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McNamara Papers

Travel briefs -
Jan. 19 - Feb

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ITINERARY FOR VISIT TO CEYLON, INDIA, NEPAL, AND PAKISTAN, JANUARY 19--FEBRUARY 1, 1972

Revised
January 19, 1972

DATE	TIME	GMT		REMARKS
	1830	2330	Depart Washington (Dulles) Mrs McNamara	TW 810 stop in Boston.
Jan. 19 Wed.	1930	0030	Depart Washington (Dulles) Mr McNamara	PA 106 non-stop
	0940	0840	Arrive Paris (Orly)	Bristol
Jan. 20 Thurs.	0730	0730	Arrive London (Heathrow)	Claridge's
	1530		Meeting with Chancellor of the Exchequer	
	1600		Meeting with Secretary of Foreign Affairs	
	1700		Meeting with Prime Minister	
	1900	1900	Depart London (Heathrow)	BE 024 non-stop
	2100	2000	Arrive Paris (Orly)	Bristol
Jan. 21 Fri.	1130	1030	Depart Paris (Le Bourget)	UT 568 via Karachi GMT 1755-1855
Jan. 22 Sat.	0340	2210	Arrive Colombo	Galle Face Hotel
			Briefing with Cargill	
	1115		Meeting with Secretary for Planning, Dr. Gunasekera	
	1200		Meeting with Prime Minister	
	1300		Lunch hosted by Prime Minister	
	1500		Meeting with Finance Minister, Dr. N.M. Pereira	
			Meeting with Governor of Central Bank, Mr. Tennekoon	
	2000		Dinner hosted by Finance Minister	
Jan. 23 Sun.	A.M.		Trip along coast to Hikaduwa or by plane to Mahaweli project in interior	
	1500	0930	Depart Colombo	Charter via Madras one-hour stop
	2030	1500	Arrive Delhi	Rashtrapati Bavan
Jan. 24 Mon.	0830		Briefing in Delhi office (till 0930)	
	0945		Meeting with Mr. Subramaniam at Planning Commission (till 1130)	Mrs McNamara: Trip to Kahjuraho
	1315		Lunch with Mr. Subramaniam (till 1445)	0640 - 1710
	1500		Meeting with Ford Foundation (till 1600)	with Mrs Patel
	1615		Meeting with Foreign Minister (till 1645)	
	1645		Meeting with Messrs. P.N. Dhar and Haksar (till 1800)	
	1830		Reception hosted by Mr. McDiarmid (till 2030)	
			Evening free	
Jan. 25 Tues.	0700	0130	Depart Delhi	Charter
	0915	0345	Arrive Kathmandu	Government Guesthouse or Soaltee Hotel
	1000		Briefing with Kirk	
	1030		Meeting with Secretaries of Finance, Public Works, Agriculture, Commerce & Industry, Communications, Planning Commission	at Singh Dunbar
	1230		Lunch with Ambassador Laise, hosted by Mr. McNamara	
	1400		Meeting with Prime Minister Bista	

Jan. 26 Wed.	0900		Leave for Western Nepal (Karnali area, Bhadia, Nepalganj)	by plane
	1200		Lunch at Pokhara	
	1400		Leave Pokhara	by plane
	P.M.		Audience with His Majesty at Chitwan	
			Return to Kathmandu	
	1800		Cocktail party hosted by Mr. Kirk	
	1900		Dinner hosted by Prime Minister	
Jan. 27 Thurs.	0830		Meeting witn UNDP ResRep and Deputy and FAO ResRep	at Bank office
	0930		Meeting with Gen. Manager of Nepal Industrial Development Corp. and private industrialists	"
	1030		Meeting with Director, Center for Economic Development & Administration (CEDA)	"
	1130		Meeting with Governor of Nepal Rastra Bank	"
	1300		Lunch free	
	1630	0100	Depart Kathmandu	Charter
	1845	0315	Arrive Delhi	Rashtrapati Bavan
	2000		Dinner with I.G. Patel	
Jan. 28 Fri.	1000		Meeting with Finance Minister (till 1100)	Mrs McNamara Visits and shopping in Delhi with Mrs Patel
	1100		Meeting with I.G. Patel (till 1145)	
	1200		Meeting with Prime Minister (till 1300)	
	1300		Lunch with Prime Minister (tentative)	
	1500		Meeting with private group, including some industrialists (till 1630)	
	2000		Dinner with Finance Minister	
Jan. 29 Sat.	0800	0230	Depart Delhi	Charter
	0900	0400	Arrive Rawalpindi	Mr. Bhutto's Guest House
	1230		Meeting with Mr. Bhutto	
	1330		Lunch hosted by Mr. Bhutto	
			Muzzafar Ahmad	
			Ford Foundation, Mr. Edwards	
Jan. 30 Sun.				
	1600	1100	Depart Rawalpindi	Charter
	1800	1230	Arrive Delhi	Rashtrapati Bavan
			Evening free	
Jan. 31			Depart Delhi Arr. Dacca Depart Dacca Arr. Delhi	
	2300	1730	Depart Delhi	LH 649 via Athens GMT 0250-0350
Feb. 1	0635	0535	Arrive Frankfurt	

INDIA

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* To be supplied

A

RASHTRAPATI BHAVAN,
NEW DELHI.

1, Mr C.M. MUKHI
SECURITY OFFICER

2, Mr L.K. MALHOTRA
SECTION OFFICER (FUND BANK)
DEPTT. OF ECONOMIC AFFAIRS

3, Mr R. SUBRAMANIAN
PROTOCOL OFFICER

4, Mr T.S. AHLUWALIA
DEPUTY PROTOCOL OFFICER

RN Ganesh
567334
Indian

C.M. MUKHI,
U-3 Green Park,
N. Delhi-16.

Pally

PROGRAMME OF ENGAGEMENTS FOR MR.McNAMARA, PRESIDENT OF WORLD BANK, during his visit to New Delhi in January 1972.

Sunday, January 23:	8-30 PM	Arrival from Colombo by Charter Flight.
Monday, January 24:	8-30 to 9-30 AM	Briefing by Resident Mission (Bank Office).
	9-45 to 11-30 AM	Meeting with Planning Minister & Planning Commission (Yojana Bhavan).
	11-45 to 12-50 PM	Meeting with Secretary, E.A. (North Block Secretariat).
	1-00 to 3-00 PM	Lunch with Planning Minister (30, Aurangzeb Road).
	3-00 to 4-00 PM	Meeting with Ford Foundation
	4-15 to 5-00 PM	Meeting with Foreign Minister (South Block Secretariat).
	5-00 to 6-00 PM	Meeting with Shri P.N.Haksar & Shri P.N.Dhar (South Block Secretariat).
	6-30 to 8-30 PM	Reception by Mr.McDiarmid (Ashoka Hotel).
Tuesday, January 25:	7-00 AM	Departure for Kathmandu by Charter Flight.
Thursday, January 27:	6-55 PM	Return from Kathmandu by Charter Flight.
	8-15 PM	Dinner hosted by Secretary, E.A. at (Ashoka Hotel).
8.45 tonight	9.15	9:40 - 9:50
Friday, January 28:	10-00 to 11-00 AM	Meeting with Finance Minister (North Block Secretariat).
	11-15 to 11-45 AM	Call on the President.
	12-00 Noon	Meeting with Prime Minister.
	1-00 to 2-30 PM	Lunch
	3-00 to 4-45 PM	Meeting with non-official groups (Bank Office).
	5-00 to 7-00 PM	Meeting with Cabinet Secretary and other Secretaries (Cabinet Secretariat)
	8-30 PM	Dinner hosted by Finance Minister (Ashoka Hotel).
Saturday, January 29:	About 8 AM	Departure for Islamabad by Charter Flight.

PROGRAM FOR MR. ROBERT S. McNAMARA

Notes

Sunday, January 23, 1972

	8:30 PM	Arrival from Colombo by Charter Rashtrapati Bhavan

Monday, January 24

Krasler	8:30 - 9:30 AM	Briefing by Mr. O.J. McDiarmid and staff of Resident Mission at 53 Lodi Estate
OK van der Heel Krasler	9:45 - 11:30 AM	Meeting with Planning Minister C. Subramaniam and Planning Commission
staff Humphrey OK Krasler	11:45 - ~~1:00~~ 12:50 PM	Meeting with Dr. I.G. Patel, Secretary Economic Affairs
	~~1:15~~ 1:00 PM	Luncheon with Mr. C. Subramaniam, 30 Aurangzeb Road
—	3:00 - 4:00 PM	Briefing by Ford Foundation staff, 55 Lodi Estate
?	4:15 - 5:00 PM	Meeting with Sardar Swaran Singh, Minister for External Affairs
OK Lankester	5:00 - 6:00 PM	Meeting with Shri P.N. Haksar and Shri P.N. Dhar
—	6:30 - 8:30 PM	McDiarmid Reception at Ashoka

Tuesday, January 25 — 7:00 AM Departure for Kathmandu by charter

Thursday, January 27 — 6:55 PM Return from Kathmandu by charter

	~~8:00~~ 8:15 PM	Dinner hosted by Dr. I.G. Patel at Ashoka Hotel

orientation for clerk within ½

Friday, January 28

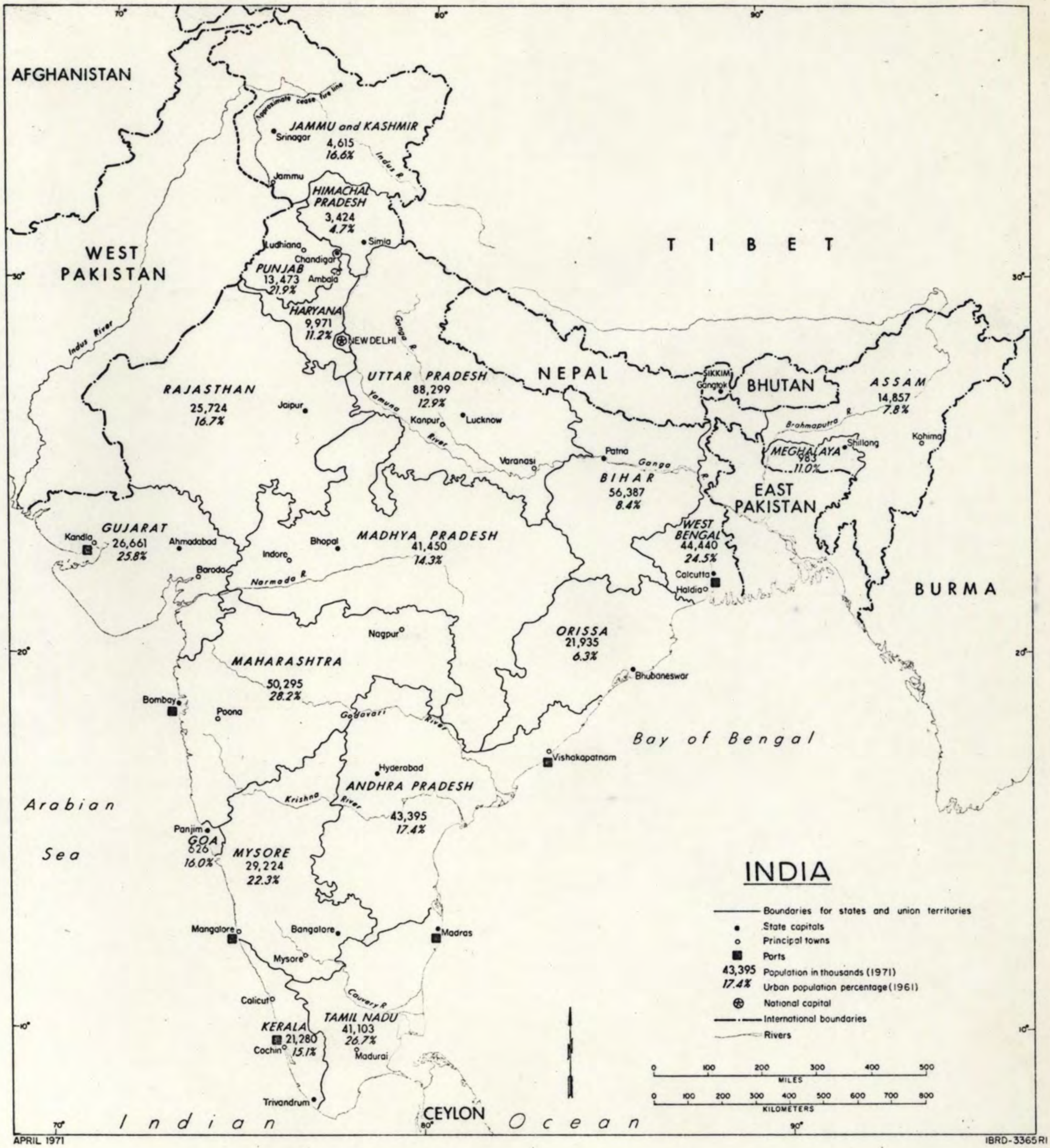
Mr. Chaudhuri (Bangla Desh) – see note
Mr. Gupta (West Bengal) – see note

OK Blobel or Krasler	10:00 - 11:00 AM	Meeting with Finance Minister Y.B. Chavan
Sec?	11:15 - 11:45 AM	Call on the President, V.V. Giri
Sec?	12:00 noon	Meeting with Prime Minister Indira Gandhi
	1:00 - 2:30 PM	Lunch.
OK Humphrey-Diamond	3:00 - 4:00 PM	Meeting with Industrialists - 53 Lodi Estate (See list)
OK Humphrey McDiarmid	4:00 - 4:45 PM	Meetings with S. Bhoothalingam (NCAER) and T.N. Srinivasan (ISI)
OK Krasler	5:00 - 7:00 PM	~~Meeting with Cabinet Secretary T. Swaminathan and other Secretaries~~ should be on request
	~~8:00~~ 8:30 PM	Dinner hosted by Finance Minister Chavan at Ashoka

I.G. Patel

Saturday, January 29 — About 8:00 AM Departure for Islamabad by Charter

B


AFGHANISTAN
WEST PAKISTAN
TIBET
NEPAL
SIKKIM
Gangtok
BHUTAN
EAST PAKISTAN
BURMA
CEYLON
JAMMU and KASHMIR
Srinagar
4,615
16.6%
Jammu
Approximate cease fire line
Indus R.
HIMACHAL PRADESH
3,424
4.7%
Simla
Ludhiana
Chandigarh
PUNJAB
13,473
21.9%
Ambala
HARYANA
9,971
11.2%
NEW DELHI
Indus River
Ganga R.
RAJASTHAN
25,724
16.7%
Jaipur
UTTAR PRADESH
88,299
12.9%
Yamuna River
Kanpur
Lucknow
Varanasi
Patna
Ganga
BIHAR
56,387
8.4%
ASSAM
14,857
7.8%
Brahmaputra R.
Shillong
Kohima
MEGHALAYA
983
11.0%
GUJARAT
Kandla
26,661
25.8%
Ahmadabad
Baroda
Indore
Bhopal
MADHYA PRADESH
41,450
14.3%
Narmada R.
WEST BENGAL
44,440
24.5%
Calcutta
Haldia
Nagpur
ORISSA
21,935
6.3%
Bhubaneswar
MAHARASHTRA
50,295
28.2%
Bombay
Poona
Godavari River
Bay of Bengal
Vishakapatnam
Hyderabad
ANDHRA PRADESH
Krishna River
43,395
17.4%
Arabian Sea
Panjim
GOA
626
16.0%
MYSORE
29,224
22.3%
Mangalore
Bangalore
Madras
Mysore
Calicut
Cauvery R.
KERALA
21,280
15.1%
Cochin
TAMIL NADU
41,103
26.7%
Madurai
Trivandrum
Indian Ocean
70°
80°
90°
30°
20°
10°
INDIA
Boundaries for states and union territories
State capitals
Principal towns
Ports
43,395 Population in thousands (1971)
17.4% Urban population percentage (1961)
National capital
International boundaries
Rivers
MILES
0 100 200 300 400 500
KILOMETERS
0 100 200 300 400 500 600 700 800
APRIL 1971
IBRD-3365R1

C

INDIA

BASIC DATA

	Total in km^2	Percent Cultivated
Area:	3,268,580	43.0

Population:	Total	Density per km^2
(Preliminary 1971 Census estimate)	547 million	167

Annual Rate of Growth, current estimate: 2.25 percent

Political Status : Republic

Gross National Product at Market Prices, 1970/71 : Rs. 346.7 billion 1/

Rate of growth at constant prices	1955/56 - 1968/69	: 3.4% p.a.
	1965/66	: 5.2%
	1966/67	: 1.3%
	1967/68	: 8.9%
	1968/69 1/	2.2%
	1969/70 1/	5-5.5%
	1970/71 1/	4.5-5%

Per capita, 1970/71: US $90

Gross Domestic Product at Current Prices, 1970/71 1/ : Rs. 349.5 billion

Percentage breakdown : (for 1968/69)	Agriculture	49
	Mining	1
	Manufacturing	19
	Commerce and Transport	16
	Government and Other Services	15

Percent of National Income at Market Prices:

	1961/62-1965/66	1966/67 3/	1967/68 3/	1968/69 3/	1969/70 3/
Net domestic investment	13.3	12.1	11.3	11.3	12.0
Net domestic saving	10.6	8.2	7.8	8.8	9.9
Current account balance	-2.7	-3.9	-3.5	-2.5	-2.5

Money and Credit (Rs. billion):	March 1971 (Last Friday)	1966/67-1970/71 Average Rate of Increase (%)
Total money supply	71.38	9.5
Net bank credit to gov't sector	52.36	6.5
Net bank credit to commercial sector	21.41	15.3
	1970/71 [4]	
Rate of increase in prices		
Consumer prices [5]	5.1	6.0
Wholesale prices	5.1	6.5

Public Sector Operations (Rs. billion)	1969/70	Third Plan Period 1961/62 - 1965/66 Annual Average
Public sector plan outlay	21.76	17.15
Balance from current revenues plus surpluses of public enterprises	6.68	5.82
Domestic borrowings	9.11	4.23
Total external assistance to public sector	5.39	4.84
Deficit financing	0.58	2.26

External Public Debt, excluding Supplier's Credits (US $ million):	1970/71	1965/66 - 1970/71 Annual Average
Total debt outstanding (as of March 31,1970)	8,263	
Total annual debt service	584 [2]	460 [2]
Debt service ratio [6]	30	26

Balance of Payments (US $ million):	1970/71 [1]	1964/65 - 1970/71 Average Rate of Increase (%)
Total exports	2040	3.0
Total imports	2170	3.5
Trade balance	-130	

	1970/71	1966/67 - 1970/71 Annual Average
Commodity concentration of exports [7]	33	34.6

Foreign Exchange Reserves: (US $ million)	Official reserves of gold, foreign exchange and SDRs	IMF gold tranche position	Overall reserves	Use of IMF credit	Net international liquidity
As of December 31, 1967	662	Nil	662	456	206
As of September 30, 1970	1081	Nil	1081	106	975
As of September 30, 1971	927 8/	76 9/	1003	Nil	1003

1/ Government of India preliminary estimates as of May 1971. These figures will not be finalized for some time.
2/ Preliminary estimates.
3/ Preliminary estimates and not strictly comparable with data for 1961/62-1965/66.
4/ December 1970 to December 1971.
5/ Working class consumer price index.
6/ Before debt relief.
7/ Jute, tea and cotton fabrics as a percentage of total exports.
8/ Includes allocation of $100.58 million in SDRs in January 1971.
9/ Includes use of $17.5 million previously non-monetary gold.

South Asia Department
December 2, 1971

D

Mr. C. Subramanian - Minister of Planning

Born January 1910 C. Subramanian is now Deputy Chairman, Planning Commission and Planning Minister. He took a law degree in Madras and started legal practice in Coimbatore in 1936. Meanwhile, he had also joined the independence movement and was jailed in 1932-1941. He joined the Madras Assembly in 1952 and held portfolios for Finance, Education and Law in the Madras Government. In 1962 he became a member of the Lok Sabha and moved up to the Center to hold in quick succession the portfolios of Steel and Heavy Industry, Steel, Mines and Heavy Engineering and finally Food & Agriculture, Community Development and Cooperation.

Always considered to be one of the more radical Ministers he headed up the National Commission on Agriculture before taking on his present assignment as Minister of Planning and Deputy Chairman (Prime Minister is Chairman) of the Planning Commission. He has a good reputation and intensely interested in agriculture and rural problems.

Dr. B.S. Minhas

Born in March 1929, Dr Minhas took his B.Sc. Agriculture from Punjab University and post-graduate research in plant physiology from Ludhiana. An M.S. from Illinois and Ph.D from Stanford, he has specialized in international trade, economic development and agricultural growth. Dr. Minhas has been Assistant Professor, Department of Economics, Stanford and Consultant at the Stanford Research Institute and Head of the Planning Division, Indian Statistical Institute, New Delhi.

His appointment to the Planning Commission as Member is part of the recent "New Look" drive for that body.

Mr. S. Chakravarty - Member, Planning Commission

Age 38. He is an outstanding economist and econometrician. Educated at the universities of Calcutta and the Netherlands School of Economics, Rotterdam, he was professor at the Calcutta and Delhi Universities before joining the Planning Commission early this year.

Mr. Fakhruddin Ali Ahmed - Minister for Food and Agriculture

Age 66. A lawyer and a veteran Congress leader who participated in the independence movement and has jail experience, he continues to be one of Mrs Gandhi's trusted colleagues. Educated at the universities of Delhi and Cambridge, he was called to the Bar from the Inner Temple in 1928. While practising in the Assam High Court he joined the State Legislative Assembly and was Finance Minister of the State in 1958 to 1966. He came to the Central Cabinet in 1966 and has since then held portfolios of Education, Irrigation & Power and Industrial Development & Company Affairs.

Mr. T.P. Singh - Secretary for Agriculture

Age 58. Educated at the London School of Economics, Mr Singh joined the ICS in 1937. Assigned to the Bihar cadre, he has held various posts where his work was mostly on the development side. Since 1963 he has been in the Center, first as Secretary of the Planning Commission, and then in charge of Finance (Revenue & Expenditure). He left Finance for Agriculture in 1970.

Mr. Surendra Mohan Kumaramangalam - Minister for Steel

He has a varied background as trade unionist, lawyer, journalist and politician. Educated at Eton and Cambridge, he was an active member of the Communist Party of India for many years until he gravitated towards Mrs. Gandhi's Congress Party.

Advocate General of Madras in 1966, and Chairman of the Indian Airlines between 1967-71, Mohan Kumaramangalam was one of the chief architects of a government report on industrial licensing popularly known as the Dutt Committee Report, the findings of which were influential in the present restrictive industrial policy towards the larger industrial houses.

Recently he has come in for severe criticism from his Marxist friends and 'Young Turks' when he advocated private sector "mini-steel plants" (which would in essence convert scrap into steel). Some letters of intent were issued, but the political outcry[1] seems to have put the whole proposal into cold storage.

1/ Under the Industries Development & Regulation Act 1956, steel was a reserved industry to be developed exclusively in the public sector, though the existing private sector units were allowed to operate.

Mr. H.C. Sarin - Secretary, Steel & Heavy Industries

Age 57. Educated at Cambridge, Mr Sarin joined the ICS in 1939. Early in 1946 he came to Delhi and was mostly in the Defence department. He was appointed as Defence Secretary in 1964, a post he held till May 1971. He is highly regarded as an able administrator.

Mr. Moinul Huq Chowdhury - Minister for Industrial Development

Age 50. Educated at the universities of Calcutta and Aligarh he represents one of the younger elements in the Cabinet and unlike many of his colleagues is not particularly radical. A lawyer by profession, Chowdhury was elected to the Assam Assembly in 1952. He soon became a powerful figure in the politics of the State and was Minister successively in charge of various departments such as agriculture, fisheries, community development, irrigation and parliamentary affairs. He entered Parliament in the last general elections and was included in Mrs Gandhi's new Cabinet.

Mr. B.B. Lal - Secretary, Ministry of Industrial Development

Age 54. Educated at the Universities of Delhi and Allahabad, he joined the ICS in 1941. Assigned to U.P. he was in turn Secretary of Finance & Irrigation and Power, till he became Chief Secretary in 1967. He came to the Central Government as Additional Secretary in the Ministry of Finance in December 1969. After a spell as Secretary, Cabinet Secretariat (Personnel) he took over his present assignment.

Mr. B. Mukerji - Secretary, Petroleum & Chemicals

Age 58. Educated at the universities of Allahabad and Oxford, he joined the Indian Civil Service in 1937. Between 1949-56 he was Chief Secretary of Orissa State, after which he came to the Center in the Ministry of Community Development. After a spell of three years as Managing Director of the State Bank of India he was appointed as the Secretary in the Department of Health in 1965. He has been in his present post since February 1969.

Biographical Sketches

Mr. Y.B. Chavan - Minister of Finance

Age 57. Born March 1913 in Maharashtra, Mr Y.B. Chavan has been Minister of Finance since June 1970. He has a Law Degree from Poona University. Starting his political career as a Member first of the Bombay and later Maharashtra Assembly 1946-1962, he was Secretary to the Home Minister in 1952, to the Chief Minister of Bombay 1956 and of Maharashtra in 1960. He joined the Union Cabinet as Minister for Defence November 1962 and became Minister for Home Affairs November 1966 to June 1970. He was a Member of the Rajya Sabha January-December 1963 and of the Lok Sabha since 1964. Chavan is no longer the same powerful figure he was during your last visit. His strong base in his home state Maharashtra, assures him a seat in the Cabinet but he is not among those who are close to Mrs Gandhi. This is largely because during the split in the Congress, Mrs Gandhi could never be sure about his loyalty to her party and also because at one time he was being seriously considered as a possible successor to Mr. Shastri. It is felt he is doing extremely well in his present capacity and political pressure has not deterred him from introducing fiscal measures required to raise internal resources for the Plan, the refugees and the situation arising out of the war with Pakistan.

Mr. B.D. Pande - Finance Secretary

Age 54. Educated at the Universities of Allahabad and Cambridge, Pande joined the Indian Civil Service shortly before the outbreak of the second World War. Assigned to the State of Bihar he was in turn in charge of Finance, Development and Land Reforms till he was appointed as Chief Secretary in 1957. In the Central Government he was the Additional Secretary in the Finance Ministry, Chairman of the Life Insurance Corporation and Secretary of the Planning Commission. Just before he came to Finance in his present capacity he was the Secretary in charge of Industrial Development. He is considered to be one of the most able of civil servants.

Mr. I.G. Patel - Secretary, Department of Economic Affairs, Ministry of Finance

Age 47. Higher education in the U.K. (Cambridge) and U.S. (Harvard). A professor of Economics and an Economist with the IMF before joining the government in 1954 he was also alternate Executive Director with the IMF during 1956-61. Since then he was Chief Economic Adviser to the Government of India before his present position. He was also Economic Adviser to the Planning Commission for a time. He is of course well known in the Bank and generally represents India at the Consortium meetings.

F

CHAPTER 1

Refugees, War and Related Developments

Refugees: In July 1971 the resident mission estimated the cost of refugee support at US $ 700 million (Rs. 5.3 billion) through fiscal 1971/72 (to March 31, 1972). This estimate was based on the assumption that the refugee population would grow to 9 million by the end of calender 1971 and remain at that level for the balance of the fiscal year. This estimate was accepted by the Indian government and by the Consortium in its October meeting when it undertook to provide a substantial portion of the amount. In view of the relatively high non-recurrent refugee costs in the initial few months after April 1, 1971, about $ 530 million was expected to be spent in calender 1971 and $ 170 million in January - March 1972.

Up to July 1971, the Government estimated refugee expenditures at about Rs. 1.5 billion. However, the GOI has not been able to produce a useful estimate of what has been spent to December 31, 1971. The fact that expenditures are largely made at the State level and later reimbursed by the Center and a good deal of unaccounted for expenditures have been made, and unrecorded foreign aid supplied, complicates the task. Also the refugee inflow has fluctuated considerably from month to month and the total influx recorded must be considered only approximate and possibly somewhat exaggerated. However, it seems reasonable to assume that expenditures of all kinds through December 31 may have been in the order of $ 450 million (about Rs. 3.4 billion). Budgetary appropriations for the program are Rs. 3.6 billion including foreign assistance channelled through the GOI accounts. There is no indication that this has been exceeded.

Taking $ 450 million (about Rs. 3.4 billion) as the general order of magnitude of the total refugee burden in calender 1971, how much of this was met from Indian resources? Up to the present time roughly US $ 260 million of foreign assistance has been promised nearly all of which has been committed and about US $ 140 million had been delivered or paid over to the GOI for procurement in India by the end of November. The rest will probably come in but perhaps little more will be committed for use in India. The focus will now be on East Bengal. Aid arrivals in December were expected to be at a somewhat accelerated rate as compared with previous months and are estimated at very roughly $ 30 million. Thus through December 31, 1971 foreign aid received was probably in the order of $ 170 million (say Rs. 1.3 billion). Therefore the net burden on the Indian economy in calender 1971 may have been roughly Rs. 2 billion ($ 270 million equivalent). Some special taxes for meeting refugee costs were imposed but their yield thus far is not known. In any case it is useful to compare the net fiscal burden of the refugees with deficit financing from April 1 through the rest of calender 1971. Such deficit financing was in the order of Rs. 8 billion (compared with a budget estimate for the Center for 1971/72 as a whole of around Rs. 2.3 billion). Thus the share that can be deputed to the refugees in the deficit financing to date may have been about 25%.

However, it is safe to assume that food constituted by far the largest Indian input into the refugee program. Since India's stock position for food-grains has been and remains ample[1/] (a substantial amount of the cereal in short

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1/ Buffer stocks of foodgrains in October 1971 were 7.5 million tons as compared with a target for the end of the Fourth Plan (1973/74) of 5 million tons.

supply i.e. rice has been furnished as foreign assistance) probably the financial impact of the program was rather less than this. Of course the foodgrains consumed by the refugees may be replaced both for price support purposes and if India's food stock position is to be maintained at an appropriate level if Bangla Desh's emergency food requirements (tentatively estimated at 2-3 million tons) are to be met, at least in part, from Indian stocks.

The cost of the refugees for the remainder of their sojourn in India and how much India will contribute to their repatriation and resettlement is more uncertain than their costs to date to the Indian economy. As noted above the Delhi office estimated their cost (at the 9 million level) during the first 3 months of 1972 at $ 170 million. The undelivered and promised foreign aid on December 31, 1971 was probably about $ 90 million ($ 260 less $ 170 million). Thus the net burden in India would have been about $ 80 million (Rs. 600 million).. However, current reports indicate that one million refugees have already returned and they are streaming back fairly fast. The local representatives of the UNHCR considered it not unlikely that they will all be out of the camps by March 31, 1972. In this event the cost of the relief program should diminish quite rapidly during the next few months and subsistence costs should not exceed about Rs. 1 billion ($ 135 million) from January 1 to March 31, 1972.1/

1/ Also it has been reported confidentially by the Indian Army that the numbers may have been somewhat inflated so that the peak refugee population was probably somewhat less than 10 million usually cited publicly by the Indian authorities.

Against this we have the undelivered foreign aid figure of $ 90 million leaving a residual of $ 45 million (about Rs. 340 million). Adding this to the refugee costs not met from foreign aid to date we get a total net burden of Rs. 2.3 to 2.4 billion during 1971/72. This amount (about $ 310 million) is roughly 75% of the net resource flow from development assistance expected in 1971/72.

It is idle to speculate how much the repatriation of the refugees will cost the Indian economy. 900 trucks were furnished under the refugee program and these can be used for transport. 7 days food rations are being given to the returnees. Other than this the return and rehabilitation costs of the refugees will merge into the general reconstruction costs of East Bengal which we are in no position to estimate. Figures of Rs. 15 - 20 billion have appeared in the New Delhi press.

<u>The War</u>: As for all wars, long and short, estimates of their cost leave room for endless speculation. India normally spends on recorded defense expenditures Rs. 10 - 12 billion or 2.5 - 3% of GNP. About Rs. 12.5 billion was budgeted for this year. No supplementary appropriations for defense were sought but some contingency funds may have been tapped. Since her armed forces are recruited on a volunteer basis no substantial increase of expenditure on personnel probably occurred as a result of the War. As far as equipment is concerned, the burden of replacement of battle losses will come later and may in part be reflected in the drawdown of India's rupee bloc balances which probably amounted to about US $ 70 million at the end of the last fiscal year. Perhaps supplies captured in East Bengal will be useful.

As noted above deficit financing much above budget estimates was occurring prior to hostilities but preliminary data indicate that such financing may have decreased marginally in December despite the war, thanks to seasonal increases in tax collections. The overall fiscal situation is discussed in Chapters 4 (e) and in greater detail in 5 (g) below. The outcome for the year will only be known when the 1972/73 budget is published in mid-March. Except in the Punjab and perhaps in other States bordering West Pakistan the dislocation of production because of the War appears to have been minor and from this standpoint the conflict will have a negligible effect on the economy. 1/

Latest Economic Developments

India entered the Emergency situation in a relatively strong economic position despite the burden of refugee relief and disappointing industrial production. Thanks to a good kharif and the promise of a good rabi harvest, food supplies have and are likely to remain ample and prices have been tending downwards though a rise of about 1.3% in the general price level occurred in December. During the month ending November 6, the price of food items had declined by nearly 1% but probably reversed this in December. There has been

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1/ The following situation is largely the result of the green revolution but it has been made worse by the disruption in normal rail movements resulting from the Emergency. The Punjab has storage capacity for 2.5 million tons of foodgrains. Normally this is emptied by the end of April to make way for the new wheat crop. This year it is calculated that old stocks of 2.2 million tons will not have been moved by that date. Procurement during the period April to June is expected to be 3.3 million tons. By the end of June something like 2.0 million tons will have to be stored in the open.

This alarming situation is partly caused by railway movement problems but it has been exacerbated by a sudden upsurge in rice production which has prevented the wheat from being moved.

no apparent shortage of motor fuel or other supplies in the civilian market. The supply of industrial raw materials, which had been constricted by import policies and delays in issuing licences during 1970/71, are also easing because of the large increase in imports, particularly of steel and cotton during the first five months of this fiscal year. The price index for raw materials fell by 5.6% in November 1971 to a level of 1.2% below that of a year ago. The general wholesale price index also fell by 1% during November but at year end remained 3.1% higher than a year before. The expansion of the money supply was 11% during the year ending November 1971. This was due almost entirely to net credit expansion to the Union and State governments.

The price increases in 1971 were in fuel and power; capital equipment and other manufactured products which probably reflected both the rapid monetary expansion due to deficit financing in the public sector and a general stagnation in industrial production (overall increase of only about 2%) that has characterized the Indian economy thus far in 1971/72 following a disappointing performance in 1970/71. What increase occurred was in September and October when industrial output was starting to reflect the effect of belated imports of raw materials. Steel production also started improving in October although for the period January - November the output of steel items was down by 5% as compared with the previous year. The psychological and morale raising impact of the war appears to have been generally beneficial to industrial production and probably the excess capacity so prevalent in the economy was reduced to the extent the supply of materials permitted. At least labor troubles which have been another important impediment to production were curtailed.

The following are some additional facts on the economic situation which have just become available too late to be incorporated in the data discussed in Chapters 4 and 5 below.

(a) From April to December 1971 foreign aid commitments totalled about \$ 670 million as compared with \$ 752 million in 1970/71.

(b) From April to October exports increased by 9% and imports by 18% over the same period in 1970. The trade deficit for this period was \$ 250 million or twice that of April - October 1970.

(c) From October 29 to December 17 there was a contra-seasonal decline of commercial credit of Rs. 140 million as compared with an expansion of Rs. 1260 million in the same period of 1970. Thus the decrease in commercial credit continues to partially offset the public sector deficit financing that has amounted to about Rs. 8 billion in the first three quarters of 1971/72.

(d) An unofficial estimate of industrial production (Commerce Research Bureau) shows an increase of 1% in November compared to October. The cotton textile and steel industries, up to now weak spots in the economy, showed increases of 8 - 11% in November. Jute goods production was up 6% in the first eleven months of 1971, automobile production was up 9% and commercial vehicles 3% over the same period. Cement also had a substantial increase of 11% despite a shortage of railway wagons.

In general it seems altogether likely that the growth of the Indian economy in 1971/72 will fall far short of the Plan target of 5.5% and may not exceed 3% or so. The work on the revision of the Fourth Plan which has not progressed very far is discussed in Chapter 2 and India's currently rather ambivalent attitude towards foreign aid in Chapter 5 (f) (iii).

January 6, 1972

IMPACT OF THE REFUGEES AND WAR

Refugees: In October 1971 the resident mission estimated the cost of refugee support at US $ 700 million through fiscal 1970/71. This estimate was based on the assumption that the refugee population would grow to 9 million by the end of calender 1971 and remain at that level for the balance of the fiscal year. This estimate was accepted by the Indian government and by the Consortium which undertook to provide a substantial portion of the amount. Up to the present time roughly US $ 260 million of foreign assistance has been promised nearly all of which has been committed but of which only about US $ 140 million had been delivered or paid for procurement in India by the end of November. The rest will probably come in but probably little more will be committed. The total cost of the refugee program has been assumed by the Union Government and outlays in cash or kind estimated at have been made through December 31, 1971. Thus the net interim drain on Indian resources up to now has been about . Budgetary appropriations for the program are Rs. 3600 million (about US $ 480 million) including foreign assistance channelled through the GOI accounts. Assuming that this appropriation is not exceeded by actual expenditures and all the aid in the pipeline arrives the net burden on India for 1971/72 probably will be . Most of this has certainly been food. Since India's stock position for foodgrains has been ample (a substantial amount of rice has also been furnished as foreign assistance) probably the financial impact of the program will turn out to be fairly moderate, although

Note: Missing statistics to be supplied by New Delhi Office.

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of course the foodgrains consumed by the refugees will have to be replaced if India's food stock position is to be maintained at an appropriate level.

Current reports indicate that one million refugees have already returned and they are streaming back fast. The local representatives of the UNHCR considered it not unlikely that they will all be out of the camps by March 31, 1972. We would guess even earlier. In this event the cost of the relief program should diminish quite rapidly during the next few months. Also it has been reported confidentially by the Indian Army that the numbers may have been somewhat inflated so that the peak refugee population was probably somewhat less than 10 million usually cited publicly by the Indian authorities.

<u>The War</u>: It is impossible to quantify at this stage the direct and indirect costs of the War. India entered the Emergency and War situation in a relatively strong economic position despite the burden of refugee relief. Thanks to a good kharif harvest, food supplies have remained ample and their price level has been tending downwards. During the month ending November 6, the price of food items declined by nearly 1%. The supply of industrial raw materials, which had been constricted by import policies and delays in issuing licences during 1970/71, was also easing because of the large increase in imports, particularly of steel and cotton during the first five months of this fiscal year. The price index for raw materials fell by 5.6% in November 1971 to a level of 1.2% below that of a year ago. The general wholesale price index also fell by 1% during November but remained 4.5% higher than a year before. This increase was entirely.......

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due to higher price for fuel and power, capital equipment and other manufactured products which probably reflected both the rapid monetary expansion due to deficit financing in the public sector and a general stagnation in industrial production that has characterized the Indian economy thus far in 1971/72 following a disappointing performance in 1970/71. The expansion of the money supply was 11% during the year ending November 1971. This was due almost entirely to net credit expansion to the Union and State governments. According to the Commerce Research Bureau, industrial production for the first 10 months of 1970/71 was only 2% above the level of the same period in 1970 and this increase occurred entirely in September and October when industrial output was beginning to reflect the increase in imports of raw materials. Steel production also started improving in October although for the period January - October the output of pig iron and steel ingots was down by 5% as compared with the previous year.

Except in the Punjab and perhaps in other States bordering West Pakistan the dislocation of production because of the War appears to have been minor and from this standpoint the conflict will have a negligible effect on the economy.1/ The fiscal effect will not be clear

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1/ The following situation is largely the result of the green revolution but it has been made worse by the disruption in normal rail movements resulting from the Emergency. The Punjab has storage capacity for 2.5 million tons of foodgrains. Normally this is emptied by the end of April to make way for the new wheat crop. This year it is calculated that old stocks of 2.2 million tons will not have been moved by that date. Procurement during the period April to June is expected to be 3.3 million tons. By the end of June something like 2.0 million tons will have to be stored in the open.

This alarming situation is partly caused by railway movement problems but it has been exacerbated by a sudden upsurge in rice production which has prevented the wheat from being moved.

until mid-March when the outcome of the 1971/72 budget is clearer and the 1972/73 budget becomes available. India normallyspends on recorded defense expenditures about Rs. 10-11 billion or2.5 - 3% of GNP. Rs. 10. 8 billion was budgeted for this year. Since her armed forces are recruited on a volunteer basis no substantial increase of expenditure on personnel probably occurred as a result of the War. As far as equipment is concerned, the burden of replacement of battle losses will come later but may only be reflected in the drawdown of India's rupee bloc balances which probably amounted to about US $ 70 million at the end of the last fiscal year. Perhaps supplies captured in East Bengal will be useful. There has been no shortage of motor fuel or other supplies in the civilian market. Our general conclusion is that the 14-day war was fought largely out of appropriations already in the budget as there was no talk of increasing them. Substantial deficit financing was occurring prior to hostilities and this may have increased during December although statistical data are not yet available. The psychological and morale raising impact of the war appears to have been generally beneficial to industrial production and probably the excess capacity so prevalent in the economy was reduced to the extent the supply of materials permitted. At least labor troubles which have been another important impediment to production were curtailed.

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INDIA

IBRD Capital Subscription and Payments

(Figures in U.S. dollars or dollar equivalent)

1.	Capital Subscription	
	(a) Original capital subscription	400,000,000
	(b) 100% increase in capital subscription	400,000,000
	(c) Increase March 1971 1/	100,000,000
	Total subscription capital	900,000,000
2.	One percent of Subscription paid in U.S. dollars	9,000,000
3.	Nine percent portion paid in National Currency	81,000,000
4.	Released for Lending (of which 21,600,000 convertible; balance for purchases in India)	72,000,000

1/ Increase under Article II Section 3(c) of the Articles of Agreement.

January 10, 1972

INDIA

IDA Subscription and Payment

(Figures in U.S. dollars or dollar equivalent)

1.	Subscription	40,350,000
2.	10 percent paid in U.S. dollars	4,035,000
3.	90 percent portion payable in national currency ($36,315,000 equivalent have been released for purchases in India under IDA credits to other countries. Releases have covered 50% of the cost of purchases in India by other borrowers under IDA credits and are continuing on this basis.	36,315,000
4.	Third Replenishment	
	Entitled to additional subscription (unsubscribed)	1,568,480

January 10, 1972

Mr. McNamara

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Dr. S. R. Sen

DATE: January 10, 1972

FROM: Gregory B. Votaw GV

SUBJECT: INDIA: Monthly Status Report for January

1. Attached are two copies of the Monthly Status Report for January. There are few changes since last month.

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2. The total operations program for the current fiscal year still comes to \$519.5 million (not including \$43 million for Tawa Irrigation, which should be in a position to go forward as soon as the civil works issue is resolved). The FY 1973 program now totals \$513 million, to which any carryover from 1972 would be added. The reduction from last month is the result of postponing the \$30 million Krishna irrigation project to FY 1974. In addition, however, we have serious questions about the economic justification and priority of the \$80 million Shipping II project (item 24), and I expect Mr. Cargill will want to discuss this matter when he visits India later this month.

3. During the past month the ED's approved the Gorakhpur Fertilizer and Mysore Agricultural Credit projects, which were signed January 7. Presentation of the Railways credit is planned for January 11. Once the Railways project is signed, total IDA commitments in FY 1972 will come to \$189 million.

4. The next negotiations will be Bihar Marketing and Maharashtra Agricultural Credit (items 8 and 9) in mid-January, and Shipping I (item 10) at the end of the month. The next steps for new projects about which we are concerned to receive word are (a) the prospects for rehabilitation of primary banks in connection with the agricultural credit project in Madhya Pradesh (item 18) and (b) in Bihar (item 22), (c) the necessary report on Lake Chilka Fisheries (item 23), and (d) as full a response as possible to our questions on Marcona Iron Ore (item 30).

5. I propose that, should you wish to discuss this report, we meet Friday morning, January 14, or early the following week. I expect to send you the next status report by February 7.

Attachments

INDIA - 1972 OPERATIONS PROGRAM

Projects (listed in expected order of Presentation to E.D.'s	Probable Quarter of Presentation	Probable Amount (US $ million)[a] IDA	IBRD
1. Irrigation - Pochampad	I	39.0[b]	
2. Fertilizer - Cochin II	I	20.0[b]	
3. Wheat Storage	I	5.0[b]	
4. ICICI IX	II		60.0[b]
5. Fertilizer - Gorakhpur Expansion	II	10.0[b]	
6. Agricultural Credit - Mysore	II	40.0[b]	
7. Railways XI	II	75.0	
8. Bihar - Marketing	III	13.5	
9. Agricultural Credit - Maharashtra	III	30.0	
10. Shipping I	III	80.0	
11. Industrial Imports VII	IV	75.0	
12. Fertilizer - Nangal	IV	20.0[c]	
13. Population	IV	12.0	
14. IDBI	IV	25.0	
15. Power Transmission III	IV	60.0	
16. Fertilizer - Trombay	IV	15.0	
TOTAL:		519.5[d]	60.0

Current IDA allocation for India - $375 million.

Possible carryover for commitments in FY 1973 - $144.5 million.

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a/ Amounts not revised to take into account new currency values.
b/ Signed
c/ Amount may be higher
d/ Excludes $43 million for Tawa Irrigation, already appraised, pending resolution of civil works issue

South Asia Department
January 10, 1972

INDIA - FY 1973 OPERATION PROGRAM

Projects (listed in order of probability)	Probable Amount (US $ million) IDA
17. Education - Agricultural Universities	20.0
18. Agricultural Credit - Madhya Pradesh	30.0
19. Water Supply - Bombay	30.0
20. Telecommunications V	40.0 a/
21. Industrial Imports VIII	75.0
22. Agricultural Credit - Bihar	30.0
23. Lake Chilka Fisheries (Orissa)	10.0
24. Shipping II	80.0
25. Irrigation - Tawa (Madhya Pradesh)	43.0 b/
26. Irrigation - Jayakwadi (Maharashtra)	20.0
27. Irrigation - Pamba (Kerala)	15.0
28. Highways II	30.0
29. Small-Scale Industry	20.0
30. Agricultural Credit - Punjab II	30.0
31. Marcona Iron Ore	40.0
TOTAL:	513.0

NOTE: Items 17-23 (totalling $235 million) considered probably by staff. Combined with carryover of $144 million from FY 72, this would make "likely" program of $379 million. Items 25-28 ($108 million) held up pending resolution of civil works issue and will be processed as soon as issue is resolved.

a/ Likely to be more
b/ May be included in FY 1972.

South Asia Department
January 10, 1972

FISCAL YEAR 1972

(US $ million)

1. Irrigation - Pochampad — 39.0

Signed August 23. Effective November 15.

2. Fertilizer - Cochin II — 20.0

Signed July 30. Effective December 2. The project is moving slowly, due in part to difficulties on the part of one major subcontractor (Prayon) in supplying the necessary design information and a strike at the construction site. Status of project will be reviewed in February by a follow-up mission on Trombay Fertilizer (item 16).

3. Wheat Storage — 5.0

Signed August 23. Date of Effectiveness postponed to March 31, 1972, to permit appointment of engineering consultants and acquisition of sites. IDA has offered concrete suggestions for procedures leading to the appointment of consultants and expects that this condition will be met in early March, 1972. Food Corporation of India expected to acquire 4 remaining sites (out of 20) by end of calendar 1971, but confirmation not yet received by IDA.

4. ICICI IX — 60.0 (IBRD)

Signed October 27. Effective December 20, 1971.

5. Fertilizer - Gorakhpur Expansion — 10.0

Approved by ED's December 21, 1971; signed January 7, 1972.

6. Agricultural Credit - Mysore — 40.0

Negotiations completed November 19, 1971. Approved by ED's December 21; signed January 7, 1972.

7. Railways XI — 75.0

Negotiations completed November 19, 1971. To be submitted to ED's January 11.

8. Bihar - Marketing — 13.5

Green cover report issued November 30, 1971. Letter setting out details of required amendment to Bihar Regulated Marketing Act, which was agreed in principle during appraisal, sent November 29. Negotiations planned to begin January 24.

FISCAL YEAR 1972 (cont.)

(US $ million)

9. Agricultural Credit - Maharashtra 30.0

In response to IDA letter, GOM has reinstated previously agreed banking rehabilitation program and has given assurances concerning financial commitment. Negotiations planned to begin January 17.

10. Shipping I 80.0

Negotiations scheduled to begin January 31.

11. Industrial Imports VII 75.0

Appraisal mission returned December 15; yellow cover report scheduled for February 7. Negotiations scheduled for March.

12. Fertilizer - Nangal 20.0

Appraisal mission returned September 7. Memorandum to GOI on scope of project discussed with Gorakhpur negotiators November 10-11. GOI replied on December 27 proposing responsibility for project design and implementation substantially different from that proposed by Bank. Completion of yellow cover report depends upon agreement being reached with GOI and FCI on above points and on successful operating experience of new Durgapur and Cochin plants, which use similar processes. A larger IDA contribution (up to $45 million) being considered.

13. Population 12.0

Appraisal completed by a Stage II mission which returned November 1. Mission to finalize nutrition component which was added to the project now in India. Yellow cover report scheduled for January 28, 1972.

14. IDBI 25.0

Project identified by latest ICICI mission in July. Appraisal mission returned November 15. Main focus of lending likely to be through State Finance Corporations, including assistance to small-scale industry. Yellow cover report scheduled for February 10, 1972.

15. Power Transmission III 60.0

Appraisal mission returned January 4. Credit may be increased to $70 million. Due to complexity of problems in certain State Electricity Boards, yellow cover report unlikely to be available before March.

FISCAL YEAR 1972 (cont.)

(US $ million)

16. Fertilizer - Trombay Expansion 15.0

GOI informally requested Bank consideration of project in August 1971; formal request for appraisal received November 12. Follow-up appraisal mission scheduled for early February, but high cost of project and technical factors may preclude IDA participation.

TOTAL: FY 1972:	IDA	$519.5 million
	IBRD	$60.0 million

FISCAL YEAR 1973

		(US $ million)
17.	Education - Agricultural Universities (Bihar & Assam)	20.0

Appraisal mission returned December 10. Yellow cover report scheduled for March 17, 1972.

18.	Agricultural Credit - Madhya Pradesh	30.0

Status of progress in working out needed improvements in banking system requested from GOI late December. Subject to examination of rehabilitation program, satisfactory assurances from GOMP regarding financial commitments, and a possible restructuring of project, appraisal possible in early spring.

19.	Bombay Water Supply and Sewerage	30.0

Amount tentative. Mission which visited Bombay in November/December was not able to begin appraisal. Presentation of consultants' feasibility report was delayed and was still incomplete, and BMC had asked consultants to evaluate certain alternative technical solutions. Appraisal accordingly delayed until April/May, 1972; meanwhile, BMC and PUD will remain in close touch. Considerable progress has been made in BMC organizational improvements, removing the last major obstacle to effective project appraisal.

20.	Telecommunications V	40.0

Support for Fifth Plan telecommunication program. Project scheduled for appraisal in September 1972, but this timing will depend on utilization of current telecommunications credits, review of which to be completed by April.

21.	Industrial Imports VIII	75.0
22.	Agricultural Credit - Bihar	30.0

Prior to appraisal, (which must be by October 1972, for inclusion in 1973 program) IDA will need evidence that scheme for rehabilitation of lending institutions has been worked out in cooperation with ARC and is being implemented. Statement from GOI on financial rehabilitation requested in letter dated August 28, 1971.

23.	Lake Chilka Fisheries (Orissa)	10.0

Project preparation report expected in December not yet received. Results of model tests (on linking of lagoons with the sea) now promised for end of January. Decision on whether pre-appraisal necessary awaits receipt of this information.

FISCAL YEAR 1973 (cont.)

(US $ million)

24. Shipping II — 80.0

Financing of bulk ore carriers. Studies being conducted by GOI are scheduled for completion in February, 1972. Additional ship-optimization study likely to be necessary before appraisal. Association staff has serious questions about the economic priority of so large an additional investment in ships at this time. Cargill and Kraske will discuss in Delhi in late January.

25. Irrigation - Tawa (Madhya Pradesh) — 43.0

Yellow cover report completed October 8. Finalization of appraisal report delayed pending resolution of civil works issue. In the meantime, letters sent to GOI and GMP on December 23 seeking to clarify some technical issues prior to negotiations.

26. Irrigation - Jayakwadi (Maharashtra) — 20.0

FAO preparation summary received July 6 and sent to GOI. Soils data (requested from GOI in letter of July 6) received August 19. No appraisal mission scheduled pending resolution of civil works issue.

27. Irrigation - Pamba (Kerala) — 15.0

FAO/CP preparation report received late December. No appraisal mission scheduled pending resolution of civil works issue.

28. Highways II — 30.0

Project preparation completed sufficiently for appraisal, but no appraisal mission scheduled pending resolution of civil works issue.

29. Industry - Small-Scale — 20.0

Assumes reconnaissance mission scheduled to return to field in January reaches favorable conclusion; if not, another industrial project may be substituted.

30. Agricultural Credit - Punjab II — 30.0

Punjab I included mechanization only. Second project would include minor irrigation and drainage components. In discussions in October 1970 and September 1971, GOI expressed preference for greater geographical spread of agricultural credit projects over "repeater" projects. No information is presently available on status of repeater project for Punjab. Decision on appraisal will be made in spring of calendar 1972 after review of progress on Punjab I.

FISCAL YEAR 1973 (cont.)

		(US $ million)
30.	Iron Ore - Marcona (Kudremukh)	40.0

GOI request for IBRD/IDA appraisal received late October. Letter sent to GOI November 24 requesting reply to issues outlined during Annual Meeting. Preappraisal mission scheduled for February.

TOTAL: FY 1973: IDA - $513 million.

INDIA: LOANS AND CREDITS NOT FULLY DISBURSED
(US$ million)

Loan (L) or Credit (Cr)		Purpose	Amount	Date Signed	Date Effective	Estimated Value of Invitations Issued for Supply of Goods or Services (as of December 31, 1971)	Estimated Value of Orders Placed and Contracts Awarded (as of December 31, 1971)	Disbursements (as of November 30, 1971)	Remarks
307	(L)	IISCO Coal Mining	19.5	12/22/61	9/17/63	13.9	13.7	16.9	Consultant's visits in 11/70, 4/71 and 8/71 showed some improvement in management and technical problems. Difference between orders placed and disbursement is interest during construction.
414	(L)	ICICI VI	49.8	5/28/65	8/20/65	(totally committed)		45.0	Closing date extended to 6/72.
89	(Cr)	Beas Equipment	23.0	6/29/66	10/31/66	19.7	17.8	14.4	List of goods revised. By agreement, final drawdown in FY74. Closing date 12/72, GOI has requested extension to 12/31/74.
515	(L)	ICICI VII	25.0	9/19/67	11/14/67	(totally committed)		18.3	
614	(L)	Tarai Seeds	13.0	6/18/69	9/12/67	3.9	3.3	2.3	Bids for processing equipment, which caused delay, are being evaluated. Closing date 12/31/74.
615	(L)	Telecommunications III	27.5	6/18/69	7/14/69	27.5	26.0	5.9	Technical difficulties in factories likely to cause disbursements to fall behind schedule. Significant cost increases now under investigation.
153	(Cr)	Telecommunications III	27.5	6/18/69	7/14/69	27.5	27.5	22.8	Disbursements on schedule.
176	(Cr)	Kadana Irrigation	35.0	2/09/70	7/29/70	18.0	16.6	3.5	Problems over dam contract, failure to submit claims for costs incurred on canal construction, rejection by IDA of bid awards, and GOG request for revision of list of goods have all contributed to slow disbursement. Agreement reached on bidding procedures for additional equipment, claims now being submitted.
683	(L)	ICICI VIII	40.0	6/03/70	8/31/70	(34.0 committed as of 10/31)		13.1	Balance expected to be committed by December, projects already approved.
191	(Cr)	Gujarat Ag. Credit	35.0	6/03/70	9/14/70	2.4	2.4	1.4	Orders for first 800 tractors approved. Bids for tubewell contractors made and under consideration.
203	(Cr)	Punjab Ag. Credit	27.5	6/24/70	9/04/70	6.5	--	--	GOI has decided to proceed with first tranche (50%) of tractor procurement without retendering, which should accelerate disbursement.
226	(Cr)	A.P. Ag. Credit	24.4	1/08/71	5/10/71	--	--	--	
230	(Cr)	Agric. Aviation	6.0	1/28/71	5/25/71	--	--	--	Training of pilots has been initiated.
241	(Cr)	Telecommunications IV	78.0	5/03/71	6/25/71	8.2	--	--	
242	(Cr)	Power Transmission II	75.0	5/03/71	7/29/71	--	--	--	
249	(Cr)	Haryana Ag. Credit	25.0	6/11/71	11/02/71	--	--	--	Draft tender documents received for first tranche (50%) of tractors.
250	(Cr)	Tamil Nadu Ag. Credit	35.0	6/11/71	11/02/71	--	--	--	
264	(Cr)	Cochin II	20.0	6/30/71	12/02/71			--	See text.
268	(Cr)	Pochampad Irrigation	39.0	8/23/71	11/15/71			--	Tender documents conditionally approved for one major work.
267	(Cr)	Wheat Storage	5.0	8/23/71	Postponed to 03/31/72			--	See text.
789	(L)	ICICI IX	60.0	10/21/71	12/20/71				

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Annual Meeting Discussion

Files October 27, 1971

Jochen Kraske

INDIA - Meeting with Delegation

1. Mr. Y.B. Chavan, Minister of Finance, called on Mr. McNamara on September 28. The Minister was accompanied by Messrs. I.G. Patel, Secretary, Ministry of Finance; S. Jagannathan, Governor, Reserve Bank of India; G.V. Ramakrishna, Joint Secretary, Ministry of Finance; S.R. Sen, Executive Director and M.R. Shroff, Alternate Executive Director. Messrs. Knapp, Cargill, Chenery, Votaw and Kraske were also present at the meeting.

2. Refugees: Mr. McNamara opened the meeting by referring to the refugee problem as a most important issue. He suggested that the subject be discussed by the Consortium at an early date. The Minister agreed that the refugee problem was having a serious impact on Indian economic development and that the matter should be discussed by the Consortium. The Minister wondered what the chances would be for raising the funds necessary to cover the costs of refugee relief. Mr. McNamara thought that it should be possible to mobilize substantial funds additional to normal aid and debt relief. Dr. Patel pointed out that it would be helpful if members of the Consortium were briefed well in advance of the meeting to be able to respond with aid pledges. Mr. McNamara suggested that the Minister call on representatives of some of the Consortium members, either here in Washington or on his way back to India. In addition, Bank staff would provide the necessary documentation and briefing for Consortium members.

3. Calcutta: Referring to Mr. McNamara's opening address, the Minister mentioned Calcutta as a striking example of the problems arising from widespread unemployment. Mr. McNamara said he understood that the State of Bengal and the City of Calcutta were now making some headway in attacking the very serious problems of urban development. He recognized that the problems afflicting Calcutta's development were not only economic but also political in nature, which complicated the difficult task of organizing investment projects effectively.

4. Civil works contracts: The Minister then brought up the question of international tendering for civil works contracts. He stressed the need for India's contracting industry to develop and the importance of employing labor-intensive techniques; and he expressed the view that international tendering would not properly take into account these specific goals. Mr. McNamara thought that the discussion of the Pochampad irrigation project by the Executive Directors had been unfortunate, primarily because the question of procurement had been put wrongly. If the Executive Directors had been asked whether the Bank should support projects which would stimulate the development of domestic construction capacity and provide substantial local employment nobody could have objected. The Executive Directors would, however, raise objections if the economic cost for achieving goals such as the development of local contracting industry and substantial employment of local labor appeared to be excessive.

5. Mr. McNamara went on to say that the difference over civil works procurement between India and Bank staff was largely one of technicalities, and could therefore be resolved. Mr. McNamara explained that there appeared to be no difficulty in meeting this year's lending target even excluding projects involving substantial civil works. However, it was absolutely necessary that the problem be resolved during the next six months so that the Bank Group's lending program could include projects in such important sectors as irrigation and highway construction, which mainly involved civil works financing. He thought that it should be possible to settle the procurement issue by April 1, 1972, if the staff worked closely with Dr. Sen or any other official nominated by the Indian Government for this purpose.

6. Mr. McNamara went on to say that while the efforts of the Government and the Bank staff had led to the build-up of a sizeable project pipeline, there was still need for substantial further effort in project preparation. The lending program beyond FY 1973 still appeared weak, especially when taking into consideration the possibility of future increases of IDA's resources. Accordingly, he urged the Minister to continue to pay close attention to the identification and preparation of projects suitable for IDA assistance.

7. Dr. Patel mentioned that he understood that Mr. McNamara had agreed to provide non-project assistance to India and that non-project assistance would now be considered a regular feature of the Bank's lending program in India. Mr. McNamara explained that he had no difficulty in accepting the principle of non-project assistance, provided certain conditions were met. While he believed that at the present time a case for non-project assistance in India could be made, he did not feel that the Government should assume it would receive non-project assistance regularly from IDA every year. At this point, Dr. Patel expressed the view that the Bank's Articles of Agreement, which had been drafted at a time when problems of economic development had been only vaguely perceived, were antiquated and should be amended to reflect better modern day requirements. Mr. McNamara felt that the Articles of Agreement provided sufficient flexibility to extend non-project assistance or to finance local costs whenever circumstances justified this kind of assistance. Political realities, in particular the pending vote in Congress on the third replenishment, made it necessary to change lending policy gradually. Mr. Knapp pointed out that the Executive Directors in fact had moved a long way in recent years to a more liberal interpretation of the Articles of Agreement; a striking example was the fact that the financing of local currency expenditures had become a matter of accepted Bank policy. Indeed, he felt that by financing the local costs of projects, the Bank could accomplish most of the objectives of non-project assistance. Dr. Patel thought that institutional rigidities prevented a rapid transfer of capital as long as the Bank was limiting itself to the project approach and that consequently program lending had significant advantages over local cost financing.

8. Mr. McNamara concluded the meeting by expressing confidence that the third IDA replenishment would become effective in the near future. Although the amount of IDA assistance which India was receiving at the present time was still short of what she deserved in terms of equity, he was encouraged by the fact that the amounts of IDA assistance programmed for India in the current fiscal year were substantially higher than what had been available in the past. He was hopeful that further increases in IDA assistance to India could be made in the year ahead.

JKraske/GVotaw:rk

cc: Messrs. McNamara
Knapp
Chenery
Cope
Cargill

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CONFIDENTIAL
Sept. 2, 1971

COUNTRY PROGRAM PAPER

INDIA

1971 Population: 547 million
1971 per cap. GNP: US$ 98
Current Pop'n Growth Rate: 2.25% per annum
Current Exchange Rate: Rs. 7.5 = US$ 1.00

IBRD/IDA Lending Program ($ millions)

	FY 64-68	FY 69-73 1/	FY 73-77
IBRD	159.0	160.5	75.0
IDA	591.0	1373.4	2370.0
Total	750.0	1533.9	2445.0
Operations Program			2574.0

1/ The corresponding figures approved at the August 10,1970 review were IBRD loans of $160.5 million and IDA credits of $1295.0 million.

the estimated 11 percent annual increase in short-term agriculture credit requirements expected during the Fourth Plan; and (4) the appointment of the National Commission on Agriculture which is to examine the broad range of policies for agrarian reform, and particularly to examine policies which will both promote greater productivity and improve the distribution of income.

4. All these and other measures were discussed in Chapter III of the Economic Report. On the first of them, the Report concluded that the legal and social circumstances of small farmers would make the program difficult to carry forward - in particular the lack of formal title to land necessary for the receipt of credit, and the complexity of acquiring such title.1/ The rural employment program would require pilot projects to locate at the District level the categories of un- or under-employed workers who might benefit from the schemes, to discover the times of year at which they were available, and design economically viable activities which would absorb them.2/ The entry of the nationalized banks into rural credit has had some success.3/ The Agricultural Commission has impressive leadership, but the Report does not try to forecast what it will achieve.4/ It is due to report in two years' time.

5. Another popular issue was the abolition of the privy purses of former princes. After a Bill to abolish the purses failed in the legislature, abolition by Presidential decree was held unconstitutional by the Supreme Court, but this probably increased the popularity of Mrs. Gandhi's government in the eyes of the public. A Bill is now before the Lok Sabha which will give Parliament the powers needed to complete the reform.

6. Emphasis on the "small man" was the main theme of the electoral campaign of Mrs. Gandhi's New Congress Party. In fact Mrs. Gandhi gave little indication of what else she would do, stating only that, if reelected, she would follow a pragmatic economic policy. That she only promised to do "something" and not to achieve "everything" apparently appealed to the electorate. Her party's landslide victory was due in great measure to her personal charisma - it could be said that the electorate gave her a "direct" mandate.

7. The question now is, what can the new government do to answer people's expectations? Since the elections, insurance companies have been nationalized. The budget for 1971/72 includes provision for a program of rural employment for productive purposes, and increased taxation on high urban income and property. The Planning Commission is being reshaped - to what end is hard to tell, at the moment.

1/ Economic Report, para. 3.32 ff.
2/ " " para. 3.21 ff.
3/ " " para. 3.72 ff.
4/ " " para. 3.79 ff.

8. The Economy. A very full account of current economic problems is provided in this year's Economic Report, and we do not intend to repeat it here. Since 1967, India has been following a rather strict budgetary and monetary policy: inflation has been mild and net foreign exchange reserves went up from about $200 million in December 1967 to a present level of over $1 billion. Over the last four years, the rate of economic growth averaged 5 percent a year, which is not unsatisfactory. Foodgrains output is regularly increasing so that in FY 1971 foodgrain imports amounted to only 3 million tons, which have gone almost entirely to building stocks; in that sense, India was self-sufficient in regard to foodgrains last year, though the performance of commercial crops was disappointing and of course there is an enormous job yet to be done in improving nutritional standards. This year's total of 104 million tons of foodgrains represents a 5 percent increase over last year. Good performance in wheat production continues - this year's growth rate is a little below the high average of the three previous years, but excellent all the same; the most encouraging development, however, has been the growth in rice production of 7 percent, the first sign that the "green revolution" may be spreading to rice at last. So far, the 1971 monsoon is off to a good start, and important first augury for next year's crop. In spite of the green revolution, India's agriculture, and thus its economy, is still predominantly dependent on good weather, even if this dependence has been reduced by recent developments.

9. Growth of industrial output has been comparatively slow, mostly due to the poor performance of heavy industry resulting from inadequate demand from the public sector. Growth of services has been comparable to the overall growth rate. During 1967-71, imports came down sharply; and in 1970/71 export performance, although mixed, showed an overall increase of over 8 percent, so that the deficit in the trade balance decreased from $1.3 billion in FY 1967 to $130 million in FY 1971.

10. This favorable performance in the recent past, however, has scarcely reduced the magnitude of India's tasks. As the leader of India's delegation to the recent Consortium meeting said, "We have learned to live within our means, but the living is not very good". The primary cause of concern, and an important restraint for the future, is the poor rate of investment. Net investment was 12.0 percent of national income in FY 1970 against 14.8 percent in FY 1966. Political uncertainties before the general elections led the private sector to adopt a wait-and-see policy towards industrial investment; of late the investment climate has improved and the number of industrial licenses sanctioned and the amount of new capital issued have substantially increased. The principal cause of the decline in investment, however, has been that public sector investment is held back by lack of resources: increases in net domestic savings accruing to the public sector through higher taxation were inadequate to make up for the shortfall in net aid receipts. More reliance upon deficit financing would have been dangerous, since the supply position of basic consumption goods such as pulses, textiles and oilseeds was tight. Even with the present low rate of investment, a rate of growth slightly below 5.5 percent a year can reasonably be expected for the Fourth Plan if agricultural output continues to increase as in the past. This is not bad for a poor

country, but it is below the Plan target, which was already modest for a country with a per capita income of $90 per annum.

11. Recent growth rates have to some extent been possible through taking up the slack of under-utilized capacity. Present investment is important to future growth, and the longer-term future of the economy is hard to assess, given the uncertainties of the aid situation[1/]. Any improvement on the projected 5.5 percent growth rate will require both favorable trends in foreign exchange availability, on which depend some of the necessary changes in industrial policy, and continued good fortune in agriculture.

12. The Future. In this context, what can be expected for the future? The Government could force the pace of growth in the non-farm sectors of the economy, and thus help pull some of the rural poor from agriculture into more productive activity elsewhere; but resources are so scarce that it is unlikely that the non-farm rate of growth can be rapid enough. If such growth is able to alleviate the lot of the existing urban poor, that in itself will be quite an achievement. There is room for relaxing some controls which are inimical to economic growth; better performance by public sector undertakings could help to improve savings, thereby reducing the reliance on budgetary transfers. This is not to say that all public sector undertakings are working at a loss; in fact many of them are profitable, but the huge financial losses of the biggest units (Hindustan Steel Ltd.; Heavy Machine Tools undertakings) more than offset the good performance of others. Even the best performers are beset with problems ranging from bad management and labor troubles to technical difficulties resulting from poor initial investment decisions. GOI recently started a dialogue with the trade unions to find a solution to labor unrest: in 1970 alone, 17 million man-days were lost.

13. GOI might try to achieve redistribution of incomes through fiscal, pricing and other policies. Some steps have already been taken in this direction, e.g., recent increased taxes on urban incomes. Defenders of India's agricultural taxation policies note that every tax levied in India is also paid by rural people - except income tax which accounts for probably not more than 25 percent of revenues of the Centre and the States combined - and that agriculturists pay direct taxes in the form of land revenue and specific excise duties on fertilizers and tractors. Nevertheless, rich farmers who may represent 10 percent of the rural community, almost entirely escape direct taxation. The problem is that taxation of agricultural incomes is a State responsibility, and in most of the States, the power structure is greatly influenced by the large farmers.

14. The government might try to redistribute the available cultivated area, but here again, the problem is that this is, constitutionally, a State issue. Even if the government forced State governments to enact new land

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[1/] This is discussed below in the section on the Consortium, para. 64 ff.

ceiling legislation, there are many ways to evade the laws. There are already reports that large owners fear further reductions and are starting another round of land transfers to relations. The government might be more successful in implementing a minimum reform of the tenancy system centering around rent ceilings and security of tenure, since, whereas rural people were mere onlookers when land reforms were first enacted 20 years ago, they have become now more politically conscious. This would still be opposed, but possibly less strongly than land reform, by the big farmers.

15. IBRD/IDA economic reports have over the years made numerous policy recommendations. In terms of the new government's situation, these can be considered under three main heads. (i) As earlier paragraphs have indicated, in many important matters results depend on the relation of the Centre with the States. This is true of rural reforms and agricultural taxation. It is also importantly true of the fiscal system and the management of the development program. States are still capable of disrupting economic management by running unscheduled deficits which have to be made good by the Centre. And the State administrations, which actually carry out the bulk of Plan schemes, leave a lot to be desired from the point of view of efficiency.

16. Some difficulties can be attributed to the political machinery of State Governments. Elected members of State assemblies are allowed to change party allegiance frequently and without penalty. In the past this has made something of a mockery of democracy in the States and has frequently made the formation of governments and appointment of ministers a thoroughly opportunistic and unstable process. The personal popularity of Mrs. Gandhi and the authority of the government are new features in the situation. The New Congress now is in control in most of the States, and there is "President's Rule" in others, so that the political situation is much more favorable than before; whether or not the government will take strong measures remains to be seen.

17. (ii) Some decisions the Government must take require a different kind of political will; they involve tackling the prejudices of Congress party members and of interest groups at large - such measures as the reduction of industrial controls, giving somewhat greater freedom to the large industrial houses, the reduction of protective barriers, even the pursuit of larger amounts of aid. Many observers hoped that Mrs. Gandhi's increased majority would enable her to move on some of these issues. There has not been much sign of movement so far. But the Government's own Economic Survey[1] has argued for doing away with some of the less rational aspects of policy. We must hope it will be recognized that some of the redressing of the balance between growth and social justice should lie on the side of efficiency and growth.

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[1] Government of India, Economic Survey, 1970/71. See, e.g., p. 71.

18. (iii) Finally there are a number of items which are more a matter of administrative than of political will: improvement of public sector management; improvement of port management; of statistical collection and publication; of tax collection and processing of legal taxation claims. In these as in so many fields of India's government, there is no lack of official reports and recommendations as to what needs doing. But there is a very considerable weight of administrative inertia, which a determined Government could overcome.

19. Over all these otherwise reasonable prospects of political stability, of administrative reform and of encouraging economic growth, there now looms the threat of the tragic events taking place in East Pakistan. The immediate problem concerns the refugees, now numbered at nearly 7 million and still coming, who have sought shelter in one of the most volatile parts of India, where economic conditions are painfully weak. International aid may relieve India of some of the direct costs involved in taking care of the refugees, but the social, political, and indirect costs resulting from their influx will have to be borne solely by India. In any case, it is unlikely that the international community will be able to do more than make a token gesture towards paying the bills. The direct costs are now estimated at $400 million <u>for the first six months</u> of the shelter operation. Much of this is in foreign exchange or in goods (e.g. foodgrains) which will have to be replaced with foreign exchange.

20. India must hope that future developments in East Pakistan will quickly provide a situation in which refugees, a majority of whom are Hindus, will feel safe enough to return to their homes. India's official position is that all must return; even if Hindus, they are Pakistanis, and aliens. Privately Indian officials fear the situation will be worse before it is better - they fear a mass famine in East Pakistan will drive even larger numbers of both Hindus and Muslims to India. It is hard to see what could induce the Hindus to return, even given political stability - whatever remained of their meager assets after the fighting probably has been redistributed already. If the refugees cannot somehow be returned, the number of people pressing for land and jobs in already economically and politically explosive West Bengal and Calcutta will permanently increase by millions.

21. Seven million people represent 1½ percent of India's population. If these people are to be maintained at a standard of living equal to the average in India, that means transferring to them 1½ percent of India's existing resources - to the extent that additional funds are not made available from abroad. (Aid pledges for refugees total no more than $150 million so far.) Even without the temptation to seek a military solution, the test of India's political cohesion and economic strength is intense. Unfavorable comparisons are already being brought to public attention in India between the sums expended on the refugees and those available for India's own poor and the programs designed to assist them. The political dangers are obvious. There is no point in developing scenarios here. It is enough to say that the gravity of the situation can hardly be exaggerated.

IBRD/IDA Strategy

22. IBRD/IDA Lending Mix. If the Bank group is to continue to make a significant contribution to India's development program, this must be done through enhanced amounts of IDA lending. India remains creditworthy and could be a blend country, but, given the very large amounts of external aid which will continue to be required for some time, it is clear that almost all of India's development borrowing must be on soft terms if the required transfer of resources is to be accomplished and a grave debt service crisis avoided. In this context, borrowing on IBRD terms should be restricted to an amount which would permit a gradual reduction of this type of debt.

23. Last year's CPP recommended that the level of the Bank's net exposure[1/] in India be reduced. It was decided during discussion of that CPP to make two further loans to ICICI and two loans to the private industrial sector over the five-year program. At the moment, there are no clear candidates to fill these latter slots, and only one has been left in the lending program. ICICI will need more funds than can be provided through IBRD if this policy is followed, and this problem is explored below. (See the discussion of ICICI, another DFC and other industrial possibilities in paragraph 39 below.) IBRD should continue to follow a lending policy designed to sustain the decline in net exposure which began in 1963.

24. Net Transfer Position. Closely related to the question of further IBRD lending is IBRD's position on future debt relief exercises for India. The position at this time in the Consortium is described in more detail below, but, in brief, the forthcoming debt and net aid study is expected to lead to an agreement for all Consortium members to increase net aid transfers to India. Many country members of the Consortium have urged IBRD to reconsider its announced position not to participate in any future debt relief exercises. If it is not possible to contemplate further small amounts of debt relief, then some way must be found to make the IDA program conform to any agreement to increase net aid flows. Since IDA funds to India are rationed by formula, an increase in IDA commitments arising out of larger replenishments probably would not be acceptable. The solution will probably have to be to adopt lending policies designed to speed up disbursement. In the absence of debt relief, the best alternatives are increased program lending, or increased lending against expenditures in local currency - both of which, like debt relief, are tantamount to providing free foreign exchange.

25. Procurement. IBRD/IDA operations in India continue to be complicated by difficult policy issues. During the course of the last year, agreement finally was achieved on the question of equipment procurement. In IBRD/IDA projects, India now submits most items to international competitive bidding, with a level of preference for domestic

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1/ Amounts disbursed and still outstanding.

suppliers of 15 percent, but reserves some items for local suppliers so long as they do not constitute an unduly large percentage of the total project requirement. This new arrangement has worked well in terms of negotiations for new projects although the results in practice remain to be seen; nevertheless, it is less than completely satisfactory, since it involves "reserved" procurement. If higher levels of preference were possible, a better solution would be to increase the percentage, taking into account all the elements of India's foreign exchange control regime, and have no reserved items.

26. This year, the focus of attention on international competitive bidding has not been removed, but rather shifted to civil works. This issue needs no summary here. It is sufficient to note that several projects in the FY72 lending program were included at a time when different assumptions were made about IBRD/IDA policy on this matter, and lending for them now depends on the eventual resolution of this difficulty. Projects in next year's program which are obviously affected are the three irrigation projects not yet approved by Executive Directors and the second highways project. Others which may be affected are the Bihar marketing scheme, the agricultural universities project and even the family planning project. Together these account for some US$121 million out of the total gross IDA lending program, recommended in this paper, of US$629 million. Looking further into the future, prospects of lending for education and tourism are darkened by this problem. Given the declining trend of imports in India's development program, which can only be expected to continue, it will become increasingly more difficult to find large amounts of project financing with which the Bank group can be associated if it is unable to lend for civil works. It is unlikely that GOI will change its policy on this matter. If agreement on this issue is not reached, and particularly if this is combined with either a restriction on the amount of program lending or on the quantity of local currency financing, the nature of IBRD/IDA lending to India would change drastically from that recommended in this paper. It would be impossible to achieve the desired rapidity of disbursement, and the focus on agricultural lending would be jeopardized.

27. Project Preparation. This continues to be another major difficulty impeding rapid development of a large lending program for projects in India. By now - with suitable examples from the past - GOI is aware of the scope of proposals which we require, and the type of and extent of data needed for certain kinds of projects - e.g. irrigation, agricultural credit and even fertilizer plants. In even these cases we continue to encounter delays caused by protracted discussion between GOI and the States. Beyond this, it remains true that project preparation of the sort required by IBRD/IDA usually does not take place in India. This situation is very undesirable, but for the time being it must be accepted. For some time to come, when approaching new fields of activity, IBRD/IDA staff will have to invest a great deal of time and effort in preparing projects, at the same time helping to educate Indian personnel in preparation techniques. Some Indian authorities believe the staff over-designs and thus requires over-prepared projects. Some high level discussions on this point would help, but the fact is that many submissions are wholly inadequate and this must be reiterated to the Indian authorities and backed up by examples.

IBRD/IDA Lending and the Sectors of the Economy

28. Agriculture. The fluctuations in emphasis in the treatment of agriculture in India's development plans are well known: while the First Plan concentrated (albeit on a traditional basis) on agriculture, the Second and Third Plans gave pride of place to industrialization, and it was not until towards the end of the Third Plan and in the Fourth Plan that emphasis on agricultural development was reintroduced. At the time when IBRD/IDA again began to be active in project lending and to emphasize projects in agriculture, and after the food shortages of the middle 1960's, there was an understandable preoccupation with increased food production. This preoccupation within the Bank reflected GOI's own strategy. The results so far have been encouraging, and a degree of qualified self-sufficiency already seems to have been reached; but so long as India's agriculture is dependent upon the quality of the annual monsoon, this achievement remains a precarious one. In any case, "the living is not very good".

29. Nevertheless, against this background, it is apparent that future lending programs in the agricultural sector should be aimed at a greater degreee of diversification of developmental effort. Such diversification could take many forms and it will not be easy to allocate priorities among them. It would be appropriate to include projects designed specifically to meet the needs of the vast majority of the rural poor in India who, largely, have remained untouched by earlier IBRD/IDA projects. It is not easy to design such projects, since most of the farmers in this category do not have security of land tenure, are more often than not only part-time subsistence farmers, and generally do not have the resources or potential to support the type of investment which might improve their agricultural practices and conditions.

30. During the last 18 months agricultural credit projects have been launched in five States and three more are under consideration for FY72. Nearly all these projects contain special provisions (included only after considerable pressure from GOI and State governments) for "smaller" farmers, but these cultivators have been carefully defined to exclude those which cannot be considered viable and it is by no means certain at this stage precisely what types or what numbers of such farmers will fall within the parameters which have been established. Careful attention will have to be paid, during supervision of existing agricultural credit projects to ensure that, insofar as is practicable, the parameters are successively broadened to embrace as many as is possible within the standards of reasonably prudent banking practices. But consideration must also be given to development of a project designed to reach farmers who will not qualify under the other projects. Such a scheme could possibly take the form of support to the Small Farmers' Development Agency in its efforts to subsidize investment costs for the less viable farmers. Another possible avenue of investment (with almost unlimited potential) which could benefit the smaller farmers, lies in the field of short-term credit.

31. Another type of project which could extend IBRD/IDA activities into the sphere of small farmers is that of integrated "area development" schemes. Two specific proposals have been presented for IDA consideratin. These are being studied; a response to GOI, as to how we see any further steps, is due. One of these proposals, for the development of Salandi, an irrigation project already financed by IDA, typifies the difficulties of developing such areas. The main problem is to find a way to improve the use of the water from a dam already constructed, in an area where holdings are fragmented - many being as small as 0.12 of an acre. Two-thirds of the farms in the Salandi area are less than 5 acres in size. The fact is that neither the GOI nor IDA knows exactly what the next steps should be. It is necessary to decide now whether or not to expend a considerable amount of staff time, possibly with the help of the IBRD/FAO Cooperative Programme, to try to find out how such areas could better be developed.

32. There are a number of other possible avenues of diversification of IBRD/IDA activity in agriculture: new seed projects, dryland farming, forestry, dairying and livestock, small holder plantations, improvements in groundwater utilization, and control of major surface water flows - in this respect, a tentative approach has been made by GOI concerning possible involvement in an overall study for development of the Narmada basin, on the assumption that inter-state water rights disputes are near settlement. After recent reconnaissance missions, progress has been made toward lending in new agro-industrial fields such as marketing and crop processing. These exemplify a problem, alluded to above, which will accompany any effort to diversify our agricultural lending. Lending for irrigation and credit has not been without its problems, but very large amounts of money have been committed and some familiarity with the problem has developed. If IBRD/IDA goes into new fields, it will need to earmark substantial additional amounts of staff time. Project preparation within India in the agricultural sector needs considerable assistance, and very much more additional staff time from within IBRD/IDA and from the Co-operative Programme will be required for the proper development of such projects. Project sizes will be smaller, and more manpower per dollar lent will be required.

33. The question is, then: is it worth making this investment in staff time, or should the lending program concentrate on fast disbursing schemes for rapid transfer of large amounts - as in railways, telecommunications, and program lending? In the light of the overwhelming importance of agriculture to the Indian economy as a whole, and the necessity for India to take steps to help the rural poor, in the interests of both welfare and political stability, IBRD/IDA should continue to devote about 50 percent of available resources to lending in the agricultural sector, and should take a decision to make the effort required in order to participate in GOI's efforts to broaden the base of agricultural prosperity.

34. The task of diversifying the lending program in agriculture will be difficult; further it would not be practical to expect quick results in terms of projects which could result in lending in two or even three years time althouhg one or two projects might be developed rapidly. In this intervening period projects such as irrigation and credit- to which we had devoted a great deal of staff time in the past - will continue to be the mainstay of our agricultural lending. Indeed, such projects should continue to play an important role in our overall strategy. Still, the

time to take action and to allocate staff to the diversification problem is now. Over the next few weeks Agriculture Projects and South Asia Departments should cooperate to organize efforts in this field. It is a propitious time for a new round of talks, on this subject, at the highest Governmental levels in New Delhi; in particular the National Commission on Agriculture (see paragraphs 3 and 4) should be consulted. Contacts with GOI can begin at the Annual meeting. Provided the Indian officials are receptive, appropriate reconnaissance missions should be mounted during the next six months or so.

35. Industry. The most recent economic report (paragraphs 10.37 to 10.39) indicates that India continues to need large amounts of program lending. The economic case for program lending for India is very strong; basically, the resource gap is very large, and the need for import of finished capital equipment is small. Our recommendation that more than half of new commitments of aid to India for FY72 should be non-project aid was accepted by the Consortium. At the June 1971 meeting several country members supported India's request that program lending be included in this year's IDA program on its own merits, and not as a residual item in case enough projects cannot be found. GOI expects a program credit to be in the lending plan for FY72 and in view of the economic case for it and our position in the Consortium it is difficult to see how it can be excluded this year or in the future. Annex 1 shows program credits for FY72, FY73, FY75 and FY77 but these are indicative only; program lending should be recognized as a regular part of the lending program for India - with the exact amounts and timing tailored to meet desired IDA contributions to the net flow of resources as determined from time to time. should be every year

36. If a program credit is to be made for FY72, decisions must be taken now about the nature of the credit. There are good arguments for complementing the technique of support for "traditional" IDA sectors. It is estimated that perhaps $50 million per annum could be used effectively to finance replenishment licenses for exporters of manufactured foods. This might be linked to simplification of the administrative procedure, so that exporters would get licenses more freely. It would make a very attractive proposition in terms of widespread concern that India improve its export situation. If more lending is desired than can be absorbed by these exporters, one or two of the fastest disbursing of the "traditional" IDA sectors should be selected.

37. For some time, IBRD/IDA direct lending in the industrial sector has been constrained by two factors :IBRD/IDA's reluctance (now overcome) to finance the public sector, and India's policy to constrain expansion of economic power by large private industrial houses. On the latter point, the time probably has come to make a greater effort to see if GOI will allow several large-scale schemes with substantial private participation to be presented for IBRD/IDA consideration. Prospects for lending for the Kudremukh Iron Ore extraction and export project (about half private sector and half public) and the Tata Fertilizer project have been noted in the lending program for some time. A small combined mission from South Asia and Industrial Projects Departments should go to India early this fall to determine whether or not to continue to discuss these possibilities and to try to identify other lending possibilities in either the public or private sectors, including further fertilizer manufacturing proposals.

38. A recent field of concentration has been in public sector fertilizer plants. A credit has been made for the Cochin plant in Kerala; an appraisal report for the Gorakhpur project is under consideration; and appraisal of the Nangal project has begun. Unfortunately, there are no further concrete prospects in view, although the Rajasthan Phosphate Study, now being conducted by the Bank as executing agency for the UNDP, will undoubtedly lead to one project, and possibly two. The first stage would be for equipment and materials for mining and beneficiation. The second, a year or two later, would be for a plant to process phosphate rock into a finished form of phosphate.

39. Lending to ICICI has been a focus of our industrial attention for many years. ICICI has proved to be a most effective intermediary and we shall continue to support the institution. The Development Finance Companies Department estimates that through FY77 ICICI could use effectively some $200 million of foreign exchange, however, and India's debt problem and the IBRD exposure position argue against more than about $100 million of this coming in the form of IBRD loans. Some time during the period ICICI should be shifted from IBRD to IDA lending. Even then, it is questionable whether IBRD/IDA together will be able to meet all of ICICI's needs. This being the case, if industrial development in the private sector in India is not to suffer, ICICI must find alternative sources of finance, and IBRD/IDA should do all it can to help ICICI develop other sources of funds.

40. GOI has requested consideration of lending to other financial institutions in India, notably the public sector Industrial Development Bank of India (IDBI). A suggestion that the State Financial Corporations (which lend to medium-sized industries in individual states) be supported through IDBI is under consideration. Even though there are other possible private DFC-type lending channels in India to be explored, the possibility of support to IDBI for its ordinary industrial lending should not be excluded.

41. A potential new avenue of concentration in the industrial field is that of small-scale industries. This sector is of great importance to the economy, especially in terms of employment. As a first step towards identifying projects suitable for IBRD/IDA support, a survey of selected small industries will be carried out with IBRD financing by the National Council for Applied Economic Research in India. This survey will be followed by a reconnaissance mission (tentatively scheduled for the end of 1971 or early 1972) which could lead to appraisals and Bank group assistance in FY73.

42. Annex 1 includes as "industry - unidentified" five projects which could be developed from the possibilities - private sector, fertilizers including Rajasthan phosphates, new DFC's, and the small-scale sector - discussed above. It also includes two IBRD loans and one IDA credit for ICICI.

43. The IFC continues to pursue financing prospects in India. The investment committee recently agreed to consider a loan to the Great Eastern Shipping Company for the purchase of used ships - assistance which would complement possible IDA financing for new ships (see paragraph 46 below). In addition there are a number of other industrial projects under consideration, including fertilizer plants.

44. Transportation. Railways have traditionally been at the center of the Indian transport scene and of IBRD/IDA support to the transportation sector. Financial reverses suffered by the railways in recent years suggest the need for more attention to costing and rating considerations; in this context, recent rate increases are encouraging. An appraisal of an eleventh project in support of Indian railways has been completed.

45. The Fourth Plan put relatively more emphasis on non-railway transport than the previous Plans; this also was a welcome development because emphasis on rail development, combined with restrictive practices in the field of road transport, contributed to what is considered to be an unbalanced transportation system. Unfortunately, actual expenditures on non-rail development have lagged during the first years of the Plan. The ability of IBRD/IDA to influence events in this field, especially in road development, is seriously threatened by the dispute over international competitive bidding for civil works. Should this issue be resolved it will be important to proceed as rapidly as possible with appraisal and approval of the proposed second highways project. Large amounts of staff time, both in IBRD/IDA and in India, have been spent in preparing the project. It would be particularly unfortunate for our relations with India, given all of the time spent in discussing the procurement issue and in preparation, if after resolving the issues we were then to delay an appraisal because of staff constraints. This project should be kept in FY72 program until all prospect of a timely end to the procurement problem has vanished.

46. One of the brighter spots in the lending program is the rapid development of a project in support of India's program to acquire new ships. The first project, for international oil tankers and coastal products vessels, has been appraised and barring possible problems with the economic rate of return if freight rates continue to fall, there should be no problem about presentation to Executive Directors within this fiscal year. India's need for ships to transport her iron ore exports is of equally high importance and priority. Such ships, in addition to stimulating additional exports, can be considerable foreign exchange earners in themselves. There are at present some questions about the scope of studies of the iron ore sector required before an appraisal. These questions should be settled, and the studies started, in order to finance a second shipping project at the earliest opportunity. If necessary, an ore carrier shipping project should be given priority over other projects in the FY72 lending program if it would be possible to make a second credit this year.

47. A consultant to the Transportation Projects Department on air transport submitted his report in June. The report indicates very good investment possibilities for aircraft, and for mechanical equipment in the

ground facilities at various Indian airports, for both national and international travel. Such projects would have a high foreign exchange component and discussions should be held as soon as possible with GOI with a view to formulating precise projects for possible Bank group funding; it should be noted that a recent $10 million Canadian credit for this purpose may have preempted some possibilities.

48. Power and Energy. For the last few years, Bank/IDA lending to the power sector has been confined to projects for transmission and distribution systems, since GOI chose to rely on domestic firms for the production of capital equipment required for power generation. There has been a recent and welcome resurgence of interest in India's energy sector, both within IBRD/IDA and within GOI, partially caused by the fear of imminent power shortages in some parts of India. Because of delays in completing new plants, the Fourth Plan target of 23 million Kw by 1973/74 has now been revised downward to 21.7 million Kw. Indian officials privately admit that even this target will probably not be achieved. Various measures to restrict demand are being utilized. It is an appropriate time to reexamine the possibility of a greater IDA involvement in power and energy. GOI, through a Fuel Policy Committee, has set up four specific studies: the first will establish primary energy supply possibilities, estimate future energy demand at demand points by regions, and then attempt to calculate for each demand point a least cost mix of energy supply; the second will make demand projections for 10 to 15 years; the third will examine the relationship between prices and consumption of different fuels; and the fourth will study shifts in fuel use which may result from technological changes. The results of these studies should indicate areas where policy changes are needed and where external aid agencies might be useful. An IDA consultant will visit India in the fall, when the results of the studies are expected, to review the work, to look into pricing policies, and to assess the Bank's future role in the energy sector. In the meantime, the lending program includes a further credit to State Electricity Boards in FY72 for transmission and distribution and credits for as yet unidentified projects in succeeding years. GOI sources have hinted that IDA may soon be asked to consider a major power plant to be constructed with completely external procurement.

49. Telecommunications. At present India can only meet about two-thirds of the effective demand for telecommunications services, with the telephone situation being particularly serious. Telecommunications expansion programs will continue to be a major element in development investment, and to absorb large amounts of foreign exchange, at least through the Fifth Plan period. The lending program includes a large credit for this purpose for each of the next several years.

50. Human Resources. The recent economic report criticized uncontrolled growth of higher education in India at the expense of primary and secondary education. Paradoxically, the only project presently defined in the lending program is for universities. Nevertheless, this project, to support two State agricultural universities, is of extremely high priority. The institutions being supported are of the type which in States like

Punjab and Uttar Pradesh, has played an extremely vital role in fostering the green revolution, in providing highly qualified graduates for work in all spheres of agricultural activity, and in the definition of development projects. A second such project, to support two more State level agricultural universities, can readily be developed to fill the second education project slot in the lending program.

51. In the field of population control, the preliminary census results for 1971 show a heartening trend in the rate of growth of population. This rate, expected to be as high as 2.5 percent per annum, proved to be nearer 2.25 percent. The census reports, however, should not lead to premature optimism about the family planning program. One viewpoint is that the mortality rate, especially for infants, did not drop as fast as estimated and that this accounts for the lower than expected rate of growth. IDA's first family planning project in India is now defined and partially appraised. GOI proposed a nutrition component to be added to the project as originally conceived. This may provide the Bank group with its first opportunity to gain experience in the nutrition field.

52. In the general field of urban development, some beginnings have been made towards Bank/IDA involvement in the plans for major cities in India. The report of a mission which visited Bombay has been submitted to the Indian authorities and comments are awaited. The urban development plans of Madras are now under review. In the meantime, projects in this general field are being considered, with as much regard as possible being given to their position in a well-balanced urban development plan. The census has demonstrated the increasing movement of population from rural to urban areas. Cities like Bombay are growing faster than the national average, and it is clear that urban areas will require increased levels of investment in public utilities. After what is surely one of the longest and most frustrating project development efforts in IBRD/IDA history, it seems that the proposed Bombay water supply and sewerage project, which it is hoped will be only the first stage in IDA investment in the city's utilities, may actually come to fruition during the current fiscal year. Also under consideration is a possible project in Madras. No discussion or urban development in India can avoid mentioning the problem of Calcutta. GOI has talked vaguely for two or three years about wanting to launch a massive effort to save Calcutta, backed by an international consortium which might include the East Bloc countries. As yet this scheme has taken no definite shape, and although IBRD/IDA's interest in participating has been indicated to GOI, it is impossible to do much more at this stage until GOI decides what it wants to do and what role it wishes IBRD/IDA to take. The New Delhi Office intends to hold discussions in India in the next few months to discuss with other interested donors possible ways of approaching the problem.

53. Tourism. India has a wide variety of natural, historic, and cultural riches which are potential assets in the field of international tourism. Development of this potential which could generate significant additional foreign exchange earnings, is constrained by: (a) the distance from the major tourist-generating markets of Europe, Japan and North

America; and (b) the lack of infrastructure and accommodation suitable for a major increase in international tourist traffic.

54. The Tourism Projects Department will send a reconnaissance mission to India during FY72 with a view to developing two projects for financing in FY74 and FY76.

55. Exports. During the last year the India Division studied export prospects of primary and industrial products at some length. The main conclusion reached was that future export growth would largely be determined by the rate of growth of exports of industrial products as opposed to traditional exports; this is partly the reason for the proposal mentioned above to include in a program credit the financing of replenishment import licenses given to manufacturers against their exports of engineering goods. This could help initiate a dialogue with GOI on two issues: rapid provision of such licenses and other incentives to exporters; and revision of the replenishment scheme to orient it more towards exports than import substitution.

56. Although primary and quasi-primary exports are expected to increase only marginally, there are good prospects for IDA projects which could improve the situation. One of these is in cashew nut production. India now exports about $80 million of processed cashews per year, but two-thirds of the supply of raw cashews is imported from East Africa, where countries are developing their own processing units. India in future will have to rely more and more on local production, which, therefore, needs to be substantially increased. Two years ago, GOI submitted a proposal to the Bank which was rejected because it was ill-prepared and there was no adequate institutional framework for cashew production. GOI is still interested in developing a cashew project. Because of the importance of exports, IDA should devote the necessary staff time to preparation of a suitable project. Exploration of this possibility should be included in the terms of reference of one of the two agricultural reconnaissance missions recommended above.

57. Economic Work Program. It is not possible to separate an economic work program from the large range of Bank/IDA activities, if by such a program is meant the scope of work designed to increase both our knowledge about the economy and where it is, or should be, going and about how to apply this knowledge to lending operations. Thus, in addition to specific research projects or fact-finding missions, many of our activities related to projects, and in the Consortium, are really part of our program - the Delhi Office, too, is continuously gathering information.

58. The unusual length of this year's economic report gave rise to concern in some quarters. The subject of economic reports is currently under general internal discussion but it is perhaps worth noting that Consortium members expressed considerable appreciation for this year's report at the Paris meeting in June, commending in particular the inclusion of an extended treatment of "human resources" - population, family planning, health, nutrition, education, employment and income distribution.

Apart from this report, the major project in the past year has been a summary of India's export prospects in a number of fields. The most important proposed work of a general economic nature is the debt and aid study described below in the section dealing with the Consortium.

59. In agriculture, a broad range of activities is underway. Recently completed is a study of effective demand for fertilizers in India.[1] Further understanding of this and several other problems will be provided by the study of high yielding varieties, commissioned from the Australian National University, with a first report expected shortly. The state of knowledge on fertilizers is still unsatisfactory, however, and further studies are contemplated to examine in detail the determinants of demand. The crop-weather relationships study plows on; its objectives is to assist a large range of activities where improved statistics on crops and weather are needed, including design of cropping patterns, crop forecasts and evaluation of agricultural programs. The work, carried out in conjunction with GOI, is going well, and some reports have already appeared.

60. Concern about the relationship of farm mechanization and rural employment has led to initiation of studies in India on which work should start shortly at the Institute of Management (Ahmedabad) and the Punjab Agricultural University (Ludhiana). A committee to oversee the studies has been established by the Ministry of Agriculture and IDA is represented. The nature of this problem will change over time, and care will be needed to ensure that the answers are not obsolescent by the time the studies are completed. The recent assignment of an additional staff member to the New Delhi Office with responsibilities to cover this and other problems in the field of human resources will be a great help to work in this area - not least by assisting in the development of projects in line with the Government's new emphasis on employment, and on development which benefits the "poorer sections".

61. The main IBRD/IDA study of industry, a survey of manufacturing industries, was completed 18 months ago. It was a very thorough review of industrial performance, policies and statistics. Since then, the New Delhi Office has kept watch on the various changes which have occured in industrial policy and has reflected these in economic reports. The 1969 study listed a number of future subjects of enquiry, the first being industrial exports (referred to above). Another subject - the small-scale sector - was selected for study in view both of its importance to the economy, the lack of information about it and its potential as a sector for Bank group lending (see paragraph 41 above).

62. A further mission, on industrial policy, to look particularly at the question of controls, has been suggested to GOI. This is a sensitive subject, and GOI, in the process of post-election reorganization, has not been able to give an answer. The 1969 survey, frequent comments in economic reports, and discussions with GOI, have drawn attention to the generally

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[1] By Dorris Brown (Agriculture Projects) and W. R. Donde (GOI), issued as a working paper dated May 1971.

poor quality and lateness of industrial statistics and, perhaps most particularly, private investment data - unfortunately, all with little, if any, result.

63. In the field of population, the report is awaited shortly of a recent mission surveying the state of fertility research in India. More generally, involvement in the family planning project, directly and indirectly, should be the source of a good deal of information on India's population problem and the family planning program. The family planning project should also be a source of knowledge and experience about nutrition.[1]

64. The Consortium. The main interest of the Consortium this year has been the future of aid to India, and India's indebtedness. Non-food net aid declined from about \$800 million in 1966/67 to about \$300 million in 1970/71 as a result both of declining gross disbursements (about \$850 million) in 1970/71 and rising debt service payments (\$550 million). Food aid was about \$120 million in 1970/71. At a working party meeting in April 1971, it was agreed that the debt rescheduling exercice should be prolonged for an additional year. It was also announced that IBRD/IDA would be making proposals for a broad study of debt and aid.

65. These proposals, approved in principle at the June plenary session, are for a debt and aid study which will be carried out in three principal parts: (a) estimates by sector and by type of aid (project, non-project, and local currency finance), of India's aid absorption possibilities; these will be made by GOI under guidelines (including realistic aid assumptions) discussed with IBRD/IDA; (b) projections of India's debt situation under varying assumptions about future aid; and (c) the situation of the donors. Parts (b) and (c) will be carried out by IBRD/IDA, with the aim of discovering what India's problems are likely to be from the aid and debt point of view, and what scope there is among the donors for improved performance to meet these problems.

66. At the June meeting, the main points made in discussion were: that the study should examine suppliers' credits, private capital flows, and non-Consortium debt and aid; that the study should concentrate mainly on debt problems; that any proposed contribution to solving these problems should be equitable as between the donors; and (a plea made by several donors) that the IBRD/IDA net aid position should in general be considered a matter for examination in the study, and that in particular the question of IBRD participation in debt relief should be reopened.

67. The prospects for the study are difficult to gauge. Some donors will undoubtedly be willing to improve their aid to India, and indeed some would do so even in the absence of the study. Perhaps the major doubt attaches to the US contribution. But a number of other donors might also be described as somewhat doubtful starters. Some, who have been opposed to debt relief in the past, could make acceptable increases in net aid

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[1] Included as Annex 5 is a list of studies relevant to India in progress in the Bank, but not the responsibility of South Asia Department.

only by contemplating debt relief. Nevertheless, we expect some headway to be made, particularly on terms and conditions of aid. One highly encouraging development has been the attitude of GOI, who not only expressed themselves as favorably disposed towards additional aid (in contrast to numerous published and unpublished statements in the recent past) but volunteered full cooperation with their part of the study. Without a fairly positive international response to this study, the function of the Consortium will be called in question. The flow of net aid has approached an unwarrantedly low level.

68. The debt and aid study will take up a good deal of staff time for the next few months.[1] It should probably signal a return to the tradition of greater attention to Consortium matters, which in the last year or two has dwindled to a flurry of activity immediately surrounding the main annual meeting. Some saving of time might be achieved by discontinuing the Quarterly Report on the Utilization of Aid, which could be handled on a semi-annual basis.

69. The New Delhi Office. The Delhi Office continues to render invaluable assistance in maintaining a continuous flow of economic information from India, besides preparing the economic report and furthering the Bank's operational interests. Within the next year or so there will be a considerable turnover in the Delhi Office staff, and the question arises of whether there should be a change of emphasis in the Office's work. This should now acquire a stronger operational bias. The next Resident Representative should be a Bank staff member whose main experience has been in operational matters, preferably a loan officer, and other staff members should devote more time to operational matters. The Deputy Representative should be an economist equivalent in status to a Senior Economist in an area department - someone, that is, who could be responsible for economic reports and hold discussions of economic issues with the Government. Overall supervision of the lending program would, of course, remain the responsibility of South Asia Department personnel in Washington.

Summary of Lending Program and Principle Recommendations

70. Gross and Net Lending Programs for FY72. The gross IDA lending program recommended in this paper for FY72 is $629 million, including a $75 million program credit. At first glance this seems high when compared to the lending target of $375 million; however, experience indicates that there is a high degree of slippage in the India lending program. One obvious reason for this is the fact that difficult policy issues seem to arise first in the Indian context. A comparison with the state of affairs at this time last year is rewarding. In July 1971, there were 13 projects in the lending program for FY71. Of these, only 6 were rated as "high probability" and accounted for $186 million (or 76 percent) of the lending target of $275 million. Five of these, and one project which was rated "medium probability", eventually accounted for the total lending of $243.4 million. Work on the seven projects which did not result in lending last

[1] The South Asia Department will in fact work in conjunction with the Economic Program Department on the study.

fiscal year was not wasted effort, however; all of these projects have "slipped" into the lending program for this year.

71. At this time, 8 of the 20 projects (not including the program credit) in the gross lending program for FY72 are given "high probability" (a probability rating of 5) and they account for $280 million out of the lending target of $375 million, or the same percentage, 75, as at this time last year. Including a program credit would bring the "high probability" total up to $355 million.

72. Financing of expenditures in local currency is estimated at about 50 percent of the gross lending program, but only about 30 percent of the "high probability" projects. The primary reason for this is the low probability accorded to projects where international bidding for civil works is an issue. Such projects would have a high local currency component whether contracts were won by foreign or domestic bidders.

73. Conclusions and Principal Recommendations. The Indian economy has performed reasonably well in the recent past, but both GOI and IBRD/IDA are concerned about the lagging rate of investment which is a major restraint of future growth in the economy as a whole. The fiscal and savings efforts of GOI have been good, and the declining level of net aid is the trend that most needs to be overcome. The IBRD/IDA lending program should be designed to effect a more rapid transfer of resources to India. At the same time, the program should include elements in support of India's efforts to achieve a wider distribution of the benefits of growth - through projects concerned with the rural poor and in other "human resources" fields. Such projects, especially in the field of agriculture, will be hard to develop, probably will be smallish in size and require more staff time per dollar lent, and may even be relatively slow disbursing. Nevertheless, their importance to India's development is such that IBRD/IDA should be involved. These two principles of lending are somewhat in conflict with each other. Both are important to the lending program but the precise balance between them is an open question. Thus, the two principal recommendations of this paper requiring management decision are :

(i) in order to increase IBRD/IDA's ability to contribute to the rapid transfer of resources to India, program credits should be recognized as an integral and regular part of the lending program;

(ii) increased amounts of staff time should be earmarked for project development and preparation work, as necessary to ensure IBRD/IDA participation in schemes designed to assist the rural poor and in other priority fields.

South Asia Department
August 6, 1971

		Thru 1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	Total 1964-68	Total 1969-73	Total 1973-77
Industry - Unidentified	IDA											20.0							
Industry - Unidentified	IDA												20.0						
Industry - Unidentified	IDA													20.0					
Industry - Unidentified	IDA														20.0				
Industry - Unidentified	IDA															20.0			
Industrial Imports I	IDA		90.0																
Industrial Imports II	IDA				100.0														
Industrial Imports III & IV	IDA					215.0													
Industrial Imports V	IDA							125.0											
Industrial Imports VI	IDA								75.0										
Industrial Imports VII	IDA										75.0								
Industrial Imports VIII	IDA											75.0							
Industrial Imports IX	IDA												75.0						
Industrial Imports X	IDA													100.0					
Industrial Imports XI	IDA														100.0				
Industrial Imports XII	IDA															100.0			
Family Planning	IDA										12.0								
Power	IBRD	25.0																	
Kothagudem Power I	IDA	20.0																	
Kothagudem Power II	IBRD			14.0															
Koyna I	IBRD	25.0																	
Koyna II	IDA	17.5																	
Trombay Power I & II	IBRD	26.0																	
Bokaro-Konar Power	IBRD	18.5																	
Durgapur Power Extension	IDA	18.5																	
Power Transmission I	IBRD			70.0															
Beas Equipment	IDA				23.0														
Power Transmission II	IDA									75.0									
Power Transmission III	IDA										60.0								
Power Unidentified I	IDA												15.0						
Power Unidentified II	IDA													60.0					
Power Unidentified III	IDA														60.0				
Power Unidentified IV	IDA															60.0			
Aviation	IBRD	5.6																	
Highways I	IDA	60.0																	
Highways II	IDA										30.0								
Ports I - III	IBRD	64.0																	
Ports IV	IDA	18.0																	
Shipping I	IDA										80.0								
Shipping II	IDA											80.0							
Railroads I - VI[b]	IBRD	379.0																	
Railroads VII	IDA	67.5																	
Railroads VIII	IDA			62.0															
Railroads IX	IDA				68.0														
Railways X	IDA								55.0										
Railways XI	IDA										55.0								
Transportation Projects Unidentified	IDA												45.0						
Transportation Projects Unidentified	IDA														55.0				
Water Supply - Bombay	IDA										30.0								
Water Supply - Unidentified I	IDA											15.0							
Water Supply - Unidentified II	IDA												15.0						
Tourism Unidentified	IDA													10.0					
Tourism Unidentified	IDA														10.0				
Unallocated	IDA													20.0		50.0			
	IBRD	876.1		134.0			25.0	40.5	40.0		55.0	25.0	50.0				159.0	160.5	75.0
	IDA	300.0	90.0	95.0	191.0	215.0		152.5	227.5	243.4	639.0	439.0	375.0	540.0	605.0	540.0	591.0	1701.4	2499.0
Total		1176.1	90.0	229.0	191.0	215.0	25.0	193.0	267.5	243.4	694.0	464.0	425.0	540.0	605.0	540.0	750.0	1861.9	2574.0
No.		44	1	5	3	2	1	3	6	6	21	15	14	17	17	15	12	51	78
Note: the IDA lending program is to be adjusted to											375.0	375.C	375.0	540.0	540.0	540.0		1373.4	2370.0
IBRD o/s inc. undisbursed		649.0	649.0	608.0	694.0	672.0	650.0	611.0	613.0	576.0	574.0	549.0	550.0	499.0	451.0	406.0			
exc. undisbursed		544.0	529.0	526.0	531.0	516.0	511.0	499.0	491.0	488.0	487.0	475.0	455.0	441.0	421.0	390.0			
IBRD - gross disbursements		692.0	35.0	34.0	47.0	33.0	26.0	26.0	31.0	37.0	51.0	38.0	29.0	35.0	28.0	15.0	175.0	183.0	145.0
- net disbursements		565.0	- 7.0	-11.0	1.0	-19.0	-11.0	-13.0	-10.0	- 4.0	- 1.0	-12.0	-20.0	-14.0	-20.0	-30.0	-47.0	-40.0	-96.0
- net transfer		425.0	-40.0	-43.0	-30.0	-50.0	-40.0	-40.0	-38.0	-32.0	-30.0	-41.0	-52.0	-45.0	-52.0	-61.0	-203.0	-181.0	-251.0
IBRD/IDA - gross disbursements[c]		741.0	120.0	188.0	211.0	243.0	213.0	166.0	57.0	122.0	214.0	283.0	319.0	392.0	426.0	466.0	975.0	862.0	1886.0
- net disbursements[c]		613.0	78.0	142.0	165.0	190.0	170.0	127.0	16.0	80.0	162.0	233.0	270.0	343.0	378.0	421.0	751.0	618.0	1645.0
- net transfer[c]		473.0	45.0	109.0	131.0	156.0	142.0	93.0	-20.0	44.0	135.0	190.0	226.0	298.0	329.0	370.0	583.0	442.0	1413.0

[a] Telecommunications III represents 27.5 million IBRD and 27.5 million IDA.

[b] Railroads II comprised four separate lending operations.

[c] Disbursement assumptions from 1972 onwards exclude program credits.

South Asia Department
Sept. 3, 1971

Population: 547 m.
Per cap. GNP: $98

INDIA - ACTUAL AND PROPOSED LENDING THROUGH FY 1977

		Thru 1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	Total 1964-68	Total 1969-73	Total 1973-77
Farm Improvement	IBRD	10.0																	
Tarai Seeds	IBRD							13.0											
Irrigation	IBRD	19.5																	
Irrigation - Tube Well	IDA	6.0																	
Irrigation - Shetrunji	IDA	4.5																	
Irrigation - Salandi	IDA	8.0																	
Punjab Flood Control	IDA	10.0																	
Irrigation - Sone	IDA	15.0																	
Irrigation - Purna	IDA	13.0																	
Irrigation - Kadana	IDA								35.0										
Irrigation - Pochampad	IDA										39.0								
Irrigation - Tawa	IDA										46.0								
Irrigation - Krishna	IDA											30.0							
Irrigation - Jayakwadi	IDA										20.0								
Irrigation - Pamba	IDA										15.0								
Irrigation - Kuttiyadi-Kerala	IDA											5.0							
Agricultural Credit - Gujarat	IDA								35.0										
Agricultural Credit - Punjab	IDA								27.5										
Agricultural Credit - Tamil Nadu	IDA									35.0									
Agricultural Credit - Andhra Pradesh	IDA									24.4									
Agricultural Credit - Maharashtra	IDA										30.0								
Agricultural Credit - Mysore	IDA										40.0								
Agricultural Credit - Haryana	IDA									25.0									
Agricultural Credit - Uttar Pradesh	IDA										25.0								
Agricultural Credit - Punjab II	IDA											30.0							
Agricultural Credit - Bihar	IDA											30.0							
Agricultural Credit - Madhya Pradesh	IDA											30.0							
Agricultural Aviation	IDA									6.0									
Grain Storage	IDA										5.0								
Bihar Wholesale Markets	IDA										8.0								
Apple Processing & Marketing	IDA											9.0							
Lake Chilka Fisheries	IDA											10.0							
Agriculture Unidentified	IDA											25.0							
Agriculture Unidentified (7 projects)	IDA												165.0						
Agriculture Unidentified (10 projects)	IDA													270.0					
Agriculture Unidentified (10 projects)	IDA														270.0				
Agriculture Unidentified (10 projects)	IDA															270.0			
Telecommunications I	IDA	42.0																	
Telecommunications II	IDA			33.0															
Telecommunications III a/	IDA/IBRD							55.0											
Telecommunications IV	IDA									78.0									
Telecommunications V	IDA											40.0							
Telecommunications VI	IDA												40.0						
Telecommunications VII	IDA													40.0					
Telecommunications VIII	IDA														40.0				
Telecommunications IX	IDA															40.0			
Education - Agric. Universities	IDA										20.0								
Education - Unidentified	IDA													20.0					
DFC - ICICI I - V	IBRD	90.0																	
DFC - ICICI VI	IBRD			50.0															
DFC - ICICI VII	IBRD						25.0												
DFC - ICICI VIII	IBRD								40.0										
DFC - ICICI IX	IBRD										55.0								
DFC - ICICI X	IBRD												50.0						
DFC - ICICI XI	IDA														50.0				
Indian Iron & Steel I & II	IBRD	51.5																	
Tata Iron & Steel I & II	IBRD	107.5																	
Coal Mining I & II	IBRD	54.5																	
Fertilizer - Cochin	IDA										20.0								
Fertilizer - Nangal	IDA										20.0								
Fertilizer - Debottlenecking - Gorakhpur	IDA										9.0								
Fertilizer - Tata	IBRD											25.0							
Iron Ore - Marcona	IDA											40.0							

Annex 2

Last Economic Mission

Date: February, 1971

INDIA INDICATORS OF DEVELOPMENT

	Unit	Annual Average 1952-61	1962-66	1967-70	1971-75
I. ECONOMIC & STRUCTURAL INDICATORS					
1. Gross Domestic Product 1/ (in constant prices)	% Change	2.7	2.0	4.3	5.5
2. Manufacturing Output 1/	% Change	1.5	4.8	2.8	
3. Agricultural Output 1/	% Change	2.7	1.0	5.6	
4. Imports of Goods and NFS 2/	% Change	1.5	5.1	- 5.2	- 5.8
5. Exports of Goods and NFS 2/	% Change	- .9	3.4	2.7	5.5
6. Domestic Price Level	% Change	.5	5.1	3.4	

	Unit	1951	1961	1966	1970	1975
7. Gross National Savings	% GDP	8.7	13.6	16.6	11.1	14.7
8. Resource Gap (- resource inflow)	% GDP	- .2	3.4	2.6	1.0	0.6
9. Net Factor Payments Abroad	% GDP	.2 (1951/52)	.3	.6	0.6	0.6
10. Gross Domestic Investment	% GDP	8.5	17.0	19.4	10.7	15.3
11. Debt Service	% Exports	-	12.8 (1961/62)	18.5	28.8	20.5
12. Central Government Current Revenue	% GDP	4.0	6.2	10.7	9.3	
13. Central Government Current Surplus (Deficit)	% GDP	.6	.4	1.4	0.4	
14. Public Expenditure on Social Services 3/	% GDP	.6	2.8	2.2	1.7	
15. Military Expenditure	% GDP	1.7	2.0	4.0	3.3	
16. Manufacture Output	Million tons of coal	16.2	14.9	17.5	16.8	
17. Energy Consumption	('000 tons of	58.6 (1953/54)	95.8	144.9	171.3	
18. Fertilizer Consumption	nutrients.)	77.8 (1948/49-1952/53)	417.8	784.0 (1968/69)		

II. SOCIAL INDICATORS	Unit		
19. Population Growth Rate	%	1961 - 71	2.25%
20. Urban Population Growth Rate	%	1951 - 1	3.5%
21. Birth Rate	Per 1,000 popln.	1961	35.1
22. Family Planning	Acceptors '000s.	1970 - 71	3,798
23. Income of: Highest quintile	% total income		n.a.
24. : Lowest quintile	% total income		n.a.
25. School enrollment: Primary & Secondary	% school-age popln. (5-14 years)	1961	59.9%
26. Literacy rate	% adult population	1961	27.8
27. Unemployment rate 4/	% Labor force		n.a.
28. Population per hospital bed	Number	1967	2,033

1/ The figures for agricultural and manufacturing output in GDP, and total gross domestic product for the year 1951-52 were calculated from the NDP figures for that year, on the basis of existing differences between GDP and NDP figures in 1960-61. For 1969-70 the method used was to increase the GDP figures at the same rate of increase registered for NDP for the period 1968-69/69-70. (Source: Central Statistical Organization - Estimates of National Income Press Note No. X 11028/1/71-NID9. May 25, 1971).

2/ Beside merchandise this includes non-monetary gold movement, travel, transportation, insurance, government contribution to international organizations, maintenance of foreign offices and other miscellaneous. For the period 1966-67/69-70 Exports & NFS show a smaller rate of increase than exports on account of a large fall in Government receipts not included elsewhere. (Monthly Bulletin Reserve Bank of India, April, 1971 - Table No. 41).

3/ Includes development and social services.

4/ The 22nd Round of the National Sample Survey of the C.S.O. estimated unemployment as percent of labor force in urban areas to be around 2 percent. However, following the Planning Commission's Expert Committee Report on unemployment it is officially accepted that India has no valid and acceptable data on unemployment.

South Asia Department
August 12, 1971

Annex 2

Last Economic Mission

Date: February, 1971

INDIA INDICATORS OF DEVELOPMENT

	Unit	Annual Average 1952-61		1962-66		1967-70		1971-75
I. ECONOMIC & STRUCTURAL INDICATORS								
1. Gross Domestic Product 1/ (in constant prices)	% Change	2.7		2.0		4.3		5.5
2. Manufacturing Output 1/	% Change	1.5		4.8		2.8		
3. Agricultural Output 1/	% Change	2.7		1.0		5.6		
4. Imports of Goods and NFS 2/	% Change	1.5		5.1		- 5.2		- 5.8
5. Exports of Goods and NFS 2/	% Change	- .9		3.4		2.7		5.5
6. Domestic Price Level	% Change	.5		5.1		3.4		
		1951		1961		1966	1970	1975
7. Gross National Savings	% GDP	8.7		13.6		16.6	11.1	14.7
8. Resource Gap (- resource inflow)	% GDP	- .2		3.4		2.0	1.0	0.6
9. Net Factor Payments Abroad	% GDP	.2	(1951/52)	.3		.6	0.6	0.6
10. Gross Domestic Investment	% GDP	8.5		17.0		19.4	10.7	15.3
11. Debt Service	% Exports	-		12.8	(1961/62)	18.5	28.8	20.5
12. Central Government Current Revenue	% GDP	4.0		6.2		10.7	9.3	
13. Central Government Current Surplus (Deficit)	% GDP	.6		.4		1.4	0.4	
14. Public Expenditure on Social Services 3/	% GDP	.6		2.8		2.2	1.7	
15. Military Expenditure	% GDP	1.7		2.0		4.0	3.3	
16. Manufacture Output	Million tons of coal	16.2		14.9		17.5	16.8	
17. Energy Consumption	('000 tons of	58.6	(1953/54)	95.8		144.9	171.3	
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II. SOCIAL INDICATORS

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South Asia Department
August 12, 1971

INDIA: CUMULATIVE ESTIMATED AND ACTUAL DISBURSEMENTS ON EXISTING LOANS AND CREDITS

($ millions)

Project & No.	Amount: - Original - Cancelled - Net	Date: - Approved - Signed - Effective	Closing Date	Forecast Date	FY'64	FY'65	FY'66	FY'67	FY'68	FY'69	FY'70	FY'71	FY'72 1	FY'72 2	FY'72 3	FY'72 4	FY'73	FY'74	FY'75
Third Iron &	19.5	12/21/61	Orig: 1/31/67	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Steel Project	-	12/22/61		9/30/70(first)	-	-	-	-	-	-	-	17.2	17.4	17.5	17.6	17.7	17.9	18.0*	-
IBRD 307	-	9/17/63	Rev: 6/30/74	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	1.4	2.8	5.9	10.0	12.3	13.3	15.3	16.5	-	-	-	-	-	-	-
Sixth ICICI	50.0	5/27/65	Orig: 6/30/70	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Project	.2	5/28/65		9/30/70(first)	-	-	-	-	-	-	-	36.5*	-	-	-	-	-	-	-
IBRD 414	49.8	8/20/65	Rev: 6/30/72	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	1.2	6.5	15.1	25.9	36.5	43.2	-	-	-	-	-	-	-
Beas Equipment	23.0	6/28/66	Orig: 12/31/72	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Project	-	6/29/66		9/30/70(first)	-	-	-	-	-	-	-	17.0	18.0	19.0	20.0	21.0	23.0	-	-
IDA 89	-	10/31/66	Rev: -	3/29/71	-	-	-	-	-	-	-	15.5	16.5	17.0	18.0	19.0	22.0	23.0	-
			Act: -	-	-	-	-	5.4	8.7	10.2	12.1	13.8	-	-	-	-	-	-	-
Seventh ICICI	25.0	9/12/67	Orig: 12/31/71	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Project	-	9/19/67		9/30/70(first)	-	-	-	-	-	-	-	16.5	19.5	22.5	25.0	-	-	-	-
IBRD 515	-	11/14/67	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	-	-	-	-	7.8	15.5	-	-	-	-	-	-	-
Tarai Seeds	13.0	6/10/69	Orig: 12/31/74	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Project	-	6/18/69		9/30/70(first)	-	-	-	-	-	-	-	4.0	4.0	4.4	4.9	5.0	6.9	8.4	9.0*
IBRD 614	-	9/12/69	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	-	-	-	-	-	2.1	-	-	-	-	-	-	-
Third Telecommunications	27.5	6/17/69	Orig: 12/31/72	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Project	-	6/18/69		9/30/70(first)	-	-	-	-	-	-	-	25.5	27.5	-	-	-	-	-	-
IDA 153 1/	-	7/14/69	Rev: -	3/30/71	-	-	-	-	-	-	-	23.6	27.5	-	-	-	-	-	-
			Act: -	-	-	-	-	-	-	-	9.2	19.6	-	-	-	-	-	-	-
Third Telecommunications	27.5	6/17/69	Orig: 12/31/72	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Project	-	6/18/69		9/30/70(first)	-	-	-	-	-	-	-	-	2.5	8.5	14.5	21.5	27.5	-	-
IBRD 615	-	7/14/69	Rev: -	3/30/71	-	-	-	-	-	-	-	-	4.4	11.0	20.1	24.7	27.5	-	-
			Act: -	-	-	-	-	-	-	-	-	.7	-	-	-	-	-	-	-
Tenth Railway	55.0	9/23/69	Orig: 6/30/71	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Project	-	9/24/69		9/30/70(first)	-	-	-	-	-	-	-	41.0	49.0	55.0	-	-	-	-	-
IDA 162	-	11/ 4/69	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	-	-	-	-	10.4	38.8	-	-	-	-	-	-	-
Kadana	35.0	2/ 3/70	Orig: 9/30/76	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Irrigation	-	2/ 9/70		9/30/70(first)	-	-	-	-	-	-	-	5.7	8.1	10.[illegible]	13.6	16.0	26.5	32.7	35.0
IDA 176	-	7/29/70	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	-	-	-	-	-	1.6	-	-	-	-	-	-	-
Sixth Industrial	75.0	4/21/70	Orig: 6/30/71	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Imports	-	4/24/70		9/30/70(first)	-	-	-	-	-	-	-	75.0	-	-	-	-	-	-	-
IDA 182	-	5/27/70	Rev: 12/31/71	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	-	-	-	-	.4	40.9	-	-	-	-	-	-	-
Gujarat Agricultural	35.0	5/ 5/70	Orig: 6/30/74	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Project	-	6/ 3/70		9/30/70(first)	-	-	-	-	-	-	-	3.0	5.0	7.0	9.0	12.0	24.0	35.0	-
IDA 191	-	9/14/70	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Eighth ICICI	40.0	6/ 2/70	Orig: 9/30/74	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Project	-	6/ 3/70		9/30/70(first)	-	-	-	-	-	-	-	6.0	8.0	11.0	14.0	17.0	27.0	37.0	40.0
IBRD 683	-	8/31/70	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	-	-	-	-	-	8.5	-	-	-	-	-	-	-
Punjab Agricultural	27.5	6/11/70	Orig: 12/31/72	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Project	-	6/24/70		9/30/70(first)	-	-	-	-	-	-	-	4.6	6.9	9.6	13.4	17.4	27.5	-	-
IDA 203	-	9/ 4/70	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Andhra Pradesh	24.4	12/15/70	Orig: 6/30/74	12/1/70	-	-	-	-	-	-	-	-	1.6	3.6	5.6	7.6	16.4	24.4	-
Agricul. Credit	-	1/ 8/71	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IDA 226	-	5/10/71	Act: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Agricultural	6.0	10/20/70	Orig: 12/31/74	10/7/70	-	-	-	-	-	-	-	-	-	.4	1.2	1.6	3.8	6.0	-
Aviation	-	1/28/71	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IDA 230	-	5/25/71	Act: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fourth Telecommunications	78.0	4/27/71	Orig: 12/31/74	3/30/71	-	-	-	-	-	-	-	-	.2	1.2	6.3	12.1	50.6	78.0	-
	-	5/ 3/71	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IDA 241	-	6/25/71	Act: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Second Power	75.0	4/27/71	Orig: 9/30/75	2/ 1/71	-	-	-	-	-	-	-	-	-	-	2.0	5.0	20.0	53.0	75.0
Transmission	-	5/ 3/71	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IDA 242	-	7/29/71	Act: -	-	-	-	-	-	-	-	-								
Haryana	25.0	6/ 1/71	Orig: 3/31/75	5/13/71	-	-	-	-	-	-	-	-	-	.8	1.6	2.4	7.7	17.0	24.3*
Agricul. Credit	-	6/11/71	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IDA 249	-	N.E.	Act: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tamil Nadu	35.0	6/ 1/71	Orig: 12/31/74	5/14/71	-	-	-	-	-	-	-	-	-	-	.5	1.7	14.3	29.1	35.0
Agricul. Credit	-	6/11/71	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IDA 250	-	N.E.	Act: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

* Balance indeterminate.

1/ Jointly with Loan 615 IN.

INDIA: CUMULATIVE ESTIMATED AND ACTUAL DISBURSEMENTS ON EXISTING LOANS AND CREDITS

($ millions)

Project & No.	Amount: - Original - Cancelled - Net	Date: - Approved - Signed - Effective	Closing Date	Forecast Date	FY'64	FY'65	FY'66	FY'67	FY'68	FY'69	FY'70	FY'71	FY'72 1	FY'72 2	FY'72 3	FY'72 4	FY'73	FY'74	FY'75
Third Iron &	19.5	12/21/61	Orig: 1/31/67	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Steel Project	-	12/22/61		9/30/70(first)	-	-	-	-	-	-	-	17.2	17.4	17.5	17.6	17.7	17.9	18.0*	-
IBRD 307	-	9/17/63	Rev: 6/30/74	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	1.4	2.8	5.9	10.0	12.3	13.3	15.3	16.5	-	-	-	-	-	-	-
Sixth ICICI	50.0	5/27/65	Orig: 6/30/70	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Project	.2	5/28/65		9/30/70(first)	-	-	-	-	-	-	-	36.5*	-	-	-	-	-	-	-
IBRD 414	49.8	8/20/65	Rev: 6/30/72	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	1.2	6.5	15.1	25.9	36.5	43.2	-	-	-	-	-	-	-
Beas Equipment	23.0	6/28/66	Orig: 12/31/72	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Project	-	6/29/66		9/30/70(first)	-	-	-	-	-	-	-	17.0	18.0	19.0	20.0	21.0	23.0	-	-
IDA 89	-	10/31/66	Rev: -	3/29/71	-	-	-	-	-	-	-	15.5	16.5	17.0	18.0	19.0	22.0	23.0	-
			Act: -	-	-	-	-	5.4	8.7	10.2	12.1	13.8	-	-	-	-	-	-	-
Seventh ICICI	25.0	9/12/67	Orig: 12/31/71	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Project	-	9/19/67		9/30/70(first)	-	-	-	-	-	-	-	16.5	19.5	22.5	25.0	-	-	-	-
IBRD 515	-	11/14/67	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	-	-	-	-	7.8	15.5	-	-	-	-	-	-	-
Tarai Seeds	13.0	6/10/69	Orig: 12/31/74	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Project	-	6/18/69		9/30/70(first)	-	-	-	-	-	-	-	4.0	4.0	4.4	4.9	5.0	6.9	8.4	9.0*
IBRD 614	-	9/12/69	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	-	-	-	-	-	2.1	-	-	-	-	-	-	-
Third Telecommuni-	27.5	6/17/69	Orig: 12/31/72	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
cations Project	-	6/18/69		9/30/70(first)	-	-	-	-	-	-	-	25.5	27.5	-	-	-	-	-	-
IDA 153 1/	-	7/14/69	Rev: -	3/30/71	-	-	-	-	-	-	-	23.6	27.5	-	-	-	-	-	-
			Act: -	-	-	-	-	-	-	-	9.2	19.6	-	-	-	-	-	-	-
Third Telecommuni-	27.5	6/17/69	Orig: 12/31/72	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
cations Project	-	6/18/69		9/30/70(first)	-	-	-	-	-	-	-	-	2.5	8.5	14.5	21.5	27.5	-	-
IBRD 615	-	7/14/69	Rev: -	3/30/71	-	-	-	-	-	-	-	-	4.4	11.0	20.1	24.7	27.5	-	-
			Act: -	-	-	-	-	-	-	-	-	.7	-	-	-	-	-	-	-
Tenth Railway	55.0	9/23/69	Orig: 6/30/71	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Project	-	9/24/69		9/30/70(first)	-	-	-	-	-	-	-	41.0	49.0	55.0	-	-	-	-	-
IDA 162	-	11/ 4/69	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	-	-	-	-	10.4	38.8	-	-	-	-	-	-	-
Kadana	35.0	2/ 3/70	Orig: 9/30/76	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Irrigation	-	2/ 9/70		9/30/70(first)	-	-	-	-	-	-	-	5.7	8.1	10.2	13.6	16.0	26.5	32.7	35.0
IDA 176	-	7/29/70	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	-	-	-	-	-	1.6	-	-	-	-	-	-	-
Sixth Industrial	75.0	4/21/70	Orig: 6/30/71	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Imports	-	4/24/70		9/30/70(first)	-	-	-	-	-	-	-	75.0	-	-	-	-	-	-	-
IDA 182	-	5/27/70	Rev: 12/31/71	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	-	-	-	-	.4	40.9	-	-	-	-	-	-	-
Gujarat Agricul-	35.0	5/ 5/70	Orig: 6/30/74	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
tural Project	-	6/ 3/70		9/30/70(first)	-	-	-	-	-	-	-	3.0	5.0	7.0	9.0	12.0	24.0	35.0	-
IDA 191	-	9/14/70	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Eighth ICICI	40.0	6/ 2/70	Orig: 9/30/74	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Project	-	6/ 3/70		9/30/70(first)	-	-	-	-	-	-	-	6.0	8.0	11.0	14.0	17.0	27.0	37.0	40.0
IBRD 683	-	8/31/70	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	-	-	-	-	-	8.5	-	-	-	-	-	-	-
Punjab Agricul-	27.5	6/11/70	Orig: 12/31/72	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
tural Project	-	6/24/70		9/30/70(first)	-	-	-	-	-	-	-	4.6	6.9	9.6	13.4	17.4	27.5	-	-
IDA 203	-	9/ 4/70	Rev: -	-				-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Andhra Pradesh	24.4	12/15/70	Orig: 6/30/74	12/1/70	-	-	-	-	-	-	-	-	1.6	3.6	5.6	7.6	16.4	24.4	-
Agricul. Credit	-	1/ 8/71	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IDA 226	-	5/10/71	Act: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Agricultural	6.0	10/20/70	Orig: 12/31/74	10/7/70	-	-	-	-	-	-	-	-	-	.4	1.2	1.6	3.8	6.0	-
Aviation	-	1/28/71	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IDA 230	-	5/25/71	Act: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fourth Telecom-	78.0	4/27/71	Orig: 12/31/74	3/30/71	-	-	-	-	-	-	-	-	.2	1.2	6.3	12.1	50.6	78.0	-
munications	-	5/ 3/71	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IDA 241	-	6/25/71	Act: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Second Power	75.0	4/27/71	Orig: 9/30/75	2/ 1/71	-	-	-	-	-	-	-	-	-	-	2.0	5.0	20.0	53.0	75.0
Transmission	-	5/ 3/71	Rev: -	-	-	-	-	-	-	-	-	-	-		-		-		-
IDA 242	-	7/29/71	Act: -	-	-	-	-	-	-	-	-								
Haryana	25.0	6/ 1/71	Orig: 3/31/75	5/13/71	-	-	-	-	-	-	-	-	-	.8	1.6	2.4	7.7	17.0	24.3*
Agricul. Credit	-	6/11/71	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IDA 249	-	N.E.	Act: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tamil Nadu	35.0	6/ 1/71	Orig: 12/31/74	5/14/71	-	-	-	-	-	-	-	-	-	-	.5	1.7	14.3	29.1	35.0
Agricul. Credit	-	6/11/71	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IDA 250	-	N.E.	Act: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

* Balance indeterminate.

1/ Jointly with Loan 615 IN.

Annex 4

INDIA: CUMULATIVE ESTIMATED AND ACTUAL DISBURSEMENTS ON EXISTING LOANS AND CREDITS

($ millions)

Project & No.	Amount: - Original - Cancelled - Net	Date: - Approved - Signed - Effective	Closing Date	Forecast Date	FY'64	FY'65	FY'66	FY'67	FY'68	FY'69	FY'70	FY'71	FY'72				FY'73	FY'74	FY'75
													1	2	3	4			
Third Iron &	19.5	12/21/61	Orig: 1/31/67	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Steel Project	-	12/22/61		9/30/70(first)	-	-	-	-	-	-	-	17.2	17.4	17.5	17.6	17.7	17.9	18.0*	-
IBRD 307	-	9/17/63	Rev: 6/30/74	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	1.4	2.8	5.9	10.0	12.3	13.3	15.3	16.5	-	-	-	-	-	-	-
Sixth ICICI	50.0	5/27/65	Orig: 6/30/70	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Project	.2	5/28/65		9/30/70(first)	-	-	-	-	-	-	-	36.5*	-	-	-	-	-	-	-
IBRD 414	49.8	8/20/65	Rev: 6/30/72	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	1.2	6.5	15.1	25.9	36.5	43.2	-	-	-	-	-	-	-
Beas Equipment	23.0	6/28/66	Orig: 12/31/72	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Project	-	6/29/66		9/30/70(first)	-	-	-	-	-	-	-	17.0	18.0	19.0	20.0	21.0	23.0	-	-
IDA 89	-	10/31/66	Rev: -	3/29/71	-	-	-	-	-	-	-	15.5	16.5	17.0	18.0	19.0	22.0	23.0	-
			Act: -	-	-	-	-	5.4	8.7	10.2	12.1	13.8	-	-	-	-	-	-	-
Seventh ICICI	25.0	9/12/67	Orig: 12/31/71	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Project	-	9/19/67		9/30/70(first)	-	-	-	-	-	-	-	16.5	19.5	22.5	25.0	-	-	-	-
IBRD 515	-	11/14/67	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	-	-	-	-	7.8	15.5	-	-	-	-	-	-	-
Tarai Seeds	13.0	6/10/69	Orig: 12/31/74	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Project	-	6/18/69		9/30/70(first)	-	-	-	-	-	-	-	4.0	4.0	4.4	4.9	5.0	6.9	8.4	9.0*
IBRD 614	-	9/12/69	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	-	-	-	-	-	2.1	-	-	-	-	-	-	-
Third Telecommuni-	27.5	6/17/69	Orig: 12/31/72	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
cations Project	-	6/18/69		9/30/70(first)	-	-	-	-	-	-	-	25.5	27.5	-	-	-	-	-	-
IDA 153 1/	-	7/14/69	Rev: -	3/30/71	-	-	-	-	-	-	-	23.6	27.5	-	-	-	-	-	-
			Act: -	-	-	-	-	-	-	-	9.2	19.6	-	-	-	-	-	-	-
Third Telecommuni-	27.5	6/17/69	Orig: 12/31/72	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
cations Project	-	6/18/69		9/30/70(first)	-	-	-	-	-	-	-	-	2.5	8.5	14.5	21.5	27.5	-	-
IBRD 615	-	7/14/69	Rev: -	3/30/71	-	-	-	-	-	-	-	-	4.4	11.0	20.1	24.7	27.5	-	-
			Act: -	-	-	-	-	-	-	-	-	.7	-	-	-	-	-	-	-
Tenth Railway	55.0	9/23/69	Orig: 6/30/71	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Project	-	9/24/69		9/30/70(first)	-	-	-	-	-	-	-	41.0	49.0	55.0	-	-	-	-	-
IDA 162	-	11/ 4/69	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	-	-	-	-	10.4	38.8	-	-	-	-	-	-	-
Kadana	35.0	2/ 3/70	Orig: 9/30/76	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Irrigation	-	2/ 9/70		9/30/70(first)	-	-	-	-	-	-	-	5.7	8.1	10.2	13.6	16.0	26.5	32.7	35.0
IDA 176	-	7/29/70	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	-	-	-	-	-	1.6	-	-	-	-	-	-	-
Sixth Industrial	75.0	4/21/70	Orig: 6/30/71	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Imports	-	4/24/70		9/30/70(first)	-	-	-	-	-	-	-	75.0	-	-	-	-	-	-	-
IDA 182	-	5/27/70	Rev: 12/31/71	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	-	-	-	-	.4	40.9	-	-	-	-	-	-	-
Gujarat Agricul-	35.0	5/ 5/70	Orig: 6/30/74	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
tural Project	-	6/ 3/70		9/30/70(first)	-	-	-	-	-	-	-	3.0	5.0	7.0	9.0	12.0	24.0	35.0	-
IDA 191	-	9/14/70	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Eighth ICICI	40.0	6/ 2/70	Orig: 9/30/74	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Project	-	6/ 3/70		9/30/70(first)	-	-	-	-	-	-	-	6.0	8.0	11.0	14.0	17.0	27.0	37.0	40.0
IBRD 683	-	8/31/70	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	-	-	-	-	-	8.5	-	-	-	-	-	-	-
Punjab Agricul-	27.5	6/11/70	Orig: 12/31/72	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
tural Project	-	6/24/70		9/30/70(first)	-	-	-	-	-	-	-	4.6	6.9	9.6	13.4	17.4	27.5	-	-
IDA 203	-	9/ 4/70	Rev: -					-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Andhra Pradesh	24.4	12/15/70	Orig: 6/30/74	12/1/70	-	-	-	-	-	-	-	-	1.6	3.6	5.6	7.6	16.4	24.4	-
Agricul. Credit	-	1/ 8/71	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IDA 226	-	5/10/71	Act: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Agricultural	6.0	10/20/70	Orig: 12/31/74	10/7/70	-	-	-	-	-	-	-	-	-	.4	1.2	1.6	3.8	6.0	-
Aviation	-	1/28/71	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IDA 230	-	5/25/71	Act: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fourth Telecom-	78.0	4/27/71	Orig: 12/31/74	3/30/71	-	-	-	-	-	-	-	-	.2	1.2	6.3	12.1	50.6	78.0	-
munications	-	5/ 3/71	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IDA 241	-	6/25/71	Act: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Second Power	75.0	4/27/71	Orig: 9/30/75	2/ 1/71	-	-	-	-	-	-	-	-	-	-	2.0	5.0	20.0	53.0	75.0
Transmission	-	5/ 3/71	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IDA 242	-	7/29/71	Act: -	-	-	-	-	-	-	-	-								
Haryana	25.0	6/ 1/71	Orig: 3/31/75	5/13/71	-	-	-	-	-	-	-	-	-	.8	1.6	2.4	7.7	17.0	24.3*
Agricul. Credit	-	6/11/71	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IDA 249	-	N.E.	Act: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tamil Nadu	35.0	6/ 1/71	Orig: 12/31/74	5/14/71	-	-	-	-	-	-	-	-	-	-	.5	1.7	14.3	29.1	35.0
Agricul. Credit	-	6/11/71	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IDA 250	-	N.E.	Act: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

* Balance indeterminate.

1/ Jointly with Loan 615 IN.

Annex 5

STUDIES AFFECTING INDIA ECONOMIC WORK PROGRAM BEING CONDUCTED BY OTHER DEPARTMENTS

	Dept.	Status
Agricultural Mechanization: Appraisal, Impact of IBRD Tractor Loans	ECDAR	OG
Agricultural Taxation; Employment and Fiscal Policy	EPDDF	C
Agriculture: Appraisal, Irrigation Loan	ECDAR	OG
Capital - Labor Substitution and Employment Implications	DRC	OG
Household Saving Study	EPDDF	OG
Income Distribution, Employment and Growth	DRC	P
Projection Model	EPDCA	OG
Study of Use of Single Lane Roads	ECDTP	OG
Urbanization: Optimal Size of Calcutta	ECDRB	C

C - Completed
OG - On-Going
P - Planned

INDIA: LONG-TERM PUBLIC DEBT PROJECTION[a/]

(Indian Fiscal Years Ending March 31; US $ Millions)

	FY67	FY68	FY69	FY70	FY71	FY72	FY73	FY74	FY75	FY76	FY77	FY78	FY79	FY80	FY81	FY82	FY83	FY84	FY85
National Income Accounts																			
GNP at Market Prices[b/]	36,265	43,000	43,632	47,498	53,387	56,628	59,742	63,028	66,495	70,152	74,045	78,192	82,610	87,319	92,339	97,695	103,411	109,512	116,028
Plus: Net Factor Payments	252	264	265	272	289	281	283	291	303	313	326	343	355	369	384	405	426	447	467
Equals: Gross Domestic Product	36,517	43,264	43,897	47,770	53,676	56,346	59,459	62,736	66,495	69,838	73,719	77,849	82,255	86,950	91,955	97,290	102,985	109,065	115,560
Consumption	30,241	36,322	36,830	39,601	44,497	46,944	49,282	51,741	54,260	56,878	59,873	63,077	66,540	70,167	74,033	78,113	82,458	87,076	92,005
Gross Investment	6,276	6,942	7,067	8,169	9,179	9,904	10,711	11,578	12,507	13,627	14,512	15,462	16,480	17,572	18,745	20,003	21,354	22,805	24,365
Gross Saving	5,229	5,893	6,442	7,644	8,820	9,402	10,176	10,995	11,931	12,960	13,845	14,772	15,714	16,782	17,922	19,177	20,526	21,989	23,555
Imports of Goods and NFS	2,681	2,908	2,514	2,413	2,550	2,720	2,889	3,074	3,208	3,450	3,608	3,794	4,048	4,258	4,486	4,692	4,907	5,124	5,358
Other Inflow (Net)	-129	-135	-239	-296	-179	-180	-180	-180	-180	-180	-180	-180	-180	-180	-180	-180	-180	-180	-180
Less: Exports of Goods and NFS	1,763	1,994	2,128	2,184	2,370	2,500	2,637	2,782	2,936	3,097	3,267	3,447	3,637	3,837	4,048	4,271	4,505	4,754	5,015
Equals: Resource Gap - Amount	1,047	1,049	625	525	359	400	431	471	452	533	520	527	591	601	618	601	582	550	523
- as % of GDP	2.9%	2.4%	1.4%	1.1%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.6%	0.6%	0.5%	0.5%
Finance of Resource Gap																			
Bilateral: US[c/]						284	281	296	302	318	324	330	337	343	350	356	362	370	377
Total: Bilateral[d/]	1,298	1,350	1,101	1,014	903	816	786	806	786	828	844	860	876	894	910	927	944	963	982
Multilateral: IBRD	34	30	26	28	37	42	35	26	24	44	46	46	47	48	49	50	51	52	53
IDA	180	215	77	113	85	242	318	359	381	391	399	407	415	422	431	439	447	455	464
Total: Gross Disbursement	1,512	1,595	1,204	1,155	1,025	1,100	1,140	1,191	1,191	1,265	1,289	1,314	1,339	1,363	1,389	1,416	1,444	1,471	1,498
Less: Amortization	213	281	314	357	377	418	425	429	435	418	442	444	393	393	387	410	436	474	508
Net Inflow	1,299	1,313	890	797	648	682	715	772	756	847	847	870	945	970	1,002	1,006	1,008	997	990
Less: Net Factor Payments	252	264	265	272	289	281	283	291	303	313	326	343	355	369	384	405	426	447	467
Equals: Resource Gap	1,047	1,049	625	525	359	400	431	471	452	533	520	527	591	601	618	601	582	550	523
Memorandum Items																			
Interest on Debt[e/]	152	162	185	192	203	195	197	204	215	224	236	251	262	276	291	311	329	349	369
Total Debt Service	365	443	499	549	580	614	622	633	650	642	628	695	655	669	678	721	765	823	877
Debt Service Ratio	20.7%	22.2%	23.4%	25.1%	24.5%	24.6%	23.6%	22.7%	22.2%	20.7%	20.7%	20.2%	18.0%	17.4%	16.7%	16.9%	17.0%	17.3%	17.5%
Average Interest Rate						2.5%	2.3%	2.2%	2.2%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.4%	2.4%
Total Debt Outstanding[f/]	4,374	4,988	5,645	6,340	6,934	8,099	8,830	9,613	10,394	11,270	12,157	13,068	14,064	15,095	16,165	17,257	18,362	19,468	20,580
IBRD Debt Outstanding[f/]	551	534	523	510	498	453	443	423	402	403	391	381	398	420	446	475	504	534	563
IDA Debt Outstanding[f/]	421	601	816	892	1,006	1,247	1,563	1,917	2,294	2,678	3,069	3,467	3,871	4,284	4,703	5,126	5,552	5,979	6,410
IBRD Debt Service	82	71	67	66	82	73	70	70	68	66	81	80	55	53	50	51	54	57	60
IBRD/IDA % Gross Inflow	14.2%	15.4%	8.6%	12.2%	11.9%	25.8%	31.0%	32.3%	34.0%	34.4%	34.5%	34.5%	34.5%	34.5%	34.5%	34.5%	34.5%	34.5%	34.5%
IBRD/IDA % Debt Service	23.3%	17.4%	14.6%	13.3%	15.5%	13.3%	13.3%	13.6%	13.4%	14.0%	16.2%	16.1%	13.9%	13.8%	13.9%	14.2%	14.9%	15.3%	15.7%

a/ FY 1971 is the base year for the projections.

b/ Revised series.

c/ Excludes Food Aid.

d/ Includes Food Aid. Food aid is assumed to gradually decline from 1972 to 1974. Disbursements thereafter are assumed to be zero.

e/ Up to 1971 interest on debt is as reported in the Economic Survey. Interest thereafter is calculated according to Economics Department projections.

f/ Excluding undisbursed.

Projection Basis (1971-85)

GDP Growth	:	5.5% per annum (1972-1976) growing gradually from 5.5% to 6.0% in 1985.
Exports	:	5.5% per annum
Investment	:	ICOR x annual change in GDP.
ICOR	:	Growing from 3.18% (1972) to 3.5 (1976) remaining constant at 3.5 thereafter.

Projection Implications

Savings	:	Investment - Resource Gap.
Imports	:	Exports + Resource Gap
Resource Gap*	:	Total disbursements + grants - amortization - interest + direct foreign investment + net transfers - net investment income.

* The model underlying these projections is designed to test the feasibility of a given rate of GDP growth subject to foreign exchange constraints. Thus the 'resource gap' should be interpreted as 'resource transfer'.

South Asia/P & B
September 7, 1971

Attachment

IBRD/IDA: PROPOSED PROGRAMS JULY 1970 AND SEPTEMBER 1971

		1972	1973	1974	1975	1976	1977	1972-76	1973-77
Op. Program July 1970	No.	12	14	13	12	10	-	61	-
Op. Program Sept. 1971	No.		15	14	17	17	15	-	78
Lending Prog. July 1970	$m.	345	375	320	360	320		1720	
Lending Prog. Sept. 1971	$m.		400	425	540	540	540		2445

Sector Composition of Operations Program

	1972-76			1973-77		
	Number	$ Amt.	$ %	Number	$ Amt.	$ %
Agriculture - irrigation	2	65	3.7	2	35	1.3
" - credit	3	75	4.3	3	90	3.5
" - agro-industries	1	10	0.6	2	19	0.7
" - unidentified & other	28	645	36.6	38	1000	38.8
" - Total	34	795	45.2	45	1144	44.4
Telecommunications	5	190	10.8	5	200	7.8
Education	2	40	2.3	1	20	.8
D.F.C.	2	80	4.5	2	100	3.9
Industry	2	40	2.3	7	165	6.4
Transport - shipping				1	80	3.1
" - unidentified & other	6	245	13.9	2	100	3.9
" - Total	6	245	13.9	3	180	7.0
Power	5	210	11.9	4	195	7.6
Water Supply	2	30	1.7	2	30	1.2
Tourism				2	20	.8
Industrial imports				5	450	17.5
Unallocated	3	120	6.8	2	70	2.8
Total	61	1750	100%	78	2574	100%

P & B
9/3/71

CONFIDENTIAL

INDIA COUNTRY PROGRAM PAPER

Postscript

A meeting was held in Mr. McNamara's office to review the Country Program Paper on September 8. The following is a summary of the conclusions reached at the meeting:

(1) Efforts should be made to identify and prepare a substantially enlarged program for agricultural lending. The Agriculture Projects Department in cooperation with the South Asia Department should work out a project preparation program, including pilot projects and special economic research aimed particularly at the small farmers, which would be fully responsive to India's needs. The allocation of additional staff to project preparation in India through hiring of additional personnel or transfer of staff at present assigned to work on other areas, would then have to be considered against the background of this "optimum" program in competition with the needs in other countries.

(2) The case for program lending would rest largely on India's long-term economic situation. While India's resource gap is very large her need for imports of finished capital equipment is relatively small. There was a consensus that any future program lending, if it can be justified at all, should form an integral part of the lending program rather than a "residual" designed to make up any shortfall in commitments to projects. Before presenting the $75 million credit proposed for FY 72, Mr. McNamara would wish to review very carefully the justification set out in a draft President's Report and Recommendation to the Executive Directors for program lending in India. It should give a full economic justification, taking into account the Bank Group's general policy on program lending as spelled out in the President's Memorandum of December 15, 1970, and discuss in particular the question of local cost financing versus program lending in the context of the IDA program in India.

(3) Additional IBRD lending should be restricted as shown in Annex I of the Country Program Paper. Although it was recognized that Bank loans were certainly preferrable to more costly commercial credits, India should, as a matter of equity, receive assistance on concessionary terms. Furthermore, the Bank, to maintain its good standing as a borrower in international capital markets, had to reduce its exposure in India as long as debt relief played an important part in the overall consortium program for aiding India. This question should be further considered following the completion within the Bank of the on-going studies on debt and aid and on "Capital Flows and the Role of the World Bank in the Seventies".

(4) It was most important for the Bank Group's program in India that a solution be found quickly to the procurement issue affecting projects with large civil works components. The Loan Committee would consider the issue as soon as the report of the Thalwitz mission was completed around mid-October.

(5) The proposal to give the Delhi Office greater operational emphasis was accepted.

(6) It was agreed that the refugee problem and its implications for India's development program and aid requirements should be considered at a subsequent meeting. A report on the refugee problem is being prepared by the Delhi Office.

South Asia Department
October 12, 1971

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INDIA

IFC Brief - January 1972

(Rs. 7.279 = US$1.00)

I. Membership

India became a member of IFC on July 20, 1956. Its subscription to IFC capital stock is $4,431,000 (4.14% of the total) and its number of votes is 4,681 (3.57% of total votes).

II. Investments

IFC has made thirteen commitments totaling $42.3 million in India, of which $33.5 million was in loan and $8.8 million in equity. IFC's present investment, net of participation sales, cancellations, and repayments, aggregates $26.8 million. Both in terms of amounts committed and in number of operations, India is IFC's fourth most active country. Two commitments have been cancelled and one fully repaid. A summary of IFC's currently outstanding investments is shown in Annex I.

No new commitments are likely to materialize in the near future.

III. Outstanding Issues

IFC has made only one investment during the last four years in a new project in India and that was about three years ago. Even the number of applications has dropped substantially. We believe there are several reasons for this development: first, the overall decline in private industrial investment, particularly in major new projects; secondly, the reluctance of foreign investors to invest in India has caused a lesser number of joint ventures to be started; and finally, the Government's reluctance to encourage private companies seeking funds to approach IFC.

This last matter was discussed with Finance Minister Chavan and Mr. I.G. Patel at the last two Annual Meetings. Following the 1970 meeting with Finance Minister Chavan, Mr. von Hoffmann visited India to review the opportunities for IFC operations. The expectation at that time was that IFC might be able to do new business in India. Since then none of the projects considered at that time have moved ahead.

As far as the Government's attitude is concerned, we feel that the Government, while welcoming IFC activity to India, feels that our interest rate is too high, and our insistence on equity makes our investments not only too expensive but also raises the thorny problem of foreign ownership in industry. Moreover, the Finance Ministry is looking at IFC investments solely as a source of foreign exchange for specific projects and will discourage any private enterprise from approaching IFC until all bilateral sources have been exhausted.

Resuming IFC operations in India will require a major effort on our side, not only with regard to the private sector but also in terms of our relationship with the Government and the Government financial institutions. We propose to continue our efforts, but it is unlikely that we shall be able to develop major operations in India in the foreseeable future unless the GOI will encourage private industry to seek financing from IFC.

Existing Investments Net of Cancellations and Closed out Investments
(US $x1,000 as of Dec. 31, 1971)

Company	FY	Total Commitments	Net Investment held by IFC Total	Net Investment held by IFC of which Equity	Comments
Assam Sillimanite Ltd.	1960	1,365	132	--	Refractory bricks manufacture. Company not successful, operations closed down. Guarantor bank repaying IFC loan.
Precision Bearings India, Ltd.	1963 1966	1,030	613	379	Ball and roller bearings. Initially US, now German (FAG) collaboration. Difficulties during startup, but now operating successfully and expanding.
Fort Gloster Industries, Ltd.	1964	1,211	552	349	Power transmission cables. Diversification by old jute company. Cable project marginal for technical and domestic overcapacity reasons.
Mahindra Ugine Steel Co. Ltd.	1964	3,297	2,370	830	Alloy and special steels. Collaboration with Ugine Kuhlmann, France. Slow start-up. Company now successful and planning large expansion.
Lakshmi Machine Works Ltd.	1964	1,312	796	314	Textile machinery. Collaboration with Rieter Co. of Switzerland. Company successful in India and has started exporting.
Jayshree Chemicals, Ltd.	1967	1,155	558	105	Caustic soda and chlorine. Initial losses due to poor management and difficult market. Now marginally profitable. Company planning diversification to improve profitability.
Indian Explosives Ltd.	1967	11,462	6,780	2,497	Urea fertilizers and industrial explosives. ICI subsidiary. IFC financing for urea project which started production by end 1967 and today produces at 80% of capacity. The company operates profitably, but urea division has labor and power reliability problems.
Zuari Agro Chemicals, Ltd.	1969 1970	18,911	14,961	3,711	Urea and complex fertilizers. Sponsored by US Steel and Birla Group. Turnkey plant contract with Toyo Engineering Corp, Japan. Completion delayed by two months and expected September 1972. Undisbursed IFC loan $5,902,500.

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POLITICAL DEVELOPMENTS

1. The single biggest factor in Indian Central Politics today is the personal dominance of Mrs. Indira Gandhi. By her remarkable and overwhelming election victory in March this year,[1/] Indian politics have been taken back to the early fifties when the figure of one national leader dominated it. It does not follow however that the other political parties have lost substantial ground in their respective strongholds, except perhaps for the Old Congress which had a total debacle; and is today virtually extinct. The local elections in Delhi, and some by-elections held subsequently show clearly that while the people voted for Mrs. Gandhi, keeping in view the national issues, the local issues and local parties continue to be significant in State Politics. The recent developments over Bangla Desh, however, have further strengthened Mrs. Gandhi's political position. The mood of the country is reflected in the declaration of Mr. Vajpayee, the Jan Sangh Chief, and a leading adversary of Mrs. Gandhi - "We now have one nation, one party and one leader".

2. The Bangla Desh situation - the burden of refugees and the war - have inevitably stood in Mrs. Gandhi's way in translating some of the many election promises her party had made; but some efforts have been made. In the domestic front an important program of rural works has been put into operation with a view to creating more employment in the rural areas. In Parliament three important amendments to the constitution have been debated and passed. They seek to confer on Parliament very wide powers for socio economic legislation, and take away the Supreme Court's writ jurisdiction even when such a law is in conflict with the fundamental right to property as guaranteed by the constitution. The wisdom of this amendment is questionable, for in the event of misuse of such powers by any government, a citizen will be deprived of the right to seek judicial redress. This will probably be a further deterrent to

1/ See attached table.

private foreign investment in India. By yet another amendment the privy purses and tax exemptions and other privileges of the ex princely rulers of India, have been abolished.

3. A crucial development on the external front was the signing of the Indo-Soviet Treaty of Friendship. India's total commitment to Bangla Desh, and America's support to Pakistan were factors which contributed towards India's feeling of insecurity. On the Russian side, America's overtures to China and the possibility of a U.S. - Sino axis in the subcontinent prompted the Soviet Union which was also beginning to feel diplomatically isolated, to revive talks on the possibilities of concluding such a treaty with India, which while not being a military pact would have security overtones. It is a debatable question as to whether this meant an obvious end to India's past policy of non-alignment. The following is an extract from Article IX of the treaty, which is the crucial operative part:

> "In the event of either Party being subjected to an attack or a threat thereof, the High Contracting Parties shall immediately enter into mutual consultations in order to remove such threat and to take appropriate effective measures to ensure peace and the security of their countries".

It is important to note that there is nothing in the text to indicate that the Russians pledged support for India militarily.

4. Of the 20 states in the country, seven - West Bengal, Gujarat, Punjab, Mysore, Bihar and Manipur and Tripura are under President's Rule. In most of these cases the coalition or non-Congress government collapsed shortly after Mrs. Gandhi's electoral success. In West Bengal, Mrs. Gandhi has given considerable priority to the need for increasing investment and improving its

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industrial climate. With this end in view, following the reimposition of President's Rule, a concerted attempt was made to restore law and order, curb the anarchical and subversive political forces, and to attract industrial capital so that the problem of unemployment could be alleviated. A sixteen point program has been announced. While investment has not increased substantially, there has been considerable improvement in the law and order situation, and in the climate for better industrial relations. Elections are likely to be avoided, for apart from the law and order problem, the presence of 7 million refugees create other difficulties. The era of terror that marked the last CPM* government, has taken its toll. The popularity of the CPM has slumped significantly, as a recent municipal election result in Burdwan (the stronghold of the CPM) clearly shows; while Bangla Congress - the breakaway group from the undivided Congress has merged with Mrs. Gandhi's party. With the revival of confidence in the law and order situation, and the possible evacuation of the refugees, there will be an accretion to Mrs. Gandhi's popularity.

5. Coming to politics in the states, except for the states which are under President's Rule and those which have already held mid-term elections,[1/] the remaining states are due to go to the quinquennial polls in February 1972. There is brisk political activity both within the ruling party or coalitions, and also among the various parties and groups. In the recent mid-term state elections held in Tamil Nadu, the DMK was returned with overwhelming majority, while in Orissa the Swatantra and the Utkal Congress formed a new coalition government. The Marxists have been ousted from the Kerala assembly, where Mrs. Gandhi's party is a member of a coalition led by the Communist Party of India (Pro-Moscow). In all other states the Congress Ruling has absolute control.

1/ West Bengal, Orissa, Tamil Nadu in 1971 and Kerala and U.P. in 1970.

* Communist Party of India Marxists.

Position of Selected Parties in Parliament

	1951	1957	1962	1967	1971
Congress Ruling	354	366	358	280	350
Congress (O)	-	-	-	-	16
Swatantra	-	-	18	42	8
Communist Party of India	26	29	29	23	23
Communist Party of India (Marxist)	-	-	-	19	25
Praja Socialist Party	20	18	12	13	2
Samyukta Socialist Party	-	-	-	23	3
Jan Sangh	3	4	14	36	22
(Independent and others 1/)	83	71	76	87	64
Total Seats in Lok Sabha	486	488	507	523	521

1/ Includes Muslim League, Akali Dal, Republican Party, Bharatiya Kranti Dal, and various other regional parties.

INFORMATION MEDIA IN INDIA

The Press

India has a lively, independent and sophisticated Press. But it is not exactly prosperous; the growth of circulation is restrained by cultural barriers caused partly by language differences. The English Press, with its appeal to the educated middle-class urban readership throughout the nation, has retained its dominance. Though there are more papers in Hindi, the total circulation of the English Press is the greater. The main Indian language dailies also appeal to the urban reader but by paying little attention to rural affairs they fail to cater for the increasingly literate provincial population who know no English. Most Indian papers have a relatively small circulation. Provincial papers frequently play upon religious or local sympathies to ensure their circulation.

The art of reporting and probing for news is improving, particularly among the leading newspapers. But many papers, particularly the smaller ones, depend for news on government handouts and on the small number of news agencies, which results in a lack of variety in news content. Provincial papers which cannot afford agencies depend particularly heavily on government handouts. All except the largest newspapers, which have their own correspondents, make use of agencies for foreign news.

The daily papers provide a relatively large proportion of domestic and international news particularly on politics; sports and finance receive good coverage. There is little sensationalism. Advertisements constitute on average 50% of the contents of the larger papers. In contrast to the dailies the periodical press offers more articles of human interest, more coverage of local affairs and among periodicals the English sector plays a less prominent role.

Economic journalism has mushroomed in India since 1961, when two economic dailies -- the Economic Times and the Financial Express -- suddenly sprang up as an act of competitive lunacy among their proprietors. The economic weeklies are older; the more influential ones today, in order of importance, are Economic and Political Weekly (Bombay), Commerce (Bombay), Eastern Economist (New Delhi), Capital (Calcutta) and Indian Finance (Calcutta).

Problems confronting the Press are the shortage of newsprint, allocation of which is controlled by the government, and, in the case of the smaller papers, the lack of an adequately trained staff and suitable equipment. Frequent government attempts to help the smaller papers have met with only partial success.

There are about 700 dailies and over 9,000 non-daily papers and periodicals. About 85% of the dailies have circulations of less than 5,000, and constitute 27% of the total circulation; 12% have circulations of 5,000-50,000 and constitute 42%; 3% have circulations of over 50,000 and constitute 31%.

There are 64 newspaper groups owning 272 newspapers with a total circulation of 7.6 million. The most powerful groups own most of the large English dailies and frequently have considerable private commercial and industrial holdings. Three of the major groups are as follows:

Times of India Group (controlled by the Jain family): includes the dailies, Times of India, the Economic Times, the Evening News of India (Bombay) and the Hindi Navbharat Times, weeklies including the Illustrated Weekly of India and the Hindi Dharmayug, the fortnightly Femina and Filmfare and the Hindi monthly Parag.

Indian Express Group (controlled by the Goenka family): the dailies, the Indian Express, the Financial Express, the Marathi Lokasatta, the Tamil Dinamani, the Telugu Andhra Prabha and the Kannada Kannada Prabha, and the English weeklies the Sunday Standard and Screen and the Telugu Andhra Prabha Illustrated Weekly.

Hindustan Times Group (controlled by the Birla family): several dailies including the Hindustan Times (Delhi), the Hindustan Times Evening News, the Hindustan Times Kanpur Supplement, the Leader (Allahabad), the Searchlight (Patna), the Hindi Hindustan (Delhi) and Bharat (Allahabad), and the weekly Overseas Hindustan Times, Eastern Economist, the Hindi Saptahik Hindustan (Allahabad) and Pradeep (Patna).

The widest circulating and most influential newspapers are the metropolitan dailies in English, closely followed by the principal Hindi and Bengali papers. A few papers are published simultaneously from several centers, notably the Indian Express in six cities, and the Times of India, the Statesman and the Navbharat Times at two each. But English papers published from a single center have frequently a very widespread readership and have a reasonable claim to constitute a national Press.

Among the notable papers are:

Newspaper	Published in	Circulation	Editor
English Dailies			
Indian Express	Delhi, Madurai, Madras Bangalore, Vijayawada Bombay, Ahmedabad	380,000	Frank Moraes
Times of India	Bombay, Ahmedabad Delhi	200,000	Sham Lal
Hindustan Times	Delhi	113,000	B. G. Verghese
Hindu	Madras	185,000	G. Kasturi
Statesman	Calcutta, Delhi	162,000	N. J. Nanporia

Newspaper	Published in	Circulation	Editor
Vernacular Dailies			
Navbharat Times (Hindi)	Bombay, Delhi	180,000	A. Jain
Hindustan (Hindi)	Delhi	84,000	R. L. Joshi
Thanti (Tamil)	Madras, Madurai, Tiruchirapalli, Coimbatore, Tirunelveli	260,000	R. S. Rathinam
Ananda Bazar Patrika (Bengali)	Calcutta	204,000	A. K. Sarkar
Malayala Manorama (Malayalam)	Kottayam	230,000	K. M. Cherian
Loksatta (Marathi)	Bombay	133,000	R. N. Late
Economic Press			
Economic Times (daily)	Bombay	17,000	D. K. Rangnekar
Financial Express (daily)	Bombay	11,000	V. K. Narasimhan
Economic and Political Weekly	Bombay	4,000	Krishna Raj
Commerce (weekly)	Bombay	5,000	V. Dagli
Eastern Economist (weekly)	New Delhi	2,500	V. Balasubramanian
Capital (weekly)	Calcutta	2,400	A. K. Ganguli
Indian Finance (weekly)	Calcutta	1,100	C. S. Rangaswami

Radio

All India Radio is controlled by the Ministry of Information and Broadcasting. A comprehensive development plan has been evolved and there are around 70 broadcasting stations in the whole of India. Broadcasting is particularly important due to the difficulty of reaching the vast masses of the people by any medium other than the spoken word. Since radio sets are costly and expensive to maintain, listening in a large number of villages is arranged by means of community sets installed for public use.

The AIR network is equipped with 130 transmitters (medium and shortwave) and covers all the important linguistic areas in the country. Programs are broadcast in 87 dialects including 29 tribal languages. The Home Service broadcasts in 18 principal languages.

The News Services Division, centralized in New Delhi, is allegedly among largest news organizations in the world. The Service transmits 200 daily news bulletins in 28 Indian and foreign languages. The External Services transmit almost 50 bulletins daily in 21 languages. There are over 10 million receiving sets.

Television

Akashvani Doordarshan (All India Radio-Television) has programs for about 25 hours weekly (15 hours general service, 10 hours school service). There are approximately 10,000 receiving sets. The television service is at present limited to Delhi.

CONFIDENTIAL

FOR EXECUTIVE DIRECTORS' MEETING

For consideration on November 30, 1971

R71-249

FROM: The President

November 9, 1971

INDIA: Major Economic Issues

Attached is a memorandum summarizing the main economic issues and prospects in India as presented in the last economic report, dated May 11, 1971 (SA-25a). This memorandum is intended to provide a guide for the Executive Directors' discussion scheduled for November 30, 1971.

In the past, issues related to economic performance and policies of specific countries have been discussed in the Board mainly at the time of the presentation of individual loans and credits. In order to provide a more appropriate scope for such discussions, several meetings have been scheduled for country discussions in the course of the current fiscal year. The selection of countries for discussion will be determined largely by the character and depth of the most recent economic reports, and preference will generally be given to those countries for which a review of a medium- or long-term plan has taken place.

In the attached memorandum attention is drawn to the possible consequences of the recent influx of refugees in India and the measures being taken by the Government and aid donors to respond to this new situation. The economic report was prepared before the magnitude of this issue was known.

Robert S. McNamara

Distribution:

Executive Directors and Alternates
President
President's Council
Executive Vice President, IFC
Vice President, IFC
Department Heads, Bank and IFC

INDIA - Notes for Board Discussion

1. India's current development was mapped out in the Fourth Five-Year Plan (April 1, 1969 - March 31, 1974). The Plan is fairly ambitious in terms of the resources required; but even if all its targets are fulfilled, only $10 will have been added to income per head over the five years. India's own fiscal efforts compare well with those of other developing countries. But the present level of net aid, which is essential to support those efforts, is a cause for concern. Imaginative new programs have been developed by the Government to promote both growth and social justice. The Bank's economic report on India[1/] has noted conflicts - some unavoidable, and some perhaps avoidable - between these goals as pursued through past and present policies. The present notes draw attention to certain features of the report, and do not attempt to summarize the report.

Refugees

2. With the election of a strong government at the Center in March 1971, and substantial recovery from the economic recession of the mid-1960's, India seemed poised for an era of renewed activity on the development front. Such were the conclusions of the economic report. Since it was written, these prospects have been clouded, at least temporarily, by the economic burden imposed on India by the refugees in West Bengal and elsewhere. The direct cost to the economy of supporting the refugees who are in camps is estimated to be at least $700 million in the current fiscal year (at a "minimal" expense of about Rs 2.20 per day per refugee). Towards this sum, the international community has pledged in excess of $200 million. Additional assistance is being offered, but it is still too early to say what portion of total refugee costs will be covered by the international community. As this is written, costs not covered by assistance from abroad represent about 12 percent of the year's Plan outlays and roughly two-thirds of the increase in total investment planned for this year. The refugee problem could well put an end to any hopes for real economic expansion in the current year, and thus render unrealistic some of the Fourth Plan targets for 1974. This conclusion would be softened to the extent that additional aid becomes available after the consortium meeting of October 26, 1971.

Social and Distributive Aspects of Development

3. The number of poor people subsisting on one rupee ($0.13) or less per day is probably at least 200 million, or more than a third of the population (paragraphs 2.11 to 2.12). It is virtually impossible to measure the extent of unemployment and underemployment in any meaningful way. However, the net annual addition to the labor force from population growth is about 4 million, and it is doubtful that opportunities for gainful employment are growing fast enough to absorb them (paragraphs 2.20 to 2.24 and 2.27). The family planning program has had some encouraging results (paragraphs 2.29 to 2.30), but still has a long way to go to make a substantial impact on the rate of growth of the population (paragraphs 2.31 to 2.32; 2.40 to 2.52).

1/ Economic Situation and Prospects of India, May 11, 1971 (SA-25a). Paragraph numbers cited in these notes refer throughout to this document.

Health conditions have improved (paragraphs 2.65 to 2.66), and India is one of the few developing countries with an official nutrition program (paragraphs 2.67 to 2.70); but nutritional defects are still responsible for a large share of high infant and child mortality. Since the launching of the Five-Year Plans, primary education has increased considerably, but 36 percent of children are still not enrolled in schools (paragraphs 2.74 to 2.75); higher education has grown much faster (paragraphs 2.76 to 2.83), creating its own difficult problems (paragraphs 2.84 to 2.89). During the 1950's and the 1960's, overall economic growth moved faster than population growth, though only by a small margin. It is, however, difficult to say what share of this growth the underprivileged received - let alone to judge whether or not they received a "fair" share (paragraphs 2.13 to 2.15). Of particular interest, despite its limited coverage, is the green revolution, which although successful in raising production may also be creating further problems of income distribution (paragraphs 3.1 to 3.9). The effects of farm mechanization, still in its early stages, are also attracting both debate and study (paragraphs 3.10 to 3.17).

Economic Growth

A. Government Policy

4. To encourage foodgrain production, the Government has developed an adequate system by which surplus producers receive a "fair" price without penalizing the consumer (paragraphs 4.15 to 4.21). By increasing credit availability to the farmers and by its own investment program, it sought, and is still seeking, to provide more inputs: tractors (paragraphs 4.48 to 4.53), improved seeds (paragraphs 4.54 to 4.65), irrigation facilities (paragraphs 4.66 to 4.76) and flood control (paragraphs 4.77 to 4.83). This policy has been successful in terms of growth: within twenty years, foodgrain production has doubled and India has become more or less self-sufficient. There is every reason to believe that this policy will continue to yield increased agricultural production.

5. To help the rural underprivileged four things have been done in the last year: the formulation of a new employment program (paragraphs 3.18 to 3.31); the launching of the Small Farmers' Development Agency (paragraphs 3.32 to 3.44); the entry into the agricultural field of the nationalized banks (paragraphs 3.72 to 3.76); and the appointment of the National Commission on Agriculture (paragraphs 3.79 to 3.81). The land reform issue remains vexing (paragraphs 3.45 to 3.60), especially in the light of the all-important problem of rural credit distribution (paragraphs 3.64 to 3.78). In these areas, the concern for social justice need not be inimical to growth; many studies have, indeed, pointed out that small farming in India is more intensive and has higher yields per acre than large farming.

6. In the industrial sector, industrial investment licensing has been the main tool in the past to achieve, among other things, some reduction in the concentration of economic power, the maintenance of regional balance and the protection of the interests of small-scale producers. But these direct controls proved not to be wholly effective in achieving these goals, partly because of the extent of bureaucratic work involved and the resultant delays.

At the same time, some argued in India that the licensing system had in fact favored India's large business houses (paragraphs 5.4 to 5.10). A new licensing policy was therefore enacted recently, which tried to compromise between the need for greater liberalization for the benefit of small and medium entrepreneurs and the need for regulation and control of large entrepreneurs. This policy, however, is rather complex and has been criticized as not permitting as full a play of market forces as might be desirable (paragraphs 5.11 to 5.17). Another piece of legislation added in mid-1970 is the Monopolies and Restrictive Practices Act (paragraphs 5.19 to 5.23).

7. Ever since the exchange crisis of 1956/57, India's basic import policy has been directed toward saving foreign exchange and encouraging domestic production - in many cases by banning imports of items manufactured in India (paragraphs 5.24 to 5.32). At the start, this import substitution policy stimulated demand. The combination of this and other policies has tended, however, to raise the cost structure of Indian industry. These costs work against the aim of increasing exports (paragraphs 9.28 to 9.30), though exports have in fact not done badly during the last two years, growing at about 8 percent annually, while exports of engineering goods have grown at three or four times that rate. A recurrent theme in this and other recent Bank economic reports on India is that the scope for further import substitution is limited, and future industrial growth should be export-oriented.

B. Resource Constraints

8. General economic policy is directly influenced by the level of domestic savings; and import policies are particularly sensitive to the flow of foreign aid. The level of domestic savings is still low, but increases in taxation improved the situation recently. However, farmers, even wealthier farmers, are, for political and constitutional reasons, not yet liable to pay by means of direct taxes a due share of their newly won prosperity. Another important problem lies in the budgets of some States which - owing to inadequate revenue collection and excess expenditures - continue to run unscheduled deficits (paragraphs 8.1 to 8.42).

9. Having to live within her means, India has cut imports sharply, and the trade deficit came down from $1.3 billion in 1966/67 to $300 million or less in 1970/71. Although this major reduction of the deficit reflects some growth in exports, it stems primarily from the decline in imports - reflecting in turn a greatly reduced need to import food; the effect of the import substitution program; and also, to a degree, the restriction of imports to the level imposed by foreign exchange shortages - a level which is not really sufficient for the country's development needs (paragraphs 9.1 to 9.15; 9.49 to 9.62).

10. At many points in the economic report, concern is expressed about the level of investment in the last two years. While growth in GNP has been at the rate of 5 to 5½ percent annually, much of this growth is due to the series of good agricultural years which followed the droughts of 1965/66 and 1966/67. Investment is only now beginning to approach the proportion of GNP (14 percent) which it represented before the drought period. A significant factor in the sluggishness of investment has been the decline in net aid,

which has been even larger than the rise in domestic savings. Gross aid, particularly food aid, has declined and debt service has risen. Levels of consumption in India are so low that it is difficult to maintain investment, when resources are deficient, by making cuts elsewhere. (Paragraphs 1.5 ff; 8.1 ff; 10.1 to 10.28.)

11. The report estimated that aid commitments of $1,250 million would be required in 1971/72 to meet the targets of the Fourth Plan.[1] Actual indications at the June 1971 consortium meeting were about $1,025 million (but there has been a considerable shortfall in actual commitments compared to such "indications" in recent years, and firm commitments reported to the Bank to date suggest such a shortfall may occur again this year). Disbursements for the year are estimated to come to $890 million (excluding food aid). Debt service to all sources in 1971/72 amounts to about $625 million, including some $100 million to the Eastern European countries. A large share of the rest is payments on earlier consortium aid loans contracted in the late 1950's and early 1960's on rather harder terms than prevail today. Thus, non-food net aid to India in 1971/72 is projected at about $265 million; to this can be added about $200 million of food aid. This compares with net aid of $600 million to $800 million a year in the fiscal years 1966-68, without food aid, or $1.1 to $1.3 billion including food aid (Table I).

Table I

DEVELOPMENT ASSISTANCE TO INDIA - ALL SOURCES

Gross and Net Aid Flows, 1965/66-1970/71 a/
(in U.S. $ millions)

	Gross Aid (Disbursements)	Of which: Food Aid and Non-Food PL480	Of which: Other Aid	Debt Service b/	Net Aid
1965/66	1,623	518	1,105	315	1,308
1966/67	1,494	573	921	365	1,129
1967/68	1,575	523	1,052	444	1,131
1968/69	1,211	295	916	500	711
1969/70	1,201	296	911	550	651
1970/71	1,005	169	836	600	405
1970/71 (Consortium members only)	925	165	760	465	460c/

a/ Indian fiscal years (April 1 to March 31).
b/ Amortization and interest.
c/ The figure for net aid from the consortium for 1970/71 (460) is larger than the net aid from all sources for the same year (405) because the net aid from non-consortium sources is negative in that year.

Source: Government of India

1/ Figures in this paragraph refer to development assistance, which is separate from assistance made available in response to the refugee situation.

12. It should be further noted that gross aid is usable only under a range of conditions attached by the creditors, while the bulk of debt service payments are in free foreign exchange. Debt service, and priority imports of goods for which aid is not available, preempt most of India's foreign exchange earnings; hence the importance to India of aid in freely usable forms. The economic report draws attention (paragraphs 10.37 to 10.40) to the need for such aid, particularly in the forms of non-project aid and finance to cover some of the local costs of projects.

13. A comparison of aid commitments to India with those to other large countries is given in Table II below. On the average aid to India was on softer terms than aid to the other countries shown here in the years illustrated; the comparison is therefore made both in terms of per capita commitments and per capita grant equivalent.

Table II

COMMITMENTS OF OFFICIAL DEVELOPMENT ASSISTANCE

Annual averages for the calendar years 1967-69
(All figures U.S. $ per capita)

Country	Commitments 1/	Grant Equivalent 1/	1968 GNP 2/
India	2.13	1.68	100
Thailand	3.20	2.18	150
Mexico	3.59	1.01	530
Pakistan	3.71	2.49	100
Indonesia	3.74	2.36	100
Brazil	4.32	2.55	250

1/ Source: OECD, DAC materials. The grant equivalent was calculated using a 10% discount rate.

2/ Source: IBRD World Atlas. It should be noted that the figure for India overstates GNP per capita; the figures are based on 1964 exchange rates, and at the rate of Rs 7.5 = $1.00 which has prevailed since 1966, India's GNP per capita was about $85 in 1968.

South Asia Department

October, 1971

PRICE, BUDGET AND CREDIT POLICY DEVELOPMENTS

Summary

Up until December prices were rising only moderately, despite budgetary and other pressures; during April - November 1971, wholesale prices on average were 3.8 percent higher than in the same period of 1970.

The initial budget of the Central Government for 1971/72 introduced in May had a deficit of about Rs 2.3 billion to be financed by money creation. This amount was not excessive, but expenditures have increased beyond expectation because of the refugees, natural calamities, deficits of State budgets, salary increases and probably further by larger than budgeted defense outlays. These pressures have been offset in part by very substantial additional revenue raising measures, tax revenues in excess of budget estimates and probably some continuing shortfall in Plan expenditure. No reliable estimate at the moment can be made of the budget outturn but the increase in money supply during the first eight months of 1971/72 resulting from financial transactions of the Center and the States was over Rs 8.5 billion against about Rs 2.5 billion in the same period of 1970/71. A tentative estimate is that deficit financing had increased to Rs 9 billion by December 31.

The Reserve Bank's policy for commercial bank credit to the private sector during the current "busy season" (November - April) is relatively liberal despite the public sector's large recourse to deficit financing. Since their nationalization in July 1969 the commercial banks have made a strong effort to step up credit to priority and neglected sectors (mainly agriculture, small-scale industry and exports).

The share of these sectors, consequently has doubled to about 30 percent of total commercial credit. Substantial results have also been achieved in branch expansion and additional deposit mobilization. Term loans are only 10 to 15 percent of credits by commercial banks. The long term credit needs of industry increasingly have been covered by the term lending institutions which together in 1970/71 have financed one quarter of private fixed investment by industrial corporations.

PRICES, BUDGET AND CREDIT

Price Developments

The last period of strongly rising prices occurred in 1966 and 1967 when because of lack of food supplies, the devaluation and other factors, wholesale prices rose by 12 and 15% respectively. In 1968/69 the monthly average of wholesale prices fell by 1% and in 1969/70 and 1970/71 there were rises of 3.7 and 5.5% respectively.

This year, fears have been expressed of a new spurt in prices, especially because of budgetary problems, discussed below. However, during the first eight months of the current fiscal year (April - November) the monthly average of wholesale prices has exceeded that of the corresponding period of 1970 by no more than 3.8%. Prices of food on the whole have risen little this year, but the monthly average for manufactures has gone up 8 - 9% compared with last year.

On the cost side, scarcity of some basic raw materials since 1970 has been a factor which has pushed up prices. It is difficult to measure the effect of wage raises on cost, but it appears that in some cases wage hikes in recent years have been exceeding increases in productivity; this also should have had some effect on prices of manufactures.

Budgetary Prospects for 1971/72

The budget of the Center for 1971/72, delayed until May 1971 because of the elections, included a heavy dose of additional taxation and the deficit of about Rs 2.3 billion to be financed by money creation was not excessive. Pressures on the budget, however, have increased because of the mounting cost of refugee relief, military and related expenditure, national calamities, deficits of State budgets and higher salaries. The pressures have been relieved in part by further tax and other revenue raising measures, windfalls from under estimates of tax revenue and probably continued shortfalls in Plan expenditure.

Appropriations for expenditure on refugee relief have totalled Rs 3.6 billion (US $ 480 million). Until recently the consensus was that the total budgetary provision for refugee relief was too low, being about Rs 1.6 billion (US $ 220 million equivalent) below our estimate of the refugee costs through March 1972. There might now be a substantial reduction of requirements if the bulk of the refugees return rapidly. No revised estimates are available at this moment. Similarly, no information is available on the overrun of military and related costs. National calamities (flood, drought and cyclone relief) are expected to require Rs 1.5 billion rather than the budget provision of Rs 0.5 billion, the States appear to be accumulating non-budgeted deficits of at least Rs 1.5 billion (which ultimately will have to be covered by the Center) and a recent round of salary adjustments will cost the Center Rs 155 million for the rest of 1971/72 and Rs 370 million over a full year.

The total additional current revenue effort of the Center this year has been impressive. Including recent measures related to the emergency, the total for 1971/72 comes to Rs 3.85 billion, over 11 percent of originally estimated tax revenue. Too low budgetary estimates of tax revenue are expected to produce another Rs 1.5 billion.

An exercise is underway to review Plan expenditures; the mid-term Plan review, published in December, is considered out-dated because of the War and its aftermath. This review will affect almost exclusively outlays in the two remaining years of the Plan. For 1971/72, some overall shortfall of expenditure in relation to targets appears likely, as in previous years. Some of the fundamental causes of underspending in the past (such as construction problems and lack of detailed project preparation) persist and in a few States Plan spending has been delayed (although on the whole only marginally) because of the refugee and emergency problems.

Altogether, despite the substantial revenue raising efforts, public finances remain under considerable pressure and more generally paucity of domestic financial resources will continue to be a major constraint in stepping up the development effort. The major indicator available on budget trends during the year is the Reserve Bank's calculation of the total impact of Government finance on the money supply. Through November this had already exceeded Rs 8.5 billion against about Rs 2.5 billion in the same period of 1970/71. Preliminary estimates are that it reached Rs 9 billion by the end of December.

Credit Developments

Credit extension by the commercial banks to the private sector fluctuates seasonally. During the "busy season" (November - April) when crops are harvested, credit expands, whereas in the "slack season" (May - October) there is a contraction. In recent years this credit cycle has become less pronounced because of the growing share of credit to the secondary and tertiary sectors, particularly to industries not based on agricultural raw materials.

In 1971 the changes in the commercial banks's liquidity position have been marked. At the height of the busy season in February, many banks got in a very tight liquidity situation, reflected in a rise of call money rates to 12 - 13%. This squeeze was in part the result of the policies of RBI. In 1970 it gradually raised the banks' obligatory investments in Government and similar bonds and in the light of an increasing upward pressure on prices in January 1971 it increased the bank rate from 5 to 6% and raised further the banks' liquidity requirements. Selective credit controls for individual commodities also were applied. By contrast, bank liquidity improved strongly towards the end of the 1971 slack season (in October 1971) with call money rates down to 4% and less. Contributing factors had been, in addition to the normal seasonal trends, a rapid rise in bank deposits and some slack in credit demand from large and medium scale industries related to their sluggish output performance.

Trends in credit to the private sector in the current busy season deserve special attention against the background of the public sector's large recourse to deficit financing caused by the budget constraints mentioned above. The central bank has to steer a middle course between extending private credit liberally, thus fuelling inflationary pressures, and applying strongly the credit brake which seems undesirable against the background of the recent slack in industrial output. The busy season policy announced by RBI in November provides for meeting all legitimate credit requirements of the private sector. It remains to be seen whether RBI will be able to continue this relatively liberal policy when the seasonal peak demand for private credit will be reached in the near future. In a situation such as India where the banking habit is spreading rapidly and deposits are increasing in relation to total money supply the reliance on liquidity ratios as the main control device over credit expansion may not be adequate under present circumstances.

In addition to these current trends, some basic changes in the commercial banks' policies since their nationalization in July 1969 deserve mentioning. First, a strong effort has been made to step up credit to the so-called priority and neglected sectors. The former includes lending, in part at concessionary rates, to agriculture, small-scale industry (particularly in backward areas) and exports, and the latter to road transport operators, retail trade, small business, professional and self-employed persons and students. This policy has resulted in a rise of the share of credit to these sectors in total bank advances to about 30% at present, about twice the share at the time of nationalization. Food procurement advances at the latest seasonal peak (in July) accounted for another 9%. It is too early to assess the effect of these changes on the repayment performance of borrowers, although for the new loans to agriculturists substantial arrears are known to be occurring.

A second line of policy pursued since nationalization is the strong push of branch expansion, especially in hitherto unbanked centers, and related to this the efforts at additional deposit mobilization. During July 1969 to June 1971 the number of new offices opened by the

State Bank of India, its subsidiaries and the 14 nationalized banks was 3,250, an increase of almost one-half. Additional deposit mobilization equally had achieved substantial results although much remains to be done in spreading further the banking habit. The rapid branch expansion has compounded the problems of management and administration of the nationalized banks and put pressure - as yet within acceptable limits - on profitability.

The commercial banks traditionally have been financing largely short term. Term loans have been encouraged since nationalization, but this has changed the picture only at the margin. Term loans to large and medium scale industries still are no more than about one-tenth of total credits to this sector; for the small-scale sector the percentage now is over 15. However, short term loans to industry in fact often are rolled over.

The long term credit needs of industry increasingly have been covered by the term lending institutions (IDBI, IFCI, ICICI, State Financial Corporations and State Industrial Development Corporations) which together in 1970/71 have financed an estimated 25% of total fixed private corporate industrial investment. The market for shares and debentures has remained narrow in recent years; securities preponderantly are held by institutional investors, including the Life Insurance Corporation (LIC), Unit Trust of India (UTI), provident funds and commercial banks. Although the profit situation of the corporate sector on the whole has improved, the stock market and new issue activity have been depressed in recent months because of the border tensions and some of the Government's policies aimed at curbing the role of the private sector. With the favorable outcome of the War the stock market has become more bullish.

Imports and Exports

One of the more striking developments over the past four years was the sharp reduction in the trade deficit. From over \$ 1 billion in the mid-sixties it dropped to less than \$ 200 million in 1970/71. Broadly, this improvement has been due about equally to lower imports and higher exports. This year, however, we expect a reversal of this trend with a widening of the gap once again to around \$ 500 million. Along with continued export expansion, there has been an even sharper step-up in import activity which partly reflects shortages resulting from under-importing of certain essential raw materials in 1970. Thus this year the priority given in the last two years to the build up of foreign exchange balances (together with maximum protection to domestic production at all stages) seems to have been reduced in favor of faster growth of India's near stagnant industrial production.

The big change in the import picture since the mid-sixties has been the decline of foodgrain imports. In 1966/67, 10 million tons of grain had to be imported at a value of nearly \$ 900 million to meet India's needs arising from successive monsoon failures. Five years later, with four good harvests in a row and the fruits of the Green Revolution to show, grain imports were down to 3 million tons and less than \$ 300 million. This year they will be lower again despite the extra consumption of the refugees.

Non-food imports in the latter half of the sixties were actually lower than in the first half, and between 1966/67 and 1970/71 they increased scarcely at all. Partly this was the consequence of India's basic import policy, which for many years has decreed that no item may be imported which is available domestically. As industrial capacity has expanded import demand has been suppressed; thus, consumer goods imports other than food are now negligible, while even capital goods imports in 1970/71 were only \$ 254 million, 11 per cent of the total. But the stagnancy in non-food imports was principally the result of falling aid availabilities on the one hand, accompanied by government efforts to strengthen the foreign exchange position on the other. Since all imports are subject to licence, it was not difficult to hold back import demand.

Much of the recent sluggishness of the industrial sector is attributable to inadequate import levels. Although the aid position did deteriorate, we believe that the government was excessively cautious in its licensing of imports, particularly in 1969/70 when non-food imports fell by 16 per cent and overall reserves would have reached comfortable levels (over 40% of non-food imports) even if imports had been considerably higher. In 1970/71 government belatedly responded to the raw material shortages in the economy by stepping up license issuance very substantially. Non-food imports in the first six months of the current year were nearly 30 per cent higher than last year, which was to a large extent the result of this more liberal licensing; part of it, however, is accounted for by supplies for the refugees and larger than usual military imports. 1/

We have commented in recent economic reports on the basic import policy, and have suggested that the present system of total prohibition of domestically produced items and administrative allocation of foreign exchange be progressively replaced by one where tariffs would play a prime role. (The banning of certain imports, particularly luxury consumer goods, might continue to be justified on foreign exchange grounds - though even this is questionable when domestic production of the particular items is permitted with high costs and high profit margins). The use of tariffs as a protective device in place of the absolute protection provided at present would introduce a much needed element of competitiveness into industry; by giving the purchaser a choice between foreign and domestic procurement the present numerous delays in project implementation would be reduced - items which are supposed to be available locally often are not; and perhaps as a by-product there would be a greater concern in industry and government for the economics of new undertakings. Further, there is reason to believe that the allocation of foreign exchange by the market mechanism would be a more efficient way of distributing this scarce resource than the present cumbersome licensing system.

Naturally, there are powerful interest groups in government and industry who would oppose any such move, and there is no early prospect for it. It would receive more support in government if there were greater assurance with regard to aid prospects, since dismantling the licensing system would certainly mean greater risks for the external reserves. There would be some practical difficulties in changing over to an effective tariff system, but these should not be

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1/ The GOI has not, of course, been willing to provide specific data on defence imports and since they mostly come from the Soviet Union they are imbedded in the "rupee bloc" accounts and probably largely are not recorded in the published import statistics. India's recorded trade surplus with the rupee bloc in 1970/71 was $ 180.5 million and negative aid flows $ 46.8 million. The difference (about $ 134 million) was probably used to pay for military equipment to the amount of at least $ 60 million. The remaining $ 74 million may have been used to settle India's negative position carried over from previous years although firm information on this point has not been obtained. The "rupee bloc" is a group of countries embracing most of Eastern Europe as well as the USSR with which India conducts her foreign trade and payments on a bilateral account basis without provision for the settlement of balances in convertible currency.

overwhelming. One would be deciding in the absence of an exchange rate adjustment that would more accurately equate the internal and external purchasing power of the rupee by how much tariffs would need to be raised so as to keep total imports within permissible bounds; another is that some administrative controls over imports would have to be retained as long as the restrictions on the use of most aid credits, which this year will still cover over one third of total imports, continue.

India's exports in the 1960's grew at $3\frac{1}{2}$ per cent per annum on average or about the same as the growth in her national income. This was only about half the rate achieved by all LDC's, yet it was still a welcome contrast to the total stagnation of the 1950's. In the earlier decade exports had been neglected by the planners, but starting with the Third Plan in 1961/62 they began to receive some priority. After expanding rapidly through 1964/65, there was then a decline caused by (i) the inadequacy of the special export incentives in the face of an increasingly over-valued currency, (ii) the poor harvests of 1965 and 1966 and (iii) when it came in June 1966, the immediate impact of devaluation: a large number of export products were actually worse off after it than before owing to the abolition of all earlier incentives while few were positively benefitted, and also there was a temporary disruption of trade with the Soviet bloc. It was not until 1968/69, after new incentives had been introduced, that exports exceeded their 1964/65 peak.

In the first two years of the Fourth Plan average export growth has been 6 per cent. This looks quite encouraging when seen against the Plan target of 7 per cent growth p.a., though it is a far cry from the approximately 15 per cent average growth achieved by all LDC's over the same period. 1/ Figures for the first seven months of the current year show a 7 per cent increase over the same period last year. Unfortunately, however, a good deal of this year's growth is accounted for by the sharp recovery of jute textiles owing to the disruption of supplies from East Bengal, which though still the largest export item had been languishing for several years previously.

1/ India's exports increased by 3.9 per cent in 1969/70 and 8.6 per cent in 1970/71 (in fact somewhat less because of changes in the method of statistical compilation); LDC's (excluding oil exporters) exports grew by 14.4 per cent in 1969 and 16.2 per cent in 1970. A mitigating factor in India's favor is the fact that the domestic value added content of her exports is relatively high (probably 85-90 per cent) and thus a lower rate of growth of exports means a greater improvement in the trade balance than would be the case for such economies as South Korea and Taiwan.

Taking account of the fact that jute textiles will almost certainly drop heavily when the East Bengal jute mills return to normal production and having reviewed the prospects of the other main export items, we consider it unlikely that the Plan target for 1973/74 can be met. Furthermore, we believe it will require a basic shift in policies that would open up the industrial sector of the economy if a 7 per cent growth trend, probably the minimum that India will need, is to be achieved in the 70's as a whole.

India has the not unusual problem of a large proportion of its exports - 50 per cent plus - facing stagnation or slow expansion at best, with the consequence that the remaining items have to grow extremely fast if targets are to be met. The government has made very considerable efforts in the past few years to encourage the latter, and there have been some successes to show. The outstanding one is that of engineering goods, exports of which rose by over $ 100 million over the past three years; some other manufactured items have also done well. The market potential for many industrial products looks excellent, yet exploiting it to the extent of a sustained 15 - 20 per cent growth at present appears doubtful.

Most manufactures receive export subsidies and there are various other forms of assistance including some access to imported components and raw materials which would otherwise be banned. Given the high cost structure of industry and the highly restrictive import policy, such measures are necessary and desirable. But they tend to be rather ad hoc resulting in a variety of effective export rates (starting from around Rs 10 to the dollar and on up), so that from the viewpoint of India's comparative advantage some items are getting too little help and others too much; and they involve a whole array of time-consuming procedures. An adequate devaluation would probably be better than the present arrangements. Nevertheless, export assistance can be made to work more efficiently, and the levels of assistance can be raised to offset the high profits of selling domestically as needs be. Basically, however, what is needed for the longer term is a more 'open' industrial economy, which is not concerned so wholly as at present with import substitution and instead looks more to exploiting areas of comparative advantage with a view to exporting; and for this to be achieved, and so that exporters may cease to be handicapped by inadequate or high cost raw materials, a less restrictive import policy is necessary too. For all the success of manufactured exports in the last two or three years, it is still very rare for firms to expand specifically in order to take up export opportunities; although there is a greater awareness of export opportunities, exporting continues to be seen primarily as a means of using up spare capacity or of obtaining favors from the government. Present export policies go some way towards neutralising the inimical impact on exports of other policies; but in terms of fostering a really thriving export sector they are no substitute for more fundamental changes.

Foreign Private Investment

India has an impressive record of freely allowing remittance of profits and dividends even during periods of serious strain on the balance of payments. There is however little to suggest that new foreign private investment is particularly welcome. In contrast to some countries in this region such as Indonesia, the Indian government does not extend to foreigners incentives, which are not also given to domestic investors. Furthermore there are considerable restrictions both on the amount and direction of investment. It is equally clear on the other hand that the foreign investors attitude to India is at best lukewarm. 1/ Apart from iron ore from which foreign investors are excluded, India has no great natural resources which might attract foreign capital, while in the field of manufacturing the major industries are reserved for the public sector. In sectors where private enterprise and foreign capital is allowed, the attractiveness of low cost labour and a large internal market are often seen to be out-weighed by the time consuming system of controls. It is not surprising therefore that in recent years there has been a downward trend in the inflow of foreign capital.

Outstanding foreign private investment has increased from $ 353 million in 1950/51 to $ 1577 million in 1968. 2/ From 1964/65 to 1967/68, the gross inflow averaged around $ 180 million annually. Judging from the size and number of new investment proposals which have been approved, it would appear that the inflow in the last three years has been even smaller still. Of total foreign investment the United Kingdom accounts for somewhat over half, and it is still one of the largest source of new funds. The U.S., Japan and Germany (in that order) are the next most important. Nearly half of the total outstanding is in manufacturing; petroleum accounts for 17 per cent. 3/

1/ The Abs Mission which came out from West Germany to examine the prospects of investing in India was fairly critical of India's prospects and policies.

2/ Complete information for the years after 1968 is not available.

3/ For more details see attached tables.

New foreign investment is permitted only in certain industries where there are considered to be technological or large production gaps. Expansion of existing foreign majority companies is also controlled, as these companies are subject to the same restrictions as the Larger Houses, irrespective of the size of the unit. As in the case of Larger Houses, these companies can enter the middle sector (involving investment of $ 1.4 million to $ 7 million) provided they are prepared to locate in a backward area or to undertake a commitment to export at least 60 per cent of the production of the new unit. When the industry in question is reserved for the small sector ($ 1.4 million or less) export commitment is as high as 75%. In addition to enforcing such commitments to export prior to granting approval for expansion, the GOI has substantially eliminated export restriction clauses on new or renewed collaboration agreements. 1/

Considerable importance is attached to reducing foreign equity holdings in existing foreign majority companies. As a condition for granting approval to schemes for expansion, which is designed to dilute the foreign holding, such companies are normally required to make a public equity issue in the Indian market irrespective of the need for funds. One serious consequence of this is that companies have difficulty in disposing of their internally generated funds for the purpose of new investment, and hence high dividends and capital repatriation are likely to become increasingly common.

1/ Between 1961-65, 41 per cent of the collaboration agreements had export restriction clauses.

Long Term Foreign Private Investment Inflow - by Type

($ million)

	1964/65		1965/66		1966/67 1/		1967/68	
	Gross Inflow	Net Inflow	Gross Inflow	Net Inflow	Gross Inflow	Net Inflow	Gross Inflow	Net Inflow
Direct Investment								
Branches	-	- 3.2	-	- 38.0	-	- 3.6	-	- 8.8
Foreign Controlled Rupee Companies 2/	93.0	92.6	32.3	31.9	29.5	28.5	32.3	31.1
Other Capital								
Equity	4.4	3.6	5.0	4.8	8.9	8.3	16.1	16.0
Securities	0.8	0.8	-	-	0.3	0.3	0.3	0.3
Loans	53.3	46.6	33.4	12.2	56.6	38.8	29.7	8.7
Suppliers Credit	64.9	30.7	65.7	29.8	108.7	74.1	97.6	51.7
Total Direct & other capital	216.4	171.1	136.4	40.7	204.0	146.4	176.0	98.9

1/ The rupee figures for 1966/67 were converted at the rate of $ 1 = Rs 7.5; since up till June 1966 the exchange rate was $ 1 = Rs 4.76, the dollar figures shown here for 1966/67 are somewhat understated.

2/ Invested earnings in the four years amounted to $ 42.8 million, $ 39.4 million, $ 19.9 million and $ 24.3 million respectively.

Source: Reserve Bank Monthly Bulletin March 1971.

Long Term Foreign Private Investment by Country of Origin and Purpose

Outstanding as of March 1968

($ million) 1/

	Plantations	Mining	Petroleum	Manufacturing	Services	All Sectors
U.K.	161.3	8.4	141.3	371.3	151.6	834.0
U.S.A.	0.1	-	93.3	116.3	53.9	263.5
Japan	-	-	2.8	60.4	45.9	109.1
West Germany	-	-	-	43.2	51.7	94.9
France	-	1.6	2.0	19.5	38.8	61.9
Italy	-	-	20.0	33.2	0.3	53.5
Switzerland	1.5	-	-	34.0	2.7	38.1
Other	0.4	1.1	2.4	97.2	20.7	121.7
All countries	163.3	11.0	261.8	775.1	365.5	1576.7

1/ Converted at the rate of $ 1 = Rs 7.5

Source: Reserve Bank Monthly Bulletin March 1971