked high in comparison with other grasses and techniques. In nearly every case Vetiver was as good or better than other technologies - and particularly over time it appears that Vetiver improves significantly, whereas other vegetative systems deteriorate. This is due to the fact that Vetiver is continuously increasing its

density - where as for example, leuceana loses its density over time as stems become larger and fewer. Because of this at Arcola research in leuceana hedges is being discontinued.

10. If the other benefits of Vetiver are taken into account (such as longevity, sterility, drought, tolerance, fodder, mulch, thatch, windbreak) the overall benefit of Vetiver grass has to outweigh other species and systems. I was given the latest research data from the three Universities. This data will be analyzed and reported in the next Vetiver newsletter. The following points of interest were noted:

- In Karnataka 'striga' (which is commonly associated with sorghum crops) has been reported to be associated with Vetiver. However, it was generally agreed that striga was probably present in the fields before Vetiver was introduced and that to date no direct relationship between Vetiver and Striga could be confirmed. Dr. Bharad will follow up on this potential problem.;

- Soil losses in Karnataka are significantly reduced when using Vetiver hedges as compared to earth bunds (1.8 tons per hectare compared with 4.5 tons/ha respectively);

- In Karnataka 1 meter of Vetiver hedge produces approx 1 kg of fodder per running meter of hedge. This would be equivalent to about 20tons/ha. This data needs further examination.

- Planting time appears to be very important for assuring a good hedge. If planted in July (beginning of monsoon) with hills of 10-15 cm apart with 3 slips per hill an effective hedge can be established in the first year. Gap filling must be carried out. Extension staff need to monitor gap filling requirements.

- In Andhra Pradesh the best gully control system using vetiver grass is to plant Vetiver in a 'V' shape line with the point of the 'V' pointing up stream. This reduces wash outs in the center of the young Vetiver hedge.

- In Maharashtra the work at Arcola University and on the Manoli Watershed is probably the most complete and best reflects real live conditions. Dr. Bharad has about 80 ha. of the University farm fully under Vetiver hedge conservation and he intends to use this area for intensive monitoring of run off and soil loss measurement and the determination of the need (if any) for special measures (if necessary) to deal with surplus run off at the discharge end of the catchment.

- In Maharashtra Vetiver is being used very successfully in some trial irrigated areas as a means for "natural" land levelling. On the shallow black soils of Maharashtra, land levelling causes serious disturbance to the top soil (you may remember the long and tedious discussions we conducted over land levelling issues relating to MCIP III), and is expensive. It has been demonstrated that using Vetiver hedges on the contour and controlling water flow with small inter hedge irrigation perimeters, low cost and effective irrigation can be maintained. Future work needs to be initiated in this area as it could have considerable implication to the traditionally difficult

south Indian black (Vertisol) soil management under irrigation systems;

- The Vetiver hedge technology must be fully integrated with Indian's extension system as a key technology. Special demonstration and training sessions are required.

11. Dr. Sampath (Commissioner of Agriculture), who attended the meeting, has now cleared the proposed Institute of Development Studies (University of Sussex.) proposal to carry out socio economic studies with farmers using Vetiver grass in Karnataka. The study requires some additional refinement (including cost reduction) after which ASTAG will present it to the Bank's Research Committee with a request for funding.

12. I met with Mr. Shenoi (Acting Secretary of Agriculture). He indicated that GOI is now close to giving official support country wide, for vegetative hedge technologies and he sees the need for large country wide campaign to expand the technology. Like wise Mr. Chitale (Water Resource Secretary) will support its introduction in the irrigation sector.

13. In Delhi, I visited the National Bureau of Plant Genetic Resources (NBPGR) which falls under ICAR, and is located at Pusa. I met with the Director, Dr. R.S. Rana, and discussed some aspects of the identification of Vetiver genetic material. To date NBPGR has collected Vetiver from more than 100 different sites and is now receiving specimen from overseas. In the longer term NBPGR could have an important role in identifying Vetiver cultivars that are suitable to specific climatic and soil conditions. Funding by UNDP or USAID to expand the Bureau's collection and to carryout further genetic and physiological studies (including fertility studies) would be of significant value, not only to India, but worldwide.

14. I briefly met with Mr. Chitale. I suggested the need for a nation wide approach to data collection in the water resource sector to improve the allocation of water and design and management of water systems. Mr. Chitale suggested three areas of data collection:

- measurement of catchment hydrology;

- measurement for flood; and

- measurement of water flows within India's large irrigation systems. Mr. Chitale tended to focus on the latter. Given time, I think he would like to discuss this further and I suggest that AS4AG writes to him setting out a detail, the scope and need for better automated data collection. If agreeable to Mr. Wijnand ASTAG will prepare a draft letter. Eventually an improved data collection program could be developed under a Bank loan. I got the impression that there is still confusion in many peoples' minds on the level of automation in canal system management and what specifically are the options and levels that would best suit the needs of India. Automated irrigation systems management should not be confused with automated hydromet.

MALAYSIA

15. I visited Malaysia from June 6 to June 8 to meet with Dr. P. K. Yoon, of the Rubber Research Institute, Mr. Guha of Agricultural Research and Advisory Bureau (ARAB - private company), and Golden Hope Plantations. - Research and Development (formerly, Harrison Malaysian Plantations)

16. Mr. P. C. Yoon. who is the head of the Plant Science Department of the Rubber Research Institute has since early 1989 been working in his spare time on the propagation of Vetiver grass. With the support of the Director of RRI and funds from the plantation industry, he has done a remarkable job in little more than 12 months. Using a number of techniques he has vegetatively reproduced Vetiver (in pots) within a three month cycle -- with an average multiplication rate of 15. Thus, under Malaysian climatic conditions (12 month growing season), he has been able to reproduce some 50,000 plants from a single stem within a period of one year. He has achieved this through careful selection of culms and the use of slow release fertilizers. Malaysia conditions of high humidity are ideal for this type of propagation and infield transplanting can be done virtually throughout the year.

17. He has also carried out interesting shade tolerant studies that shows that, under very heavy rubber shade, Vetiver growth is significantly retarded. However, when the shade is removed there is a near immediate response to light and within two months the vigour and growth of the grass is as good as the non shaded control. The conclusion is that Vetiver can be used in flexible farming systems and its growth can if necessary be managed by shade. (This explains the vigorous regrowth of Vetiver following jungle clearing in Trinidad as reported by Greenfield).

18. Finally Dr. Yoon has carried out some experiments testing the tolerance of Vetiver when sprayed with herbicides containing paraguat. The result showed that Vetiver, although 'burnt' by paraquat, survived.

19. Dr. Yoon is currently improving propagation techniques including layering, stem cuttings, and culm selection (he finds very high coefficients of variation between the growth rates of different culms. He has been able to select culms for vigour and has reduced the c.v. from over 100% to less than 30%. This will give him a population of plants that will provide more meaningful research results.

20. Dr. Yoon is now turning to on farm development of Vetiver. He is currently working with some 21 interested private farmers/estates (who are providing the materials for his research) There is a high demand to participate in his program - but numbers are constrained by the availablility of planting material. He is also working with an engineering company to protect the embankments of the Kuala Lumpur - Seremban Highway currently afflicted with major embankment slippages and erosion. He also intends applying the technology to garbage and mine rehabilitation. He has found an interesting technique for digging Vetiver grass in nurseries, using an oil palm harvesting knife (knife on long pole), which cuts the Vetiver roots and provides leverage at the same time. Dr. Yoon has kept meticulous records of his work and these will be available later in the year. I believe Dr. Yoon's research and observations will prove invaluable for accelerating the propagation rate of Vetiver Grass.

Agricultural Research and Advisory Bureau

21. Following a report by Mr. Yeow (ASTAG), that Dr. Guha of ARAB had developed a revolutionary tapping technique for rubber, I visited this privately owned company. The company, particularly Dr. Guha, has a reputation for high quality professional work in the agricultural sector, and is a key company in Malaysia for soil and leaf analysis as well as carrying out mandatory testing of rubber quality.

22. The results of 20 years of research by Dr. Guha into improved rubber tapping techniques appear on the surface quite remarkable and is achieving very high yield increases (more than double) at half the tapping cost. The technique involves the application of a stimulant (chemical content not available - currently being patented) two days before tapping. The stimulant is applied through a valve fixed to a plastic - 30x30 cm - panel stuck to the trunk of the tree. Tapping involves puncturing the bark at a single point and inserting a 3" inch tube (1/16" diameter). The outlet end of the tube terminates in a covered 2 litre "tapping cup". The latex flows for two days. The tree is rested for 5 days and the cycle is then repeated. Turgo pressure in the latex vessels remains at a high (normal level) throughout - in contrast to conventional tapping where the turgo pressure is reduced significantly.

23. The system is comparable to the release of milk through a tiny hole of a mother's breast. Myself, and other ASTAG tree crop staff are the first to see this technique. As of mid June, a number of Malaysian companies will be invited, under licence, to paticipate in commercial trials.

24. The potential latex extraction per ha for rubber has been estimated by Templeton (ASTAG) to be about 9,000kg/ha. Current commercial yields are in the order of 2,000-3,000 kg/ha. Dr. Guha's system raises yields to as much as 6,000 kg/ha. In discussion with Yoon and others in Malaysia the question remains whether such yields can be sustained - even so the method reduces tapping from twice weekly to once weekly - an event of major significance to the rubber industry. Apart from yield and tapping interval benefits the system reduces the risk of damage to the tree that often occurs under conventional tapping, and allows dirt and rain free latex to be collected. The system might be ideal for small holders. ASTAG tree crop staff will report further on the new system and its implications. ARAB data is attached.

Golden Hope Planatations

25. I made a short visit to the Research Development Department of Golden Hope Plantations located at the Prang Behar Research Station. Mr. Teoh Cheng Hai, the Director of R & D was my host. Golden Hope has a wide range of research activities and has been one of Malaysia's key rubber development centers since the 1920's, the PB series of Rubber Clones were developed by the company. Currently research is focussing on improving quality of rubber, oil palm and other products in order to maintain the company's competitive position in world markets. The company is also working on crop diversification into Guava, passion fruit, cocoa and other perennial tree crops, as well as identifying rubber clones that have good potential in the timber trade, where rubber has the potential to substitute for the low value tropical hard woods. The company has carried out some excellent field research in adopting controlled droplet application of herbicides -- and the mechanization of CDA. The company is also initiating a Vetiver research program both for soil and moisture conservation and industrial (oil) use.

26. Following my brief visit to Malaysia, the overall impression I got was of stagnating research at RRI compared with vigorous and proactive research in the

private sector. Further investigations and studies of research in Malaysia might turn up some interesting comparisons and lessons.

Laos

27. I visited Laos from June 10 to June 15 under terms of reference from Mrs. Donna Dowsett-Coirolo. My mission was a technical review of the proposed watershed development area located near Luang Prabang.

28. My visit was associated with a larger review of a possible Bank financed project relating to the ongoing TFAP effort with which the Bank is currently associated. The investment requirements should mainly relate to agricultural development -- most of the natural forests within the watershed have been destroyed and the land use changed. Under the new use most of the land falls under quite a well managed traditional five year bush fallow. At this time I doubt if we can add significantly to the upland production as it is both complex and difficult to access. If the Bank does get involved with a project there will be a need for a careful study of the area and for detailed preparation work involving amongst others the review of sociological aspects. My report to Yves Wong is attached at Annex 2.

China

29. I visited Fujian, Jiangxi and Sichuan Provinces from June 15 to June 30, and had wrap up meetings with RMC, MOA and MWR in Beijing prior to departure.

Vetiver Grass

30. Annex 3 sets out my review of the Vetiver program for the three provinces. Generally results are good, and following the October 1989 workshop a series of research and demonstration plots are being established. The officials involved are committed and pretty convinced that the technology is sound and that it will be of significant benefit to south China (where we have no doubts of its survival). More attention needs to be given to methods of accelerated nursery propagation and correct application of technology in the field. All of the Provinces want to incorporate Vetiver as a key soil and moisture conservation technology in any future project.

Forage Production

31. Following my visit to Beijing in March 1990, arrangements were made with CAAS to work with the Red Soil Project on the introduction of Amaranthas sp. as a fodder. Two varieties in particular K112, and R102 (ex Rodale Research Center) have shown good results and out yield the local varieties by as much as five times. It looks exciting and may turn out to be one of the key fodders for the future, (note leaf protein 22-27% - stem protein 15%). Amaranthus could replace about 30% of the pig concentrate ration. It has also been fed successfully to fish! Another fodder which shows good promise in Fujian is Mung bean - also string bean.

32. AICAR (Australia) is undertaking some joint work on nitrogen fixing legumes and improved grasses with the Fujian Academy of Science and the Fujian Red Soils Project. They are testing some 60 varieties. To date it would seem that Macrotilium sp. is the only legume of any potential.

33. I am of the general opinion that the farmers are looking for high volume, high quality forages, such as Mung Bean and Amaranthus (fodder sorghum is another possibility). Both are annuals and provide flexibility in planting and land use. I think we will find that the grasses (if identified) will have an application mainly on the non arable areas where farmers can better tolerate perennial forage. They just do not have enough arable land for the latter - and in any case are looking for flexibility in choice - green manure or fodder.

34. The Bank's involvement in the introduction of high yielding fodder (Amaranthus) to the red soils project under scores the current technical transfer weaknesses in China's agriculture. Professors Yue Shaoxian and Sun Hongliang have since 1982 undertaken some excellent research and testing of the new Amaranthus varieties, but it seems that the officials I met with in the three provinces knew nothing about that work. Currently 26000 ha of improved forage amaranth is under cultivation in north China.

Soil Fertility

35. China's red soils are well known for their low fertility, high acidity and aluminium toxicity. As a result, available phosphates are very low, and unless fertility is improved crop production is limited, and yet when farmed properly high yields can be obtained from a wide variety of crops. It appears that the pig is one of the keys to improving the fertility cycle. Under the Red Soils Project Livestock - and pig's in particular are an important production component. Because the pig has to be fed concentrates that are purchased externally to the red soils, there is a resultant net import of nutrients - a bi product being pig manure. It is this pig manure that fuels the fertility cycle and allows many crops to be grown (some of which are fed to the pigs). Pig manure is preferred to inorganic fertilizers and clearly releases its nutrients - phosphate in particulary - more slowly. The wide spread use of human manure is also very important. It would be worth while investigating this fertility cycle in more detail as it might provide us with some clues for the development of similar soils elsewhere. In order to achieve high yields integrated crops and livestock are essential for many of our projects in China. I also consider that we should do a lot more to promote a greater use of human manure in some of the other countries we work in. This is quite feasible and socially acceptable if linked with dry compost latrine design (for example NGO groups in Nepal and Kenya are promoting such systems).

China Red Soils Project

36. I continue to be impressed by the production components of the red soils project. The level of crop productivity is good and farmer incomes have substantially improved due to project actions. The first project in Jiangxi has developed 270,000 mu (18,000 ha) of arable land, settled 9,000 specialized house holders involving the resettlement of 50,000 people in total. Socio-economic studies carried out by Jiangxi ADC show per capita income increasing from Yuan 486 for traditional farmers to Yuan 702 for project specialized farmers. Voluntary settled farmers taking advantage of project infrastructure have increased their per capita income to Yuan 608. From what I can understand, this income data is based on the main enterprises grown by the project, i.e. citrus, juice, pigs etc., and do not include a diverse range of annual field crops such as groundnut, maize, water melon, sweet potatoe, soya bean etc. The final evaluation of the project should include the benefits from this production.

37. Overall the infrastructure has served a useful role, but the quality could have been better, and the phasing of construction to coincide with settlement of

farmers would have helped. The project authorities recognize the shortfalls in this area. The agroprocessing components need careful analysis as to their utility and future capacities. They are hardly completed and therefore an assessment will be difficult.

38. The Red Soils Project is a classic integrated agricultural development project that has been successful because of the successful combination of a number of critical factors.

(a) Institutional competency and good management. At Prefecture and County level the Chinese have a competent administration with adequate safeguards to ensure accountability. (This administrative ability is based on over a thousand years of administrative experience.) The quality of managers are on the whole good. Infact a number of them would make good Bank staff members if they could speak English;

(b) Recognition of the need for adequate infrastructure - roads, electricity and irrigation/domestic water supplies;

(c) Land tenure - the land tenure system, particularly in Jiangxi where family farms dominate, provides adequate incentives for farmer investments. Farmers have leases for up to 50 years; leases can be transferred to children on the death of the parent; improvements can be sold to new lessees if the lease is transferred. Even in Fujian - under collective and state farms long-term contracts are made with farmers that provide the necessary incentives and safeguards. In most parts of the world the current tenure practices under the red soils project would be recognized as modern and forward looking in comparison to many developing countries where tenure systems are traditional, lack incentives for investment, and are often deliberately biased against the small farmer;

(d) Agricultural Credit - is key to the development of the red soils. The demand for credit remains high, and the availability of credit limits the rate of growth of the development of the red soils.

(e) Crop/livestock production flexibility. Although farmers have been encouraged to invest in key crops such as citrus, tea, juice, etc., there is plenty of flexibility - particularly in the annual crops, and under the specialized household system of Jiangxi farmers are freer to make sound economic choices.

39. Both the Provincial governments of Jiangxi and Fujian are extremely anxious to have the Bank assist in a follow up project to further accelerate the development of the red soils. The potential is immense, for example, in Jiangxi alone there are 1.33 m. ha of cultivable red soils. The ongoing project developed only 18,000 ha or just over 1%. of this total.

Red Soil Land Development Project (Phase II)

40. The Ministry of Agriculture is supporting the development of an expanded program for red soils development based on the success of Phase I. The proposed project would include Fujian and Jiangxi, as well as Zhejiang, Guangxi and

Hunan[1]. The project would incorporate typical phase I investments as well as take account of some of the lessons learned under phase I. These would include:

(a) diversification into other perennial crops apart from citrus;

(b) expand livestock (pigs, cattle and ducks);

(c) develop sericulture non toxic cotton and tobacco;

(d) give special attention to environmental aspects including soil and moisture conservation; afforestation of contiguous non arable land - (in Jiangxi this could be done by farmers); strengthen farmer contracts (leases) to include some environmental/sustainable agricultural covenants such as use of wind breaks, contour farming, soil and water conservation;

(e) provide for better phasing of infrastructure and improvement in quality of construction;

(f) provision of a larger volume of agricultural credit; and

(g) improvement in research and technical transfer.

41. The project would impact on the poverty group which currently has an average per capita land holding of .95 mu - equivalent to less than 1/2 ha per farm family. Under the project, specialized family farmers would receive 2 ha of land each.

42. Both Fujian and Jiangxi Provinces are starting work on the preparation of the second project. These Provinces together with the three new ones will need assistance; and preparation may take some time if properly done (the participating provinces are keen to prepare the project well). I suggest that UNDP funds are sought for preparation including funds to cover both foreign and local consultants. A near full time foreign consultant should be hired, who has good experience in project preparation, to work with MOA and to assist all the provinces in formatting the project and ensuring consistency and provision of general planning and technical guidance. At this time, I would not recommend a large FAO/CP mission, but rather the hiring of individual short term consultants to focus on specific aspects. These might include[2]:

Sericulture specialists	(Chinese - 2)
Agro-forestry	(Foreign/Chinese)
Forage specialist	(Chinese/Foreign)
Soil & moisture cons.	(Foreign/Chinese)
Livestock specialist	(Chinese/Foreign)
Soil fertility specialist	(Foreign/Chinese)
Technology transfer	(Foreign)
Agro industries	(Foreign)
Financial specialist	(Chinese/Foreign)

1. Other Provinces may also be included such as Guangdong and Guizou.
2. Approximately 30 man months of foreign consultants and 60 man months of Chinese consultants.

Comm.crop.spec.	(Foreign)
Agric. Economist	(Foreign

43. Preparation of Phase II should start in earnest in the fall of 1990. MOA should be responsible overall for ensuring adequate preparation and the hiring of consultants. Note the Provinces will require special funding assistance from UNDP to carry out project preparation work.

44. SPC has not yet approved the project. Following this visit to Fujian and Jiangxi, where I was accompanied by M. Zheng Hu of MOA, and the subsequent meetings held in Beijing with MOA/MWR/SPC, I believe MOA can prepare a concept paper that should satisfy SPC. This will be done after MOA has held a joint workshop (MOA and Provincial participants) in late July. Annex 4 sets out a short concept paper that reflects current views.

45. Sichuan ADP. This project has been under discussion for some time. I understand a proportion of the funds would be for the rehabilitation of the Min Jiang irrigation system (China's oldest). During my visit to Chengdu, I discussed briefly the proposed project with Mr. Wang, Chief of the Soil and Moisture Conservation Bureau. The Bureau is very active in catchment protection of the Upper Yangtze. He is keen for Bank participation in Watershed protection and is anxious to promote vetiver technology for catchment stabilization. (He reckons to have 3000 mu of nursery established by 1992 giving protection for 150,000 mu per annum.) I would suggest a MWR managed project comprising irrigation rehabilitation and catchment conservation could prove an effective approach and one which would meet the Bank's special emphasis on the environmental and poverty alleviation.

46. The meetings that I attended in Beijing were straightforward, and there was little disagreement. The following points emerged:

(i) It was agreed with MWR that the second red soils project would be the responsibility of the MOA;

(ii) SPC seem to understand the concept of the project, but would like to know the rationale with regard to grain production and or substitution, also the project's impact on the production of edible oils; and

(iii) Although MWR has conceded responsibility to the MOA it would still like Bank support to finance a soil and moisture conservation project. I suggested the first step might be the inclusion of a pilot soil and water conservation component in the Sichuan ADP to test out some of the key policy issues including that of local funding and foreign exchange debt servicing. I think most people were agreeable that Sichuan should include a watershed component following the lines of the current comprehensive approach to soil and moisture conservation.

47. Mr. Deshpande should follow up and in particular make arrangements for UNDP funding for project preparation.

NGO - World Conference - Tokyo - July 1- July 4 - Grass Roots Approach to Development

48. The objective of the conference, jointly sponsored by the Club of Rome and the Sasakawa Peace Foundation, was to help NGO's from Japan find a place in the

development process. I'm doubtful if the conference helped the Japanese, but it was useful for me to meet a large number of participating NGO's from Latin America, Africa and Asia as well as NGO's from Northern countries. There was a conspicuous lack of NGO's from Europe other than France and Switzerland!

49. Probably the most important conclusions that I drew from the conference were:

(a) Although the Bank came in for some battering over dams and T&V there is a growing perception that the Bank is working better with NGO's and that NGO's want to work with the Bank. Also some of the reforms that the Bank has engineered, i.e., the deregulation of pumps for irrigation in Bangladesh, has greatly helped NGO's to work more effectively;

(b) There is a growing awareness by NGO's that NGO's have to work with Government and that a better managed Government can provide infrastructure and other support to allow NGO's to work more effectively;

(c) The need to improve rural communications is very important - localized radio stations etc. to allow specific interaction at local levels should be encouraged (politically difficult);

(d) Some NGO's from the south would benefit enormously from northern NGO's assisting in the training of southern NGO staff. Is there a role for the Bank here? Quality not quantity should be encouraged;

(e) Technology aspects are becoming very important in NGO operations and NGO's are searching for good technology and people with relevant experience. Networking of technology by NGO's at all levels should be given high priority. Could the Bank do something in this area? If nothing else we ought to find ways of disseminating our vast store of technical knowledge and country by country experience to NGO's and other agencies. The impact could be very significant.

(f) NGO groups seem to be very successful in dealing with women's issues. One group in Bangladesh only works with women and has developed credit and other programs to allow women to own and operate tube wells and pumps;

(g) Suggestions were made for establishing NGO trust funds from which regular annual revenues could be released for NGO work in specific countries. Could the Bank foster this approach? Such trust funds once established would also act as equity for additional commercial funding. I remember a fund was established by a London based financing group in the 1960's for farmer credit in Zimbabwe. It was very successful.

(h) There is a need to link agriculture and health together. Particularly in the area of pathogenically safe latrines, biogas and human manure. Some NGO's in Thailand and Kenya are working in this area. Why can't the Bank develop similar programs? and

(i) As northern NGO's tend toward rhetoric; southern NGO's are becoming more active and pragmatic.

50. Contrary to previous views I was very impressed with some of the work being done by 'local' NGO groups in Asia. Some are managing large programs that effect up to 70,000 families. They are sinking tube wells, training women, carrying out micro watershed development, promoting and implementing rural water and health schemes and running family planning programs. All at a very much lower cost (sometimes eight times lower) than what it costs Government. Some NGO's are upgrading their staff in areas of management and technology. One NGO allocates 15% of its budget to staff training!

51. The Bank should on a country by country basis better identify NGO groups and then hold some "informal," rhetoric-free, workshops with the objective of really identifying common objectives, issues, and technologies. Such workshops could lead to much greater NGO/Bank cooperation and would also lead to a greater involvement by NGO's in Bank projects.

52. Finally at a political level I have the impression that NGO antagonism towards the Bank is engineered by Northern NGO's for all sorts of reasons including ideology, environment, vested interests and ignorance. The local NGO's are a lot more pragmatic and have a much better understanding of the limitations under which we all work than do the northern NGO's. This was made blatantly clear at the conference.

Attachments

cc: M/M Karaosmanoglu, Wiehen, Ritchie, Asanuma, Kaji, Burki, Vergin, Cheetham, Helman, Dowsett, Goldberg, Wijnand, Cole, Davis, Barghouti, Baxter, Van der Lugt, Deshpande, Wong, Van de Poll, Wiens, McGarry, Peberdy, ASTAG staff

TABLE 1 EFFECT OF ARAB CHEMICAL TREATMENT ON YIELD (1980 PLANTED GT1)

	JUN'39	JUL	AUG	SEP	OCT	NOV	DEC	JAN'80	FEB	MAR	APR	MAY	MEAN	TOTAL/ ANNUM	CALCULATED YIELD KG/HA/ANNUM BASED ON 400 TREES/HA
I.CONTROL (S\2d\2)+6 applications of 5%Ethrel															**2636**
i)Yield. dry rubber (g/t/t)	43	41	48	57	79	83	72	27	20	11	10	10	**42**		
ii)No. of tappings	13	14	13	14	13	14	13	13	12	13	13	12	**13**	157	
iii) Total Kg/tree	0.56	0.57	0.62	0.79	1.03	1.17	0.94	0.35	0.24	0.14	0.13	0.12	**0.55**	6.59	
II.TREATED (Weekly extraction i.Yield dry rubber (g/t/t)	367	353	419	270	322	280	281	416	167	127	124	152	**274**		**6240**
ii)No. of extractions	4	5	4	5	4	5	4	3	4	5	4	4	**4.75**	57	
iii) Total Kg/tree	1.4	1.7	1.6	1.3	1.2	1.4	1.1	0.7	0.6	0.6	0.50	0.6	**1.30**	15.60	
D.R.C.	31.9	32.0	31.3	30.9	33.9	34.8	35.1	33.8	28.9	32.5	31.1	30.3	**30.5**		

FIGURE 1a
EFFECT OF ARAB CHEMICAL ON YIELD

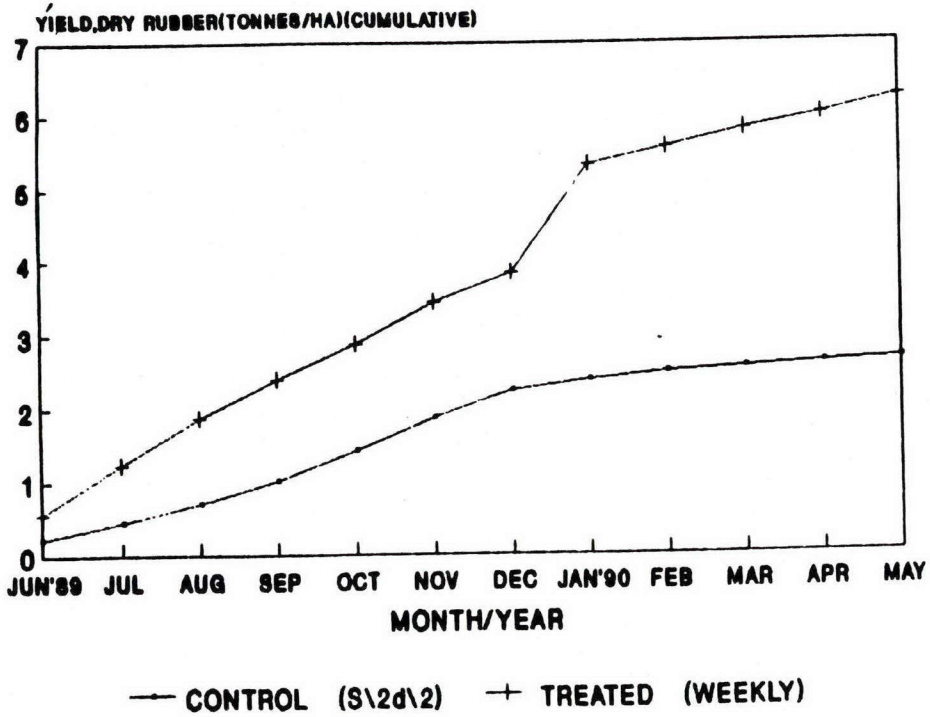
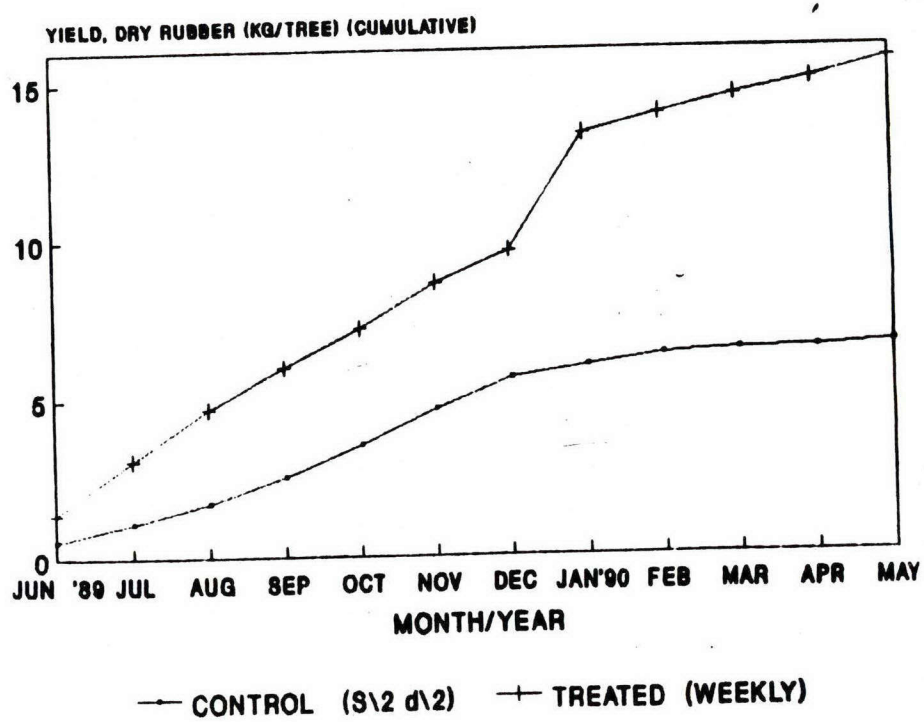


FIGURE 1b
EFFECT OF ARAB CHEMICAL ON YIELD



THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: June 20, 1990 Annex 2

TO: Mr. Yves Wong, AS2AG

FROM: Richard G. Grimshaw, Chief, ASTAG

EXTN: 76227

SUBJECT: **TFAP - Luang Prabang Watershed Area**

1. I spent three days in the proposed Watershed area - ex FAO/UNDP area. At the beginning of my mission I was briefed by the Vice Minister and I debriefed him and Carol Long, UNDP, prior to my departure.

2. Basically the Government strategy of intensifying investment in the irrigated areas in order to relieve upland pressure makes sense; and it is about the only agricultural activity that can be made on a reasonable scale for the short and medium term. Dealing with the upland areas is going to be much slower, more complex and there are no quick fixes - not even Vetiver! (although it may have a role to play).

3. The watershed area comprises steep hills interspersed with sharply incised valleys with, in most cases, minimal areas for irrigation. Except where the valleys fan out near the Mekong most of the irrigable areas are very small pockets along stream banks, etc. The largest area proposed for development is probably not much more than 100 ha. Access is in many instances is almost non existent. Access to the Lao Sung who live on the top of the hills is non existent. The Lao Sung comprise 9% of the population and I doubt that until access is provided little can be done for them or for the forest they are reported to destroy.

4. The Lao Lung are the bottom land irrigators but are encroaching on the Lao Tung who farm the middle slopes. This pressure is pushing the whole lot further up the hills onto very steep slopes. I guess a strategy should be to stabilize the lower slopes - reduce shifting cultivation (bush fallow) in these areas, and reafforest, on an ownership basis, the steep slopes.

5. The Lao Tung bush fallow (five years approximately) is a pretty good system. One year cropping followed by four years of fallow to restore fertility and suppress the Imperata grass. It's going to be quite a job changing the system, and I'm surprised at the speed of revegetation that takes place during the bush fallow period. Upland rice is the main crop and any form of intensification without some protection will increase soil erosion and fertility losses. Thus we have to tread carefully. The FAO/UNDP project was a disaster from the soil conservation point of view - no more terraces!! and the project really has not done anything tangible though this could have been partly due to the expatriate leadership at the time.

6. Some simple research has been carried out to see what crops will grow on these soils. Pineapples appear popular - groundnuts, maize, soyabean is being introduced. I would like to see a much stronger research effort made to test out every possible perennial (lumber and fruit) crop, and other enterprises (fishery, silk worm

[1] etc.) and really find out what is possible and what is not. A commercial research group such as Harrison Malaysia Ltd (now Golden Hope Plantations) might provide the type of aggressive research that is required.

7. The Lao Tung are pretty traditional people and I doubt if they will change very quickly. EEC and Lao/Swedish Cooperation are starting a program in the area (more about this later) and the latter will do specific research on steep land agriculture.

8. What I saw of forestry was not that impressive. There are a number of problems. First livestock. Any plantation has to be fenced off to keep cattle from damaging trees or crops. Secondly, species selection - mainly teak - grows like a weed here. More work needs to be done on other species. Thirdly, nursery technology. Seed selection is virtually non existant and nursery practices including culling look weak to me. Also there are at least three organizations having nurseries - bit confusing for people like me. Anyway I'm sure Ajit Banerjee has dealt with this issue.

9. Irrigation. I visited a number of irrigation sites. We need Charlie Gunasekara's involvement. Right up his street. All small scale. One or two small reservoir sites looked quite good to me. With some imagination we could do a lot to provide supplementary irrigation to rainfed paddy and perhaps some for the dry season as well. My guess is that supplementary irrigation would enable earlier nursery development, which would mean earlier main crop and more residual moisture for some sort of second crop. Also there are opportunities for many simple weirs in the small streams to provide pumped supplementary crop water.

10. Project Strategy. If I had a free hand I would go for the following:

Phase I: (A)

- Irrigation intensification in low land paddy areas.

- Access roads to Lao Tung areas and village water supplies for Lao Tung.

- Research improvement.

- Forest nursery development.

- Start on some agro-forestry work on steep areas. Maybe in exchange for tenure (ownership) Lao Tung might be prepared to grow trees instead of rice.

Phase I (B)

- Demonstration and testing. New crops and systems - such as Vetiver, etc. I'm not sure if we need to put much effort into "extension" for the Lao Tung at this time since there is not much to extend What is needed is research and practical demonstration that could be done by the same personnel. Extension in irrigated rice areas could be useful, although I

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[1] Silk might be interesting since there is already a hand loom industry in all the villages.

wouldn't bank on that either. As most of the simple rice technologies seem to spread on their own.

Phase II (in about 5 - 8 years time)

- Intensive efforts in Lao Tung areas assuming improved farm systems can be demonstrated and are successful.

Constraints

11. I believe the Laos are underestimating administrative, technical and staffing constraints. Just how much can Luang Prabang Province absorb. From what I can gather EEC project has bagged most of the best staff!!

12. Provincial or National Project. The Vice Minister wants a nationally managed project. This may conflict with Provincial authorities. EEC can give you some guidance here. One option might be for National Government to take responsibility for relatively one off shot investments such as roads, village water suplies, irrigation, etc. and leave provincial governemnt (after strenghtening) with the day-to-day services such as forest nurseries, extension, research, etc.

13. Commitment by Laos. I found the Laos a bit "laid back" - nicest of people but have they the "umph" to make the changes and then sustain them?

14. Relationship with other agencies, EEC, FAO, Swedes, etc. We need to be careful that we don't duplicate or compete - or have too many project management units in the same area.

15. You should meet with Andrew Jenkins, EEC Project Director, Luang Prabang. He is good and cooperative and will let you have what ever data they have. I strongly suggest that the FAO group who follow you do not trample all over the EEC. EEC may give the Bank a very good lead in.

16. You should also see Jean-Paul Boulanger of EEC. He is their agronomist and knows the Lao very well and knows the Lao Tung and their capabilities. He is already frightened of the scale of the EEC (5 million $) project!!!

17. You should meet with Bill Leacock of the Lao/Swedish Forestry Cooperation Project - Ajit will love him! He has lots of experience and seems to talk good sense.

18. On your visit to Luang Probang get Jim Smyle to take a look at the area to the West of the Mekong (Thai side). He will need to ride a motorcycle. But I get the impression that it is much more degraded than the East side; and may need a different approach to development. Ajit should look into social/farm/forestry progress to date - and what tenure options may be possible.

19. I didn't really appreciate until I got back here today that a full FAO/CP team is arriving here after you. I hope there may be some overlap between Ajit/Jim and the team. Also hope that FAO team have some sensible people on it. Frankly it is too soon for preparation - more identification is necessary - in fact EEC could provide much of the data required through remote sensing (SP0T) and other land use and socio economic studies. Analysis needs to be done on the road program, more designs are needed for irrigation, and generally a greater time than normal will be required for project preparation, if the job is to be done properly. So don't rush it!

Politics

20. I understand from Carol Long that FAO is a bit of a dirty word around here. Also our own reputation as project designers and implementors is not too good either!!

21. I feel uneasy about the choice of Luang Prabang. Why hasn't the Bank been asked to deal with one of the other Provinces which does not have EEC or others operating in. Maybe some perfectly good reason, but you might like to probe.

Vetiver

22. Last but not least! I have given Jean Paul Boulanger about 50 slips of Vetiver (from India). He has planted them in a nursery and will multiply them. (Dr. P.K. Yoon in Malaysia can get 50,000 from one slip in one year!) We have identified Vetiver in Laos. It is called NHA FEK and we know it is in Bolikhamray, Vientiane, and XliengKhuang Provinces. It also may be across the river from Luang Probang. EEC and Swedish project are very interested in Vetiver. We need to find a way of getting some of the NHA FEK to Luang Probang for testing. The Vice Minister is just about convinced Anyway we have got them started - not much for Jim Smyle to do on Vetiver at this time. He should concentrate on other conservation aspects. Monsieur Kampene of the Forestry Department (Vientiane) is very interested - (he knows the grass from his youth) and so is Sompang.

23. I'm sure Vetiver will grow extremely well, and will work like a dream - but we must test and demonstrate first. Most other grasses are useless - as they will not stand the dry season here - and/or because they become weeds.

Annex 3

CHINA
VETIVER GRASS PROGRAM

1. I visited Jiangxi, Fujian and Sichuan Provinces to review China's Vetiver grass program. I also delivered about 1,000 slips of Vetiver grass - 'farmer selected' cultivar from India. These were cleared through quarantine at Guangzhou and were planted near Nanchang.

2. The China program is progressing well and those involved are committed and generally convinced that the technology is sound. The following comments and observations cover the three provinces.

(i) All the 1989 plantings look good. The grass stopped growing near the end of November 1989 and started to grow again in early March 1990 when temperatures reached 14°C. Most Vetiver clumps have well over 50 tillers - some more than 100. During May and June rapid growth occurred and the 1989 plantings look healthy and strong;

(ii) In all provinces nursery expansion has been considerable and selection of nursery sites have been carried out with more care. The best results regarding tillering and ease of digging are on the sandy loam soils. In one county alone in Sichuan officials have identified suitable areas along a major river for more than 3,000 mu of nurseries;

(iii) Pig manure, night soil and inorganic fertilizers are applied to nurseries at various rates and the results are quite good. In some instances it would be possible to split the nursery material by the end of June and expand the nurseries by 10-15 fold using the split planting material. In any event most nurseries will be doubled in planting intensity. Under good conditions it would seem feasible to get 100-200 tillers per original planting station per year;

(iv) The young shoots of Vetiver grass have been fed to pigs buffalo, cattle, ducks and fish;

(v) As in India farmers are initially slow to respond to Vetiver grass technology, hence it has not always been planted correctly. Small demonstrations of good hedges are essential if farmers are to take up the system. In Fujian where State and collective farms predominate it has been relatively easy to establish good hedges since farmers are not initially involved in the decision to plant hedges and are not responsible for planting;

(vi) In Fujian a number of interesting experiments are being conducted on slopes of over 50% including comparison of different types of fertilizer applications. From visual observations lime had no impact and organic manures (pig manure and rape seed cake) were significantly better than inorganic fertilizer (urea and super phosphate);

(vii) The Fujian Soil Conservation Bureau has established an excellent demonstration on 90 mu (6 ha) of steep (26% slope), non arable land. Digging simple 20 cm x 20 cm ditches on the contour (10 cm x 20 cm would have been better) and applying pig manure, have resulted in excellent hedges, and already even though not fully formed, runoff has been reduced by at least 100% as compared to the non treated area. Chestnut trees have been planted between the Vetiver hedge lines;

(viii) In Jiangxi a useful experiment has been carried out in a gullied area comparing Vetiver contour hedges with other grasses such as Bao Mao grass (Saccharum sp), Panicum sp., and Cynodon dactylon. On appalling soils (the 'A and 'B' horizons have been eroded away), compared to the other grasses, Vetiver had established well. Both these experiments need following up;

(ix) In Sichuan at at least 6 soil conservation stations Vetiver has been planted on runoff plots on slopes up to 50%. These plots will be measured for five years;

(x) In Fujian on 25% slopes cost of protection was Y30 per mu or Y450 (US$100) per ha. Using pig manure the cost increased to Y80 per mu. Even so this still remains less than 25% of the cost of terracing under similar conditions;

(xi) In Fujian Vetiver has been planted on sand dunes to aid stabilization - but to date no feedback has been received;

(xii) During the first year project officials estimated approximately 100 kg of leaf cut per mu. In the second year this has increased to 450 kg/mu per cut (a possible 3 cuts). This is equivalent to 6,750 kg/ha per cut - not bad for a simple hedge. The forage cut is currently estimated to be worth - in equivalent rice straw - 150 yuan per mu. These fooder output estimates are equivalent to Indian estimates;

(xiii) On more than one occasion it was noticed that by 'hilling up' Vetiver grass clumps the number of tillers increased substantially;

(xiv) As in India better selected nursery material gives a higher survival rate. Particularly when planted on sandy loam soils;

(xv) Stem borer needs further investigation. In Fujian only 1% of the Vetiver was effected, and that not seriously. Jiangxi will carry out further investigations;

(xvi) In most cases where Vetiver was planted under shade it either grew slowly or did not grow at all. It will, however, survive shade if the shade developes after the establishment of Vetiver;

(xvii) A picture is starting to emerge on Vetiver's cold tolerance Growth has been slow at 1,780 meters altitude, particularly this year in Sichuan when April was a cold month. At this time I see little point in establishing Vetiver in

extended beyond that latitude;

3. There is a growing demand for Vetiver grass by the Soil and Moisture Conservation Bureaus for further trials and demonstrations. It was good to see, particularly in Fujian, how the Agricultural and Conservation people were working very closely together. In Sichuan the Institute of Mountain Disasters and Environment and the Conservation Bureau are also working closely together. The Conservation Bureau in Sichuan is proposing to establish 3,000 mu of nurseries by 1992.

4. Future constraints to the Vetiver program will include lack of specific funding proposals, and initial slow uptake by farmers. With regard to the latter it is essential to quickly demonstrate complete hedges and their impact on soil and moisture conservation and the economic benefits from the by products, i.e., forage, mulch, paper, etc. While farmer uptake may be slow I forsee accelerated uptake by the Conservation Bureaus for use of Vetiver on non arable lands.

Annex 4

CHINA
RED SOILS LAND DEVELOPMENT PROJECT - PHASE II
CONCEPT PAPER

The Red Soils of South China cover an area of 218 million ha mainly south of the Yangtze River. Within Jiangxi Province alone there are 1.33 million ha of cultivable red soils presently not cultivated. In addition there are substantial areas of non cultivable red soils that have potential for forestry and fodder production. The Red Soils cover at least six provinces, and form an important part of the Yangtze River basin. As such their management both from a production and an environmental aspect will be important to the long term basin water characteristics and stability. Because the same areas are topographically fragmented and difficult to farm, farm sizes are small - less than 1 mu (1/15 ha) per capita and support some of the poorest rural people in China.

The Red Soils generally under present conditions, are of low fertility but have a high annual rainfall of 1,200-1,700 mm. The area also combines semi tropical conditions in the summer and semi temperate conditions in the winter. As a consequence the agricultural potential for the red soils is considerable if fertility can be improved and then sustained. Already the first phase of the Red Soil Project in Jiangxi and Fujian Provinces has demonstrated a very diverse agricultural potential including pigs, cattle, ducks, geese, fishery, citrus, tea, jute, China fir, slash pine, Paulownia, and annual crops such as maize, rice, sweet potatoes, groundnuts, soya beans, water melon, tobacco, and mulberry (silkworm). A large range of vegetables are also produced by farmers. Fodder crops and green manures have also been demonstrated to be profitable.

Thus the Red Soils areas have good potential, and with production mainly dependent on rainfall the area could produce a wide range of marketable products at relatively low costs of production in comparison to the irrigated areas. If proper investments are made for infrastructure, production and agroindustry, provinces such as Jiangxi, could eventually consolidate their positions as critically important provinces in China's overall agricultural program.

However, the long term potential of the red soils has been limited by past destruction of its forest resources by demands from industry and rural populations. As a result major reafforestation efforts are required and soil and moisture conservation is essential if current fertility declines are to be arrested and eventually reversed.

The development of the red soils also has to contribute to China's plans for increased grain and edible oils. This is possible in a number of ways including: improvement of rice production in the lowland areas that form part of the red soils; increased production of feed grains such as maize that can substitute for rice in annual feed rations; production of green fodders to reduce the demand on rice particularly in the pig industry; expansion of annual oil seeds such as soya bean, non toxic cotton and others.

The red soils area also coincides with some of China's poorest areas where per capita incomes are often below poverty levels of Y200 per capita. Often the poorest counties are closely linked with the most degraded and poorly serviced areas.

The first phase project has been very successful and since its inception in 1987 per capita incomes have increased over traditional farmers by nearly 40% (Yuan 456 to Yuan 702). A remarkable achievement.

A number of important lessons have been learnt during the first phase, these include:

- the need to diversify into a wide range of perennial and annual crops;
- the critical role of livestock, particularly pigs, in the maintenance and improvement of soil fertility;
- the importance of soil and moisture conservation;
- the importance of wind breaks;
- the impact of farmer contracts as incentives for investment;
- the importance of infrastructure, particularly roads;
- the critical importance of agricultural credit;
- the need for further improvement in the focus of research, technology transfer and training of farmers; and
- the need to involve farmers in the development of adjoining non arable lands for forestry and forage purposes.

The Proposed Second Phase Red Soil Land Development Project

Detailed plans have not yet been prepared. However taking into account the lessons from the first phase the proposed project would:

(i) give priority to a sustainable and diversified agricultural system with well balanced livestock and crop components. Apart from existing crop enterprises Jiangxi intends to extend the production of mulberry, tobacco, non toxic cotton, diversified fruit, improvement in low yielding rice, pigs, ducks, cattle and chickens. Fujian would extend its production into lychee, apricot, longren as well as continuing with the development and rehabilitation of fruit orchards and tea;

(ii) livestock development (critical to soil fertility maintanance) and contingent fodder production would receive priority attention;

(iii) non arable land production for timber and perennial nuts such as chestnut, tea oil, forage and fuel;

(iv) application to both arable and non arable lands of soil and moisture conservation techniques using where possible low cost vegetative hedge systems such as Vetiver grass;

(v) improved infrastructure particularly road access, electricity and water (human and irrigation). Under Phase II efforts would be made to promote better quality construction and more appropriate phasing to match the requirements of the settlers;

(vi) provision of better technology to farmers through better extension services, demonstrations and research;

(vii) provision of adequate agricultural credit to support farmers' investments in arable and non arable lands;

(viii) biogas development for farm energy supplies (substitute for wood fuels);

(ix) expansion of (and priority for) wind breaks; and

(x) agro processing investments where relevant.

The project would provide special focus on environmental/production linkages; this would manifest itself through better onfarm conservation, and special off-farm (non arable) investments in soil and moisture conservation. Including gully/wasteland rehabilitation, construction of small check dams, and conservation forestry. These latter activities would be focussed in some of the very poor and degraded parts of the Provinces.

Organization. In each Province the respective ADC's would be responsible for managing the key components. They would work closely with the Bureaus of Agricultural and Soil and Moisture Conservation. Some special funds would be made available to strengthen these Bureaus where necessary.

Project Cost. Preliminary estimates in Fujian result in a total project cost of US$84 million. One could imagine Jiangxi investments being at least as much or more. The other Provinces would probably be less since they would be new to the program. A Bank loan of $150-200 million could be anticipated.

Issues. There are a number of issues that need to be addressed during the preparation of the project. These include:

(i) the availablity of local funds;

(ii) the availability of a sustained flow of agricultural credit specific to the red soils program;

(iii) a review of alternative approaches in order to accelerate the development of the red soils. The current rate of development in Jiangxi of just over 1% over four years is clearly inadequate;

(iv) the need to improve services to volunteer settlers and to accelerate their settlement. These farmers are associated with formal specialized households and have shown to benefit from the project. Can more volunteer farmers be encouraged to settle on vacant land? And what services should be provided?

(v) how can technology transfer be improved?

(vi) how can research be better funded in order to support new and practical research efforts that will accelerate agricultural production in the project area?

(vii) share of World Bank lending. Since the project has important environmental and poverty alleviation activities, and the need to accelerate the rate of development is important, there is a case for the Bank to lend a greater proportion of the total cost. A case needs to be made on these grounds;

(viii) is it possible to include some environmental covenants relating to soil conservation, wind breaks and other good farming practices in farmer contract licenses? and

(ix) what will be the role of MOA as the coordinating agency, and how can the executing agencies at Provincial level be better coordinated?

Other issues will undoubtedly emerge from the Project Completion Report of the Phase I Red Soils Project that is currently being prepared by the project authorities.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

co. file

DATE: May 29, 1990

TO: Mr. Moeen A. Qureshi, OPNSV

FROM: Koji Kashiwaya, CFSVP

EXTENSION: 80809

SUBJECT: INDIA - Objections to India dam project (Bank's cofinancing project with OECF raised at the House of Councilors in Japan

According to the official record of debates on the captioned project held at the House of Councilors Budget Committee in April and May, which we received recently, the Japanese Government (Foreign Minister) responded to a question raised by a member of the opposition party who had requested the suspension of any further cofinancing loans to the project so that the Japanese Government will conduct an investigation and make a political decision after cautiously considering the situation there.

The major points of the Committee's objections were:

(i) No in-depth survey on the resettlement problem was conducted by GOJ/OECF when Japanese ODA was committed for the project and Japanese judgement and its follow-up has been dependant upon the World Bank. GOJ/OECF should conduct an independent survey and make its own judgement even in the case of cofinancing with the World Bank.

(ii) Considering the serious situation of the project in India, further cofinancing should not be made and also GOJ should pressure the Bank to suspend the loan.

While this problem was questioned at the Upper House, the National Broadcasting (NHK) and the Japanese press reported it sensationally as a good case of an environment issue criticizing irresponsible judgement of Japanese aid for this project and insufficient follow-up of the World Bank on the resettlement program in India. In my conversations with GOJ (MOF, MOFA) and OECF it was considered that GOJ cannot help but suspend further cofinancing and this project is not included in the Japanese aid program to India for this fiscal year (April 90-March 91).

cc: Ms. M. Haug, EXC
Messrs. Karaosmanoglu, ASIVP
Vergin, AS4DR
Aguirre-Sacasa, EXTDR
Ohashi/Taylor/Hatano/Shimazaki, CFS

THatano:mo

C. F.
Indian

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 90/05/23 DUE DATE : 00/00/00
LOG NUMBER : 900524003 FROM : Mr. Karaosmanoglu
SUBJECT : Meeting with the new Indian Ambassador to Washington
Friday, May 25, 1990 at 11:45 a.m.
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

_____ APPROVED
_____ PLEASE HANDLE
_____ FOR YOUR INFORMATION
_____ FOR YOUR REVIEW AND RECOMMENDATION
_____ FOR THE FILES
_____ PLEASE DISCUSS WITH _____
_____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS :
cc: Mrs. Haug

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: May 23, 1990

TO: Mr. Barber B. Conable

THROUGH: Moeen A. Qureshi MAQ

FROM: Attila Karaosmanoglu AK

EXTENSION: 80332

SUBJECT: Mr. Conable's Meeting with the new Indian Ambassador to Washington

I attach a background briefing note for your meeting with the new Indian Ambassador to Washington, His Excellency, Mr. Abid Hussain on Friday, May 25 at 11:45 a.m. I will join this meeting.

Attachment

STalbot:zj

MR. CONABLE

MEETING WITH THE NEW INDIAN AMBASSADOR TO WASHINGTON

HIS EXCELLENCY, MR. ABID HUSSAIN

Friday, May 25 at 11:45am

Mr. Hussain was formerly India's Commerce Secretary and more recently a Member of the Planning Commission. In his tenure at the Commerce Ministry, he was the chairman of the Committe on Trade Policies which presented its report (known as the Hussain Report on Trade Policies) in December 1984. The report called for a major reform of the export incentives regime with the objective of overcoming constraints on export performance arising from the highly protective import regime and domestic tax system. It also called for rationalization of the import regime with the objective of making the transition from import substitution per se to efficient import substitution.

Mr. Hussain was instrumental in initiating the first phase of this reform process through the introduction of India's first three year Import-Export Policy Statement in 1985. He has continued to be a key proponent of liberalization of India's trade regime in his tenure as Member of the Planning Commission.

He has also been active in chairing a number of Government Committees on issues such as Financial Sector Reform and the Textiles industry.

C. F.
India

MF-
Chitra -
please tell

cc: NK
KS
KTs
file: chr
Central

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: 21-May-1990 04:48am

TO: Marianne Haug (MARIANNE HAUG)

FROM: Lutz Halfmann, TOK (LUTZ HALFMANN)

EXT.:

SUBJECT: Protest Against the Bank

In the absence of Mr. Kemmochi and Mrs. Sato I saw a group of about 20 demonstrators who were expressing their objections against the Narmada Dam project in India. Earlier the group had expressed its opposition vis-a-vis is istry of Finance. I accepted a letter (in Japanese) addressed to Mr. Conable with copy to Mr. Shiratori and promised to forward it to Washington.

Contrary to what would probably have happened elsewhere, the group was not confrontational. The speak of the group, Mr. Tanaka, explained that now also a "Green Movement" was developing in Japan and that they were also against the way how the Japanese ODA was handled. I remarked that in this respect the World Bank was not the addressee. The answer was, that the Japanese ODA bureaucracy was hiding behind the Bank. The group apparently was under the impression that the Tokyo office had a policy impact on the Bank's lending. I explained the function which is quite different from a regular field office but that in any event policies were set in Washington and not in field offices. Upon a question, I also explained that none of the Bank's (Yen) borrowings were tied to any particular project and that consequently the Tokyo Office was not involved in any way with a project, including the one in question. The group then requested some information material on the Bank and I handed them some Annual Reports and a brochure on the Bank. We will send the letter and some other material left by the group by separate mail.

Regards,

Lutz Halfmann

CC: Francisco Aguirre-Sacasa (FRANCISCO AGUIRRE-SACASA)

SUMMARY OF DEVELOPMENTS ON NARMADA DAM PROJECT

Controversy over the massive Narmada dam project in central India is heating up both at home and in Japan, where much of the money is coming from.

So far only one project has started out of a total planned construction of 30 major dams, 135 medium-sized dams and more than 3,000 small dams which could take 50 years to complete.

It has been estimated that 350,000 hectares of rich forest land and 200,000 hectares of fertile farmland will be destroyed from flooding and over one million residents will be displaced.

Nearly 2,500 people, saying they would drown rather than move from their homes, protested in New Delhi on May 14 against plans to build a dam that would submerge thousands of villages.

"We will not allow our land to be taken from us," they shouted. "For us, it is a question of our land, our food, our homes. Where will we go? We are prepared to drown, but we will not leave our homes," said one villager.

A spokesman for the demonstrators said the protests would continue until Prime Minister Vishwanath Pratap Singh cancelled plans for the dam.

Awareness over the issue is increasing in Japan. The first step was the Narmada dam symposium held on April 21 during which some 500 people showed up, much higher than expectations.

Since then, two prominent television stations showed specials on Narmada, including NHK, and there have been articles in the local press and letters to the editor.

Foreign Minister Taro Nakayama told the House of Councilors Budget Committee on May 11 that they are considering a political decision on this problem after getting a grip on the situation.

Prime Minister Toshiki Kaifu said Japan's official development assistance (ODA) is meaningless if it is not appreciated in recipient countries.

The World Bank, currently reappraising the project, must decide by June 30 whether to continue its credits, and Japan could influence that decision. The World Bank approved 450 million dollar loan in 1985.

Japan's OECF, in charge of ODA along with four ministries, has committed 2.85 billion yen in loans for the initial funding.

Japan is also the second biggest contributor of captial to the World Bank.

Japanese banks have provided loans and Japanese companies have been awarded contracts.

Vibeke Laroi

Editorial from Tokyo Shimbun 11 May 1990
Translation by Friends of the Earth Japan

Consider the local people's voice on ODA

There is great controversy from the viewpoint of environmental destruction over the construction of a dam in India that is being assisted by Japan

The Indian government has primary responsibility for this project, but Japan should also carefully consider the opinion of local people

An international symposium was held in Tokyo on the environmental impact of the construction of dams in the Narmada valley in west India in which both Japanese and overseas students participated along with environmentalists from India and the USA, a professors from Japanese universities and Diet members joined in the discussions. The project involves the construction of over 3000 dams for hydroelectricity production and irrigation. Loans from the World Bank and Japan's Overseas Economic Cooperation Fund (OECF) have been provided for the core dam of the project, which has been under construction since 1987. However, there is no area suitable for the resettlement of those who will have to be relocated by the dam and serious environment destruction is foreseen. Local citizens have carried out large scale demonstrations and hunger strikes to protest the dam construction. In the symposium the lack of responsibility on the part of those providing the loans such as the World Bank ignores its own guidelines for local participation and environmental protection and the Japanese government and OECF did not carry out their own surveys and just followed the World Bank's studies. After a re-evaluation of the project, the World Bank warned that the loans would be suspended until the resettlement problems are solved. Japan, which is the second largest contributor to the World Bank, must make sure that the Executive Board insists on its guidelines being followed. The right approach should be for Japan to to carry out its own survey even if the loan is being provided jointly with the World Bank. If there is no capacity to carry out such surveys, then the loan should be postponed or staff must be increased to carry them out.

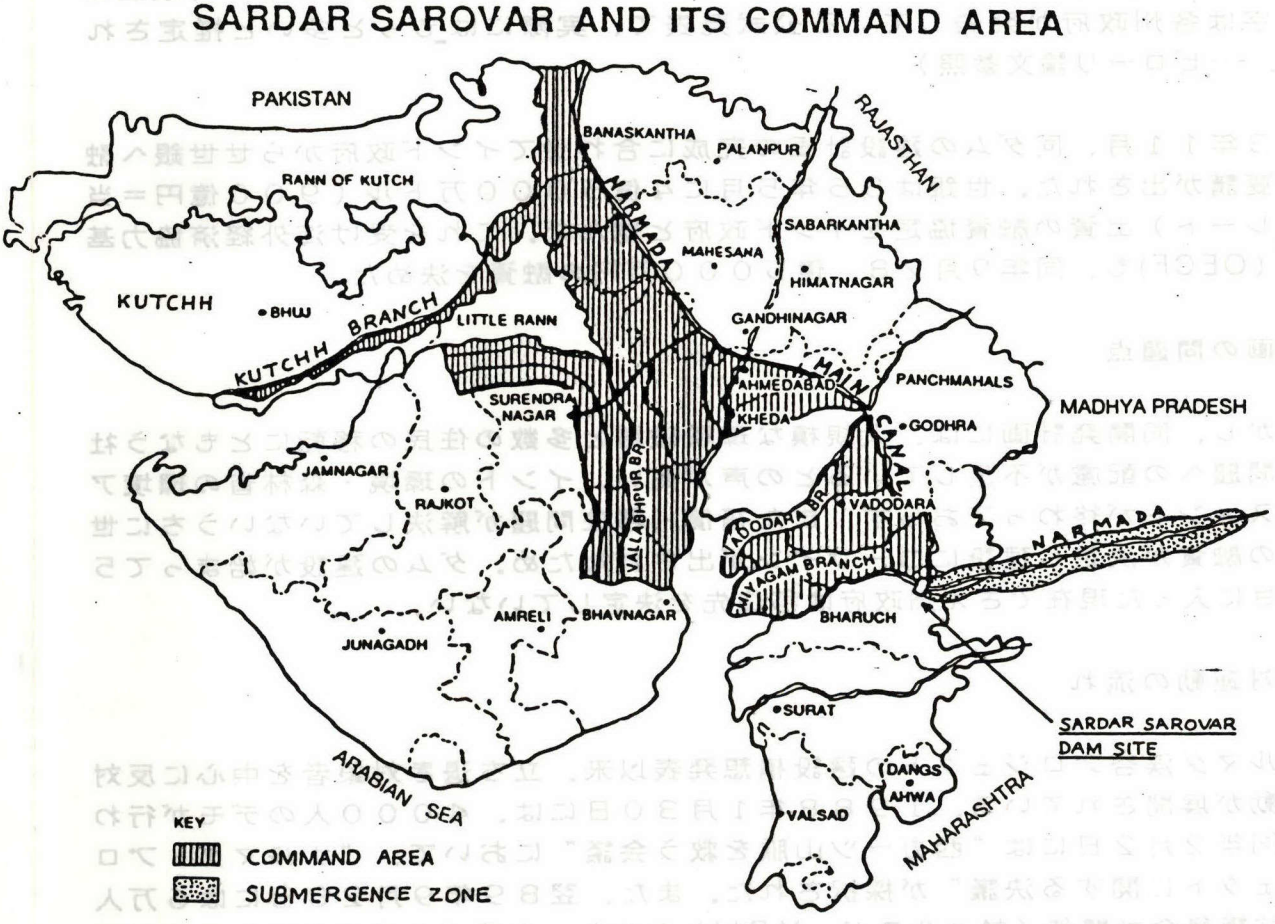
The Japanese Government's attitude towards the symposium is also questionable. The Indian Government sent a representative from its Tokyo Embassy, however the Japanese Government did not send any representative, in spite of being invited by the organizers. The representative from the Indian Government just gave a one-sided statement on the benefits of the dam construction. However, it is still a rather positive attitude on their part to attend a symposium organized by opponents of the project. The Ministry of Foreign Affairs has prepared a cartoon textbook on ODA for Japanese high school students and the symposium would have been a good chance for them to distribute it and educate the many young participants about development assistance.

An Indian environmentalist at the symposium stated that 60% of ODA goes back to the countries making the loans. In the Narmada dam project the value of hydroelectric power equipment purchased from Japanese manufacturers so far is ten times the amount that Japan has provided in loans, so there is doubt among the citizens of developing countries about who is really meant to benefit from the ODA provided by the advanced countries. If a Japanese Government agency, such as the Foreign Ministry, can answer such doubts, it will be a real education for everyone.

In contrast to the government bureaucracy, several members of the Diet attended the symposium. However, the Japanese Diet is much less concerned about ODA than the US Congress. The Japanese Diet must meet the wishes of the symposium participants to seriously address these issues.

１９９０年５月２０日

ナルマダ緊急集会



ナルマダ河流域総合開発計画の概要と私たちの取組み

ナルマダ河にナルマダ河流域総合開発計画が持ち上がったのは、１９７９年１２月。
同計画は今後４０-５０年をかけナルマダ河全流域に３０の大規模ダム、１３５の中規模ダム、さらに３００以上の小規模ダムを建設しようとするプロジェクトである。仮にこのプロジェクトがすべて実行されれば、約３５万ヘクタールの森林、２０万ヘクタールの農地が水没し少数民族を中心とした１００万人以上の人々が強制移住の対象となる。

サルダル・サロバルダム（SSP）は、総工費１兆２５００億円をかける同計画の最重要プロジェクト。本格的な工事は８７年４月に始まっており、７年間で１４６.５m高さ、幅１２１０mのダム本体が完成する予定。このダムの建設では２４８の村落が水没し、１０万人の人々が強制移住の対象となる。（以上の数字は各州政府が発表している公式発表で、実際にはもっと多いと推定される。---ビローリ論文参照）

８３年１１月、同ダムの建設計画の完成に合わせてインド政府からせ世銀へ融資要請が出された。世銀は８５年５月に４億５０００万ドル（９００億円＝当時レート）出資の融資協定をインド政府と結んだ。これを受け海外経済協力基金（OECF)も、同年９月２８、億５０００万円の融資を決めた。

計画の問題点

しかし、同開発計画には、大規模な環境破壊と多数の住民の移転にともなう社会問題への配慮が不足しているとの声が高い。インドの環境・森林省の環境アセスメントが終わっておらず、また補償・移住問題が解決していないうちに世銀の融資が決定し建設にゴーサインが出されたため。ダムの建設が始まって５年目に入った現在でさえ州政府は移住先を決定していない。

反対運動の流れ

ナルマダ渓谷プロジェクトの建設構想発表以来、立ち退き対象者を中心に反対運動が展開されている。１９８８年１月３０日には、４０００人のデモが行われ同年２月２日には“西ガーツ山脈を救う会議”において、“ナルマダ・プロジェクトに関する決議”が採択された。また、翌８９年９月２８日には６万人の抗議集会が開催（於ハルスド、MP州）された。今年（１９９０年）４月には現地を代表する３人の活動家（Kisan Mehta, Vijaya Venkat, Ramesh Billorey）が来日し、日本の同計画への融資中止を訴えてシンポジウム“誰のための援助 --- インド・ナルマダダム開発の現場から”に参加したほか、ODA4

(2)

5/11 朝日

ODAダム融資中止も

外相が示唆

中山外相は十一日の参院予算委員会で、日本の政府開発援助（ODA）資金も投入してインド西部のナルマダ川で建設が進められているサンダル・サロバル・ダム建設への追加融資問題について、「現時点では慎重に対応しなくてはならない。改めてインドの現地情勢を把握のうえ、政治決断をする」と述べ、追加融資の中止もあり得ることを示唆した。

社会党の矢田部理氏の質問に答えた。ダム建設は、水没地区の住民約十万人が立ち退きに対して反対運動をおこしている。

Objections to India dam may halt loan extensions

Japan Times 5/12

Japan may not extend additional yen loans for a controversial dam construction project in India, Foreign Minister Taro Nakayama suggested Friday.

Nakayama told the House of Councilors Budget Committee that the government will make a political decision on the question after considering carefully the situation there.

Prime Minister Toshiki Kaifu said Japan's official development assistance is meaningless if its not appreciated in recipient countries. He said he will instruct ministries to pay greater attention to possible environmental destruction when objections arise over projects receiving Japanese assistance..

Kaifu and Nakayama were replying to questions by Osamu Yatabe, Japan Socialist Party member.

Yatabe said the movement against the Sardar Sarovar dam, spanning the Narmada River in Gujarat state, western India, has been mounting because some 100,000 people will be displaced by the dam's construction.

The World Bank appproved a $450 million loan for the project in 1985 and Japan also promised ¥2.85 billion in loans for hydroelectric power generating equipment in the same year.

Soviet threat waning

The Soviet military threat in the Asia-Pacific region is receding, Foreign Minister Taro Nakayama said Friday.

It was the first time Nakayama has officially acknowledged a reduced Soviet threat in the region.

But he told the House of Councilors Budget Committee that Japan and the United States share the view that the Soviet military presence in the region remains a big threat.

年）5月12日（土曜日）　讀賣新聞　朝刊

（第三種郵便物認可）

国会論戦の内容

11日の参院予算委から

矢田部　理氏
——社会

次期防兵器は現状で凍結を

〈外　交〉

矢田部氏　新しい外交のスタートに、忘れてはならないのは過去の侵略戦争や植民地政策を根本的に謝罪し、反省する態度だ。

海部首相　歴史の経緯を率直に反省し、改めるべきは改め、今後、日本の過去の歴史に対する認識を正しくすることから出発しなければならない。盧泰愚韓国大統領来日の際、首脳会談もあるので、その時に考え方を率直に言う。その大前提は過去の歴史をふり返り、日本が反省すべきは率直に反省し、その観点に立って将来に向かって真に友好的な関係の確立に努力する。

矢田部氏　韓国大統領だけに言えばいいことではない。

首相　もちろん韓国だけでない。朝鮮半島、中国、アジアのこと、みな、指摘の通りであり、過去の戦争の歴史に対してその責任を痛感して、反省に立って物を申し上げる。

矢田部氏　アジアではソ連の脅威が薄まっている。それでもソ連軍の侵攻の可能性があると考えるか。

中山太郎外相　極東には全ソ連軍の四分の一から三分の一にあたる莫大（ばくだい）な軍事力があり、兵器の近代化も進んでいる。極東でのソ連軍の軍事力には潜在的脅威が存在すると認識する。

矢田部氏　答弁していない。（五分間、中断）

外相　以前に比べ、侵略的要素が薄まってきつつある。（今は）その過程だ。

〈次期防〉

矢田部氏　防衛庁は五年間にわたり次期防衛力整備計画を作ろうとしているが、時代の趨勢（すうせい）に逆行している。

石川要三防衛庁長官　新たな国際情勢をよく分析し、その認識のもとに憲法の範囲内で、財政的にも節度ある防衛計画を立てることは当然だ。今日の激動の中で五年がいいか、三年がいいか、いろいろとあろうと思う。それを含めてこれから検討する。

矢田部氏　国際情勢は平和の方向に動いており、柔軟に対応すべきだ。次期防衛力整備は文民統制で変化考慮　首相

村沢　牧氏
——社会（関連）

〈日米構造協議〉

村沢氏　米通商代表部は日本側が実行できることを最終的に機関を作ることを最終的に盛り込むということだが。

武藤嘉文通産相　正式に聞いていない。直す点を指摘しあってフォローアップしていくのが本当ではないかと（米側に）申し上げた。決まったら検討させていただきたい。

首相　両国政府が自ら責任を持つとともに、フォローアップするなら日本側からも米の制度、運用について参加を求めていくべき性質の問題だ。

村沢氏　公共投資十か年計画の投資額は、国民総生産（GNP）に対してどの程度の比率か。総額はいくらか。

橋本竜太郎蔵相　GNP対比を示すことは、予算管理を他国にゆだねることになるので応じられない。かつては旧国鉄や電信電話公社、電源開発の事業も公共投資に含まれたが、現在は民営化に伴い公共投資としてとらえていない。長期計画をもっていない社会福祉施設整備事業なども十か年計画に含まれていない。

相沢英之経企庁長官　十か年計画は、今後、各省に事業策定を依頼しており、それをもとに六月中下旬までにまとめる予定で、総額が明らかになるのはこれからの問題だ。

〈土　地〉

村沢氏　土地の含み益の課税、譲渡益の累進課税を検討すべきではないか。

首相　税負担の公正確保から検討を加える必要がある。土地税制は税制調査会で幅広い視点から検討していただいている。

蔵相　課税は強化すべきだとの意見の一方で、宅地供給のために課税を軽減すべきだという意見もある。地価高騰に伴って出てきた資産格差について適正化を求める声を一つの視点にして、大都市で一生懸命働いている人が努力すれば家が持てるよう、幅広く検討を続けている。

村沢氏　金融機関の土地関連融資に関する指導、監督は生ぬるい。

蔵相　（これまでの指導が）効果を発揮していないとの批判は甘受する。さる三月、金融機関の土地関連融資が総貸出額を上回らないよう、金融機関に通達した。その効果が表れることを期待している。

文民統制で変化考慮　首相

で調達予定の兵器は現状で凍結すべきだ。

防衛庁長官　今の段階では言うべきことではない。（次期防策定の中で）総合的に検討したい。

首相　平成三年度以降の防衛力整備は文民統制を踏まえ、安全保障会議において、国際情勢の変化など勘案しながら検討していく。

〈ODA〉

矢田部氏　インドでのダム建設で、現地では大規模な反対運動が起きている。どう受け止めているか。

木幡昭七外務省経済協力局長　水力発電所の建設計画で住民の反対運動が生じているのは承知している。経済性、環境問題などを総合的に勘案して対処したい。

山口光秀経済協力基金総裁　世界銀行が行った審査を参考に八五年六月に審査を行った。その際、インド政府が環境面で配慮するということも確認した。

矢田部氏　日本として追加融資をやめるべきだ。

外相　現時点では慎重に対応しなければならない。

〈政治献金〉

矢田部氏　政治献金はないか。

深谷隆司郵政相　（国会での報告には）ありったけの調査をした。政治資金規正法に基づき、（過去）三年半の資料を調査した。

矢田部氏　自ら疑惑を晴らすための政治倫理綱領上の責任がある。

郵政相　事務所の者全員で、さまざまな資料を出し合い検討し、これ以外にないという確信を持って出させていただいた。

矢田部氏　秘書が全く仕事をしない、名目だけの社員では、政治献金ではないか。

浅野大三郎自治省行政局選挙部長　会社が政治活動に寄付しようとして、直接寄付せず人を雇った形で派遣するなら政治献金にあたる。ただこれは法律の趣旨であり、（個別の）行為がそれにあたるかどうかはわからない。

矢田部氏　検事調書によれば、あなたもリクルート社の就職情報誌の法規制に関し工作対象者になっている。

郵政相　就職情報誌に関して依頼を受けたことは一度もない。なぜ、工作対象者として名前が出たのかもわからない。

〈外国人労働者〉

斎藤氏　深刻化している労働力不足に対応するため、外国人労働者の受け入れを検討すべきではないか。

斎藤氏　放漫金融をしているのか。

日銀副総裁　政策全般として誤りはなかった。

斎藤氏　しかし現実には、百兆円が銀行を通じて土地投資へ向かっている。

日銀副総裁　相当量の資金が土地取引に関連して流れたのは否定できない。

首相　首都機能の移転は大きな政策、研究課題。それとともに地域の活性化を図り、一極集中の問題を何とか解決していきたい。

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首相　単純労働者の受け入れは、国内の労働市場、産業構造、国民生活などに大きな影響を与えるので、慎重に対処しなければならない。

斎藤氏　研修生の名目で実質的な労働力を入れてはどうかという意見もあるが、関係省庁ですり合わせをすれば、相当慎重にならざるを得ない。

外相　途上国から観光ビザで入国した人が、三K（きつい、汚い、危険）と言われる専門的な労働市場に入ってくるのは、相当慎重にならなくなる。

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ナルマダ・ダム計画の中止を求める東京アピール

ナルマダ・ダム開発計画は、インドの聖なる大河であるナルマダ川に大小３千以上のダムおよび発電所、かんがい施設をつくり、１００万人以上の人々に立ち退きを強いる、インド史上最悪の破壊的な開発事業と言われています。現在すでに着工されている同計画の最重要プロジェクトであるサルダル・サロバル・ダム（ＳＳＰ）、及びＳＳＰと密接に関連するその上流のナルマダ・サガール・ダム（ＮＳＰ）だけでも約３０万人の流域住民が移住を強いられ、６万ヘクタール以上の肥沃な農地と貴重な森林が水没し、野生生物が絶滅します。そればかりか、住民の移住先や生活保証もまったくめどがたっておらず、他の地域の森林保護区をつぶす以外に適当な移住先もないのが実情です。

必要十分な環境や移住に関する調査、および経済性に関する調査をインド政府が怠っているにもかかわらず、世界銀行は１９８５年に融資を決定し、続いて日本政府も海外経済協力基金を通じての協調融資を決定しました。しかもこの日本の援助は住友商事、日立などの日本企業の２９０億円にのぼる発電機械設備の受注につながるものでした。世銀はインド政府の不十分な調査資料、報告書に基づいて融資を決定することで、強制移住や環境配慮、先住民問題に関する自らのガイドラインに違反していますが、今や世銀内で米国に次ぐ第二位の出資国として大きな発言力を持ちつつある現状をふまえると、日本政府はこれら世銀の決定にも大きな責任を担っています。。世銀はインド政府が十分な移住計画や環境アセスメントを行うことを追加融資の条件とし、移転問題の解決を図るよう、インド政府に期限付きで働きかけてきましたが、工事が始まった８７年以降インド政府は何度もこの期限を延期し、住民の抗議を無視して工事を進め続けています。こうしたインド政府の態度や、それを黙認してきた世銀に対し、世界中から非難の声が高まっています。

一方、現在までの融資金額は２８．５億円とそれほど大きくないものの、今や年間８百億円以上にのぼる最大の対インド援助国となった日本の援助のあり方にも、世界の注目が集まっています。日本が巨額の援助資金を動かしているにも関わらず、そのような資金が注がれる開発事業が環境や住民社会に与える影響、さらに開発のオルタナティブなどを十分調査研究する体制がほとんどないに等しいからです。今回のナルマダの事例でも、調査はほとんど世界銀行やインド政府任せであり、現地に派遣された調査官も地元の住民や市民団体との意見交換などを全く行わないなど、これまでに見られた日本の援助の欠陥をそのまま繰り返しています。

現在ナルマダの現地などでは、きたる６月３０日のインド政府の移住計画などの世銀への提出期限が目前に迫る中で、６万人以上のデモ、橋の封鎖、ボンベイ市内での座り込み、ハンガーストライキなど住民や支援の市民の抵抗運動が激しさを増すばかりです。ナルマダ・ダム計画はインドが過去３０年以上にわたって行ってきた不公正で破壊的な開発のあり方、誤った開発モデルの象徴であり、反対運動は単なる一地域、一プロジェクトを越えた全インド的問題として広がっています。

私たちナルマダ・シンポジウムの参加者は、この問題をさらにインド一国をも越えた「開発、発展」の理念、モデル、方法の問題として捉え、日本の開発や援助政策、理念と私たち市民の人間としての生き方、価値観のあり方全体をも問う問題として捉えるべきであると考えます。

このような基本認識に立ちつつ、私たちは次のような具体的要請を行います。

1．インド政府、世界銀行並びに日本政府、金融機関はこの事業の継続と融資を直ちに中止し、ナルマダ・ダム計画全体の全面的な見直しを行うべきである。
2．世界銀行は、世界の開発のリーダーとしての責任を痛感し、この問題を契機に既に破産している自らの開発理念、モデルの全面的な見直しを行い、民衆の参加を主体とした、民主的で自発的な開発を手助けするあり方を追求すべきである。各国政府は、世界銀行がそのような方向をとらず、今後もこのような民衆に敵対する開発のチャンピオンでありつづけるなら、世界銀行への参加から撤退すべきである。
3．日本政府及び大蔵省は、現在世銀が問われている方向性に照らして、第二出資国としての影響力の及ぶ責任を果たすべく、　世界銀行に対し、ナルマダダムへの支援を中止するよう要請すべきである。
4．外務省、ＯＥＣＦはナルマダダムに関する追加融資を行わないことを直ちに決定し、公表すべきである。またナルマダ住民からの公開書簡に正式な回答を早急に文書で行うべきである。
5．今回のような国際的な巨大開発に関わってきた日本の巨大商社やプラントメーカーなどは、環境破壊を避けるようなビジネスの環境、人権ガイドラインの策定に直ちに着手すべきである。
6．日本政府、国会は今回のような問題発生の背景にある日本の開発援助の根本的な問題点にメスをいれ、新しい民衆と地球の将来に敵対しない開発、発展のモデル、理念、方法の確立を追求すべきである。
7．私たちは援助基本法の検討を含む、援助のあり方の総見直しを図るための国会の特別調査委員会を持つ事を要請する。

１９９０年４月２１日（土）

アース・デイ・ナルマダシンポジウムにて

地球の友・日本
熱帯林行動ネットワーク
ナルマダ・シンポジウム準備委員会
ＯＤＡ研究会
ＯＤＡ調査研究会
問い直そう援助を！市民リーグ
小島延夫（日弁連・公害対策環境保全委員会）
以下　シンポジウム参加者一同

援助に地元民の声を重視せよ

90.5.11 東京

日本が援助しているインドのダム建設に対し、環境破壊などを理由に反対運動が激化している。一次責任は現地政府にあるが、日本側ももっと地元民の声を重視せよ。

社説

インド西部・ナルマダ川流域ダム建設をめぐる国際シンポジウムがこのほど東京で開かれた。内外の学生ボランティアが会場の運営を受け持ち、インドや米国の環境運動家、日本の学者、国会議員が討論に参加した。

この事業は大小三千を超すダムを建設し、発電やかんがいに役立てようというもの。世界銀行、日本の海外経済協力基金などの融資でその中核ダムが八七年から着工された。

ところが、ダム建設に伴って強制移転させられる流域住民約十万人の移住先が確保されていないほか、深刻な環境破壊が予測されるとして、これに反対する現地民が数万人規模の大デモやハンストに訴えている。

討論でおもに指摘されたのは①世界銀行が住民参加、環境保護など自ら設けた基準を無視している②日本政府、海外経済協力基金は調査を世銀任せにした――という融資側の〝無責任さ〟である。

世銀は再評価の結果、再定住問題を解決しなければ融資を中止する、と警告したが、日本は世銀の第二位の出資国なのだから、このような融資は理事会で注意すべきだ。世銀との協調融資だからといって、調査を怠るのもよくない。調査余力がなければ、融資を遅らすとか、調査要員を増やさねばならない。

シンポジウムに対する政府の態度にも疑問がある。インド政府は駐日大使館の経済担当公使を派遣したが、日本は外務省などが招かれたのに参加しなかった。インドの公使もダムの効用を一方的に述べただけだが、自国批判の集会に堂々と出席したのは立派だ。

外務省は政府開発援助（ODA）への中学生の理解を深めるため、最近、マンガのテキストまで作製した。参加者の大部分が若者のシンポジウムで説明してこそ、生きた「開発教育」になったはずだ。

インドの環境運動家は「ODAの六〇%は債権国へ戻ってしまう」と述べた。ナルマダダム事業でも、日本がこれまで融資した額の十倍に相当する発電機械類が日本の重電メーカーなどに発注され、話題になった。

先進国のODAは一体だれのためか、という疑問が多くの途上国市民の胸にわだかまっている。外務省などがそれに明確に答えることこそ、真の開発教育であるはずだ。

官僚と対照的に、与野党の国会議員がシンポジウムに出席して好感された。しかし、米国議会に比べると、日本の議会はODAに関する関心が極めて低い。国会はシンポジウムで寄せられたODA本格審議への熱い期待に真剣にこたえねばなるまい。

ナルマダ渓谷開発事業の即時全面停止を要請します

バーバー・コナブル世界銀行総裁殿
山口光秀海外経済協力基金総裁殿　〒100 東京都千代田区大手町1-4-1 竹橋合同ビル

インドの北西部で進行中の「ナルマダ渓谷開発事業」は的確なフィージビリティ調査もないままゴーサインが出され、また立ち退きを迫られている現地住民の再定住計画も不完全なまま進められています。この開発計画は35万ヘクタールの森林、20万ヘクタールの農地を水没させるものでもあります。人類にとって環境保護が急務の課題となって来ている昨今、このような大規模な環境破壊ならびに社会的なインパクトを与える開発に対して、根本的な見直しの必要性が指摘されてからもうかなりの時間が立ちます。3月10日この開発事業で最も直接に影響を受けるマディヤプラデシュ州の知事は開発事業の再評価を実施する委員会の設置に合意しました。この委員会の結論が出るまで融資の支払を停止することを要請します。また、もっと真剣かつ適確な、環境ならびに社会に及ぼす影響評価の実施を融資制度の中に確立することを要請します。生態系を損なわない、現地の事情に見合った事業に目を向けることを要請します。開発が進行中の現地の住民は、このような大規模な開発は先進国の企業のためにはなっても彼らの生活のためにならないと言っています。私たちは基金がこのような破壊的な融資事業を即時全面停止するよう要請致します。

名前	住所	署名

連絡先　地球の友
〒150 東京都渋谷区鶯谷町7-1 渋谷マンション801 Tel. 03.770.5387　Fax. 03.770.0727

ズ・マジックショー	00 芸能花舞台、舞踊「神田祭」花柳昌太朗 花柳真理子「江戸囃し」松本源之助「木遣り」江戸消防記念会	9	00[B]外科医・有森冴子「恋の集中治療室」三田佳子 高島政宏 岩城滉一 松下由樹 高木美保 李麗仙 羽賀研二ほか◇54[二][天]
9.30 日本・出会い旅「天神様の衣がえ・福岡県太宰府市」菅公から39代（プロ野球延長のとき9.30以降変更あり）	45 日本の伝統芸能・能・狂言鑑賞入門「狂言・わわしい女たち」		
00 [N][天]◇15サタデースポーツ プロ野球全試合▽ゴルフマッチプレー	10.15 ウイークエンドセミナー「90年代日本と憲法原理②自由経済と規制・文化摩擦の背景」	10	00 さんま・一機イッチョカミでやんす「悲劇はトイレで始まった…」
40[B] ショータイム「10万人が大熱狂！クリフ・リチャード世紀の〝ジ・イベント〟」黒柳徹子	00 土曜フォーラム「開発援助と環境保護・インド・ナルマダダム開発をめぐって」		30[B] アッコのおかしな仲間▽笑いなしには語れない研ナオコの素顔◇[天]
11.25 [N][天]◇45燃えてトライアル「下戸たちの逆襲」兵藤ゆき 辻仁成	藏見一夫 キサン・メイタ 林梓 天野貞夫ほか（11.58終）	11	00[B] 夜も一生けんめい「杉本彩の肉体にドキッ」
0.28[二] ダイナスティ「断崖」ジョン・フォーサイス 岡阪脩（1.17）			30[二] きょうの出来事
			0.00 オトナのにほへ◇朝刊
			1.10 街から恋のなくなる日
			2.05 女子大生の友「純愛」
			2.35 朝までスポーツ！
6.00 [N][天]◇15ヨーロッパ	6.00 高校化学◇30体操	明朝	5.00 [天]◇50ゲートボール
6.30 緑のワンダーランド	6.40 将棋講座 島朗		6.15 心のともしび[再]
7.00 おはようサンデー	7.00 英語会話Ⅱ		6.30 宗教の時間◇45[N]

テレビ番組欄 5/12

（朝日/1990/5/12）

朝日 5/12

「声」欄

住民への配慮示すダム建設すすめよ

相模原市 林 滋生（公務員 27歳）

インド大使館公使トリパティ様。五日付本欄の、ナルマダ川のダム建設に関するご説明のことですが、まず、建設によって水没する地域ならびに影響を受ける人々の割合が少ないと解釈されている点について、たとえそのパーセンテージが小さいとは言え、三万七千余（四月十八日付本紙より）、十万人という数値が、「わずか」であるというのは不適当と思います。

そして、ダム建設が国民代表による決定としても、国の決定というものは必ずしも地域住民の意見を反映しきれないものです。もし、それを優先させるなら、十分に住民が納得できる政策を施すことが肝要かと思います。住民の移住計画すら難航しているというのでは（前記本紙）、反対運動もやむを得ないのではないでしょうか。

以上の点について、貴国の地域住民の方々のために、再度、慎重なご配慮をお願いしたいと思います。

かたえくぼ

「再就職難」すんなり決まったのは前理事長だけです

——国鉄清算事業団（加須・亜芳）

また、ダムによってもたらされる恩恵の大きさを強調されておられますが、何が恩恵に当たるかは、それを受ける人によって異なるのではないでしょうか。さらに、その恩恵によって、自然環境という別次元の価値が補えるものかどうかも疑問です。

省庁、OECF、国会議員団、受注企業、商社、融資銀行などを訪問、懇談した。今月18日に開かれる政府間会議（中央と4州政府）を前に、2500人の水没地域住民が14日からニューデリーの首相官邸前で座り込みを開始しV.P.シン首相と政府間会議とがSSPの即時建設中止と全面的見直しを表明しない場合には、ハンストに入ることも辞さない構えである。

私たちの立場

来たる6月30日は、インド政府が世界銀行に再定住計画を提出する期限である。インド政府と世銀は同計画をあくまで推進しようとする意志を撤回しそうにない。この日にむけて同計画の資金の一部を担っている日本の私たちは、本日（1990年5月20日）ここに、緊急集会を持ちニューデリーに集まった2500人余の渓谷住民に連帯の意を表明し、また、特に以下の点について討議を深めたい。

＊4／21のシンポジウムおよびその前後の一連のインド代表団3人＋Lori Udall（米、EDF）によるODA4庁（外務、大蔵、通産、経企）、国会議員団、受注日本企業（商社、プラント・メーカー）、融資銀行等の訪問、懇談（一括して「ナルマダ・キャンペーン」と称す）の成果と意義

＊国会質問（ことに参院における）の成果と意義

＊インド現地の情勢の推移と反対運動の展開

＊特に世銀と日本の大蔵省の“巻き返し”に対して世銀への圧力を強めていくために日本の私たちがどう行動していくか、どうキャンペーンを強めていくか。

ナルマダ渓谷ダム計画年表

1959年	サルダル・サロバル・ダム構想
1965年9月6日	コスタ委員会(Khosta Commission)報告書公表
1969年	インド中央政府，ナルマダ水紛争裁判所(Narmada Water Dispute Tribunal)を設立
1979年	ナルマダ水紛争裁定(Narmada Water Disputes Tribunal Award)
1979年	世銀，サルダル・サロバル：ダム・プロジェクト案の策定のために，グジャラート州政府に対して1,000万ドルの融資
1985年5月10日	世銀融資協定(4億5,000万ドル)
1985年9月	海外経済協力基金(OECF)，28億5,000万円の融資
1986年1月19日	マディヤプラデシュ州立ち退き反対同盟(Narmada Ghati Navnirman Samiti)結成
1986年2月17日	マハラシュトラ州立ち退き反対同盟(Narmada Dharangrast Samiti)正式に結成
1986年4月20日	環境・森林省「ナルマダ・サガールとサルダル・サロバルの多目的プロジェクトの環境的側面」と題される報告書をガンジー(Rajiv Gandhi)首相に提出
1987年4月13日	ガンジー(Rajiv Gandhi)政権，ナルマダ渓谷プロジェクトへの着手を承認
1987年12月	住友商事が，日立製作所，東芝などとタイアップして，290億円で揚水発電プラント建設の受注
1988年1月30日	約4,000人の立ち退き対象者がダム・サイトにおいてデモ
1988年2月3日	ゴアにおいて，西ガーツ山脈を救う会議(The Save the Western Ghats Conference)開催，「ナルマダ・プロジェクトに関する決議」採択
1988年8月	反対運動団体，ガンジー方式の抵抗を確認
1988年10月18日	ケバディアをはじめ12ヵ村を「立ち入り禁止区域」に指定
1989年1月	ダム建設労働者ストライキ
1989年1月30日	約1,500人がダム・サイト近くでデモ，18人が「スパイ容疑」で逮捕
1989年2月22日	約1万人がダム・サイトに座り込み，メダ・パッカーを含む7人のリーダー逮捕
1989年4月	ババ・アンテ，「緑戦線」(Green Front)結成の構想を表明
1989年6月30日	移住問題と環境問題の解決のための世銀設定デットライン
1989年9月28日	ハルスドでおよそ6万人が「破壊的開発」に反対する全国集会(national rally)を開催，「ハルスド宣言」の採択
1989年10月24日	アメリカ下院において特別公聴会
1989年12月20日	およそ500人の雇われ暴力団がケバディア村を急襲し，住民に暴行を加えた。
1989年12月31日	およそ2,000人の部族民がハベシュワル寺院近くのナルマダ川辺りに集まり，家屋，土地，森林を破壊から守ることを誓約
1990年1月12日	西ドイツの経済協力大臣訪印，メダ・パッカー，キサン・メータらと会見
1990年1月17日	前年12月20日の暴行に抗議して，500人以上の部族民と支援者が，ケバディアにおいて抗議集会を開催。およそ200人が逮捕される。
1990年1月18日	
1990年1月26日	共和国記念日に合わせて，水没対象の村々において集会が開催され，「息の根が止まるまで闘う」との宣言文を採択
1990年1月30日	バドワニにおいて，女性を中心に約5,000人がナルマダ渓谷開発公社(NVDA)の事務所の閉鎖を求めて36時間の座り込み
1990年3月6日	約1万2,000人が，ボンベイ・アグラ間のハイウェイをカルガート橋において，33時間にわたって道路封鎖 ボンベイ，ニューデリーなどにおいて，支援デモと街頭劇
1990年3月28日	ボンベイにおいて，水没対象村落の代表約500名が座り込み，4名が4日間のハンスト
1990年4月6日	バドワニ管区支所前において約1,000名が座り込み，ババ・アンテ逮捕
1990年6月30日	移住問題と環境問題の解決のための世銀設定のデッドライン

ナルマダ・シンポジウム（Ａｐｒ．　２１）
アンケート内容

［はじめに］

４月21日のシンポジウム当日、会場には国会議員、ジャーナリストなども含めて 500人の聴衆が集った。以下はそのうちから最終的によせられた51通のアンケート（質問用紙）を分析したものである（外国人からのものも１通含まれている）。地方在住の方の参加（特に学生）に加えて、若い女性からの質問・意見が多かったことが特筆されるべきだろう。

アンケートの回収が行なわれたのは、日本側論者の発表と質疑応答が中心となった第三部の前の夕食時間である。そこまでは、第一部・第二部、主としてトリパティ・インド公使、インド代表３人とロリ・ユダールさんの報告発表が中心だったことから、そこでの話を前提としていることに留意されたい。すなわち、堂本、鷲見、村井、小島各氏が論じた第三部を通じて、ここにまとめられた疑問点に直接間接に答えられているものも少なくない。

全体として、シンポジウムへの参加人数、集まったアンケートの数の多さには、問題への関心の高さが反映されている。とはいえ、こうして整理・分類してみようとすると、ナルマダ融資に象徴的なＯＤＡの実態、機構などについて、必ずしもまだ具体的知識や情報が十分にいきわたっていないという事実は否めない。

［全体の傾向］

現状を知りたいという声が圧倒的に多い。傾向としては次の３つがあげられる。

・世銀・インド政府などの調査の内容が信頼に足るものかどうかについての疑問。
・世銀の融資決定過程、日本のＯＤＡの使い道など、融資の内容についての情報公開が必要であるとする意見。
・日本のＯＤＡへの反対意見－援助の理念がはっきりしないことへの批判。

しかし、その内容は初歩的な事実を知りたいというものがかなりを占め、開発の内容をふまえた上での具体的な質問はごく少数にとどまっている。上記の傾向も圧倒的多数というわけではなく、質問、意見の内容は多岐にわたっている。また、必ずしも開発に反対しない意見も多い。賛成することが必ずしも悪いわけではないが、より深く問題を考えてもらうために、一般の人々にいかに情報を伝えるかということを考え直す必要があるように思われる。

［アンケート内容］

日本のＯＤＡについて

・本当に必要とされる援助とは何なのか。

「本当に援助が必要な人への援助とは具体的にどんなことなのか、どんな形で実現できるのか、知りたく思います。（Ｎ．Ｋさん、女性、山梨県都留市。）」

「日本政府は”援助”の理念を明示しているのですか？あるいはまた他の諸国に於いては自国の援助政策の”理念”は明文化されるなり、明示されているのでしょうか。（Ｃ．Ｓさん、女性、つくば市。）」

・開発援助の状況を公正に判断して中止できる最大の力を持っているのはインド政府、

世銀、日本政府のどこなのか。

・ＯＤＡをめぐって政府と企業の関係はどうなっているのか。

・ＯＤＡは具体的にどのような過程で決定されているのか。

「ＯＤＡが具体的にどう使われているのか、使い道がどのように決定されているのかを知りたい。それについて、我々がどのような行動をとれるのか。つまり、融資を中止させるには、あるいはより適切な融資を行なうためには、どのような行動をとれるのか知りたい。（Ｔ．Ａさん、男性、東京都杉並区。）」

インド現地の問題について

・現地での反対運動はどうなっているのか。インド政府の対応はどうなっているのか。

・現地住民は本当に開発を望んでいるのか。

その他

・調査は本当に信頼できるのか。

「世銀はインド政府によるプロジェクトについての査定を信じて融資を決定したのか。それとも、その不備を知りつつ敢えてそうしたのか。もし後者ならそれは何故だったのか。（Ａ．Ｙさん、男性、東京都中野区。）」

「３州が調査するというが、その調査はどういう性格でどういう内容なのか。／ＯＥＣＦが調査するとしても、この機関は単なる金貸しで調査能力がない。調査をするとき、コンサル（タント）や専門家を使うが、この調査は信頼できるものなのか。また、この前、ＯＥＣＦは環境ガイドラインを示したが、これは被援助側にチェックはまかせるというものだったと思う。これでは、調査といっても全くその機能がないと思うが、どうか。（Ｔ．Ｊさん、男性、武蔵野市。）」

・日本の運動についての意見

「日本でも水没地の運動があったが、その蓄積をなんらかのＮＧＯが外国の水没地に輸出・提供できないだろうか。政府部局は信用できないので、マス・メディア、研究者などがボランティアとともに活躍すべきだし、また先進国日本（人）の義務であると考える。（Ｎ．Ｔさん、男性、東京都板橋区。）」

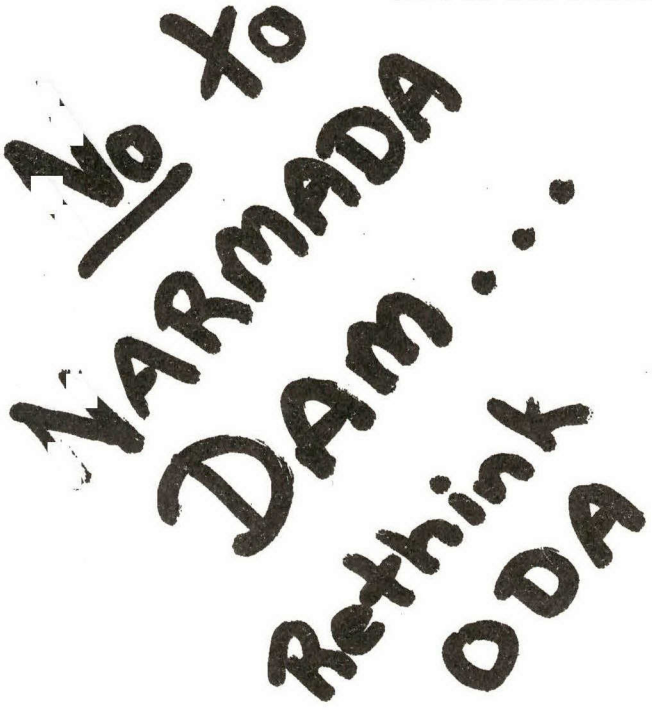
アンケート分析　若宮桂子
石井由香

1990.5.20 「ナルマダ緊急集会」にて発表

５月２１日、ナルマダ・ダム建設に抗議する

デモに参加して下さい!!!

Join our demonstration calling for Reform of Japan's ODA policy and a halt to the Narmada Dam Project in India.



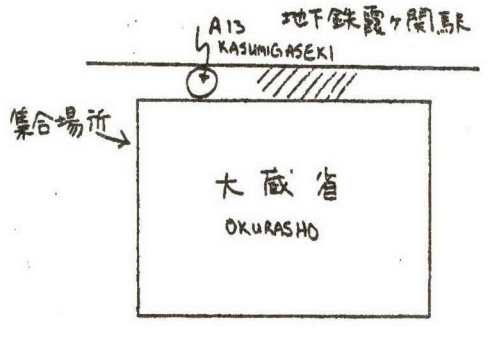
インドでは今、世界銀行と日本の資金援助で進められている大規模なダム開発計画に、建設される現場の住民と、その人たちを支える都市に住む人たちから鋭い批判と抗議の声が沸き上がっている。この開発計画は３０００以上の大中小のダムを建設するもので、１００万人もの人たち（大半は少数民族）を強制移住させ、森林３５万ヘクタール、農地２０万ヘクタールを水没させてしまう。Japanese ODA funds and the World Bank are funding a major dam in India which will cause vast environmental destruction and displacement of up to 1 million people. We are calling for reform of ODA in general and halting of this project's funding in particular.

２つの場所で行います(2 locations on 5/21)：

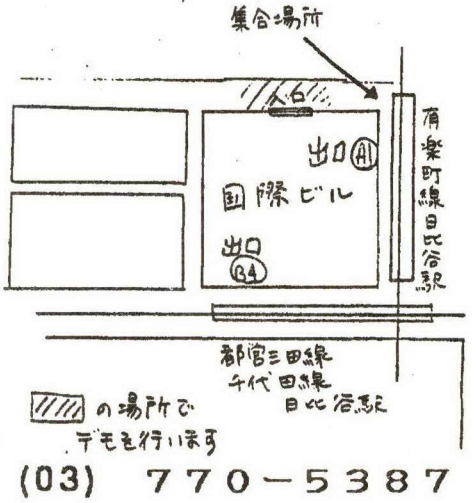
１．　場所：　大蔵省前　（地下鉄霞ヶ関駅A13出口）
　　時間：　１２時－１３時
　　(front of "Okurasho" Ministry of Finance: Subway Kasumigaseki exit A13)

２．　場所：　世界銀行東京事務所・国際ビル前（地下鉄日比谷駅A1出口）
　　時間：　１４時－１５時
("Sekai Ginko" World Bank: front entrance Kokusai Biru: Subway Hibiya Station exit A1)

①



②



連絡先：地球の友 (Friends of the Earth) Tel.　(03)　７７０－５３８７

公開書簡

１９９０年4月２５日

内閣総理大臣　　海部　俊樹　殿

謹啓　去る４月２１日、日本の政府開発援助のこれまでの、そしてこれからの姿勢を問うシンポジウム「誰のための援助？インド・ナルマダ・ダム建設の現場から」が東京にて開催されました。私たちはこのシンポジウムの準備・運営に携わってきたＮＧＯ／ボランティアとして、この度の総理のインド訪問に際し、以下の点をご理解いただいた上で是非ご見解をお示しいただきたく、このような公開書簡をお送りした次第です。

まず、私達が今回のシンポジウムで取り上げたナルマダ・ダムについてこれまでの経緯を簡単にご説明いたします。

ナルマダ渓谷開発計画（NARMADA VALLEY DEVELOPMENT PROJECT）は、インド西部のグジャラート、マハラシュトラ、マディアプラデシュ三州を流れる「聖なる川」ナルマダの水流を、水力発電及び周辺地域の灌漑に利用する計画で、川の全域にわたり大小３，０００以上のダムの建設が予定されています。現在その主要部分を占めるサルダル・サロバル・ダムの建設がグジャラート州で進行中です。この計画に対しては１９８５年に世銀が４億５千万ドルの融資を決めており、日本もＯＥＣＦを通じ２８億５千万円の協調融資を決定しています。

この計画はその規模と総支出額においてインドの開発事業史上最大のものであり、１００万人にのぼる住民の強制移住と、森林３５万ヘクタール、農地２０万ヘクタールの水没をもたらします。にもかかわらず、インド中央政府並びに関連三州は、未だに移住者の再定住地の確保と環境への影響に対する充分な調査・対策を実施していません。この他にもこの計画をめぐる様々な不備が各種研究機関によって指摘されています。こうしたことから、地元住民を中心にインド国内の知識人をも巻き込んだ広範な反対運動が起こっており、ナルマダ計画は開発の名の下に行われる不公正で破壊的な開発のシンボルとなりつつあります。私たちは、ダム工事の即時停止と計画の全面的な再検討を求めるものです。そして、日本政府がこの計画に対し追加融資を行うようなことは、絶対にあってはならないと考えます。

シンポジウムでは、日本政府の対外経済援助の姿勢に疑問を投げかける目的で、そのひとつの実例としてこの計画を取り上げました。また、地元住民と共にダム建設の即時停止を求めて運動を続けている三人の活動家をインドから招き、援助を受ける側から大規模開発の問題点と援助の本来あるべき姿についてお話しいただきました。シンポジウム自体は主催者の期待を上回る盛況のうちに進行し、会場からも意見や質問が活発に出されました。これは政府開発援助を初めとする日本の対外政策や、今後日本が世界に示すべき態度に対する国民の関心の高さを反映してのことと思います。

政府は国民の税金が効果的かつ環境・人間・社会的に健全な事業に使われることを補償する義務があるのではないでしょうか。現在政府開発援助については、計画の作成・各種調査・実施の各段階において問題点が指摘されており、その不透明さや追跡調査・報告制度の欠如等に不安を抱く国民も多数存在しています。特に日本は経済大国としての影響力の増大に伴い諸外国から様々な批判を受けるようになっており、開発援助に関する政府の理念・取り組み方は今後ますます問われることになるでしょう。

私たちは、ナルマダ流域開発にもみられるように、本来被援助国に利益をもたらすはずの資金援助が、実際にはその国の最貧層を潤すことなくいたずらに巨大計画に費やされ、そればかりかそれがもたらす大規模な人的・環境的破壊の可能性について充分な調査・対策もないまま許可されてしまう現状を黙認するわけにはいきません。日本は、資金提供の対象となる開発計画に対して独自の事前調査を行うべきであり、そのためにも環境・社会的影響に関する評価基準を明確にする必要があります。ナルマダ問題はすでに国際的な反響を呼んでおり、昨年１０月２４日には

米議会がインドから代表団を

招いて公聴会を開いており、今年に入っても１月１２日に西独の経済協力大臣が調査のため現地を訪れています。世銀もインド当局に対し、計画の種々の問題点について解決策を提示するよう求め、そのための期日を設定してきています。が、それは過去５回にわたって破られており、次の期限である本年６月３０日を経ても、状況の根本的な変化に結びつくとは思われません。日本は今度こそイニシアチブを取り、インドへの最大の援助国として、まずＯＥＣＦの追加融資を行わないこと、そして米国に次ぐ第二位の出資国として、世銀に対しても追加融資を打ち切るよう、勧告すべきです。（詳細については同封の資料を　ご参照下さい）。

以上の事情を踏まえ、私たちは総理に今回のインド首脳との会見の際に、是非この問題を取り上げていただきたく思います。また、開発援助が被援助国の環境資源及び社会に対して与える影響について、総理ご自身のお考えを明らかにしていただきたくお願い申し上げます。

敬具

地球の友
熱帯林行動ネットワーク
ＯＤＡ研究会
ナルマダ・シンポジウム準備会
シンポジウム　参加者一同

第百十八回国会　参議院外務委員会会議録第二号

平成二年四月十七日（火曜日）
午前十時開会

委員の異動
三月三十日
辞任　成瀬　守重君
　　荒　正敏君
　　谷畑　孝君
四月十六日
辞任　立木　洋君
四月十七日
辞任　鳩山威一郎君
　　山本　富雄君
補欠選任　山本　富雄君
　　堂本　暁子君
　　田　英夫君
補欠選任　吉岡　吉典君
補欠選任　野村　五男君
　　石渡　清元君

出席者は左のとおり。
委員長　山東　昭子君
理事　久世　公堯君
　　宮澤　弘君
　　田　英夫君
　　中村　鋭一君
委員　石渡　清元君
　　大鷹　淑子君
　　岡部　三郎君
　　関口　恵造君
　　野村　五男君
　　原　文兵衛君
　　久保田真苗君
　　竹村　泰子君
　　堂本　暁子君
　　肥田美代子君

国務大臣　外務大臣　矢田部　理君
政府委員
外務大臣官房審議官　太田　淳夫君
外務省アジア局長　中西　珠子君
外務省北米局長　吉岡　吉典君
外務省中南米局長　猪木　寛至君
外務省欧亜局長　太田　博君
外務省中近東アフリカ局長　中山　太郎君
外務省経済局次長　谷野作太郎君
外務省経済協力局長　松浦晃一郎君
外務省国際連合局長　瀬木　博基君
事務局側
常任委員会専門員　都甲　岳洋君
　　渡辺　允君
説明員
北方対策本部参事官　須藤　隆也君
科学技術庁原子力局政策企画官　木幡　昭七君
科学技術庁原子力局核燃料課長　赤尾　信敏君
外務大臣官房審議官　辻　啓明君
大蔵省国際金融局開発機関課長　戸谷　好秀君
資源エネルギー庁長官官房企画調査課長　広瀬　研吉君
労働省職業安定局雇用政策課長　結城　章夫君
海外経済協力基金理事　丹波　實君
　　小宅　庸夫君
参考人　宮村　智君

本日の会議に付した案件
○理事補欠選任の件
○千九百八十九年七月三日に国際コーヒー理事会決議によって承認された千九百八十三年の国際コーヒー協定の有効期間の延長の受諾について承認を求めるの件（内閣提出）
○千九百八十九年のジュート及びジュート製品に関する国際協定の締結について承認を求めるの件（内閣提出）
○参考人の出席要求に関する件

○委員長（山東昭子君）　ただいまから外務委員会を開会いたします。
まず、委員の異動について御報告をいたします。
去る三月三十日、成瀬守重君、荒正敏君、谷畑孝君が委員を辞任され、その補欠として山本富雄君、堂本暁子君、田英夫君が選任されました。
また、昨十六日、立木洋君が委員を辞任され、その補欠として吉岡吉典君が選任されました。

○委員長（山東昭子君）　理事の補欠選任についてお諮りいたします。
委員の異動に伴い現在理事が一名欠員となっておりますので、その補欠選任を行いたいと存じます。
理事の選任につきましては、先例により、委員長の指名に御一任願いたいと存じますが、御異議ございませんか。
（「異議なし」と呼ぶ者あり）

○委員長（山東昭子君）　御異議ないと認めます。
それでは、理事に田英夫君を指名いたします。

○委員長（山東昭子君）　千九百八十九年七月三日に国際コーヒー理事会決議によって承認された千九百八十三年の国際コーヒー協定の有効期間の延長の受諾について承認を求めるの件、千九百八十九年のジュート及びジュート製品に関する国際協定の締結について承認を求めるの件、以上二件を便宜一括して議題といたします。
まず、政府から順次趣旨説明を聴取いたします。
中山外務大臣。

○国務大臣（中山太郎君）　ただいま議題となりました千九百八十九年七月三日に国際コーヒー理事会決議によって承認された千九百八十三年の国際コーヒー協定の有効期間の延長の受諾について承認を求めるの件につきまして、提案理由を御説明いたします。
昭和五十八年に作成されました千九百八十三年の国際コーヒー協定は、国際市場におけるコーヒーの著しい価格の変動を防止し、生産国の輸出収入の安定と消費国への安定した供給とを確保することを目的として、コーヒーの輸出割り当ての実施及び停止の操作を行うこと等について規定しておりますが、同協定は昨年九月三十日に終了することとなっておりましたので、昨年七月にロンドンで開催されました第五十三回国際コーヒー理事会において、その有効期間を二年間延長することが決議されました。この有効期間の延長は、コーヒーに関する国際協力を継続するとともに、国際コーヒー理事会における新たな協定の交渉のために時間的余裕を与えるためのものであります。

ことがございますでしょうか。

○説明員（丹波實君）　先ほども申し上げたつもりでございますけれども、安保条約の核心は、何と申しましても安保条約を抑止力とするという点にあることは先生も御承知のとおりだと思うんです。先ほどからの先生の一連の御質問を拝聴させていただいておりまして、平和に対する先生のお考えは私も全く同感でございますけれども、残念ながらあのヨーロッパですらやはり抑止力というものが効いていて、そういう力によって平和が保たれているというのがいまだに現実であって、それはアジアでも同じだと思います。そういう意味で、力というものがまだ平和というもののためにといいますか、力というものが抑止になっているというのが現実である限り、やはりこのような安保条約というものの核心として五条といったようなものが必要で、それとともに、しかし日米関係全体を見ますと、第二条に規定されているようなそういう関係でもあるというのがあの安保条約の性格ではないかと私考えます。

○堂本暁子君　当初は確かに安保条約はそういう性格がより強く、また、中曽根総理が軍事的な側面を強調されたところから、再度そこが強調されたということも確かにございましょう。しかし、第二条がある以上は、それをむしろ抑止から友好の条約へというふうに持っていくと申しますか、より強めていくということはやはり難しいことなんでしょうか。

○説明員（丹波實君）　繰り返しになって申しわけありませんけれども、最近の東西関係の変化というものにもかかわらず、国際政治は依然として力というものに裏づけられた抑止を安定のよりどころにしておるということが現実でございまして、先生のおっしゃることの意味合いというものは、今後の国際情勢がどのように進展していくかという将来の問題に対する問題提起として受け取らせていただきたい、こういうふうに考えます。

○堂本暁子君　よくわかりました。

　でも、現実の問題としてあの厚かったベルリンの壁ですね、あの前に立ったときに、まさかこんなに早くあの壁が崩れるということは私ども予想いたしませんでした。そのベルリンの壁が崩れ、そして統一のための選挙というようなものも実際に行われた、こういった現実がもう幾何級数的な早さで進んでおります。

　その一方で、今審議官のお答えですと、私ども日本はアジアの中の東西の壁、それは見えない壁であるかもしれません、ベルリンの壁のようにかたくないかもしれませんし、目で見える壁ではないかもしれませんけれども、そういった壁が日本という国の上に私は大変大きく立ちはだかっているのではないかという気がしてならないんです。そして日本の政府がそういう見解をお持ちであり、外交政策を展開していらっしゃるということは、むしろそこから力の軍事的な、平和と逆行した方向にこの国が巻き込まれていくのではないかという危惧すら私は抱きます。むしろ私たちはその私たちの目に見えない壁、まさに東西の対峙、アジアでの対峙という目に見えない壁を、みずからの中にある壁を積極的に打ち破っていくこと、そのことの方が大事ではないか。そしてそのことによって日本も平和に対してのイニシアチブをとっていくんだということを世界に見せない限り、恐らく取り残されていくんではないか。防衛防衛ということの方を重視しておられるそのことよりも、そこのところでアジアの中で平和をむしろつくり上げていく日本なんだという姿勢を見せなければ、やはり今この時代に世界に取り残されるのではないか。そこのところの情勢の読みを誤ることは大変危険なことではないかというふうに私思いますけれども、最後に大臣の御所見を伺いたいと存じます。

○国務大臣（中山太郎君）　先生も御指摘のように、ヨーロッパにおける地政学的なあるいは文化的な、歴史的なこの流れの中での東西関係の対峙が今回平和への方向性を求めて動き出している、これは現実でございますが、日本はやはり平和を目的とすることが国民の統一された願望でございます。そういうことで、平和条約が結ばれていない日ソの間に平和条約を締結して、そしてアジア・太平洋地域における平和への模索をしなければならない、これは我々の大きな願望でございます。

　そういうことで、日ソ平和条約作業グループが五つの部門でそれぞれ事務的に協議を進めておりますけれども、その中の一つでございます人物交流という面におきましても、相互が信頼できる環境を醸成していくということがやはり二国間の友好親善、平和への構築の一つの大きな手だてであるということで、例えば私が就任以来、ソビエトの経済研究所の所長を外務省がお招きしたり、あるいはソ連の経済改革の調査団を去年第一回を受け入れましたし、ただいままた第二陣を受け入れております。また先般は、タス通信の社長あるいはプラウダの編集長という方も外務省がお招きをして日本を見ていただいている、そしていろんな関係者とお話し合いをしていただいている。そういうことで、今までは御招待を申し上げても日本には来られなかった方々が、今日は来られていろいろと日本の各界の方々と意見の交換をしていただいているということから、私は日ソの関係はさらにこの人的交流を進めていくことが極めて重要であるという認識に立ちまして、来年のゴルバチョフ大統領の来日を目指して日ソ間の人的交流を一層拡大し、さらにシェワルナゼ外務大臣の来日を期待して私どもはこれから日ソ関係のよりよき姿をつくり出すために努力してまいりたいと、このように考えております。

　アジアにおきましては、御案内のように、――ちょっと失礼しました、プラウダの編集長ではなくて、「新時代」という外交専門誌の編集長でございました。失礼しました。それで、やはり中国問題一つ見ても、ヨーロッパとの違いは、中国は北朝鮮との関係を非常にルーマニアのチャウシェスク政権倒壊以来強化をしている、あるいはカンボジアにおいてはポル・ポトの軍隊に対する援助が行われているというように、多極的な構造をアジアはしているのではないか。

　そういう中で、私は外務大臣として先般アジア局長をベトナムに初めて派遣をいたしております し、カンボジア和平構築のために、昨年の八月末に開かれたカンボジア和平会議にも参加をして、どうしたら積極的にこのアジアの紛争地点の解決に努力ができるか、協力できるかという観点から、先般はヘン・サムリン政権下のプノンペンに外務省の課長を入れまして、そしていろんな人たちとの接触をいたしております。

　このような形の中で、先日来日されましたチャチャイ・タイ首相から、シアヌーク殿下とヘン・サムリン政権のフン・セン首相の会談を日本で行ったらどうかという御提案がなされまして、外務省としては積極的にこのチャチャイ首相の御意見を尊重いたしたい、努力をしたいという考え方で今作業を進めている最中でございますが、私どもはやはりアジア・太平洋地域の平和をつくるためにあらゆる手段を尽くしていかなければならないと、このように考えております。

○堂本暁子君　先ほど欧亜局長が現状とそしてもう一つの趨勢というふうにヨーロッパの情勢を説明なさいましたが、アジアでも石橋をたたくようなやり方と、そしてもう少し日本が本当に平和のイニシアチブをとるということで外務大臣の政治的な思い切った英断も時には必要ではないかというふうに思いますので、よろしくお願い申し上げます。

　そして次に、先ほどちょっと申しましたインドの問題に移りたいと思います。

　実はあした三人のインド人が来日いたします。この三人のインド人の人たちは、ナルマダ川の流域で今行われております総合開発計画、そこでの開発の現状、特に移住先を持たない住民たちの差し迫った状況、それを訴え、そして日本からのODAに抗議するために来日するということなんです。

　そこで、その工事が進んでいますのはサルダル・サロバル・プロジェクトというダムですけれども、このダムについて伺いたいというふうに思

います。

まず外務省にお聞きしたいんですけれども、サルダル・サロバル・プロジェクト、SSPと略して申しますが、のODAをお決めになるについて、日本政府としてはいつどのような内容で事前の調査を行われたか、またその調査の主体はどこだったのか、そしてどのような報告書が実際にできているのか、その点を確認させていただきたいと存じます。

○政府委員（木幡昭七君）　お答え申し上げます。

本件プロジェクトにつきましては、住民の移転問題を含めまして、環境面において適切な配慮を払うということが世銀とインド側との間で実は合意されていたわけでございます。我が方としましては、その点をあらかじめ確認した上で、本件について協力をしてまいるという決定を行った次第でございます。

ただいま先生からどのような事前調査を行ったのかという御質問でございますが、我が方といたしましては、インド側から提出がございました各種の詳細な資料を検討し、さらにはまた世銀からも資料を入手いたしまして十分精査をいたしました。その上で政府調査団あるいは海外経済協力基金、OECFの審査ミッションを派遣いたしまして、本件サルダル・サロバル水力発電所計画の開発計画におきます全体としての位置づけあるいは資金計画面、さらには事業実施体制等につきましてインド側から詳細な資料説明を聴取したわけでございます。さらにまた現地調査も行いまして、環境、移住問題に対する対策も含め、本件の実施計画の詳細について検討、調査を行った次第でございます。

○堂本暁子君　今、インド政府、そして世界銀行からの資料、なお日本からも実際に調査団を派遣されたというお話でございましたが、その細かい内容、それを今一々伺う必要はないかもしれませんけれども、当然お手元にあると思いますが、それを見せていただくことはできますでしょうか。

○政府委員（木幡昭七君）　本件につきましては、ただいま提出を御要望でございますので、ちょっと検討させていただきまして、できるだけ御要望に沿えるように努力してまいりたいと思います。

○堂本暁子君　具体的にどのような資料なり報告なり、それから事によりましたら要請のようなものがあるんでしょうか。

○政府委員（木幡昭七君）　本件につきましては、まだ御質問の細かいところについてどういうことを御説明できるかは追って検討させていただきまして、できるだけ御要望に沿えるように努力いたしますが、我が方の本件に対する協力の姿勢を決定するに当たって一つはっきりしておりますことは、要請の段階から、先ほど申し上げましたように、本件が世銀との協調融資案件であるということが明確であったわけでございます。したがいまして、その過程におきまして、私どもはまず世銀が行った調査、その報告書について確認といいますか、よく精査をさせていただいた。そしてインド政府側の本件についての具体的な要望等を、先ほど申し上げましたように、よく何回も調査団等を派遣した過程において聴取いたしまして、我が方としては、本事業全体に関する審査は基金の審査時点では既に世銀によって行われていた、それを踏まえた上での我が方の決定である。かつまた、我が方の供与対象は当該発電所建設のうちの発電機部分のみでございますので、全体としてはその一部であるということでございます。

しかし、現在において、先生御指摘のように、いろいろ住民等の反対運動もございますことを私ども真剣に受けとめまして、本件についての対応ぶりについては、事実関係の把握も含め、非常に慎重に臨んでいるところでございます。

○堂本暁子君　大蔵省に伺いたいと思いますけれども、ちょうど二年前私は西ドイツにおりまして、世界銀行とIMFの年次総会がベルリンで開かれるときでございました。そのときに、IMF、世銀の融資が環境破壊、そして人権侵害をもたらしていることで大変大きな、恐らく世界の五十カ国ぐらいの人たちが参加しての反対運動がございました。その中で、ナルマダの計画も、これはぜひ融資をストップしてほしいということをそういった国際的なNGOから日本の代表に手渡したということですけれども、そのことは大蔵省としては、当然出席しておられると思いますが、承知していらっしゃいますでしょうか。

○説明員（宮村智君）　ベルリン総会のときに、環境関係の団体の方が、本件のダムを含めまして世銀とかIMFの融資が環境に及ぼす影響というのに対していろいろ発言をされたということは我が方も承知しております。

○堂本暁子君　次のワシントンのときにもより大きな反対運動が展開されて世銀に対しての抗議が大きく盛り上がったということですけれども、二つ問題があると思います。

それだけ国際世論が世銀に対して反対しているというときに、世銀が環境アセスメントをやり、人権問題なり移住の問題についてやっているからいいのだといって世銀任せにしてしまっていいのかということが一つです。

それからもう一つは、たとえ世銀のプロジェクトだとしても、日本が直接にODAの融資をするのであれば、日本独自の環境アセスメントなり移住についての確認をしなければいけないのではないか、そこのところに抜かりがあったのではないかと思いますが、外務省はどのようにお考えになりますか。

○政府委員（木幡昭七君）　御指摘の点につきましては、私どもとしても事実関係の把握を含めて非常に慎重に対処しているところでございまして、世銀の報告にすべてお任せするというようなことではないわけでございまして、何回も調査団を派遣し、インド側とも話し合いを行っている、かつその結果についても、私どもとしては非常に真剣にかつ慎重に対処している、こういうことでございます。

○堂本暁子君　このプロジェクトは大変大規模でございまして、ナルマダ総合プロジェクトのうちのSSPだけでも一兆二千五百億円という膨大なもので、世界最大の規模と言われています。このSSPだけでもインドの三つの州にまたがっておりまして、最も影響を受けるのは上流の少数民族ですけれども、日本の調査団はいつどのような形で何日ぐらいその少数民族が住んでいる地域に入って、その人たちの移住計画がどこにいつまでに完了するかということを御確認なすったんでしょうか。

○参考人（小宅庸夫君）　お答えいたします。

SSPと言われるこのプロジェクトは非常に大きなプロジェクトでございます。ダムと発電所とかんがい用水路、三つをカバーしてインドの三つの州にまたがる大きなものでございます。

それで、基金が今融資をしておりますのは、そのうちの一部、揚水発電にかかわるものでございます。この融資に先立ちまして政府から依頼を受けまして、経済協力基金も一九八五年六月に審査ミッションを出しまして審査をしております。一九八五年六月の中旬に約十日間現地の審査を実施しております。

○堂本暁子君　現地に行くまでにもうほぼ一週間かかるというように私は了解しておりますけれども、どの地域を実際に調査なさったのか。村の数にして四百二十三でしたか、そして人の数にしてほぼ十万人、それだけの方が大変広範な地域にずっと川の流域ですから広がっているわけですけれども、たとえところどころ調査なさるにしても、十日間で果たして済むのでしょうか。実際に十日間で調査なさった報告書は当然おありになると思いますので、それをぜひ拝見させていただきたいと思いますが、いかがでしょうか。

○参考人（小宅庸夫君）　ただいま御説明したとおり、経済協力基金が融資対象としておりますのはダムサイトに置かれる発電機器に関係するものでございます。したがって、審査ミッションの調査対象も主としてダムサイトを中心に行われるわけでございます。他方、本事業全体の経済的な効果、これは先ほど申し上げましたように、かんがいとか一切を含むものですから、これにつきましては、

もととなるインド政府及び世銀が行ってきた調査、そういうものを前提に基金の方で調査をしております。

このプロジェクトを承認するに当たりまして、世銀が八五年六月に審査調書なるものをまとめておりますけれども、そういうものを一応ベースにいたしまして環境面の配慮も十分行われる。今先生御指摘の移住とかいろんな環境、生態系への影響につきましては、世銀とインド政府の話し合いを通じまして一連の合意がなされております。こういう合意が一応満たされる、そういう形で環境面の配慮も十分行われるということを確認いたしまして経済協力基金の審査を終えたものでございます。

○堂本暁子君　最近ＯＥＣＦから現地に調査にまた行かれたそうですが、見通しとしてはこのダムは完成するのか、それとも実際に途中で挫折するような感じでお帰りになったか、そこのところを簡単に一言で結構です、お答えいただきたいと思います。

○参考人（小宅庸夫君）　今申し上げましたとおり、このプロジェクトは非常に大きなプロジェクトでございます。それで、大きな部分、大部分のところは世銀がやっているところでございます。しかし、基金といたしましても、八五年に借款協定が成立しております。したがって、案件を管理する観点から、最近担当の部長が現地に参りまして、約三週間以上滞在して先ごろ帰ってまいりました。しかし、この調査もあくまでインド政府と話し合いながら、インド政府の立てたスケジュールに従って行ったものでございます。

このファインディングを一言で申し上げますと、インド政府部内あるいはインド国内の問題はまだまだたくさんあるなということでございます。しかし、プロジェクトとしては、先ほど申し上げましたとおり、非常に大きなかんがいとか発電とか、そういう経済的な効果を持つごくいいプロジェクトであると考えております。

○堂本暁子君　いいプロジェクトだと判断されたそうですが、私ここにこういう紙を持っておりますが、これはアメリカの下院で、アメリカは直接の援助はしておりません、世銀に対しての融資国の一つですから、アメリカの下院は、現地からの住民並びにアメリカの専門家を派遣した上での調査を行いました。その結果、これだけ人権並びに経済効率、そして環境について調べた結果、アメリカの下院議員六人が世界銀行の総裁あてに、この中の内容をもう時間がないので余り申し上げられませんが、実際にＳＳＰ全体としては一兆二千五百億円ぐらいのプロジェクトです。そのうちの調達できている資金は三二％にすぎない。残り六八％は調達の見込みがない。したがって、ダムは完成できないのではないかということが一つ。それから、九万人が強制退去させられたらば路頭に迷う。再定住地はない。社会的混乱を来す。そしてほとんどが少数民族である。しかも、実際に環境破壊は塩害禍、森林の水没、そしてベンガルトラですとかセンザンコウとか、いろいろ大変貴重な野生動物がいますけれども、その野生動物も絶滅する。環境に対する被害は大変大きいということが指摘されています。そしてアメリカの下院は、この結果を受けて、世界銀行のコナブル総裁にナルマダダムへの融資を直ちに中止するよう求めて公開質問状を送っております。

これだけアメリカはきちんとＮＧＯの専門家を送り、現地の調査をし、そして原住民を国会に招いて公聴会を開いて、そして、これは続けるべきではないと。しかも、先ほどから申し上げているように、ベルリン並びにワシントンでの世銀の年次総会の折も、全く国際世論としてそういうことはやるべきではないということがもう今まで何年間も続いてきているわけです。にもかかわらず、三週間の視察にいらして、これはいいプロジェクトであるというふうな結論を持たれたということについて、私は大変不思議な気がするんですが、委員長、実は今の調査をしたということの資料をこの委員会に提出していただきたいと思いますが、そのことを理事会でお諮りいただけますでしょうか。

○委員長（山東昭子君）　理事会で諮らせていただきたいと思います。

○堂本暁子君　それでは、ＯＥＣＦの今までこのプロジェクトに関して行われたあらゆる調査の報告書並びにマスタープラン、その他契約書の類など、この委員会の理事会の決定がどういうふうに出されるか存じませんが、そのことに従っていただきたいと思います。

具体的な問題ですが、六月にモンスーン期になるともう水没する村が出てくるそうです。そして、先ほど私四百と申し上げましたが、二百三十七の村が水没するわけです。そして農地は二万ヘクタール、一万五千ヘクタールの森林が沈みます。この地域は特にインドの中でも肥沃な土地として知られているところです。現地を訪れた専門家の話によりますと、もう周りはずっとはげ山である。そして住民が移住するにも移住先がない。そしてインド政府が持っている森林への移住を頼んでも、インド政府はそれを拒否した。結局、この九万人に上る人たちの行く場所はないんですね。ですから、去年の九月二十八日からボンベイを中心として六万人規模の大きなデモが行われました。また、インドで有名なソーシャルワーカーの方やそういう方たちがダムサイトに引っ越して、私たちはこのダムとともに命を捨てる、そのぐらい大きな破壊であるということを言っておられるわけです。

そして、世銀のプロジェクトであって、日本はタービンだけだとおっしゃいますが、現実の問題として日本の人がそこでやっているということを知っているわけですし、世界銀行以外に直接の融資をしているのは日本一国だけなんですね。そして、アメリカもこうやって間接の融資でさえもそういった国際世論の反対を受けて下院で公聴会を開き、世界銀行に直ちに融資を中止するように申し入れているというプロジェクトにもかかわらず、全くいいプロジェクトだといまだにおっしゃっているということは私には理解できないわけであります。

そして、実際に住民の人たちは日本に対して反日感情を持っているんです。日本が融資をしなければ、たとえ一部であろうと日本がタービンをつくらなければ、このプロジェクトは成り立たなかったのかもしれないんです。ですから、日本に対しての反日感情がずっと高まってきている。そういったことは、もう国際的な問題としても外交問題としても私は決していいことではない。そして、この間外交・安保の調査会で朝日新聞の石さんという方がおっしゃいました。日本は、さっきの平和の問題もそうですけれども、常に環境の問題についても後手後手に回っている、何としても日本は世界環境を守るんだということでイニシアチブをとるべきだということでした。

ここで大蔵省に伺いたいんですけれども、少なくとも世界銀行がそれだけ今国際世論からの反対を受けているということであれば、大蔵省は、日本は大変な発言権を持っていると思いますから、そこでこのダムの建設は中止しようというようなことを率先して進言なさるような、そういったお考えはないでしょうか。

○説明員（宮村智君）　本件につきましては、環境団体等非常に問題視をしておるということで、私どもも世銀事務当局から本件の進捗状況、特に環境問題との関係というのはいろいろ聴取をしております。

ただ、私どもが少なくとも聞いておる限り、もともと本件は環境問題についてインド政府とか関係州政府の了解を得た上で融資を承認した案件でございますし、融資の承認の際には住民の移転問題を含めた環境問題に関して十分インド政府が配慮することを理事会で注文をつけてスタートしたプロジェクトでございます。

その後、問題があるということで、インド政府自身も八六年の一月から八七年の六月まで一年半環境問題の再調査を行っておりまして、その間、プロジェクトの実施は延期されております。

それから、世銀としましても、その後もインド

政府に対して移住とか環境問題への取り組み強化を要求しておりまして、その際、いわゆるNGO、非政府組織の環境団体ともいろいろ接触をしておるところでございます。

私どもが聞いておる限りでは、インド政府、州政府とも相当努力をしておりまして、段階進展を見ているということを聞いております。

○堂本暁子君　私の聞くところでは、もう原住民がインド政府の立ち入りをすらも阻止をしているので、移転問題は恐らく解決しないだろう。そして、今おっしゃいましたように、ワールドバンクは、ことしの六月三十日までに移住の計画が完了し、そして環境アセスメントが完了しなければ融資を継続しないということになっているそうですが、そういったような状態に立ち至っても、なお我が国はそれをいいプロジェクトとしてタービンをつくり続けるのか、私は大変疑問を抱きます。

そして世銀は、大体このダムは百四十年ぐらい使えるというふうに言っていますけれども、実際に現地をごらんになった日本の専門家は、三十年から五十年で埋まってしまうのではないかというふうに予測しています。

このダム、大変私は心打たれましたことは、ナルマダという名前ですけれども、この名前は聖なる、汚れなきという意味だそうです。そして、ヒンズー教徒にとっては宗教的な沐浴の地でもございます。そういったところを今実際セメント打ちを行って、万一完成しなかった場合には、日本の納税者の私どもの税金二十八億五千万、これは全くむだなことになるわけですし、そういった聖なる川が開発で汚されていいものかどうか。しかも反日感情がここで盛り上がっていいものかどうなのか。そういった開発という名のもとに川を汚していいのか、直ちに手を引くべきではないかという気がいたします。

しかし、インド政府はなお日本に、このタービンは全部で二百九十億かかるそうですが、日本からのこの二十八億五千万は単なる頭金の一〇%、残りの分についても追加融資を求めているということなんですが、最後にしかと承りたいのは、この追加融資をさらになさる気があるのかどうか、それを外務省に伺いたい。

○政府委員（木幡昭七君）　先ほどから御説明申し上げておりますとおり、私ども本件については真剣に、かつ慎重にいろんな御意見があること、住民の反対のあること、そういうことを受けとめているわけでございます。したがいまして、追加融資をするかどうか、この問題につきましても、極めて慎重に我が方としては対応してまいるという考えで臨んでおります。

○堂本暁子君　大蔵省にも伺っておきたいと思います。

○説明員（宮村智君）　申し上げておりますように、世銀はスーパービジョンのミッション、環境問題を含めましてこのプロジェクトが今どうなっておるか、あるいは問題となっております移転問題はどうなっておるかというのを調査するために、去年の十二月にミッションを派遣したと聞いておりますし、来月にもミッションを派遣してそのプログレスを調べるということを聞いております。私どもはこのミッションの報告を受けて慎重に今後対応していきたいと思っております。

○堂本暁子君　世銀は、八五年と八七年、そして今のお話ですと去年もミッションを送って評価レポートをつくっているということだそうです。このレポートも当然大蔵省はお持ちだと思いますので、委員長、そのレポートについてもこの委員会に御提出いただきたいと思いますので、理事会でお諮りいただきたいと思いますが、いかがでしょうか。

○説明員（宮村智君）　世銀のドキュメントにつきましては、一応理事会の検討要ということで、私どもの承知する限りは部外には原則出さないというふうに聞いておりまして、そこのところの御理解をいただければと思います。

○堂本暁子君　ちょっと聞こえませんでした。

○委員長（山東昭子君）　部外秘ということ、その資料は部外には出さないということなんですね、宮村さん。

○堂本暁子君　国会への提出もできないわけですか。

○説明員（宮村智君）　よく世銀事務局ともその点検討をさせていただきたいと思いますけれども、一応ドキュメント自身にはディストリビューションはリストリクトされるということをはっきりうたっております。これは多分借入国との関係等も考慮してのことだと思われます。

○堂本暁子君　大変政治的な判断を必要とするプロジェクトかと存じます。そういったときにこういう環境あるいは人権侵害、そして反日感情といったような国際問題をも含むような問題に関して情報をお出しにならないということは、私ども大変判断のできないことでございまして、できるだけ多くの情報を今回は御提供いただきたい。それは、これからどういうものを出していただきたいか全部一覧表をつくって理事会の方にお出ししたいと思います。

最後に大臣に、このように、日本は大変環境破壊国である。ODAによって環境を破壊している。そのようなことはしていませんということを再三私もこの前大臣の口からも聞いているんですけれども、実際にこのようなことが地域住民を苦しめている。特に少数民族を苦しめている。元のネール首相は、少数民族を大事にしなければいけないとおっしゃったそうです。インドの首相がそういうふうに言われるその少数民族を、日本がどんなかかわり方であるにせよ、やはりないがしろにするとか、そういうことは決して許されないことだと私は思っています。ですから、大臣に最後にどういう御所見かお答えいただきたいと思います。

○国務大臣（中山太郎君）　ただいま政府委員から御答弁を申し上げておりますが、外務省といたしましては、世銀のさらなる情報並びにインドに駐在いたしております日本国大使からもこの件について報告を求めて、外務省としては判断をいたしてまいるというふうに考えております。

○堂本暁子君　最後にどのような調査を実際、OECFはいいプロジェクトだとおっしゃっているんです。ですから、OECFの調査に関しては私は余り、何というのでしょうか、実際に融資しておられるOECFではなくて、別の第三者機関、外国でも結構ですし、日本の学者でも結構でしょうし、違う役所なりNGOなりどういう機関でも結構ですけれども、第三者による厳密な調査をお願いしたいと思いますが、いかがでしょうか。

○政府委員（木幡昭七君）　ただいまの点に関しまして、私ども本件についてはインド政府側と累次頻繁にお話し合いをしてまいったところでございます。先ほどの答弁の中によいプロジェクトであるというお話がございました点について重ねてのお尋ねもございましたが、これはプロジェクトの経済効果の側面についてのそういう評価であろうと存じます。そのほかに、今先生が御指摘のような環境の問題とか住民の移転の問題とか、いろいろ社会的、環境的側面もございますので、私どもは事実関係の把握、その評価を含めて非常に真剣に、慎重に取り組んでいるところでございます。どのようなさらに調査をしてまいるかは、またいろいろよく検討さしていただきまして対応させていただきたいと存じます。

○堂本暁子君　最後に一つ。

それでは、経済効果とおっしゃいましたけれども、このアメリカの下院の経済効果に関してのペーパーでは、全くの失敗である、完成しないであろうというふうに述べているわけです。ですから、同じ経済効果でも日本とアメリカに関しては大変見解が違うわけで、その辺のところも十分に御検討いただきたいと思います。

どうもありがとうございました。終わらせていただきます。

○国務大臣（中山太郎君）　今委員が御指摘の点に関しましては、さらに慎重に検討してまいります。

○久保田真苗君　初めに、コーヒー協定をお出しになっています。これは昨年の九月末以来二年間これを継続し、余裕を持たせた上で新協定を考えるという、そういう過程でございますから、私、こ

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平成二年五月九日（水曜日）

午後三時開議

出席委員

委員長　越智　伊平君

理事　近藤　鉄雄君　理事　佐藤　信二君

理事　野田　毅君　理事　原田昇左右君

理事　宮下　創平君　理事　加藤　万吉君

理事　佐藤　敬治君　理事　村山　富市君

神崎　武法君

栗原　敏信君

井出　正一君

池田　行彦君

稲村　利幸君

小此木彦三郎君

金子　一義君

工藤　巍君

後藤田正晴君

自見庄三郎君

田澤　吉郎君

野中　広務君

長谷川　峻君

林　義郎君

松本　十郎君

村田敬次郎君

井上　普方君

串原　義直君

新村　勝雄君

戸田　菊雄君

堀込　征雄君

和田　静夫君

石田　祝稔君

日笠　勝之君

山田　英介君

吉井　英勝君

桧崎弥之助君

井奥　貞雄君

伊吹　文明君

石井　一君

内海　英男君

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戸井田三郎君

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原田　憲君

村岡　兼造君

村山　達雄君

川崎　寛治君

嶋崎　譲君

新盛　辰雄君

藤田　高敏君

細川　律夫君

渡辺　嘉藏君

倉田　栄喜君

冬柴　鐵三君

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大蔵大臣　橋本龍太郎君

文部大臣　保利　耕輔君

厚生大臣　津島　雄二君

農林水産大臣　山本　富雄君

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国家公安委員会委員長　奥田　敬和君

国務大臣
（内閣官房長官）　坂本三十次君

国務大臣
（総務庁長官）　塩崎　潤君

国務大臣
（北海道開発庁長官）　砂田　重民君

（沖縄開発庁長官）

国務大臣
（防衛庁長官）　石川　要三君

国務大臣
（経済企画庁長官）　相沢　英之君

国務大臣
（科学技術庁長官）　大島　友治君

国務大臣
（環境庁長官）　北川　石松君

国務大臣
（国土庁長官）　佐藤　守良君

出席政府委員

内閣官房副長官　大島　理森君

内閣官房内閣安全保障室長
兼内閣総理大臣官房安全保障室長　依田　智治君

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兼内閣審議官

総務庁長官官房審議官　増島　俊之君

兼内閣審議官

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防衛庁参事官　内田　勝久君

防衛庁長官官房長　児玉　良雄君

防衛庁防衛局長　日吉　章君

防衛庁教育訓練局長　米山　市郎君

防衛庁人事局長　畠山　蕃君

防衛庁経理局長　藤井　一夫君

防衛施設庁総務部長　吉住　愼吾君

防衛施設庁労務部長　竹下　昭君

経済企画庁国民生活局長　末木凱太郎君

経済企画庁総合計画局長　富金原俊二君

科学技術庁原子力局長　緒方謙二郎君

環境庁企画調整局長　安原　正君

国土庁長官官房長　北村廣太郎君

国土庁長官官房会計課長　森　悠君

国土庁土地局長　藤原　良一君

法務省入国管理局長　股野　景親君

外務大臣官房審議官　太田　博君

外務大臣官房領事移住部長　久米　邦貴君

外務省アジア局長　谷野作太郎君

外務省北米局長　松浦晃一郎君

外務省欧亜局長　都甲　岳洋君

外務省経済局長　林　貞行君

外務省経済協力局長　木幡　昭七君

外務省条約局長　福田　博君

外務省情報調査局長　佐藤　行雄君

大蔵省主計局長　小粥　正巳君

大蔵省主税局長　尾崎　毅君

大蔵省国際金融局次長　江沢　雄一君

厚生大臣官房総務審議官　加藤　栄一君

厚生省健康政策局長　仲村　英一君

厚生省保健医療局長　長谷川慶喜君

厚生省年金局長　水田　努君

農林水産大臣官房長　鶴岡　俊彦君

農林水産大臣官房予算課長　山本　徹君

農林水産省経済局長　川合　淳二君

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通商産業省貿易局長　内藤　正久君

通商産業省基礎産業局長　高橋　達直君

運輸大臣官房長　松尾　道夫君

運輸大臣官房会計課長　谷田　眞男君

運輸省海上技術安全局長　石井　和也君

海上保安庁次長　野尻　公君

労働大臣官房長　若林　之矩君

労働省労働基準局長　野崎　和昭君

労働省職業安定局長　清水　傳雄君

ら独立し、公平性及び公共性が担保された広域的な組織により推進されるべきである。骨髄バンクの設立及び運営に関しては公的な何らかの関与が必要と考えられるが、その程度については今後の検討課題として残された。このように結論づけているわけでございます。

実際この白血病にかかった方のいろいろな症状等を見ますと、家族も御本人も本当に気の毒でたまらないわけでございます。これもまた神奈川県に住む青年の例でございますけれども、新婚十カ月のときに白血病と診断されて、伴侶の深い理解と愛に支えられてきたけれども、だんだん病状が悪化する、骨髄移植をすれば助かるかもしれない、それで御夫婦が高いHLA検査費用、これは一人三万円ぐらいかかる、百五十人ぐらいの友人に血液検査を依頼した。ところが一つも適合しない。しかし骨髄バンクがない今、生きたいと思えばむだだと思えるようなこともしなければいかぬ。幾ら検査をしても後に残るのは空っぽの預金通帳と自分とは合わなかったHLAの山だった。そういうふうにこの本人は言いながら一生懸命提供者を探そうとしたのですけれども、結局見つからずに本年一月、この青年は一年の入院生活後に亡くなられたわけでございます。それが現実でございます。そういうような悲惨な結果が数多くあるわけでございます。

ぜひ、こういう報告書も出されたことでございますし、厚生大臣も、この結論に従いまして公的バンクをつくることを決断をしていただきたい。いかがでしょうか。

○津島国務大臣　委員御指摘の骨髄バンクは、再発白血病、重症再生不良性貧血等につきましては、現在長期生存を期待し得る最善の治療法であるという報告書が出ておるわけでございますが、御指摘のとおり、適合する骨髄を提供するということは非常にたくさんの方の御協力を得なければならない、今御指摘のとおりでございます。それからまた、提供者の方に現在の方法ではリスクがかなりございます。そういう問題を背景といたしまして、今委員が言及されました報告書を先月出してくれたわけでございますが、これでは骨髄バンクの組織のあり方及び骨髄バンクに関する公的な機関の関与のあり方についてさらに検討を進めてほしい、こういうことが求められているわけでございます。

厚生省としては、これを受けまして、今後各界の有識者を集めて研究班を組織をし、積極的に検討いたしたいと思います。そして早急に結論を出したいと思います。骨髄移植につきましては、こういう結論を出す必要がございますとともに、なお提供者側のリスクがより少ない方法を医学的に早く発見したいということで、研究の方も引き続き一生懸命進めてまいりたいと思っております。

○神崎委員　総理にお尋ねいたしますけれども、外国には公的骨髄バンクがあるのですね。ところが日本には全くないわけでございます。ところが、総理の地元の愛知県で、日本で初めて民間の骨髄バンクができたわけでございます、東海骨髄バンクというのですね。さすがにやはり総理の地元だと思うのです。総理のこういう問題についての深い御理解また御認識があるんだろうと思うのですけれども、総理どうですか、もう決断を――総理もこの問題についてどういうふうにお考えなさっておりますか。

○海部内閣総理大臣　骨髄バンクのあり方につきましては、組織、公的機関の関与のあり方等につき、今後各界の有識者を集めた研究班により検討を進め、早急に結論を出すこととしております。

なお、提供者側のリスクを伴わない骨髄移植の方法等につきましても研究を引き続いて進めていかなければならないと思っております。

○神崎委員　厚生大臣、この公的骨髄バンク、一体いつごろまでに設置するお考えなのか。朗報を待っておられる患者、家族のためにもぜひ時期を明確にしていただきたいと思うのですが、いかがですか。

○津島国務大臣　専門的なことでございますから、私から明確な時期を申し上げられないのは残念でございますが、委員が御期待されて、まあまあと言っていただける範囲内で結論を出したいと思っています。

○神崎委員　もうできるだけ早期に実現をしていただきたいと思います。

それからもう一つ、現在、骨髄移植を行う場合に患者、家族は大変な犠牲と負担を払っているわけでございます。中には何千万円も使い果たした、そういう家族もいらっしゃるわけでございます。国として何らかの補助を出すべきではないか。特に、HLAの検査料が二万円から五万円ぐらいかかるわけでございますけれども、全額公的な負担にすべきではないか。健康保険の適用を認めるとかいろいろな考え方がありますけれども、全額公的な負担を考えるべきだと思いますけれども、この点いかがですか。

○長谷川政府委員　ただいま先生のお尋ねは、いわゆるドナーの側のHLAの検査費用の問題であろうかと思うわけでございますが、このドナーにかかわります検査費用の問題につきましては、骨髄バンクに関しますいろいろな検討事項とあわせまして、大臣からただいま御答弁いただきました各界の有識者を集めた研究班により検討を行うこととしております。私どもといたしましては、この研究班の検討の結果を待って適正に対処してまいりたいというぐあいに考えております。

○神崎委員　最後に、総理、この問題全般についてどうですか、今の点を含めて一言。

○海部内閣総理大臣　骨髄バンクに関する御質問については、先ほど私は考え方を御説明申し上げたとおりでございまして、あのとおりの気持ちでやっていきたいと思います。

○神崎委員　早期に公的バンクが実現できますように、総理からもよろしく御尽力のほどをお願いいたします。

終わります。

○総括委員長　これにて神崎君の質疑は終了いたしました。

次に、三浦久君。

○三浦委員　海部総理にお尋ねをいたしたいと思います。

日本は世界一の援助大国になりましたですね。しかし、この日本の政府開発援助、いわゆるODAについては、日本の国内また国際的にもさまざまな批判があるということは総理大臣も御承知のとおりだと思います。

ここにジュニア朝日年鑑、これは小学生、中学生向きのものです。「一九九〇社会統計」という本なんですけれども、これの十六ページに「世界のなかの日本」というところがあるのです。そこに「〝援助大国〟日本の評判」というのが載っております。これを見ますと、日本は、「八九年にはアメリカを抜き、援助の額で世界一になるとみられている。しかし〝援助大国〟になっても、世界の評判はあまり良くない。」そして、「無償援助が全体に占める割合は六〇・七％と、DAC諸国の中でいちばん低く、お金を貸して利子をとる有償援助が多い。援助の中身についても、贈ったバスが交換部品がなくて走れなくなったり、最新式の設備が電力不足で使えないなど、「受けとる国の実情を考えない援助が多い」と国内でも批判されている。経済大国として、援助の量、質ともに改善する努力が、まだまだ必要だ。」そういうふうに書かれているのですね。これは小学校、中学校の生徒向きの本です。

総理はこの連休中に南西アジア諸国を歴訪されましたですね。そこであちらこちらの国に多額の援助をお約束になってこられたと思いますけれども、今のこの本の記事をごらんになって、どういうようにお感じでございましょうか。

○海部内閣総理大臣　私は、各国が日本のそういうODAに関する協力を非常に高く評価をして、引き続いてこれも頼む、あれも頼むという要望が非常に出てくるわけです。その要望については、具体的に検討をさせてもらいますとか、あるいは調査班を派遣して、本当にそれがどういうものなのかということもよく調査をしてから御返事しますという返事をしたり、あるいはもう調査が済ん

した分については、私ども承知いたしていない次第でございます。（三浦委員「二百九十億円は一と呼ぶ」）二百九十億円という数字は、私ども円借款の関係においては出てこない数字でございます。

○三浦委員　いえいえ、そうじゃなくて、住友商事がこのユニットを二百九十億円で受注したということは知らないんですか。

○木幡政府委員　金額、私どもの協調融資をして組織の約束をいたしましたのは二十六億円でございますから、先生のだいぶおっしゃる数字は私どももちょっと別な数字になるわけでございましょうが、その辺は私どもつまびらかにいたしておりません。

○三浦委員　そんな答弁ないですよ。それは二百九十億円で住友商事が落札をしたということははっきりしていることじゃないですか。あなたたち、そんな情報も知らないんですか。冗談じゃないですよ、あなた。そんなだれも否認できないようなことを何であなた答弁をしないんですか。

それではお尋ねしますけれども、当然、先ほど言ったような、先ほど大臣が答弁なさったような環境アセスメントというものを私は厳格に行ったと思うのですけれどもね。ですから、まあいろいろな面でのアセスメントがありますけれども、私はいわゆる強制移住の対象者になった住民の問題に絞って伺いますけれども、どのような環境調査を行ったのか。例えば住民に対して移転先の確保をどういうふうにするというふうに判断したのか、また移転先でのそれらの住民の生活水準は以前と同じように維持をされているのかどうかですね、そういう点については、どういう結論に達したのですか。

○木幡政府委員　本件プロジェクトの決定に当たりましては、政府としましてはインド側より提出がございました各種の詳細な資料、さらには世銀からも別途入手した資料を十分精査の上、政府調査団あるいは経済協力基金、OECF審査ミッションを派遣しまして、十分資金計画、事業実施体制等を検討するとともに、インド政府側より説明を求めた次第でございます。さらにまた、現地の調査を行うことによりまして環境、移住問題に対する対策も含め実施計画の詳細につき調査を行ったところでございます。

なお、本件計画に係る住民の移転問題、環境問題等の問題につきましては、当然のことではございますが一義的にはインド政府の責任においてなされるものでございますが、我が国政府としましても、本件計画の住民に与える影響等をよく考慮いたしまして、種々の先ほど申し上げたような実地調査まで含めて調査をしたということでございます。

○三浦委員　そうすると、世銀と同じようにこの移住問題についても調査をしたと言うんですか、どうですか。そんなことうそでしょう、あなた。

○木幡政府委員　世銀の資料等も踏まえましてインド政府側と十分相談をし、また実地調査を行いましたが、それが世銀と同じようなという程度の問題になりますと、それはまたいろいろ見方もあろうかと存じますが、私どもとしてできる限りの調査をした次第でございます。

○三浦委員　あなた、四月の十七日参議院の外務委員会で、世銀とインド側との間で移転を含めて適切な配慮をするということが合意されていたので、その点を確認した上で協力するという決定をした、こういうふうに述べているんですよね。ですから、要するに世銀というのはいわゆる環境アセスメントについては一九七〇年からもうずっとやっているわけ。機構にしても、またマニュアルとかガイドラインにしても、もうOECFとは比較にならない膨大なスタッフを持っているんですよ。そういう世銀が調べたわけでしょう。ですから、あなたの方で独自に何か調べたなんてことはないはずだ。要するに、インド側と世銀との間の合意事項、そういうものを確認してそれでこの借款を行うということを決定した、これが事実じゃないんですか、どうなんですか。

○木幡政府委員　私どもとしまして、もとより世銀の調査リポートについては、これまでも世銀の調査、立派な調査をやっておりますので、十分それを参考にさせていただきまして、先ほど申し上げましたように、インド政府とも十分相談し、インド政府との間で話をした上でさらに現地調査等も行って、念には念を入れてやったというつもりでございます。

○三浦委員　そうすると、独自の調査を移住問題についてした、こうおっしゃるわけですから、じゃ、もうちょっと深くお聞きしましょう。

この移住者たちは、大多数が少数民族なんですね。先住民族なんです。サルダル・サロバル・ダムの場合は、立ち退き対象者の五一％がインド憲法の上で特別の保護措置が講ぜられるべきことが定められている指定部族であります。それに指定カースト、これはもう皆さん御承知のとおり不可触賤民と言われている人々ですね、こういう人々が九％おるんです。ですから、これらを加えますと六〇％の少数民族を含む貧困者層が強制移住の対象となっているわけです。

ところが、インドというのは人口密度が非常に高いでしょう。国土は広いけれども人口も多いんですから、非常に人口密度は高いですよ。ですから、これだけ大量の立ち退き対象者の移住先を確保するということは極めて困難なんです。ですから、世銀が融資を決定してもう五年たちますでしょう。五年たって移住したのはどのぐらいおりますか。

じゃ、あなたたちが円借款をやる場合に環境アセスメントをしたと言うのであればお聞きをしますけれども、こういういわゆる少数民族であるとかまた先住民族、こういう人々は個別に一人ずつが立ち退きはしないんです。そうでしょう。村落ごとまとまってじゃないと移住しないんですよ。ですから、計算してみますと、大体百名から五百名ぐらいの部落なんです。それが部落ごと移住していかなければいけないのです。そうして、大体土地には土地を与えるという方針でしょう。ですから、一世帯当たり二ヘクタールほどを目当てにして配分するようになっているでしょう。

そうすると、外務省にお尋ねしますけれども、いわゆる百人とか二百人とか五百人とか、そういうような部落が移転をする、どこに移転をするというような計画をきちんとつかんだのですか。そういうことはやっていないんじゃないですか。そしてまた、そういう、ただ計画がインド政府側に仮にあったとしても、その部落の人々が合意をしなければ、それは計画は実行できないわけですからね。ですから、どこまであなたたちが調査をしたのか、教えてください。

○木幡政府委員　私ども調査しました点については、細かい点にここで立ち入る余裕はないのでございますが、先ほどちょっと申し上げましたとおり、世銀のつくりましたリポートを踏まえて、こういう移転の問題が生ずる、それに対してはインド政府側が責任を持ってやるということを確約してくれたわけでございます。その上で、現場を我が方としては見さしてもらい、我が方としてさらに気をつけなければいけない点等があらば先方には申し述べるということでやったわけでございまして、一義的には、やはりインド政府側がきちんとそこの点を踏まえて、住民側との話し合いを私どもやるわけにはまいりませんので、主体はインド政府側でございます。その辺のところをやはり踏まえてやった、そういうことでございます。

○三浦委員　じゃ、そのインド側の、インド政府の世銀に対する約束というのは今実行されているんですか。

○木幡政府委員　現時点におきましては、現実の移転の問題はさらにまた時間をかけて一、二年後に着手してその辺が進められているというふうに私どもは承知しておりますが、現時点において、したがって今先生がおっしゃったような移住の問題、それについてやったということにはなっておりませんが、今後の問題としてその辺は先方政府がきちんとやる、こういうことを言っているわけでございます。

○三浦委員　インド政府がやるとそう言っただけで、それで環境アセスメントを厳格に実施したと

だり、きちっとなっておるものについては、相手国の御要望を聞いて、前年並みの御援助をしますとか、あるいは自分の国がだんだん離陸状況に近づいてきたところは、相手国からの要請も量においては下がってくるところもあるわけですから、それはそれなりにお話をするとか、国によって一律ではございませんでした。皆通っておりましたけれども、ODAについては非常に期待をされておるといいますか、あるいは日本がアジアの中でそれだけ力を持った経済の大きな国になったんだから責任を果たしてもっと援助しろ、そういう要望が非常に強かったということを私は肌で感じて帰ってきたわけです。

そこに、今お読みになったところに出ておるようなことも、たくさんの援助の中には確かにあったかもしれません。私はそれは全く否定するものじゃありませんけれども、それよりもすばらしく喜んでもらって感謝されている面も随分たくさんあったということ、特にアジア地域に行っておる日本青年海外協力隊が入っておる地域なんかに行きますと、非常に喜ばれて、中には請われて酋長になっちゃった人もおれば、住民と溶け込んでこの国の援助だけじゃなくてもっとほかのことまで全部やってくれと言われてすごく喜ばれておる人、現にたくさんお目にかかって激励してきましたから、いい面も非常にたくさんあるということもあわせてここでは申し上げさせていただいておきます。

○三浦委員　総理、そうおっしゃいますけれども、この小中学生向きの本で「受けとる国の実情を考えない援助が多い」というふうに書かれているということは、そのことはやはり日本の国の援助というものが人道的な立場に立った援助に主眼があるのではなくて、日本の企業利益を優先させているというそういうことがもう世界の常識化している、そういうことを示しているものだと私は思うのです。政府は、今総理も青年海外協力隊の問題をおっしゃいましたね、それからまた難民救済とかまた災害救助、そういう援助の光の部分というものを前面に押し出して宣伝をされているわけですよ。しかし、これはやはり援助の一側面にしかすぎない、私はそう思うのです。日本の援助には光の部分と影の部分とが存在をしているのです。私も、総理が言うように、日本の開発援助が他国の国民を苦しめてばかりおる、そんなことはもちろん言っておりませんですよ。発展途上国の人々の生活水準の向上に役立っている部分のあることを私は否定はいたしません。しかし、日本の援助では影の部分が大きな部分を占めているんだということが多くの識者によって指摘をされているということもこれまた事実であります。

特に最近は、政府開発援助によって相手国の環境破壊を引き起こしているということ、このことは地球環境の保全という問題とも関連して大きな問題になっているわけですね。ですから、この開発援助に当たっては厳格に環境アセスメント、これを実施する必要があると私は考えています。

総理でも外務大臣でも結構でありますけれども、私はここに政府からいただいた資料がございますが、「環境配慮のためのOECFガイドライン」いわゆるOECFが作成した小冊子です。これがございます。これを見ますと、いろいろなプロジェクトごとに環境アセスメントのチェックポイントが書いてあるのですけれども、水力発電をやるためにダムをつくりますね。ダムをつくった場合には、いわゆる自然環境とか公害とかそういうものだけではなくて、水没によって移転を余儀なくされる人々、そういう人々についての社会的な環境、こういうものについても十分な配慮をしなければならないということが書かれてあるんですね。ですから、開発援助に当たっては、やはりそういう環境アセスメントというものを厳格に行う必要があるんじゃないかと私は思うのですが、いかがでしょうか。

○中山国務大臣　今委員御指摘のように、援助を行う場合に、相手国の環境破壊について日本は十分な調査あるいは勧告をすることが必要ではないかという御意見は、私もそのとおりだと思います。

また、政府は援助に当たりましては、環境破壊を未然に防止するような注意も相手側にいたしておるということも申し上げておきたいと思います。

○三浦委員　結局、開発に伴う環境保全という問題は、その援助受け入れ国だけの問題ではないということですね。やはり援助をする側の責任でもあるということだと思うのですね。

そこで、私お尋ねしたいのですが、インドのナルマダ渓谷ダム建設計画についての問題であります。

この計画は、ナルマダ川に今後四十年から五十年かけて三十の大規模ダム、百三十五の中規模ダム、さらに三千以上の小規模ダムを建設して五十万ヘクタールのかんがいを行う、二千七百メガワットの発電を行うという、総事業費が百三十億ドルにも及ぶ巨大なプロジェクトであります。このナルマダ川は、インド中央のアマルカンタク高原に発して、西方に向かって流れてアラビア海に注ぎますけれども、その全長は千三百十二キロメートルございます。その流域には約二千万人が住んでおるわけです。このプロジェクトが完成をいたしますと、三十五万ヘクタールの森林と二十万ヘクタールの農地が水没をいたします。百万人以上の人々が強制移住の対象になると推定をされております。日本で言えば海部総理の選挙区のある愛知県がすっぽり水没してしまうという、それほどの大きなプロジェクトなんですね。

このプロジェクトの中で最も重要なダム建設というのは、サルダル・サロバル・ダムとナルマダ・サガール・ダム、この二つであります。サルダル・サロバル・ダム建設、これからSSPというふうに呼びましょう。このSSPはもう既に着工をされております。このSSPは、河口に近いグジャラート州のブハルチ地区に建設をし、約百八十万ヘクタールの土地をかんがいします。そして、千四百五十メガワットの電力を得ることを目的としているわけですね。しかし、そのために農地が二万ヘクタール水没します。森林は一万五千ヘクタール水没をいたします。そして、二百四十五の村落が水没をして、NGOの調査では十万人、世銀の調査でも約七万人が水没対象地域に住んでいて、強制立ち退きを余儀なくされるというふうになっているんです。このSSPに、世銀は一九八五年の五月に四億五千万ドルの融資を決定し、日本は協調融資として同年六月に二十八億五千万円の融資を決定していると思いますけれども、いかがでしょうか。

○木幡政府参員　日本が世銀との協調の形で二十八億五千万円の援助を約束したという点は、ただいまの御指摘のとおりでございます。

ただ、一言事実関係を私の方から御説明申し上げたいと存じますが、世銀の報告書によりますと、この水力発電計画によって裨益する人たちは一千万人に及ぶ、それによって移動等の対象となる人たちは七万人弱ということになっておりまして、その辺のところは、世銀のこのリポートに基づきましてインド政府がきちんとやるということを確認いたしましたのを私ども踏まえまして、その一部についての援助をお約束した次第でございます。

○三浦委員　そうすると、この協調融資はSSPのうちの揚水発電ユニットに対する円借款要請に対して行われたものであり、その金額の約一〇％、そういうふうに考えていいですか。

○木幡政府参員　私ども約束した文書では、二十八億五千万円という数字で約束をいたしておるところでございます。

○三浦委員　余りやりとりしていると時間がなくなりますから、先に進みます。答えてないですね。

この協調融資が呼び水になりまして、住友商事が揚水発電ユニットを二百九十億円で受注したということは事実ですね。

○木幡政府委員　私どもが承知しておりますのは、円借款の対象となった借款についての部分だけでございまして、ただいま呼び水になって受注

いうことになるのですか。そんなものあなた、環境アセスメントやったことになりませんよ。それはインド側の問題だと言うけれども、しかし、金を貸すのは我々日本じゃないですか。ですから、金を貸す場合に、やはりそういう移住の問題が円満に解決できる可能性があるのかどうか、そういうことをきちんと見きわめた上で金を貸さなければいかぬでしょう。それは当然のことじゃないですか。十万人、今世銀でも七万人弱と言われましたけれども、そういう人々の移転先がまだ何にも決まっていない、そういう状況の中で円借款をやり、ダムの建設がもう着工されている。そして今住民からはもう毎日のように大反対運動が起こっていますよ。何千人、何万人規模のそういう反対運動がもう次から次へと起こっているというのが現状じゃありませんか。七万人にも及ぶ人々の生活権を侵害する、そういうようなプロジェクトが立派なプロジェクトですか。こういうプロジェクトをやるに当たって、やはり厳格に環境アセスメントを行って、そうして援助をするかどうかを決定するというのが今の日本の国の政府の態度であるべきなのではないでしょうか。

外務大臣、あなたは先ほど同僚議員の質問に対して、国民に理解されるような開発援助を行わなければならないと言いましたね。そうすると、いわゆる最底辺の人々ですよ、そういう人々が七万人も追い出される、水没されると追い出される。まだ行き道がないんですよ。行き道がないんですよ。移転先がないんですよ、まだ。それなのにダムサイトを今どんどんどんどん建設している。それで、それに対して日本が援助をするというようなことは慎むべきじゃないか。どうお考えでしょうか。

○中山国務大臣　いわゆる援助につきましては相手国の政府を信用するということが基本でございまして、そういう信頼関係のない援助は実際はできないわけであります。相手国政府からの要請によって世銀と協調融資をしておるわけでございますから、私どもはインド政府を信頼する。外交を展開して、相互に大使を交換し、お互いが相手国の主権を尊重している国家としては、相手国の立場というものを信頼してこのことをやっているということが原点だろうと私は考えております。

○三浦委員　相手の国を信用すると一般的に言いますけれども、しかし、これは、あなたたち日本の政府に約束したことが五年たっても実行されていないのですよ、移住計画をたててないんだから。それでもまだ信用するんですか。

私が言うのは、もう時間がありませんからもうやめなければいけないのですけれどもね。本当はもっと詳しくやりたいのですけれども、また次の機会にします。

いいですか。追加融資が要請される可能性が非常に強いのですね。なぜならば、さっき言いましたようにいわゆる揚水発電ユニットに対する援助なんですね。援助なんです。その一部分なんです。ですから、追加援助要請が来る可能性があるのですよ。そういう場合に大臣はどういうように判断をなさいますか。やっぱりインド政府を信用されるのですか。五年間たってもまだ、日本の政府や世銀に対して約束をした、そういう約束が実行されていないのですよ。実行されていないのに追加融資をなさるのですか。私はこれは極めて慎重にやらなければならない、そしてその結果、私はそれは拒否すべきだというふうに思うのですが、大臣の御所見をお尋ねいたしたいと思います。

○中山国務大臣　追加融資をいたす場合におきましては、本件案件の進展状況を政府としては慎重に調査の上判断をいたすというのが基本的な立場でございます。

○三浦委員　時間がないからやめます。

○越智委員長　これにて三浦君の質疑は終了いたしました。

次に、中野寛成君。

○中野委員　先ほど加藤委員からも御質問がございましたが、まず私は、国の基本政策であります外交、防衛、エネルギー、三つの問題に絡まりますプルトニウムの海上輸送問題についてお伺いいたしたいと思います。

日本のエネルギー確保の上で総電力の約三〇％を占めます原子力発電は、重要な欠かすことのできない存在であります。その意味で、プルトニウムの海上輸送の安全は、日本のエネルギー確保にとって死活的課題と言えるわけであります。しかし、あわせまして、先ほど来その護衛の問題が出ているわけでありますけれども、これは単に日本のためということだけではなくて、国際社会に万一の不安を与えないという意味での平和と安全の問題に関係することでございます。そういう意味で、私どもはこの護衛問題につきましてはぜひとも慎重で、そして万全の体制を組むという姿勢が我が国にとっては国際的使命でもあるというふうに考えるわけでございます。

しかるに先般来、先ほども触れられましたけれども、幾つかの報道で、その後アメリカの方から日米原子力協定に絡みまして、現在日本で考えられている護衛方法については不十分だという意思が伝えられた等々の報道がなされ始めました。私どもは重ねて政府にお伺いをしたいわけでありますけれども、これらについて米国及びフランス等の国々、とりわけ日米原子力協定に基づく日本の義務を果たすことについて、現在考えられております海上保安庁の巡視船で護衛するとの方針を既にアメリカ側から了解をとっている、合意ができている、その上に立って現在の巡視船の建造等が進められている、こういうふうに考えていいのかどうか、私は改めて確認をいたしておきたいと思います。

念のために申し上げますが、この問題は遠からず明確になるわけでありますから、きょうの答弁はその遠からず、真実であったかどうかも含めて、言うならば明らかになるわけでありますから、そういう意味で、単に事務的折衝の過程ではなくて、政治責任を持つという意味で総理からお答えをいただきたいわけであります。

○太田政府委員　お答え申し上げます。

プルトニウムの輸送の護衛の問題に関しましては、日米原子力協定の実施取極におきまして、「輸送船は、出発から到着まで、武装護衛船によって護衛される。」という規定がございまして、この武装護衛船が何を意味するかということに関しまして、日米間で取り交わされましたサイドレターによりまして、この武装護衛船は海上保安、沿岸警備の船舶あるいは公務についているその他の船舶という解釈がなされております。したがいまして、海上保安庁の巡視船をもってプルトニウムの輸送の護衛に当たるということに関して日米間で合意が成立しているということでございます。

○中野委員　武装護衛船、海上保安庁の巡視船で護衛することについて日米間で合意に達している、こういうふうに答弁をされたというふうに思うのでありますが、実は先ほど指摘がありました報道のほかに、政府部内で既に、米国側からの懸念の意思表示があったという前提で、代替案として巡視船以外に自衛艦も護衛任務に加えるとか、巡視船を逆に運搬船とし、護衛は自衛隊が担当するとかの案が検討されているというふうな報道も一部なされているわけでありまして、かなりこれは具体的に突っ込んだ報道がなされているわけであります。こうなりますと、十二月十九日の閣議決定も改め、また、日米間の合意については不十分であった、極めてあいまいであった、十分な確認がされていなかったということになってしまうわけでありますが、その心配はないのかどうか、改めてお伺いをいたします。

○太田政府委員　お答えいたします。

ただいま先生御指摘のような趣旨の報道がなされているということは我々も承知いたしておりますけれども、米国あるいはフランスの方から、日本政府の方針としております海上保安庁の巡視船による護衛に関しては合意できないというような通報があったということは、そういう事実はございません。したがいまして、政府の部内で自衛艦を護衛船として充てるという検討が行われているという事実もございません。

○中野委員　ただいまの答弁が後になって覆されるというふうなことがあっては大変であります。

(アピールに代えて。(但し、日本代表理事は別のものを準備している))

1

世界銀行総裁 バーバー・コナブル様

世界のナルマダダム(SSP)融資中止をふまえて、ご協力をお願いします。

迫る4月の中旬、私たちはインドから3人、アメリカから1人の環境責任(東京に)被害住民代表を招いて、ちょうど1カ月前の4/21を前にしてシンポジウム「海のものの採りカーインド・ナルマダダム周辺の現場から」を中心にその前後1週間にわたり、日本政府からのODAを通じて問題のSSP(サルダール・サロバール・ダム)(プロジェクト)に再融資しないことをふまえて集中的なロビイング活動に取り組みました。

これに先立っては、マスコミと国会でも、この日本のODAのあり方の

(政府開発援助)

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松葉れかめるSDP高金支出問題に大きく取り上げられ、広く社会的政治的関心を呼び起こしました。

シンポジウム自体も大成功で500人の聴衆が詰めかけ、通常では考えられないほどの熱心な質問が数多く寄せられ（アンケート分析参照）、活発な論議が行われて一般にも高い評価を得ることができました（5/11 東京新聞社説，5/12 NHK教育TV番組 参照）。

日本政府のODA関係4省庁ならびにOECFの対応は、おおむね守勢に立つものであり、時には苦肉の大胆で明快な答弁が答弁には、イント代表団もうなり分厚い感銘を強くし、好感を持ちました。

マスメディアの取材もまた熱心で、多くの記者が討論会場（4回の

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へん話かけ、これらな外国行使も繋いて、イントでもオリカでもかつて経験したことのないほど「フレンドリーと感じた」と、彼らをして感嘆せしめたものでした。

また、日本では選挙の争点になりにくいことから、ODA環境問題には一般的に言って比較的関心が薄く認識の乏しい国会議員の間にあっても、今回との勉強会には20名近い与野党議員が詰めかけるなど、積極的な関心が示されました。

そうした背景を踏まえて、最近の国会での質疑（5/9参院、5/11参院各予算委員会）を通じて、日本政府はついにこの問題に踏んで「より慎重な配慮をおこない、政府的措置を行う」旨を表明しました（中山外務大臣、

~~海部総理大臣、5/11 参院予算委~~)。

私たちは そうした態度表明が公式になされたことを大いに歓迎するとともに、私たちの一連の取組みが一定の成果を得るに至ったものと確信しています。

とはいえ、日本において それで事が終わったと私たちは思っていませんし、私たちの運動が、全面的に勝利したと断言することもできません。レトリックに終わらず、政府のそうした方針が誰の目にも明らかな形で具体化されることを見届ける必要があるからです。

その意味で、日本のOECF以上に~~SSA~~(サブサハラ・アフリカ・ドロップ・プロジェクト)の高金利経協→プロジェクト すなわち

完遂に至るまで 奮闘(~~世界行脚~~)の旅は、私たちのみならず、イントもちろんのこと、アフリカであれどこであれ、文字通り世界中で人びとの前に立ち

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ところばかっています。

よく知られている通り、コナブル総裁ご自身の熱心な環境保全への配慮の姿勢、世紀それ自体が過去から現在にわたって有するそれぞれにおいて実現すべき内容を盛り込んだ環境方針及び行動ガイドラインの策定にもかかわらず、実際の開発プロジェクト等を融資の実行の過程においては、それらがしばしば無視または軽視されてきたばかりか、あえて侵害されてきたケースが多くあります（ブラジルのカラジャス計画、インドネシアのトランスマイグレーション、フィリピンのチコ・ダム計画などはその一例）。

これもまた、レトリックと現実の乖離を物語るものと言えましょう。

こうした傾向は最近ことに著しく、資金量の急増と相俟って事態の悪化を招来していることがブルース・リッチによって指摘されています。実際、米議会からは、昨年11月に続き今年3月においても、とくにSSPをめぐって世銀宛に公開書簡が寄せられ、世銀が自らに課している指針に照らして、これを忠実に履行し、速やかに融資を取り消すよう求めています。こうした世銀に対する批判は、イルヒ現総裁の反対運動や国際的なNGOだけがそうした点を問題視しているわけではないことを如実に示しているものです。

残念ながら日本の国会議員からは、世銀宛これまでそうした書簡が寄せられたケースはないものの、まもなくからは初めてのお便りとなりそうです（一昨年の対ブラジル「ネコ次電力初期融資」問題以来）。

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私たちは世紀に対する第二のお出国である日本の納税者を中心とした集まりですが、日本ではとくに中高年層の人びとの間に、根強い世紀"信仰"と「神話」が生きています。戦後の日本の再建・復興過程で、世紀融資が大きく貢献したとされる体験もしくはその認識によっています。高度経済成長を受けて建設された東海道新幹線や高速道路（りべん）がもたらした豊かさと相俟って、世紀には多くの敬意が払われています。また一般の日本人の意識の中には、自国政府よりも国連をはじめとする国際機関への過度（かど）の評価（「盲信」!?）が働いており、「公正」「優秀」「まとも」という点での期待感は強まりこそすれ、弱まることはありません。

ところが一方で、とくに転後生まれの現在の若い世代であっては、

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世銀が一体何であるのか、何をするところなのか、ほとんど誰にもわかりません。存在自体が無縁であり、一般には世銀はおろか縁もゆかりもないわけも分かりません。しかしそうした状況の下で、私たちの目にはやって日本はかつてない多額の支援が与えられて"成功"にもって過程において世銀の与えた役割と果たした機能(きのう)が、たとえどんなに大きかったとしても、今日、世界の各地で"日本型成功モデル"がどこでも適用するとは限りません。むしろ、ここ数年、そうした「開発モデル」がマクロ的にもミクロ的にもその経済基盤、環境、自然資源の保全管理において、いたん破綻をまねいている事を認識しています。そして私たちは「地球の友」(FOE)を「越境な行動ネットワーク」(JATAN)、ODA研究会を中心に、この両、

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世界各国の環境、由会、人権NGOや政府機関関係者とも協力し合って、
とりに日本のODAと世界の資金量の大きな物を言わせた途上国での巨大
由発プロジェクトが結果として、大規模な環境破壊や社会影響の深刻
にこそ注目し、この面での改善に向けて取り組んできました。今後私たちは、
「由発」の対象とされる環境や貧困、先住民や女性層(生活面として)と連帯する立場
に立つものです。~~「由発援助」や「融資」を全面的に支持する立場はとってきません~~
~~でした。~~もちろん、ODA・世銀ともども、その理念上(由発や援助のモデル
(理念)、制度上、組織上の問題、欠陥を指摘し、抜本的な改革に
向けた努力がなされるよう、関係各方面に働きかけてきたわけです。私たちの
力と声の~~大きさは~~~~おそまつなものですが、それでも~~冒頭に触れた通り、アルクタ(SSP)

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最も資金問題では世論を喚起して関心を顕在化(けんざいか)させ、日本政府の一定の対応を引き出すことに成功しました(昨年のアマゾンへの関心を高めることにおいても)。

問題は今後とも、たゆまぬ注視と働きかけの努力が求められていねばならないのですが、私たちはそうした姿勢を明示するものとして、本日ここに世銀と日本のODAの融資中止をもとめる「ナルマダ署名集会」を開きました。

これは直接的には、つい最近5/14-18まで5日間にわたってインドのニューデリーで行われたナルマダ集会水没予定地住民代表150人による話と座り込み自殺予告、その人々の主張と運動への呼応、支持を内外の世論に訴えて鮮明にし、あわせてとくに日本の国内で、ナルマダを

めぐって起こっている事態に注意を喚起しようとしたものです。日本政府と関係各省庁・企業等、および貴行に対しては、まむらかんの問題に引き続き取組み、注視している姿勢を堅持していることも伝えるものです。

さてわたしたちは、本日の緊急集会においてこの間の取組みの成果と意義、そしてイラク現地での事態の推移と評価確認した上で、明日、貴行の東京事務所と日本の下部組織に出向き、それぞれの担当責任者と懇談および白鳥正喜・日本代表理事への書簡――SSP融資の即時停止と撤退を求める要望書――を手渡します。その折にわたしたちは、それぞれの懇談が有意義な結論へと導かれるよう、世論と市民のネットワークの力をもって

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ストレーションを行います。

イントでは、まもなる6月7日、おこべイントがいて、グループ・ワイルド州政府と企業家らが組織するSSP推進のための50万人集会・デモが予定されていると伝えます。これは5日前 米下のニュージーで準備された保守派系行事。中各地の運動家たちにとっては、また新たな挑戦の局面を迎えることを意味するものでしょう。主催者は言葉の集会・デモに動員されるであろう多くの人びとに、同情こそすれ、彼らを一方的に非難したり、敵視するものではありません。不測の事態や混乱が生じないことを願うばかりです。

ところで6月30日には、イント政府（中央とグレゴワート、マディアプラデシュ、マハラシュトラの内務省）が、ムスリム世界との融資協定

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に基づく立地適正化の再生計画および環境保全に関するプログラムとスケジュールを、豊行に対して提出しなければならない5度目の期限日を迎えます。本来それらのことは、1985年5月の高度成熟都市化法において、同年までに完了しなければならないと謳われていたはずです。

世界は自ら結んだ協定事項でありながらも、遵守せず、その履行を延ばし延ばしてきたまでで、イナ政府側と同罪の汚名を犯してきたのです。

~~世界を、決して真心の受け止めてきたものではありません~~

7月2日に開かれる豊行理事会においても、決定的な見直しがなされないまま、スルスルと改正案を通過してしまう事態が予測されることを、私たちは強く危惧と表明せざるを得ません。

世界は、各国、ますます全上国からの優秀な人材を流出し、衰え

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および金融のエキスパート集団であり、かつ巨大な官僚機構でもあります。
それ自体がひとつの大エリート的利害共同体として、多国籍企業の国会政策に
多大な影響を与えていることもそこらは認識しています。その点は、SSPに
関する経済評価（専門家評価分析）で、当時のお役所が過大な
見積りを出して世論内外から強い批判を招いたことからもうかがえるように、
世界の知的機関であるはずの官庁が、結局のところ基本的には一体誰
のための利益奉仕しようとしているのかという問題に、重大なヒントを与えるも
のです。実はごく一部の富裕、支配層の利害とこそ付合しているからです。

一方でまた、国内面のみならず、国際面にあっても潜在的な利害の

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相克と葛藤を抱え込んでいることも承知しています。そうした単純ではない
貴方にあってなお、しかし、「貧困の撲滅」に立ち向かう大臣の一方
の柱であるのだということから、また、ご自身の選挙区への影響に対する格
別な留意がレトリック上の実質と意味あるものであり得るとするならば、
世紀の巨大構造のすみずみにまで貴氏の精神が浸透し、体現
される必要があると思われます。そのためのリーダーシップを是非とも発揮して
下さるよう強く期待するものです。そしてまた、まもなく7月20日の理
事会がひかえ、世紀事務当局が理事会の提出決定を再びおかされ、
現実認識の把握に立って事前の正確で適切かつ十分な説明・分析・
情報を準備されるよう、ご指示下さるようお願い致します。

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87. 3. 20×10・160

社会思想社

最後にあらためて、主体としては世界のSSPへの即時無条件破棄を要求しよう。
サミット対抗ウィーク・プロジェクト

1990年 5月20日

5.20 サミット緊急集会参加者
一同お礼まして、

(北京・文京・地元の友・田中宏)

地球の友
〒150 東京都渋谷区鶯谷町7−1 渋谷マンション801号
TEL (03) 770−6308 FAX (03) 770−0727
801 Shibuya Mansions, 7-1 Uguisudani-cho, Shibuya-ku, Tokyo 150, JAPAN
Chikyu no Tomo / Friends of the Earth Japan

写

日本政府 世銀良代表理事
白島 正喜 様

拝啓，貴下 ますます ご清栄のことと存じます。
昨日 私どもは、インドのナルマダ・ダム開発計画 / SSP融資問題をめぐって 緊急集会をもちました。

既に ご承知のとおり、先月 この問題で私どもは 一連の集中的な取り組みを行い，大きな成果を上げることができました。（同封のユナブル総裁宛の書簡コピーをご参照下さい。

早速ながら 以下において，私どもは 特に大蔵省と日本代表理事の白島様に宛て、幾つかの要望と質問をお伝えしたいと思います。

1. 既に 100年前のイギリス植民地時代において、今日 世銀が正当化の根拠として広言している 同地域での大規模灌漑の便益については、環境・生態系上の制約から 否定されていることがインドで'86年に出したレポートに紹介されています。
ご覧になったことがおありでしょうか。

2. これは過日 鷲見一夫教授と私（田中）が宮林課長をお訪ねした折に触れた点でありますが、現在の経済的社会的観点からのみ プロジェクトを 策定，評価することにおいて決定的に欠けている，いわば 文化地理的・歴史的 知見を踏まえた全面的見直しが必要なことを意味するものといえましょう。
世銀のアプレイザルにおいて そうしたアプローチがとられるよう理事会 および 戦略立案局やインド局に対し 発議していただきたいと思います。

3. 昨年の11月に オランダのEDのイニシアチブで インドのNGO代表を迎えて SSPをめぐって クローズドのEDによる対話・聴取の会が行われた際，日本代表理事は、ご出席にならなかったと聞いています。何故でしょうか？ 日本としては 全く関心がなかったということでしょうか

4. 日本の国会に参考人として ご登場をお願い，これまでの，そして今後の日本のEDとして 理事会に臨まれてきた対応について詳らかにしていただきたいと愚考しています。
この件については 国会議員の方々とも 協議中ですが、いかがなものでしょうか。

5. アメリカのEDに 米議会との情報（資料）共有が、どの程度のものであるかをお尋ねになったと聞き及んでいますが，これは情報の公開（情報へのアクセス）という，一般的に日本の国内でも，また 世銀自体に対して 広く 国際的にも 問われている問題に関わっていると思います。資料請求した 国会議員（複数）に対しても、また 私どものようなNGOに対しても、どういう確認が得られたのか ご紹介下さるよう お願い致します。

6. 最後に 特に来たる 7月2日の理事会に臨んで、SSPに日本代表理事は どう見解を表明なさるおつもりでしょうか。
ご見解をご教示下さい。

敬具

1990年5月21日

5.20 ナルマダ緊急集会参加諸一同の総意に基づいて

地球の友 田中幸夫

書面によるご回答を5月末日までにお願いできればと思います。

渋谷局
料金別納郵便

□□□-□□

世界銀行総裁
バーバー・コナブル殿

（世界銀行日本代表理事
白鳥正喜殿宛書簡写し同封）

地球の友
Chikyu no Tomo / Friends of the Earth Japan
〒150 東京都渋谷区鶯谷町7－1 渋谷マンション801号
TEL (03) 770－5387 FAX (03) 770－0727
801 Shibuya Mansions, 7-1 Uguisudani-cho, Shibuya-ku, Tokyo 150, JAPAN

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 90/04/25 DUE DATE : 00/00/00
LOG NUMBER : 900425002 FROM : Mr. Qureshi
SUBJECT : Indian Maps in World Bank - used in the Board Reports.

OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

_____ APPROVED
_____ PLEASE HANDLE
_____ FOR YOUR INFORMATION
_____ FOR YOUR REVIEW AND RECOMMENDATION
_____ FOR THE FILES
_____ PLEASE DISCUSS WITH _____
_____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS :

The World Bank
Washington, D.C. 20433
U.S.A.

MOEEN A. QURESHI
Senior Vice President, Operations

April 25, 1990

Mr. Conable

I just wanted you to be aware that during the past week, the Indian Director, Mr. Baijal, had approached me, in some agitation, to complain that the country maps being used in the Board Reports on Indian Projects were truncated in such a way as to exclude the area encompassing Jammu and Kashmir. He said that a question had been raised in the Parliament on this issue and he needed to send an immediate response.

I had not been aware of the problem. Upon investigation, I found that there was an internal Bank Management decision in 1985, apparently following complaints by China and Pakistan about the manner in which disputed territories were shown on Indian maps, to show a truncated version of the Indian map which excluded the disputed territories both in the North and the East. This procedure had been followed consistently since 1985. I informed Mr. Baijal about this. He then asked that we should stop using country maps in upcoming Board documentation on India because otherwise the Government would be embarassed, and it would appear that the Bank was deliberately excluding Kashimir from its maps. He had no problems with the use of project area maps which we should continue to produce in accordance with existing procedures. I told him that I had no objection to the course that he suggested, at least for the time being, provided that, if other Directors such as Paul Arlman inquired about this matter, I would have to say that the country map had been excluded specifically at the request of the Indian Executive Director. I also asked him to send me a note, which he has done (attached).

Moeen

Attachments

cc: Mr. Karaosmanoglu
Mr. Vergin

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Country Files: India - Correspondence 01	1779730

Document Date	Document Type	
19 April, 1990	Memorandum	

Correspondents / Participants

From: J. S. Baijal, Executive Director, EDS12
To: Moeen Qureshi, Sr. VP

Subject / Title

Indian Maps in World Bank Reports

Exception(s)

Additional Comments

Declassification review of this record may be initiated upon request.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Ann May	April 21, 2023

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

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890R05
1

DATE: April 19, 1990

TO: Mr. Daniel Ritchie, AS4CO

FROM: Heinz Vergin, AS4DR

SUBJECT: India Country Maps and Board Documents

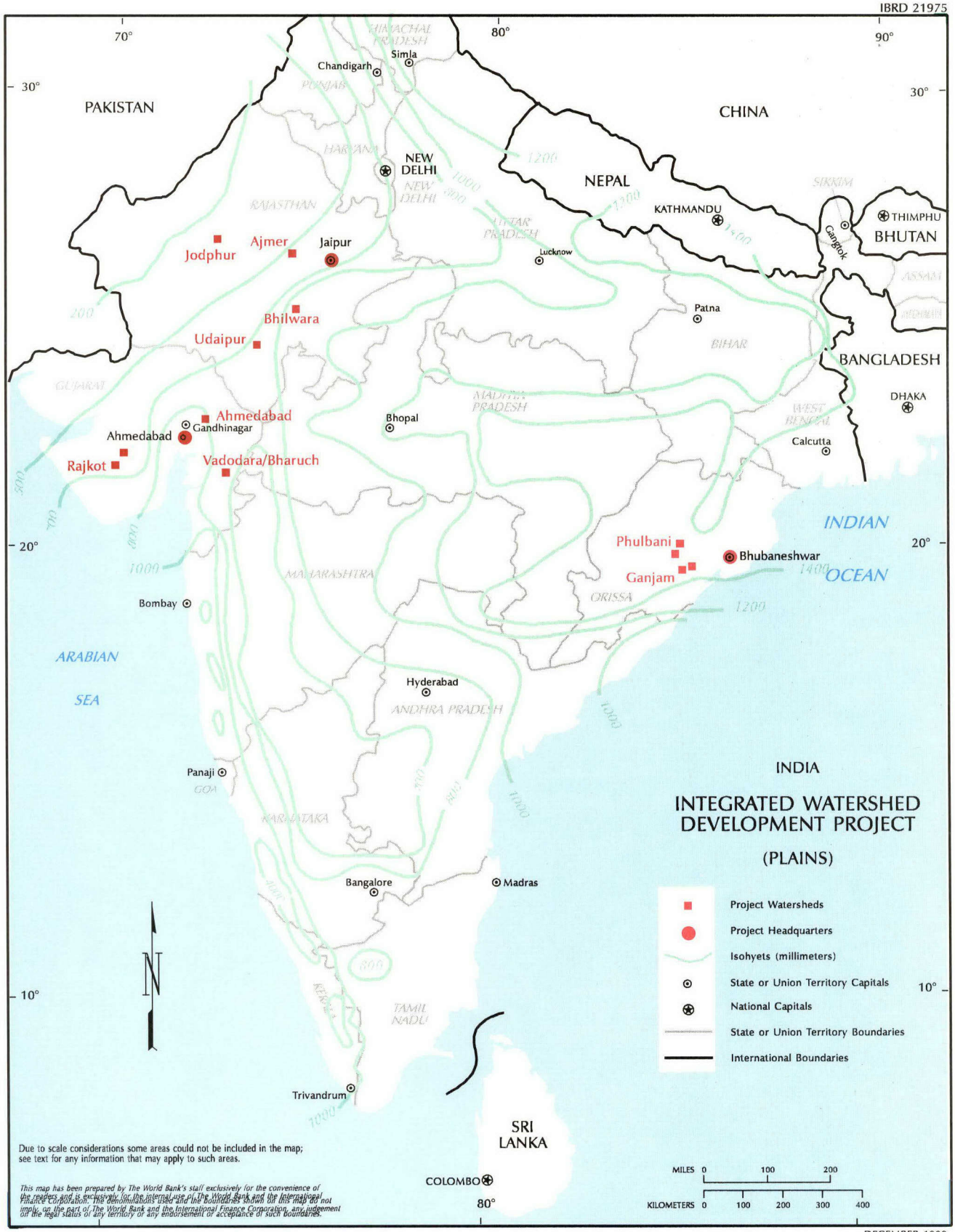
In light of the issues which have arisen over the India country maps which we are currently using in the Board documentation, Mr. Baijal has requested that, for the time being, we do not use country maps in upcoming Board documentation. This request does not extend to the use of project area maps which we should continue to produce in adherence to the existing protocols. Mr. Qureshi concurs with this request and has asked Mr. Baijal to make his request in writing.

Regarding the Board documentation for the Integrated Watershed Development (Plains) and the Cement Industry Restructuring Projects which are ready for release to the Board and which present the project information in the context of country maps, it has been decided to release these documents without maps. We will be working with the Office of the Indian Executive Director to field any questions which the omission of maps in these documents may be raising in the Board.

cc: Messrs. Qureshi
Thahane
Kaji
Vorkink

bcc: Mr. Baijal

IBRD 21975



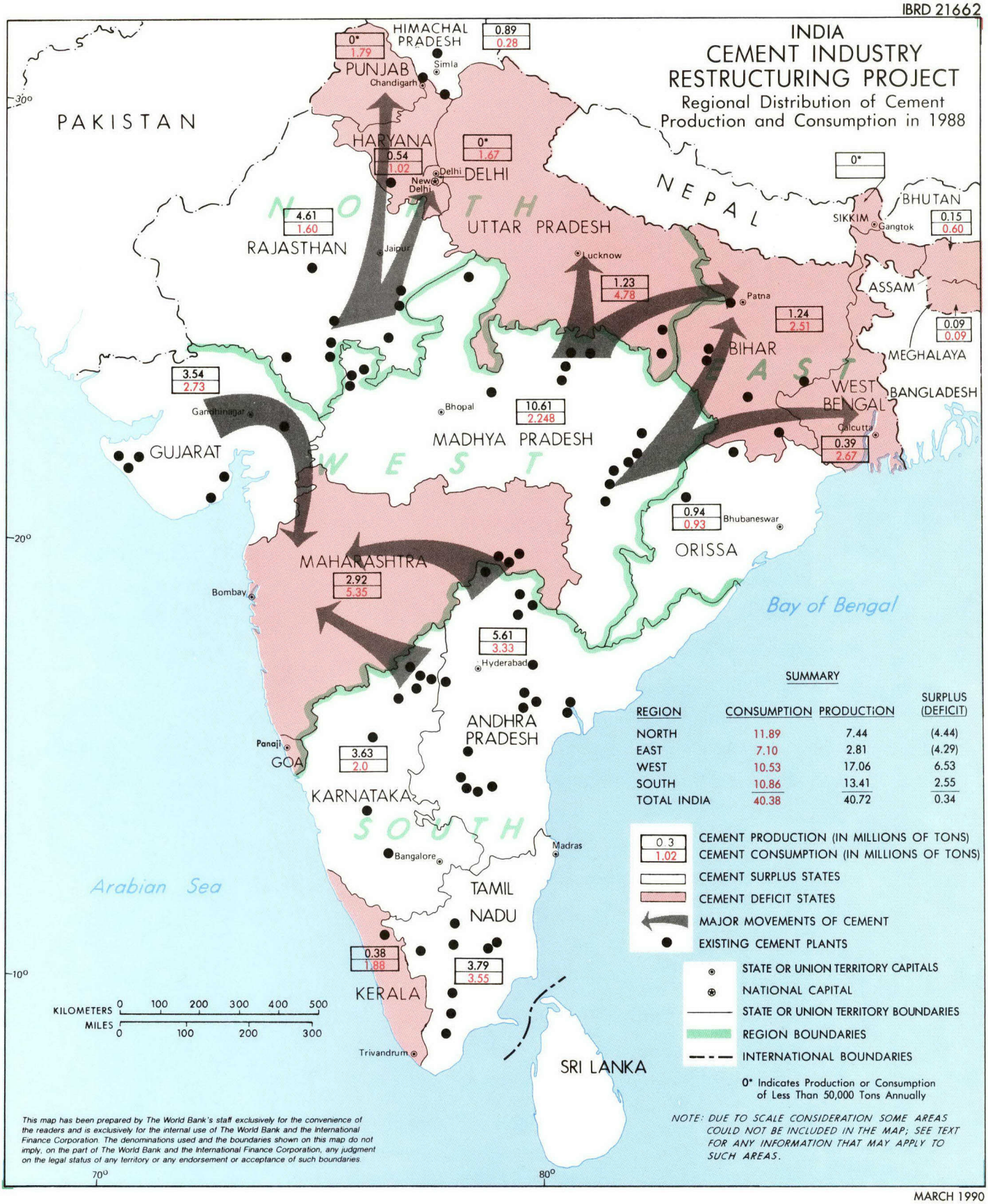
Due to scale considerations some areas could not be included in the map; see text for any information that may apply to such areas.

This map has been prepared by The World Bank's staff exclusively for the convenience of the readers and is exclusively for the internal use of The World Bank and the International Finance Corporation. The denominations used and the boundaries shown on this map do not imply, on the part of The World Bank and the International Finance Corporation, any judgement on the legal status of any territory or any endorsement or acceptance of such boundaries.

DECEMBER 1989

not to be used !

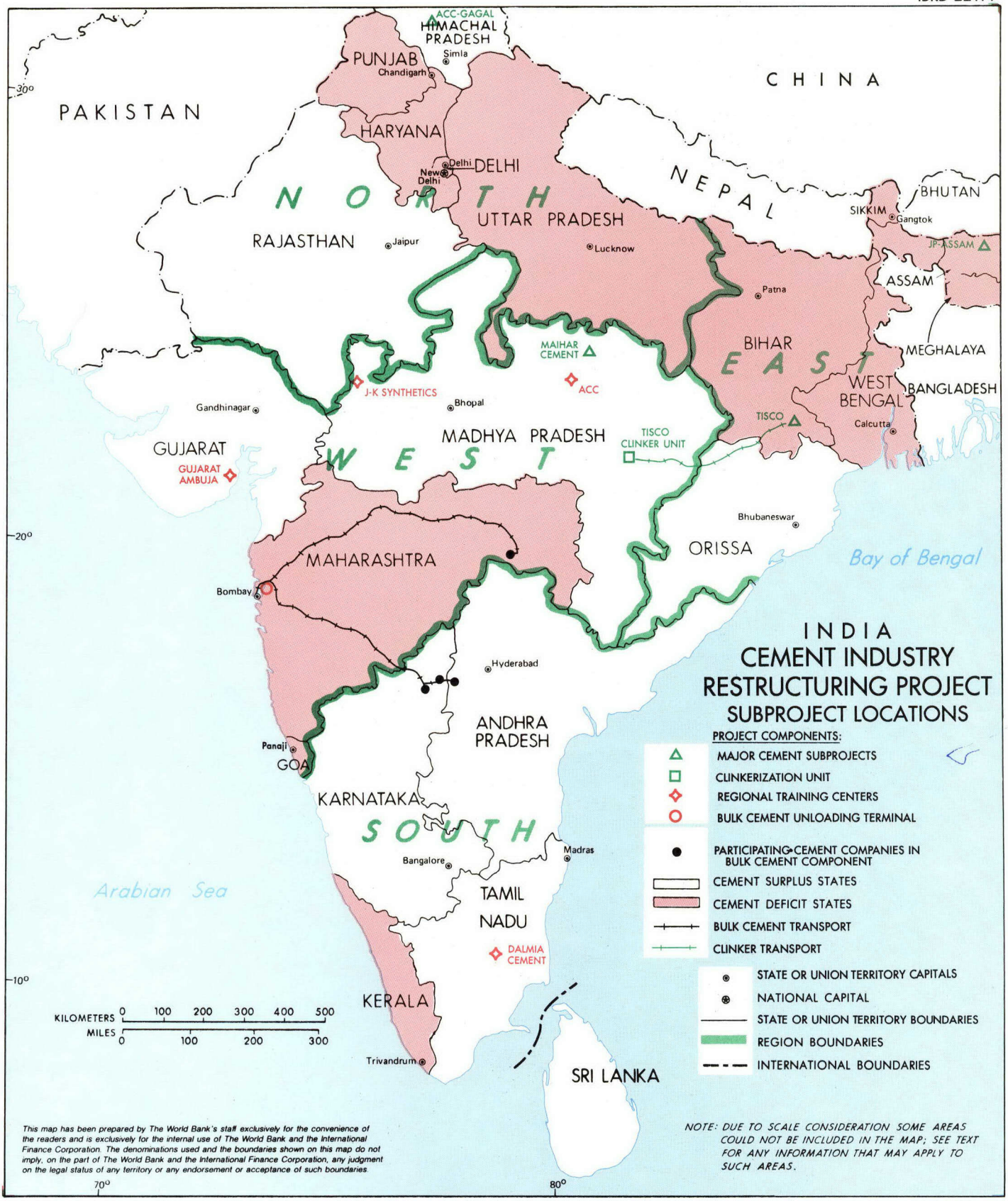
IBRD 21662



MARCH 1990

not to be used!

IBRD 22177



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NOTE: DUE TO SCALE CONSIDERATION SOME AREAS COULD NOT BE INCLUDED IN THE MAP; SEE TEXT FOR ANY INFORMATION THAT MAY APPLY TO SUCH AREAS.

MARCH 1990

not to be used!

APR 19 PM 7:30
SVPOP

FORM NO. 1599
(8–80)

THE WORLD BANK

ROUTING SLIP	DATE 3/29/90

OFFICE OF THE SENIOR VICE PRESIDENT, OPERATIONS

NAME	ROOM NO.
Mr. A. Khanna	

	To Handle		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment	X	Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		Send On

REMARKS

FROM H. Vergin

The World Bank
Washington, D.C. 20433
U.S.A.

MOEEN A. QURESHI
Senior Vice President, Operations

March 29, 1990

(Dictated by
telephone)

Mr. Vergin:

Heinz:

Please inform Mr. Conable about the tentative IDA allocations that I have made, subject to his approval.

IDA-8 LENDING PROGRAM

	FY88 ACTUAL		FY89 ACTUAL		FY90 REVISED PLAN a/		FY88-90 TOTAL	
	AMOUNT (SDRm)	% OF TOTAL	AMOUNT (SDRm)	% OF TOTAL	AMOUNT (SDRm)	% OF TOTAL	AMOUNT (SDRm)	% OF TOTAL
AFRICA TOTAL	1642.0	49.8%	1790.0	47.9%	2126.0	47.3%	5558.0	48.2%
(Original Plan)	(1,440.0)	(45.0%)	(1,998.0)	(47.5%)	(2,200.0)	(49.4%)	(5,638.0)	(47.6%)
ASIA TOTAL	1412.1	42.8%	1645.8	44.0%	2026.0	45.1%	5083.9	44.1%
(Original Plan)	(1,495.0)	(46.7%)	(1,919.0)	(45.7%)	(1,900.0)	(42.7%)	(5,314.0)	(44.8%)
Of Which:								
CHINA	464.7	14.1%	384.6	10.3%	773.0 b/	17.2%	1622.3	14.1%
(Original Plan)	(465.0)	(14.5%)	(590.0)	(14.0%)	(600.0)c/	(13.5%)	(1,655.0)	(14.0%)
INDIA	535.0	16.2%	680.0	18.2%	644.4	14.4%	1859.4	16.1%
(Original Plan)	(535.0)	(16.7%)	(680.0)	(16.2%)	(644.0)	(14.5%)	(1,859.0)	(15.7%)
SUB-TOTAL CHINA & INDIA	999.7	30.3%	1064.6	28.5%	1417.4	31.6%	3481.7	30.2%
(Original Plan)	(1,000.0)	(31.3%)	(1,270.0)	(30.2%)	(1,244.0)	(28.0%)	(3,514.0)	(29.6%)
BANGLADESH	167.6	5.1%	325.8	8.7%	456.1	10.2%	949.5	8.2%
(Original Plan)	(328.0)	(10.3%)	(415.0)	(9.9%)	(416.0)	(9.3%)	(1,159.0)	(9.8%)
EMENA	165.1	5.0%	196.2	5.2%	193.0	4.3%	554.3	4.8%
(Original Plan)	(180.0)	(5.6%)	(177.0)	(4.2%)	(200.0)	(4.5%)	(557.0)	(4.7%)
Of Which:								
PAKISTAN	138.6	4.2%	155.5	4.2%	158.0	3.5%	452.1	3.9%
(Original Plan)	-	-	-	-	-	-	-	-
LAC	81.3	2.5%	106.1	2.8%	145.0	3.2%	332.4	2.9%
(Original Plan)	(85.0)	(2.7%)	(109.0)	(2.6%)	(150.0)	(3.4%)	(344.0)	(2.9%)
TOTAL IDA	3300.5	100.0%	3738.1	100.0%	4490.0	100.0%	11528.6	100.0%
(Original Plan)	(3,200.0)	(100.0%)	(4,203.0)	(100.0%)	(4,450.0)	(100.0%)	(11,853.0)	(100.0%)
Memo Item: FY90 Total Commitment Authority (as of end-February):					4489.0			

a/ Reflects loss in total commitment authority from SDR 4643 million as of end-June 1989 to SDR 4489 million as of end-February 1990, with corresponding adjustments to regional allocations.
b/ Calculated on the basis of a total China program of SDR 800 million (SDR 600 million for FY90 plus SDR 200 million deferred from FY89), adjusted for loss in total commitment authority.
c/ Excludes SDR 200 million of deferred FY89 IDA credits.

OPNSV
28-Mar-90

Filename: IDA8-E5

Project Name	Prop. Board Date	Scenario I $ Million Bank	Scenario I $ Million IDA	Scenario I $ Million Total	Scenario II $ Million Bank	Scenario II $ Million IDA	Scenario II $ Million Total	Scenario III $ Million Bank	Scenario III $ Million IDA	Scenario III $ Million Total
N. China Earthquake Recons.	02/08/90A		30.0	30.0		30.0	30.0		30.0	30.0
Jiangxi Agric. Dev.	02/27/90		60.0	60.0		60.0	60.0		60.0	60.0
Jiangsu Prov. Tsp.	03/20/90	100.0	50.0	150.0	100.0	50.0	150.0	100.0	50.0	150.0
Medium Size Cities	04/17/90	79.4	80.8	160.2	79.4	80.8	160.2	79.4	80.8	160.2
Mid Yangtze Ag. Dev.	04/24/90		64.0	64.0		64.0	64.0		64.0	64.0
Rural Ind'l. Tech.	05/15/90	50.0	60.0	110.0	50.0	60.0	110.0	50.0	60.0	110.0
Yanshi Thermal	05/29/90	180.0		180.0	180.0		180.0	180.0		180.0
National Afforestation	06/19/90		270.0	270.0		270.0	270.0		270.0	270.0
Total	(8)	409.4	614.8	1024.2						
Blend Ratio		(40:60)								
Shanghai Ind'l.Dev.	04/17/90					150.0	150.0		150.0	150.0
Tech. Coop. Cr. III	04/24/90					30.0	30.0		30.0	30.0
Liaoning Urban Infra.	05/22/90				72.5		72.5	72.5		72.5
Rural Credit IV (ABC)	05/29/90					275.0	275.0		275.0	275.0
Total					(12) 481.9	794.8	1276.7			
Blend Ratio					(38:62)					
Vocat./Tech. Training	04/17/90								50.0	50.0
Hebei Agric. Devt.	05/29/90								150.0	150.0
Total								(14) 481.9	1269.8	1751.7
Blend Ratio								(28:73)		

Updated: 03/16/90
OT:

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 90/05/03 DUE DATE : 00/00/00
LOG NUMBER : 900503012 FROM : M. Qureshi
SUBJECT : INDIA: Mtg. with Minister of Finance, Mr. Madhu Dandavate, on Monday, May 7 at 2:30 pm.
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

_____ APPROVED
_____ PLEASE HANDLE
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_____ FOR YOUR REVIEW AND RECOMMENDATION
_____ FOR THE FILES
_____ PLEASE DISCUSS WITH _____
_____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS :cc: MH, AK, JV (FF)

FORM NO. 710
(10–83)

THE WORLD BANK

ROUTING SLIP	DATE 5/3/90

FROM THE OFFICE OF THE
REGIONAL VICE PRESIDENT

NAME	ROOM NO.
Mr. Conable	
through Mr. Qureshi	

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	COMMENT		PER OUR CONVERSATION
	FOR ACTION	X	PER YOUR REQUEST
	INFORMATION		PREPARE REPLY
	INITIAL		RECOMMENDATION
	NOTE AND FILE		SIGNATURE

REMARKS

FROM

S. J. Burki, Acting RVP

Mr. Conable

Meeting with Mr. Madhu Dandavate, India's Minister of Finance

Monday, May 7, 1990 at 2:30 pm

The meeting will provide an opportunity to follow up on your recent meeting in New Delhi. Since then the budget has been presented to Parliament and the new Export-Import Policy has been announced. You should convey to the Minister that the Bank endorses the overall thrust of the budget, although you might add that it leaves much still to be accomplished in tackling the deficit and the balance of payments situation. You should stress the importance of reaching the budget targets (which imply a reduction in the budget deficit from 8.4 to 7%) and reducing the current account deficit.

There has been some progress in terms of the Ministry of Education's receptivity to Bank involvement in primary education, but the nature and timing of this involvement have still to be worked out. You should again stress the importance of primary education in human resource development (especially for young girls) and emphasize the Bank's willingness to assist the Government in this area.

You might also remind the Minister that in the power sector we have three projects (for a total of $850 million IBRD) still to go to the Board this fiscal year, each of which faces continuing uncertainties arising from delays in addressing outstanding issues. These issues include action on the unacceptably high arrears/accounts receivable of two major Central power utilities - NTPC and NHPC, and clearance by the Central Electricity Authority and environmental clearance for the Tata Electric private sector power project.

Mr. Conable's Meeting With Indian Finance Minister Dandavate

Additional Background Material

Budget Deficit

Driven by rapidly increasing Government consumption, the public sector deficit during the late 1980s averaged about 8.9% of GDP, 1.6 percentage points of GDP more per year than during the first half of the decade. This led to pressure on the balance of payments, with public sector external debt roughly doubling since 1984/85 and gross international reserves falling sharply. By the end of 1989/90, reserves were only $4.1 billion (excluding gold), about 2 months of import coverage, their lowest level in both absolute and relative terms during the 1980s. The current account deficit reached 3.3% of GDP in 1988/89 and 1989/90.

The Government has taken an important first step to deal with its fiscal and balance of payments problems in its strict 1990/91 Central Government budget. This budget provides for a substantial reduction (from 8.4% to 7.0% of GDP) in the Central Government deficit (total borrowing requirement) relative to the 1989/90 revised budget estimate. This is to be achieved by additional tax effort (0.5% of GDP), and restraint of current and capital expenditures (0.4% and 0.5% of GDP, respectively). The budgeted increase in the tax ratio is based primarily on increased customs tariff rates on selected products (mainly crude petroleum) and, to a lesser extent, increases in excise tax rates and in effective taxation of corporate incomes. On the expenditure side, the budget programs reductions in nominal outlays for food, fertilizer and interest rate subsidies and continues the restraint on capital outlays that characterized the 1988/89 budget.

If the budget targets envisioned in the 1990/91 budget are achieved and are complemented by corresponding fiscal discipline at the state and public enterprise levels, balance of payment pressures should be reduced significantly. However, the budgets of the last three years (1987/88 - 1989/90), each of which projected reduced deficit ratios, have foundered for lack of adequate expenditure control. The expenditure targets contained in the 1990/91 budget are similarly ambitious and may also prove difficult to meet. Food and fertilizer subsidies will be politically difficult to curtail and efforts to shift a larger share of the burden for financing public sector enterprises' investment to the enterprises themselves have so far achieved modest results.

FY90 IBRD Lending Program

We have four FY90 IBRD operations, three in the power sector and one in industry, which have not yet gone to the Board and for which there are outstanding actions to be taken by GOI which could result in their slippage out of the fiscal year. The total lending volume affected is $1.095 billion. The projects and the key issues are summarized below:

Regional Power Systems ($375m):

The project would assist the National Thermal Power Corporation (NTPC) in the implementation of a portion of its generation/transmission plan.

Negotiations took place in December 1989. A condition of Board presentation is a downpayment on the reduction of arrears owed to NTPC by State Electricity Boards. Satisfactory action is still awaited.

Northern Region Power Transmission ($400m):

The project would finance construction of transmission lines and related substations to link hydro schemes in the northern region to the rest of the transmission system. Negotiations have now been scheduled for mid-May. The main issue is reduction of the high level of accounts receivable for the National Hydroelectric Power Corporation (NHPC). Initial progress has been made in reducing the arrears, but we still need to reach satisfactory understandings at negotiations about further actions to be taken.

Private Power Utilities I ($75m):

The project would finance (jointly with IFC) additional generating capacity and associated transmission for the private sector Tata Electric Company. Negotiations are scheduled to begin May 21, but we are still awaiting: (a) project clearance from the Central Electricity Authority (CEA), which has concerns about the scale/phasing of the project, and (b) the environmental clearance.

Petrochemicals ($245m):

The project would support expansion of the Maharashtra petrochemicals complex (the first phase of which was financed by an earlier IBRD project), and associated subsector investments. Negotiations were completed in December 1989, but we are still awaiting, as Board conditions, the receipt of a letter confirming feedstock pricing and the environmental clearance for debottlenecking investments at the feedstock supply plant.

India ① ~~AK~~
~~⑤ MH(7n)~~

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 90/03/28 DUE DATE : 00/00/00
LOG NUMBER : 900328001 FROM : Mr. Karaosmanoglu
SUBJECT : INDIA: Overview of the 1990/91 Budget

OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

_____ APPROVED
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_____ FOR YOUR REVIEW ~~AND RECOMMENDATION~~
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_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS :

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: March 28, 1990

TO: Mr. Barber B. Conable

FROM: Attila Karaosmanoglu

EXTENSION: 72283

SUBJECT: INDIA - Overview of the 1990/91 Budget

1. As discussed with the Minister of Finance, Prof. Madhu Dandavate during your recent visit to India, the Government presented its budget for 1990/91 to the Parliament on March 19. The budget and its customary accompanying speech were eagerly awaited as the first concrete indications of the new government's economic policies. Coming against the background of an increasingly fragile macroeconomic situation, potentially very costly campaign promises and uncertainty about the government's commitment to economic reform, the budget comes as something of a relief.

2. Following an alarming increase in the fiscal deficit to 8.4% of GDP in 1989/90, the new budget calls for a decline to 7.0%. This reduction, equivalent to 1.4% of GDP, is to be accomplished by a modest increase in the tax ratio (0.2% of GDP) and a significant reduction of expenditures (1.2% of GDP).

3. Optimism about the budget must be tempered with caution. The three previous budgets also called for a reduction of the deficit but in each case the Government was unable to hold the line on its current outlays. Moreover, the new budget provides only modest appropriations for two of the Government's potentially most costly campaign promises -- write-off of small overdue agricultural loans and new employment guarantees. It remains to be seen whether the cost of these politically popular initiatives can be limited. In addition, much of the expenditure restraint depends on improvement in the financial performance of public enterprises. This will require sharp increases in administered prices down the line (postal, telephone and rail rates have already been raised). Reductions of food and fertilizer subsidies have also been targeted before, but without success. Promised increases in agricultural procurement prices and the coming on stream of new, high-cost fertilizer production cast doubt on the Government's ability to hold the line of these outlays.

4. There are further concerns about the way the budget deficit is to be reduced. The rise in budgetary revenues will come largely from increases in indirect taxes, including excise taxes and import duties, and elimination of tax incentives under the corporate income tax. At the same time, the base of the personal income tax will be further eroded by increased exemptions (already relatively quite high) which will knock a million of the 4 million taxpayers (of a population of about 820 million) off the roles. In addition, the decline in expenditures will come largely from holding down the growth of public investment; non-defense capital outlays will remain constant in nominal

terms, while defense outlays continue to rise. Finally, the budget continues to include considerable "tax tinkering," selective tax concessions and duty increases designed to protect or otherwise favor particular industries.

5. On a more positive note, as evidence of its seriousness about keeping expenditures and the deficit from creeping beyond budgetary ceilings, the Minister of Finance has called for a mid-year budget review and promised to keep Parliament and the nation informed about actual performance.

6. The budget speech does not contain any new economic reform initiatives. It does, however, suggest that the essential thrust of policy will be unchanged in that it "will place greater reliance on general, non-discretionary, fiscal and financial instruments and will reduce the role of adhoc discretionary physical controls." This could be interpreted to mean that the gradual delicensing and deregulation of domestic industry can be expected to continue. It might also signal some further relaxation of quantitative restrictions on imports in favor of tariffs. Whether, and at what pace, the reform process continues remains to be seen. Clearer indications will be available when the Government issues its Long Term Fiscal and Policy paper and its new three-year Export-Import Policy in April.

7. In sum, the budget provides some grounds for cautious optimism about the future of the Indian economy. We do have questions about whether budgetary targets can be completely achieved and are concerned about the real decline in investment expenditures (with its potential impact on disbursements) and the absence of a clear commitment to a higher growth path. At the same time, it seems to represent a genuine effort to moderate some campaign promises and bring the deficit under control. In the area of economic reform, only time will tell whether the positive sentiments expressed in the budget speech will be translated into action. We are just completing our annual Country Economic Memorandum discussion which is scheduled for mid-April. This will provide us with an early opportunity for further discussion of economic policy with government officials and for re-evaluation of our country strategy.

cc: Messrs. Qureshi (o/r), Yenal, Vergin, Ritchie, Kraske, Humphrey, McCarthy, Wijnand, Gould, Skolnik

DGreene:zj

Mr. Conable

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: March 16, 1990

TO: Files

FROM: Daniel Ritchie, Acting Director, AS4

EXTENSION: 76953

SUBJECT: INDIA - Meeting of Mr. Conable with the Prime Minister, V. P. Singh

1. Mr. Conable met the Prime Minister of India, Mr. V.P. Singh in New Delhi on March 13, 1990. Present from the Government were Messrs. Jalan (Secretary, Finance), Desmukh (Secretary, Prime Minister's Office), Ahluwalia (Special Secretary, Economics), Bajaj (Additional Secretary, DEA), Desai (Economic Adviser, DEA) and Baijal (Executive Director for India). Messrs. Karaosmanoglu, Kraske, Ritchie and Khanna were present from the Bank.

2. The Prime Minister said he had been looking forward to renewing his acquaintance with Mr. Conable, and reminded him that at their last meeting (when he was Minister of Finance) Mr. Conable had been preoccupied with the Bank's capital increase.

3. Mr. Conable remembered that at the time Mr. Singh himself had been concerned about tax reform. He had realized then that Mr. Singh was a reformer, which had been borne out by his initiative in pushing forward the economic liberalization process.

Liberalization and Deregulation

4. Mr. Conable indicated that the continued liberalization of the Indian economy was essential if India was to take its rightful place as a major participant in the global economy. India's level of professional sophistication and entrepreneurial talent far exceeded most developing countries, and wise leadership will help ensure the realization of the country's potential.

5. The Prime Minister confirmed that the atmosphere for change had evolved considerably over the past 10 years. There was a growing consensus that the role of government should be less intrusive. There would be continuing action to reduce regulation, licensing and quotas, in favor of other measures such as financial instruments. This process of reducing government involvement might not be heralded, but will continue.

6. Mr. Conable applauded this continued direction. He said that, among other things, over-regulation discourages small scale enterprise, and actually helps large business which can better cope through its battery of lawyers and accountants.

Future Priorities

7. The Prime Minister indicated that his government will stress employment generation and poverty alleviation in the context of continued growth and industrialization. He hoped to see a greater integration of agriculture and industry, with more agro-industry, processing and small industries based away from major cities.

8. Mr. Conable expressed the Bank's full support to these priorities and offered our continued assistance in these areas.

Environmental Protection

9. Mr. Conable noted that there was a nexus between poverty, population growth and environmental degradation. He underlined the Bank's strong concern for reversing global environmental deterioration, and mentioned the Bank's new requirements for environmental assessment of projects with a major environmental impact.

10. The Prime Minister indicated that India had become very conscious of the need to protect and enhance the environment. There was a real urgency for action to rehabilitate the Himalayan watershed and control industrial and urban pollution. He noted that all major projects now required environmental clearance.

Primary Education

11. Mr. Conable described briefly the Education for All Conference which he had just attended in Thailand. Primary education was a key to improved lives for the poor and for poor women in particular. Better education leads to better family planning, improved family health, increased income devoted to the family and better prospects for future education of children.

12. He said that apart from an agricultural education project almost 20 years ago and a Vocational Education project in FY89, India had not borrowed from the Bank for education. He had expressed our interest in supporting primary education to Mr. Rajiv Gandhi two years ago who had been supportive. However, there had been resistance in the Ministry of Education. He said he hoped the Bank would be able to support the government's priorities for education generally, and primary education in particular.

13. The Prime Minister indicated that there was a felt demand for education in India's villages. Their first priority was inevitably water, followed by schools and roads. He said he hoped we could work our something together on general education.

Fiscal Imbalances

14. Turning to the macroeconomic situation, Mr. Conable said he knew the Government was facing considerable fiscal pressures and he wished the Prime Minister well in dealing with these critical problems. "We'll need your best wishes," the Prime Minister said.

15. Mr. Singh indicated that he was hoping to find some mechanism to help ensure greater financial discipline. The fiscal situation could not be allowed to get out of hand, and some mechanism to enforce restraint might be very helpful. He had apparently asked the Planning Commission to suggest a device.

16. Mr. Conable cautioned about adopting any device comparable to the Graham-Rudman Bill in the U.S. "You can't underestimate the ingenuity of the political mind to get around such constraints," Mr. Conable said, "there is no substitute for the will to govern."

Impact of Eastern Europe

17. Mr. Conable indicated that there had been concerns expressed to him that developments in Eastern Europe might diminish attention, and aid flows, to developing countries. He reassured the Prime Minister that Eastern Europe's needs would not be at the expense of other Bank lending. The IBRD was growing so there need not be a zero sum game for Bank funds. Moreover, India continued to be a major IDA borrower.

18. He went on to stress that the private sector was especially interested in Eastern Europe, sensing that there was pent up consumer demand. This might well divert private capital from developing countries. Consequently, India would have to work much harder to attract foreign direct investment.

19. The Prime Minister expressed his appreciation that the Bank Group would not be cutting back its support because of developments in Eastern Europe. If India's attach on poverty is to succeed, continued major economic assistance will be necessary.

Poverty Focus

20. Mr. Conable ended the meeting by reiterating the Bank's full support for the Government's emphasis on poverty alleviation, and pledged the Institution's full effort to support the Government's renewed focus.

21. Subsequently, at dinner a number of more project-related issues were discussed including the need for resolution of the resettlement issue on the Narmada project in Maharashtra (the Prime Minister is also Environment Minister and would have to approve any release of forest land for resettlement), and the need for action to reverse the severe financial deterioration in the power sector. Disbursement performance was also reviewed.

cc: Messrs. Conable, Karaosmanoglu, Kraske, Khanna, Vergin, Humphrey, Greene, McCarthy, Wijnand, Gould, Skolnik

DRitchie:zj

WDIAL
.AS4CO
OINFO

-SUBJECT: CONGRATULATIONS PM
-DRAFTED BY: STALBOT:ZJ EXT: 76803
-AUTHORIZED BY: BARBER B. CONABLE BBC
-CC: MESSRS. QURESHI, KARAOSMANOGLU, ALISBAH, KRASKE

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953 3166175 =
-GOVERNMENT OF INDIA
-NEW DELHI, INDIA
-ATTN: MR. V.P. SINGH
BT
WASHINGTON D.C. 20-DEC-1989
DEAR PRIME MINISTER, ON BEHALF OF THE STAFF OF THE WORLD BANK AND IFC, I SEND YOU OUR WARMEST CONGRATULATIONS ON YOUR APPOINTMENT. WE IN THE WORLD BANK TAKE PRIDE IN OUR CONTINUING ASSOCIATION WITH THE GOVERNMENT OF INDIA IN ITS EFFORTS TO IMPROVE THE COUNTRY'S ECONOMIC DEVELOPMENT.

INDIA HAS ALREADY ACHIEVED MUCH SUCCESS IN THESE EFFORTS, BUT CLEARLY MANY CHALLENGES REMAIN. I TAKE THIS OPPORTUNITY TO PLEDGE THE FULLEST COOPERATION OF THE WORLD BANK IN THE ENDEAVORS OF THE GOVERNMENT TO DEAL WITH THESE CHALLENGES.
WITH WARMEST REGARDS, BARBER B. CONABLE, PRESIDENT, WORLD BANK.

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 90/02/26 DUE DATE : 00/00/00
LOG NUMBER : 900227008 FROM : Mr. Ryrie
SUBJECT : Subject: India - short note regarding his four days recent visit.

OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

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COMMENTS :

cc: BBC (trip file) dcw
AK (u u) VP

International Finance Corporation
Washington, D.C. 20433
U.S.A.

Sir WILLIAM RYRIE
Executive Vice President

February 26, 1990

Mr. Barber B. Conable

Barber

SUBJECT: India

Since I was in India for four days last week, you might like a short note with my impressions.

Unfortunately state elections were in progress and almost all Ministers were out of New Delhi so most of my talking was done with Secretaries -- that is, apart from the business community whom I met particularly in Bombay but also in Delhi.

I cannot comment usefully on the general economic policies which the government seems likely to follow, but I was left with clear impressions on two other points.

First, if the prevailing opinion is correct, the government appears to be more stable than I had thought before arriving. One does not know what is really going on inside, but leading financial people and businessmen as well as civil servants seem to think that the ministerial team was working pretty well and will stick together for some time. Of course this depends partly on the state elections which are taking place tomorrow, but if (as seems possible) the Congress Party suffers another serious defeat then the government at the center will be strengthened.

Second, on the industrial front there seem to be almost universal agreement that policies of liberalization would continue to be pursued by this government, even though the Janata Dal contains many people who come from a strongly socialist background. Most people in Bombay spoke optimistically and seemed to be persisting with plans for investment. However, on foreign investment, I did not get any indication that the government would be more liberal -- if anything, perhaps, the reverse, because we had signs that there is resistance to foreign investment in the financial sector, an area where a number of foreign banks and others are showing an interest in setting up companies in India. Of course this is a pity. I am sure India could attract several times the amount of foreign investment it now gets if they would open the doors and Bombay could become an international financial center of some importance.

However, things could be much worse. V.P. Singh, despite the antagonism he aroused through his "raids" on companies when he was Minister of Finance, is held in some regard by the business community because he is credited with having initiated the policies of liberalization and deregulation and was responsible for making the first cuts in the marginal rate of income tax which has been reduced from 97-1/2% to 50% (although it still bites at a very low income).

W.R.

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THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

January 10, 1990

Mr. J.S. Baijal

Thank you for your note of December 20, 1989 clarifying India's expenditures on defense and education during the past decade. This is helpful in our understanding expenditure patterns by government as a whole, at both the central and state level.

As you will recall, the Development News item of last September was quoting a Sunday Times piece which incorrectly interpreted data from the 1989 WDR. At no time did the World Bank or I make such a comparison. The WDR presents central government expenditure only, and not total expenditures by government at all levels.

While it is reassuring to see from your data that total defense and education expenditures were roughly comparable during the past decade, it is also true that India's total expenditures on primary education are low relative to other levels of education. As you know, we have begun to support technical and vocational education and training in India, and we continue to hope that we may be able to assist in expanding primary education. We count on your support in this effort.

Barber Conable

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 25, 1989

TO: Files

FROM: Daniel Ritchie, Chief, AS4CO

EXTENSION: 76953

SUBJECT: INDIA - Mr. Conable's meeting with Indian Delegation
September 24, 1989

1. Mr. Conable met with the Indian Finance Minister, S.B. Chavan, and the Indian delegation to the Annual Meetings on Sunday, September 24, 1989. A list of attendees is attached.

Macroeconomic Performance

2. The Finance Minister began by reviewing recent economic developments. The favorable monsoon may enable India to reach its foodgrain production target of 175m tons. Overall economic growth may reach 5.5 percent, after an almost 10 percent growth last year. Industrial output may grow by about 8 percent. Inflation will remain in single digits. On the balance of payments front, there was some depletion of reserves (to 45 days equivalent of imports, according to Mr. Desai, the Economic Advisor), but the Government was confident it could rebuild reserves to a comfortable level next year. The underlying economic strength and export growth should facilitate the process.

3. The Minister also indicated that important steps had been taken during the past year to strengthen India's poverty program. A special employment scheme had been introduced which channeled resource directly to the local level (panchayat raj's) rather than through the states. This should reduce fund misuse considerably, the Minister said. Special emphasis was also now being given to girl's education. The Minister asked for the Bank's support in these efforts.

Poverty Alleviation

4. Mr. Conable responded that the Bank was anxious to support India's poverty alleviation effort. For us to help finance the targetted poverty schemes, they would have to meet certain standards of efficiency and effectiveness. (At the conclusion of the meeting, Mr. Karaosmanoglu promised that the Bank staff and Indian authorities would be examining the possibilities and would need to show flexibility and imagination in reaching agreements on what is to be done.)

Project Savings

5. The Minister asked for further action on project savings, including consideration of possible criteria for using savings for priority development activities beyond the scope of the original project. Mr. Conable replied that we would certainly continue to take action on projects within existing guidelines (to expand project scope and increase

disbursement percentages). The reallocations, however, had to remain within the IDA allocation ceiling. Mr. Qureshi added that it would be inadvisable to raise policy issues on IDA savings at the present time, given the proximity of IDA-9 negotiations. Mr. Karaosmanoglu also indicated that current guidelines require savings to be used within the original project concept and only for projects proceeding satisfactorily. We would continue to work with the Indian authorities along these lines.

Disbursement Performance

6. Mr. Conable expressed disappointment that the commendable disbursement performance of FY89 was not being continued this year. He warned that high levels of undisbursed IBRD and IDA funds might lead people to believe that India did not need additional IDA.

7. The Minister replied that he had asked the Finance Secretary personally to review with the states project implementation experience, and identify ways of speeding disbursements. For its part, the central government was now passing through to the states 100 percent of the external assistance received in priority sectors.

Policy Framework Papers

8. Mr. Chavan enquired about the proposal in the IDA-9 negotiations to require policy framework papers for all IDA recipients, whether or not they have adjustment programs in place. He indicated that there were regular discussions between Indian authorities and the Bank on macroeconomic policy directions. The informal advice and support from the Bank was useful and the Government had been proceeding along the lines recommended by the Bank. However, any process which would commit government formally would not be acceptable to India and could be counterproductive for the liberalization process.

9. Mr. Conable replied that this matter was being discussed among the IDA deputies. He had tried to prevent polarization on this issue. He urged the Minister to speak to his colleagues during the Annual Meetings and press his government's view. (The Minister indicated that both India and China shared the position and would make their views known). Mr. Conable added that the overall outcome on IDA-9 was not yet known, as the U.S. had not yet taken a firm position on the size of the replenishment. He hoped the Minister would also press for a replenishment at least as large in real terms as IDA-8, and also press for a final decision at the November meeting of IDA Deputies in Kyoto, Japan.

Cleared with and cc: Mr. Alisbah

cc: Messrs. Qureshi, Karaosmanoglu, India Management Team
Ms. Haug

DRitchie:ns

Mr. Conable's Meeting
with Indian Delegation

September 24, 1989

Participants

Messrs.	Conable
	Qureshi
	Fischer
	Vergin
	Karaosmanoglu
	Alisbah
	Ritchie
Ms.	Haug (part-time)

Messrs.	Chavan, Minister of Finance
	Arora, Finance Secretary
	Baijal, Executive Director, India
	Bajaj, Joint Secretary
	Desai, Secretary & Chief Economic Minister
	Bhide, Advisor to Executive Director
	Kumar, Minister (Economic), Embassy of India
	S. Krishna, Private Secretary to Finance Minister

COUNTRY: INDIA

Sunday, 9/24 @ 6:15

DELEGATION:
Mr. S.B. Chavan, Minister of Finance
Mr. R.N. Malhotra, Governor, Reserve Bank
Mr. G.K. Arora, Finance Secretary

BACKGROUND

- Economy has continued to perform well; good monsoons the last two years have helped it rebound sharply after the 1987 drought.
- Private investment is increasing and inflation remains at 8%.
- Government budget deficit remains worrisomely high.
- Other big worry is the trade and current account deficit. Continued fall in reserves might lead to negotiations with Fund and Bank by year-end.
- National elections are due before the year-end. Congress party is weakened but could win with reduced majority.

POINTS TO BE MADE TO THE DELEGATION

Disbursements: Unsatisfactory disbursement ratio of 18% overall (14% for IDA).

- India can ill afford to have $13 billion sitting undisbursed.
- Bank cannot continue to lend indefinitely at present levels if it only adds to the undisbursed pool. Serious progress imperative in coming year.

Power Sector Finances: Serious Financial Problem exists in the power sector. An acceptable action plan is needed for further processing of future NTPC or NHPC loans and to forestall suspension of disbursements.

IF DELEGATION MENTIONS...

IDA Savings: About a dozen projects with likely savings of $500 million due to exchange rate adjustment and lower inflation than forecast at appraisal. Government has requested extension of closing dates and increases in disbursement percentages.

YOU SHOULD INDICATE that we have increased disbursement percentages and/or modified project scope for five of these projects.

- We are prepared to consider other proposals but do not favor just increasing disbursement percentage.
- We are prepared to move more promptly now after having resolved internal policy questions.
- IDA to be seen as an entitlement program poses risks to the replenishment process.

Poverty Alleviation and support for India's two major targetted programs.

YOU MAY RESPOND that Bank is already involved significantly in India's overall poverty effort through various activities.

- In our judgement the two schemes currently are not efficient or effective enough but could become eligible for Bank support with significant improvements in targetting, administration and policies.

IDA9 and Reflows

YOU MAY INDICATE that IDA-9 negotiations are still underway.

Support for Trade Reform

YOU MAY INDICATE THAT we stand ready now to assist in a significant trade reform program and will be ready in early 1990 to discuss specific details.

FY89 Commitments: $3,037 million
Disbursements : $2,359 million
Amortization : $ 380 million

GDP Growth: 5.5% (1989); 5.8% (84-88)
Lending Program (FY90-91): $5.4 bn.

1989 ANNUAL MEETINGS
INDIA
SENIOR MANAGEMENT UPDATE (BULLET POINTS)

Power Sector Finances

In addition to the serious problem of the National Thermal Power Corporation, the National Hydroelectric Power Corporation (NHPC) is also facing problems of arrears. We have asked NHPC for an acceptable action plan as a pre-condition to further processing of any future loans; one is planned for FY90. You may wish to emphasize the importance of receiving actions plans for both NTPC and NHPC to improve their resource mobilitation.

September 13, 1989

1989 ANNUAL MEETING

BRIEFING NOTE ON IFC FOR MR. CONABLE'S MEETING WITH THE INDIAN DELEGATION

- Last year, IFC approvals reached a record high of US$125.2 Million, including about US$16 Million in equity. We very much appreciate the encouragement the Government has provided to IFC, which has helped make this possible.

- We in the Bank Group would like to see IFC take an increasing share of the Bank Group's assistance to the Indian private sector in the future.

- IFC and the Government have discussed a target commitment level for this year of US$200 Million, but clearly IFC can, and should do more. IFC proposes expanding and diversifying its loan, equity and Capital Markets activities, as well as commencing fee-based advisory services. Petrochemicals and power look promising.

- In order for IFC to reach these larger commitment levels, we will need the continuing support of the Government and the Indian Financial Institutions.

- I sincerely hope that with your personal support these objectives can be achieved so that India will benefit from a larger share of IFC's worldwide activities.

1989 ANNUAL MEETINGS BRIEF

INDIA September 24, 1989 6:15

Meeting with: S.B. Chavan, Minister of Finance
R.N. Malhotra, Governor, Reserve Bank of India
G.K. Arora, Finance Secretary

Population: 814 m (1988); **Estimated Growth Rate:** 9.0 % (1988);

GNP per capita: $ 333.0 (1988)

	(US$ million)
Total Commitments to date:	33,334.5
of which:	
Bank (124 operations)	17,211.2
IDA (177 operations)	16,123.3
Total Undisbursed:	13,037.0
Lending Program FY90-91:	5,377.0

	IBRD	IDA	Total
	(US$ million)		
FY89 Commitments:	2136.3	900.3	3036.6
Disbursements:	1739.0	620.3	2359.3
Amortization:	379.6		379.6

Summary Data	Average 1984-88	Projection 1989
GDP growth	5.8	5.5
Export growth	6.5	9.3
Import growth	6.2	5.4
Current Acc. Balance % GDP	-2.1	-2.2
Gross Debt Service Ratio	23.6	24.1
Annual Inflation Rate	8.0	8.0

Aid Group Meeting: Consortium
Last Meeting: 6/19-20/89
Next Meeting: June 1990
IMF Status: August 1989
Article IV: Active

Background: India's economy continues to perform well despite worrisome deficits in the balance of payments and the government budget. A continued fall in reserves might lead to negotiations with the IMF and the Bank by the end of the year. The outcome of the National elections, to be held by the end of 1989, is uncertain.

Issues likely to be raised by Delegation

1. IDA Savings
2. Poverty Alleviation
3. IDA-9 Reflows
4. Support for Trade Reform/Industrial Liberalization

Issues to be raised by Bank Management

1. Disbursements
2. Power Sector Finances

Attachments

Five Year Lending Program: FY89-93 (FY89 actual)
Biographical Information

Background

1. India's economy continues to perform well despite worrisome deficits in the balance of payments and the government budget. Good monsoons this year and last have produced a sharp rebound in the economy from the severe 1987 drought. GDP growth is estimated at about 9% in 1988/89 and projected at over 5% in 1989/90. Indications are that private investment is increasing rapidly. Inflation remains at about 8% (consumer prices). The Government's deficit has risen from about 5% of GDP at the end of the 1970s to 8.4% in 1988/89. However, a tighter budget for 1989/90 plans for a reduction to 7% of GDP in 1989/90. The trade and current account deficits also remain high and worsened somewhat in 1988/89. Management of the exchange rate regime remained satisfactory, encouraging exports, but continuing high levels of protection on intermediate and capital goods work in the opposite direction. Gross international reserves in foreign exchange declined by $1.4 billion in 1988/89 and fell another $0.8 billion between March and July 1989. International reserves are still adequate; foreign exchange reserves are equivalent to 2.3 months of imports and gold represents another 2.5 months of imports. Nonetheless, a continued fall in reserves might lead to negotiations with the IMF and the Bank for adjustment assistance. This would probably not occur until after the national elections which will be held before the end of calendar year 1989. The Congress party approaches the election in a generally weakened position. Although current speculation is that Congress will win the next election with a much reduced majority in Parliament, the outcome is far from certain. Whatever the outcome, it is unlikely to effect significantly the process of liberalization and opening up of the economy, which has widespread support both in congress and the key opposition groups.

Issues Likely to be Raised By Delegation

IDA Savings

2. The Indians are likely to complain about the Bank's slow response to their request for utilizing savings in ongoing projects. There are about a dozen projects with satisfactory implementation which are likely to have savings of about $500 million, due largely to faster depreciation of the rupee and lower inflation rates than forecast at appraisal. The Government has requested extensions of closing dates for these projects and increases in disbursement percentages. Their request raised substantive policy questions regarding the use of savings and the retroactive application of changes in disbursement percentages, which have now been resolved within the Bank. You should indicate that we have increased disbursement percentages and/or modified the project scope for five of these projects. You should also indicate we are prepared to consider proposals for other projects, but that the Bank and Government will need to work together to expand or modify project scope rather than just increase disbursement percentages, since the objective is not just to use up the savings but to achieve broad project objectives. We are prepared to move much more promptly now that we have resolved the policy questions internally. You should emphasize that for IDA to be seen as an "entitlement program" could affect the replenishment process--a risk the Bank and India cannot take.

Poverty Alleviation

3. The delegation may also ask about the Bank's intentions regarding support for India's two major targeted poverty alleviation programs, which were discussed at last year's Annual Meeting. You should stress two points. First, the Bank is already involved significantly in India's overall poverty program, through growth-enhancing investments, support to social sector programs in health, nutrition, certain types of education, and in the coming year, in rural water supply and rainfed agriculture, and

in major analytical work (the 1989 CEM on poverty and a major study of women in development to be discussed with Government in October). Second, in our judgement, the two major anti-poverty schemes (a credit program for self employment and a rural works program) are not currently efficient or effective enough to warrant Bank support. However, with significant improvements in targeting, administration and policies, they could be eligible for Bank financing. You may wish to ask the delegation whether, after the elections, there would be scope for changing these programs to improve their targeting, increase incentives to the banking system to lend and to beneficiaries to repay and otherwise enhance their effectiveness. You can indicate that we have specific proposals which we are prepared to discuss, if there is scope for change.

IDA-9 and Reflows

4. The delegation is likely to ask about developments in the IDA-9 negotiations and their implications for India. They will also press for a larger share of IDA reflows, even though in FY89-90 India receives a larger share (about 20%) than its IDA-8 allocation (about 16-17%).

Support for Trade Reform/Industrial Liberalization

5. After the election the Government may come to the Bank for major support for its trade and industrial liberalization programs. We are currently working on a major trade reform analysis to support policy lending in this area. Please indicate that we stand ready to assist in a significant trade reform program, and will be ready early in 1990 to discuss specific strategies, tariff and QR adjustments and accompanying macroeconomic policy requirements.

Issues to be Raised by Management

Disbursements

6. Although disbursements in absolute terms reached a record level of almost $2.4 billion in FY88, this still represents a less than satisfactory disbursement ratio of 18% overall and a disturbingly low ratio of 14% for IDA. With significant losses in foreign exchange, India can ill-afford to have $13 billion in IBRD and IDA funds sitting undisbursed. This was also a major concern among donors at the June Consortium Meeting in Paris, during which the Government pledged to make serious efforts to improve project implementation and disbursement performance generally. Unfortunately, disbursements on Bank Group projects in July 1989 fell to a five year low for the month and the prospects for August are even worse. You should stress that the Bank cannot continue to lend indefinitely at present levels if it only serves to enlarge the undisbursed pool of funds, and that serious progress must be made in the coming year.

Power Sector Finances

7. There are serious financial problems in the power sector. Most immediately, the National Thermal Power Corporation (NTPC) is not in compliance with an important financial covenant on arrears, which, in turn, has negative consequences in its financial health and investment program. NTPC has agreed to prepare an action plan for dealing with its arrears problem (which is growing) by end September 1989. Please underline that an acceptable action plan is a pre-condition to further processing of any future NTPC loans (one of which is planned for FY90) and would forestall possible suspension of disbursements on ongoing NTPC loans, totalling $1.2 billion. Given the size of the investment needs for the power sector in the next decade, improved resource mobilization is essential for effective development.

07/25/89

INDIA: FIVE YEAR LENDING PROGRAM (FY89 - FY93)

(US $ MILLION)

ATTACHMENT 1

COUNTRY OPERATIONS (NON-SECTOR)	FY89	FY90	FY91	FY92	FY93
1 Poverty I			200		
2 Singrauli Environment			200		
3 Poverty II				200	
4 Maharashtra Environment					110
SUB-TOTAL	0	0	400	200	110

AGRICULTURE					
1 Upper Krishna Irrigation II	325				
2 National Seeds III	150				
3 National Sericulture	177				
4 Watershed Dev.(Plains)		100			
5 Watershed Dev.(Hills)		100			
6 Temperate Horticulture		125			
7 Punjab Irrig. II		300			
8 Kang. ati Modernization			200		
9 National Dam Safety Prog			200		
10 Tamil Nadu Tank Rehab			175		
11 Inland Fisheries II			200		
12 Tropical Horticulture				100	
13 Agric Devel (TN)				100	
14 NABARD II				300	
15 NARP III				100	
16 Subernarekha					150
17 Nat. Water Mgmt. II					150
18 Haryana Irrig.					200
19 Agr Devel II (Maharashtra)					100
SUB-TOTAL	652	625	775	600	600

INDUSTRY AND FINANCE					
1 Export Development	295				
2 Electronics	210				
3 Technology Development		200			
4 Petrochemicals		240			
5 2nd Cement Industry		250			
6 Agro-Industry Exports			150		
7 Indust. Energy Conservation			225		
8 Capital Goods				150	
9 Industrial Pollution Control				250	
10 Industrial Finance II				250	
11 Industrial Restructuring					350
12 Export Development II					350
13 State Development					200
SUB-TOTAL	505	690	375	650	900

TRANSPORT AND ENERGY	FY89	FY90	FY91	FY92	FY93
1 Nathpa Jhakri Hydro	485				
2 Maharashtra Power	400				
3 State Roads I	250				
4 Petroleum Transport	340				
5 Nat. Highways II		250			
6 Northern Region Trans.		400			
7 NTPC Power		300			
8 Power Finance Corporation			200		
9 Private Utilities Power			200		
10 Container Transport			100		
11 Bihar Power				300	
12 Railways Modernization IV				250	
13 Bombay Gas Development				250	
14 U.P. Power II					350
15 National Highways III					200
16 Port Modernization					200
SUB-TOTAL	1475	950	500	800	750

POPULATION AND HUMAN RESOURCES					
1 Vocational Training I	280				
2 Family Welfare Training	125				
3 Karnataka Urban		150			
4 Hyderabad Water & Sewerage		112			
5 Nutrition II		100			
6 Technical Education I		250			
7 Population Training (VII)		150			
8 Kerala Urban			100		
9 Rural Water Supply			100		
10 Technical Education II			100		
11 Population VIII				100	
12 M.P. Urban & Reg. Develop.				100	
13 Nutrition III				110	
14 National Shelter				100	
15 Maharashtra Urban					200
16 Housing Finance II					200
17 Second Bombay Transport					100
18 Primary Education					200
SUB-TOTAL	405	762	300	410	700

	FY89	FY90	FY91	FY92	FY93
TOTAL ALL SECTORS:	3036	3027	2350	2660	3060
of which: IBRD	2136	2161	1439	1750	2150
IDA	900	866	911	910	910
Number of Projects	11	15	14	15	15

ATTACHMENT 2

BIOGRAPHICAL INFORMATION

Mr. S.B. Chavan, Finance Minister (Governor, World Bank)

Mr. Chavan became Minister of Finance in June, 1988. Prior to becoming Finance Minister, Mr. Chavan was Chief Minister of Maharashtra, a position he held from 1986-88; he also served as Chief Minister from 1975-77. Mr. Chavan has held a number of Central Government positions including Minister of Home Affairs (1985-6), Minister for Defense (1984), Minister of Planning and Deputy Chairman, Planning Commission (1981-84). He led the Indian delegation at last year's annual meeting.

Mr. R.N. Malhotra, Governor, Reserve Bank of India (Alternate Governor, IMF)

Mr. Malhotra has been Governor of the Reserve Bank since 1985. He served as Executive Director of the IMF from 1982-85. He is a member of the Indian Administrative Services and has served in many senior positions including Secretary of Finance. From 1970-75, he was fiscal advisor at the IMF in Indonesia, Tanzania, and Washington (on secondment from the government). Mr. Malhotra has been a member of India's delegation for four years.

Mr. G.K. Arora, Finance Secretary (Alternate Governor, World Bank)

Mr. Arora took over as Finance Secretary in March 1989. Before that he was Secretary in the Ministry of Information and Broadcasting, a job he was specifically assigned to improve the image of Rajiv Gandhi and the Congress Party. He is a key figure in the Gandhi government and enjoys the trust of the Prime Minister. Even as Finance Secretary, he has been involved in high level discussions on international matters with China, the USSR and Pakistan. He is considered somewhat leftist in his economic views. During the 1980s, Mr. Arora served in the Ministry of Finance, handling relations with the Bank and IMF. He was a member of the Indian team which finalized the IMF loan.

September 18, 1989

Mr. Conable

Barber -

India

I just want to emphasize the issue at stake in regard to India.

India has been doing some liberalization; its growth rate is marginally better than in the past; its export performance similarly is better; and the private sector shows real signs of dynamism. No one would dispute these achievements.

However, it also is true that India remains a highly regulated economy with a massive role for the public sector. This is unlikely to change soon, despite the fact that the public sector absorbs huge amounts of savings to finance its losses.

The current plan, like its predecessor, is very ambitious. It was supposed to be financed, in part, by substantial improvements in domestic savings, largely in the public sector. Current estimates are that these public savings will be about half of the estimate.

It should, therefore, be no surprise that the current account deficit is under pressure. India has tried to substitute foreign savings for domestic ones with only limited success. Nonetheless, its debt service ratio, which was 8% in 1980, is 31% now.

It is simply not true that all the CSP proposes is an increase in $260 million for FY90. The original FY90 program was $1.8 billion, not $1.9 billion, and lending in the preceding two fiscal years was increased by 10% each year. These $300 million per year increments make a substantial difference over time.

India traditionally has been used by the Bank as a country which can absorb almost any amount of lending, and it is prepared to do so. Consequently, as the fiscal year progresses, the lending volume for India increases. I do not believe that we can realistically expect to continue this forever. We are already more than straining our concentration limit and our exposure guidelines. It will be difficult to cut back, and the longer we wait and the higher level we reach, the more difficult it will be. While I do not believe there is a serious prospect of policy-based lending to India, the fact that if there were, we have to consider a portion of such lending additional to the proposed lending volume, adds to these concerns. Implicit in the present strategy is no room for flexibility in the future.

A lending level to India, limited to $1.9 billion for FY90, will have no impact on their balance-of-payment position. It would begin, at least, to signal to India that the program of annual increments to the base lending program must come to an end.

ES.

Ernest Stern

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 89/10/13 DUE DATE : 00/00/00
LOG NUMBER : 891013038 FROM : Mr. Qureshi
SUBJECT : Request from IFC: the Bank to come back into the project and finance the gap re: Tata Electric Project in India.
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

_____ APPROVED
_____ PLEASE HANDLE
___✓___ FOR YOUR INFORMATION
___✓___ FOR YOUR REVIEW ~~AND RECOMMENDATION~~
_____ FOR THE FILES
_____ PLEASE DISCUSS WITH _____
_____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS :

The World Bank
Washington, D.C. 20433
U.S.A.

MOEEN A. QURESHI
Senior Vice President, Operations

October 13, 1989

Mr. Conable:

Barber:

You will recall Bill Ryrie's concerns that World Bank operations and activities tended to inhibit IFC in certain countries. You may also recall my assertion that I would not like the Bank to do anything that IFC was prepared to do. I had also asked Bill whether there was any project in the Bank's pipeline that IFC wished to do. He told me that IFC would like to do the Tata Electric Project which was currently in the Bank's pipeline. Pursuant to my instructions, Bilsel Alisbah told the Indians that we would not be prepared to do this project, and that IFC will put together the financing for them.

I now have a request that IFC would like the Bank to come back into the project and finance the gap. Although it is somewhat awkward at this time, I am prepared that the Bank should step back into this project. I wanted you to see this, as a reflection of the fact that we are trying our level best to get IFC involved whereever it is possible to do so.

Moeen.

Attachment

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: October 12, 1989

TO: Mr. Bilsel Alisbah, AS4DR

FROM: Jemal-ud-din Kassum, Director, CS2

EXTENSION: 37723

SUBJECT: INDIA: Tata Electric Companies (TEC)

Following further discussions with the client, represented by Mr. Manaktala, Vice Chairman, in Washington last week, this is to confirm our interest in working with the Bank to meet the company's financial requirements for the next phase of its investment program. This program, comprising essentially the Bhira Pump Storage project and the 100 mw combined cycle plant is expected to cost on the order of $160-210 million.

Our intention, as discussed with Mr. Manaktala, is to consider providing the largest possible commitment for IFC's own account, namely an additional loan of $50 million (which would raise IFC's total exposure to the Company to about $85 million, including the first IFC loan). This loan financing could then be supplemented by Bank financing for the balance of the Company's requirements, with the aim of meeting the Company's timetable which calls for early appraisal and financial commitments by May 1990.

cw: Mr. Parmar
cc: Mr. Ryrie

JKassum:mmb

September 21, 1989

Mrs. Marianne Haug,

Re: Proposed Letter to Minister of India

Please note that:

1. The Bank and IDA did in a few cases make loans/credits to regional and subregional banks. These were made for on-lending to certain governments which guaranteed repayment (or provided other security obligations).

2. There is no record in the Bank or IDA of any precedent for funding a country's contribution to another international organization through a Bank/IDA loan/credit.

3. Borrowing from commercial sources by the International Tin Council (without the guarantee of its members) has led to problems which are yet to be resolved. The council failed to pay its creditors and both the Council and its members are being sued before courts in the UK.

Ibrahim F.I. Shihata

WORLD BANK/IMF **INDIA CLUB**

M/M

B? open

Reg? May 12
(Dep in ??) 12:30-2:30
(B's last day before trip.)

CP

April 28, 1989

Mr. Barber B. Conable
President
World Bank
1818 H Street, N.W.
Washington, D. C. 20433

Dear Mr. Conable,

The Bank/Fund India Club has organized an "India Food Festival" in the World Bank cafeteria and, on behalf of our membership, I extend a cordial invitation to you to join us.

The objective of the India Food Festival is to provide an opportunity for all Bank/Fund staff to sample a selection of Indian cuisine at normal cafeteria prices. All the arrangements are being made through Marriotts (with some of our members overseeing the special catering, of course!). Marriotts have been extremely cooperative in putting this together.

The India Food Festival is scheduled at the "D" cafeteria on Friday, May 12, 1989, from 12:30 to 2:30 p.m. We would be greatly honored by your presence and would be specially delighted if Mrs. Conable could join this occasion as well.

We look forward to your coming. I do hope you can fit this into your schedule.

Yes

Plse. put on my schedule ✓ B.C. called to accept Rao will collect BBC in Room E1227 at 1pm. CWC?

DC

D. C. Rao

The World Bank/IMF India Club
and World Bank Food Services
Proudly Present

INDIAN FOOD FESTIVAL

Authentic Indian Cuisine at Affordable Prices

D Cafeteria and Main Complex Patio
Friday, May 12, 1989
11:30 a.m. to 2:30 p.m.

Special #1 CURRY COMBINATION PLATE $4.95

Chicken Curry
Vegetable Curry
Vegetable Pilaf
Long Grain Basmati Rice with Green Peas, Carrots, and Green Beans

Paratha
Griddle-Fried Indian Bread Made from Wheat Flour

Special #2 INDIAN CREPE $3.95

Masala Dosa
Rice Crepe Stuffed with Herbed Potatoes and Onions,
Creamy Fresh Coconut Chutney

Sambar
Dal Soup with Mixed Vegetables

ACCOMPANIMENTS TO BOTH SPECIALS INCLUDE

Papad: Crispy Dal Wafers and Achar:Sour and Hot Pickle

DESSERT $0.75

Gulab Jamun: Fried Indian Pastry in Rose Flavored Syrup

INDIAN DRINK $0.75

Lassi: Two varieties of Yogurt Shake - Sweet (Rose Flavored) or Salty

* *

SPECIAL ATTRACTIONS (Courtesy Air India)

Drawing for Prizes at 2:30 p.m. in D Cafeteria
INDIAN COOK BOOKS .... BRIEFCASES, ETC.!
WIN....WIN....WIN....
Complete Entry Form available at D Cafeteria Cashier on May 12

* *

1:00

Lunch with the India Group

Mr. Ayer will meet Mr. and Mrs. Conable in room E1227 at 1 p.m.

The Conables will be garlanded on arrival at the D Cafeteria.

He will reserve three places at a "community table" so that the Conables will not have to search for a seat--that way, the Conables meet and chat to random others at a community table.

Mr. Ayer suggested that the lines might be very long and, therefore, the Conable's would have their plates brought to them. Expenses are covered by the India Club.

April 13, 1989

Dear Mr. Secretary:

I have learned of your appointment as Alternate Governor for India on the Board of Governors of The World Bank. I realize this is incident to your responsibilities in your own Government, but I hope you will be in a position actively to participate in the affairs of the Bank, as well.

The Executive Directors, Officers and Staff of The World Bank believe very strongly in its development mission and in the battle against poverty. We look forward to working with you to make the Bank even more effective during the coming years. Congratulations on your appointment and thank you for your willingness to take on this additional responsibility.

It was a pleasure meeting you last week.

Best personal wishes,

Sincerely,

(Signed) Barber B. Conable

Barber B. Conable

Mr. G. K. Arora
Finance Secretary
Ministry of Finance
Department of Economic Affairs
North Block, Central Secretariat
New Delhi 110 001, India

cc: Mr. Rao Sahib
Mr. Alisbah
Mr. Kassum

ETSanidad:jlk

तार-इकोफेयर्स
TELEGRAMS-ECOFAIRS

संख्या No. 1/6/89-FB II
भारत सरकार Government of India
वित्त मंत्रालय Ministry of Finance
(आर्थिक कार्य विभाग) (Department of Economic Affairs)

नई दिल्ली /New Delhi, March 31, 19 89

The Secretary,
International Bank for Reconstruction
and Development,
1818- H Street, NW
Washington DC 20433
U. S. A.

Sir,

I am directed to state that the Government of India have under Article V, Section 2(a) of the Articles of Agreement of International Bank for Reconstruction and Development appointed Shri G.K. Arora, Secretary to the Government of India, Ministry of Finance, Department of Economic Affairs to be India's Alternate Governor on IBRD vice Shri S. Venkitaramanan with effect from 21st March, 1989.

Yours faithfully,

(G.P. Joshi)
Deputy Secretary to the Goveentment of India

DISTRIBUTION

TO- Executive Director
Country Director, Bank
Investments Director, IFC
File Credential

FROM - E. T. Sanidad
SECRETARY'S DEPARTMENT

(1) MH (2) BBC

(3) MF-file

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: April 6, 1989

TO: Files

FROM: Daniel Ritchie, Chief, AS4CO

EXTENSION: 76943

SUBJECT: India - Finance Minister Meeting with Mr. Conable

1. The Indian Finance Minister, Mr. Chavan, met with Mr. Conable on April 4, 1989. Also present from India were Messrs. Arora, Desai, Ahluwalia, Bajaj, Krishna, Rao Sahib and Bhide. From the Bank, Messrs. Qureshi, Karaosmanoglu, Alisbah, Ritchie, Stanton and Ms. Haug attended.

Economic Developments

2. Mr. Chavan described India's satisfactory economic performance of the past year. Cereal production may reach 175 million tons, a record for India. Industry grew by about 9%, exports (in dollar terms) by 15%, imports by 13.5%. The 1989/90 budget will reduce the central government budget deficit by about 1.5 percent of GDP through a combination of increased revenues and restrained expenditures, particularly in defense spending which will decline in nominal terms. At the same time development expenditures will increase by 20 percent. Industrial liberalization is continuing, although Mr. Chavan felt there won't be substantial further changes in the coming year.

3. On debt management, Mr. Chavan said in response to Mr. Conable's question that India does not anticipate going to Fund to help deal with current pressures on the balance of payments. He said that there will be continued stress this year, but he was confident that India will manage without recourse to the Fund, or to the Bank for quick disbursing assistance.

4. Mr. Conable noted the strong improvement in IBRD disbursements in the current year, but disappointing performance on IDA credits. Mr. Chavan cited the problems of counterpart funding, especially in the social sector, but indicated that the 1989/90 budget had announced a 100% pass through formula for multilateral project, loans to the states (compared to 70% at present). This should ease the funding problem and improve implementation performance.

Bank Support to Wage Employment Schemes and Girls Education

5. Mr. Chavan stressed the importance of female education and targetted anti-poverty programs in India's development effort, and urged the Bank to support such efforts. Mr. Conable and Mr. Qureshi underlined the Bank's strong interest in these areas. Mr. Qureshi noted that we were examining how we might best be associated with the poverty alleviation effort, but emphasized the importance of developing together an overall framework and strategy while simultaneously undertaking specific projects.

6. Mr. Alisbah stressed the need for the Finance Ministry's active support for Bank involvement in primary education. Mr. Chavan said he was giving it his active support by taking the initiative to raise it with Mr. Conable.

IDA

7. Mr. Chavan noted the decline in India's IDA share, and the significant hardening of the IBRD/IDA blend in the past few years. He asked what India might expect in the next IDA replenishment. Mr. Conable said it was too early to tell what the outcome will be, but he hoped there would be more IDA for Asia in IDA-9. He felt there would probably not be a clear sense of the size and burden-sharing arrangements until the Annual Meetings in September. He also noted that any additional share of Asia would also need to recognize the needs of countries other than India, including Bangladesh, Burma and possibly other claimants.

Brady Plan

8. Mr. Conable reassured the Finance Minister that however the "Brady Plan" evolved operationally, there was no intention to divert resources from the Bank's continuing global responsibilities. It was too early to tell whether or how good performers such as India might have access to the Brady Plan facilities.

Mr. Rao Sahib

9. In closing, Mr. Conable expressed his special appreciation for Mr. Rao Sahib's service on the Board.

Cleared with and cc: Mr. Alisbah

cc: Messrs./Mmes. Conable, Qureshi, Karaosmanoglu, Haug, Hamilton, India Mgmnt Team

DRitchie:ns

April 5, 1989

Dear Mr. Director-General:

I have learned of your appointment as Alternate Governor for Israel on the Board of Governors of The World Bank. I realize this is incident to your responsibilities in your own Government, but I hope you will be in a position actively to participate in the affairs of the Bank, as well.

The Executive Directors, Officers and Staff of The World Bank believe very strongly in its development mission and in the battle against poverty. We look forward to working with you to make the Bank even more effective during the coming years. Congratulations on your appointment and thank you for your willingness to take on this additional responsibility.

I look forward to meeting you in the near future, and send my best personal wishes.

Sincerely,

(Signed) Barber B. Conable

Barber B. Conable

Mr. Yaacov Lifshitz
Director-General
Ministry of Finance
P. O. Box 883
1 Kaplan Street, Hakirya
Jerusalem 91008, Israel

cc: Mr. Arlman
Mr. Lari
Mr. Gustafson

ETSanidad:jlk

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HERE BANK OF ISRAEL JERUSALEM

GOOD DAY

MARCH 30, 1989

TO: WORLDBANK WASHINGTON

ATTENTION: MR. T.T. THAHANE, THE SECRETARY

DEAR MR. THAHANE,

BY VIRTUE OF THE AUTHORITY VESTED IN ME UNDER SECTION 71 OF THE BANK OF ISRAEL LAW, I HAVE THE HONOUR TO ADVISE YOU OF THE APPOINTMENT OF MR. YAACOV LIFSHITZ, DIRECTOR-GENERAL OF THE MINISTRY OF FINANCE, AS ALTERNATE GOVERNOR FOR ISRAEL IN THE WORLDBANK TO REPLACE MR. VICTOR MEDINA.

YOURS SINCERELY,

MICHAEL BRUNO
GOVERNOR, BANK OF ISRAEL

C.C. MR. P. ARTMAN.

++++

25215 ISRBK ILGPG

=03300555

DISTRIBUTION

TO- Executive Director
Country Director, Bank
Investments Director, IFC
File Credential

FROM - E. T. Sanidad
SECRETARY'S DEPARTMENT

India =

10% growth - 6% sustainable

a) low domestic savings + investment

b) low inflation - needs improvement

c) 60% increase in external debt to 28%
Does India have to go to the Fund, if import demand increases. Pressure on B/P.

d) IDA savings of $1B.

assessment of needs for B/P.?

Liberalization of Economy - Industrial deregulation

10% growth of GNP B - not enough to maintain long run B/P - Imports must go up.

(More aggressive devaluation)

IDA disbursements still slow. Doing better IBRD

3:00 ~~4:00~~ JT

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

India

: 89/03/28 DUE DATE : 00/00/00
)001 FROM : Mr. Greene (MAQ)

SUBJECT : BRIEFING: Meeting w/Mr. S.B. Chavan, Minister of Finance, India on Monday, April 3, 1989 at 4:00 pm.

OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

_____ APPROVED
_____ PLEASE HANDLE
_____ FOR YOUR INFORMATION
_____ FOR YOUR REVIEW AND RECOMMENDATION
_____ FOR THE FILES
_____ PLEASE DISCUSS WITH _____
_____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS :cc: Mrs. Haug, JVolk (follow file)

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Date: March 27, 1989

To: Mr. Barber B. Conable

Through: Mr. Moeen Qureshi

From: David Greene, Acting Director, AS4DR

Subject: INDIA - Visit of Finance Minister

1. You are scheduled to meet with the Minister of Finance, S.B. Chavan, at 4 p.m. on Monday, April 3 in your office. He will be accompanied by the new Finance Secretary G.K. Arora, the Chief Economic Adviser Nitin Desai, Joint Secretary of the Department of Economic Affairs, Ministry of Finance J.L. Bajaj, and Mr. Rao Sahib. Mr. Alisbah will also be present.

2. Mr. Arora, who replaced Mr. Venkitaramanan, whom you met on March 10, is one of Prime Minister Gandhi's closest economic advisers. He knows the Bank well, having been Joint Secretary in the Department of Economic Affairs (Mr. Bajaj now holds that position) in the early 1980s. He is also scheduled to meet with Messrs. Qureshi, Stern, Hopper, and Karaosmanoglu during his visit.

3. You may recall you last met with the Minister of Finance at the last Annual Meeting in Berlin. A copy of Mr. Alisbah's note on that meeting is attached.

4. The Indian delegation is likely to be interested in discussing the issue of prospective savings from ongoing IDA projects and the negotiating strategy for IDA-9. You may recall that the savings issue basically involves India's concern about the disposition of several hundred million dollars in savings expected to be realized from projects with current closing dates up to December 30, 1991. Most of these savings have arisen because IDA projects in India have a high local cost component and the rupee has depreciated significantly more than anticipated at appraisal. In addition, in some cases procurement has been possible at lower costs than those estimated at appraisal.

5. The position we have taken so far with the Indians is that some of the savings can be deployed under existing procedures to finance expanded project activities that are consistent with the original project description. In other instances we may have to propose reformulating projects, or increasing disbursement percentages. In any even, we are examining this on a case-by-case basis and would suggest that you inform the Indians that the Region is looking into the matter with sympathetic consideration but that there may be limits to how much we can do.

6. With respect to IDA-9, the Indian officials will undoubtedly express their long-standing concern about the decline in their IDA share and the continuing need for external concessional assistance, particularly to help finance anti-poverty and environmental programs. In past

discussions, senior managers have explained the background of the 30% limit placed on the combined India/China share during the IDA-8 period. In FY88 the allocation to India was SDR 535 million while that to China was SDR 425 million. In FY89, the respective allocations, including reflows, are SDR 680 million and SDR 560 million.

Attachment

cc: Messrs. Karaosmanoglu, Yenal (ASIVP); Alisbah, Greene, Humphrey (AS4DR); Blinkhorn (AS4CO); Kraske (NDO); India Department Division Chiefs

TBlinkhorn:caz

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: October 5, 1988

TO: Files

FROM: Bilsel Alisbah

SUBJECT: INDIA - Delegation Meeting with Mr. Conable
Monday, September 26, 1988: West Berlin

1. The India delegation met with Mr. Conable on September 26. The India Delegation consisted of:

Hon. S.B. Chavan, Minister of Finance
Mr. S. Venkitaramanan, Finance Secretary
Mr. R.N. Malhotra, Governor, Reserve Bank of India
Mr. M. Ahluwalia, Special Secretary to the P.M.
Mr. J.L. Bajaj, Joint Secretary,
Department of Economic Affairs
Dr. Bimal Jalan, Chief Economic Adviser
Mr. Rao Sahib, Executive Director
Mr. Pradeep Bhide, Adviser to the ED

The Bank was represented by Messrs. Qureshi, Karaosmanoglu, Vergin, Baudon, Alisbah and Ms. Haug.

2. Mr. Conable opened the meeting by drawing attention to the fact that India is not only the Bank's largest borrower but also its oldest partner. He asked the Minister about his concerns.

3. The Minister raised two concerns. One had to do with a difficult balance of payments position and the other with the continuing decline in India's IDA share.

4. The Minister pointed out that the current year is shaping up as a good year with a good monsoon contributing to what was likely to result in an 8 to 10% GNP growth rate. Exports were also continuing to grow fast at around 25%. However, the Government's liberalization policy combined with repayments due to the IMF and the IBRD were putting strong pressure on the balance of payments despite the flexible exchange rate policy pursued by the Government. Hence to protect the economic reform process and sustain an adequate level of investment, the Government would look to the Bank to provide some quick disbursing assistance.

5. Mr. Conable expressed satisfaction with the good growth prospects. He pointed out that in a number of countries the Bank is supporting the reform process through trade policy loans. The Bank would be prepared to do so in India as well. However, he had been under the impression that in India there were political difficulties in becoming involved in policy-based lending. Such loans took note of past reforms but they also had to entail some uderstandings on the nature of things to come.

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6. In the ensuing discussion the Minister and the Secretary of Finance emphasized the importance and significance of what the Government has already done to liberalize imports and to improve competitiveness in the economy. They underlined that the process would continue and they sounded prepared to convey this to the Bank in a suitable form.

7. Mr. Conable indicated that Mr. Qureshi and the Region would follow up on this discussion.

8. On IDA, the Minister called attention to the hardening blend of Bank Group assistance and urged a reversal of this trend. Mr. Conable indicated that this is a subject that needs to be pursued in the context of IDA replenishment negotiations now underway. His main concern was to increase the absolute level of IDA available to developing countries and to India.

9. Mr. Conable then touched on the issue of floods in Bangladesh and the need to explore regional solutions. Mr. Qureshi explained that he has already discussed the subject with the delegation. He would follow up during his visit. Mr. Venkitaramanan said that President Ershad of Bangladesh would be visiting India next Tuesday and that the subject was bound to come up during this visit. He once again emphasized the importance of seeking solutions through bilateral discussions.1/

10. Mr. Venkitaramanan welcomed the Bank's increased emphasis on poverty alleviation. He reported the suggestion made the previous day to Mr. Qureshi for the Bank to associate itself with some of India's special poverty alleviation programs. He also referred specifically to the Maharashtra Employment Guarantee Scheme with which his Minister, as previous Chief Minister of Maharashtra, is very familiar. Mr. Conable expressed the hope that we would be able to find common ground to assist and learn from India's extensive experience in this field.

11. Finally, Mr. Conable emphasized the importance he attaches to primary education - "the great equalizer". He continued to hope that the Bank could assist in this all-important sector.

cc: Messrs. Conable, Qureshi, Karaosmanoglu, Yenal, Vergin, Baudon;
Ms. Haug

India Management Team

BAlisbah:rb

1/ This subject also came up at the breakfast that Mr. Qureshi hosted for the Indian delegation on Monday, October 26. Mr. Venkitaramanan explained that in 1979 India had raised with Bangladesh the possibility of building dams in India to alleviate flooding in Bangladesh. At the time, Bangladesh had taken the position that dams upstream would not be of help. Mr. Venkitaramanan indicated that the earlier offer still stood. He also offered to make this earlier document available to us. I have requested it.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: March 24, 1989

TO: Mr. Attila Karaosmanoglu, VP, Asia Region

FROM: Daniel Ritchie, Acting Director, India Department DR

EXTENSION: 76953

SUBJECT: INDIA - Visit of Finance Minister

1. The Indian Finance Minister, Mr. S.B. Chavan, is scheduled to meet with you at 11 a.m. on Thursday, March 30, 1989 in your office. He will be accompanied by Mr. G.K. Arora, who has replaced Mr. Venkitaramanan as Finance Secretary; Chief Economic Advisor Nitin Desai, J.L. Bajaj of the Department of Economic Affairs, Messrs. Rao Sahib and Bhide. David Greene, who will be acting Director next week, will join the meeting.

2. The Finance Minister is meeting with Mr. Conable on Monday, April 3 at 4 p.m. Messrs. Arora and Desai are scheduled to meet with Mr. Stern at 3 p.m. on April 3, and with Mr. Qureshi at 5 p.m. that same day. Mr. Desai is scheduled to meet with Mr. Hopper at 3 p.m. on March 30.

3. This will be Mr. Arora's first visit to the Bank as Finance Secretary. He is from Uttar Pradesh and joined the Indian Administrative Service in 1957. He knows the Bank well, having served as DEA Joint Secretary (Mr. Bajaj's current position) from 1981-83. Subsequently, he served as additional secretary, then special secretary in the Prime Minister's office. For the last eight months or so, he has been secretary of Information and Broadcasting. He is known to be one of Mr. Gandhi's closest economic advisers.

Project Savings

4. The delegation will be interested in the Bank's position on project savings, particularly from IDA projects. You briefed Mr. Qureshi on this matter on March 9 (copy of memo attached) and attached a more detailed discussion by Mr. Alisbah (ref. his memo to you of March 8, copy attached). Although we have not heard formally from Mr. Qureshi's office to date, Mr. Ducksoo Lee indicated verbally that the approach outlined in Mr. Alisbah's memo seemed sensible. In the meantime, we are taking steps to extend closing dates of several agriculture projects and will be seeking SVPOP approval to increase disbursement percentages. Also, we are considering restructuring proposals for two population projects in order to use expected Credit savings. A note summarizing your discussion with Mr. Venkitaramanan on this subject on March 8 is attached (ref. my memo of March 9).

Sardar Sarovar (Narmada)

5. A serious issue is now emerging on one of the two Narmada projects -- Water Delivery and Drainage. The current closing date is March 31, 1989. However, the project is about two years behind schedule for several

reasons including delays in forest and environment clearance. About $125 million remains undisbursed from the Credit amount. The Government has requested a two-year extension of the closing date and an increase in the disbursement percentage for civil works. We responded that we would prefer to await the results of an April supervision mission before taking a decision. In the meantime, Mr. Alisbah reports from Delhi that a new problem has developed in resettlement. It concerns the use of degraded forest land to resettle displaced persons; the Government had indicated earlier that it would be prepared to release such land, provided that the State Government concerned designated an equivalent amount of non-forest land elsewhere in the state as forest land and transferred it to the jurisdiction of the Forest Department. The Government now seems to be backing away from that position, stating that there are strong environmental lobbies against any use of forest lands for resettlement. Government officials in Delhi told Mr. Alisbah that they should be able to resolve the problem in about three months, particularly in the case of tribals who have no other land option. However, since this issue is so critical and because there are other outstanding issues (i.e., poor management of construction works) we feel we have no other choice but to notify the Government that we intend to suspend disbursements on both Narmada projects unless the major outstanding issues are resolved satisfactorily by the time the April supervision mission completes its work. We are preparing a note to Mr. Qureshi recommending this course of action and also that no formal action on the closing date of the Water Delivery project be taken pending the April review. Mr. Alisbah has discussed this with Mr. Bajaj but you should emphasize to the delegation the severity of the situation and the fact that we may suspend.

ERAS (Foreign Exchange Administration Scheme)

6. The delegation will be interested in the Bank's position on ERAS, since two important proposed projects are linked to it -- Export Development (FY89) and Electronics (FY90 S). The current situation is outlined in my memorandum of March 21 to Mr. Qureshi (copy attached). In summary, while a number of details remain to be discussed, the Government's revised scheme appears to satisfy the criteria that we have regarded as essential and we are therefore proceeding to negotiate the Export Development project. You should be aware that IFC continues to have some reservations about aspects of the scheme, but as of today they had not formally reacted.

Lending Program

7. An updated status report on the FY89-91S lending program is attached, although we do not expect that this will come up during your meeting since we will have separate meetings with Mr. Bajaj. However, you may wish to note a few points:

(a) Environment: The department's strategy report has just been issued in yellow cover and will be discussed within the Bank in early April. Although it is mainly an internal Bank document, it has been discussed informally with Mr. Bajaj and his DEA colleagues, as well as with officials in the Ministry

of Environment and Forests. We will want to move ahead now with preparation of the first Environment project, focussing mainly on pollution problems in the Singrauli region but also assistance to address industrial pollution in the state of Maharashtra. We also want to engage the Indians in a more serious dialogue on strategies and programs to deal with deforestation and loss of vegetative cover (one of the country's most critical environmental problems), institutional strengthening for natural resource management at the central level and in a few key states such as Maharashtra, selected ESW tasks and greater coordination with bilateral donors. It would be helpful if you could underscore the importance of this effort; you should also note that Mr. Piddington is planning to make his first visit to India as Environment Department director around end-April.

(b) Power Sector. Although you have expressed your concerns about the poor financial condition of the sector on several occasions, it would be useful to mention them again, especially in view of Mr. Arora's presence. Specifically, you should welcome the proposed visit later this year of Mr. Bami, managing director of NTPC, to discuss an action plan to deal with NTPC arrears; Mr. Alisbah suggested such a visit when he met with power sector officials recently in Delhi.

Other Issues

8. You may wish to discuss possible donor issues for the India Consortium meeting in Paris on June 19, 20. We have indications from some donors of interest in (a) how India is handling its public sector deficit; and (b) strategies to deal with the most serious environmental problems. You may also wish to discuss India's views about the IDA-9 deliberations.

9. Attached for your information is a note summarizing your last meeting with Finance Minister Chavan in Delhi.

Attachments (6)

cc: Messrs. Alisbah, Kraske, Yenal, Humphrey, Greene, McCarthy, Gould, Skolnik, Wijnand

TBlinkhorn:zj

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: March 9, 1989

TO: Mr. Moeen A. Qureshi

FROM: Attila Karaosmanoglu AK

EXTENSION: 76953

SUBJECT: Project Savings

1. On Wednesday, the Indian Secretary of Finance, Mr. Venkitaramanan, raised with me the issue of projected savings on projects in India. For several reasons, including the steady depreciation of the rupee, it appears that there will be significant savings of up to $800 million on projects closing over the next two years. Most of the projected savings are IDA funds.

2. In the attached memo, the India Department has made a proposal for dealing with the savings question. I endorse the proposed approach. (Ducksoo Lee has a copy of the memo).

3. Essentially, we propose looking at each project on its merits, cancelling unused balances of poorly performing projects, and adjusting the project scope or modifying disbursement percentages on others as appropriate. We expect to seek your approval very shortly for changes in 2 or 3 projects, and several others are likely to be forthcoming over the next few months.

4. Even after such adjustments, there is still likely to be savings on IDA operations of $200 - $300 million. This is a significant amount of concessional funds which the Government of India naturally does not wish to lose (particularly since it results, in part, from following a more aggressive exchange rate policy).

5. The Finance Secretary requested our assistance in redirecting these potential savings into high priority activities such as environmental rehabilitation or poverty alleviation. The India Department has suggested a way of "recycling" such savings which raises broader policy questions.

6. I would appreciate your views on the general approach outlined in the attached memo and your specific reaction to the treatment of the residual IDA savings. Since Mr. Alisbah and I will be away for the next two weeks, Messrs. Asanuma and Ritchie are prepared to meet at your convenience.

cc: Messrs. Asanuma, Ducksoo Lee, India Management Team

DRitchie:ns

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: March 8, 1989

TO: Mr. Attila Karaosmanoglu, Acting SVPOP

FROM: Bilsel Alirsbah, Country Director, India

EXTENSION: 73592

SUBJECT: INDIA - Visit of Finance Secretary

1. As you know, Messrs. Venkitaramanan and Bajaj are arriving this week and a meeting has been set with Mr. Conable for 4 p.m. on Friday, March 10 (ref. my memo to Mr. Conable, copy attached). A meeting has also been requested with Mr. Hopper and yourself.

2. Although this is in part a farewell visit by Mr. Venkitaramanan, since he is leaving his post at the end of the month, the Indians have indicated that they would like to raise with us the issue of project savings as well as the Exchange Rate Administration Scheme (ERAS). On the latter, we understand that they will have a modified proposal to discuss, although we do not yet have any details. We are preparing a separate note on ERAS. We will want to discuss with them several operational matters and the implications of the new budget presented on February 28 (copy of Mr. Hanson's summary telex attached). Also attached for information is a copy of a minute about your last meeting with Mr. Venkitaramanan in Delhi on January 31.

Project Savings

3. The essential issue here, as we have discussed, is how to respond to the Indian concern about the disposition of several hundred million dollars in savings, particularly IDA savings, expected to be realized from ongoing projects with current closing dates up to December 30, 1991. Very rough calculations indicate that these savings could total about US$900 million -- $700 million IDA and $200 million IBRD. Most of these savings have arisen because of the depreciation of the rupee in recent years, which was not anticipated at the time the projects were appraised. In addition, in some cases, procurement has been possible at lower costs than those estimated at the time of appraisal.

4. Mr. Venkitaramanan referred to the issue in his February 24, 1989 letter to you (copy attached) in which he transmitted separate communications on seven irrigation projects that are about to close, requesting that closing dates be extended so that anticipated savings be used. The issue also came up in Delhi during your January 20 meeting with Finance Minister Chavan (a copy of the minute is attached). At that time you suggested three steps to deal with the problem: (a) identify the precise amount of savings likely to be forthcoming over the next two or three years to the extent possible, and try to find areas for additional expenditure within the scope of the projects concerned, to which the savings could be directed; (b) prepare justification for other uses of the savings, if necessary; and (c) Government, through its Executive Director, should work to mobilize support at the Board for sympathetic consideration of proposals to use the savings.

5. We are in the process of refining our calculations about the precise magnitude of the savings. In the meantime, we have disaggregated the issue into four components and seek your concurrence to deal with each as noted below. This approach has been discussed and agreed in a general way with the Legal Department (Mr. Vorkink). Certain criteria would have to be met, of course, before we could consider exercising any of these components: (a) satisfactory implementation of the project; (b) acceptable rate of return; (c) no major covenants being violated; (d) in the event of problems, a time-bound, remedial action plan; and (e) satisfactory arrangements for counterpart funds. The four components are as follows:

(a) Expanded Project Coverage. According to existing Bank policy, savings due to exchange rate changes, efficient procurement, over-estimation of contingencies, etc. are ordinarily cancelled. This policy is to be reaffirmed through a new OMS. However, such savings may be used for financing additional items of the project, provided the project is being implemented satisfactorily, the additional items are consistent with the project description and/or the items meant to be financed initially were constrained because of lack of funds. (Time slice-type projects would fit into this category.) In such cases the Regional Vice President has the authority to approve use of savings for such purpose. We are now attempting to identify precisely those projects that might fall into this category.

(b) Increased Financing Share. Under certain circumstances, the Bank can increase its percentage of project financing. These circumstances could include sectors in which the currently approved level of financing -- i.e., up to 70% for human resource development projects and those projects with direct poverty alleviation effects in agriculture and other sectors -- is higher than the level that prevailed when the projects were originally approved (in irrigation, for example, the level previously had been about 50%). The SVPOP would have to approve increases in disbursement percentages. We believe that many of the projects with projected savings will fall into these first two categories and will require a combined approach.

(c) Special Cases. There may be unusual circumstances, unforseen at appraisal or approval stages and largely beyond the control of project authorities, that could justify reformulation of projects in order to better achieve mutually agreed sectoral objectives. One such case may be the Maharashtra Composite Irrigation III project; the Bombay Water Supply project is another. Again, the SVPOP and the Board would have to approve any material change in project scope or financing.

(d) The Rest. A number of projects with anticipated savings totalling perhaps as much as $200 million could fall outside the above three categories. In these instances we have only two options. One would be to wait until nearer the end of the project and cancel. The other option would be to work out an arrangement with the Government under which it would request early cancellation on the understanding that we would earmark these funds for a project of special emphasis -- i.e., environment or poverty alleviation. This would probably mean bringing the Board into the picture since it would entail reserving some of these "reflows" for India. If the case is well made, this would be defensible. The savings arise in part because Government has pursued an appropriate exchange rate policy. Also, in some cases our own project cost calculations were either inaccurate or overly conservative.[1] In a sense the second option would not be strictly earmarking since we are, and have been, cancelling a number of projects in which there have been significant savings.

6. I would be grateful for your reaction to the above approach. If you agree, we should tell the Indians that the region is prepared to respond positively on the issue of projects falling into the first category (para. 4 (a)), that we will recommend the approach on the second category (para. 4 (b)) to Mr. Qureshi and that we will have to take up categories three and four with the SVPOP and the Board.

Attachments (5)

cc: Messrs. D. Lee, Wiehen, Yenal, Humphrey, Ritchie, Kraske, Greene, Vorkink, Fernando, Gould, McCarthy, Wijnand, Skolnik

TBlinkhorn:zj

1/ This occurred in those cases in which we did not take any rupee depreciation into account or set contingencies too high.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: March 9, 1989

TO: Files

FROM: Daniel Ritchie, Chief, AS4CO

EXTENSION: 76953

SUBJECT: Finance Secretary's Visit

Mr. Venkitaramanan, Finance Secretary of India, visited Mr. Karaosmanoglu on March 8. In addition to saying farewell as he leaves office at the end of March, Mr. Venkitaramanan reviewed the following matters.

1989/90 Budget

1. Mr. Venkitaramanan described the budget presented to the Parliament last week as tough and conservative, and not "populist" as some had suggested. It constrains spending especially defensive expenditures, increases revenues by Rs. 4000-5000 crores, continues domestic liberalization and increases attention to poverty alleviation. He acknowledged that two areas had not been seriously touched: import duties and subsidies. Mr. Karaosmanoglu indicated that restraint on defense spending was particularly important given concerns which had recently been expressed to him from certain IDA donors on this subject.

Project Savings

2. Mr. Venkitaramanan raised the issue of projected project savings and asked whether it would be possible to use these savings for alternative priority activities. Mr. Karaosmanoglu indicated that we should examine the question both on a project-by-project basis and on a more general level. Certain project modifications could be made with his approval (such as expanding the project scope), others with Mr. Qureshi's approval (such as changing disbursement percentages). Even after these adjustments, there are still likely to be significant savings, raising broader policy questions and eventually involving the Board. Under these circumstances, the best approach would be the following:

a. The India Department and DEA should continue and complete their analyses of project savings on a project-by-project basis; where necessary and appropriate we can extend closing dates to enable this work to be completed.

b. Some projects cannot reasonably be extended or modified, and funds will need to be cancelled (Mr. Bajaj said this would be no problem for IBRD projects).

c. Other projects can be modified, and we should process these on a case-by-case basis.

d. In addition, provided there are likely to be significant savings after these previous actions are taken, we could then raise the broader policy question of using these residual funds for other high priority activities (Mr. Venkitaramanan suggested in this connection an environmental "superfund" and the new wage employment scheme announced in the budget speech).

NTPC Arrears

3. Mr. Venkitaramanan raised the question of arrears to NTPC from SEB's. (The question had been discussed earlier with Mr. Bajaj, since the arrears rate violated covenants of several ongoing NTPC projects). Mr. Venkitaramanan repeated several of the arguments put forward by Mr. Bajaj: the arrears are large but NTPC is nevertheless earning more than 10 percent return; SEB's are challenging the amount of the arrears, arguing that the tariffs charged are too high (since NTPC is operating more efficiently than forecast); NTPC could go to arbitration which would take a long time to resolve and should be avoided; and, specifically in the case of the forthcoming NTPC project (Farakka), the SEB beneficiaries are not the worst offenders.

4. Mr. Karaosmanoglu cited the Nathpa Jhakri discussion at the Board and the concerns expressed about the size of our commitment to power in India, the large undisbursed balance, the slow pace of reform in financial performance and our growing fear that the power sector was heading for a financial crisis. Messrs. Venkitaramanan and Bajaj acknowledged that there must be greater financial discipline particularly among SEB's. In that connection, Mr. Bajaj indicated that SEB's would not be supported from bilateral aid projects, which are significantly more expensive than ICB-procured power plants. (A hymn to ICB followed).

Procurement

5. Mr. Venkitaramanan briefly mentioned a gas turbine procurement problem (The "Kawas" project) in which a joint venture of three firms had rebid in the project and increased its price by 70 percent over the original bid. Since these firms were the world's major suppliers of gas turbines (which aren't manufactured in India), there was some suspicion of collusion.

cc: Mr. Karaosmanoglu
India Management Team

DRitchie:ns

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: March 21, 1989

TO: Mr. Moeen A. Qureshi

THROUGH: Mr. Shinji Asanuma, Acting Vice President, ASI

FROM: Daniel Ritchie, Acting Director, AS4

EXTENSION: 76953

SUBJECT: INDIA: Foreign Exchange Risk Administration Scheme (ERAS)

1. In Mr. Alisbah's memorandum, dated November 16, 1988, covering the Final Executive Summary for the Export Development Project, he indicated that the Government had announced its intention to introduce a Foreign Exchange Risk Administration Scheme to cover the foreign borrowings of the three national development finance institutions (DFIs). At that time, you indicated that you would like to be kept informed of developments, particularly if there were any differences of opinion with IFC. Negotiations are scheduled to begin on March 27, 1989, and the purpose of this memorandum is to: (a) inform you of recent developments and (b) alert you to the fact that our discussions with IFC staff indicate that IFC is likely to have reservations about the ERAS scheme and may write to you separately about their concerns.

2. We have just received a copy of the draft circular establishing ERAS, which is to be issued by the Banking Department soon, which indicates that the ERAS scheme will be basically consistent with what is outlined in the Appraisal Report for the Export Development Project (a copy of the relevant paragraphs is attached for your reference). While there are a number of details remaining to be discussed, the Government's ERAS scheme appears to satisfy to a large extent the criteria that we have regarded as essential: (i) the mechanism for setting rates should be transparent and avoid subsidies; (ii) the scheme should provide for an adequate spread for the DFIs and not expose them to an open-ended foreign exchange risk; and (iii) the coverage of the scheme should be broad. IFC is likely to have reservations about points (i) and (iii) above.

3. With respect to the rate, it has been agreed that a committee consisting of the representatives of the Government, the Reserve Bank and the DFIs will meet quarterly (rather than semi-annually as originally proposed) to set the rate. The basic principle is that the ERAS rate is to be set at a level that ensures that the ERAS scheme is financially self sustaining or, in other words, covers the foreign exchange and interest rate risks and avoids subsidies to final users. The draft circular also makes it clear that the Government will provide funds if the ERAS Fund incurs deficits (thus protecting the DFIs from bearing the foreign exchange risk), but that the Government would recoup these advances when the Fund runs a surplus. IFC is concerned that their arrangement will, de facto, result in a long term subsidy. The scheme as originally proposed would have had an initial

adjustable rate of 14% and a cap rate on individual subloans of 16.5%, which compares to a fixed relending rate of 14% under the previous Bank loan, the Industrial Finance Project (Loan 2928-IN). We have suggested that both the ERAS and cap rates be higher than the originally proposed levels given the rapid depreciation in the rupee which has taken place in the last year or two. We do not yet know to what extent the Government will do this as the ERAS Committee will not meet until next month. However, we believe that the initial rate is not the key issue, and that the most important point is that a system of adjustable rupee rates is being put in place for the first time in India with the intention of relating the lending rates to the real costs of foreign exchange. The setting of initial ERAS and cap rates, satisfactory to the Bank, will be a condition of Board presentation. The loan documents also provide for periodic consultation between the Government and Bank in the subsequent setting of the rate. We would also need to explore during negotiations the relationship between the ERAS and other rupee loans to assure ourselves that ERAS loans will, in fact, have a market in periods when ERAS rates might be significantly higher than rates for normal domestic currency loans.

4. With respect to coverage, the major question relates to IFC. As is indicated above and discussed in Mr. Karaosmanoglu's memorandum of May 9, 1988, the ERAS scheme applies to all foreign borrowings of the DFIs, but not to direct foreign borrowings of private enterprises. The Government has indicated in our most recent discussions their openness to having the DFIs explore with IFC how the scheme might be extended to cover agency lines of IFC, although no specifics have yet emanated from earlier discussions on this subject. IFC had earlier opposed the ERAS scheme on the grounds that it discouraged direct foreign borrowing by the private sector and gave preference to government guaranteed credits retailed through the local financial institutions. It is true that the Indian Government has, as part of its foreign exchange management program, limited direct foreign borrowing by the private sector to more creditworthy borrowers, although even with such controls outstanding unguaranteed private foreign borrowing by the private sector loans amount of US$3 billion, about 7.5% of total outstanding foreign debt. The Government believes that relying heavily on the development finance institutions to borrow abroad and relend to the private sector has important advantages in terms of avoiding uncontrolled and indiscriminate private sector borrowing that has been a problem in some countries and utilizing the relatively capable Indian financial institutions to appraise projects for which foreign borrowing is required. In this regard, I agree very much with the view expressed in your memorandum to Mr. Karaosmanoglu, dated February 8, 1988, that the Government should be free to make internal arrangements for foreign exchange risk management that are not inconsistent with our policies and objectives. While we have been supportive of the Government extending this arrangement to direct foreign lenders, I do not believe that we should insist on this. We will, however, suggest to the Government that they extend subsequently foreign exchange risk coverage to other than DFI borrowers if initial experience with the scheme proves favorable.

5. While it will certainly be possible to question various elements of the scheme, we believe that it represents a constructive solution to the problem of foreign exchange management and substantial improvement over the arrangements in previous loans, which relied on fixed interest rates and a considerably lower premium for the foreign exchange cover. We plan to proceed with negotiations on the basis described above.

Attachment

Cleared with & cc: Messrs. Alisbah, Ritchie, Humphrey, Aksoy, Newport.

cc: Messrs. Karaosmanoglu, Wiehen, Yenal, Blinkhorn, Siraj, Kassum, Tharmaratnam, Levy, Raghavan.

MGould:njd:cbm

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

DATE January 31, 1989

TO Files

FROM William Byrd, AS4ND WAB

SUBJECT Mr. Karaosmanoglu's Meeting with Finance Minister S.B. Chavan

1. Mr. Karaosmanoglu met with Mr. Chavan as scheduled at 3:15 p.m. on January 20th. Also present at the meeting from the Finance Ministry were Mr. S. Venkitaramanan, Finance Secretary, Nitin Desai, Chief Economic Advisor, J.L. Bajaj, and V.S. Oberoi. On the World Bank side Messrs. Kraske, Ritchie, and Byrd attended.

2. At the outset Mr. Karaosmanoglu stated that India may achieve the highest growth rate in its history this year, which raised a question in his mind: How can the country achieve a better balance and maintain a higher growth path in the future? Though high growth this year has been due in part to the recovery of agriculture from the drought, nevertheless performance during the drought was itself commendable. The key question is how to ensure that growth can be maintained, unconstrained by balance of payments or inflationary pressures.

3. Mr. Chavan suggested that it may be premature to say that India is on a higher growth path; there is no room for complacency. In particular, the impact of the drought will be felt for several years, not only in the year in which it occurred. There is a need to replenish stocks, for example.

4. Mr. Karaosmanoglu questioned the need for a big run-up in public food stocks, given the large stocks already built up in private (farmers and traders) hands. Mr. Chavan replied that public stocks need to be replenished because the stocks in private hands might be used to exploit the poor. One additional good crop is needed, to build up a safety reserve.

5. Mr. Karaosmanoglu reported on his talks with industrialists. They felt that despite depreciation of the rupee, there were still not enough incentives to export in the system. Mr. Chavan agreed. Domestic demand is definitely there. In order to encourage exports, it is necessary to discourage domestic supply. There are now some sectors, like engineering goods and chemicals, where domestic competition has heated up and it may be slightly more attractive to export than to sell on the domestic market. Two-wheelers are another example. So the situation in this respect is improving, though there are many industries in which the domestic market is still far too attractive. Another problem may be that changes in the price index may not adequately reflect domestic inflation, meaning that real depreciation has been less than thought.

However, the additional mileage from price changes (i.e. depreciation) may be limited. We need to encourage market development, advertising, quality improvement, etc.

6. Mr. Karaosmanoglu expressed a wish to know what three or four key new things will be done in the next six months to one year to increase exports and to improve macro balance. Mr. Chavan replied that though the balance of payments situation is not very good, India is still focussing on becoming competitive in international markets, which entails increasing imports. Mr. Chavan personally would prefer to see a reduction in imports, but the Government has not clamped down on imports, in the interest of encouraging exports.

7. Mr. Karaosmanoglu noted that revenues depend a great deal on tariffs, so a sudden reduction in tariffs would put additional strains on the budgetary balance. This is a constraint hindering trade liberalization. He suggested that to improve the budgetary situation, subsidies would have to be reduced. Mr. Chavan stated that the budget is now being negotiated; he would like to see a reduction in the deficit, but he was not sure to what extent he would succeed. Mr. Karaosmanoglu pointed out that even holding the real value of the deficit to last year's level would be an accomplishment, since it would mean a decline in the deficit as a percentage of GDP. Mr. Desai noted that net borrowing from the central bank has already declined as a percentage of GDP. Mr. Karaosmanoglu reiterated that in India, an inflationary surge driven by budget deficits may be late in coming, as has occurred in other countries, but very hard to control once it happens. Mr. Venkitaramanan agreed that India should reduce the revenue deficit; but reductions in subsidies, interest payments, etc. will be political decisions.

8. Mr. Karaosmanoglu returned to the questions of industrial deregulation and trade reform. Mr. Venkitaramanan replied that deregulation is continuing and will not be affected by the upcoming elections. The real question relates to the pace of deregulation. The fear is one of a rise in imports without commensurate export growth. Mr. Karaosmanoglu reiterated the need for import liberalization; India's high level of protection is depriving it of its due share of international trate. However, India is moving on the right track. Mr. Venkitaramanan agreed that the system needs to be overhauled. For instance, many industries have negative effective rates of protection, which discourages them from exporting.

9. Mr. Chavan raised some issues related to Bank operations. He had held a discussion with Mr. Conable on utilizing IDA reflows. Mr. Conable had told him that IDA reflows would be used for poverty alleviation and family planning purposes. Mr. Karaosmanoglu replied that the Board has agreed that IDA reflows can be utilized and, implicitly, that the percentage distribution of reflows will not strictly follow that for current IDA funds. So it is hoped that India will get a somewhat higher share of IDA reflows than its share in the current IDA replenishment. But India needs to push in the upcoming IDA discussions for a better share. In February Mr. Karaosmanoglu will be making a presentation to the IDA Deputies on IDA needs in Asia.

10. Mr. Chavan pointed out that the poverty alleviation programme in India will be very big. There will be a need for large amounts of money, which due

to the nature of the activities would have to be concessional assistance. He would like to see more World Bank money for primary education, especially women's education. Mr. Karaosmanoglu noted that poverty alleviation activities also would be required to carry adequate economic rates of return.

11. Mr. Chavan's second point concerned the large savings on many projects due to exchange rate changes, which meant that India would not be able to fully utilize some of the loans. This is a concern particularly in the case of IDA credits. Mr. Karaosmanoglu suggested three steps to deal with the problem: (1) identify the precise amount of savings likely to be forthcoming over the next 2-3 years to the extent possible, and try to find areas for additional expenditure within the scope of the projects concerned, to which the savings could be directed; (2) prepare justification for other uses of the savings, if necessary; and (3) the Indian Executive Director has to make a strong pitch for utilizing savings and mobilize support at the Board for this. Mr. Karaosmanoglu stated that the Bank would positively support this effort, and that both sides should push.

cc: Messrs: Karaosmanoglu (ASIVP), Alisbah, Humphrey, Greene (AS4DR); Ritchie (AS4CO); Wijnand (AS4AG); Gould (AS4IF); McCarthy (AS4TE); Skolnik (AS4PW); Kraske (NDO).

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 89/03/08 DUE DATE : 00/00/00
LOG NUMBER : 890308018 FROM : Mr. Alisbah (AK)
SUBJECT : BRIEFING: Mtg. with India's Finance Secretary, Mr. Venkitaramanan on Friday, March 10, 1989.
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

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COMMENTS :cc: Mrs. Haug, JV (follow file)

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: March 8, 1989

TO: Mr. Barber B. Conable

THROUGH: Attila Karaosmanoglu, Acting SVPOP

FROM: Bilsel Alisbah, Country Director, India

EXTENSION: 73592

SUBJECT: INDIA - Visit of Finance Secretary

1. You are scheduled to meet with India's Finance Secretary, Mr. S. Venkitaramanan, at 4 p.m. on Friday, March 10, 1989. He will be joined by Mr. J.L. Bajaj, Joint Secretary in the Ministry of Finance. I will also join the meeting.

2. This is mainly a courtesy visit and a farewell since Mr. Venkitaramanan, who has been Finance Secretary for the last four years, is leaving his post at the end of March. His next assignment is uncertain as yet. However, his replacement has been named -- Mr. G. Arora -- and he and Finance Minister, Mr. Chavan, will visit the Bank in early April at the time of the Development Committee meeting which will be held on April 4.

3. You may recall that Mr. Venkitaramanan has been a good friend of the Bank over the years; in fact, he worked in the old Population, Health and Nutrition Department from 1974-77.

4. Meetings have also been scheduled with Messrs. Hopper and Karaosmanoglu. One issue that may come up concerns prospective savings from ongoing projects. The issue basically involves India's concern about the disposition of several hundred million dollars in savings, particularly IDA savings, expected to be realized from ongoing projects with current closing dates up to December 30, 1991. Very rough calculations indicate that these savings could total about US$900 million -- $700 million IDA and $200 million IBRD. Most of the savings have arisen because IDA projects in India have a high local cost component and because the rupee has depreciated significantly more than anticipated at appraisal. In addition, in some cases, procurement has been possible at lower costs than those estimated at the time of appraisal. Some of the savings can be deployed under existing procedures to finance expanded project activities that are consistent with the original project description. The disposition of the rest will require consideration by senior management and possibly the Board. We are looking into this more carefully before making specific recommendations. I suggest you respond by saying that you are aware that the region is looking into the matter, that you are certain that their case will get sympathetic consideration but that there may be limits to how much we can do.

cc: Messrs. Qureshi (o/r) (SVPOP); Kraske (AS4ND), Humphrey, Ritchie, Gould, Wijnand, McCarthy, Skolnik, Greene (AS4)

TBlinkhorn:zj

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: March 8, 1989

TO: Mr. Barber B. Conable

THROUGH: Attila Karaosmanoglu, Acting SVPOP

FROM: Bilsel Alisbah, Country Director, India

EXTENSION: 73592

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cc: Messrs. Qureshi (o/r) (SVPOP); Kraske (AS4ND), Humphrey, Ritchie, Gould, Wijnand, McCarthy, Skolnik, Greene (AS4)

TBlinkhorn:zj

The World Bank
Washington, D.C. 20433
U.S.A.

~~5:00~~ JT
4:15

Office of the President

January 30, 1989

Mr. Judhvir Parmar

Re: India - TISCO

In addition to the information provided to Mr. Conable, he has three additional requests.

(a) A list of (i) actual ex-factory prices for steel which TISCO expects for major steel products, net of taxes and levies; (ii) existing export prices by major exporters including so-called dumping prices; and (iii) our calculations of CIF prices of imports to India.

(b) A brief of the protective environment of the Indian steel sector, including taxes, quantitative restrictions or other qualitative factors.

(c) He wanted you to address in the last section how IFC is planning to address the protective trade environment for steel in India when "selling" IFC involvement.

Marianne Haug

(2) MH
(1) JT

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 89/01/31 DUE DATE : 00/00/00
LOG NUMBER : 890131013 FROM : Mr. Judhvir Parmar
SUBJECT : INDIA - TISCO

OFFICE ASSIGNED TO FOR ACTION : (3) Mr. B. Conable (E-1227)

ACTION:

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_____ RETURN TO _____

COMMENTS :

URGENT

Marianne - Parmar says if they can just get B's go-ahead on this, then Parmar doesn't need a mtg with B.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: January 31, 1989

TO: Mr. Barber Conable

FROM: Judhvir Parmar

EXTENSION: 30385

SUBJECT: INDIA - TISCO

The following is my response to the points raised in Marianne Haug's memo of January 30:

(a) Comparison of TISCO's ex-factory prices with FOB and CIF prices :

ITEM	FOB PRICE	OCEAN FREIGHT	HANDLING & SERVICE CHARGES	CIF INDIAN PORTS	TISCO EX-WORKS[e]
	(US$/mt: Rs15.00 = US1.00)				
BLOOMS & SLABS	270[a]	40	20	330	209
BILLETS & SQUARES	260[b]	40	20	320	229
MERCHANT BARS, JAPAN	385[c]	35	20	440)	
MERCHANT BAR, EUROPE	420[d]	40	20	480)	279
RODS, EUROPE	350[d]	40	20	410)	
RODS, JAPAN	315[c]	35	20	370)	
STRUCTURAL SECTIONS, JAPAN	400[d]	35	20	455)	343
STRUCTURAL SECTIONS, EUROPE	460-490[d]	40	20	520)	
HEAVY PLATES, EUROPE	480-490[d]	40	20	540)	439
PLATES, JAPAN	460[c]	35	20	515)	
GALVANIZED SHEETS, JAPAN	680[c]	35	20	735	497
GALVANIZED SHEETS, EUROPE	660[d]	30	20	720	497

a/ Spot, FOB, Northern Europe, December 1988
b/ Spot, FOB, Europe, December 1988
c/ FOB Japan, December 1988
d/ FOB Europe, December 1988
e/ Exclusive of all taxes and levies

(b) Protective Environment

The Indian protection system in steel includes quantitative restrictions as well as tariffs.

Quantitative Restrictions: Imports of steel products are constrained in volume terms through a system that allows (1) the import of some items - generally steel products for which there is a large supply gap - only through the canalizing agency and (2) the import of other products by way of so called Open General Licenses (OGL) or Limited Permissible Licenses (LPL). Products under OGL are generally not produced locally, while products under LPL involve products for which there is a moderate shortfall in supply.

With the general move towards liberalization, steel imports have nearly tripled over the past 3 years to 1.9 million mt. This primarily reflects a large increase in non-canalized imports which accounted for 60% of total imports on average in the last two years.

Tariffs: The present tariff schedule consists of (1) basic ad valorem customs duties applied to the CIF price and (ii) auxiliary duties applied to the CIF price The present tariffs applicable to products equivalent to the bulk of Tisco's products vary between 30% and 85%.

(c) "Selling" IFC's Involvement

There are several factors that both support and warrant IFC's continuing involvement with TISCO, despite the existence of a "protective trade environment":

(i) TISCO is the only private sector integrated producer in an industry which is dominated by the less efficient public sector. It has a good profit record and has high capacity utilization rates;

(ii) TISCO's entire production is sold domestically. India's exports are negligible amounting to 43,000 mt in FY88. India has always been a net importer of steel products and will remain so in the longer-term. The supply deficit is projected to reach 7-9 million mt by the year 2000;

(iii) TISCO does not receive any subsidies on the inputs, production nor marketing of its steel products. In fact it suffers penalties in view of the high duties prevailing on imported equipment;

(iv) TISCO's steel products are competitive internationally. Its production cost falls within the cost range of the most efficient producers in Europe and Japan. The main reasons for TISCO's competitiveness are that it produces virtually all its raw materials and energy requirements at competitive costs and operates at maximum capacity;

(v) The industrial, regulatory and trade policy environments imposed on the steel sector, are broadly the same as those for the other industrial sectors in India. However, TISCO does not use any of the protection afforded the steel industry by import duties. After adjusting for taxes and other levies, the prices realized by TISCO are well below current CIF prices of equivalent imports and would continue to be lower even with significant softening of international steel prices. While TISCO operates in a protected trade environment, it neither needs nor benefits from this protection;

(vi) India's overall economic policy environment is undergoing liberalization. A series of important initiatives in industry, trade, public finance and fiscal policy has been undertaken in recent years. In its Import and Export policies for 1985-88 and 1988-91, the Government has adopted measures to ease restrictions on imports. These have included selective import duty reductions and rationalization of tariffs on machinery imports. The Government has also improved export promotion measures and incentives to facilitate access of exporters to imported inputs. It is expected that this process will continue and the trade regime will become more open over time.

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 89/01/27 DUE DATE : 00/00/00
LOG NUMBER : 890130001 FROM : J. Parmar
SUBJECT : INDIA - TISCO

OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

(original)

ACTION:

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COMMENTS :cc: M. Haug, J. Stanton

CC: MH
JWS

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: January 27, 1989

TO: Mr. Barber B. Conable

FROM: Judhvir Parmar, CIOVP

EXTENSION: 30385

SUBJECT: INDIA - TISCO

1. During our meeting yesterday, you asked me to provide you with a note outlining why we felt that IFC's support was appropriate for TISCO's modernization program and its issuance of securities in the international markets.

2. The case for IFC's support to TISCO rests on the premise that India should encourage internationally competitive, private entities to manufacture goods in the domestic market. TISCO meets the requirement of this premise. It is internationally competitive. It is private and by improving its efficiency, resources are released for other purposes. Without modernization TISCO's efficiency will suffer.

3. IFC's support for TISCO's international securities issue is based on the premise that IFC's catalytic role will tangibly help Indian companies to enter international capital markets. This access to a new source of funds will be an important diversification to India's resource mobilization efforts. Because the Government and TISCO have full confidence in IFC, IFC will be an effective advisor on key decisions which will have to be taken by the Government and TISCO concerning the securities issue. IFC's presence will give confidence to the international underwriters and to the ultimate buyers of the TISCO securities.

International Competitiveness

4. When assessing the competitiveness of Indian steel, a distinction should be made between the Steel Authority of India (SAIL), the public sector steel company which dominates the sector with 60% of the national output and TISCO, which is the only private sector integrated steel producer in the country with a 14% market share. While SAIL has been only marginally profitable in the past few years because of low capacity utilization rates and high conversion costs, TISCO has consistently operated at maximum production capacity and generated adequate profits as a result of which it is regarded as one of the blue chip companies on the Indian stock exchange.

5. There are two ways of assessing TISCO's competitiveness. The first is to examine the prices TISCO receives for steel ex-factory as compared to international prices. Prices paid by Indian consumers for steel are high by international standards due to the imposition of taxes and levies which comprise between 20-35% of the final consumer prices. However, comparison of prices received by TISCO ex-factory for its major steel products net of taxes and levies with CIF prices of equivalent imports shows that TISCO's prices are equivalent to or lower than international prices. This means that nominal rates of protection are close to zero or negative and that the high taxes and duties placed on imported steel products are not necessary as far as TISCO is concerned.

6. The second way to judge TISCO's efficiency is to examine the components of TISCO's cost structure and thereby get a feel for its cost efficiency. The main reasons for TISCO's cost competitiveness are:

(a) the availability and proximity of domestic reserves of relatively high grade iron ore, coal and all other raw materials for steel making;

(b) almost fully integrated steel-making operations, which range from coal and iron ore mining to steel rolling, with TISCO producing virtually all its raw materials and energy requirements;

(c) the availability of an abundant, skilled labor force at relatively low wage rates;

(d) high capacity utilization rates due to careful maintenance and sound management;

(e) a strong project implementation capability. TISCO has completed virtually all its major capital expenditure programs without significant delay or cost coverrun which has been achieved through thorough project preparation, realistic planning, strict budgetary controls and tight control over key activities, including equipment manufacturing which is partly undertaken in-house;

(f) a well-developed local capital goods and engineering industry with substantial experience in steel making; and

(g) good labor relations and a generally efficient and responsive management.

7. Partially offsetting disadvantages are: (a) high ash content in Indian coal; and (b) parts of TISCO's plant are old and require high levels of maintenance.

8. The reason why TISCO does not have a modern plant with up-to-date technology is that it has not been able, until a few years ago, to obtain Government approval for major capital expenditure programs and expansion because the Government wished to maintain or increase the public sector production of steel. It is important to note that TISCO's cost structure is what it is today because part of its facilities were modernized in the past few years, twice with IFC's financial assistance and this modernization effort needs to be sustained. The current modernization program is the next step in the continuing long-term program. TISCO needs to improve its efficiency in hot metal production which is critical to steel making. TISCO proposes to acquire a 1 million MT blast furnace for which it has requested IFC financing of up to $22 million equivalent by loan and equity. This new blast furnace would replace two old furnaces and the incremental increase in hot metal would be only about 300,000 MT. TISCO plans to acquire the blast furnace which is in crates in Portugal at a very attractive price which will permit TISCO to save approximately 65% in engineering and equipment costs. The furnace will improve the efficiency of hot metal production by lowering coke consumption by about 24% from the present consumption level of the existing furnaces.

9. Our assessment indicates that TISCO's capital expenditure programs will maintain TISCO's international competitiveness.

International Securities Issue by TISCO

10. As part of its ongoing capital market development effort, IFC actively supports access from member country capital markets to the world markets. This work has until recently taken the form of IFC sponsored, underwritten and/or placed portfolio investment funds ($1.3 billion in equity to date). More recently we have identified opportunities for supporting high quality companies and financial institutions in selected countries to gain similar access. Such operations would increase investment flows through entirely private channels for self-liquidating private sector investments. In the case of India, IFC has an opportunity to sponsor development of an entirely new source of funding. Financing for such investments is now funded by Government borrowings through its DFI's, perpetuating heavy reliance on public sector intermediation for large, strong private sector companies. In India, we have an opportunity to replace such arrangements with an entirely private sector channel. What we are seeking is a flagship operation with high probability of success which would have a strong demonstration effect for similar transactions to follow.

11. Both the Government and TISCO have confidence in IFC and both have a strong desire for IFC's involvement in all phases of planning this issue, including the choice of market in which offering is to be made, the choice of instrument to be offered and its terms, selection of lead underwriter, etc. IFC would play a key catalytic role in the underwriting. This would be the Government's first step in permitting Indian companies access to international capital markets. The Government wishes to take all steps to ensure that this offering is a success and is done on as fine terms as possible because it would set the benchmark for other companies to follow.

12. We believe our presence in the underwriting would give comfort to the other underwriters which would be selected and to the subscribers to the securities offered. Our "umbrella" would be even more important in the first Indian offering than was the case for, say, the first Korea Fund offering.

13. As to IFC's profile in the underwriting this can be adjusted according to your perception of the political circumstances at that time. In any event, we would only be taking an underwriting exposure of 10% to 15% of the issue after the co-lead underwriters have sold down.

JParmar:bs

11/30

11:30 am

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 88/11/30 DUE DATE : 00/00/00
LOG NUMBER : 881130003 FROM : Daniel Ritchie
SUBJECT : INDIA: Mtg. with Mr. Venkitaramanan, Finance Secretary, Wednesday, November 30 at 11:30 am.
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

✓ seen.

ACTION:

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COMMENTS :M. Haug, J. Volk (FF)

November 30, 1988

For: Marianne Haug

Meeting with Mr. Venkitaramanan
Finance Secretary of India

I understand Mr. Conable will be seeing Mr. Venkitaramanan later today.

During the past two days, the Finance Secretary has been discussing with us the following:

(1) Trade Policy Loan - During the Annual Meetings the Indian delegation had expressed interest in a quick disbursing trade policy loan to help finance its import liberalization and export promotion program. This week the Finance Secretary has indicated his continued interest in Bank support, but cautioned that in this coming election year it may not be possible to move forward with major trade liberalization and macroeconomic adjustment reforms which could justify a Bank loan. Consequently, he has three requests: (i) to continue with the analytical work which could eventually form the basis of a loan package; (ii) to devote full attention to the ongoing lending program and not be diverted by the prospects for a policy-based loan, and (iii) to consider including some quick disbursing project components in forthcoming industrial projects (petrochemicals and electronics). We have reassured Mr. Venkitaramanan on these points, while cautioning him that any quick-disbursing project components would have to be justified on strictly project grounds, and not on general balance of payments support. Therefore, the amounts, if any would be limited.

(2) Poverty alleviation - Mr. Venkitaramanan has reiterated his interest in Bank support for India's poverty programs, especially its major employment generation schemes. He was reassured yesterday by Messrs. Qureshi and Fischer that the Bank did not have any "theological" objections to supporting such schemes (which would still have to be justified on efficiency and development effectiveness grounds). We are currently analyzing the three major anti-poverty programs and expect to make recommendations in the next 6-8 weeks. In our discussions, we have also agreed to accelerate the processing of a number of other projects which are designed primarily to alleviate poverty - these include a major rural water supply scheme and two nutrition projects. Therefore, Mr. Conable can be quite forthcoming in saying that we will be responsive to India's request.

In addition, Mr. Conable may want to discuss with Mr. Venkitaramanan the forthcoming dinner in Montreal with the Indian Commerce Minister, Dinish Singh. The Minister is a conservative on trade matters, and Mr. Venkitaramanan may have some useful insights regarding India's trade policies, its positions in the Uruguay Round discussions and Mr. Singh's personal views on these matters.

Dan

Daniel Ritchie

cc: Messrs. Karaosmanoglu (ASIVP); Alisbah (AS4DR)

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Ela Bhatt mtg EPC 9/19/88

DATE: August 29, 1988

TO: Mr. Barber B. Conable

THROUGH: Moeen A. Qureshi MAQ

FROM: Bilsel Alisbah, Director, India Department BA

EXTENSION: 73592

SUBJECT: India - Proposed Meeting with Ms. Ela Bhatt

1. You may recall from your visit to India last November a very dynamic member of Parliament, Ela R. Bhatt. She had a breakfast meeting with Mrs. Conable shortly after you arrived in Delhi.

2. Ms. Bhatt, a lawyer by training and a trade unionist, is one of the major advocates for women's rights in India. She founded the Self-Employed Women's Association (SEWA), which works to improve working conditions for thousands of women laborers, petty traders, home-based producers. For the last 18 months she has been Chairman of the National Committee on Self-Employed Women, which has just produced a comprehensive report, presented to the Prime Minister last month, dealing with a variety of women's issues. A copy is attached.

3. Ms. Bhatt plans to visit Washington from September 16-20, 1988 and has asked to meet with you (ref. her recent letter, copy attached). We recommend that you try to meet with Ms. Bhatt and also suggest that if it is convenient Mrs. Conable consider hosting a luncheon. If this can be accommodated in your schedules we will make necessary arrangements.

Attachment

cc: Messrs. Karaosmanoglu (ASIVP), Rajagopalan (VPPRE), Kraske (NDO)
Humphrey, Ritchie, Skolnik (AS4)

TBlinkhorn:zj

870/6

ELA R. BHATT
MEMBER OF PARLIAMENT
(RAJYA SABHA)

90, North Avenue,
New Delhi.

1.8.1988

Dear Mr. Conable,

Enclosed please find a copy of the report of the Commission on Self Employed Women of which I was the Chairman.

I hope it will be useful for your office. Your comments, if any, will be most precious for us.

I am visiting Washington during 16th to 20th or September. I hope I will be able to meet you then. Before that I will be in New York, for a few days. My contact will be Women's World Banking Office in New York.

Please do convey my best wishes and kindest regards to Mrs. Conable.

With regards,

Yours sincerely,

Ela R Bhatt

(~~ELA R. BHATT~~)

FROM WRLDBK,NEWDELHI 08/11/88 17:58 P. 6

Telegraph, Sunday, 13/11/88

894/2

Interview of the week

'There is a wind of change blowing among working women'

Ela R. Bhatt, chairperson of the National Commission on Self-employed Women and Women in the Informal Sector, which submitted its report on the status of working women in India to the Prime Minister on July 5, spoke to Tushar Bhatt

Q: What is the single most important finding of the commission?

A: The commission (which submitted its report to the Prime Minister on July 5) was set up to make a comprehensive study of the working and living conditions of self-employed women and those in the informal sector, where no labour laws operate and where the status of women as workers is generally not even recognised. Nobody knows how many of such women there are. Still, we found a growing trend towards families where women are the sole bread-earners—in 20 to 50 per cent in every group we met. Yet we were struck by the insensitivity (towards women workers) on the part of the officialdom at the lower levels of administration.

Women have always been working to augment the earnings of families. But now it appears that for a variety of reasons male members in many families are unemployed and the family depends on whatever the women earned. There also seems to be an increased migration of men from many villages in search of work.

Q: What is the economic condition of the average self-employed woman?

A: Whatever data we have presents a rather dismal picture. First of all, one must appreciate that many of these women are unaccounted for due to poor data collection. Even official agencies largely categorise them as non-workers. It has been pointed out by experts that there has been an under-reporting of female workers even in the (national) census by as much as 30 to 40 per cent. This is because women usually get only casual work.

As much as 93 per cent of the female work force is engaged in the unorganised informal sector, mainly as self-employed wage earners, non-wage earning or casual workers. Most of them are involved in agricultural and construction work and get half or less the wages of men for the same type of work. Agricultural and road construction women workers earn on an average Rs 4 per day. Then, they have a maximum of four months' work, if they are in agriculture. Those who engaged in home-based employment have even less work. These may be artisans or similar workers who earn the least—from 20 paise a day to about Rs 3. There are instances of women earning just 20 paise in the East Godavari area. These women work around ten to 12 hours a day, including half an hour or so on cooking at home. They also fetch water, care for the children and are doing a number of things on top of their gruelling work-day.

Q: How many women are there in the informal sector and what is their general condition?

A: We tried to ascertain the number, though it proved a difficult task. It is, perhaps, about 88 per cent of the total working female population. However, we have found that working women in the informal sector of the economy, be it in the rural or urban areas, operate in a vicious circle of subsistence, deprivation and survival. They are largely without any assets and do not own any productive assets in relation to their work. Even where some of the assets needed in work are held by the family, the woman's own access to and control over these assets is mostly marginal. All too often the commission heard tales of abysmally low wages, widespread night-blindness owing to malnutrition, of harassment by officials, of physical abuse by forest guards and corruption by police in the marketplace. Many thought they had no escape from the drudgery. After having spent 23 years breaking stones in a Rajasthan mine, or peeling and beating coir for 18 years somewhere else, or being born into a migrant road crew, or carrying toxic sulphur powder for seven years—all for a fraction of the legal minimum wage—what reason is there to think that their families' lives will change?

The commission met poor working women in various states. In Himachal Pradesh, besides growing food for their families, women produce cash crops like potatoes, apples, mushrooms, ginger as well as medicinal plants. In Orissa, Tamil Nadu, West Bengal, Kashmir and Kerala, women do the work of transplanting, weeding, harvesting and threshing of paddy. In Gujarat, they perform similar tasks in tobacco, groundnut and cotton fields. In Uttar Pradesh, Bihar and other places, they tread, weed and thresh pulses. In the tea plantations of the north-

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The work done by women is not considered work in spite of women having been in various fields for generations. Her role in life is perceived as a wife, mother or home-maker. Even the work which fetches, income is regarded as a primary work activity

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east and Kerala, the commission found that women comprised between 50 and 90 percent of the workforce. Everywhere these women faced similar problems.

Appalling working conditions characterise all occupations. No one issue can be isolated as being more important.

Q: Do you think the discrimination and exploitation of women workers is the result of male chauvinism? Even the government does not seem to be treating women on par with men in many sectors.

A: It is not simply chauvinism. But the work done by women is not considered work in spite of women having been in various fields for generations. This is the main problem. Her role in life is perceived as a wife, a mother or home-maker. Even the work which fetches income is regarded as a primary work activity. This is the reason why many working women are unaccounted for in the informal sector in terms of perception, in terms of providing suitable policies or laws. There is no law protecting home-based women workers. The census does not even consider them as workers. There is no legal economic status. Her worker's status is, therefore, uncertain and vulnerable. There is so much of insensitivity in the government.

Q: How do you advocate bringing about a change in this scenario?

A: I think that organising women is the first important thing to do. I realise that it is ironic but the state will have to help them organise, initiate and maintain a network of grassroots-level organisations. Mahila mandals at the village level could provide the real vehicle for such organisation of poor working women. This is why the commission has strongly recommended the formation of village mahila mandals. These mandals should be entrusted with anti-poverty programmes and programmes for environmental protection. The mandals should be responsible for the implementation of these programmes and should also be involved in monitoring and deciding block-level planning and target setting. This could lead to the establishment of women's lobby groups. But I concede we are also demanding the support of the state for changing policies and that is ironic. But we are hopeful it can happen in this country. In Rajasthan, for instance, the state government is running a women's development programme and I spent some six nights with women involved in these activities. They are getting organised, demanding equal and fair wages and taking up issues like corruption; they are taking up the real issues of life.

Q: How will the male-dominated power structure of villages put up with these mahila mandals? Can the government intervene effectively?

A: It will be difficult. But if the government is really serious about change, it will have to support the plan even if it wants to protect only the environment. Fuel and fodder are becoming scarcer and wells are going deeper. These affect women directly and unless women participate there is not going to be much success in the village environmental protection programmes. These issues relate to women more.

Q: Do women in the informal sector find some hope in the mahila mandal idea?

A: Yes. Women are power fighters against poverty. Women have very smart strategies to fight poverty and it is only because of them, I would venture to state, that we are still surviving.

From Ladakh to Kanyakumari, every group we met, we invariably found one or two bright young women who are potential catalysts of change. Women are ready to absorb new ideas. An awareness is there. You cannot go into the 21st century without them. They also want to go into it.

Q: Are you hopeful that the government will respond?

A: Yes. At the government level we have found a positive response. If nothing is done, there will be more have-nots. If they are not given a helping hand, women will suffer, they will not be able to organise. This task cannot be left to voluntary agencies. There is a wind of change and the women of the poor know it. Today's girls of the poor are more progressive than their mothers. I do not know from where this wind comes. But it is there.

Mrs. Conable's Luncheon for Ela Bhatt

Monday, September 19, 1988

Participants

Mrs. Conable (Host)

Ms. Ela Bhatt

Visvanathan Rajagopalan, VP, PRE

Bilsel Alisbah, Director, AS4

Daniel Ritchie, Chief, AS4CO

Barbara Herz, Chief, PHRWD

Richard Skolnik, Chief, AS4PW

Anthony Measham, Chief, PHRHN

Marianne Haug, Assistant to President, EXC

Allan Berg, Nutrition Adviser, PHRDR

P. V. Bhide, Advisor, EDS12

Gotz Schreiber, Senior Economist, PHRWD

Ellen Schaengold, Country Officer, AS4CO

~~Robert Van Pulley, VP, AS4SO~~
Loretta Schaeffer, Assistant to V.P., Asia Region

1988 ANNUAL MEETINGS BRIEF

INDIA September 25, 1988

Meeting with: S.B. Chavan, Minister of Finance
R.N. Malhotra, Governor, Reserve Bank of India
S. Venkitaramanan, Finance Secretary

Population: 800 m (1987); **Estimated Growth Rate:** 2.1 % (1987);

GNP per capita: $ 302.74 (1987)

	(US$ million)		(US$ million)
Total Commitments to date:	30,297.90	**FY88 Commitments:**	2,972.20
of which:		Disbursements:	2,225.44
Bank (114 operations)	15,074.90	Amortization:	519.95
IDA (176 operations)	15,223.00		
Total Undisbursed:	12,137.45		
Lending Program FY89-90:	5,233.00		

Summary Data	Average FY1983-87	Projection FY1988		
GDP growth	4.1	7.2	Aid Group Meeting:	Consortium
Export growth	6.5	6.7	Last Meeting:	6/20-21/88
Import growth	4.5	5.3	IMF Status as of:	August 1988
Current Acc. Balance % GDP	-1.7	-1.6	Art. IV: Active	
Gross Debt Service Ratio	17.4	24.1		
Annual Inflation Rate	8.0	7.0		

Background: Through adroit economic management and the onset of excellent rains in June 1988, India has recovered well from the severe drought of last year. However, excessive reserve losses in May-June 1988 are reason for concern. There are signs that the opposition parties may be uniting to challenge the Gandhi Government in the next election.

Issues likely to be raised by Delegation

1. IDA availability
2. Quick disbursing policy lending

Issues to be raised by Bank Management

1. Poverty Alleviation
2. Environment
3. Lending Strategy for the Industrial Sector
4. Nepal Multipurpose Projects
5. Disbursements

Attachments:

Five Year Lending Program FY88-91 (FY88 actual)
Biographical Information

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDANCE DATE : 88/04/11 DUE DATE : 00/00/00
LOG NUMBER : 880412027 FROM : Alisbah/Attila K.
SUBJECT : INDIA: Briefing Note for Meeting with Finance Minister Tiwari, April 14, 1988 - 6:00 PM.
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

_____ APPROVED
_____ PLEASE HANDLE
_____ FOR YOUR INFORMATION
_____ FOR YOUR REVIEW AND RECOMMENDATION
_____ FOR THE FILES
_____ PLEASE DISCUSS WITH _____
_____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS : cc: MH, JV (follow file)

6:00

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: April 11, 1988

TO: Mr. Barber B. Conable
Mr. Moeen A. Qureshi

THROUGH: Attila Karaosmanoglu, VP, Asia Region

FROM: Bilsel Alisbah, Country Director, India

SUBJECT: INDIA - Meeting with Finance Minister Tiwari; Thursday, April 14, 1988, at 6 p.m.

1. India's Finance Minister, Mr. N. D. Tiwari, who is here this week for the Development/Interim Committee meetings, is scheduled to meet with both of you in Mr. Conable's office at 6 p.m. on Thursday, April 14. He will be accompanied by Mr. Rao Sahib and possibly some other representatives of the Indian delegation. I will also join you.

2. Both of you met with the Finance Minister during last year's Annual Meeting (ref. my memorandum of September 30, 1987, copy attached). Mr. Conable met with him at several points during the visit to India last November (ref. Mr. Waide's note of December 8, 1987 on one of the meetings, copy attached). A biographical note about the Minister is also attached.

3. We understand that the Minister will want to (a) explain to you the broad thrust of Indian economic policy as reflected in the latest budget; (b) welcome your emphasis in poverty alleviation and (c) discuss India's need for increased concessional assistance. There are several dimensions to the latter issue, as noted below. By way of background, IDA lending to India has declined from SDR 1,983 million in FY79/80 to about SDR 650 million in FY85/86 and has been further reduced to SDR 550 million in FY87 and SDR 535 million in FY88. The specific concerns expected to be mentioned by the Finance Minister, and suggested responses, include the following:

(a) Parity with China: Indian officials have consistently expressed concern about further erosion of their IDA share as a consequence of possible future increases of China's share.

Response: During the 1987 Annual Meeting discussion, Mr. Qureshi carefully explained the background of the 30% limit placed on the combined India/China share during the IDA-8 period. He also pointed out that in FY88 the allocation to India is SDR 535 million while that to China is SDR 425 million. He indicated that in dollar terms the allocation to India during IDA-8 would not fall, but he also acknowledged that China was pressing strongly for parity with India. Mr. Qureshi did not make any promises about what would happen in FY89 and FY90 (i.e., whether parity would be achieved or whether India would continue to maintain a slight edge). He did, however, promise that any future changes would be totally transparent to India and would be discussed with the Government. Since then, Mr. Conable has indicated

to the Chinese, during his recent visit, that China would become the largest IDA borrower in the next several years. The Indians undoubtedly would not wish to see this happen, so we will need to consider carefully how best to handle this with the Government representatives.

(b) Poverty Alleviation: India has also emphasized that more concessional assistance will be needed if the country is to increase its efforts to alleviate poverty. On a number of occasions, authorities have raised the question of IDA reflows, pointing out that these are primarily from India, and have asked whether these reflows could be targetted for India for poverty alleviation activities.

Response: Poverty alleviation is a key objective of Bank's overall assistance effort in India and it will receive new emphasis in the next five years through increased work on human resource development, key areas of agriculture and initiatives to help poorer women, among others. As you know, the Bank-wide Poverty Task Force has just issued its draft report, which, among other things, recommends use of IDA reflows (which are projected to rise from $227 million in FY90 to about $510 million in FY95) for a Special Poverty Fund. Since the report has not been discussed by the Policy Committee, it may be premature to mention any details, but you may wish to indicate that the Bank is exploring a number of ways to increase its support for poverty alleviation.

(c) FY88 IDA Allocation: As noted above, the IDA allocation for FY88 is SDR 535 million (US$712 million at the current conversion rate). Of this, some $360 million have already been approved by the Board for the Dairy and Drought projects. The rest is targetted for three projects in the human resources and agriculture areas. However, because of some delays in getting certain Indian states to take necessary steps to process a proposed Seeds project, there is some concern by Indian officials that the project will slip out of FY88 and India will lose its full allocation. They suggest that if this is to happen, the Bank should be prepared to allocate the IDA funds that would have gone for Seeds to an infrastructure project (e.g., power) that has a better chance of being considered this fiscal year and for which only IBRD financing has been earmarked.

Response: We prefer to continue to allocate scarce IDA resources for poverty alleviation (including certain agriculture subsectors), social sectors and human resource development rather than for industry or infrastructure. There are options in the current FY88 Lending Program for adjusting

lending amounts and composition so that the full IDA allocation for India this fiscal year (SDR 535 million) will be absorbed. Specifically, the Tamil Nadu Urban project, which is scheduled for Board consideration in June, now shows an IBRD/IDA blend and could legitimately become a full IDA project. With a slight increase in the share of IDA funding of project costs (to about 65%) the remaining IDA funds could be fully absorbed.

(d) Project Closing, Cancellation: We are in the process of terminating a power project (Indira Sarovar) and two irrigation (Madhya Pradesh Medium and Orissa Irrigation). In the case of the latter two, the closing dates have passed and overall performance to date does not warrant consideration of extensions. A total of about US$50 million in IDA funding remains undisbursed in the two projects. The Indian officials may propose that such amounts be retained for India and retargetted for other useful purposes. In the case of the Indira Sarovar Power project, a loan of $157.4 million and a Special Fund Credit of SDR 134.4 million were approved in May 1984 1/ and the project became effective in November 7, 1985. However, project implementation has been held up for about two and a half years because of failure of the Government to provide the required forest clearance. The main issue was whether the reafforestation plan could exactly reproduce the forest lost to the project. The project will inundate some 5500 hectares of forest. An initial plan was prepared but GOI ordered a review of that plan after project appraisal. Owing to differences of opinion between the Center and the State on the quality of the plan and to political complications, the government has not been able to give necessary clearances, after more than two years. We feel we have no other recourse but to terminate our involvement in this project.

Response: Each of these project issues involves some very difficult and sensitive considerations. Perhaps more perplexing is the case of Indira Sarovar, where the problem is not "non-performance" in a traditional sense. Instead, the issue relates to a concern about protection of an environmental resource, forests, a concern we share. However, we feel sufficient time has bee given to resolve this matter and the unresolved situation should not be allowed to continue.

1/ Owing to a shortfall in the Special Fund, IDA made available SDR 12.4 million.

On the two irrigation projects, we have bent over backwards to work with project officials on a variety of issues -- resettlement, proper planning and implementation of works, etc. -- but their response has consistently been inadequate and the implementation record very poor. We feel we have no other recourse but to allow the projects to close, even though there will be some undisbursed IDA funds. The Indians are likely to press for extensions of the closing dates for both projects, to ensure the completion and to protect IDA funds. While the Bank has generally been very accommodating on extension of closing dates in India, particularly where there is evidence that project authorities are making best efforts and when circumstances beyond their control are largely responsible for delays, we believe there is no reasonable justification for our continued involvement in these two projects.

Attachments (3)

cc: Messrs. Kraske (NDO); Wiehen (ASIVP); Golan (ASTDR); Ritchie, Greene, McCarthy, Skolnik, Lafourcade, Gould (AS4); Ms. Haug (EXC)

TBlinkhorn:rb

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 30, 1987

TO: Files

FROM: Bilsel Alisbah

EXTENSION: 7-3592

SUBJECT: Mr. Conable's Meeting with the Minister of Finance

1. The Minister of Finance for India, Mr. Tiwari and Mr. Conable met on Saturday, September 26, 1987. The Indian Delegation consisted of the Minister, Messrs. Rao Sahib, Venkitaraman, Bajaj and Vasudev. The Bank's representatives included Messrs. Qureshi, Karaosmanoglu, Waide, Ms. Haug and myself.

2. Much of the discussion was taken up by the drought situation. The Minister expressed appreciation on behalf of the Prime Minister for Mr. Conable's letter of concern and offer of help. He outlined both the magnitude of the drought and the Government's programs for helping those affected by it. The Government estimated that 30% of the present crop will be lost. There was also a serious shortage of drinking water and fodder. Power generation and the next crop would also be affected. Fortunately, thanks to the successful agricultural policies of the Government, there were significant stocks of food grains. Nevertheless, the drought would have a serious impact on the balance of payments as well as on the budget. To minimize the budgetary impact of the drought, the Government had just announced additional revenue measures.

3. In context of this discussion, Mr. Qureshi inquired what impact the drought would have on the policies of the Government to open up the economy and increase competition through increased imports. Mr. Venkitaraman responded that the drought would put pressure on these policies and would strengthen the hand of vested interests which oppose such liberalization. However, he indicated it was the Government's policy to continue the process and to avoid any reversal. This, however, would require adequate foreign exchange resources. In this context, the Bank's proposed assistance to alleviate the impact of the drought would be very much welcomed.

4. Mr. Conable reaffirmed the Bank's desire to assist India in this period of difficulty.

5. Other subjects discussed included:

(i) The undisbursed pipeline. Mr. Conable called attention to the growing size of the undisbursed pipeline in India. He indicated that it was important, both for the Bank and for India, to speed up the utilization of resources already committed. The Government representatives indicated that they share this concern and are working with the Bank on specific measures. They pointed out that some improvement in the rate of disbursements is already visible. The Minister explained that some of the disbursement problems are attributable to India being a democratic society in which resettlement or land acquisition

problems often cause unforeseen delays in project implementation.

(ii) India's IDA share. The Minister and the Indian Delegation expressed concern that India's IDA share continued to decline. Given the size of the population and the magnitude of the poverty problem, concessional aid has an important role to play. Mr. Conable indicated that unfortunately, the total availability of IDA is limited and that there are other claimants. Nevertheless, he also indicated sympathy for the Government's concern. (This subject was much more extensively discussed on Monday, September 28 with the Indian Delegation at Mr. Qureshi's breakfast. See Mr. Ritchie's memorandum to Files of September 30.)

(iii) Poverty Alleviation. Mr. Conable and Mr. Qureshi both referred to the emphasis that would be placed in Mr. Conable's speech and in consequent actions, on the elimination of the worse forms of absolute poverty by the year 2000. They pointed out that this objective has been adopted very much with India in mind, and is based on India's own objectives. They indicated that we look forward to working with the Government to realize this objective.

(iv) Mr. Conable's visit to India. Both the Minister and Mr. Conable indicated that, they looked forward to this visit which would provide an opportunity for Mr. Conable to better appreciate the development of challenge facing India.

cc: Messrs. Qureshi, Karaosmanoglu, Waide
India Division Chiefs

BAlisbah:ia

FROM WRLDBK NEWDELHI 12/09/87 18:04 P.2

OFFICE MEMORANDUM

86/2

Date: December 8, 1987

To: Mr Bilsel Alisbah, AS4DR

From: E. Bevan Waide, NDO

Subject: Notes on Mr Conable's Visit to India: November 4-9, 1987

Mr Conable arrived from Pakistan on Wednesday evening, November 4, accompanied by his wife, Charlotte. They were warmly greeted by the Finance Secretary, Mr Venkitaramanan, and subsequently flown by airforce plane to Agra, where the party was received by Mr Ammar Rizvi, a Minister in the U.P. government. The full itinerary is attached. After a thorough program of visits to historical sites, a roadside village and a leather factory producing unfashionable footwear items for the Soviet market, the party returned to Delhi the next day. There were no discussions of particular importance during this part of the trip. At the dinner in Delhi for Mr and Mrs Conable that evening, hosted by Mr Narayan Datt Tiwari, Finance Minister, the Minister was thoughtful and warm in his greetings, as was Mr Conable in his response, and this set a fine tone for the ensuing meetings.

Friday, November 6, saw the main discussions with GOI ministers. The Finance Minister said that the drought was having a serious impact but, despite significant releases of funds for drought assistance and for edible oil imports, the seventh five year plan would be virtually fully funded. He hoped that there would be no further diminution in IDA flows in the future, or in India's share of IDA, IDA being critical for progress in poverty alleviation in India. He hoped that IDA reflows, which were rising, would be used for India's benefit.

Mr Conable made a number of supportive remarks about India's performance and stressed that he would continue to give public support for India's efforts. In private, however, he hoped there would be a frank dialog based on the Bank's studies and the experience of others. He hoped this dialog could extend into the fields of poverty alleviation and education.

The Finance Minister shared and welcomed Mr Conable's stress on education, and noted that the Prime Minister had taken the initiative, early in his term, for a policy review. It was essential that India move away from the philosophy, first articulated by Lord Macaulay in 1832, under which the civil service was subservient to colonial needs and stressed conformity by clerks and lower level white collar officials. Educational stress must be put on vocational training and work flexibility -- with which Mr Conable very much agreed. Mr Conable indicated that he would like to be able to support technical training in urban and rural areas and also hoped it would be possible for the Bank to help improve rates of literacy.

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The Finance Secretary at this point interceded with expressions of concern about over-supervision of projects with teams coming every two to four weeks. If it were every 6 months, that would be fine. Mr Alisbah noted that the new educational program was impressive and very much worthy of Bank support. Mr Conable expressed awareness of the fact that basic education was critical in inculcating national values and this was not something the Bank would seek to assess. The Finance Minister, supported by the Finance Secretary, noted that educational lending was a gap in the Bank's pattern of support and hoped it would be possible to enter this field through lending to ITI's along with a dialog on support for primary education.

Mr Conable sought information on how trade liberalisation was moving, and its impact on exports, noting the close relationship between exporting and creditworthiness. He hoped the deregulation of the economy would continue and would effectively increase competition. The Finance Minister noted that the main reason for import liberalisation was easier access to new technology, and if exports did not respond, the liberalisations would be difficult to sustain especially if there was a rising gap in the balance of payments. The Finance Secretary noted the cuts in tariffs on capital goods that had been introduced despite protests from Indian industry, worried about the risk of dumping. The Finance Minister noted that the PM's commitment was greater than that of many industrialists, despite the balance of payments risks involved. Additional resources from the Bank could help sustain the spirit of deregulation. The Finance Minister went on to reflect on the difficulties of balancing the interests of 270 million agriculture workers and landless labourers against those who work in skyscrapers. He welcomed the Bank's new emphasis on poverty alleviation and on the social sectors, and hoped that IDA reflows could be used to sweeten the terms of Bank lending for poverty alleviation.

At this point, Bimal Jalan returned to the issue of exports and stressed that improving performance was number one priority; indeed, in his thinking, the changes in taxation, interest rates and macro policy had produced good results over the last two years. Mr Conable concluded (after the Finance Secretary had again reiterated his point about the pressure of missions) by stressing his hope that a drought loan could shortly be agreed, that disbursements could be accelerated, and that the Bank's speed of response would be enhanced by the reorganisation.

ATTACHMENT 2

BIOGRAPHICAL INFORMATION

Mr. N.D. Tiwari, Finance Minister (Governor, World Bank)

Mr. Tiwari became Minister of Finance in July 1987. Prior to that time he held the post of Minister of Foreign Affairs (September 1986 to July 1987) and Minister of Industries (1981-84). Mr. Tiwari has had a long, distinguished career in Indian politics. He is from Uttar Pradesh, the same state as the Nehru family, and was active in state politics from an early age. During the 1970s he served as Chief Minister from 1976-77 and held various ministerial portfolios in the state government; he was elected to the lower house of parliament in 1980. In 1984, he was asked by the Prime Minister to return to Uttar Pradesh as Chief Minister and remained there until his appointment as Minister of Foreign Affairs in 1986.

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE : April 18, 1988

TO : Files

FROM : Daniel Ritchie, Chief, AS4CO

SUBJECT : INDIA - Meeting of Minister of Finance with Mr. Conable

1. The Indian Minister of Finance Mr. N.D. Tiwari met with Mr. Conable on April 14. Also present from India were Messrs. Bimal Jalan and J.L. Bajaj, G.D. Mehrotra from the Department of Economic Affairs, New Delhi, and Messrs. Rao Sahib and Vasudev from the Executive Director's Office. Ms. Haug and Messrs. Stanton, Alisbah and Ritchie attended from the Bank.

Economic Performance

2. Mr. Tiwari reported on India's recent economic performance. Despite the drought, overall growth during 1987/88 had been about 1-2%. Cereal output had declined by 10-15 million tons, but this had been offset by vigorous growth in industry (9%). Exports had grown by 25 percent. Government had raised $3.5 billion in additional revenues to meet the added costs of the drought, and inflation had been controlled.

3. Mr. Conable congratulated the Minister on the performance of the economy, and urged continuation of the industrial liberalization and export promotion processes. Mr. Tiwari indicated that in his February budget submission and in the trade reform message he issued in March, there were number of innovations and further steps toward liberalization.

IDA Share

4. Turning to the Bank's program, Mr. Tiwari congratulated Mr. Conable on the results of the GCI effort. He thanked the Bank for its continued active support in lending, which would reach $2.8 billion this year. At the same time, he expressed India's concern over its falling IDA share. Mr. Conable indicated that there were so many competing claims on IDA, it was difficult to satisfy all of them fully.

Cost of Bank Funds

5. Mr. Tiwari also expressed concern about the cost of Bank funds, and the increased obligations incurred by India because of the currency mix of the debt. India owed $2 billion more because of the appreciation of these currencies against the dollar. He indicated that Parliament had expressly requested he raise this issue with Mr. Conable. Mr. Conable indicated that the Board was about to consider some relief measures, including elimination of commitment fees for IDA and liberalization of IBRD terms.

Poverty Alleviation

6. Mr. Tiwari enquired about the Bank's future intentions in poverty alleviation, and whether IDA reflows could be used for financing poverty-related activities. Mr. Conable indicated that this would be considered in the context of the Poverty Task Force report (which was recommending a Poverty Fund).

Lending Activities

7. Mr. Conable stressed the importance the Bank placed on education. Mr. Tiwari indicated that the Government welcomed Bank involvement in vocational training. He mentioned the major effort underway to improve primary education through Operation Blackboard. Mr. Conable indicated he had advised the Prime Minister, Mr. Gandhi, that we were prepared to support education expansion. Mr. Tiwari promised to discuss with the Prime Minister what else the Bank might be asked to do in the education sector.

8. Mr. Conable also offered the Bank's support to Regional development projects. Mr. Bajaj indicated that agreements had now been reached with Nepal on the proposed Karnali project. The Canadians would be financing the feasibility study.

9. Mr. Conable concluded the meeting by reiterating the importance he placed on effective collaboration between India and the Bank.

Cleared with and cc: Mr. Alisbah

cc: Messrs. Conable, Stanton, Karaosmanoglu, Ms. Haug, India Division Chiefs

DRitchie:ns

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

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4. Turning to the Bank's program, Mr. Tiwari congratulated Mr. Conable on the results of the GCI effort. He thanked the Bank for its continued active support in lending, which would reach $2.8 billion this year. At the same time, he expressed India's concern over its falling IDA share. Mr. Conable indicated that there were so many competing claims on IDA, it was difficult to satisfy all of them fully.

Cost of Bank Funds

5. Mr. Tiwari also expressed concern about the cost of Bank funds, and the increased obligations incurred by India because of the currency mix of the debt. India owed $2 billion more because of the appreciation of these currencies against the dollar. He indicated that Parliament had expressly requested he raise this issue with Mr. Conable. Mr. Conable indicated that the Board was about to consider some relief measures, including elimination of commitment fees for IDA and liberalization of IBRD terms.

Poverty Alleviation

6. Mr. Tiwari enquired about the Bank's future intentions in poverty alleviation, and whether IDA reflows could be used for financing poverty-related activities. Mr. Conable indicated that this would be considered in the context of the Poverty Task Force report (which was recommending a Poverty Fund).

Lending Activities

7. Mr. Conable stressed the importance the Bank placed on education. Mr. Tiwari indicated that the Government welcomed Bank involvement in vocational training. He mentioned the major effort underway to improve primary education through Operation Blackboard. Mr. Conable indicated he had advised the Prime Minister, Mr. Gandhi, that we were prepared to support education expansion. Mr. Tiwari promised to discuss with the Prime Minister what else the Bank might be asked to do in the education sector.

8. Mr. Conable also offered the Bank's support to Regional development projects. Mr. Bajaj indicated that agreements had now been reached with Nepal on the proposed Karnali project. The Canadians would be financing the feasibility study.

9. Mr. Conable concluded the meeting by reiterating the importance he placed on effective collaboration between India and the Bank.

Cleared with and cc: Mr. Alisbah

cc: Messrs. Conable, Stanton, Karaosmanoglu, Ms. Haug, India Division Chiefs

DRitchie:ns

President has seen ~~LM~~ MH

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

copy Stanton
3/14 C.P.

CORRESPONDANCE DATE : 88/03/04 DUE DATE : 00/00/00
LOG NUMBER : 880307001 FROM : A. Karaosmanoglu
SUBJECT : Memo: TA to the Steel Industry under the Industrial Finance & Technical Assistance Project. -INDIA-
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

_____ APPROVED
__✓__ PLEASE HANDLE
_____ FOR YOUR INFORMATION
_____ FOR YOUR REVIEW AND RECOMMENDATION
_____ FOR THE FILES
_____ PLEASE DISCUSS WITH _____
_____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS :

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: March 4, 1988

TO: Mr. Barber B. Conable, EXC (Through Mr. Moeen A. Qureshi, SVPOP)

FROM: Attila Karaosmanoglu, ASIVP

SUBJECT: INDIA - Technical Assistance to the Steel Industry under the Industrial Finance and Technical Assistance Project

1. In response to your request to Mr. Alisbah, I am writing to provide you with background information on Bank assistance to the Steel Industry under the proposed project, which is scheduled for Board consideration of the Executive Directors on March 29. Under the proposed project, the Bank would provide:

a) US$310 million to be relent to the Industrial Development Bank of India Limited (IDBI) and the Industrial Credit and Investment Corporation of India Limited (ICICI) to finance their multi-purpose industrial credit programs; and

b) US$50 million to the Steel Authority of India Limited (SAIL) to finance technical assistance needed to support the restructuring of the steel industry. The technical assistance loan would finance the following five studies: Corporate Planning, Environmental Management, Training, Fertilizer Distribution System and the Rehabilitation of an Alloy Steel Plant. The technical assistance loan would finance training, consultant services, and techncial assistance related equipment. The technical assistance related equipment includes $18.2 million for polution monitoring equipment needed to estimate the requirements for future investments in control equipment, US$5 million for equipment needed to support training programs and US$8.2 million needed to support the fertilizer distribution study through trial evaluation of equipment for material handling and packaging.

2. Recognizing the central importance of steel in improving the overall efficiency of the industrial sector in India, the Bank undertook a study of the steel sector which culminated in Report No. 6599-IN, India Steel Sector Strategy Report, dated July 27, 1987. The study concluded that while the price of steel is high and the quality low by international standards, much of the problem could be remedied through effective efforts to restructure the assets and rationalize the management of the steel industry. Following the completion of the Report, it was our intention to fund a steel sector restructuring program in India through a series of three loans financing the physical rehabilitation of plant and equipment and supporting

major adjustments in the policy framework. Following your decision in March 1987, the Bank informed the Government of India that it would not be able to finance a major restructuring effort in the steel sector. The Government of India strenuously objected to this decision feeling that the Bank could play an important part in helping to rehabilitate this crucial subsector. The Government as a compromise requested the Bank to finance a technical assistance effort in the context of one of our other industrial projects. We asked for Mr. Qureshi's views in Mr. Alisbah's memorandum, dated June 6, 1987, and he agreed that we could proceed on this basis provided that (i) the India Authorities would be prepared to accept technical assistance in lieu of any direct steel financing; and (ii) any hardware components be an integral part of the technical assistance effort rather than modernization of steel plant and equipment. The technical assistance component of the proposed project satisfies these requirements and those in Mr. Stern's earlier instructions for Bank Investment in Steel contained in his memorandum of March 18, 1987.

3. In explaining the component to the United States and other Executive Directors, the above background and the following additional points may be relevant:

a) The Indian Government has made substantial investments in the steel industry, which has assets amounting to Rs.70 billion (US$5.4 billion). Recent imports of steel amount to about 1-2 million tons per year(mtpy), representing an annual import bill of US$300-600 million. Demand is projected to rise from the present production level of 9 mtpy to 24 mtpy by the year 2000, implying that India must either double its domestic capacity, or face a steel import bill of US$3 billion per year. While India has the potential to produce steel efficiently, the existing assets will have to be rehabilitated and operated better in order to realize this objective. The availability of low cost quality steel would provide benefits throughout the economy contributing to a lowering of overall industrial production cost. Thus, rehabilitation of the steel industry is a major development priority.

b) India will remain a net importer of steel for many years to come and the Government's restructuring program focusses entirely on the rehabilitation of existing assets. India is thus not likely in the forseeable future to be a threat to the U.S. or other export markets.

c) About 80% of large scale production of steel comes from the public sector steel company, SAIL, and rehabilitation of its assets and operations is the logical place to begin the effort to modernize the industry. SAIL has excellent senior management and is being given greater autonomy in its

operations. Privatization is not an immediate option and not a realistic objective for this technical assistance loan, which would focus on enabling SAIL to improve its management efficency and to implement its restructuring program. Had we proceeded with a major involvement in the sector, as originally envisaged, we would have been able to pursue privatization as a medium term objective.

4. I hope the above information is helpful in dealing with questions on this subject. Please let us know whether we can be of further assistance.

cc: Mrs. Haug
Ms. Maguire

MAGould/cbm

1) ~~MH~~
2) ~~BBC~~

file

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDANCE DATE : 87/09/22 DUE DATE : 00/00/00
LOG NUMBER : 870925025 FROM : Mr. Gandhi, Prime Mi.
SUBJECT : INDIA--The Drought Situation in India and how the Bank can be most Responsive
OFFICE ASSIGNED TO FOR ACTION : Mr. M. Qureshi (E-1241) (ORIGINAL)

ACTION:

_____ APPROVED
_____✓ PLEASE HANDLE
_____ FOR YOUR INFORMATION
_____ FOR YOUR REVIEW AND RECOMMENDATION
_____ FOR THE FILES
_____ PLEASE DISCUSS WITH _____
_____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS : The Letter's contents will be discussed at the Bilateral Meeting during the Annual Meetings. Date: 9/27 at 4:30
cc:

original hand carried to MAQ

सत्यमेव जयते

PRIME MINISTER

New Delhi
September 22, 1987

Dear Mr. Conable,

Thank you for your letter of August 31. I appreciate your expression of concern on the drought situation and the offer of help from the World Bank.

The drought is indeed exceptionally severe, and affects more than half the country. It will have an adverse effect on agricultural production and rural incomes and employment. Fortunately, the economy is in a strong position to meet this challenge. Large scale rural works programmes have been launched which will provide employment while also strengthening water management and conservation capability. We are also making a concerted effort to maximise production from the winter crop. While stocks of foodgrains are comfortable, we will need to import additional quantities of essential items such as edible oils and pulses. Our objective is to manage the situation while simultaneously protecting investment levels and maintaining the tempo of development in the economy.

You will be meeting the Finance Minister in Washington at the time of the Annual Meetings and he will apprise you of the details of our

....2

strategy for managing the drought. He will also discuss with you further ways in which the World Bank can best support the development effort in India in this difficult situation.

Yours sincerely,

Mr. Barber B. Conable,
President,
The World Bank,
Washington D.C. 20433
U.S.A.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 25, 1987

TO: Mr. Barber Conable, President

THROUGH: Mr. Moeen Qureshi, SVP

FROM: Attila Karaosmanoglu, VP, ASI

SUBJECT: INDIA - Drought Assistance

1. You and Mr. Qureshi are meeting the India Delegation on Sunday, September 27. Bank support for the drought rehabilitation effort is on the agenda.

2. As you know, Mr. Gandhi has responded positively to your offer of Bank support. He indicated in his letter of September 22 that the Finance Minister will (i) apprise you of the details of the strategy for managing the drought; and (ii) discuss ways in which the Bank can best support "the development effort" in this difficult situation.

3. Mr. Gandhi's letter also says that the Government's objective "is to manage the situation while simultaneously protecting investment levels and maintaining the tempo of development in the economy."

4. In your meeting with the Minister, Mr. Tiwari, you should stress that the Bank fully endorses this objective and stands ready to assist in a significant way. You should also ask him to provide explicit indications of how the Government plans to achieve this objective.

5. You should ask the Minister to provide the Bank with a statement of the Government's plans for continuing the economic adjustment process which has been underway for some time, particularly in the areas of export policy, trade policy and industrial regulation.

6. To help protect investment levels, we are prepared to adjust some of our projects under implementation to increase disbursements and reallocate funds to urgent drought-related needs. This might yield up to $200 million over the next 12 to 18 months.

7. To help maintain the tempo of development, we are also willing to consider financing a free standing balance-of-payments support loan/credit of about $300 million. The basic objective would be to enable the Government to maintain the pace and direction of economic reform, in particular to avoid tightening of restrictions on imports and reimposing domestic regulatory controls.

8. You may wish to stress that this quick response by the Bank should also be used as an opportunity to consider together longer-term

drought amelioration measures, especially now with the publication of a National Water Policy. The Bank is ready to intensify its involvement in rainfed agricultural development: watershed management, research and extension, soil and moisture conservation programs, etc.

9. The major point to be emphasized is the rationale of this project to help sustain the Government's program of economic policy changes during a very difficult time.

cc: Messrs. Alisbah (AS4DR); Dubey (EAS); India Division Chiefs

STalbot:caz

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

August 31, 1987

Dear Mr. Prime Minister,

As reports on India's severe drought reach us, we are increasingly concerned, as I know you are, that the consequences of this disaster threaten both India's economy and the welfare of its people.

At a time of such acute difficulty for India, I want you to know that the World Bank stands ready to do all we can to help your Government overcome the losses from this destructive drought.

Although the World Bank's role as a development institution limits in some ways our potential response to a natural disaster, we are prepared on an urgent basis to determine how we might directly support potential drought rehabilitation measures, such as in the agricultural sector where the World Bank and India have collaborated so fruitfully over the years. In addition, we could explore ways to help India ensure that adequate financial resources are available for development purposes.

I have asked my staff to consider how we might offer assistance in these areas. Let me assure you that a team of World Bank staff could leave for India on short notice to determine with your Government the support the World Bank might provide.

We look forward to working with you and your Government closely both during this critical period and into the future.

Sincerely yours,

Barber Conable

His Excellency
Rajiv Gandhi
Prime Minister
Government of India
New Delhi, India

cc: Messrs. Qureshi, Karaosmanoglu, Alisbah
Ms. Haug

August 24, 1987

Dear Mr. Minister:

It is indeed good to know that you have been appointed Governor for India on the Board of Governors of The World Bank. Congratulations!

The Executive Directors, Officers and Staff join me in extending to you a warm welcome. We look forward to your participation in the affairs of the Bank.

On a personal note, I hope to have the opportunity of greeting you here in Washington at the time of the Annual Meetings.

Sincerely,

(Signed) Barber B. Conable

Barber B. Conable

The Honourable
Narayan Dutt Tiwari
Minister of Finance
Ministry of Finance
North Block, Central Secretariat
New Delhi 110 001, India

cc: Mr. Rao Sahib
Mr. Alisbah
Mr. Kaffenberger

ETSanidad:jlk

M126

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE August 4, 1987

TO Mr. T.T. Thahane, Vice President and Secretary

FROM C.M. Vasudev, EDS12

EXTENSION 75403

SUBJECT Governor and Alternate for India in the Bank Group

RECEIVED
1987 AUG -4 PM 2:05
OFFICE OF THE VICE PRESIDENT AND SECRETARY

Government of India have intimated that with effect from 31st July 1987 Mr. Narayan Dutt Tiwari, Finance Minister, will be India's Governor in Bank Group in place of Mr. S. Venkitaramanan, Finance Secretary. From the same date, Mr. S. Venkitaramanan will be Alternate Governor for Bank Group.

Government of India have also intimated that official intimation to Bank and Gazette Notification are being issued.

DISTRIBUTION

TO- Executive Director
Country Director, Bank
Investments Director, IFC
File Credential

FROM - E. T. Sanidad
SECRETARY'S DEPARTMENT

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

July 30, 1987

Dear Mr. Ambassador:

Thank you for the message from Ambassador N. Krishnan, Special Envoy of Prime Minister Rajiv Gandhi for Africa. I would be grateful if you would be so kind to transmit the attached reply to Ambassador Krishnan.

With best regards.

Sincerely,

Barber Conable

His Excellency
P. K. Kaul
The Ambassador of India
Embassy of India
2107 Massachusetts Ave., N.W.
Washington, D.C., 20008

Enclosure

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

July 30, 1987

Dear Mr. Ambassador:

Ambassador Kaul has kindly transmitted your message inviting the World Bank to nominate a representative to attend the meeting of the Africa Fund Committee in New Delhi on August 4-7. I am pleased to inform you that Harold W. Messenger, Chief of Country Operations for our Southern Africa Department, will represent the Bank at the meeting. As I informed Minister Tiwari by letter dated April 29, 1987, the World Bank very much supports the objectives of the Africa Fund and is prepared to cooperate in ensuring that these important financial resources are used effectively to assist the African states to achieve economic independence. Please accept my best wishes for a successful meeting.

Sincerely yours,

Barber Conable

His Excellency
N. Krishnan
Special Envoy of Prime Minister Rajiv Gandhi
for Africa
Ministry of External Affairs
Government of India
New Delhi, India

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

file B

DATE: July 20, 1987

TO: Distribution

FROM: Thomas Blinkhorn, Acting Chief, AS4CO

SUBJECT: India - Election of New President

1. We have just learned from the New Delhi Office that Mr. R. Venkataraman, Vice President of India since 1984, has been elected eighth President of India. He will be sworn in and take office on July 25.

2. Since Mr. Venkataraman has had close links with the Bank in the past, the Delhi office proposed that the President send a message of congratulations. After consulting with Ms. Haug in Mr. Conable's office, it was decided to send the attached telex out from the India division under Mr. Conable's name since he will not be back in the office until next Monday.

3. Mr. Venkataraman, who is 77, was a member of the Planning Commission from 1967-71 and was involved in various aspects of the Bank's work in India. Subsequently, he was Finance Minister in Mrs. Gandhi's cabinet (1980-82) and served as Governor of the World Bank from 1980-83. A lawyer and labor leader, he is very highly respected and regarded as a specialist in economic affairs.

Attachment

cc: Mr. Qureshi; Ms. Haug

Distribution

Messrs. Karaosmanoglu (o/r), Kaji, Yenal, Alisbah (o/r), Ritchie (o/r), Skolnik, Gould, McCarthy, Lafourcade, Kraske, Mrs. McLaughlin, India Division Staff

TBlinkhorn:zj

WORLDBANK MSS

ZCZC S4CC0028 S4CS0046
WDIAL
REF : AS4CO
OINFO

-SUBJECT: ELECTION OF PRESIDENT
-DRAFTED BY: TBLINKHORN:ZJ EXT: 32264
-AUTHORIZED BY: THOMAS BLINKHORN
-CC: MR. RAO SAHIB (EDS)

IBRDNEW
-INTBAFRAD, NEW DELHI, INDIA
-ATTN: MR. BEVAN WAIDE
BT
WASHINGTON, D.C. JULY 20, 1987
FOR BEVAN WAIDE. GRATEFUL IF YOU COULD TRANSMIT THE FOLLOWING TELEX TO MR. VENKATARAMAN ON BEHALF OF MR. CONABLE.
QUOTE ON BEHALF OF THE WORLD BANK MAY I EXTEND WARMEST CONGRATULATIONS ON YOUR ELECTION AS PRESIDENT OF INDIA. YOUR PAST ASSOCIATION WITH THE BANK AND MANY OF ITS ACTIVITIES IS WELL REMEMBERED HERE AND WE WISH YOU EVERY SUCCESS IN YOUR NEW POSITION UNQUOTE.
BEST REGARDS, BARBER CONABLE, PRESIDENT, INTBAFRAD.

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THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: June 12, 1987

TO: Files

FROM: Thomas A. Blinkhorn, SCPO, ASAIN

SUBJECT: INDIA - Visit of Government Official

1. On Monday, June 8, 1987, Mr. S. Venkitaramanan, Finance Secretary to the Government of India met with Mr. Qureshi and then Mr. Conable. The Finance Secretary was accompanied by Mr. Rao Sahib and Mr. Vasudev. Messrs. Karaosmanoglu, Alisbah and myself attended both meetings; Mr. Baudon was in the meeting with Mr. Qureshi and Mrs. Haug with Mr. Conable.

Meeting with Mr. Qureshi

2. The Finance Secretary opened the discussions by emphasizing the importance India attaches to the annual India Consortium meetings. He noted that India's was the first consultative group convened by the Bank and that the President of the Bank chaired the first meeting. He then expressed the Government's wish that the level of Bank/IDA lending could be maintained about the FY87 total (US$2.8 billion), explaining that commitments of this magnitude, together with increased external flows from other sources, were critically needed to help maintain a sustainable balance of payments position during a difficult transition period as the Government moves ahead with industrial and trade reforms. He stated that a careful plan for the mobilization and transfer of resources to India was needed.

3. With respect to the Bank's role, Mr. Venkitaramanan said we needed to examine the most appropriate vehicles for future lending -- whether the traditional project approach, or non-project mode or a combination of the two. He intimated that the Government was not averse to considering some form of understanding with the Bank about the broad directions of policy reform efforts. However, he stressed the need for delicacy in the conduct of this kind of dialogue because any hint publicly that the Government was undertaking, or even contemplating, policy change at the behest of the Bank would be damaging and counter-productive, given India's political sensitivities concerning national sovereignty. He specifically mentioned the following areas in which the Government was interested in Bank assistance.

(a) Electronics: Foreign financing needed to purchase components to facilitate reform programs. (Bank sector report on electronics recently completed.) Lending operation might involve combination traditional project approach plus fast disbursing component in support of policy actions taken or

underway. Japan is interested in collaboration. One possible interesting feature: Women's employment generation through village cooperatives. (Note: There is an Electronics project in the program for FY89(S).

(b) Automotive: Bank assistance needed to deal with many problems in this field. Movement on reform of "entry" policies may be difficult since policy changes already taken are having an adverse impact on some firms and resistance is growing to further change. The Government is still willing to explore areas of collaboration with the Bank; possibly a lending operation through the Industrial Credit and Investment Corporation of India (ICICI). (Note: Automotive project is in the current Lending Program as a FY88 reserve.)

(c) Technology: Several special task forces have studied issues relating to improvement of India's technology base; Bank report also issued recently with recommendations for policy reform. Export oriented program might be explored, again through ICICI. (Note: Technology Development project in program for FY89.)

(d) Steel: The Government appreciates difficulties of Bank involvement in this subsector but since it is so critical to industry generally, would it not be possible to consider, say a project to improve steel distribution systems within India?

(e) Poverty Alleviation: The Government wants continued Bank involvement in sectors such as population, nutrition, and possibly new interventions in training and primary education.

(f) Power, Infrastructure: Continued Bank involvement also desired in these areas.

4. Mr. Qureshi, in response, reaffirmed the Bank's highest emphasis and importance to the India Consortium. With respect to future lending, he stated that in addition to the traditional projects in key sectors we needed to explore opportunities for sector-type loans in support of broad policy reform. This approach was desirable because, among other reasons, it would permit us to move more quickly, disburse funds faster and cut down on bureaucracy on both sides. He acknowledged that to date we have not perfected the appropriate instrument for this kind of lending, given the sensitivities that the Finance Secretary mentioned (ref. para 3). However, he wanted the India operations division to give this priority in its future work program.

5. Mr. Qureshi emphasized, however, that whatever appropriate lending instrument (or instruments) were developed, it was important to make the program as non-controversial as we can. Life is too short to waste efforts on trying to change obviously intractable situations, he said. While not prejudging the merits of the Secretary's suggestion on steel (ref. para 3(d) there could be formidable problems on our side so we should perhaps concentrate efforts in other areas.

6. The Bank would hope to be able to assist programs to improve India's export performance, and to the extent that we can support policies and programs in place, or about to be initiated, we would prefer to take that route. However, there could be skeptics in the Board about this approach and we need to explore new ways of informing the Executive Directors and others about the reform policies already underway in India, as well as those contemplated. Mr. Qureshi wondered whether the progress made thus far in the electronics subsector might not lend itself to a special paper that could be circulated to the Board. This would be presented as India's program, not the Bank's or one influenced by the Bank, and it could have a salutary effect to the extent of broadening understanding about the country's problems and what it is doing to resolve them.

7. Mr. Venkitaramanan agreed that "perceptions" about India, inside and outside the country, were critically important and had to be handled with great care. He cited an instance of a coal price increase in India associated with a Bank lending operation. As a result of a Bank telex inquiring about status of the increase news apparently was leaked to the press in India, causing a public furor and resulting in a delay in the agreed increase as well as removal of a key manager in the coal sector. He said that there seemed to be an impression outside India that the Bank has been too "soft" in its relationships with the country. This is patently wrong, he said, and is based on lack of knowledge or misunderstanding about the relationship. He emphasized the "partnership" aspect of the relationship.

8. Mr. Qureshi suggested that it may be possible to mobilize within India the vested interests for change; these could then work with external friends of India (e.g., Japan) to build support for long-term reform programs.

9. He stressed, however, that poverty oriented programs are very important and that the Bank would be prepared to do more to assist India in these areas, particularly with rapidly disbursing lending operations. Poverty-oriented operations are important in helping to make the case for maintaining or increasing levels of IDA assistance to India.
Mr. Karaosmanoglu noted that some success was being achieved in Indonesia with these approaches and cited lending operations in support or urban services and trade policy. The Finance Secretary agreed that India wanted Bank assistance and mentioned specifically urban and rural poverty

alleviation as well as primary education. He added that the Bank may have to accelerate its decision making processes and Mr. Qureshi invited him to bring to his (Qureshi's) personal attention instances of where the Bank is unduly slow.

Meetings with Mr. Conable

10. The subsequent meeting with Mr. Conable generally followed the same pattern, with the Finance Secretary stressing the importance of the India Consortium, the need for high levels of external financing, especially of a fast disbursing type. He also stated that India would do whatever it could to help ensure the success of the Bank's reorganization.

11. Mr. Conable stated that India's economy is capable of faster growth but a more efficient industrial sector was key to achieving that goal. He said the Bank would try to find ways to help increase financial flows to India in support of worthwhile programs.

12. Mr. Venkitaramanan said that India was looking cautiously but carefully at the opportunities for wider access to private capital markets, especially in Japan, and noted that it was sometimes possible to obtain more attractive financing packages there than are available from the Bank or other multilateral lenders. He mentioned that the Prime Minister was chairing a special cabinet committee on exports and repeated the Government's interest in Bank assistance in the automotive, electronics and technology areas. He also mentioned the need to deal aggressively with the disbursement problem. Mr. Conable agreed and said he thought there were obstacles on both sides (Government and Bank). The Finance Secretary noted that the "Indian bureaucracy can be killing" but also said that there was a need for improvement in Bank procedures; he cited alleged delinquencies and inordinate delays by the Bank in approving bidding documents for civil works in an Orissa project (Upper Indravati Power) which he said had slowed implementation by more than two years.

13. Mr. Conable, in closing, said he looked forward to visiting India later this year.

cleared with and cc: Mr. Alisbah

cc: Messrs. Qureshi, Karaosmanoglu, Ritchie, Waide, Greene, Yenal, Lafourcade, Gould, Skolnik, McCarthy, Baudon, India Division staff
Mrs. Haug

TBlinkhorn:zj

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE June 8, 1987

TO Mr. Barber B. Conable

FROM Moeen A. Qureshi

EXTENSION 73665

SUBJECT INDIA: Your meeting today with Mr. Venkitaramanan

On Friday I sent you a briefing note for this meeting prepared in the Region, which I had not had the opportunity to review myself. I was keen that you should have it over the weekend.

There is one issue mentioned in that note on which I suggest you not take any position at this time -- this relates to the share of IDA8 that will be committed to India.

The only uncontested guideline for this issue that we have at the moment is derived from the Eighth Replenishment negotiations -- i.e. that the share for both India and China should, to the extent compatible with other objectives (which is a reference to the needs of Africa and the demands for policy-related lending in various countries, including India) be around 30%. Nothing was agreed in the negotiations on the split between China and India. This is a matter which we will have to look at carefully, taking into account a number of factors including some of the issues mentioned in the briefing note.

There is a second point that is mentioned in the briefing note -- this has to do with IDA reflows. There is a suggestion in the note that we might consider committing reflows to India more or less in proportion to the share of the reflows provided by India. This is yet again a very sensitive issue which will first have to be discussed in our Board. We have not put forward any proposals so far for committing future reflows. IDA reflows upto the early 1990's are likely to be absorbed by the short-fall in IDA5; but we could undertake advance commitment of the reflows thereafter. In my view, it is desirable that we should include during the period of IDA8 some amount, say another $1 billion or so, of such commitments against future reflows. However, when we discussed this issue last time, we agreed that we would not show our hand on the availability of these potential resources until such time as we have got IDA legislation through the Congress. The allocation of these additional resources is an even more complex issue.

For all these reasons, it is important that we avoid taking any position at this time on the share of IDA8 that India will get. Needless to say, our standard response should be that we will make the maximum effort on our side, and that India's case will be strengthened by their doing the same, particularly by undertaking policy changes in some key areas as outlined in the briefing note.

cc: Mr. Karaosmanoglu

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: June 5, 1987

TO: Mr. B. Conable

THROUGH: Moeen A. Qureshi, SVP, Operations MAQ

FROM: Attila Karaosmanoglu, VP, Asia AK.

SUBJECT: INDIA - Meeting with Government Official

1. Mr. S. Venkitaramanan, Finance Secretary to the Government of India and Indian Governor for the Bank, is scheduled to meet with you at 4 p.m. on Monday, June 8 following a meeting at 3:15 p.m. with Mr. Qureshi. He will be accompanied by Mr. Rao Sahib and Mr. Vasudev. Mr. Bilsel Alisbah, the India Country Director, and myself, along with Mr. Blinkhorn of the India Operations Division will also attend.

2. You will recall that Mr. Venkitaramanan met with you on April 8 at the time of the Development Committee meetings. He will also head the Government delegation to the India Consortium meetings in Paris on June 22 and 23.

3. We understand from Mr. Waide, the Bank's resident representative in New Delhi, that Mr. Venkitaramanan may wish to raise the following matters, among others: (a) Continuation of the high level of Bank/IDA lending but with less policy conditionality; (b) Continued importance to the India Consortium meetings, chaired by the Bank, as a primary vehicle for mobilizing external financing resources for India.

4. With respect to lending and conditionality, you may wish to make several points:

(a) Commitments to India under IDA-7 (FY85-87) totaled SDR 1.84 billion.

(b) Under IDA-8, commitments will reflect understandings reached at the Eighth Replenishment negotiations for the major blend countries (e.g., that the share should, to the extent compatible with other objectives, be around 30%).

(c) With respect to IBRD lending, annual commitments during the last three years averaged US$1.7 billion. In the current fiscal year, they will reach a record US$2.13 billion, which with IDA commitments of US$677 million (SDR 549.7 million), will mean total lending in FY87 of US$2.8 billion.

(d) With such a high level of exposure, the IBRD lending program must necessarily be predicated on continued strengthening of India's debt service capacity, which in turn depends on improvements in policies with respect to industry and exports and continued progress in accelerating disbursement performance.

(e) Our FY87 Country Economic Report, now with the Government and recently circulated to members of the India Consortium, examines performance of the industrial sector and the requirements for improving its efficiency and productivity. We recommend that you express the hope that the report will form a good basis for close and continuing Bank dialogue with the Government on trade and industrial policy issues. While the Bank appreciates the formidable political constraints the Government faces in accelerating trade and industrial policy reform, it is nevertheless clear that such reform is vital for India's future economic growth, continued development and creditworthiness.

(f) Progress on the above issues necessarily must be a major factor in determining the scale of the Bank's lending to India. With meaningful progress, the Bank would be prepared to increase its level of IBRD lending to help support the balance of payments, fiscal and social adjustment costs involved. In the absence of adequate progress, however, the Bank could not continue to justify IBRD lending at the average level of the last three years (US$1.7 billion).

(g) You might also wish to emphasize that in the conduct of our dialogue on the above matters we will maintain a discreet, low-key posture, given the political sensitivities involved, and continually look for opportunities that would permit us to support policy actions taken or underway, thereby delinking, to the extent feasible, lending from reform.

5. With respect to the India Consortium, you might emphasize that we too appreciate its importance and will continue to provide appropriate staff and managerial support to ensure its continued success.

6. We understand from the Indian Executive Director's Office that the Secretary may also raise two additional matters: (a) India's relationship with the Bank after reorganization; and (b) future IDA allocations to India, particularly in view of the projected increases in Indian repayments on past Credits.

7. On the matter of reorganization, the Indians, although still concerned about amalgamation of the Asia regions, see potential benefit from more delegation of responsibility and accountability at the Country

Director level and would hope that this leads to faster decision making by the Bank. You may wish to underscore that a major goal of reorganization is to improve the institution's responsiveness to Borrower needs and India should feel confident that management is putting in a strong team to ensure that the benefits of reorganization are realized promptly and in full. However, the point may also be made that if India is to make maximum use of the Bank's increased efficiencies, it will have to concentrate on some priorities and/or bottlenecks at its end -- e.g., continued progress on industrial and trade reform (ref. para. 4(d)); more timely clearances on environment and resettlement aspects of certain development projects.

8. With respect to IDA reflows, India's payments of principal and charges on outstanding Credits (since 1949, a total of 185 Development Credits have been approved to India totalling US$14 billion) are estimated to total US$80 million in FY87, increase to US$167 million in 1988, to US$182 million in FY89 and reach US$200 million by FY90. 1/ Mr. Venkitaramanan may express the Government's desire to explore whether a case could be made, given these growing repayments, to allocate a larger share of IDA financing for India in the future. No doubt you are aware of the status of the reflow issue in the context of the IDA-8 replenishment negotiations. There is some legitimacy to the Indians' point and one approach may be to consider allocating the charges received from the reflows to eligible Borrowers on the same basis as the overall IDA allocation formula. In India's case, charges account for US$46 million of the IDA reflows in FY87; US$96 million in FY88; US$98 million in FY89 and about US$100 million in FY90. Additional concessionary resources could help considerably in facilitating the wider role we envision in assisting India in social sector development, particularly on poverty alleviation, training and education and on the social impact of economic adjustment programs.

9. Attached for your information is a brief note on India's political and economic situation as well as a biographical note on Mr. Venkitaramanan.

Attachments

cc: Messrs. Alisbah, Robless, Ritchie, Greene

TBlinkhorn:zj

1/ Loan Department estimates as of end-January 1987.

Political Background

1. Two years have passed since Indira Gandhi was assassinated and Rajiv Gandhi became Prime Minister. The national elections, held in December 1985, produced a record absolute majority in the Lok Sabha (Parliament) for Gandhi's Congress (I) Party which campaigned on the theme of national unity. At the national level, unity among the opposition parties failed to emerge, and a number of opposition leaders lost their Lok Sabha seats. However, State and municipal elections held since then have shown much less of a swing to the Congress (I), and regional opposition parties increased from four to eight the number of States ruled by non-Congress governments.

2. Although the Congress Party and the Central Government are still secure, they are preoccupied with divisive regional, ethnic and religious pressures, primarily the Punjab crisis. In consequence, Gandhi's initial momentum for opening up and liberalizing the economy has slowed down considerably. Indeed as Gandhi rebuilds support from within the traditional sources of power in the Congress party, there will be renewed pressure for safeguarding India's post Independence consensus--that the achievement of the nation's most basic goals of growth, social justice and self reliance, requires a centrally planned industrial strategy, with the State as promoter, owner, and regulator.

Economic Background

3. Notwithstanding the difficult political situation, India's economic performance in the 1980's has been good. Annual GDP growth has averaged 5%, compared with the historical rate of 3.5% during the 1960's and 1970's. Inflation on average has not exceeded single digits, and foreign borrowing has been kept to sustainable levels. There is no assurance, however, that this good performance can be maintained. Sustaining recent GDP growth will require significant improvements in productivity and efficiency. The already high overall savings rate makes difficult further increases in the investment rate, which has been the principal driving force for recent GDP growth. Within overall savings, private sector savings have grown strongly, but public sector savings have diminished to a dangerously low level. Slow export growth, constraining imports and creditworthiness, remains a long-standing problem. Population growth is persistent (2.2% annually) and absolute poverty remains widespread.

4. It is critical for India to maintain GDP growth of over 5% p.a. over the longer term in order to deal more effectively with the twin challenges of alleviating poverty and accelerating employment growth for a fast expanding labor force. To do so while maintaining balance of payments stability will require that export growth be accelerated to finance the imports required for GDP growth.

5. Manufacturing has the greatest potential for contributing to these overall macroeconomic objectives. India's heavily restrictive industrial regulatory policies and highly protective trade regime, however, have resulted in an inefficient and high cost industrial structure which is not internationally competitive. Since the mid-1970's and especially during the past two years, Government policy has begun to address these problems. As a result, manufacturing growth has begun to expand significantly and now exceeds Plan targets; maintenance of this faster pace, however, will require that the process of industrial and trade policy reform be accelerated to enhance efficiency, reduce costs, increase competitiveness and expand the role of the private sector. But this will not be easy. A new consensus on goals and means will need to be established. In India's vigorous democracy, with its ample vehicles for the expression of opinion and the exercise of influence, the development of such a new consensus on public policy will have to proceed step by step and will take time.

BIO-DATA OF MR. S. VENKITARAMANAN
FINANCE SECRETARY, GOVERNMENT OF INDIA

Name	S. VENKITARAMANAN
	Joined Indian Administrative service in 1953 and was allotted Tamil Nadu Cadre.
1957-1962	Under Secretary and Deputy Secretary, Department of Finance, Government of Tamil Nadu
1962-66	Served the Central Government in different capacities in the Ministries of Steel and Heavy Industry and Food & Agriculture
1964-66	Private Secretary to Ministers for Steel and Food & Agriculture
1966-68	Underwent a Master's programme in Industrial Administration in the Carnegie Mellan University, Pittsburg, USA; on return appointed as Chairman, State's Industrial Development Corporation, Government of Tamil Nadu
1969-73	Finance Secretary, Government of Tamil Nadu
1974-77	Worked in the Development Projects in Nutrition Population and Family Welfare in the World Bank
	Thereafter became President/Managing Director of Southern Petro-chemicals Industries Corporation, a Fertilizer Company in the Joint Secter for six years.
Oct. 1983 to 7th Feb. 1984	Secretary, Department of Power, Ministry of Energy, Government of India
From Feb.8, 1985	Finance Secretary, Government of India
	Alternate Governor for India in the World Bank and the Asian Development Bank
	Chairman, Indian Investment Centre
	Member for Finance, Atomic Energy Commission and Space Commission

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Date: May 13, 1987

To: Mr. Barber Conable, President

Through: Mr. Ernest Stern, SVPOP

From: W. David Hopper, RVP, South Asia

Subject: INDIA--Your Meeting with a Delegation of Indian Industrialists

Background

1. You will be meeting members of a delegation of leading Indian industrialists on Thursday, May 14, at 2:30 p.m. Mr. Rao Sahib will bring the group to your office. He will be accompanied by the Indian Ambassador to the U.S., His Excellency Mr. B.K. Kaul and Mr. Vasudev of the Executive Director's office. Mr. Hopper and Mr. Robless will attend from the Region. Seven senior members of the delegation will attend the meeting led by Mr. R.P. Goenka, President of the Federation of Indian Chambers of Commerce and Industry (FICCI) and Chairman of Ceat Tyres. A list of the other members of the group and their affiliations is attached together with a list of the full delegation visiting the United States.

2. The delegation is visiting Washington to attend the Annual Meeting of the Indo-U.S. Joint Business Council (JBC), an organization of private sector industrialists from India and the U.S. established to promote cooperation and collaboration between the industrial sectors of the two countries. The delegation will also be meeting with U.S. Chambers of Commerce in various cities including Washington and New York. The delegation comprises 35 individuals, including key figures from some of the leading industrial houses (Tata, Birla, Modi).

3. Mr. Rao Sahib will introduce the delegation after which Mr. Goenka will address you. The meeting is essentially a courtesy call during which the delegation would also like to familiarize you with India's private sector--what it is, what it is doing, the prospects, problems, and issues facing the sector.

4. You may wish to refer to the industrial and trade policy reforms initiated by the Government of Prime Minister Gandhi. A broad conclusion of the considerable body of economic and sector work addressing industrial and trade policy issues, which recently has been completed by the Bank, is that the reforms to date represent a clear departure from past policies and are in the right direction. They have proceeded slowly and unevenly, however, in part due to the difficult political and social issues involved. In this context, you may wish to ascertain the delegation's perceptions about:

- the impact of the policy reform program to date on the business climate;

- the desired scope and agenda for further reforms, and

- the prospects for further reform over the short- to medium-term.

5. The delegation will probably ask about the Bank's proposed lending program for industry. You may wish to inform them that during the period FY83 to FY87 the Bank lent US$1.6 billion for the industrial sector representing 13% of total Bank lending to India. This has included projects in support of the fertilizers, petrochemicals, and cement subsectors as well as general industrial lending channelled through the Industrial Credit and Investment Corporation of India (ICICI).

6. During the next five years (FY88 to FY92), we envision lending around US$3 billion to Indian industry, representing approximately 25% of planned total Bank lending for the country. This expanded industrial lending program will support industrial, trade, and other policy and institutional improvements to increase competition and the sector's efficiency and productivity. It will be underpinned by the extensive economic and sector work referred to above, which includes domestic regulatory policies, exports, trade-related incentives, credit and capital markets, technology policies as well as subsector-specific work in areas such as automotive industries, electronics, and capital goods.

7. The Bank's proposed industrial lending program includes a combination of sector-wide operations in support of progress in broad-based policy and institutional reforms as well as operations that address the investment needs and policy issues of specific subsectors. We envisage that sector-wide operations would include lending for industrial investment through the Industrial Development Bank of India (IDBI), ICICI and other financial institutions as well as lending for institutional upgrading of technology development. Subsector-specific operations would focus on areas such as textiles, automotive industries, electronics, and capital goods.

8. There is a possibility that the delegation may also raise the issue of conditionality in the Bank's lending operations. There is a perception in some circles in India that the Bank is becoming too tough in the conditions it attaches to certain lending operations. In response, you may wish to make the following points:

(a) Understandings or conditions associated with Bank lending operations are designed to reflect the culmination of a long process of discussion and an agreement between governments and the Bank on the policies or actions considered essential to help make the investment most

productive and beneficial for the country. We cannot, nor do we intend to, impose our will on any of our borrowers.

(b) In the specific case of India, the Bank's assistance objectives will continue to be determined by the Government's own policy actions to further economic growth and to help make it sustainable so that it serves India's and the Bank's goal of development with equity. The thrust of Bank lending will be to support the implementation and help meet the adjustment costs arising from such policy actions.

Attachments

Cleared with & cc: Mr. Robless (ASAIN)

cc: Messrs. Qureshi (SVPFI); Cheetham, Clift (ASA); Lerdau, Geli (ASPDR); Golan, de Capitani (INDDR); Raghavan (INDD2); Rowat (INDD3); Gould (ASPID); Kassum (CS2/IFC); Blinkhorn, Greene, McKay, (Ms.) Mott (ASAIN)

STalbot:caz

List of delegates from India desirous of meeting Mr. Conable on May 14, 1987

1. Mr. R.P. Goenka,
President
Federation of Indian Chamber of Commerce

2. Mr. M.V. Arunachalam
Chairman
India Section
Indo-US Joint Business Council

3. Mr. L.M. Thappar
President
Ballarpur Industries
New Delhi

4. Mr. Rahul Bajaj
Chairman
Bajaj Auto Ltd.
Pune.

5. Mrs. Promila Madan
Assistant Secretary
Federation of Indian Chamber of Commerce

R. P. GOENKA

PRESIDENT

Federation of Indian Chambers of Commerce
& Industry
Federation House, New Delhi - 110001

	TELEX		PHONE
BOMBAY	011-71285	CEAT IN	493-0621
CALCUTTA	021-7317	DBCO IN	20-6831
DELHI	031-66022	CEAT IN	301-3729
FICCI	031-62521	FICCI IN	331-9251

CHAIRMAN

DUNCANS ENTERPRISES

INDIAN DELEGATION

U.S.–INDIA BUSINESS LEADERS CONFERENCE

Sponsored by
THE INDO-U.S. JBC, Washington, D.C. May 11–13, 1987

R P Goenka

President
Federation of Indian Chambers of Commerce
and Industry

Chairman
Ceat Tyres of India Ltd
463, Dr Annie Besant Road
Bombay-400 025

Telephone : 301-3729
Telex : 031-66022
Cable : CEATTYRES

Leader

Business Interests

Cables, automobile tyres, light engineering & transmission towers, electronics, fibre glass, pharmaceuticals, chemicals and petrochemicals

Special Business Interests with USA

Carbon black, chemicals and petrochemicals, power cables, pharmaceuticals, etc

M V Arunachalam

Chairman
Indian Section
Indo-US JBC

Chairman
TI Diamond Chain Limited
'Tiam House'
28, Rajaji Salai
Madras-600 001

Telephone : 510996
Telex : 041-7477
Cable : TEEAYE

Co-Leader

Business Interests

Manufacture of cycles, accessories, dynamo lamps, steel tubes, etc

Special Business Interests with USA

Collaboration with Diamond Chain Co., Indianapolis; Bundy Tubing of India Ltd., Collaboration with Bundy Corporation, Detroit

Chairman, EID-Parry (India) Ltd. Co-Promoters with Chevron Chemical Company, San Francisco and I.M.C., Illinois of Coromandel Fertilisers Limited, India

Rahul Bajaj

Chairman & Managing Director
Bajaj Auto Ltd
Bombay - Poona Road
Akurdi
Pune-411 035

Telephone : 82851
Telex : 0145-308
Cable : AUTORIKSHA

Business Interests

Technology transfer for the automotive sector and for computers

Special Business Interests with USA

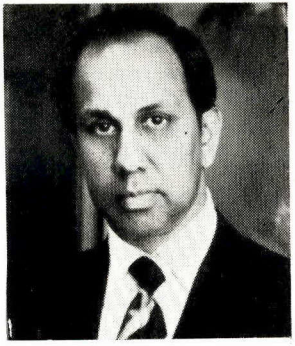
To explore possibilities of sale of scooters and three-wheelers in the USA

Aroon K Basak

Director General
Associated Chambers of Commerce & Industry
of India
17, Parliament Street
New Delhi-110 001

Telephones : 310704, 310749 & 310779
Telex : 031-2537
Cable : ASSOCHAM

Sudarshan Kumar Birla



Partner
Birla Group

Chairman

- VXL India Ltd
- Mysore Cements Ltd
- J C Mills Ltd
- Nalin Industries Sdn Bhd (Malaysia)
- Universal Edible Oils Inc (USA)

Birla Building
Calcutta-700 001

Telephone : 28-0135
Telex : 021-3355 & 3262
Cable : LUCKY

Business Interests

Cement, textiles, heavy chemicals, edible oils, plastics, engineering, etc

Special Business Interests with USA

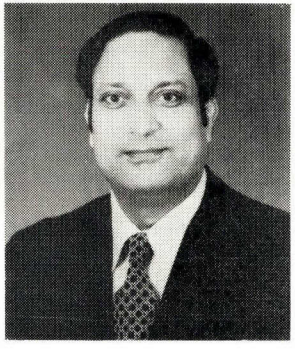
Edible oils & RTW

Tarun Das

Director General
Confederation of Engineering Industry
23—26, Institutional Area
Lodi Road
New Delhi-110 003

Telephones : 615693 & 615147
Telex : 031-66655 AIEI IN
Cable : BUILDPOWER

V L Dutt



Chairman & Mg Director
— The K C P Limited
— Fuller K C P Limited
183, Mount Road
Madras-600 006

Telephone : 88181
Telex : 041-6801 & 375
Cable : KECEPE

Business Interests

Manufacture of sugar machinery, cement machinery, industrial machinery, steel castings, sugar, cement and industrial alcohol

Special Business Interests with USA

Joint venture with Fuller International Inc., 2040 Avenue C, Post Box No. 2040, Bethlehem, Pennsylvania, U.S.A. for the manufacture of machinery and equipment for complete cement plants up to 4,000 TPD, mineral, non-mineral, mining and metallurgical industry, with special interest in pollution control

Arun Kumar Ghosh

Managing Director
Robson, Black & Ghosh (Management Consultants) Pvt Ltd
RCTC Building
11, Russell Street
Calcutta-700 071

Telephones : 29-9650 & 29-9668
Telex : 021-3557 TURF IN
Cable : ROBSMORCO

Business Interests

Management consultancy, computer services including, software, Trade Mark and Patent services

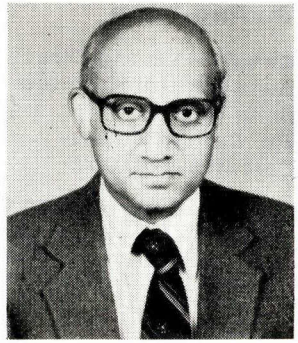
Special Business Interests with USA

Expansion of various management services currently being provided to a number of US companies

P P Gupta

Chairman & Mg Director
CMC Limited
1, Ring Road, Kilokri
Opp Maharani Bagh
New Delhi-110 014

Telephones : 6830087 & 6835086
Telex : 031-66082
Cable : CEMCEE



Business Interests

Support of all types of computers which are imported into India—maintenance etc

Special Business Interests with USA

— Computer, information technology

— Also interested in software export

Sudhir Jalan

Chairman & Mg Director
Bells Controls Limited
Bells House
21, Camac Street
Calcutta-700 016

Telephones : 445211/15
Telex : 021-3334, 4045 & 7119
Cable : BELCONTROL

Business Interests

Process control instrumentation and systems, soaps, fatty acids, glycerine, cast iron products, oxygen & acetylene, industrial gases, cotton textiles, airconditioning, refrigeration, hydraulic equipments, industrial fans, blowers, etc

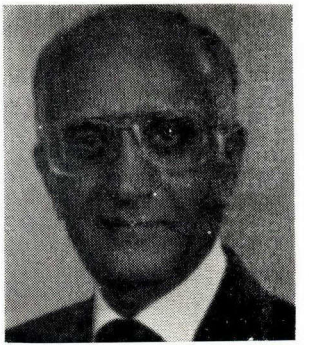
Special Business Interests with USA

Interested in technical collaboration for process control instrumentation and systems, mini computers suitable for banks, programmable logic controllers and bio-medical instrumentation

Neelkanth A Kalyani

Chairman of the Board & Chief
Executive Officer
Bharat Forge Limited
Mundhwa
Pune-411 036

Telephones : 70451 & 70391
Telex : 0415-234
Cable : FORGE



Business Interests

Manufacture of steel forgings, finish machined automobile crankshafts and other components. Closely related companies manufacture steel, automobile axles, brake systems and press forgings

Special Business Interests with USA

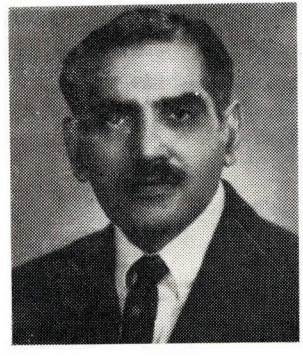
— Collaboration with Rockwell for axles and axle assemblies

— Collaboration with Bendix for hydraulic brakes, etc

Faqir Chand Kohli

Director-in-Charge
Tata Consultancy Services
Air India Building
Nariman Point
Bombay-400 021

Telephones : 2024827 & 2023052
Telex : 011-3733 TCSB
Cable : TATCOMP



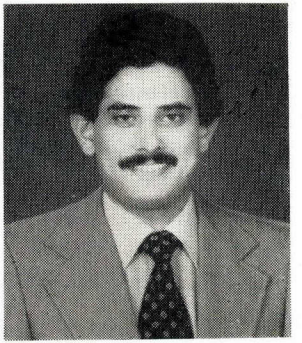
Business Interests

Computer system consultants, software developers, both for commercial, scientific market segments

Pradip D Kothari

Vice-Chairman & Managing Director
Kothari Industrial Corpn Ltd
Kothari Buildings
114, Nungambakkam High Road
Madras-600 034

Telephones : 478355 (P) & 472131
Telex : 041-325 KS IN
Cable : KOTHARI



Business Interests

Tea & coffee plantations, chemicals, fertilisers, textiles, hire-purchase, leasing & finance, manufacture of soluble coffee freeze & spray-dried, vegetable-based protein products & powdered food beverages, computers, etc

Special Business Interests with USA

Interested in exploring joint ventures with US-based companies in the field of high-tech & other related business

Binay Kumar

Chairman & Managing Director
Banaras House Limited
New Delhi House, 11th Floor
27, Barakhamba Road
New Delhi-110 001

Telephones : 3312443 & 3315515
Telex : 66605 & 65024 BAHL IN
Cable : BANARASHOU

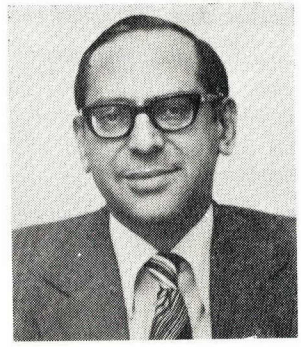
Business Interests

Export-import and international trading

M K Kumar

Chairman & Chief Executive
Best & Crompton Engg Ltd
29, Rajaji Salai
Madras-600 001

Telephone : 512723
Telex : 041-386 & 8014
Cable : BEST



Business Interests

Manufacture of pumps, castings, lifts, automotive electrical equipment, control panels, equipment for power electronics, carbon brushes, process and cinema arc carbons, train lighting alternators, etc.

Special Business Interests with USA

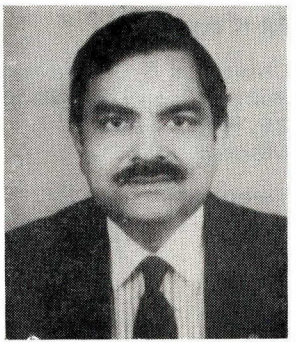
To promote investment in US industry into new areas like commercial forestry, marine products export and non-conventional energy development

Rajendra Singh Lodha

Chartered Accountant

Vice-Chairman
Alfred Herbert (India) Ltd
13/3, Strand Road
Calcutta-700 001

Telephones : 28-4801/5 or 28-3131
Telex : 021-7314
Cable : CERTIFIED



Business Interests

Import and manufacture of machine tools, inspection equipment, rubber processing machinery, pulveriser dryers and environmental and pollution control equipment

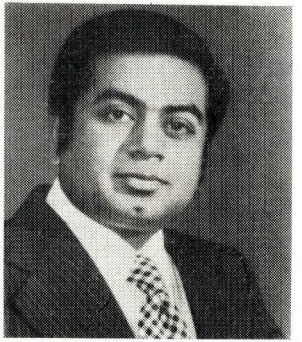
Special Business Interests with USA

Interested in setting up joint ventures in India on buy-back basis for precision engineering products and machine tools, rubber processing machinery and other special purpose machines as well as import agencies for machine tools, electronic, medical and diagnostic equipment and pharmaceutical diagnostic kits, etc

Krishan Kumar Modi

Vice-Chairman & President
Modi Group of Industries
Modinagar-201 204

Telephones : 2279 & 2201
Telex : 031-3428 & 3456 MODI IN
Cable : MODIPON



Business Interests

Manufacture of caustic soda, cigarettes, cement, man-made fibres, industrial gases, sophisticated weedicides, paints and varnishes, spirit, steel castings, wire rods & rolled wires, sugar, soap, tyres, tubes & flaps, tufted carpets, vanaspati, welding electrodes, Xerox machines, floor cleaners, room deodorants, etc

Special Business Interests with USA

— Exchange of technical know-how and financial participation
— Cigarettes, nylon-6, tyres, tubes & flaps, Xerox machines, etc

Mahendra K Modi

Managing Director
Modipon Limited
Modinagar-201 204

Telephones : 2278 or 2201 (Modinagar)
619031-32-33 (New Delhi)
Telex : 031-3456 MODI IN
Cable : MODIPON

Business Interests

— Exchange of technical & financial collaboration between USA and India

— Export & import business between two countries

Special Business Interests with USA

Transfer of high technology for automobile industry

Minoo H Mody

Chief Executive Officer
Tata Sons Ltd

Chairman
Tata Burroughs Ltd
Bombay House
Homi Mody Street
Bombay-400 001

Telephone : 2048187
Telex : 011-2618 & 2731
Cable : TATASONS

Business Interests

Steel, commercial vehicles, chemicals, electric power generation and distribution, tea, coffee, airconditioning, refrigeration, hotels, commercial printing, textiles, garments, insurance and re-insurance brokerage, housing, watches, computer consultancy services, computers, cosmetics, pharmaceuticals, electric appliances, process control systems, oil well drilling, telephone instruments and PABX systems

Special Business Interests with USA

Collaboration with UNISYS, Blue Bell, Philadelphia, USA

V Narayanan

Chairman & Mg Director
Pond's (India) Limited
26, Commander-in-Chief Road
Madras-600 105

Telephone : 477533
Telex : 041-7382 PIL IN
Cable : VASOPONDS

Business Interests

Manufacture and marketing of cosmetics & toiletries, clinical thermometers and shoe uppers

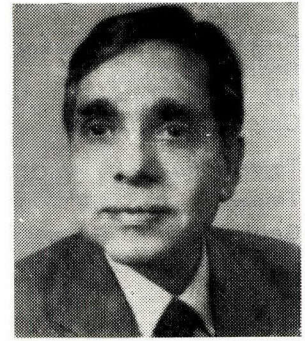
Special Business Interests with USA

40% of the equity of Pond's (India) Ltd. is held by US Corporation. Exports of thermometers and shoe uppers to USA

D H Pai Panandiker

Secretary-General
Federation of Indian Chambers of Commerce
and Industry
Federation House
Tansen Marg
New Delhi-110 001

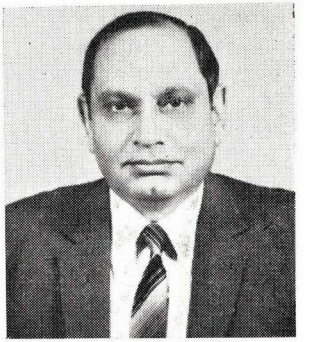
Telephones : 3319251 (11 Lines)
Telex : 031-2546 & 62521
Cable : UNICOMIND



Vijay Kumar Parashar

President & Chief Executive
Stone India Ltd
16, Taratalla Road
Calcutta-700 088

Telephone : 77-3077
Telex : 021-7249
Cable : STONECO



Business Interests

Manufacture and marketing of sophisticated electrical and mechanical engineering products, e.g., train lighting, pantographs, airconditioning, air brakes for rolling stock and locomotives, brake regulators, etc. to Railways, and special AC/DC rotating machines and navigational lights to industrial customers

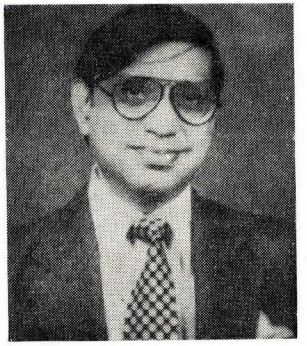
Special Business Interests with USA

Collaboration for manufacture of air brakes for rolling stock and locomotives with WABCO, USA

Ashok C Pratap

Barrister-at-Law
Ashok Pratap & Co
Barrister & Advocates
Cook's Building
Dr Dadabhai Naoroji Road
Bombay-400 001

Telephones : 2048090 & 2042532
Telex : 011-5109
Cable : INDIALAW



Business Interests

International legal practice

Special Business Interests with USA

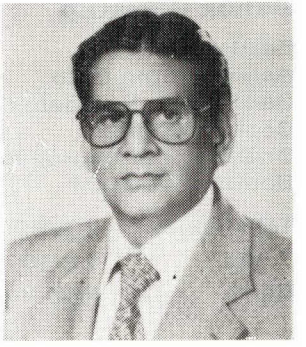
— Represents several US multinationals doing business in and with India and Indian companies doing business in USA

— Also acts as legal counsel on certain matters to US Consulate General in Bombay

Kulwant Rai

Chairman
Usha Rectifier Corpn (India) Ltd
3, Cama Place
New Delhi-110 066

Telephone : 670510
Telex : 031-65226 RKKR IN
Cable : RECTIFIER



Business Interests

— Manufacture of power semi-conductors, mini/micro computers and computer peripherals, process control instruments, OA products like EPABX, PP copiers, electronic typewriters, galvanised steel sheets, PVC pipes, aerated drinks and grain processing

— Marketing for foreign companies

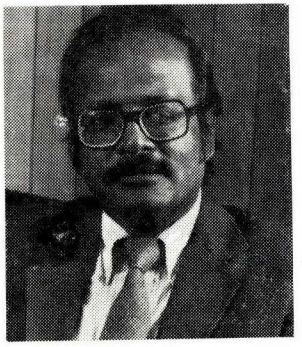
Special Business Interests with USA

— Collaboration for processed foods, cereals, telecom products and cold-rolled steel; joint venture for export of computer software

Vinay Bharat Ram

Managing Director
DCM Ltd
Kanchenjunga
18, Barakhamba Road
New Delhi-110 001

Telephones : 3315978 & 3315971
Telex : 031-62785 & 62511
Cable : FORESIGHT



Business Interests

Textiles, chemicals, fertilizers, vanaspati, cement, electronics, sugar, steel castings, rayon tyre cord & fabrics, alcohol, etc

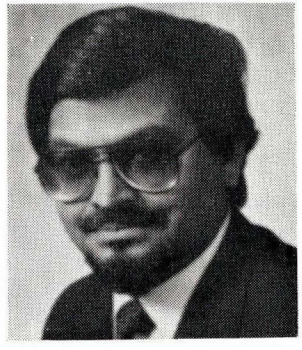
Special Business Interests with USA

Textiles and electronics

Pradip Kumar Rohatgi

Managing Director
Arthur Andersen & Co
Maker Towers
F-102B
Cuffe Parade
Bombay-400 005

Telephones : 212929 & 217824
Telex : 011-3382 & 3749



Business Interests

Public accountants and management consultants (specialised in joint ventures in India)

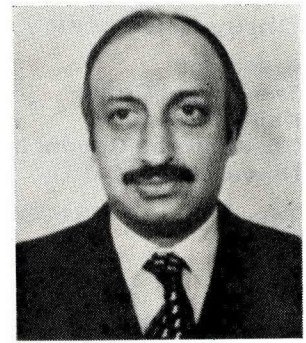
Special Business Interests with USA

Affiliated with Arthur Anderson & Co., USA

Shrikant G Ruparel

Managing Director
The Kolhapur Sugar Mills Ltd
Udyog Bhawan
Walchand Hirachand Marg
Ballard Estate
Bombay-400 038

Telephone : 264381
Telex : 011-73040
Cable : KOPSUGAR



Business Interests

Manufacture of chemicals and computer technology

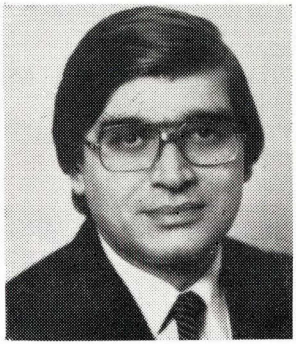
Special Business Interests with USA

Computer technology

Dhruv M Sawhney

President
The Triveni Group
Kailash
26, Kasturba Gandhi Marg
New Delhi-110 001

Telephones : 3310021 (5 Lines)
Telex : 031-66563 &
66193 TEWL IN
Cable : TEWMACH



Business Interests

— Manufacture of steam turbines, sugar mill machinery, metallurgical & mineral machinery and effluent treatment systems

— Services & equipment supply in the field of oil & gas

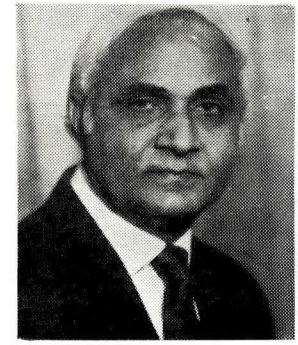
Special Business Interests with USA

Existing technology transfer arrangements with Dresser—Rand, General Electric and IRI existing joint venture companies with NL and Pool Intairdril

K P Singh

President & Managing Director
DLF Universal Ltd
21-22, Narendra Place
Parliament Street
New Delhi-110 001

Telephones : 322583, 322682 & 322930
Telex : 031-66885 DLF IN
Cable : HOMELY



Business Interests

Precision electric motors, cooler fans, pumps, real estate development, development of residential and commercial complexes

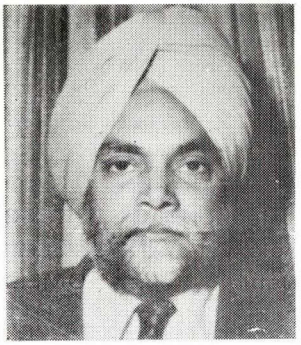
Special Business Interests with USA

- Technology transfer and export of precision electric motors
- Importation of turbo generators and turbo compressors for gas pipelines and power applications in India

Manmohan Singh

Chairman & Mg Director
Frick India Ltd
3, Sansad Marg
New Delhi-110 001

Telephones : 310104, 311697 & 312610
Telex : 3238
Cable : HUMITEMP



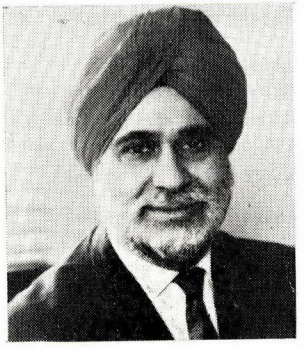
Business Interests

Industrial airconditioning and refrigeration equipment

Special Business Interests with USA

Frozen foods and water purifier equipment

Bhai Mohan Singh



Chairman
— Ranbaxy Laboratories Ltd
— Max India Ltd
— Montari Industries Ltd
19, Nehru Place
New Delhi-110 019

Telephones : 6411991 & 6416088
Telex : 62110 & 62423
Cable : RANBAXY

Business Interests

Manufacture and export of basic drugs, fine chemicals, pharmaceutical specialities for human and veterinary use, laboratory chemicals & reagents, herbal health & hair-care products, surgical dressings/bandages & diagnostics to about 30 countries in Europe, Africa, Gulf and East Asia

Special Business Interests with USA

— To obtain technology in the field of biotechnology, new generation drugs, drug intermediates and diagnostics, pesticides, herbicides, weedicides, insecticides, rodenticides, etc

Raunaq Singh

Chairman
Raunaq Group of Industries
Allahabad Bank Building
17, Parliament Street
New Delhi-110 001

Telephones : 352539, 311482 & 311870
Telex : 031-66621 BST IN
Cable : TUBEMAKERS

Business Interests

Manufacture and export of steel tubes and pipes, automobile tyres and tubes, automobile gears/components, engineering/civil services, etc

Special Business Interests with USA

- General Tire International Co., Akron, Ohio, USA is technical collaborator for our automobile tyres & tubes
- Interested in joint ventures or technology for computers, electronics, petro-chemicals and telecommunication equipments from USA

Ratan Tata

Chairman
Tata Industries Ltd
Bombay House
24, Homi Mody Street
Bombay-400 020

Telephones : 2045315 & 2049131
Telex : 011-2618 & 2731
Cable : TATIND

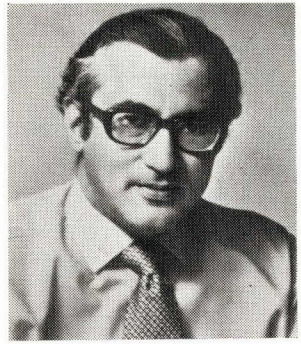
Business Interests

Tata Industries is currently focussing on the promotion and establishment of new ventures in various areas of high technology which are relevant to the country's national objective. Some of the areas in which a beginning has been made are : Advanced technology, telecommunications and oil exploration

L M Thapar

President & Mg Director
Ballarpur Industries Ltd
Thapar House
124, Janpath
New Delhi-110 001

Telephone : 310411
Telex : 031-62645 BILT IN
Cable : SPIRITUAL



Business Interests

Paper & pulp, chemicals, glass, salt, starch, office stationery, vanaspati, etc

Special Business Interests with USA

A number of equity joint ventures with companies like Corning and Du Pont and ongoing collaborations

A H Tobaccowala

Chairman
Voltas Limited
19, J N Heredia marg
Ballard Estate
Bombay-400 038

Telephone : 268131
Telex : 011-73354 VL BY IN
Cable : SATVOL

Business Interests/Special Business Interests with USA

— Director of Tata Incorporated, New York

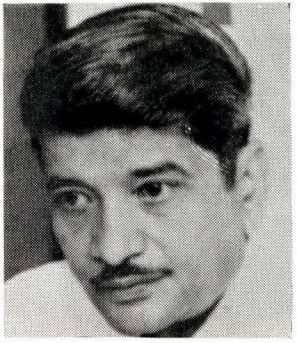
— Voltas' principals in the States are :

Du Pont (for chemicals); P & H (for cranes); Yale (for forklifts); and Mattison (for grinding machines)

T T Vasu

Director
TTK Group of Companies
6, Cathedral Road
Madras-600 086

Telephones : 472040 & 472669
Telex : 7865 TTK IN
Cable : PERFUMES



Business Interests

Manufacture of consumer durables like pressure cookers, pharmaceuticals, chemicals, rubber contraceptives, hosieries, etc

Special Business Interests with USA

Collaboration with American Brands International Corporation for manufacture of "Swingline" staplers and "Master" locks

Promilla Madan

Assistant Secretary
Federation of Indian Chambers of Commerce
and Industry
Federation House
Tansen Marg
New Delhi-110 001

Telephones : 3319251 (11 Lines)
Telex : 031-2546 & 62521
Cable : UNICOMIND

NOTES

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Mr. Conable's offici

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

April 29, 1987

The Honorable Mr. Narayan Datt Tiwari
Minister for External Affairs
Government of India
New Delhi, India

Dear Mr. Minister:

Thank you for informing us of the goals of the AFRICA Fund, which are laudable and timely in view of the critical geopolitical situation in Southern Africa.

I regret that the World Bank does not have sufficient budgetary flexibility to permit a direct contribution to the Fund. However, we will continue to give substantial support to the complementary aims of SADCC through our direct financial assistance to member countries.

Our new commitments to SADCC countries in 1986 amounted to $400 million, mostly on concessional IDA terms. We expect this level of assistance to rise in coming years to about $500 million annually. In addition, the Bank's affiliate, the International Finance Corporation, has invested almost $200 million in 25 companies in frontline countries, and is expanding its activities in the region.

Much of our assistance has been for operations directly relevant to the AFRICA Fund's goal of achieving greater economic security. Most notable is our assistance to the development of alternative transportation routes, e.g., the Beira Corridor, the Malawi-Tanzania road link and improvements to Dar-es-Salaam Port. Moreover, Botswana this month commissioned a Bank-financed power station that will make the country independent of South Africa for electricity; we are currently negotiating a project for rehabilitating the East Coast oil pipeline and petroleum distribution system that supply Zambia and other countries in the region; and in most SADCC countries our assistance for agriculture is enhancing food self-sufficiency.

Mr. Minister, I would like to reiterate the World Bank's commitment to the far-sighted efforts of the frontline states to achieve greater economic self-determination, and wish the AFRICA Fund the strong external support that its important objectives deserve.

Sincerely,

(Signed) Barber B. Conable

logged out
5/4/87
CS

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDANCE DATE : 87/04/06 DUE DATE : 00/00/00
LOG NUMBER : 870406008 FROM : W. Hopper (thru ES)
SUBJECT : INDIA: Meeting with Government Officials on Wednesday, April 8 at 4 p.m. (For BBC.)
OFFICE ASSIGNED TO FOR ACTION : Mr. Barber Conable E1227

ACTION:

_____ APPROVED
_____ PLEASE HANDLE
_____ FOR YOUR INFORMATION
_____ FOR YOUR REVIEW AND RECOMMENDATION
_____ FOR THE FILES
_____ PLEASE DISCUSS WITH _____
_____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS : JV (follow file).
Copy given to Isaac for info.

4/6

Barber

This contains a plea for an exception to your steel policy. I do not recommend that you agree. Our experience shows that it is highly unlikely that we will get a robust policy package which would make such a loan defensible as a special case.

EB

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: April 6, 1987

TO: Mr. B. Conable

THROUGH: Mr. E. Stern, SVP, Operations

FROM: W. David Hopper, VP, South Asia Region

SUBJECT: INDIA: Meeting with Government Officials

1. Mr. S. Venkitaramanan, Indian Governor for the Bank, and Mr. J. L. Bajaj, Alternate Governor, will be meeting with you at 4 p.m. on Wednesday, April 8. In preparation for this meeting, please see the attached note which discusses the issues likely to be raised during the meeting, and provides biographical information on Mr. Venkitaramanan.

2. As background, I provide a brief discussion of the current political and economic situation in India (Paragraphs 1-5 of the attached). For our part, we would suggest you focus your discussion of issues with the Indians on one strategic point -- the importance to India of continued progress in trade and industrial policy reform for the country's future economic growth and creditworthiness as well as to provide a continuing strong justification for the Bank's current substantial level of involvement in India (Paragraph 6).

3. The Indians are expected to raise the issues of the level of Bank lending to India and our lending conditionalities (Paragraphs 7-9 of the attached), and Bank support for their steel industry (Paragraphs 10-11). In addition, we have been informed that the Indian officials may also wish to discuss with you the Bank's impending reorganization as it affects the borrowing countries.

Attachment

Political Background

1. Two years have passed since Indira Gandhi was assassinated and Rajiv Gandhi became Prime Minister. The national elections, held in December 1985, produced a record absolute majority in the Lok Sabha (Parliament) for Gandhi's Congress (I) Party which campaigned on the theme of national unity. At the national level, unity among the opposition parties failed to emerge, and a number of opposition leaders lost their Lok Sabha seats. However, State and municipal elections held since then have shown much less of a swing to the Congress (I), and regional opposition parties increased from four to eight the number of States ruled by non-Congress governments.

2. Although the Congress Party and the Central Government are still secure, they are preoccupied with divisive regional, ethnic and religious pressures, primarily the Punjab crisis. In consequence, Gandhi's initial momentum for opening up and liberalizing the economy has slowed down considerably. Indeed as Gandhi rebuilds support from within the traditional sources of power in the Congress party, there will be renewed pressure for safeguarding India's post Independence consensus--that the achievement of the nation's most basic goals of growth, social justice and self reliance, requires a centrally planned industrial strategy, with the State as promoter, owner, and regulator.

Economic Background

3. Notwithstanding the difficult political situation, India's economic performance in the 1980's has been good. Annual GDP growth has averaged 5%, compared with the historical rate of 3.5% during the 1960's and 1970's. Inflation on average has not exceeded single digits, and foreign borrowing has been kept to sustainable levels. There is no assurance, however, that this good performance can be maintained. Sustaining recent GDP growth will require significant improvements in productivity and efficiency. The already high overall savings rate makes difficult further increases in the investment rate, which has been the principal driving force for recent GDP growth. Within overall savings, private sector savings have grown strongly, but public sector savings have diminished to a dangerously low level. Slow export growth, constraining imports and creditworthiness, remains a long-standing problem. Population growth is persistent (2.2% annually) and absolute poverty remains widespread.

4. It is critical for India to maintain GDP growth of over 5% p.a. over the longer term in order to deal more effectively with the twin challenges of alleviating poverty and accelerating employment growth for a fast expanding labor force. To do so while maintaining balance of payments stability will require that export growth be accelerated to finance the imports required for GDP growth.

5. Manufacturing has the greatest potential for contributing to these overall macroeconomic objectives. India's heavily restrictive industrial regulatory policies and highly protective trade regime, however, have resulted in an inefficient and high cost industrial structure which is not internationally competitive. Since the mid-1970's and especially during the past two years, Government policy has begun to address these problems. As a result, manufacturing growth has begun to expand significantly and now exceeds Plan targets; maintenance of this faster pace, however, will require that the process of industrial and trade policy reform be accelerated to enhance efficiency, reduce costs, increase competitiveness and expand the role of the private sector. But this will not be easy. A new consensus on goals and means will need to be established. In India's vigorous democracy, with its ample vehicles for the expression of opinion and the exercise of influence, the development of such a new consensus on public policy will have to proceed step by step and will take time.

Discussion Issues

Bank: Trade and Industrial Policy Reform

6. Our FY87 Draft Country Economic Report, now with GOI, examines the performance of the industrial sector and the requirements for improving its efficiency and productivity. We recommend that you express the hope that the report would form a good basis for close and continuing Bank dialogue with the GOI on trade and industrial policy issues. While the Bank fully appreciates the formidable political constraints the GOI faces in accelerating trade and industrial policy reform, it is nevertheless clear that such reform is vital for India's future economic growth, continued development and creditworthiness. Progress in this regard must necessarily be a major factor in determining the scale of the Bank's lending to India. You may wish to stress that the Bank stands ready to be helpful and wishes to be guided by the Government as to the role it could play. With meaningful progress, the Bank would be prepared to significantly increase its current level of IBRD lending to help support the balance of payments, fiscal and social adjustment costs involved. In the absence of adequate progress, however, the Bank could not continue to justify IBRD lending at the current level of $1.7 billion annually.

India: (a) Level of Lending and Lending Conditionality

7. The Secretary is likely to press for higher levels of lending to India given the country's continuing need for foreign capital inflows. At the same time, he is expected to express concern over the increased conditionalities associated with Bank lending particularly taking into account the relatively high cost of Bank borrowing.

8. With respect to IDA lending, commitments under IDA 7 (FY85-87) amounted to SDR 1.84 billion. You may wish to assure the Secretary that commitments under IDA 8 will reflect the understandings reached at the Eighth Replenishment negotiations for the major blend countries.1/ With respect to IBRD lending, annual commitments during the last 3 years averaged $ 1.7 billion and are expected to be maintained at that level in the medium term. At this level, India's share in the Bank's loan portfolio would increase from 4.4% at present to 9% in FY92 and stabilize at about 11% for the rest of the decade. You may wish to emphasize that with such a high level of exposure for the Bank in India (and potentially higher if lending is raised in response to further policy reforms), the Bank's IBRD lending program must necessarily be predicated on continued strengthening of India's debt service capacity, which in turn depends on improvements in policies with respect to industry and exports and continued progress in accelerating disbursement performance. (Paragraph 6 above).

9. The issue of 'policy conditionality' is a particularly controversial and politically sensitive one with the Government. The Indians will reiterate the point made many times before that the Government cannot be seen as subject to direct outside influence over basic policy issues which are the prerogative of parliamentary decision making processes. You should express understanding for their legitimate concerns. At the same time, however, you should make it clear that if the Bank is to be credible as a development institution and not merely a financial intermediary, it must ensure that its lending activities are undertaken within a framework of policies, programs and institutions which effectively contribute to the country's growth and development. We recommend that you assure the Secretary that the Bank will continue to pursue the process of linking our lending activities to policy changes, where necessary, in close consultation with the GOI and in a spirit of partnership, professionalism and mutual respect. We believe that the Bank can continue to play an important supportive role to the Government's own efforts, but the Bank's management and staff appreciate that it is of the utmost importance that our role be one which is sensitive and low-key.

(b) Steel Industry Lending

10. The Secretary may raise the issue of Bank support to India's steel industry. Despite the Bank's recent decision that there will be no direct financing of capital equipment for the steel industry (except for Mexico and China), the Indians will argue that there are compelling reasons for

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1/ The share of the major blend countries in IDA 8 should, to the extent compatible with other objectives, be around 30%. Source: Paragraph 4.6 of IDA/R87-1, Additions to IDA Resources: Eighth Replenishment, January 12, 1987.

Bank lending for the steel industry in India: (i) the critical importance of steel industry reform and restructuring for overall industrial and economic growth, and (ii) the considerable progress made in the sectoral dialogue with the Bank and the Government's strong interest in Bank involvement in its proposed steel industry restructuring program.

11. Our recent sector work on automotives and capital goods has identified high cost, low quality steel inputs as a major impediment to efficient industrial development and more rapid export growth. Policy and institutional reform and restructuring/rehabilitation of the steel industry are critical to the realization of the Government's objectives for industrial and overall economic growth. The Bank's dialogue with GOI on these issues has been very constructive and the Government is keen to proceed with translating this dialogue into a specific program of Bank lending for the industry. Refusal of Bank lending for the industry at this time could seriously damage our dialogue, probably removing the opportunity for the Bank to influence the direction and pace of reform in the steel industry. It could also have serious repercussions for overall country relations. For these reasons, an exemption for India from the Bank's new steel industry lending strategy may be merited, provided that agreement can be reached with GOI on a mutually acceptable policy, institutional and restructuring program for the industry.

BIO-DATA OF MR. S. VENKITARAMANAN
FINANCE SECRETARY, GOVERNMENT OF INDIA

Name	S. VENKITARAMANAN
	Joined Indian Administrative service in 1953 and was allotted Tamil Nadu Cadre.
1957-1962	Under Secretary and Deputy Secretary, Department of Finance, Government of Tamil Nadu
1962-66	Served the Central Government in different capacities in the Ministries of Steel and Heavy Industry and Food & Agriculture
1964-66	Private Secretary to Ministers for Steel and Food & Agriculture
1966-68	Underwent a Master's programme in Industrial Administration in the Carnegie Mellan University, Pittsburg, USA; on return appointed as Chairman, State's Industrial Development Corporation, Government of Tamil Nadu
1969-73	Finance Secretary, Government of Tamil Nadu
1974-77	Worked in the Development Projects in Nutrition Population and Family Welfare in the World Bank
	Thereafter became President/Managing Director of Southern Petro-chemicals Industries Corporation, a Fertilizer Company in the Joint Secter for six years.
Oct. 1983 to 7th Feb. 1984	Secretary, Department of Power, Ministry of Energy, Government of India
From Feb.8, 1985	Finance Secretary, Government of India
	Alternate Governor for India in the World Bank and the Asian Development Bank
	Chairman, Indian Investment Centre
	Member for Finance, Atomic Energy Commission and Space Commission

March 31, 1987

Dear Mr. Secretary:

On behalf of the Executive Directors, Officers and Staff, I would like to express our pleasure at your appointment to the Board of Governors of The World Bank as Alternate Governor for India. Congratulations!

We look forward to your participation in the affairs of the Bank.

On a personal note, I hope to have the opportunity of greeting you here in Washington in the near future.

Sincerely,

(Signed) Barber B. Conable

Barber B. Conable

Mr. J. L. Bajaj
Joint Secretary
Ministry of Finance
Department of Economic Affairs
North Block, Central Secretariat
New Delhi 110 001, India

cc: Mr. Rao Sahib
Mr. Cheetham
Mr. Stephansen

ETSanidad:jlk

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE March 26, 1987

RECEIVED
1987 MAR 27 PM 4:44
OFFICE OF THE VICE PRESIDENT AND SECRETARY

TO Mr. T.T. Thahane, Vice President & Secretary

FROM C.R. Krishnaswamy Rao Sahib, Executive Director

EXTENSION 72223

SUBJECT Alternate Governor in the Bank - India

This is to inform you that Mr. J.L. Bajaj, Joint Secretary, Department of Economic Affairs, Ministry of Finance, Government of India, will be India's Alternate Governor in Bank Group in place of Mr. S. Venkitaramanan. Copy of the Notification being issued by the Government of India, will be sent to you shortly.

c.c. Mr. Fritz Fischer, Executive Secretary, Development Committee.

DISTRIBUTION

TO- Executive Director
Programs Dir., Bank
Investments Dir., IFC
File
Credential

FROM - E. T. Sanidad
SECRETARY'S DEPARTMENT

March 31, 1987

Dear Mr. Secretary:

It is indeed good to know that you have been appointed Governor for India on the Board of Governors of The World Bank. Congratulations!

On behalf of the Executive Directors, Officers and Staff, I welcome your appointment and look forward to your continued participation in the affairs of the Bank.

On a personal note, I hope to have the opportunity of greeting you here in Washington in the near future.

Sincerely,

(Signed) Barber B. Conable

Barber B. Conable

The Honourable
S. Venkitaramanan
Finance Secretary
Ministry of Finance
North Block, Central Secretariat
New Delhi 110 001, India

cc: Mr. Rao Sahib
Mr. Cheetham
Mr. Stephansen

ETSanidad:jlk

तार-इकोफेयर्स
TELEGRAMS-ECOFAIRS

संख्या No. 13/6/87-FB II
भारत सरकार Government of India
वित्त मंत्रालय Ministry of Finance
(आर्थिक कार्य विभाग) (Department of Economic Affairs)

नई दिल्ली/New Delhi, 9th March, 19 87

The Secretary,
International Bank for Reconstruction
and Development
1818-H Street, N.W.
Washington DC 20433
U.S.A.

Sir,

I am directed to state that the Government of India have under Article V, Section 2(a) of the Articles of Agreement of International Bank for Reconstruction and Development appointed Shri S. Venkitaramanan, Finance Secretary to the Government of India to be India's Governor on IBRD vice Shri Vishwanath Pratap Singh with effect from 4th March, 1987.

Yours faithfully,

(P.V. Bhide) 9/3/87
Deputy Secretary to the Government of India

DISTRIBUTION

TO- Executive Director
Programs Dir., Bank
Investments Dir., IFC
File
Credential

FROM - E. T. Sanidad
SECRETARY'S DEPARTMENT

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE : December 18, 1986

TO : Mr. Barber B. Conable

THROUGH : Mr. Ernest Stern, SVPOP

FROM : W. David Hopper, VP, South Asia

SUBJECT : INDIA - Visit of Mr. Vishwanathan

1. Mr. S.V. Vishwanathan is scheduled to meet with you at 9:00 a.m. on Friday, December 19 in your office. He is Managing Director of the Seshasayee Paper and Board Ltd. and Board Chairman of the Tamil Nadu Newsprint Co.

2. The Bank supported the latter company with a $100 million loan approved in September 1981 (Tamil Nadu Newsprint project; Loan 2050-IN). The project closed on August 31, 1985, having been implemented successfully. In fact, we believe it is the only successfully operating paper bagasse plant in the world, using sugar cane bagasse as raw material. The technology was developed in Wisconsin by the Beloit Corporation and was adapted for use in Tamil Nadu through the Bank project. The process has potential for use in other developing countries, where efforts have been underway for years (largely unsuccessful) to find effective ways of making newsprint from indigenous raw materials rather than importing pulp at considerable expense.

3. Although this is a courtesy visit, you may wish to use the occasion to solicit Mr. Vishwanathan's views about India's industrial liberalization policies, since he is a prominent businessman, serving on the boards of a sugar mill, a battery manufacturing company and a firm that produces sanitary articles.

cc: Messrs. Rao Sahib (EDS), Clift (ASA), Rowat (IND), Robless (ASAIN)

TBlinkhorn:ns

December 15, 1986

Dear Mr. Saxena:

Thank you for the beautiful book on India, which I found on my return from Latin America. Mrs. Conable and I are looking forward to visiting your country in the not-too-distant future. Needless to say, your book has served to increase our anticipation!

Thank you again for your thoughtfulness.

Sincerely,

(Signed) Barber B. Conable

Barber B. Conable

Mr. Ravi Saxena
Sales Representative
Air India
1612 K Street, N. W.
Suite 200
Washington, D. C. 20006

logged out
12/17/86
OB

एअर इंडिया
AIR-INDIA

WAS/SLS/1213

December 2, 1986

Mr. Barber B. Conable
President
The World Bank
1818 H St., N.W.
Washington, D.C. 20433

Dear Mr. Conable:

It has come to my attention that you will be visiting India in the near future. Having already experienced glimpses of Indian culture during the India Culture function at The World Bank, which I understand you and Mrs. Conable enjoyed very much, I thought the book I am leaving for you, as a token of my regards, will further whet your appetite for the culture and history of our beautiful country.

Should you need any assistance whatsoever before you travel to India, such as travel brochures and maps to better plan your leisure time in India, it will give me great pleasure to personally provide you with the same.

With best regards.

Sincerely yours,

Ravi Saxena
Sales Representative
The World Bank

1612 K ST. N.W., SUITE 200 • WASHINGTON, D. C. 20006
SALES OFFICE • 785-8770 • RESERVATIONS 800-223-7776
CABLE: AIRINDIA

1986 DEC -3 PM 2:38

July 28, 1986

Dear Mr. Vaghul:

Thank you very much for your telex of July 1 conveying ICICI's congratulations and best wishes on my assumption of the Presidency of the Bank. I am eagerly looking forward to the opportunities afforded by my new position to enhance my understanding of the development challenges faced by our member countries and to strengthen the role which the Bank can play in assisting our members to achieve their development goals.

As one of the largest of the Bank's borrowers, India's development efforts are of special interest to me. I am aware of ICICI's important contributions to the growth of India's industrial capacity and thus to the economy as a whole. The Bank is proud to have supported ICICI's development over the years and we look forward to continuing our long-standing and effective collaboration with your institution in the future.

Sincerely,

(Signed) Barber B. Conable

Barber B. Conable

Mr. N. Vaghul
Chairman and Managing Director
Industrial Credit and Investment
Corporation of India, Limited
163 Backbay Reclamation
Bombay 400 020
India

cleared with and cc: Messrs. Hopper, Cheetham, Griffith
cc: Mr. Robless (o/r)

LSunderland:zj

FORM NO. 709
(8–73)

WORLD BANK GROUP

ROUTING SLIP	DATE July 23, 1986

FROM THE REGIONAL VICE PRESIDENT

NAME	ROOM NO.
1. Mr. Cheetham	Lagrange
2. Mr. Robless - to handle	H. Griffiths
3. Mr. Hopper	BB 7/24

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	COMMENT		PER OUR CONVERSATION
	FOR ACTION		PER YOUR REQUEST
	INFORMATION		PREPARE REPLY
	INITIAL		RECOMMENDATION
	NOTE AND FILE		SIGNATURE

REMARKS

c.o.b. for Mr. Hopper's clearance July 31.

OK WDH.

FROM

Mr. Hopper's Office

791

FORM NO. 89
(2--83)

THE WORLD BANK

ROUTING SLIP	Date July 22, 1986

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. David Hopper	H-5-177

	To Handle		Note and File
	Appropriate Disposition		Prepare Reply
	Approval		Per Our Conversation
	Information		Recommendation

Remarks

Please prepare an appropriate response for Mr. Conable's signature.

Due Date: August 1, 1986

Isaac Sam

From

CP India

ZCZC D;ST8685 JWS0452
EXC
REF : TCP HC

JWS0452 JGY968 IN 01/01:54 OUT 01/01:57
11 3062 ICIC IN

191

FOR MR BARBER CONABLE
PRESIDENT
WORLDBANK

FROM N VAGHUL
CHAIRMAN AND MANAGING DIRECTOR
ICICV BOMBAY INDIA

ON BEHALF OF THE BOARD OF DIRECTORS OF ICICI I WOULD LIKE TO CONGRATULATE YOU AND OFFER OUR BEST WISHES ON YOUR TAKING UP YOUR APPOINTMENT AS PRESIDENT OF THE WORLD BANK STOP ICICI HAS HAD THE PRIVILEGE OF BEING ASSOCIATED WITH THE WORLD BANK FOR OVER 30 YEARS STOP BESIDES FACILITATING THE GROWTH OF ICICI'S OPERATIONS THE ASSOCIATION WITH THE WORLD BANK HAS ENHANCED THE ROLE THAT ICICI HAS BEEN ABLE TO PLAY IN THE INDIAN ECONOMY

WE TRUST UNDER YOUR LEADERSHIP THE WORLD BANK WILL RISE TO MORE COMMANDING HEIGHTS AND ICICI'S ASSOCIATION WITH IT WILL BE FURTHER STRENGTHENED STOP

REGARDS
====
11 3062 ICIC IN

JULY 1 1986 1130
****

=07010702

ALT RTD FROM:EXCM

NNNN

RECEIVED
1986 JUL -1 PM 6:40
OFFICE OF THE PRESIDENT

* Aug. 12 suggested date

Mr. Conable:

IDA Allocations to India

I am seeking more information on the attached from the Operations complex but, in any case, I would suggest that you have a meeting with Mr. Stern (on ~~Monday~~ Tuesday) for him to: (i) explain fully how the IDA allocations have been made, and how India (and China) have fared under IDA VII; and (ii) what response should be given to Mr. Rao Sahib.

Isaac

August 7, 1986

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Country Files: India - Correspondence 01	1779730

Document Date	Document Type
05 August, 1986	Memorandum

Correspondents / Participants

From:C. R. Krishnaswamy Rao Sahib, Executive Director
To: Barber Conable

Subject / Title
IDA Allocations to India

Exception(s)

Additional Comments
Declassification review of this record may be initiated upon request.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Ann May	April 21, 2023

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Country Files: India - Correspondence 01	1779730

Document Date	Document Type
18 August, 1986	Memorandum

Correspondents / Participants

To: C. R. Krishnaswamy Rao Sahib, Executive Director
From: Barber Conable

Subject / Title

IDA Allocations to India

Exception(s)

Additional Comments

Declassification review of this record may be initiated upon request.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Ann May	April 21, 2023

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Country Files: India - Correspondence 01	1779730

Document Date	Document Type	
8 April, 1986	Letter	

Correspondents / Participants

To: Mr. Rao Sahib, Executive Director
From: A. W. Clausen

Subject / Title

Acknowledgement letter

Exception(s)

Additional Comments

Declassification review of this record may be initiated upon request.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Ann May	April 26, 2023

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: August 18, 1986

TO: Mr. C. R. K. Rao Sahib, Executive Director, India

FROM: Barber B. Conable

EXT: 72001

SUBJECT: IDA Allocations to India

Thank you for your memorandum of August 5 regarding IDA allocations to India. We share your concern that IDA be allocated equitably among its members and we recognize India's continuous need for concessional assistance.

The allocation of resources, as scarce as IDA, always poses very difficult choices. We are fully conscious that the blend between Bank and IDA lending to India has shifted dramatically towards the Bank side and that India's share on overall IDA resources in IDA-7 has declined sharply from historical levels. I need not repeat here the various causes for this, including the membership of China in IDA as well as the urgent need for highly concessional resources in many of the countries of Sub-Saharan Africa which do not have access to capital on commercial terms. The anticipated decline in IDA availability for India from its previous historical share has been discussed in previous meetings between the Bank and the Government of India. There has been very little change in these factors and we expect if the full amount of IDA resources is available, and if the FY87 lending program is success- fully completed, India would have received approximately 21% of total IDA-7 availabilities. This leaves India by far the largest single recipient of IDA, well ahead of even China. Under current circumstances I do not see much opportunity for reallocation from present plans.

As you know, in order to help compensate for the reduction in India's share of IDA, as well as in the decline of nominal IDA availability, we have substantially increased lending on the Bank side and total Bank Group lending to India is in line with the numbers previously discussed with the Government.

bcc: Mr. Hopper

April 8, 1986

Dear Mr. Rao Sahib:

Just a note to thank you and Mrs. Rao Sahib for the pleasant dinner Sunday evening in honor of Finance Minister Singh. Peggy and I were pleased to be included, and in this very busy week, it was a good opportunity to chat with the Minister, Governor Malhotra and members of the Indian delegation to the meetings in the very relaxed setting of your home!

In every respect, it was a delightful evening.

Warm regards.

Sincerely,

A. W. Clausen

Mr. C. R. K. Rao Sahib
Executive Director
The World Bank
Room E-1139

AWC:MH

IN HONOR OF MR. V.P. SINGH, FINANCE MINISTER OF INDIA

Mr. C. R. Krishnaswamy Rao Sahib
Executive Director for India, Bangladesh,
Sri Lanka and Bhutan
and Mrs. Rao Sahib
request the pleasure of the company of
Mr & Mrs A. W. Clausen
at Buffet Dinner
on Sunday, April 6, 1986
at 8:00 pm o'clock

The World Bank
R.s.v.p.
477-2224
To remind.

7715, Brookville Road,
Chevy Chase, Md. 20815.

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address INTBAFRAD
Cable Address INDEVAS

logged out 1/7/86 mh

OK

December 31, 1985

Mr. Julio M.G. Gaiger
President
National Indian Support Association

Dear Mr. Gaiger:

This is in reference to your letter dated December 11, 1985, addressed to Mr. Clausen, regarding the Sardar Sarovar Dam and Power Project.

With regard to the issues raised in your letter, we wish to bring to your attention the following facts.

1. There is essential agreement in the terms of the International Labour Organisation's (ILO) Convention 107 relating to Tribal and Indigenous Populations and our own guidelines regarding both resettlement and rehabilitation, and tribal peoples. The monitoring which the Bank conducts of project implementation is to ensure the borrower's compliance with the Bank's covenants which are based on the Bank's guidelines and policies. It is only if the borrower is in violation of these covenants that appropriate remedial action can be taken by the Bank. Concerns you might have regarding failure by India, if any, to comply with other international agreements must be addressed to the signatory parties or such legal bodies which have jurisdiction over such agreements.

2. On October 6, 1969, the Government of India established the Narmada Water Disputes Tribunal to adjudicate among the States of Gujarat, Madhya Pradesh, Maharashtra and Rajasthan the benefits and cost-sharing of the waters of the Narmada River. On December 12, 1979, this Tribunal rendered its Final Order. This Final Order, in addition to provisions relating to benefits and cost-sharing, included provisions for the resettlement of land owner oustees in the States of Madhya Pradesh and Maharashtra. Specifically, it required that irrigable land of equal size to that owned by the oustee be provided to each family having legal title to land, with a minimum of 2 ha per family.

3. The R&R component of the project in question includes the above-specified provisions of the Final Order relating to R&R. In addition, the Final Order's requirements have been enhanced in essentially two ways in accordance with the Bank's policies and objectives for the R&R of persons displaced by development projects financed by us. First, through the legal documents (the Agreements) for the Sardar Sarovar Project, entered into by the Bank, GOI, and the participating States on May 10, 1985, the

provisions of the Final Order relating to landed oustees of Madhya Pradesh and Maharashtra were extended to the oustees of Gujarat. Second, the overall R&R program under the project provides for full rehabilitation of all oustees, landed or landless, tribal or otherwise, of Madhya Pradesh, Maharashtra and Gujarat by requiring under the Agreements the restoration, at a minimum, of the standard of living they were enjoying prior to their displacement. The oustees are in addition to be relocated as tribes, village units, village sections or families in accordance with their preference. Such rehabilitation is to go beyond the mere provision of land and will include vocational training programs, alternative employment opportunities, social and physical infrastructure and community services, taking into account the traditions and cultural backgrounds, and with the informed consent, of the oustee groups. With regard to lands occupied by people without legal title, the Agreements specifically provide that in order to increase or at least regain their standard of livelihood, landless oustees will be rehabilitated in the agricultural and non-agricultural sector in ways which ensure that the landless, most of whom are tribal peoples normally reluctant to adopt fixed abodes and agricultural activities as a livelihood, have their standards of living protected at a minimum. I should stress that the emphasis on rehabilitation rather than land-for-land per se under the agreed R&R program was a conscious and deliberate decision on the part of the Bank, as we believe that true rehabilitation rather than only land compensation constitutes a much more solid foundation on which to base a concrete and monitorable program in accordance with the Bank's guidelines for addressing the problems of involuntary resettlement and thus to ensure the protection of all project oustees.

4. The terms of the Agreements relating to R&R under the project establish the framework and broad principles under which the agreed R&R program will be carried out over the ten-year implementation period. These principles, which provide for a stable means of livelihood and full rehabilitation of all oustees, will remain constant; but numerous operational details of R&R activities, required to give effect to the principles, will have to be formulated during the course of the ten-year development program. In this regard, it is important to note that the Agreements also provide for semi-annual and annual reviews of the progress of R&R activities. Through such reviews, the R&R activities will be updated and revised as changing situations warrant, so that the activities can be adjusted annually in order to meet the evolving needs of the oustee population, which will inevitably occur. We are confident that this dynamic and flexible approach, which will allow the changing needs of the oustees to be addressed as they arise, is the most suitable approach for achieving the successful rehabilitation of all project oustees.

5. The Agreements include comprehensive arrangements for monitoring and evaluation of the implementation of the R&R program. The program will be closely monitored and evaluated by the Government of India through the Narmada Control Authority, an Interstate entity established by the Final Order, which is being strengthened under the project specifically in the area of R&R; independent research institutions to be employed by each State in accordance with terms of reference satisfactory to the Bank; and committees, established by the participating States, with adequate representation of the oustees. The GOI and the States concerned will report to the Bank periodically on the progress of the R&R program. In addition to these safeguards, the Bank will also monitor the progress of the R&R program during our regular semi-annual project supervision missions, which will include anthropologist/sociologist expertise and consultant assistance as required.

ILO Convention 107 and our own guidelines on displaced people are wholly compatible while at the same time our Agreements with India essentially follow our own guidelines on R&R and on tribal people, and the Bank will monitor compliance with the agreements including those aspects related to tribals set forth in our policies, such as: (a) the recognition, demarcation and protection of tribal areas containing those resources required to sustain the tribal people's traditional means of livelihood; (b) appropriate social services that are consonant with the tribe's acculturation status, including, especially, protection against diseases and the maintenance of health; (c) the maintenance, to the extent desired by the tribe, of its cultural integrity and embodiments thereof; (d) a forum for the participation of the tribal people in decisions affecting them, and providing for adjudication and redress of grievances. Moreover, our policy is in no way inconsistent with, nor does it fall short of, the provisions of the ILO Convention. On the contrary, it coincides on the mutual objectives, and complements and enhances ILO provisions by extending their area of application to all member countries of the Bank where we are supporting projects which require involuntary resettlement, and not exclusively the signatories of the ILO Convention.

I am sending copies of this letter to representatives of the Government of India and the participating States for their information.

Yours sincerely,

Peter L Pollak

P.K. Pollak
Acting Chief, India Division
South Asia Programs Department

cc w/inc.: Mr. A. W. Clausen

Mr. K. Rao-Sahib
Executive Director for India
The World Bank
Washington, D.C.

Mr. J.L. Bajaj
Joint Secretary
Department of Economic Affairs
Ministry of Finance
New Delhi, India

Chief Secretary
Government of Gujarat
Gandhinagar

Chief Secretary
Government of Madhya Pradesh
Vallabh Bhavan
Bhopal

Chief Secretary
Government of Maharashtra
Mantralaya
Bombay

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

R1

DATE January 29, 1986

TO Files

FROM Shiv S. Kapur

EXTENSION 33035

SUBJECT PPAR - Thirteenth India Railways Project

1. Reference my memorandum of January 28 to Mr. Clausen on the above subject. Mr. Roy Southworth called me this morning on behalf of Mr. Clausen to say that Mr. Clausen had decided we should go ahead and issue the new PPAR prepared by the specially constituted independent group. Arrangements are consequently being made to immediately issue this PPAR in terms of para. 3 of my memorandum to Mr. Clausen.

2. It should be recorded here that the above-mentioned specially constituted independent group comprising a senior Bank staff member and two outside consultants had no contact with anyone in OED in the preparation of the new PPAR. Also, I was unaware of the existence of the group and its composition until the receipt of documents under Mr. Clausen's memorandum of January 24, 1986.

cc: Mr. Stern
Mr. Southworth
Mr. Shields

file

Tom:

If you Agree, I will call Shir and tell him to proceed as he proposes!

Roy

Jan. 28

1-29-86
O/K
D

Message delivered
Jan. 29, 1986
Roy

action

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

30

DATE: January 28, 1986

TO: Mr. A. W. Clausen

FROM: Shiv S. Kapur

EXTENSION: 33035

SUBJECT: PPAR - Thirteenth India Railways Project

1. Reference your memorandum of January 24 and the attached PPAR.

2. I notice that this PPAR has been prepared by a specially constituted group, comprising a senior Bank staff member and two outside consultants. It is thus an independent document of high quality. By comparison, the draft OED PPAR is, in my judgment, a flawed piece of work; it is speculative and not well grounded in facts in a number of its major conclusions and falls short of being a fully professional performance audit. Having gone to the extent of developing an alternative and independent PPAR, there would now seem to be no reason not to issue this as the audit document.

3. I fully share your concern that there should be no further delay in closing this matter. For this reason, the new PPAR was sent to Paul Geli, Assistant Director, for review on behalf of the South Asia Region. The Region has no comments. As to the borrower, extensive comments were received from the Indian Railways on the previous draft and these comments cover all major points made in the new report. They will be annexed to the new PPAR in line with our practice, with a suitable notation. No fresh comments would be necessary.

4. On the above basis the new PPAR with its annexes could be printed and issued to the Board within this week. Kindly let me know if I should proceed accordingly.

cc: Mr. Stern

"Go"!

A

RECEIVED
1986 JAN 28 PM 2:13
OFFICE OF THE PRESIDENT

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: January 24, 1986

TO: Shiv S. Kapur

FROM: A. W. Clausen

EXT: 72001

SUBJECT: PPAR - Thirteenth India Railways Project

1. Attached is a copy of a PPAR on the Thirteenth India Railways Project prepared by staff of the Transportation Department at my request. I took this action in light of the situation that arose in late October. Now that the matter has been resolved and OED's PPAR on this project has been finished, there is no need to proceed with further processing of this report.

2. In the interest of finally putting this matter behind us, please proceed as quickly as possible in processing OED's PPAR for Board distribution.

cc: Mr. E. Stern

Attachment

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

RECEIVED

1986 JAN 27 PM 1:22

Mr. Pochiqueu

Thanks for the effort.

1/26/86

DATE: January 24, 1986

TO: Shiv S. Kapur

FROM: A. W. Clausen

EXT: 72001

SUBJECT: PPAR - Thirteenth India Railways Project

1. Attached is a copy of a PPAR on the Thirteenth India Railways Project prepared by staff of the Transportation Department at my request. I took this action in light of the situation that arose in late October. Now that the matter has been resolved and OED's PPAR on this project has been finished, there is no need to proceed with further processing of this report.

2. In the interest of finally putting this matter behind us, please proceed as quickly as possible in processing OED's PPAR for Board distribution.

cc: Mr. E. Stern

Attachment

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

action

13

TO: Mr. A. W. Clausen

January 13, 1986

FROM: Ernest Stern

SUBJECT: INDIA: Thirteenth Railway Project
Project Performance Audit Report

Attached is the PPAR on the Thirteenth India Railways Project. As requested by you, it was prepared in the Transportation Department by staff who were not previously associated with the Indian Railways or our Indian Railway operations in the last decade. Nothing beyond normal project implementation deficiencies surfaced and no criticism, which could be the explanation for the delay in the completion of the OED report, emerged.

As Mr. Pouliquen notes, we now have two PPARs on this project. OED will need guidance on whether their report, which I understand is now complete, should be processed for Board distribution. If the attached report is to be gotten ready for Board distribution instead, it should first be sent to the Region and the Borrower. If you decide to use this report, I would suggest that the staff who wrote it obtain and integrate the comments.

Please let me know how you wish to proceed.

Attachment

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Date: January 10, 1985

To: Mr. Ernest Stern, SVPOP

From: L.Y. Poulgaen, Director, TRP

Extension: 61705

Subject: India - Thirteenth Railway Project (Credit 582-IN)
Project Performance Audit Report

Please find attached the PPAR on the 13th Indian Railway Project. This report was prepared by a team headed by Hans Apitz (Chief, Transportation Division II, West Africa) and included Sir Gordon MacKay and Victor Wouters, both former staff members with extensive experience in the transportation sector. None of them have been involved with Indian Railways in the last twelve years.

In preparing this report, comments from Indian Railways and the South Asia Region on an earlier draft prepared by OED were taken into consideration. This is, however, a substantially new report, which comes to different conclusions and recommendations regarding, in particular, the selection of investments and Indian Railway's depreciation policy. I would therefore recommend that Indian Railways and the Region should be given the possibility to comment on it before it is distributed to the Board.

(Tom:
See "highlights"
on page V and
Conclusions on page
12. Ray
Jan. 15

LYP/HA/lstm

FORM NO. 75
(6-83)

THE WORLD BANK/IFC

ROUTING SLIP	DATE: 1/31/86

NAME	ROOM NO.
Mr. R. Southworth	E 1227

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	CLEARANCE		PER OUR CONVERSATION
	COMMENT		PER YOUR REQUEST
	FOR ACTION		PREPARE REPLY
	INFORMATION		RECOMMENDATION
	INITIAL		SIGNATURE
	NOTE AND FILE		**URGENT**

REMARKS: The letter of Ms. C. Kammerer to Mr. Clausen came along with some 90 other letters expressing concern about the Narmada project in India. This is the result of a letter-writing campaign initiated by Survival International, a UK organization.

Attached is the reply (a form letter) individually addressed to the letter-writers.

FROM: P.B. Sigon	ROOM NO.: D 832	EXTENSION: 73523

P.B. Sigon

FC NO. 89
(2–83)

THE WORLD BANK

NOV 7 1985

ROUTING SLIP	Date Nov. 5, 1985

OFFICE OF THE PRESIDENT

Name	Room No.
1) Mr. Hopper	H-5-177
2) RC - infor	
3) ~~CR~~ - to handle (LS)	

XX	To Handle		Note and File
	Appropriate Disposition		Prepare Reply
	Approval		Per Our Conversation
	Information		Recommendation

Remarks

IPA
Please send Mr. Clausen's office a copy of the response. Thanks, L. Sundelson

Roy Southworth

From

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

COPY

January 31, 1986

Ms.Cornelia Kammerer
30 High Street
Florence
MASSACHUSETTS 01060

Dear Ms. Kammerer:

This is in response to your letter expressing concern about resettlement and rehabilitation (R&R) of the oustees of the Sardar Sarovar Dam and Power Project in India.

We believe measures have been taken by the Indian authorities to provide appropriate safeguards in this case. The project's emphasis is on rehabilitation through the restoration of the productive capacity of the oustees, rather than land-for-land per se as compensation. This emphasis was a conscious and deliberate decision based on a conviction that comprehensive rehabilitation, rather than mere land compensation, constitutes a much more solid and equitable form of recompense.

With respect to project oustees, on December 12, 1979, the Narmada Water Disputes Tribunal rendered its Final Order regarding the interstate division of waters, which included provisions for the resettlement of land owner oustees in the States of Madhya Pradesh and Maharashtra. The Order required that irrigable land of equal size to that owned by the oustee be provided to each family having legal title to the land, with a minimum of 2 hectares per family.

The resettlement and rehabilitation component financed by the World Bank includes the above provisions of the Final Order. Moreover, in accordance with World Bank policies, the Final Order's requirements as to resettlement and rehabilitation have been enhanced in essentially two ways:

(1) First, through the legal agreements relating to the Sardar Sarovar Project, entered into by the Bank, the Government of India, and the participating States on May 10, 1985, the provisions of the Final Order relating to landowner oustees of Madhya Pradesh and Maharashtra were extended to the oustees of Gujarat.

(2) Second, the overall resettlement and rehabilitation program under the project provides for full rehabilitation of all oustees, landowner or landless, tribal or otherwise, of Madhya Pradesh, Maharashtra and Gujarat. The above legal agreements require the restoration, at a minimum, of the standard of living being enjoyed by oustees prior to their displacement. The oustees are, in addition, to be relocated as tribes, village units, village sections or families in accordance with their preference.

#1512 Cogredent 2/15

Let me restate that rehabilitation under the project goes beyond the mere provision of land and will include vocational training programs, alternative employment opportunities, social and physical infrastructure and community services, taking into account the traditions and cultural backgrounds, and with the informed consent of the oustee groups.

With regard to lands occupied by people without legal title, the legal agreements specifically provide that in order to increase or at least regain their standard of livelihood, landless oustees will be rehabilitated in the agricultural and non-agricultural sector in ways which ensure that the landless have their standards of living protected at a minimum.

There is no inconsistency between the terms of the International Labour Organization's (ILO) Convention 107 relating to Tribal and Indigenous Populations and the World Bank's own guidelines regarding both resettlement and rehabilitation, and tribal peoples. At the same time, the World Bank's agreements with the Government of India essentially follow our own guidelines on tribal peoples.

With regard to resettlement of tribal people in forested zones, a fact that needs to be underlined is that out of the 37,000 hectares estimated to be submerged, a reported 11,600 hectares are recorded as forest land. Of these, 4,500 hectares are in Gujarat, 2,700 hectares in Madhya Pradesh, and 4,400 hectares in Maharashtra. However, satellite photographs of the area indicate that only a small portion of the 11,600 hectares designated as forest land actually have some tree cover. Nevertheless, in order to establish compensatory forested areas, the participating States have informed the World Bank that they plan to afforest alternative land in lieu of the amount of the entire land recorded as forest land which is to be submerged, irrespective of whether or not that land is now tree-covered. As a result of the project, therefore, there is expected to be a net gain of truly forested area.

There are other safeguards to ensure the full implementation of each aspect of the agreed R&R program. The program will be closely monitored and evaluated by the Government of India through the Narmada Control Authority, an Interstate entity established by the Final Order, which is being strengthened under the project specifically in the area of resettlement and rehabilitation; independent research institutions employed by each State in accordance with terms of reference satisfactory to the Bank; and committees, established by the participating States, with adequate representation of the oustees. The Government of India and the States concerned will report

to the Bank periodically on the progress of the R&R program. In addition to these safeguards, the Bank will also monitor the progress of the R&R program during our regular semi-annual project supervision missions, which will include anthropologist/sociologist expertise and consultant assistance required.

Semi-annual reviews of the progress of R&R activities will be conducted. Through these reviews, the R&R activities will be updated and revised as changing situations warrant, so that the activities can be adjusted annually in order to meet the evolving needs of the oustee population, which will inevitably occur. We are confident that this dynamic and flexible approach by the Indian authorities, which will allow the changing needs of the oustees to be addressed as they arise, is the most suitable strategy for achieving the successful rehabilitation of all project oustees.

Sincerely yours,

PB Sison

Pastor B. Sison
Public Affairs Division
Information & Public Affairs Dept

PBS/vs

1598

file
cc: Mr. Hopper
12/05

90 years
1895-1985

Ramesh Maheshwari
PRESIDENT

Association of Indian Engineering Industry
172 Jor Bagh, New Delhi - 110 003
Phone : 615693 Cable : BUILDPOWER Telex : 031-3855

5th November 1985

Dear Mr. Clausen.

My first duty on return to India is to convey to you our very sincere appreciation and thanks for the warmth and cordiality of your reception to us when we called on you recently, in Washington.

All the members of my delegation - and I, personally - valued the rare privilege of meeting you, exchanging thoughts and ideas informally and talking about India, our participation in World Bank funded projects and future cooperation between the Bank and Indian Industry.

Let me conclude by saying that, whilst we valued this meeting very much, we hope that it will be the first of many and that we shall have the honour and the privilege to receive you in India and to reciprocate the warmth and friendship which you extended to us.

Kind regards,

Yours sincerely,

[RAMESH MAHESHWARI]

Mr. A.W. Clausen
President
The World Bank
1818 H Street, N.W.
Washington D.C. 20433
U.S.A.

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1985 DEC -3 PM 3:28
OFFICE OF THE PRESIDENT

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

403

TO: Mr. Russell Cheetham, ASADR December 24, 1985

FROM: Ernest Stern, SVPOP ES.

SUBJECT: India Disbursements

I attach the November data from the Controllers.

For the Bank as a whole, the disbursement rate reached 36.2% in November. India's disbursement rate was less than 18%. For IDA, the disbursement rate was 34.7%. India's was 25.3%. Moreover, these disbursement rates are measured against regional estimates for the year which seem very low. For FY86, India's IBRD disbursements are estimated at less than $500 million. But, as of the end of FY85, undisbursed loans to India totalled over $2.9 billion, with a further $2.1 billion approved but not yet effective. Thus, India's 18% disbursement rate through November is itself measured against a base which assumes disbursements of less than 17% of the opening outstanding. By contrast, the undisbursed IDA balance at the end of FY85 was $3.1 billion, and the disbursement estimate was $1.0 billion, or a third of the opening pipeline. This shortfall from this much higher drawdown is nearer target.

While I realize that the IDA portfolio in India is more mature than the Bank portfolio, I do not believe this can explain the very poor performance. As I told Mr. Rao Sahib recently, we cannot continue to lend $1.6 billion of Bank money with a monthly commitment rate of $17 million.

I understand that the matter has been reviewed before, but I have seen neither the analysis nor any specific measures to improve the situation. Could you let me have a note on this prior to March 31, 1986? In the absence of prospects for substantial improvement, we probably should not complete the FY86 lending at currently planned levels.

Attachment

cc: Mr. Hopper o/r

bcc: Mr. Clausen

1-2-86 Talked w/ Rao Sahib

1982 DEC 30 AM 11:50

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IDA

FY85 AND FY86 DISBURSEMENTS
BY REGION AND COUNTRY

(IN US$ MILLIONS)

ID : LAF20A
DATE: 12/10/85
TIME: 10.40.30

REGION/COUNTRY	FY85 ACTUAL	FY86 FULL FY BUDGET ESTIMATE 1/	FY86 ACTUAL AS OF 11/30/85	FY86 ACTUAL AS A % OF BUDGET
SOUTH ASIA				
BANGLADESH	250.5	173.7	73.8	42.5
BHUTAN	.1	.8	.3	37.5
BURMA	61.5	81.7	16.8	20.6
INDIA	807.4	1,021.8	258.7	25.3
MALDIVES	.6	1.3	.4	30.8
NEPAL	30.6	46.0	16.4	35.7
PAKISTAN	106.3	143.1	48.4	33.8
SRI LANKA	65.1	63.9	35.9	56.2
TOTAL SOUTH ASIA	1,322.1	1,532.3	450.7	29.4

IBRD

FY85 AND FY86 DISBURSEMENTS
BY REGION AND COUNTRY

(IN US$ MILLIONS)

ID : LAF20A
DATE: 12/10/85
TIME: 10.40.30

REGION/COUNTRY	FY85 ACTUAL	FY86 FULL FY BUDGET ESTIMATE 1/	FY86 ACTUAL AS OF 11/30/85	FY86 ACTUAL AS A % OF BUDGET
SOUTH ASIA				
INDIA	238.8	497.6	87.4	17.6
PAKISTAN	45.7	109.5	25.9	23.7
SRI LANKA	4.9	10.0	2.8	28.0
TOTAL SOUTH ASIA	289.4	617.1	116.1	18.8

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: October 18, 1985

TO: Mr. A. W. Clausen

THROUGH: Mr. W. A. Wapenhans, Acting SVPOP

FROM: W. D. Hopper, Vice President, South Asia Region

SUBJECT: Meeting with Indian Industrialists, Monday, October 21, 4:00 p.m.

1. On Monday, October 21, you are meeting a delegation from the Association of Indian Engineering Industry who are touring the United States and Canada looking at export opportunities for Indian manufactured goods and services. A brief is attached for this meeting.

2. The delegation is meeting Messrs. Jaycox, Thalwitz, Lerdau and Ms. Haug Monday morning and will discuss Indian participation in Bank projects throughout Africa. The team has been in New York for discussions with commercial banks and is here in Washington for discussions with ourselves and with a number of U.S. Government agencies.

3. Mr. John Griffith, Acting Chief, India Division, will accompany the delegation when they call on you.

Attachments

- Meeting with Indian Industrialists - Monday, October 21
- Luncheon with Private Businessmen/Bankers
- Background Note on Recent Developments in Trade and Industrial Policy
- IFC Activities and Strategy in India
- AIEI Delegation
- Participants

LMcKay:rb

Meeting with Indian Industrialists - Monday, October 21

The Association of Indian Engineering Industry AIEI is a private association with nearly 3,000 members from a broad range of engineering and electronics industries. The AIEI has been actively involved in consultations with Government on policy matters. Their involvement with the Kapoor Committee on the "Perspective Plan and Strategy for Export of Engineering and Capital Goods" is one such example.

Bank and Government confidence in this association is reflected in their having been chosen to work with ICICI on operating a Productivity Fund to improve product and process technology as part of the Export Development and Finance Project which we are presenting to the Board on October 22.

The delegation involves representation from a wide range of industries including steel, automotive manufacturing, textile machinery, forging and electronics. They come to the Bank with two principal purposes:

1) Acquaint our management and staff in the Sub-Sahara/African regions with the capabilities of Indian industry as a supplier for Bank Group supported projects, and assess opportunities for Indian exporters to participate in African projects; and

2) Explore general prospects for Bank Group assistance to industry in the private sector.

In other meetings in the U.S., this delegation is looking at export opportunities and exploring options for technical collaboration in engineering and electronics activities. They meet with the Electronics Association on Tuesday, October 22.

If you choose to follow up with the delegation the kinds of issues raised at your recent luncheon with private industrialists/bankers in India, the attached briefing notes, prepared for that occasion, continue to be relevant.

You will be provided with a note following the Monday morning meeting that this delegation is having with management and staff from the Sub-Sahara/African and South Asia Regions if anything arises that you should be aware of.

Luncheon with Private Businessmen/Bankers

Aims of the Luncheon

The principal aims of your luncheon with private businessmen/bankers should be to:

(1) gain a feel for the response of the businessmen/bankers to the direction and speed of recent trade and industry policy changes (see Attachment A);

(2) explore with the businessmen what more is required to effectively establish more efficient, competitive, expanding industries; and

(3) gain an appreciation of why industrial exports have not grown more rapidly and explore changes needed to facilitate a major expansion of industrial exports.

(1) Recent Policy Changes

Indian private industry will face opportunities and challenges in the new policy environment. The pace and nature of trade and industrial policy reforms have been and will undoubtedly be of major concern to the private industrialists. You should ask about their response to recent policy changes and their assessment of further changes required to effectively establish more efficient, competitive, expanding industries. Industrialists are likely to ask about the Bank's role in terms of advice and lending support for India's policy reform and industrial development process.

The Bank's Assessment of GOI Policy Initiatives:

- Deregulation. The reforms of domestic industrial regulatory policies announced by the new Government in the context of the 1985/86 budget were significant steps toward reducing direct controls on industrial investments and production, particularly the delicensing of 25 industries and the increase in the asset limit under the Monopolies and Restrictive Trade Practices (MRTP) Act.

- Trade Policy Reform. A sustained pace of reductions in quantitative import restrictions and an increased emphasis on tariff policy reform will be necessary to provide greater exposure to world trade to stimulate competition and to induce technological innovation in Indian industry.

- Technological Modernization. An even greater access to import of technology and capital goods will be necessary for sustained improvements in the productivity, efficiency and export competitiveness of Indian industry.

(2) Possible Future Policy Reforms

We believe that prospects for raising India's GDP and export growth rate will, to a large extent, depend on improved trade and industrial policies. While trade and industry policy initiatives taken in the Government's 1985/86 Budget and Import/Export Policy Statements are impressive, much more remains to be done to transform the policy environment for Indian industry into one which effectively establishes appropriate incentives for efficient, competitive expanding industries which are well suited to India's situation.

You should be sensitive to the fact that decontrol will not serve the interests of some established interest groups. Adjustment will be painful for some sections of industry. There will also be a gap between what is put on the books and its actual implementation in terms of the policy reforms.

You should ask industrialists whether they agree with the view that one of the greatest obstacles to their efficient expansion is often the regulations which are designed to shield other industrialists in interrelated activities from "undue competition". Regulations to shield steel making by restricting imports and thereby adversely affecting user activities could be used as an example. You should use this principle to support the need for further relaxation of direct controls, such as the delicensing of additional industries and the expansion of the list of industries in which larger companies are allowed to establish or expand capacities. This will be required to achieve much freer entry and exit of firms in the industrial sector and greater reliance on market price signals, both of which are conditions necessary for increased competition in Indian industry.

(3) Industrial Exports

You should make it clear that we are conscious of the need for export development as a integral part of the push to modernize and raise the economic performance of Indian industry. You should mention that exports will need to grow by 8 to 9% per annum compared with the 4% of recent years if the Government's planned 5% per annum growth in GNP is to be achieved over the next decade. Industrial or manufactured exports will need to expand even more rapidly if these targets are to be attained.

Industrialists are likely to reflect a general lack of confidence concerning the prospects for exports. They are likely to argue for example that there is a lack of export market opportunities due to protectionism in industrial countries. However, given India's diversified mix of products and markets and allowing for the fact that her exports account for less than 0.4% of world trade, demand should not be a major constraint on expansion. Challenge industrialists with the opportunities presented by export markets and the need to improve export supply prospects.

To improve export supply prospects will require action on a broad front. There is growing agreement in India that the policy environment requires substantial modification if manufacturers are to be internationally competitive. Trade policies would have to be changed so that the net impact of incentives is more neutral between export and import substitution activities.

You should ask for their views on policy changes in some of the following areas as a means to facilitating a more rapid expansion of exports:

- more effective export incentives to compensate exporters for policy induced increases in production costs,

- giving greater weight to export performance in exchange rate policy,

- transferability of export incentives to facilitate sub-contracting and small-scale industry to export via trading firms, and

- additional reductions in restrictive regulatory policies to permit economies-of-size production and modernization.

For information regarding IFC operations in India, see Attachment B.

Attachment A

Background Note on Recent Developments in Trade and Industrial Policy

In the Finance Minister's words, "an important priority is to create an environment for growth, productivity and savings" (1985-86 Budget speech, p. 25). Several trade and industry policy changes designed to increase the economic performance and competitiveness of industry and thereby accelerate economic growth were announced in the 1985/86 Budget and Import/Export Policy Statements. These changes do constitute a reduction in the complex network of controls that have been central to India's economic management. However, much more remains to be done to transform the policy environment for Indian industry into one which effectively establishes appropriate incentives for efficient, competitive, expanding industries which are well suited to India's situation.

A. Some policy initiatives recently taken by the GOI.

Direct Controls:

- Manufacturers have been exempted from having to obtain industrial licenses to produce in 25 additional industries including cycles and industrial machinery (i.e., delicensing of 25 industries).

- The asset limit beyond which a private sector company would be subject to the Monopolies and Restrictive Trade Practices (MRTP) Act was raised from Rs 200 million to Rs 1 billion.

- The import of several engineering products under Open General License has been permitted to enable firms to make the modernization moves necessary for reaching international competitiveness.

- An Import-Export Passbook System whereby a manufacturer-exporter may obtain duty-free inputs and components without requiring a firm order was introduced.

Direct taxes:

- Company income tax rates were reduced.

- A 50% tax exemption on profits from export sales was provided.

Indirect Taxes:

- A customs duty of 10% ad valorem on crude petroleum was introduced and the corresponding auxiliary duty raised from Rs 100 per tonne Rs 300 per tonne.

- The customs duty of 65% applicable to project imports was reduced to 45% ad valorem in general, 25% for power projects and zero for fertilizer projects.

- The export duties on 12 items were abolished, leaving export duties on only 4 items (coffee, unmanufactured tobacco, mica other than bridge mica, and hides and skins).

- Certain advanced types of computers not manufactured in India were exempted from customs duty.

- The cotton fabric duty was partly shifted to the yarn stage.

The Bank is seeking to support the implementation of such existing and future initiatives for policy reform through our lending program. The forthcoming Industry Export Development Project is one such example. In this case the Bank lending is being provided to support important initiatives already taken and strengthen Government efforts to promote engineering goods exports. Where the GOI has taken significant initiatives and plans to continue the process of policy reform the Bank is able to lend support in the spirit of partnership and mutual respect without any need for explicit policy conditionality. It is a reflection of this that the Bank's emphasis is shifting to relatively broad-based lending operations to support policy reforms and facilitate sector adjustment.

B. Some additional desirable GOI policy initiatives would be:

- Industrial licenses, investment controls and direct import controls should be further relaxed to permit entrepreneurs to more rapidly respond to market opportunities.

- The customs duty schedule should be rationalized with movement to a more uniform customs duty. Situations where the import duty on a final or intermediate good is lower than that applying to important inputs needed in its production should be avoided.

- A transferable export incentive would be desirable to facilitate small-scale industry to export via trading firms.

- A more effective means of compensating exporters for the policy-induced higher cost of locally purchased inputs to remove the current bias against locally produced inputs would facilitate efficient backward integration of export industries.

- Greater weight could be given to export performance in managing the exchange rate.

IFC ACTIVITIES AND STRATEGY IN INDIA

Outlook for Private Sector

1. The private sector's role in key areas of the economy are slowly expanding. The new Prime Minister has stressed the importance of opening up of the economy and stimulating industrial competition. In a measure to free about half of the MRTP companies to expand their operations to more economic scales of operation, MRTP asset limits have been increased fivefold. The Government has also announced its intentions to de-license a number of industries, including the automotive sector. To encourage more competition in domestic production, discourage smuggling and stimulate exports, the Government has substantially reduced duties on a variety of goods, most notably machinery for leather, gems and electronics industries. Furthermore, to reduce the capital costs and increase the competitiveness of domestic industry, duties on "project imports" were reduced from 65% to 45%, with a 25% rate for power equipment and total exemption for fertilizer equipment. While most of the above measures aim at increasing industrial efficiency, they are also expected to help strengthen export performance. The Government has also announced a number of specific measures to stimulate exports, including abolition of export duties on 12 items (largely raw agricultural and mining products), and more significantly allowed for deducting up to 50% of export profits in calculating income taxes. The Government has furthermore displayed pragmatism by allowing the private sector to invest in power plants, decontrolling prices of cement, and encouraging joint ventures with foreign companies.

2. It is anticipated that with the newly announced policies, the role of the private sector will increase substantially by the end of the decade.

3. Significant in terms of scale are up to five large fertilizer plants (2250 mt/day of urea each) based on associated gas from the Bombay High oil fields. Three such plants with a total investment of about US $2 billion are potential IFC projects which have yet to be financed. In addition the private sector has moved to provide means of urban transportation and goods movement through a large expansion of the light commercial vehicle sector. The petrochemical sector is still in the developmental stage and there is a continuing interest in oil drilling and exploration by local groups in collaboration with foreign partners. Some areas of high technology (for example telecommunications, computers) are also attracting private sector investment interest as a result of new government policies.

IFC Portfolio

4. As of June 30, 1985, IFC's cumulative original commitments in India amounted to US $270.4 million (US $257.1 million in loans and US $13.3 million in equity). IFC's net investments held at the same date amounted to US $ 118.2 million, IFC's fourth /1 largest country exposure at that time. IFC has a diversified portfolio in India with investments

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1/ After Brazil, Mexico, and Yugoslavia.

in all the key sectors including steel, fertilizer, automotive and cement. Since the partial deregulation of cement prices in February 1982, IFC has invested in 6 cement projects representing a total capacity of 4.5 million mtpy, or about 19 percent of India's total cement capactiy to date. Given this recent emphasis on cement, we intend to restrict further IFC exposure in this sector for the time being. The condition of the portfolio is satisfactory as there are at present no problem projects. On the other hand there has been some restructuring of projects approved in FY81-FY83, mainly as a result of recent economic conditions, and this has led to reduction of IFC loans in some cases.

TABLE 1: IFC COMMITMENTS IN INDIA AS OF JUNE 30, 1985 (US$ million)

	Commitments			Disbursements	
	Loan	Equity	Total	Disbursed	Undisbursed
IFC	118.18	7.08	118.25	79.24	39.02
Participants	34.58	-	34.58	14.84	19.74
Total	145.76	7.08	152.84	94.08	58.76

IFC Strategy/Promotion Activity

5. IFC's proposed future activities in India can be broadly classified into five major areas. The first area is the large scale foreign exchange funds mobilization for the proposed private sector fertilizer projects and projects in the automotive sector. Appraisal of the Zuari fertilizer project at Sawai Madhopur, Rajasthan is planned in FY86. In the automotive sector a number of projects are being developed by private sector companies in the areas of medium and light commercial vehicles, engine manufacture and two-wheelers, all of them in some form of collaboration with foreign technical partners. Some delay is expected as companies reevaluate their development plans in light of more liberal licensing policies announced by Mr. Gandhi's government.

6. The second major area of IFC'S proposed activities is in technology transfer where IFC is interested in developing new technologies in, and, if appropriate, exporting technologies from India and in assisting the establishment of high technology projects in India.

7. The third area of IFC's activities is in providing assistance to smaller emerging entrepreneurs where the quality of sponsors and the project's technological features favor IFC.

8. The fourth area of IFC's proposed activities is in the emerging oil and gas exploration sector, where IFC could assist suitable joint sector projects.

9. The fifth area, which is also an area of wide development impact is the capital markets sector. Here IFC has already been instrumental in development of the leasing industry and housing development finance. We are now pursuing the possibility of a venture capital company. In our capital markets projects IFC's principal contribution will be the promotion of the company, the assistance in the revision of any government regulation required to make the company feasible and participation as a founding shareholder and in the initial financing package. Individual investment amounts therefore may not be large but the impact of IFC's involvement is far greater than the amounts invested. We have also been asked by the Government to assist in computerisation of the stock exchanges.

10. In all cases the intention is that IFC complement the financial and appraisal capabilities of the Indian institutions, including ICICI which has received large amounts of IBRD financial assistance. Accordingly the minimum proposed IFC net investment in any given project is normally US $5 milllion. IFC's Representative in New Delhi is continually updating the project pipeline, reviewing new project prospects, and is working closely with the Indian Financial Institutions and Department of Economic Affairs to determine at an early stage those projects suitable for IFC financing. The New Delhi office has been extremely useful in communicating with the Government and in exploring new business opportunities. We intend to expand the office by hiring a local assistant. Promotion activities of the New Delhi office are supported by regular promotion missions from Washington. A major promotion mission led by Mr. Parmar in December 1984 stimulated considerable interest in the business community, was well received by the Government and also received extensive coverage in the press.

11. IFC's activities are well coordinated with those of the Bank through exchange of information both in the New Delhi office and here in Washington.

Project Pipeline/Outlook for FY86

12. The projected outlook for FY86 is 4 to 6 projects for a total net investment volume of about US $50 million. The projected volume, however, is extremely sensitive to the progress on the larger projects in the fertilizer and automotive sectors. This projected result would compare as follows to investment approvals in the last five fiscal years (including Capital Markets operations and before cancellations):

	FY81	FY82	FY83	FY84	FY85	FY86 (outlook)
	------(US $ Millions)------					
Number of projects	4	6	3	3	4	4-6
Gross IFC Investment	76.1	89.2	15.2	43.7	34.7	75.0
Net IFC Investment	56.1	62.2	15.2	28.6	20.1	50.0
Average Investment Size	14.0	10.4	5.1	9.5	5.0	10.0

The FY85 results were somewhat lower than expected partly because some of the larger projects were postponed and reassessed in light of the new policies announced by Mr. Gandhi's government (for example in the automotive sector). Our objective in the longer run is to achieve an annual net investment volume of $80-100 million spread over 8-10 transactions.

AIEI DELEGATION

1. Mr. Ramesh Maheshwari,
   President, AIEI and President TEXMACO Limited

2. Mr. K.N. Shenoy,
   Vice President, AIEI and Managing Director Hindustan Brown Boveri Ltd.

3. Mr. J.R. Bammi, Director, MacNeill & Magor

4. Mr. K.R. Gokhale, Director, THERMAX Ltd.

5. Dr. N.A Kalyani, Chairman and MD, Bharat Forge Ltd.

6. Mr. Arvind Doshi, Managing Director, Walchandnagar Industries

7. Mr. J.J. Doshi, Director, M.N. Dastur Co.

8. Mr. M.R. Tamboli, Managing Director, Steelcast Bhavnagar Ltd.

9. Mr. V. Raman, Chief Executive, Steelcast Bhavnagar Ltd.

10. Mr. Arvind Gupta, General Manager, EXIM Bank of India

11. Mr. J.N. Mehrotra, Director, Surbhay Consultancy

12. Mr. P.C. Sen, Chairman and MD, EURN Standard

13. Mr. A.P. Mukherjee, Director, EURN Standard

14. Mr. G. Ramachandra, Additional Director, Steel Authority of India

15. Mr. Hugh Faulknar, Managing Director, Indian Aluminium Ltd.

16. Mr. Tarun Das, Executive Director, AIEI

17. Mr. N. Subramananian, General Manager, AIEI, North American Office
    and Mission Secretary

Participants

South Asia Region

Mr. Enrique Lerdau
Mr. John Griffith
Ms. Nancy Barry

Western Africa Region

Wilfried P. Thalwitz
Hans Fuchs
Sri-ram M.G. Aiyer

Eastern and Southern Africa Region

Edward V.K. Jaycox
Jose Bronfman
Francisco Aguirre-Sacasa

Industry Department

Marianne Haug

90 years
1895-1985

Ramesh Maheshwari
PRESIDENT

Association of Indian Engineering Industry
172 Jor Bagh, New Delhi - 110 003
Phone : 615693 Cable : BUILDPOWER Telex : 031-3855

30th August, 1985

1217

Dear Mr. Clausen :

I was delighted to meet you over lunch at New Delhi on 13th August, during your visit to India. It gave us an opportunity to discuss some specific areas of cooperation between engineering industry and the World Bank.

I shall be heading an AIEI Industrial Delegation to the USA in late-October, and I look forward to calling on you in Washington. This delegation would be coinciding with the Indian Prime Minister, Mr. Rajiv Gandhi's visit to the USA to address the U.N. General Assembly.

With kind regards,

Yours sincerely

[RAMESH MAHESHWARI]

Mr. A.W. Clausen
President
The World Bank
1818 H Street, N.W.
Washington D.C. 20433
U.S.A.

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OFFICE OF THE PRESIDENT

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भारत का राजदूत
वाशिंगटन, डी० सी०
AMBASSADOR OF INDIA
2107 MASSACHUSETTS AVE. N.W.
WASHINGTON, D. C. 20008

June 26, 1985

Dear President Clausen,

Just a line by way of belated acknowledgement of your letter of May 31, 1985 which was pending during the visit of our Prime Minister.

I recall your telling me that you will be away in June and am sorry that you could not be here during the visit. I believe arrangements are being made for your own visit to Delhi between 11th and 16th August and I know that the Prime Minister would be happy to see you then.

I look forward to our meeting again both here and at the Grove.

with warm regards,
Yours sincerely,

Shankar Bajpai
(K.S.Bajpai)

Mr.A.W.Clausen
President
The World Bank
Washington, D.C.20433

RECEIVED
1985 JUL -2 AM 9:47
OFFICE OF THE PRESIDENT

May 31, 1985

Dear Mr. Ambassador:

During an earlier meeting with you this year, I mentioned my interest in seeing the Prime Minister during his visit to Washington. However, my schedule calls for me to be in Africa in June, and so I will not be here at that time. I have written to the Prime Minister to express my regret at missing his visit.

I am indeed sorry about this as India and The World Bank have for many years enjoyed a mutually cooperative relationship. However, we are working to arrange a trip for me to India in the near future, and I hope to have the chance of meeting Prime Minister Gandhi then.

Warm regards.

Sincerely,

A. W. Clausen

His Excellency
K. S. Bajpai
Ambassador of India
2107 Massachusetts Avenue, N. W.
Washington, D. C. 20008

Cleared with Mr. Stern

bcc: Mr. Hopper

MH

May 31, 1985

Dear Mr. Prime Minister:

Just a brief note to say how sorry I am that I will not be in Washington during your visit in June. As it happens, I am scheduled to travel to several of The World Bank's member countries in Africa during that period.

However, I hope to visit India sometime in the near future and very much look forward to meeting you then. In the meantime, you have my best wishes for a successful trip.

Sincerely,

A. W. Clausen

His Excellency
Rajiv Gandhi
Prime Minister of India
New Delhi, India

Cleared with Mr. Stern

bcc: Mr. Hopper

MH

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

action Reading
cc Stern

DATE May 17, 1985.

160 TO Mr. A.W. Clausen, President.

FROM C.R.Krishnaswamy Rao Sahib, Exec. Director.

EXTENSION 72223

SUBJECT IDA allocations to India.

With reference to our conversation of this morning, I am forwarding herewith a statement showing fall in India's share in IDA during the last four years. You will notice that the proposal to allocate only $650 in FY85 will mean a very steep decline from India's share in FY84. I hope it will be possible for you to take some corrective measures.

RECEIVED
1985 MAY 17 PM 2:41
OFFICE OF THE PRESIDENT

FALL IN IDA ALLOCATIONS TO INDIA

(IN SDRs MILLION)

	81	82	83	84	85 (As per indications)
India	1026.6	765.7	974.3	948.6	650.0
Total	2719.0	2341.8	3066.7	3382.4	3000.0
Share of India	37.8%	33%	31.8%	28%	21.6%
Per cent decline in India's share		12.7%	3.6%	11.9%	22.8%

(~~in~~ $'n)

	IDA TOTAL	INDIA TOTAL	INDIA % SHARE
1980	3837.5	1535	40.0 %
1981	3482.1	1281	36.8 %
1982	2686	900	33.5 %
1983	3340	1063	31.8 %
1984	3575	1001	28.0 %
1985	3000	675	22.5 %

Mr. Clausen

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE : April 12, 1985

TO : Mr. A. W. Clausen

THRU : Mr. Ernest Stern, SVPOP

FROM : Russell Cheetham, Director, ASA

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

I. Introduction

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

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

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

II. Current Economic Situation and New Policy Initiatives

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

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

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

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

III. Bank Group Assistance

(1) IDA

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

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

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

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

(2) IBRD

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

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

IV. India's Capital Subscription

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

Cleared with and cc: Mr. Lerdau

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

BIO-DATA OF MR. VISHWANATH PRATAP SINGH
MINISTER OF FINANCE, GOVERNMENT OF INDIA

Name		VISHWANATH PRATAP SINGH
Father's Name		Raja Bahadur Ram Gopal Singh
Date and Place of Birth		June 25, 1931, Allahabad, India
Education		Allahabad and Poona Universities: B.A. LL.B. and B.Sc. Degrees
		Founded Gopal Vidyalaya Intermediate College, Koraon, Allahabad
	1947-48	President, Students Union, Udai Pratap College, Varanasi
		Vice President, Allahabad University Students Union
	1957	Took part in Bhoodan Movement and donated a well-established farm in village Pasna, Allahabad.
	1969-71	Member, All India Congress Committee
		Member, Executive Body, Allahabad University
		Member, Legislative Assembly, Uttar Pradesh
	1970-71	Whip, Congress Legislative Party, U.P.
	1971-74	Member of Parliament (Lok Sabha)
	Oct. 1974 to Nov. 75	Union Deputy Minister of Commerce
	Nov.76 to March 77	Union State Minister of Commerce
	1980	Member of Parliament, Lok Sabha
	June 80 to June 82	Chief Minister of Uttar Pradesh
		Was appointed Union Commerce Minister on 29th January 1983, Additional charge of Department of Supply from February 15, 1983
		Elected Member of Parliament (Lok Sabha on July 16, 1983, President Uttar Pradesh Congress Committee (I) from September 1984
	From Dec.31, 1984	Union Finance Minister

R1

cc: Mr. Hoppen 1/07

भारत का राजदूत
वाशिंगटन

AMBASSADOR OF INDIA
WASHINGTON

22

4 January 1985

Dear President Clausen,

I have received the following message for you from Prime Minister Rajiv Gandhi:

"Thank you for your message of congratulations. My Government is determined to persevere in its efforts to develop the economy of our country and to raise the living standards of our people. I welcome your assurances of cooperation in this endeavour.

Rajiv Gandhi"

Yours sincerely,

(K.S. Bajpai)

Mr. A.W. Clausen,
President,
International Bank for Reconstruction
and Development,
Washington D.C.

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1985 JAN -7 PM 1:26
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(3/82)

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PAGE 1 OF 1

OFFICIAL DEPT/DIV ABBREVIATION: EXC

MESSAGE NUMBER

TEST NUMBER (FOR CASHIER'S USE ONLY)

START HERE

SHRI RAJIV GANDHI, PRIME MINISTER

NEW DELHI, INDIA

DEAR MR. PRIME MINISTER, ON BEHALF OF MYSELF AND THE STAFF OF THE WORLD BANK AND IFC, I SEND YOU OUR HEARTIEST CONGRATULATIONS ON YOUR ELECTORAL VICTORY. WE ARE CONFIDENT THAT UNDER YOUR LEADERSHIP INDIA WILL CONTINUE TO PROGRESS IN ITS EFFORTS AT DEVELOPING THE COUNTRY'S ECONOMY AND IN ITS ENDEAVORS TO RAISE THE LIVING STANDARDS OF ITS PEOPLE. WE LOOK FORWARD TO THE CLOSEST POSSIBLE PARTNERSHIP WITH YOUR GOVERNMENT IN HELPING TO FULFILL ITS ECONOMIC DEVELOPMENT PROGRAMS. WITH WARM REGARDS, A. W. CLAUSEN, PRESIDENT, THE WORLD BANK.

END OF TEXT

PINK AREA TO BE LEFT BLANK AT ALL TIMES

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CLASS OF SERVICE: TELEX

TELEX NO.:

DATE: Jan. 2/85

SUBJECT:

DRAFTED BY: EVMelder:CLRobless:br

EXTENSION: 72001

CLEARANCES AND COPY DISTRIBUTION:

cleared with & cc: Mr. Hopper

cc: Messrs. Stern
Cheetham

AUTHORIZED BY (Name and Signature): A. W. Clausen

DEPARTMENT: Office of the President

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FORM NO. 1599
(8–80)

THE WORLD BANK

ROUTING SLIP	DATE 1/1/85

OFFICE OF THE SENIOR VICE PRESIDENT, OPERATIONS

NAME	ROOM NO.
Mr. Southworth	

	To Handle		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		Send On

REMARKS

Roy -
I have no objection to the text, but I wonder what the practice is? Does Tom congratulate all election winners? Fixed elections too? If he does not I see no reason to make an exception for India. It is, after all, a political event and not part of our bailiwick. But if it is general practice to congratulate this cable is fine.

FROM

CES

December 28, 1984

Mr. Stern:

According to the latest available polling results, the Congress (I) is leading the polls with a substantial majority. We propose for your approval the annexed cable from Mr. Clausen to Mr. Rajiv Gandhi to be sent when the full results of the polling are known. The draft cable has been cleared with Mr. Hopper.

C. L. Robless
Division Chief
South Asia Programs Dept.
Ext. 32260

DRAFT TELEX
EVMelder/CLRobless:br
12-28-84

SHRI RAJIV GANDHI
PRIME MINISTER
NEW DELHI, INDIA

DEAR MR. PRIME MINISTER, ON BEHALF OF MYSELF AND THE STAFF OF THE WORLD BANK AND IFC, EYE SEND YOU OUR HEARTIEST CONGRATULATIONS ON YOUR ELECTORAL VICTORY. WE ARE CONFIDENT THAT UNDER YOUR LEADERSHIP INDIA WILL CONTINUE TO PROGRESS IN ITS EFFORTS AT DEVELOPING THE COUNTRY'S ECONOMY AND IN ITS ENDEAVOURS TO RAISE THE LIVING STANDARDS OF ITS PEOPLE. WE LOOK FORWARD TO THE CLOSEST POSSIBLE PARTNERSHIP WITH YOUR GOVERNMENT IN HELPING TO FULFILL ITS ECONOMIC DEVELOPMENT PROGRAMS. WITH WARM REGARDS, A.W. CLAUSEN, INTBAFRAD.

Cleared with & cc: Mr. Hopper (ASNVP)

cc: Messrs. Stern (SVPOP); Cheetham (ASADR); Southworth (EXC)

R1

कृषि और सहकारिता विभाग
कृषि मंत्रालय
कृषि भवन, नई दिल्ली-110001.

Department of Agriculture & Cooperation
Ministry of Agriculture
Krishi Bhavan, New Delhi-110001.

cc: Mr. Hoppe
1/10

50

सचिव, भारत सरकार
SECRETARY
Government of India

December 29, 1984.

My dear Mr. Clausen,

In spite of a record-breaking foodgrains production of more than 151 million tonnes, India faced grave tragedies during 1984. We are sure, with the sympathetic understanding of the World Bank and other international agencies, India will continue to make conspicuous progress through democratic means during 1985. In that spirit, my wife and I wish you and Mrs. Clausen a very Happy, Prosperous and Successful New Year. May all your efforts be crowned with success!

With regards

Yours sincerely,

(S.P. Mukerji)

Mr. A.W. Clausen,
President,
THE WORLD BANK,
1818 H Street, N.W.,
Washington, D.C. 20433,
U.S.A.

RECEIVED
1985 JAN -9 PM 1:24
OFFICE OF THE PRESIDENT

AIEI

Ramesh Maheshwari
President

Association of Indian Engineering Industry
172, Jor Bagh, New Delhi - 110 003
Phone : 624620, 615693
Cable : BUILDPOWER Telex : 031-3855 AIEI IN

J. R. BAMMI
PRESIDENT

JOHNSTON
VERTICAL PUMPS

JOHNSTON PUMPS DIVISION

WORTHINGTON PUMP INDIA LTD.
4, MANGOE LANE, CALCUTTA-700 001

PHONE : OFFICE : 23-4425
RES : 45-0019
TELEX : 021-7898

(3/82)

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PAGE 1 OF 1

OFFICIAL DEPT/DIV ABBREVIATION: EXC

MESSAGE NUMBER

TEST NUMBER (FOR CASHIER'S USE ONLY)

START HERE

ECOFAIRS, NEW DELHI, INDIA

FOR MR. V. P. N. SINGH, MINISTER OF FINANCE

DEAR MR. FINANCE MINISTER, ON BEHALF OF MYSELF AND THE STAFF OF THE WORLD BANK AND IFC, I SEND YOU OUR WARMEST CONGRATULATIONS ON YOUR APPOINTMENT AND WISH YOU EVERY SUCCESS IN YOUR IMPORTANT PORTFOLIO. INDIA HAS ALREADY ACHIEVED MUCH SUCCESS IN ITS EFFORTS AT ECONOMIC DEVELOPMENT, BUT CLEARLY MANY CHALLENGES STILL REMAIN TO BE OVERCOME. I TAKE THIS OPPORTUNITY TO PLEDGE THE FULLEST COOPERATION OF THE WORLD BANK IN THE ENDEAVOURS OF THE GOVERNMENT AND YOUR MINISTRY TO DEAL WITH THESE CHALLENGES AND TO BE AS HELPFUL AS WE CAN IN THE IMPLEMENTATION OF YOUR COUNTRY'S ECONOMIC DEVELOPMENT PROGRAMS. WITH WARM REGARDS, A. W. CLAUSEN, PRESIDENT, THE WORLD BANK

END OF TEXT

PINK AREA TO BE LEFT BLANK AT ALL TIMES

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CLASS OF SERVICE: TELEX

TELEX NO.:

DATE: Jan 2, 1985

SUBJECT:

DRAFTED BY: EVMelder/CLRobless:brn

EXTENSION: 32266

CLEARANCES AND COPY DISTRIBUTION:

cleared with and cc: Mr. Hopper
cc: Mr. Stern
Mr. Cheetham

AUTHORIZED BY (Name and Signature): A. W. CLAUSEN

DEPARTMENT: Office of the President

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September 25, 1984

Dear Mr. Minister:

Thank you very much for sending me a copy of your book, Beyond Survival. Needless to say, during this busy week I have not had a chance to look at it, but I certainly intend to do so. It will be an excellent addition to my library.

It was thoughtful of you to think of me.

Warm regards.

Sincerely,

A. W. Clausen

His Excellency
Pranab Mukherjee
Minister of Finance
of India
Room 1023
Sheraton Washington Hotel

MH

August 13, 1984

Dear Mr. Minister:

In response to your letter, I wish to confirm my assurances given at the Board meeting on July 31 that Management is making every effort to secure the release of shares in order to complete the allocation of unallocated shares arising out of the Selective Capital Increase as quickly as possible. The Secretary of the Bank has already written to all Governors whose countries have not subscribed to the allotted shares under various resolutions urging them to expedite their subscriptions or to release them for reallocation. I am, therefore, hopeful that we will receive sufficient responses to enable us to proceed with the rest of the remaining allocation in the near future.

Sincerely yours,

A. W. Clausen

His Excellency
Pranab Mukherjee
Minister of Finance
New Delhi 110001
India

TTThahane:raa

cc and cleared by: Mr. Wood

FORM NO 89 .
(2–83)

THE WORLD BANK

ROUTING SLIP	Date August 3/84

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. Wood	E 1241
cc: Mr. Qureshi	
Mr. Thahane	

	To Handle		Note and File
	Appropriate Disposition		Prepare Reply
	Approval		Per Our Conversation
	Information		Recommendation

Remarks

Would you please prepare a reply for Mr. Clausen's signature by August 13?

Roy Southworth

From

F.1/18/84-FB.II

वित्त मंत्री
भारत
MINISTER OF FINANCE
INDIA
NEW DELHI-110001

July ,1984.

Dear Mr. Clausen,

I have been informed about the forthcoming meeting of the Board of Directors scheduled for 31st July 1984 which will discuss the allocation of unallocated shares arising out of the Selective Capital Increase of the IBRD and the proposal made by Dr. El.Naggar. We note that during the first phase 600 shares would be distributed and 231 shares are proposed to be allocated to India. While this is a welcome development, the total number of shares available for distribution in the first phase seems to be lower than what was envisaged earlier. This makes it all the more necessary that the second phase of the exercise for release of allocated but unsubscribed shares is completed as early as possible so that, as agreed earlier, India's voting strength is raised to 3 per cent. I hope that this exercise can be completed by the time we meet for the Annual Meetings. I would very much appreciate if the necessary action could be initiated as early as possible.

With regards,

Yours sincerely,

Pranab Mukherjee.

(PRANAB MUKHERJEE)

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

August 17, 1984

Dear Mr. Minister:

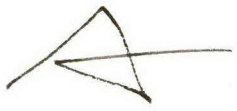
Thank you for your letter of July 23, 1984.

We are very grateful for India's support in trying to persuade donors to participate in a supplementary fund for IDA. As you have noted, the outcome of the Fontainebleau Summit was not very positive. Unfortunately, Germany and Japan are still not prepared to participate in arrangements to supplement IDA7 without the U.S. participation in such arrangements. Given the U.S. position, it does not seem profitable at this time to continue to press for a supplementary scheme along the lines envisaged earlier. We plan to raise this question again in about a year's time when an overall review of the status of the Seventh Replenishment and the requirements of IDA recipients is envisaged.

In the meanwhile, we cannot afford to give up our efforts and we will thus continue in our attempts to obtain additional concessionary funds to augment IDA's resources.

Warm regards,

Sincerely,



His Excellency
Pranab Mukherjee
Minister of Finance
New Delhi, India-110001

bcc: Mr. Himadri Narayan Ray
Executive Director

cc: Mr. Qureshi
Messrs. Bock, Ikram, Mistry, Wood, Southworth

वित्त मंत्री
भारत
MINISTER OF FINANCE
INDIA
NEW DELHI-110001

No. F.2/3/84-FA-II

JULY 23, 1984.

294

Dear President Clausen

Hon'ble Prime Minister has received your message of June 20, 1984 requesting us to intervene in the matter of Supplementary Funding. Soon after receipt of your message efforts were made both with Germany and Japan though I learn that the outcome at Fontainbleu was inconclusive. We will continue to pursue this matter appropriately.

With regards.

Yours sincerely,

Pranab Mukherjee

(PRANAB MUKHERJEE)

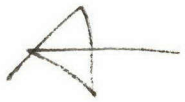
Mr. A.W. Clausen,
President,
World Bank,
Washington D.C.,
U.S.A.

August 13, 1984

Dear Mr. Minister:

In response to your letter, I wish to confirm my assurances given at the Board meeting on July 31 that Management is making every effort to secure the release of shares in order to complete the allocation of unallocated shares arising out of the Selective Capital Increase as quickly as possible. The Secretary of the Bank has already written to all Governors whose countries have not subscribed to the allotted shares under various resolutions urging them to expedite their subscriptions or to release them for reallocation. I am, therefore, hopeful that we will receive sufficient responses to enable us to proceed with the rest of the remaining allocation in the near future.

Sincerely yours,



A. W. Clausen

His Excellency
Pranab Mukherjee
Minister of Finance
New Delhi 110001
India

TThahane:raa

cc and cleared by: Mr. Wood

FORM NO. 89 · (2–83)

THE WORLD BANK

ROUTING SLIP	Date August 3/84

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. Wood	E 1241
cc: Mr. Qureshi	
Mr. Thahane	

	To Handle		Note and File
	Appropriate Disposition		Prepare Reply
	Approval		Per Our Conversation
	Information		Recommendation

Remarks

Would you please prepare a reply for Mr. Clausen's signature by August 13?

Roy Southworth

From

F.1/18/84-FB.II

वित्त मंत्री
भारत
MINISTER OF FINANCE
INDIA
NEW DELHI-110001

July ,1984.

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With regards,

Yours sincerely,

Pranab Mukherjee.

(PRANAB MUKHERJEE)

RECEIVED
1984 AUG -3 PM 4:08
OFFICE OF THE VICE PRESIDENT AND SECRETARY

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

CURRICULUM VITAE
OF
K. SHANKAR BAJPAI
AMBASSADOR OF INDIA TO THE USA

Born: March 30, 1928 in Jaipur, Rajasthan

Educated: Doon School, Dehradun; St.Albans School, Washington, D.C.; Merton College, Oxford (B.A. Hons. in Modern History); Ecole Des Etudes Universitaire, Geneva.

Joined Indian Foreign Service in 1952.

Postings: Embassy of India, Ankara - 1955-57

Embassy of India, Berne - 1957-58

Under Secretary, Arab Affairs, Deputy Secretary, U.N. Affairs, Officer on Special Duty for Disarmament, Ministry of External Affairs, New Delhi	From 1958 to 1962
First Secretary, High Commission of India, Karachi	1962-65
Officer on Special Duty (Pakistan) and Director (Americas), Ministry of External Affairs, New Delhi	1965-67
Consul General of India, San Francisco	1967-70
Political Officer in Sikkim	1970-74
Ambassador of India, The Hague	1974-76
Ambassador of India, Islamabad	1976-80
Ambassador of India, Beijing	1980-82
Secretary, Ministry of External Affairs, New Delhi.	July 1982 - Feb.1984
Ambassador of India to the U.S.A.	Since March 1984

****

March 28, 1984

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

1. Mr. K.S. Bajpai is a career diplomat. He took over his duties in Washington only this month. A brief curriculum vitae is attached.

2. Mr. K.S. Bajpai's visit is essentially a courtesy call. However, you may expect him to raise two interrelated issues: (i) the size of the Bank's overall lending program for India; and (ii) India's share in IDA VII. Paragraphs 3 and 4 deal with these issues while the rest of this note provides background on recent political and economic developments.

3. You had addressed the first issue earlier in your letter to India's Minister of Finance, Mr. P. Mukherjee (January 11, 1984) in response to his letter dated December 15, 1983. Copies of both letters are attached. Mr. Mukherjee's letter argued for a US$15-16 billion FY84-88 Bank Group lending program. Your reply referred positively to India's development program and adjustment efforts, and indicated that the Bank Group would respond to India's external finance requirements as fully as possible within the serious resource constraints which have emerged simultaneously with an increase in the need to provide for other member countries. You noted that IDA-7 would be substantially below earlier expectations, but that to protect the Bank Group's real lending to India you were prepared, within prudent bounds, to relax current guidelines on India's total share in the IBRD portfolio. This could result in a FY84-88 Bank Group program on the order of US$11 billion, perhaps reaching as high as US$12 billion, with the ultimate size depending on India continuing to strengthen its creditworthiness.

4. The second issue, India's IDA share, continues to be of major concern to India, as was reemphasized by Mr. Ray during the recent (March 22) discussion of the draft President's Report to the Development Committee on Current Development Issues (SecM84-206) by the Executive Directors. Mr. Ray stressed India's need for concessional funds, the need for an equitable share of IDA, and the need for a larger overall IDA replenishment. India is concerned that the combined India/China allocation will be below even the 40% floor previously indicated and that within the combined India/China share, India will bear the brunt of the cut in overall IDA availability. In responding, you may wish to make the following points:

IT'S NOT.

(a) ~~The IDA allocation decisions have not yet been made.~~ ~~Nevertheless~~, The 40% combined India/China IDA share indicated to the IDA Deputies earlier for purposes of illustration assumed an IDA-7 replenishment in the SDR9-12 billion range. It now appears likely that the IDA replenishment will be even lower than the lowest level previously assumed. This, combined with the further deterioration in the economic situation in Sub-Saharan Africa, could result in the combined allocation to India and China falling below 40%;

← This is not true. Also, let's keep it flexible

(b) It is the disappointingly small size of IDA which will make the already difficult allocation decisions so much more painful. Efforts should

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

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

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

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

Recent Economic Developments

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

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

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

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

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

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

Political Developments

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

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

वित्त मंत्री
भारत
MINISTER OF FINANCE
INDIA
NEW DELHI-110001

D.O. NO: 5533/Fm/83

1798

December 15, 1983

Dear Mr Clausen,

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

Yours sincerely,

(PRANAB MUKHERJEE)

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

January 11, 1984

The Honorable Pranab Mukherjee
Minister of Finance
New Delhi 110001
India

Dear Mr. Minister:

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

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

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

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

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

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

Sincerely,

A.W. Clausen
President

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

MWiehen/CLRobless:jl

RI Hand delivered 2/1/84

K.R. NARAYANAN
AMBASSADOR

EMBASSY OF INDIA
2107 MASSACHUSETTS AVE. N.W.
WASHINGTON, D. C. 20008

168

January 25, 1984.

Dear President Clausen,

I was very happy to receive your letter of January 9, 1984. It was really thoughtful of you to have written. Usha and I have very pleasant recollections of our meetings with you and Mrs. Clausen and we are grateful for all the friendship and cooperation you extended to us.

I have appreciated very much your efforts to maintain the flow of World Bank funds to developing countries. On the eve of my departure for India I should like to wish your efforts all possible success. May I also take this opportunity to wish you and Mrs. Clausen good health and happiness in the New Year.

Yours sincerely,

Narayanan K.R.

(K.R. Narayanan)

Mr. A.W. Clausen
President
The World Bank
Washington, D.C. 20433.

THE WORLD BANK
Washington, D. C. 20433
U. S. A.

A. W. CLAUSEN
President

January 9, 1984

Dear Mr. Ambassador: 25?

Peggy and I are pleased that you invited us to join you and your friends for a reception on January 28 but, unfortunately, we will be out of the country at the time and will not have the chance to say goodbye personally.

We are sorry to see you leave the Washington scene and you will be missed. It has been a pleasure to get to know you during these past two years and I hope our paths will cross again.

My colleagues at The World Bank join me in thanking you, Mr. Ambassador, for your cooperation and assistance to us over the years and we wish you well in your future endeavors.

Every good wish to you and Mrs. Narayanan for good health and happiness in the New Year.

Sincerely,

AWC

His Excellency
Kocheril Raman Narayanan
Ambassador of India
2107 Massachusetts Avenue, N.W.
Washington, D. C. 20008

TO CELEBRATE REPUBLIC DAY OF INDIA AND TO SAY GOODBYE

Mr. Mrs.

6

सत्यमेव जयते

The Ambassador of India
and Mrs. K.R. Narayanan

request the pleasure of the company of

MR. & MRS. A.W. CLAUSEN

at RECEPTION in Yuma Suite 3

on WEDNESDAY, JANUARY 25 *at* 5.30 to 7 *o'clock* p.m.

at Their Residence

(Regretsonly) *R.S.V.P.*

2700 Macomb Street, N.W.
Washington D.C.

Regretted *Social Secretary*
Tel. (202) 362 1471

RECEIVED
1984 JAN -6 PM 6:08
OFFICE OF THE PRESIDENT

Selective Capital Increase: India

Briefing Paper for
Mr. Clausen's Meeting with
Mr. J. S. Baijal, Additional Secretary,
Ministry of Finance, India,
on February 2, 1984

1. According to Mr. Ray, Mr. Baijal is coming to discuss India's position on the SCI. We do not know the exact position that he will present. He may be coming to tell you that India wants to find a way to avoid exercising its pre-emptive right. He may seek in return some commitment for the future, e.g., an assurance for higher Bank Group lending to India (particularly IDA credits) or an assurance that India would not have to abandon the 7th rank permanently. It is also possible that he is coming to express his authorities' intention to exercise the pre-emptive right in the proposed selective capital increase.

Pre-emptive Right

2. Since 1970, India exercised its pre-emptive right each time the authorized capital of the Bank was increased. The only exception was the increase authorized by Resolution No. 347 to provide the 250 membership shares for each country. If Mr. Baijal tries to negotiate revisions in the SCI proposal (particularly para. 6 of the draft Resolution of the Board of Governors) to permit the exercise of the pre-emptive right, you should point out that:

a. the purpose of the current SCI is to adjust the relative positions of member countries to reflect changes in their positions in the world economy, and the exercise of the pre-emptive rights is contrary to this objective;

b. the proposal represents a compromise among the member countries, achieved as a result of strenuous negotiations, and an attempt to modify it would entail further negotiations;

c. this is extremely undesirable, particularly because a failure to agree on the SCI by February 6 would delay the implementation of IDA7. The IDA7 agreement is conditioned on the implementation of the proposed SCI;

d. a delay in agreement on the SCI would also make it difficult to implement the FY85 IBRD lending program of $13.3 billion, since the sustainable level of lending would remain at about $11.5 billion without the SCI; and

e. the size of the proposed increase in the authorized capital (70,000 shares) is barely sufficient to accommodate the proposed selective increases for individual members, and therefore, if the exercise of pre-emptive rights were allowed, there could be a shortfall in the shares available for allocation. (Please keep in mind that the increase of 70,000 shares has been derived as a result of careful negotiations, taking into consideration the need to protect the potential veto power of the United States and to accommodate the compromise on the ranking among the U.K., Germany, France and Japan, and hence it is very undesirable to try to change this size).

3. A delay in implementing the SCI/IDA7 agreements would result in a delay in Japan submitting legislation both for IDA7 and for its payment to the FY84 Account. This would almost certainly reduce IDA's commitment authority for this year and would seriously jeopardize the IDA7 agreement as a whole.

Special Allocation for India

4. Mr. Baijal may try to seek a special allocation for India in lieu of its exercising its pre-emptive right.

5. If Mr. Baijal tries to argue for a special allocation for India by referring to the special allocation to China, you should tell him that the latter is justified because of the exceptional historical background of China's subscription. In particular, in 1980, the special increase for China had to be limited to a size (4,500 shares) below what China would have received on the basis of parallelism (8,864 shares) because at that time we thought that there were not sufficient unallocated shares to accommodate an increase fully parallel with the 118% increase in China's Fund quota. The proposed special allocation for China is still smaller than the size required to restore its subscription to the level indicated by the rules of parallelism, because of the limited size of the increase in the authorized capital. Moreover, India already ranks much above what would result from parallelism because it has consistently exercised its pre-emptive right in the past. India ranked #10 in the Fund before the 8th General Review of Quotas, and has declined to #11 recently. It would rank #10 in the Bank now had it not exercised pre-emptive right at all, and would go down to #11 after the SCI.

6. Other cases of special capital increases (France and Japan) have been based on special support to Bank Group. You might tell him that we could agree to review the criteria for special capital increases in the context of the next general capital increase.

India's Ability to Assemble a Constituency

7. Mr. Ray has indicated the concern that the reduction of India's voting power from the present 3.09% to 2.90% (shown in Attachment 1 of the Board memorandum on the SCI) would threaten India's ability to assemble a

constituency in the Board. Please tell Mr. Baijal that you are sympathetic to this concern, but that India would remain in a position to form a constituency. Two of the current constituencies have total potential voting powers smaller than 2.90%, and their potential voting powers would decline after the SCI. Saudi Arabia could disrupt the current arrangement with its present shareholding, but it has repeatedly stated that it would not seek a seat for itself at the expense of another constituency of developing countries.

Attachment

Attachment

Effect of the SCI on India's Position in the Bank

1. Currently, India ranks 7th in the Bank with 23,002 shares allocated to it. It is taking procedures to subscribe the last 369 shares, which may become effective any day.

2. After the proposed SCI, India would rank 9th. India could retain the 7th position, however, by the exercise of its pre-emptive right, as is shown in the following table. It is assumed in the table that China, Canada, and India all exercise pre-emptive rights because by so doing they can increase the number of shares they receive.

	China	India	Saudi Arabia	Canada	Italy
Current Position					
Number of shares allocated	23,482	23,002	22,383	21,782	19,842
Potential voting power (%)	3.15	3.09	3.01	2.93	2.67
Ranking	6	7	8	9	10
SCI Shares	1,660	602	2,757	1,976	2,754
Post-SCI Position					
Number of shares allocated	25,142	23,604	25,140	23,758	22,596
Potential voting power (%)	3.09	2.90	3.09	2.92	2.78
Ranking	6	9	7	8	10
Position with Pre-emptive Rights					
Additional allocation under the pre-emptive	634	1,645	0	152	0
Resulting shares allocated	25,776	25,249	25,140	23,910	22,596
Potential voting power (%)a/	3.16	3.10	3.09	2.94	2.78
Ranking	6	7	8	9	10

a/ Assuming the total potential votes of 823,000, which would result from the proposed SCI of 70,000 shares.

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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January 17, 1984

Mr. Pranab Muhkerjee
Minister of Finance
Ministry of Finance
New Delhi
India

Dear Mr. Minister:

Upon my return to Washington, I want to thank you for the courtesies extended to me during my recent visit to India. My wife and I enjoyed our trip--both the official portion in Bombay and Delhi and our subsequent vacation in Goa.

I appreciated the opportunity to discuss with you some of the major issues which the economy will face in the future. After a number of years of absence, it was indeed very encouraging to see the progress that has been made.

The World Bank has been an important source of funds to India and we expect to continue the support we have provided to your investment program. But, as you know, the IDA negotiations did not reach a satisfactory conclusion and that will severely limit our ability to provide these highly concessional resources. Under these circumstances, it is inevitable that IDA funds will decline in real terms over the next three years and will be well below levels which seemed feasible only a few months ago.

We will, of course, make every effort to offset this decline of IDA resources by increasing India's access to World Bank borrowing, although I mentioned our limitations in this regard, since there necessarily is a limit on the exposure we can accept in any one country. Nonetheless, I believe it will be possible for us to improve on the current lending level of approximately $2.2 billion per year. A planning estimate for a 5-year period starting July 1984 of approximately $12 billion would be a reasonable assumption. Mr. Clausen's letter of January 13 has already advised you of this.

As I also mentioned, Mr. Minister, such a very large lending program, while consistent with the size of the Indian economy, will nevertheless continue to attract very close attention. The basis for such a large scale lending program must, of course, be an adequate supply of well-designed projects in the priority sectors. The work that has been done by the Government has enabled us to continue to lend at this level but further improvements in project preparation, particularly in irrigation, will be necessary to sustain this level of lending. A second important element is agreement on the policy framework in the priority sectors of agriculture, energy, industry, and transport.

The impressive achievements of India in agriculture demonstrate the effectiveness of adequate price incentives, when supported by extension, research, credit, marketing and other services. The farmers have responded magnificently. It is important to maintain this approach while at the same time assuring that those whose incomes increase contribute to the resources necessary to provide similar opportunities to others. The policy to relax restrictions on imports and investments will also help to create a more effective framework for investment decisions and harness the very large entrepreneurial capacity of existing and new investors to meeting the nation's social and economic objectives.

The emphasis the Government is placing on increasing productivity is, I believe, sound and essential. India's savings rate is high but past investments have not yielded a commensurate growth rate. The investment requirements for the next few years will be very large and if objectives are to be met in a period of resource constraints, domestic and foreign, the efficient use of existing capacity and the most effective use of new investments does indeed deserve the highest priority. This involves many difficult aspects--better management, more effective use of internationally available technology, priority to quick-yielding efforts, and more decentralized decision-making by investors, large and small, industrial and agricultural, within a policy framework which ensures consistency with national objectives.

Adequate access to modern technology and improved management are essential. Both require a policy framework which puts a premium on efficient resource use by managers, whether in the private or public sector. I recognize that many steps have been taken in recent years to improve the incentive framework and to put the responsibility clearly on managers to maximize the benefits out of the existing resources. But I also believe that in this area a great deal still remains to be done. Too much time and attention still is devoted to dealing with control mechanisms the purpose of which is no longer very clear. Too much effort is being spent on avoiding controls rather than devoting managerial attention to increasing output, and success in a number of areas still is not well rewarded.

You yourself have made an important contribution to reorienting the incentive framework. I hope it will prove possible to continue progress along these lines. I believe the long-term success of India's development efforts depends on it and such changes are entirely compatible with the achievements of India's equally important social objectives. I have no doubt that these objectives are achievable and that, despite the many difficulties, India will continue to make rapid progress and even improve on its performance of recent years.

We take pride in our long association with India's development effort. It has consisted of much more than financial support. Our collaboration on exploring some of the difficult development issues has been fruitful as has our joint work on project design and institutional improvements. We look forward to continuing and broadening this relationship so that we can effectively support India's efforts to improve life for its people.

Mr. Minister, let me thank you again for a most enjoyable visit. Best wishes for a successful 1984!

Sincerely,

Ernest Stern
Senior Vice President
Operations

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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January 12, 1984

Mr. P. K. Kaul
Secretary
Department of Economic Affairs
Ministry of Finance
New Delhi
India

Dear Mr. Kaul:

Having just returned to Washington after a most enjoyable visit to Goa and a brief stop in London, I want to thank you on behalf of Mrs. Stern and myself once again for all the hospitality you extended to us during our visit to India. The beautiful book on Indian art will serve as a very happy reminder of our stay.

I appreciated the opportunity for discussing a number of important matters with you and your colleagues. As you know from Mr. Clausen's and my letters to the Finance Minister, and from our discussion since in Washington, we believe it is realistic to plan on a five-year lending program of US$12 billion. While we recognize the growing investment needs of India, and will do all we can to support India's program, this is, however, a planning figure and not a commitment. IDA has come out much worse than we had hoped for and you are aware of the limits to Bank lending. As I mentioned in New Delhi, such a lending program will be by far the largest in the Bank and it will continue to need a very strong justification.

This justification must rest on an adequate supply of well-prepared projects and on a mutual understanding on development strategy and policy in the sectors in which we are asked to operate. I know you understand that, as a development institution, our concern is not only for the traditional financial safeguards with which commercial banks are concerned but that we must be sure that our resources contribute to high-priority activities and are in support of development strategies which will make possible the most effective use of productive resources and human skills.

We had an opportunity in Washington to again discuss the agricultural credit problem. We attach great performance to a satisfactory resolution of the problems now facing the agricultural credit system. We take great pride in having been associated with this system as it has evolved and extended formal credit facilities to farmers, large and small. But no purpose is served by a credit system which has a recovery rate of 50%. India can neither afford to substitute budgetary resources for loanable funds nor to eliminate large numbers of institutions and farmers from access to credit which is badly needed for modernization. The only alternative is to strengthen discipline and improve management.

We, and I am sure other donors, are most interested in continuing to support the growth of an effective agricultural credit system. This will involve improving the recovery record in the short-term and, for the longer-term, initiating a large-scale management improvement effort so that the agricultural credit institutions at the local level can perform more effectively. As I told you, we will work closely with you to define an interim project focussed on those States where performance problems are less severe, for consideration by our Board in late FY84, if at all possible, or in early FY85. I should stress that such a project will require very effective collaboration, and a clear definition of an action program beyond this initial phase, if we are to be successful.

There is at the moment an adequate supply of projects available for financing. But the scale of the proposed lending program is such that we must always keep the project pipeline under careful review. In agriculture, and particularly in the irrigation sector, it is important that you continue to strengthen the project preparation capacities of the institutions involved, including the Ministry of Agriculture, to be sure that more adequate and timely preparation work is undertaken by them. At present, too much of the burden of preparatory work rests with the Bank, given India's skills in this area. In irrigation, too, we need to continue to work on the question of water charges. The large-scale lending program in the energy sector will continue to require attention to energy pricing and the efficient performance of the State Electricity Boards.

As we discussed, the Seventh Plan financial envelope will undoubtedly be a constrained one both on the external and the domestic side. It is, therefore, very important that priority attention be given to the most efficient use of capital, to policy measures to enhance productivity and to facilitating the effective utilization of modern technology.

Let me thank you again for all the arrangements in India and wish you and Mrs. Kaul the very best for 1984.

Sincerely,

Ernest Stern
Senior Vice President
Operations

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

January 11, 1984

His Excellency
General Muhammad Zia ul Haq
President
Pakistan

Dear Mr. President:

Having only just returned to Washington, I want to take the first opportunity to thank you for your most generous hospitality during my recent visit to Pakistan. The trip offered me an opportunity to see at first hand the extraordinary accomplishments of the last six years. As I mentioned to you, the fact that Pakistan in this time was able to restore a financial order, eliminate significant weaknesses in the balance of payments, restructure its policy framework, and develop a Five-Year Plan which incorporates priorities which in my view truly reflect the strength of the economy and society, is truly remarkable. Moreover, this was done during a period when the world economic environment was hostile to the developing countries and your own faced a number of difficult pressures created by external circumstances. Pakistan is, I believe, poised for a period of sustained economic growth, the benefit of which can be distributed even more widely to its population. The Sixth Five-Year Plan's emphasis on the social sectors which have been neglected for too long and the priority sectors on the productive side of agriculture, energy, and industry is a sound strategy which should be implemented fully. The plan is also ambitious in the resources it requires from the external community, the domestic resource mobilization effort which it envisages, and the extent to which it stretches the domestic implementation capacity.

Moreover, to achieve the plan will require the full participation of the private sector and the translation of the policy intention of the plan into concrete actions to bring existing policies in line with those indicated, to continue the process of economic liberalization and deregulation, and to assure that the incentives for efficiency both in the private and public sectors which are essential to the effective use of resources are established. I know that you and your senior ministers are fully aware of the work that is yet required and of the many issues which will require decisions in the next several years. We in the Bank are fully cognizant of the achievements of the past several years, of the vision which is embodied in the Sixth Five-Year Plan and of the efforts which it will take to translate that blueprint into reality. We are, Mr. President, as I indicated to you, prepared to expand our support to Pakistan in this endeavor both by our continued association in the analysis of alternative policy options and by

providing you with our best judgement on the barriers to the efficient implementation of your objectives and by increasing our financial support to the maximum extent feasible. We will do whatever we can to assure the maximum amount of IDA resources but I explained to you the difficulties we face. The continued reluctance of major donors makes it improbable at this point that a substantial increase in IDA availabilities will materialize. Our expanded assistance, therefore, will have to contain a substantial amount of World Bank lending. We are prepared to extend such financing but, as you know, the justification for World Bank lending must rest on an assessment that a country is able in the long-term to sustain the servicing of the debt burden which it will incur. It is because of this also that we attach great importance to the effective implementation of the policies which the Sixth Five-Year Plan sketches.

My visit was a highly productive one. I learned a great deal about what has been accomplished in Pakistan, about the management skills which are being brought to bear on current and future problems, and the dedication of the government to a program of rapid and equitable development. It also provided an opportunity to meet many old friends and to visit places in Lahore and Karachi which I had not seen for a long time. I want to thank you again for the hospitality extended.

I remain

Sincerely,

Ernest Stern

Ernest Stern
Senior Vice President
Operations

bcc: Mr. S. El-Naggar

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

January 11, 1984

Mr. Ghulam Ishaq Khan
Minister of Finance
Islamabad, Pakistan

Dear Ghulam:

Having only just returned to Washington, I want to take the first opportunity to thank you for your invitation to visit. Not only was it a great pleasure to return and to see the accomplishments of the last several years which owe so much to your effective leadership, but I also enjoyed learning at first hand of the plans for the next several years. I hope that in our discussions we left no doubt that we believe the Plan provides an important and useful blueprint for the future--a blueprint which is ambitious and which still requires a lot of the details to be filled in; but it is an effort worth supporting because I believe it takes the right approach to utilizing to the fullest extent possible the capabilities of the Pakistan people and will tax to the limit the resources of the country. I was also encouraged to see the closeness of our relationship. I hope that this will continue to evolve on the basis of mutual trust and mutual respect which I believe are its present foundation.

As I mentioned, we are fully prepared to support the Sixth Five-Year Plan with levels of lending in excess of current availabilities. I think it is realistic to plan on a rising lending program which, for planning purposes, we could assume to be about $500 million per annum. We will make every effort to make IDA resources the maximum possible share of this, but unfortunately it is highly unlikely that IDA resources can be available in amounts significantly larger than the past. The recent events in Paris and a limited opportunity to recoup in January make my prognosis almost a certainty. The balance of the funds will have to come from Bank lending. While not as desirable as highly concessional resources, they nonetheless are a substantial improvement in terms of what is available from commercial sources. To provide this amount of Bank lending on a sustained basis to Pakistan will require a careful and continuous assessment of Pakistan's creditworthiness. At the moment, I believe such lending is justified but for the future it will depend crucially on the effective implementation of the policies sketched out in the Plan. In particular, continued progress in freeing up the economy and maintaining its export orientation and its export competiveness, continuing the revitalization of agriculture by the further removal of price controls and subsidies, by the continuation of a realistic energy policy and by assuring that an overall view is taken of the development of human resources. For the longer term, I am convinced that the efforts you are scheduled to

make in education, in health, in research and the attraction of your own scientists to work in the country are all as fundamentally important to the long-term growth capacity of Pakistan as the more immediate measures in the productive sectors.

Our programming mission, which will visit in January, will focus on the lending program for FY85 and beyond. As I indicated to you, I think this program ought to concentrate on projects in the three sectors of primary attention for the medium-term --agriculture, industry, and energy-- but also include projects in other sectors of priority to the Government. For each of the key sectors, I hope that we can within calendar 1984 agree on policy statements concerning the next two years, which would include measures taken, and to be taken, to deal with the principal policy changes, with a clear indication of schedules. Such statements would provide the policy framework for projects in those sectors plus sector loans to finance a time slice of some identified portion of the sector's investment program. Specific project conditionality in sectors covered by such sector statements would then serve primarily as a means for implementing already agreed policy changes where necessary. Projects in sectors not covered by agreed policy statements will continue to be treated in the usual way.

I would hope that we can have by the beginning of FY85 a well advanced policy statement for at least one of the key sectors and be able to cover all three by the end of calendar 1984 so that the lending program for FY85-86 can be covered in its entirety. This will enable us to maintain the policy dialogue which has, I think, been mutually beneficial and which provides the justification for the substantial increase in the lending program and exposure on the World Bank side. This approach will be a new departure for the Bank but if we work together at it, I think we have a package which justifies the level of support we think is appropriate.

Let me thank you again for a most enjoyable visit, which provided the opportunity to meet with many friends and to make new ones. As always, it was a great pleasure to see you again.

With best wishes for 1984, I remain

Sincerely,

Ernest Stern
Senior Vice President
Operations

bcc: Mr. S. El-Naggar

THE WORLD BANK
Washington, D. C. 20433
U. S. A.

A. W. CLAUSEN
President

January 11, 1984

The Honorable Pranab Mukherjee
Minister of Finance
New Delhi 110001
India

Dear Mr. Minister:

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

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

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

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

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

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

Sincerely,

A.W. Clausen
President

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

MWiehen/CLRobless:jl

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D.O. NO: 5533/FM/83

वित्त मंत्री
भारत
MINISTER OF FINANCE
INDIA
NEW DELHI-110001

December 15, 1983

Dear Mr Clausen

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

Yours sincerely,

(PRANAB MUKHERJEE)

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

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PAGE 1 OF 3

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MESSAGE NUMBER

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HER EXCELLENCY PRIME MINISTER INDIRA GANDHI, NEW DELHI, INDIA.

DEAR PRIME MINISTER:

RE: IDA SUPPLEMENTAL FUNDING

I SHOULD LIKE TO INFORM YOU OF THE EFFORTS WE HAVE RECENTLY BEEN MAKING TO RAISE ADDITIONAL IDA RESOURCES AND TO SEEK ONCE AGAIN YOUR HELP WHICH HAS PROVED SO CRUCIAL TO US IN MOBILIZING SUPPORT FOR IDA.

FOLLOWING THE BOARD APPROVAL OF THE SELECTIVE CAPITAL INCREASE AND IDA7 AT THE LEVEL OF DOLLARS NINE BILLION ON MAY 24 WE HAVE BEEN ACTIVELY PURSUING SUPPLEMENTARY IDA FUNDING. OUR PROPOSAL HAS BEEN TO URGE ALL DONORS, OTHER THAN THE U.S., TO CONTRIBUTE TO A SUPPLEMENTARY FUND IN WHICH THEY SHOULD CONTRIBUTE THEIR RESPECTIVE IDA7 SHARES IN A DOLLARS THREE BILLION ADDITIONAL FUND, LEAVING A TWENTY-FIVE PERCENT SHARE OPEN FOR A CONTRIBUTION BY THE U.S. IN THE FUTURE. WE HAVE THE AGREEMENT OF ALL COUNTRIES OTHER THAN GERMANY AND JAPAN TO CONTRIBUTE THEIR SHARES, PROVIDED OF COURSE THESE TWO ALSO AGREE TO JOIN.

THE MATTER OF SUPPLEMENTAL FUNDING FOR IDA WAS RAISED DURING THE RECENT LONDON ECONOMIC SUMMIT MEETINGS. I AM INFORMED THAT THE HEADS OF STATE AND MINISTERS OF CANADA, FRANCE, ITALY AND THE U.K.

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PRESSED THEIR COUNTERPARTS FROM THE U.S., GERMANY AND JAPAN TO INCREASE THE RESOURCES AVAILABLE TO IDA. AS A CONSEQUENCE OF THESE DISCUSSIONS AND AS A RESULT OF THIS ISSUE ALSO HAVING BEEN BROUGHT UP BY THE MEMBER STATES OF THE EEC IN VARIOUS MEETINGS OF COMMUNITY MINISTERS, THE FEDERAL REPUBLIC OF GERMANY MAY NOW BE RECONSIDERING ITS EARLIER RELUCTANCE TO PARTICIPATE IN SUPPLEMENTARY FINANCING ARRANGEMENTS.

WE BELIEVE THAT IF WE CAN PERSUADE GERMANY AND JAPAN TO GO ALONG WITH THE OTHER DONORS ON SUPPLEMENTARY FUNDING, WE WILL BE ABLE TO SUCCESSFULLY CONCLUDE A SUPPLEMENTARY FUNDING ARRANGEMENT BY THE END OF JULY. OTHERWISE WE ARE AFRAID THAT THIS OPPORTUNITY WILL SLIP AWAY AND THE LARGE NUMBER OF GOVERNMENTS THAT ARE NOW PREPARED TO CONTRIBUTE ADDITIONAL RESOURCES TO IDA, AND IN MANY CASES HAVE MADE BUDGETARY PROVISIONS FOR IT, WILL DIVERT THOSE FUNDS TO OTHER PURPOSES.

FOR THESE REASONS, I BELIEVE THAT A PERSONAL MESSAGE FROM YOU TO CHANCELLOR KOHL AND PRIME MINISTER NAKASONE IMPRESSING UPON THEM YOUR CONCERN ABOUT THE URGENCY OF AUGMENTING IDA'S RESOURCES WITHOUT INSISTING ON IMMEDIATE US PARTICIPATION WOULD BE EXTREMELY HELPFUL AT THIS JUNCTURE.

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PAGE 3 OF 3

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MESSAGE NUMBER

TEST NUMBER (FOR CASHIER'S USE ONLY)

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MAY I THANK YOU FOR THE SEVERAL OCCASIONS ON WHICH YOU HAVE PERSONALLY INTERVENED ON IDA'S BEHALF AND HOPE THAT YOU WILL ONCE AGAIN LEND YOUR SUPPORT TOWARD ACHIEVING WHAT I BELIEVE IS A CRITICAL OBJECTIVE FOR THE ASSOCIATION AND ITS RECIPIENTS.

WARM REGARDS, SINCERELY, A.W. CLAUSEN, THE WORLD BANK.

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CLASS OF SERVICE: Telex — TELEX NO. — DATE: 6/18/84

SUBJECT: — DRAFTED BY: PMistry/MAQureshi:nsj — EXTENSION:

CLEARANCES AND COPY DISTRIBUTION:

cc: Mr. H. N. Ray
Mr. Hopper/Thalwitz

AUTHORIZED BY (Name and Signature): A.W. Clausen

DEPARTMENT: President

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PAGE 1 OF 3

OFFICIAL DEPT/DIV ABBREVIATION: SVPFI

MESSAGE NUMBER

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HIS EXCELLENCY PRANAB MUKHERJEE, MINISTER OF FINANCE, MINISTRY OF FINANCE, NEW DELHI, INDIA.

DEAR MR. MINISTER:

I HAVE TODAY SENT A TELEX TO PRIME MINISTER GANDHI, THE TEXT OF WHICH IS QUOTED BELOW:

QUOTE. RE: IDA SUPPLEMENTAL FUNDING

I SHOULD LIKE TO INFORM YOU OF THE EFFORTS WE HAVE RECENTLY BEEN MAKING TO RAISE ADDITIONAL IDA RESOURCES AND TO SEEK ONCE AGAIN YOUR HELP WHICH HAS PROVED SO CRUCIAL TO US IN MOBILIZING SUPPORT FOR IDA.

FOLLOWING THE BOARD APPROVAL OF THE SELECTIVE CAPITAL INCREASE AND IDA7 AT THE LEVEL OF DOLLARS NINE BILLION ON MAY 24 WE HAVE BEEN ACTIVELY PURSUING SUPPLEMENTARY IDA FUNDING. OUR PROPOSAL HAS BEEN TO URGE ALL DONORS, OTHER THAN THE U.S., TO CONTRIBUTE TO A SUPPLEMENTARY FUND IN WHICH THEY SHOULD CONTRIBUTE THEIR RESPECTIVE IDA7 SHARES IN A DOLLARS THREE BILLION ADDITIONAL FUND, LEAVING A TWENTY-FIVE PERCENT SHARE OPEN FOR A CONTRIBUTION BY THE U.S. IN THE FUTURE. WE HAVE THE AGREEMENT OF ALL COUNTRIES OTHER THAN GERMANY AND JAPAN TO CONTRIBUTE THEIR SHARES, PROVIDED OF COURSE THESE TWO ALSO AGREE TO JOIN.

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OFFICIAL DEPT/DIV ABBREVIATION: SVPFI

MESSAGE NUMBER

TEST NUMBER (FOR CASHIER'S USE ONLY)

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THE MATTER OF SUPPLEMENTAL FUNDING FOR IDA WAS RAISED DURING THE RECENT LONDON ECONOMIC SUMMIT MEETINGS. I AM INFORMED THAT THE HEADS OF STATE AND MINISTERS OF CANADA, FRANCE, ITALY AND THE U.K. PRESSED THEIR COUNTERPARTS FROM THE U.S., GERMANY AND JAPAN TO INCREASE THE RESOURCES AVAILABLE TO IDA. AS A CONSEQUENCE OF THESE DISCUSSIONS AND AS A RESULT OF THIS ISSUE ALSO HAVING BEEN BROUGHT UP BY THE MEMBER STATES OF THE EEC IN VARIOUS MEETINGS OF COMMUNITY MINISTERS, THE FEDERAL REPUBLIC OF GERMANY MAY NOW BE RECONSIDERING ITS EARLIER RELUCTANCE TO PARTICIPATE IN SUPPLEMENTARY FINANCING ARRANGEMENTS.

WE BELIEVE THAT IF WE CAN PERSUADE GERMANY AND JAPAN TO GO ALONG WITH THE OTHER DONORS ON SUPPLEMENTARY FUNDING, WE WILL BE ABLE TO SUCCESSFULLY CONCLUDE A SUPPLEMENTARY FUNDING ARRANGEMENT BY THE END OF JULY. OTHERWISE WE ARE AFRAID THAT THIS OPPORTUNITY WILL SLIP AWAY AND THE LARGE NUMBER OF GOVERNMENTS THAT ARE NOW PREPARED TO CONTRIBUTE ADDITIONAL RESOURCES TO IDA, AND IN MANY CASES HAVE MADE BUDGETARY PROVISIONS FOR IT, WILL DIVERT THOSE FUNDS TO OTHER PURPOSES.

FOR THESE REASONS, I BELIEVE THAT A PERSONAL MESSAGE FROM YOU TO CHANCELLOR KOHL AND PRIME MINISTER NAKASONE IMPRESSING UPON THEM

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MESSAGE NUMBER

TEST NUMBER (FOR CASHIER'S USE ONLY)

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YOUR CONCERN ABOUT THE URGENCY OF AUGMENTING IDA'S RESOURCES WITHOUT INSISTING ON IMMEDIATE U.S. PARTICIPATION WOULD BE EXTREMELY HELPFUL AT THIS JUNCTURE.

MAY I THANK YOU FOR THE SEVERAL OCCASIONS ON WHICH YOU HAVE PERSONALLY INTERVENED ON IDA'S BEHALF AND HOPE THAT YOU WILL ONCE AGAIN LEND YOUR SUPPORT TOWARD ACHIEVING WHAT I BELIEVE IS A CRITICAL OBJECTIVE FOR THE ASSOCIATION AND ITS RECIPIENTS. UNQUOTE

I WOULD BE MOST GRATEFUL IF YOU WOULD GIVE YOUR SUPPORT TO THE SUGGESTIONS I HAVE MADE TO THE PRIME MINISTER; IT WOULD BE VERY HELPFUL IF YOU COULD ALSO TAKE UP THIS MATTER DIRECTLY WITH THE FINANCE MINISTERS OF GERMANY AND JAPAN AND WITH AID MINISTER WARNKE IN GERMANY.

MAY I THANK YOU FOR YOUR COOPERATION AND HELP IN THIS MATTER. BEST REGARDS, SINCERELY, A.W. CLAUSEN, THE WORLD BANK

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CLASS OF SERVICE: TELEX

TELEX NO.:

DATE: JUNE 18,1984

SUBJECT:

DRAFTED BY: PSMistry/MAQureshi:gmb

EXTENSION: 73665

CLEARANCES AND COPY DISTRIBUTION:

cc: Mr. H. N. Ray
Mr. Hopper/Thalwitz

AUTHORIZED BY (Name and Signature): A. W. Clausen

DEPARTMENT: President

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EXTENSION 7-2466

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TO: PRIMINDIA, NEW DELHI, INDIA. THE RIGHT HONOURABLE INDIRA GANDHI, PRIME MINISTER OF INDIA. DEAR MADAM PRIME MINISTER: I SHOULD LIKE TO BEGIN THE NEW YEAR BY THANKING YOU FOR THE EFFORTS YOUR GOVERNMENT AND YOU PERSONALLY HAVE MADE IN ORDER TO ENSURE THE HIGHEST POSSIBLE REPLENISHMENT LEVEL FOR IDA. I REGRET TO SAY THAT IN SPITE OF OUR JOINT EFFORTS WE HAVE NOT BEEN ABLE TO MOVE THE UNITED STATES GOVERNMENT AWAY FROM ITS POSITION ON THIS MATTER AND THAT THE FINAL NEGOTIATING MEETING NEXT WEEK IS LIKELY TO RESULT IN A REPLENISHMENT AGREEMENT AT THE LEVEL OF US$9 BILLION IN SPITE OF THE FACT THAT ALL THE OTHER 32 DONORS WOULD HAVE BEEN READY TO AGREE TO A FIGURE OF US$12 BILLION FOR THE 3 YEARS 1984-87.

I SHOULD NOW LIKE TO ASK FOR YOUR HELP IN ORDER TO MITIGATE THE NEGATIVE EFFECTS OF SUCH A CONCLUSION. A NUMBER OF THE MAJOR DONOR COUNTRIES OTHER THAN THE UNITED STATES WOULD BE WILLING TO CREATE A SPECIAL FUND FOR IDA, TO WHICH THEY WOULD CONTRIBUTE ON A PRO RATA BASIS THE DIFFERENCE BETWEEN THEIR CONTRIBUTION TO AN IDA REPLENISHMENT OF US$9 BILLION AND A REPLENISHMENT AT THE LEVEL OF US$12 BILLION. IF ALL THE DONORS OTHER THAN THE U.S. AGREED TO

/c

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EXTENSION 7-2466

MESSAGE NUMBER

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TO:

THIS, THIS WOULD RESULT IN IDA HAVING AVAILABLE TO IT A TOTAL OF US$11.25 BILLION, WHICH WOULD BE A GREAT IMPROVEMENT OVER A SIMPLE US$9 BILLION REPLENISHMENT. THIS SPECIAL FUND WOULD BE USED BY IDA UNDER ITS NORMAL RULES EXCEPT THAT ONLY DONOR COUNTRIES CONTRIBUTING TO IT AND DEVELOPING MEMBER COUNTRIES WOULD BE ELIGIBLE FOR PROCUREMENT. IT WOULD BE SO STRUCTURED THAT THE U.S. COULD EVENTUALLY JOIN IF IT FELT ABLE TO DO SO IN DUE COURSE.

THE KEY TO A SUCCESSFUL CONCLUSION OF SUCH AN AGREEMENT ON A SPECIAL FUND LIES IN THE PARTICIPATION OF GERMANY AND JAPAN, OTHER COUNTRIES SUCH AS THE U.K. AND FRANCE HAVING ALREADY DECLARED THEIR WILLINGNESS TO PARTICIPATE IF THE ABOVE TWO COUNTRIES WERE PART OF THE SCHEME. I THINK IT WOULD BE OF THE UTMOST BENEFIT IF YOU, MADAM PRIME MINISTER, COULD SEND A PERSONAL COMMUNICATION TO BOTH THE FEDERAL CHANCELLOR OF GERMANY AND THE JAPANESE PRIME MINISTER ON THIS MATTER. THE FINAL IDA MEETING IS DUE TO TAKE PLACE ON THE 12TH AND 13TH OF THIS MONTH AND ACTION IS THEREFORE MOST URGENT. SINCERELY, A.W. CLAUSEN, PRESIDENT, THE WORLD BANK, WASHINGTON, D.C.

END OF TEXT

NOT TO BE TRANSMITTED

CLASS OF SERVICE: FULL RATE TELEX NO.: DATE: 1/6/84

SUBJECT:

DRAFTED BY: M.P. BENJENK

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AUTHORIZED BY (Name and Signature): A.W. CLAUSEN

DEPARTMENT: OFFICE OF THE PRESIDENT

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MESSAGE NUMBER

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

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

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

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

/c

END OF TEXT

PINK AREA TO BE LEFT BLANK AT ALL TIMES

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MEETING IS DUE TO TAKE PLACE ON THE 12TH AND 13TH OF THIS MONTH AND ACTION IS THEREFORE MOST URGENT. UNQUOTE SINCERELY,

A.W. CLAUSEN, PRESIDENT, THE WORLD BANK, WASHINGTON, D.C.

END OF TEXT

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