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McNamara Papers

Contacts
India (1978)

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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files

DATE: May 3, 1978

FROM: Bilsel Alisbah, Chief, ASADB BA.

SUBJECT: INDIA - Finance Secretary's Meeting with Mr. McNamara

Dr. Manmohan Singh called on Mr. McNamara on Tuesday, May 2. He was accompanied by Messrs. Narasimham, Baijal and Saigal. Mr. Picciotto and I were also present.

At the beginning of the meeting, Dr. Singh indicated that the Government was looking forward to Mr. McNamara's proposed October visit.

Mr. McNamara inquired about the Secretary's assessment of India's present economic situation. The Secretary briefly sketched the current situation as very encouraging and favorable. He felt, historically, India had been plagued by serious bad luck on a number of occasions when the economy had started to move forward. India was starting the present plan period in a more favorable position than it had started any previous plan period. Given present levels of foodstocks and foreign exchange India would be able to insulate the economic effects of even two consecutive droughts. The fact that India had been able to create such an opportunity was particularly impressive in view of the fact that India's terms of trade had deteriorated by about 40% since 1973. There were important structural changes taking place in the economy. For example, in West Bengal wheat yields in some places were reaching Punjab and Haryana levels. The program of the new Government was aimed at providing minimum amenities for rural India. Investments in power and irrigation were also being stepped up significantly. India's savings effort compared favorably with that of most developing countries.

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Dr. Singh also explained that the adoption of a rolling plan would render planning more realistic. If resources were to prove higher than anticipated in the plan, it would now prove easier to step up investments. He called attention to the progress the Government had made towards project preparation which was also reflected in the Bank Group's lending program.

He did not, however, want to give the impression that there were no problems. Clearly, for example, the emphasis on rural development would strain India's capabilities.

Mr. McNamara, recalling that he had doubted Dr. Singh's favorable export forecasts in previous years, only happily to have been proven wrong, inquired about export prospects. Dr. Singh felt that to maintain the high rates of growth of recent years would be difficult. Firstly, the world situation was changing. Secondly, India's own accelerated development

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effort would reduce opportunities for exporting temporary surpluses which had appeared in previous years. Nevertheless, 7-8% per annum growth in real terms was a conservative and attainable export target.

Mr. McNamara inquired about the current state of the population program--a subject which he considered of paramount importance for India's future though he did not endorse the use of coercion. Dr. Singh indicated that particularly in the Northern States where coercion had been a factor during the emergency, the program had suffered a setback. Nevertheless, the new Government was fully and firmly committed to reducing birth rates through an effective family planning program, and while he did not want to sound too optimistic, he felt that the lost ground would be made up. The plan envisioned a reduction of the birth rate from 33 per thousand to 30. This objective had behind it specific targets for acceptors including sterilizations.

Mr. McNamara welcomed Dr. Singh's observations on the economy, exports and population. He fully endorsed the priorities of the Government and particularly the emphasis on rural development. If anything, he found himself in the unique and unusual position of wondering whether India was setting its sights high enough. Dr. Singh acknowledged that India's policy makers clearly had a psychological barrier to break after years of experience on the brink of financial viability. Nevertheless, very positive action was being taken. The new budget provided for a 12-15% increase in expenditures in real terms. There was also recent evidence of a pick-up of private sector activity. Term lending institutions were stepping up their lending significantly. Construction capacity around the country was greatly strained. Also, India had taken significant steps towards import liberalization. In most fields, quantitative restrictions had been removed and tariffs were being relied on. Further liberalization was also contemplated. Nevertheless, this was an area in which the Government had to proceed cautiously, since imports should not be seen as destroying domestic employment. If this were to happen, the hand of those against liberalization would be greatly strengthened and some of the ground already gained would be jeopardized. Dr. Singh also argued that the presence of high cost producers in India should not be seen as proof of an intrinsic industrial inefficiency. Often this was caused by the tax element built into costs. In a country like India where it is administratively easier to tax inputs than final products, the share of taxes in industrial costs could be as high as 40% or more.

Dr. Singh responded to Mr. McNamara's query as to how the Bank Group could better assist India, by highlighting India's needs for external assistance and expressing the Government's gratitude for the large and important contribution the Bank Group makes. He felt that the current level of foreign exchange reserves should not detract from India's needs. Mr. McNamara endorsed Dr. Singh's assessment of India's longer term external capital needs. No doubt, questions would be raised in view of India's favorable foreign exchange situation, but he would defend the case of India because

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he firmly believed that an accelerated development effort would require substantial external resources over the long term and because he appreciated the basic vulnerability of India's situation despite the current foreign exchange situation. While the need for continuing assistance was not in doubt, over the longer term as India continues its present progress it might become feasible for India to incur debt on somewhat harder terms.

Dr. Singh underlined the importance that the Government attaches to India's IDA share and he expressed the hope that this would not be affected for the next ten years. Mr. McNamara indicated that he had meant that if India is successful in mounting a development effort which requires additional external resources, India should consider, in the future, drawing on Bank resources beyond the presently agreed level of US$250-300 million per year. He also made clear that the level of Bank lending would continue to be assessed both in terms of India's needs and her creditworthiness which at present was considerably improved.

cc: Messrs. Hopper
Picciotto
Blobel (o/r)
Kraske
Koch-Weser

BAlisbah:ebc

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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 28, 1978

FROM: W. David Hopper, VP, South Asia WDH.

SUBJECT: INDIA - Visit of Finance Secretary

Dr. Manmohan Singh, the Secretary of Economic Affairs in the Ministry of Finance, will be calling on you at 9:00 am on Tuesday, May 2. You last met him during the 1977 Annual Meetings.

I understand this is primarily a courtesy call although Dr. Manmohan Singh will no doubt be interested in hearing your views on prospects for IDA.

You may wish to take this opportunity to impress upon him our growing concern over India's slowness in seizing the opportunity provided by growing foreign exchange resources and plentiful foodstocks. The magnitude of the opportunity is spelled out in our recently circulated Economic Report, with which Dr. Singh is familiar. Failure to utilize the opportunity for more rapid growth, firstly and most importantly, has disturbing implications for India's massive and poor population. It also has implications for the future of development aid as well as India's share of it. In making the points to Dr. Singh, you will be preaching to the converted since, within official circles, he is one of the most forceful proponents of a stronger development effort. Clearly, some significant steps have been taken in the right direction--most notably, further import liberalization measures and a substantial step-up in public expenditure. The recent Draft Five-Year Plan, 1978-83, anticipates an increase in real outlays of about 30% over the Fifth Plan. However, we feel still further import liberalization is warranted and the detailed programs for achieving some of the objectives of this Plan have yet to be fully worked out and it is important he hears directly from you the urgency with which we view the situation.

Dr. Singh may also inquire about the timing of your proposed visit to India. You may wish to indicate that, in addition to your next visit, you are looking forward to meeting the Indian Prime Minister during his forthcoming visit to Washington on June 13-14.

When he calls on you, Dr. Singh will be accompanied by Mr. Narasimham, Mr. Saigal (Joint Secretary, Department of Economic Affairs), and Mr. Baijal (Economic Minister, Embassy of India). Mr. Picciotto and Mr. Alisbah will join you for the meeting.

Cleared with & cc: Messrs. Picciotto, Blobel, Wall and Mrs. Hamilton

BAlisbah/WDHopper:ebc

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MEMORANDUM FOR THE RECORD

Meeting on India Dairy Project, May 12, 1978

Present: Messrs. McNamara, Kurien, Aneja, Stern, Slade

Mr. Kurien said that under the new dairy project a huge market of 200 million people would be tapped. Although there was no opposition to his approach at high-levels of government, he encountered resistance at the middle levels. However, there were no "big guys" in the milk subsector. His milk scheme created a structure for true development also by (i) blowing the caste system, (ii) introducing sanitation, and (iii) fostering women development, including birth control. The institutional structure was wrong in agriculture: marketing and processing should be owned by the farmers. The Government controlled too many of these subsectors. He was now reorganizing the vegetable, oil and cottonseed subsectors. He had started the training of people from other countries, e.g., Burma and Sri Lanka. The entire approach could be exported to a large number of countries.

Mr. McNamara enquired whether he was also dealing with grains. Mr. Kurien replied that he was trying but Government controls were strong. Mr. McNamara mentioned that Mexico was moving fast on rural development and could benefit from Mr. Kurien's approach. He said that the Ford Foundation Trustees would meet in India in October 1978 and would visit Mr. Kurien's scheme. He urged Mr. Kurien to emphasize to them the benefits of his approach in terms of (a) productivity increases, and (b) the mentioned supplementary benefits.

CKW
May 26, 1978

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OFFICE MEMORANDUM

TO: Memorandum for the Record DATE: June 23, 1978

FROM: W. David Hopper W.D.H.

SUBJECT: INDIA - Meeting with Prime Minister Desai - June 14, 1978

1. Mr. McNamara, accompanied by Mr. Hopper, called on the Prime Minister on June 14 at Blair House. The Indian Foreign Secretary, Mr. J.S. Mehta, and Mr. Narasimham, Executive Director, were also present.

2. After the initial courtesies, Mr. McNamara asked Mr. Desai for his assessment of the economic situation in India. Mr. Desai responded by referring to the achievement of price stability. He noted that the prices of major cereals were declining. The budget for this year and the Sixth Plan envisaged a step-up in investment outlays, but, the Prime Minister added, it was their intention to hold increased investment to a level that would not disturb price stability. He also referred to the priority being accorded the rural sector in the Plan, the aim was to increase agricultural production and generate employment. He made specific reference to the irrigation and power targets: the irrigation of 17 million hectares of additional area, and 18,500 mw of additional power generation.

3. Mr. McNamara said that he was "shocked" to learn that landless labor constituted nearly 25 to 30 percent of the farm population. The Prime Minister explained that this factor was taken into consideration in the Plan and, for this reason, emphasis was being given to off-farm activities such as cottage industries, rural services, dairy development, etc. The extension of electric power, construction of rural roads, provision of drinking water to villagers, as well as efforts to improve sanitary conditions in the villages, in combination with organic manuring, would help to regenerate Indian villages, improve living conditions and arrest migration to towns that resulted in the creation of urban slums. The object, therefore, was an all-round development of the rural sector.

4. Mr. Desai once again referred to the importance of irrigation and in this context mentioned the Garland Canal proposal of Mr. Dastur. He referred to the fact that the GOI had approached FAO to find out whether that Organization, or any other international organization, could provide some technical assistance for a study of these proposals. He wondered whether the FAO had, in turn, been in touch with the World Bank. Mr. McNamara indicated that the FAO had not approached the World Bank and that if and when it did, the Bank would give the matter serious consideration to determine how it might be of help. Mr. Desai also referred in passing to the river waters in the North East. In this connection he mentioned the Karnali Project in Nepal and the Brahmaputra Barrage. Mr. Desai also noted that India's relations with Nepal and Bangladesh had greatly improved recently and high level discussions were proceeding with both countries on the development of the waters they all share. He said there was enough

water for all their needs and it must be equitably developed. Mr. McNamara assured Mr. Desai of the Bank's continuing interest in the rivers development in these countries.

5. Mr. McNamara raised the question of export prospects. Mr. Desai stated that Indian exports had been growing and this growth was expected to continue. He emphasized the importance of ensuring quality of exports, so that Indian exports were increased on a sustained basis. He also referred to their concern with the spread of protectionism in the developed countries. Mr. McNamara agreed that protectionism was increasing in the developed countries and suggested that India should take the lead in calling to world attention the adverse effects of protectionism on the less developed countries. Mr. Desai indicated that while he appreciated the motivation in the developed countries for protectionism, he felt they too should understand the problems of developing countries.

6. Mr. McNamara asked whether Mr. Desai had any suggestions as to how the World Bank could improve its assistance to India, and developing countries in general. He said the Bank would always welcome the Prime Minister's view. At this point Mr. Narasimham referred to Mr. McNamara's proposals for an enlargement of the Bank's lending program and capital increase, indicating India's support for an enlarged role by the Bank.

7. The meeting concluded with Mr. Desai expressing his pleasure at Mr. McNamara's proposed visit to India and saying that he looked forward to seeing him there, a sentiment which Mr. McNamara reciprocated.

DWHopper:gb

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

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TO: Mr. Robert S. McNamara DATE: June 12, 1978

FROM: W. David Hopper, RVP, South Asia W.D.H.

SUBJECT: INDIA - Your Meeting with the Prime Minister

1. You are scheduled to meet Mr. Desai on June 14 at 4:00 p.m. in Blair House.

2. I understand Mr. Desai's brief for his meeting with you does not include any issues for him to raise. He is likely to express India's appreciation and support for the growing role of the Bank Group in development assistance. He has also been briefed that you are likely to touch on the subjects described below and he will be prepared to discuss them. It is worth noting that with advancing age Mr. Desai has become increasingly unpredictable. Therefore, the possibility of the whole discussion going off on a tangent cannot be ruled out.

3. The following are issues that you may wish to touch upon:

(i) The Economy. You will no doubt want to inquire how Mr. Desai views India's future economic prospects and whether he feels that the resources India has now available can be used for accelerated growth.

As you know, both the recent budget with its 12% increase in real terms in plan expenditures and the draft Sixth Plan which entails a real increase in public investments of 30% over the Fifth Plan, represent major steps in the right direction. The measures taken to liberalize imports and the continuing priority accorded exports are also very encouraging. No doubt all these are points that will be made by Mr. Desai in response to your question.

Nevertheless, the question remains of how much is enough. There are obvious political problems in exposing Indian industry to foreign competition at a speed which could result in dislocation. Inflation, which might accompany efforts to boost expenditures at faster rates than now envisaged, is also a much feared problem. It should, however, be possible for the Government to continue taking bold developmental initiatives and minimizing inflationary effects through careful management of food stocks and foreign exchange reserves.

The India Consortium Meeting, which has just been concluded in Paris with new bilateral aid pledges of US$1,133 million as compared with actual commitments of US$1,076 million last year, has demonstrated that donors continue to view India's long-term development needs sympathetically despite the present seeming abundance of resources. Nevertheless, the nature of comments made by most donors suggest that they are becoming increasingly uncomfortable about the paradox of massive poverty and large resources which are slow in being utilized for development.

(ii) Population. You may wish to inquire about Mr. Desai's views on the progress that India can make on the population front. This is likely to touch off a lengthy discourse on the disservice Mrs. Gandhi has done the country with her compulsory sterilization drive. There is little doubt that the program has suffered a setback and this is reflected in a four-year postponement of the Fifth Plan target of bringing down India's crude birth rate of 30/1000 by 1979. Mr. Desai is likely to reconfirm his commitment to a voluntary and effective family welfare program. It is true that Mr. Desai has been making all the right speeches on the subject. But the number of acceptors this year (3.3 million during April-November) is 66% below last year's level and 27% below pre-emergency attainments: even conventional contraceptive use is down by 21% from last year's levels. It is also true that once allowance is made for reduced sterilization targets and the consequent reduction in compensatory payments, the family planning program has been allocated increased financial resources both in the current budget and in the Draft Sixth Plan. One thing which is hard to reconcile with the continuing priority accorded to population policy is the current Minister. There is, however, increasing evidence that he has become a political liability to the Government and that he may be eased out.

(iii) Joint Rivers. We are recommending that there be no discussion of joint rivers. Nevertheless, it is possible that Mr. Desai may bring up the subject in the context of the Garland Canal Scheme (i.e. a proposed 1000 foot contour canal linking the Brahmaputra River and other waters descending from the Himalayas with south India). This is little more than an idea at this stage and we have indicated to GOI that much more planning and definitional work needs to be done before any assessments of this scheme can be made.

4. We have been advised by our Indian friends that, beyond expressing our readiness to assist India's development efforts, any discussions of future levels of Bank Group assistance (IDA & IBRD) would be better left for your discussions with the Finance Minister. I think this is sound advice. Conversely, we understand that the Prime Minister is unlikely to press the usual GOI concern for maintaining India's 40% IDA share.

cc: Messrs. Blobel
Picciotto
Alisbah

BAlisbah/GSlade:rrl

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OFFICE MEMORANDUM

TO: Memorandum for the Record DATE: September 27, 1978

FROM: Bilsel Alisbah, Chief, ASADB B.A.

SUBJECT: INDIA - Mr. McNamara's Meeting with the Indian Finance Minister

1. Mr. H.M. Patel, the Minister of Finance, called on Mr. McNamara today at 9:00 a.m. The Minister was accompanied by Dr. Manmohan Singh, Messrs. Narasimham, Honavar, Godbole and Venkataramanan. Messrs. Hopper, Koch-Weser and I were also present. In view of Mr. McNamara's forthcoming trip to India the meeting was brief and primarily confined to listing the topics that would be on Mr. McNamara's mind during the visit.

2. The Finance Minister mentioned the huge investment requirements for tapping the irrigation and hydro-electric power potential of the Narmada. He indicated that now that an award had been made for sharing the Narmada waters, the scheme could go ahead. The financial requirements were of the order of Rs 4-5,000 crores (US$4.7-5.8 billion). The irrigation potential was of the order of 1.5 million acres. Mr. McNamara expressed an interest in learning about the scheme.

3. Mr. McNamara indicated that during his visit he would be particularly interested in learning more about the Government's plans for utilizing for accelerated growth the opportunity provided by the current levels of foreign exchange and food reserves. He would also be interested in a subject perennially close to his heart, namely exports. On the latter he expressed some concern that after a period of high growth which had been beyond his own expectations, there was now some indication of a slow-down in export volume growth. Dr. Manmohan Singh confirmed that export volume growth had slowed down to about 4% in 1977/78 but that in the current year it was expected to rise to about 6%. He also drew attention to India's difficulties in marketing certain items which had been the source of dynamic export growth in recent years. In this connection, he specifically mentioned leather goods and garments. Mr. McNamara, while noting that even a 6% growth rate would be below the Government's longer-term target of 7-8%, requested a brief note on the two commodities mentioned, so as to enable him to understand India's situation better and also to assist him in his discussions with the importing countries. (Mr. Godbole has since indicated to me that these notes would be prepared and handed to Mr. McNamara during his visit).

4. Mr. McNamara expressed concern about Bank Group disbursements. A poor disbursement record would have implications for future commitment levels. The Minister responded that he recognized the importance of this subject and that he was taking a personal interest in it. Mr. Hopper pointed out that through the Minister's and Dr. Manmohan Singh's interventions, a few projects in which we were experiencing serious problems had been put back on track. Mr. McNamara expressed his appreciation for the Minister's

interest in Bank Group operations. Thanks to the Government's effort, an impressive project pipeline consistent with India's priorities had been developed. The example and the success of the India program was not only satisfactory in itself, but also a critical argument in favor of an expanded World Bank role in development assistance.

cc: Messrs. Hopper
Picciotto
Koch-Weser
Kraske
India Division
Dir.'sOffice, ASA

BAlisbah:ad

NOTES ON VISIT TO INDIA
October 1-12, 1978

1. Historic and cultural background:

   a. Hinduism sees the individual as being born into hierarchical groupings of family and caste; in this life one's station is largely determined by the merit (karma) earned through the satisfactory performance of the duty (dharma) attached to one's position in previous lives; the important issue in life is not equality nor a broad concern for one's fellowmen, but rather the performance of one's own dharma within the hierarchical system which affects all.

   b. Possibly as much as 80% of Indian society still moves largely in consonance with such traditional forces and concepts. The 450 million rural, largely traditional, sector of the population challenges any systems of modernization, be they liberal, Marxist, authoritarian or Gandhian. The weight of tradition provides a stability, bordering on the fatalistic, to the public affairs of the overall body politic. And therefore to wrench the lives of the mass of the society out of the traditional pattern will require great stimulation (either political agitation or exceptional economic incentives) and great persistence.

   c. One observes in India the existence of a large number of first-rate scientists, engineers, and economists; the growth of an internationally competitive industrial base; and advances in agriculture which, for example, are transforming the Punjab by a revolution in wheat cultivation. However, because of sheer size, poverty and inaccessibility (both physical and psychological) of the bulk of the rural population, the revolutionary changes needed to affect agricultural productivity, management of the environment and health and nutrition of the mass of the people have scarcely begun.

   d. Two great and contrasting social philosophies, one Gandhi's and the other Nehru's, have guided Indian developments in the 30 years since independence. Nehru wrote: "No country can be politically and economically independent unless it is highly industrialized." And he stated: "There is a fundamental difference between [my view and Gandhi's]. Gandhi is not enamoured of ever-increasing standards of living and the growth of luxury at the cost of spiritual and moral values. He looked back with yearning to the days of the . . . . self-contained village community where there was an automatic balance between production, distribution and consumption; where political and economic power was spread out and not concentrated as it is today; where a kind of simple democracy prevailed; and where the gulf between rich and poor was not so marked. . . "

   e. In spite of the substantial efforts that have been made in the countryside, the much-awaited rural transformation has not occurred: overall literacy during the independence period has risen, for example, from 16.7% to 29.5% but the absolute numbers of illiterates have grown from 300 million to 386 million and in many parts of the countryside illiteracy among the poor, particularly among women, is almost universal.

   f. With some exceptions, including in particular AMUL, cooperatives have failed to flower in the Indian countryside, in part because their successful function would require alterations as yet unachieveable in the psychological and power relationships of the Indian village.

g. Per capita foodgrain availability remains lower than it was in pre-independence India (198 kg. per capita in 1937-41 versus 183 in 1972-76). Little new arable land is available and therefore India must increase agricultural productivity on existing land. A large increase in the amount of land under cultivation and controlled water management is a major part of the answer to the problem. Productivity of much of the vast Gangetic Plain can be raised four- or five-fold. Current rice yields in Eastern India are about 1.5 tons per hectare compared to the best yields of 5 to 6 tons per hectare on farmers' fields in Java.(even higher yeilds are recorded in China and japan).

h. The most anguishing plight is that of rural labor with little or no access to land. Agricultural laborers and marginal farmers (less than one acre) and their families may total 275 million people. No one in India sees clearly any satisfactory and early resolution of the circumstances of their profound misery.

i. Throughout most of Indian history the central political question has been how to achieve and sustain national unity. Nehru wrote: "The diversity of India is tremendous; it is obvious, it lies on the surface and anybody can see it . . . It is fascinating to find how the Bengalese, the Marathas, the Gujeratis, the Tamils, the Andras, the Oriyas, the Assamese, the Canarese, the Malayalis, the Sindhis, the Punjabis, the Pathans, the Kashmiris, the Rajputs, and the great central block comprising the Hindustani-speaking people, have retained their peculiar characteristics for hundreds of years . . . ." The issue of national unity, subdued in the nationalistic euphoria following the 1971 defeat of Pakistan, again is paramount today because of the North-South split in Indian politics which was one of the unexpected results of the 1977 elections -- a split stimulated in part by the insistence of Hindi-speaking northerners that Hindi be accepted by the non-Hindi-speaking southerners as the national language.

j. Communalism, which is the term Indians use to describe cleaving to a religious community, remains a troublesome element in Indian public and social life today -- communal strife was occurring in Bihar during our visit.

k. The ruling Janata Party is a weak coalition extending across the political spectrum from left to right, held together primarily by its opposition to Mrs. Gandhi, struggling to become a Party. In the year and a half since the end of the Emergency, the mood of Indian society, or at least of the elitist sections of it, has shifted from one of exaltation to frustration as the new government has failed to move decisively along a broad front of development problems. There is said to be widespread and increasing disorder in the countryside and labor unrest in the cities.

l. With respect to rural development in India, a Pakistani scholar, Akhthar Hameed Khan has written: "We can say that there are today before us two outstanding models of rural development. On one side is the Indian model which can be fairly described as a shabby genteel rural capitalism -- disparate, anarchical and unstable, full of rewards and profits for the rich and strong, but also full of distress and despair for the weak and poor. On the other side is the Chinese model -- a rural socialism, drab, austere, and harsh, but extremely organized and disciplined like a human hive." The question before China is how to relax totalitarianism without back-sliding into inequality; the question before India is how to make rural society more equitable without a violent Marxist revolution and autocratic government.

m. The new Janata Government is committed to an attempt to carry out a major social transformation but its ability to do so is uncertain. In India the government is run by the bureaucracy which is basically elitist and conservative. In much of the country political power effectively is in the hands of land-owning farmers whose vision of a more prosperous agricultural sector disregards the desperate situation of the "have-nots".

2. India's Population Program Since the Emergency

a. For the first full year under the new government (April 1977 - March 1978) acceptor achievement was 4.5 million. This fell far short of the 12.5 million acceptors of the 1976-77 intensive drive.

b. In 1977-78 results were 60% below the levels needed to bring the birth rate down from 34 per thousand to the recently deferred target of 30 per thousand by the end of 1983. As a matter of fact, the recent level of acceptance is below the level required merely to keep the birth rate where it is.

c. There is no sign that the Government of India recognizes the ineffectiveness of the present strategy: the acceptor targets being discussed for the next four years are 12.5 million per year, which are quite unrealistic. It would be surprising if the present approach would yield even 40% of these targets.

d. As a result of good to excellent monsoons during the past three years, supported by a doubling of the rate of expansion of irrigated lands and a 30% increase in fertilizer consumption during the past year, as well as a strengthening of the agricultural extension system (to which we have contributed substantially), India has built foodgrain reserves equivalent to two years of public purchases, foreign exchange reserves equivalent to 8 months of imports, and has laid the foundation for the modification of macroeconomic policies which is needed as a basis for increasing economic growth and attacking absolute poverty. However, it is not yet clear that the Janata Party which, as I noted above, has never been more than a loose coalition of diverse factions, will sieze the opportunity to do so.

3. The Current Political Situation

a. Chandra Shekhar, President of the Janata Party, reportedly said to a member of our party that the political situation is falling apart (a fact apparently confirmed by Manmohan Singh). There are tribal conflicts, caste conflicts, power fights, opposition of young to old, and left to right. He predicted that the coalition will not hold and Desai will fall before next March. The economy will carry on slowly, but at a declining rate of advance. Reflecting the weakness in the political situation, Manmohan Singh proposes to cut the number of projects in the Bank's program by 35% (shifting to a different mix), because he cannot obtain policy decisions from the Central Government. Singh says: "Everything you hear is ideas -- only ideas -- there is no agreement on implementation."

b. The corruption of political and economic power is said to be evident everywhere. Kurien told the story of the truckload of tainted milk first turned down by the Delhi Dairy, but later returned to and accepted by the Dairy after a call and a presumed payoff from a private contractor. And a Permanent Secretary of the Ministries said that each Secretary is required to deliver 100,000 rupees each month to the Party. Perhaps this reflects no change from the past -- Nehru is reported to have told the following story:

> An Army commander in Kashmir complained to Nehru that the rum ration for his men was plundered between Jammu and Srinigar, with adverse effects on morale. Nehru asked how many honest men would be needed to assure delivery of the full ration. And when the commander replied "Seven", Nehru said: "If I had 70 I could run all of India."

d. Desai's friends (Kurien, presumably Finance Minister Patel and other Gujeratis) believe the Prime Minister has strengthened his positon by his performance in the Party Conference during the past week but say, however, he should resign not later than March 1979 to permit the preparation and strengthening of the Party for the March 1982 elections. They said that if he does not resign his power will deteriorate and they don't see how he can survive politically.

e. In the ten years since I have been visiting India as President of the Bank there has been a dramatic change in the attitude of the political leaders, at all levels, toward the problem of poverty. On the occasion of this latest visit, all were talking about the need to move to reduce it. And although most of the talk reflected ideas without any plan of action, one is beginning to see a few modest steps toward implementing the ideas: for example Maharashtra's guaranteed employment plan, Rajasthan's Antyodaya Plan (specific assistance for the five poorest families in each village), and Mafatal's rural development scheme providing for assistance by industry. All of these plans, and all of the others that are needed, will face the shocking rigidities of the social, political and economic structure, particularly that of caste, which Marg and I observed during our visit to Tilonia. To this day they prevent tens of millions of untouchables from using the same well which serves their fellow villagers.

RMcN

Many of the points referred to above were derived from Rocky Staples' notes prepared for the Trustees' visit to India. Upon re-reading the comments, I note that I omitted the statement of George Fernandes (the dynamic, charismatic, socialist Minister of Industry) that "India lacks a work culture."

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: The Files

DATE: October 23, 1978

FROM: Jochen Kraske

SUBJECT: Mr. McNamara's meeting with the representatives of the Financial Institutions in India

1. Mr. McNamara met with the representatives of financial institutions in India on October 12 at the Reserve Bank of India in Bombay. Present at the meeting were:

Dr. K.S. Krishnaswamy, Deputy Governor, RBI
Mr. P.R. Nangia, Deputy Governor, RBI
Mr. M. Ramakrishnayya, Deputy Governor, RBI and Chairman ARDC
Mr. V.B. Kadam, Economic Advisor, RBI
Mr. M.A. Chidambram, Managing Director, ARDC
Mr. W.S. Tambe, Executive Director, RBI
Mr. M.R. Shroff, Additional Secretary, Ministry of Finance
Dr. M.D. Godbole, Joint Secretary, Ministry of Finance
Mr. J.N. Saxena, Chairman, IDBI
Mr. James Raj, Chairman, ICICI
Mr. S.S. Mehta, Managing Director, ICICI
Mr. P.C.D. Nambiar, Chairman, State Bank of India
Mr. P.F. Gutta, Chairman, Indian Banks Association
Mr. M. Narasimham, Executive Director

Mr. McNamara was accompanied by Messrs. Hopper and Kraske.

2. Dr. Krishnaswamy welcomed Mr. McNamara to the Reserve Bank of India and invited him to raise whatever questions were of interest to him. Mr. McNamara said that he had four subjects which he would like to discuss at the meeting. First, why was the growth of industrial production and investment so disappointingly low in the face of a sustained high rate of growth of agricultural production during the last three years? Second, what were the reasons for the low growth of exports last year and in recent months? Third, what was the role of financial institutions in rural areas? Was the provision of financial resources adequate to the task of economic progress and transformation in the rural areas? And fourth, how could the World Bank be more effective in assisting India?

3. Dr. Krishnaswamy commented on the first question, the rate of industrial growth and private industrial investment. He claimed that to some extent agricultural prosperity had in fact been reflected in industrial growth; up to the end of 1977 there had been significant growth in agriculture-based industries. Other areas of the economy had admittedly suffered from a lack of demand. However, industries that had been stagnating in recent years were now beginning to pick up. A striking example was the construction industry; another example was the recent increase in the demand for industrial machinery, specially textile machinery, indicating that

production was approaching the limits of capacity in a number of areas. Dr. Krishnaswamy explained that it frequently took some time for record agricultural crops to result in increased industrial demand. Higher agricultural incomes would be used initially to pay off debts or to finance investments on the land before going into spending on durable consumer goods and other items of industrial production. Mr. James Raj added that the severe anti-inflationary policies initiated by the Government in 1974 had resulted in a rapid increase in bank deposits and had affected particularly the demand for high cost durable consumer goods. The effects of this policy were now wearing off and production was reaching the limits of capacity in many industries. The high level of disbursements by financial institutions like ICICI indicated increased investment demand, as did the order books of manufacturers in the textile machinery, sugar machinery and other capital producing goods industries. Mr. McNamara asked what the rate of growth of industrial production was likely to be this year, and the consensus of the meeting was that the growth rate would be at or above 7%.

4. Mr. Kadam commented on the development of exports. He explained that there had been a healthy growth of exports between 1974 and 1976. The value of exports had grown over this period at an annual rate of 26%. He admitted that export growth last year had been rather unsatisfactory. However, he felt that the experience last year was to a large extent a reflection of the fact that some of the rapid growth in earlier years had been the result of special factors, in particular the high sugar and tea prices in the world market. With the decline of these prices, India's exports had necessarily suffered. A further reason for last year's disappointing performance was the drop in the demand for iron ore in the world market, one of India's principal exports. Mr. Kadam was confident that India was doing all it could to sustain a reasonable rate of export growth. Exports of manufactured goods, in particular leather goods and engineering goods, had done well during the last few years and continued to do well. Problems of protectionism were affecting seriously the export of textiles. Mr. McNamara agreed that it was important for India to make a concerted effort in persuading developed countries to remove restrictions on imports from India. Mr. McNamara wondered whether export financing was a problem in the development of India's exports. He said he was prepared, in principle, to provide assistance in this area, although he did not see any need for such assistance at the present time. Dr. Krishnaswamy mentioned that the problem of export financing was less a problem of the availability of funds for this purpose but rather of the terms India was able to offer to its clients. It was obviously difficult for India to compete with Germany and Japan if these countries were offering long term financing at very concessional rates. However, this raised the question whether it would be appropriate for India to offer concessional terms of financing to OPEC countries in support of more rapid growth of exports.

5. Mr. McNamara then turned to the question of adequacy of financial resources required to meet the rural development and employment objectives of the draft five year plan. Dr. Krishnaswamy mentioned the considerable efforts of the government extending over the past ten years to make the Commercial Banks in India more active in the rural areas. He felt that these

efforts were today showing considerable results: each block in the entire country had at least one bank branch to serve its people. Nonetheless, Dr. Krishnaswamy felt that the efforts at broadening the bank network and penetrating the rural areas had to continue. While the availability of financial resources would obviously facilitate progress of rural development, Dr. Krishnaswamy thought that the major problems were not financial but institutional in nature and were centered around the issue of land ownership. 25% of total credit in the country was now for agriculture (12%) and small industry (13%). Dr. Krishnaswamy thought that this proportion should go up to 33% by the end of current five year plan. Ten years ago a mere 1.2% of the Commercial Bank's credit portfolio was in the form of agricultural investments.

6. Mr. McNamara asked whether agricultural lending was really profitable for the banks. He explained that he had no doubt that agricultural investments had a very high economic rate of return and should, hence, be financed, but this did not necessarily mean that Commercial Banks could cover the costs of these investments and had adequate incentive to expand lending in rural areas. Mr. Nambiar replied that the rates of interest ranged currently from 9.5 to 11%; concessional credit at the rate of 4% was available in exceptional cases which amounted to about 1.5% of the Commercial Bank's total portfolio. Mr. Nambiar thought that losses on account of agricultural loans amounted to about 3% on an average loan. The cost of agricultural lending was thought to be about 9.5%, made up by the cost of funds (6%), administration (1.5%) and bad debt provision (2%). Mr. McNamara asked how in these circumstances the flow of agricultural credit could be enhanced. Mr. Gutta emphasized the need for more systematic training of bank staff and building up entrepreneurial talent and ability in the country to better take advantage of available opportunities for investment in the rural areas. Mr. Ramakrishnayya mentioned the experience of the Regional Rural Banks which had been set up in a number of districts and proved to operate more cost-efficient than Commercial Banks mainly because they were able to pay their staff less, according to the scales applicable to local government. Mr. Ramakrishnayya thought it was important to strengthen primary agricultural credit societies which in the final analysis would be the only institutions capable of handling the difficult problem of collection.

7. Mr. McNamara asked how the Commercial Banks were organized to expand non-agricultural lending in the rural areas. In particular, he wondered whether the banks were organized to provide the equivalent of agricultural extension services to small entrepreneurs in rural areas. Dr. Krishnaswamy replied that so far Commercial Banks had no experience in this area. The proposed District Industry Centers where the first step in this direction, and, if successful, might become a focal point in rural industrial development. Mr. Tambe thought that the principal problem was marketing. As long as it was possible to set up a strong and effective marketing organization, the development of production units should more or less follow automatically. Mr. Tambe proposed to set up 15 to 20 organizations which might promote particular products manufactured by rural and small enterprises. The Khadi and Village Industry Organization in Tamil Nadu represented a successful example of what could be achieved through proper organization of village based production of handloom cloth and other products.

8. Mr. McNamara finally turned to the question of what the Bank could do to support the Government's strategy for development. Mr S.S. Mehta thought that the most appropriate and promising way for the World Bank to help in the industrial field would still be by financing relatively massive industrial projects which however could include the development of a network of ancillary industries. As examples, he mentioned the petrochemical industry, manufacture of commercial vehicles, manufacture of railway equipment, the aluminium industry and the power sector. Mr. Saxena raised several questions. He thought that IFC's interest rate was excessive because IFC was compelled to borrow from the World Bank and was not permitted to borrow in the market. Mr. McNamara explained that the World Bank had succeeded in raising funds in the United States at rates comparable to or more favorable than those charged to the U.S. Government. It would be impossible for IFC to raise funds at rates anywhere close to the favorable interest rate which the World Bank on the strength of its own creditworthiness was able to extend to IFC. Mr. Saxena asked that the Bank in proposing debt-equity ratios to DFC's should not be guided by rigid principles but rather by the circumstances of the individual financial institution. Mr. McNamara assured Mr. Saxena that the Bank was indeed flexible and attempted to work out guidelines for the benefit of its borrowers in accordance with the conditions relevant to the individual client institutions. Mr. Saxena also suggested that rather than through export financing the Bank might be able to support India's export effort through a regular flow of information on export markets and the prospects of individual commodities. Mr. McNamara said that it would not be possible for the Bank to provide this information on a general basis. However, he offered to provide information, if available, in response to specific requests relating to specific projects undertaken by development finance institutions.

c.c. Messrs McNamara

Hopper

Picciotto

India Division

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files

DATE: October 20, 1978

FROM: Jochen Kraske

SUBJECT: Mr McNamara's Meeting with the Chief Minister of Maharashtra - Mr Sharad G. Pawar

1. Mr. McNamara had a meeting with the Chief Minister of Maharashtra and other members and officials of the Government of Maharashtra on October 12, 1978, in Bombay. Among those present at the meeting were:

Mr. S.B. Chavan, Minister of Finance, Planning,and Energy
Mr. N.P. Advani, Minister for Urban Development
Mr. Bhausaheb S. Surve, Minister for Housing and Jails
Mr. Kisanrao Deshmukh, Minister of State for Revenue & Planning
Mr. Bhaurao Mulak, Minister of State for Urban Development
Mrs. Shanti Naik, Minister of State for Social Welfare & Housing
Mr. L.S. Lulla, Chief Secretary
Mr. G.H. Lalwani, Special Secretary to Government, Urban Development
Mr. S.S. Tinaikar, Secretary, Public Works and Housing
Mr. V. Venkatesan, Secretary, Planning
Mr. V. Prabhakar, Finance Secretary
Mr L.C. Gupta, Secretary, Agriculture and Cooperation
Mr. V.R. Deuskar, Secretary, Irrigation
Mr. N. Raghunathan, Secretary, Cooperation, Department of Agriculture and Cooperation
Dr. M.D. Godbole, Joint Secretary, Department of Economic Affairs, Ministry of Finance, Government of India
Mr. M. Narasimham, Executive Director

Mr. McNamara was accompanied by Messrs Hopper, William Clark, Koch-Weser and Kraske.

2. The Chief Minister welcomed Mr. McNamara and the opportunity of a discussion of Maharashtra's difficulties. The Finance Minister then described in general terms the problems of unemployment in Maharashtra and the Employment Guarantee Scheme (EGS) as a unique means of beginning to tackle these problems. He mentioned that between 300 - 400 families were arriving in Bombay every day in search of employment opportunities. The Government hoped that the effect of the EGS and of the Government's industrial location policy would help reduce this inflow and thus contribute also to the improvement of conditions in the Bombay Metropolitan Area.

3. The Finance Minister then proceeded to raise a number of points for the Bank to consider :

(a) He said that he understood the procurement policy of the Bank precluded reimbursement of expenditures incurred under the EGS. He wondered whether that could be changed.

(b) He wondered whether an additional four irrigation schemes could be included in the irrigation project, consisting of 6 schemes, now being prepared for Bank financing. This would bring about better regional balance of the project. The cost of the project would go up from Rs 800 crores at present to Rs 1200 crores.

(c) He referred to the acute power shortage in Maharashtra. Although the Government was proceeding with an ambitious investment program, there would still be a shortfall of 2000 MW at the end of the current five year Plan. He was wondering whether the Bank could take up the financing of the Chandrapur power project and of other schemes intended to limit the extent of power shortage.

(d) He pointed out that there were large areas in Maharashtra -- 11000-12000 villages -- without proper supply of drinking water. The Government was drawing up a program of Rs 300-350 crores for the construction of rural water supply schemes. He requested that the Bank provide assistance for these programs.

4. Mr. G.H. Lalwani gave a brief review of the urban problems faced by Maharashtra not only in Bombay but in a number of other urban centers as well. He described how through a series of multisectoral programs the Government tried to achieve some measure of decongestion while at the same time improving the amenities available to the lowest income groups. These programs included transportation projects (construction of bridges, roads and water transport) area development schemes and water supply schemes. He mentioned especially the new port to be constructed at Nava Sheva which should constitute a new growth center outside of Bombay and contribute greatly to relieving the pressure on Bombay's infrastructure caused by the traffic originating at or leading into the port.

5. The Secretary of Agriculture briefly commented on the proposed introduction of the Benor T & V system in agricultural extension. The introduction of the system would require a significant number of additional posts. However, it was his understanding that the Central Government would provide special assistance to fund the additional positions and there should, hence, not be any problems with the introduction of the system.

6. The Finance Secretary, Mr Prabhakar, commented on the Bank-supported DPAP program. He mentioned that the program in Ahmednagar and Sholapur was likely to run beyond the original 5 year period and was anxious that the Bank extend the implementation period to permit the completion of this project. He also mentioned that the prevailing level of interest rates was making it difficult to extend credit to those cultivators at the lower end of the income scale. He also mentioned that the provision for maintenance of the assets created under the program out of local revenues proved inadequate and that the State Government had to carry much of the financial burden of adequate maintenance.

7. Mr. Venkatesan, the Planning Secretary, explained the coverage of the EGS which had at present an annual budget of Rs 60 crores. Maharashtra's total labor force was 16.4 million of which 8.6 million represented the rural target group of the EGS. Mr. Venkatesan thought that the actual number of those dependent on the EGS would be between 1.5 and 2.0 million which with an average period of unemployment of 120 days per annum made for a maximum of 240 million man-days to be provided for. Current coverage was adequate for 150 million man-days. Mr. McNamara wondered in what way private beneficiaries of the works constructed through the EGS would pay for their benefits. Mr. Venkatesan replied that the full cost of any improvements would be recovered in irrigated areas; in dry areas recovery would be of all costs excepting overhead expenditures. In response to a further question by Mr. McNamara, Mr. Venkatesan said that land development works constituted 27-28% of the total EGS last year.

8. Mr. McNamara said he was grateful for the opportunity of meeting the Chief Minister and his colleagues. He explained that there had been mainly two reasons which had brought him to Maharashtra at this time: his special interest in the Government's EGS, and, of course, the fact that Maharashtra being one of the most important States in India was also a recipient of large amounts of Bank Group assistance. He thought the EGS - which he had also discussed with Mr. V.S. Page on the previous evening - was an innovative and promising approach to tackling the problems of un-and underemployment. It was for this reason that he was interested in the scheme, not because he thought the Bank might be needed to assist it financially, although he would be happy to extend any technical assistance that might be regarded as helpful.

9. Mr. McNamara then turned to the various questions raised at the meeting. He suggested that some of the points referring to specific project details be taken up by the Finance Minister with Mr. Kraske. He also emphasized that it was not for him or the Bank to decide which projects should be taken up in a particular State. The total amount of Bank Group assistance available to India, though large, was nevertheless limited. It was up to the Central Government to decide the relative priority of various projects in different States. He thought from his earlier discussions with the Chief Minister and from the discussion at this meeting that the development priorities of the Government were sound; in this sense he had no hesitation to assure the Government that the Bank would be ready to support its programs as far as possible.

10. Mr. McNamara made the following specific points:

(a) Irrigation development was of high priority and the Bank was ready to support the Government's investment program. A large irrigation project was about to be appraised. As far as the Bank's procurement policy was concerned, it was designed to provide the greatest benefit to the Bank's borrowers in the less developed countries by assuring procurement of goods and services at the lowest cost. If the Government felt that by breaking contracts up into smaller slices it would achieve more favorable results, he was all in favor of that, provided it could be done without adversely affecting efficiency.

(b) The Bank would be pleased to assist with the introduction of the Benor system.

(c) Investment in the power sector was undoubtedly of the highest priority. The Bank was well equipped to assist in the financing of power projects; indeed, the Bank was today the largest source of institutional funds for power development. However, Mr. McNamara thought that this ought to change, as it should be possible to find funds for power projects from other sources.

(d) Improved drinking water supply was essential and he would be pleased if the Bank could continue to be of assistance in this field both in the urban and rural areas of Maharashtra.

(e) Mr. McNamara said that he had been very impressed by his visit the previous day to a number of housing schemes. He was impressed by the efforts of the Government in this field although he did have some doubts about the economics of space utilization in the transit camp he had visited. It was important to concentrate assistance on those who were making an effort to help themselves and to charge people for the benefits being received in line with their ability to pay. Considering that the Government was doing what could be done in the field of housing, he did not think that Bank assistance was required in this field.

(f) Referring to the points related to the DPAP project, Mr. McNamara said that it was not the intention of the Bank to impose a particular time frame for the implementation of Bank-assisted projects. It was important to consider and agree on a realistic schedule for implementation at the time of negotiations and to make every effort to stick to the agreed schedule. Mr. McNamara emphasized that it was essential in all projects and programs to make adequate provisinn for the maintenance of the productive works created.

(g) Referring to the proposed fertilizer project to be set up in the Bombay area and the problems encountered with the selection of an appropriate site, Mr. McNamara said that the Bank would be willing to provide financing for this project provided the State Government and the Central Government were in complete agreement on the proposed location of the project. The Bank's appraisal of the project would include, as usual, a detailed examination of the environmental impact of the proposed project.

JK:mh/pg

c.c. Messrs McNamara
Hopper
Picciotto
India Division

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files DATE: October 20, 1978

FROM: Oktay Yenal OY.

SUBJECT: Mr. McNamara's Meeting with Indian Industrialists at FICCI (Federation of Indian Chambers of Commerce and Industry)

1. Mr. McNamara had a meeting with the Indian Industrialists at FICCI (Federation of Indian Chambers of Commerce and Industry) on October 9, 1978. Present at the meeting were Mr. Pravin Chandra Gandhi, President, FICCI and eighteen industrialists (list attached). Mr. McNamara was accompanied by Messrs Hopper, Clark, Kraske, Koch-Weser and Yenal.

2. Mr. Gandhi, President of the Federation made an introductory statement in which he welcomed Mr. McNamara, described the current economic situation, and highlighted the important issues facing the economy. According to him, after a mini-recession last year, industrial production in the last 10 months had shown a revival. There were, however, certain weaknesses which persisted such as the power and coal shortages. Although investment activity had picked up, corporate investments were still constrained by the high cost of capital. Another discouraging feature of the economic situation was the slow growth of exports and the widening trade deficit. The slow growth of exports was partly due to deliberate restrictions by the Government on some exports, but exports had also been affected by the protectionist policies of the developed countries. He ended his statement with two suggestions for consideration by the World Bank. One concerned the creation of a facility for refinancing export credits extended by developing countries; the other related to improving the opportunities of the developing countries in the international tendering for Bank financed projects.

3. Mr. McNamara thanked the President and the members of FICCI. He said that the Bank's major interest was to support the development of the Indian economy. He would like to hear the views of the industrialists, especially on the prospects of industrial growth and of export expansion. He would have expected industrial production to move parallel with agricultural production. But this had not happened in recent years and he was unable to see why industrial growth had been so slow.

4. Mr. Birla said that since the oil crisis there had been stagnation in the industrial activity all around. The burden of taxation had increased and the net demand from the agricultural sector was not high. Demand had been weak even for textiles. During the last 12 months, however, the economic activity had improved a little. Gradually the economy was entering a phase of shortages. Mr. Parekh said that the major industries had been in pretty bad shape for some time. Fortunately, confidence was slowly returning and the investment climate had improved. Housing construction which had been depressed for years had also picked up. Other speakers mentioned power shortages, inflation, and restrictive government policies among the causes

of slow industrial growth in the past. They all agreed that industrial production had improved this year. For example, bicycle sales had jumped from 2 million to 3.5 million per year. Mr. McNamara asked whether they were optimistic about the demand and investment prospects. The industrialists said the picture was mixed. The stock market was buoyant, but this was mostly due to the devolution of equities by the companies under the foreign investment regulations. Various kinds of restrictions were still constraining industrial investments.

5. Mr. McNamara invited views about the export prospects. Mr. Birla said that unless the Indian economy grew in a big way, it would not have the surplus to export. But this could not happen so long as the restrictions on industrial expansion remained. Other speakers supported Mr. Birla giving examples and stressing, among other restrictions, the negative consequence of export obligations. On the other hand Mr. Madi was more optimistic. He though matters like taxation were small details. According to him, the future prospects of the Indian industry and even exports were bright.

6. Mr. McNamara responded to the question on export financing. He agreed that the LDCs needed such facilities to be able to compete in the world markets. In fact the Bank had recently participated in the financing of a regional scheme in Latin America. But India did not need outside help for this facility since it had all the foreign exchange that was needed. He could not see why any World Bank assistance was necessary. Regarding the international competitive bidding, he agreed that the Bank should facilitate the participation of the LDCs, but added that this had not been neglected. For example, Yugoslavia and Korea were competing very effectively. He requested a note to be sent to the Bank whenever there was any feeling that the Bank's procurement system was not fair to India.

7. Mr. McNamara wondered what could be done to promote labor intensive off-farm activities to meet the growing unemployment problem. He admitted that this was a very difficult area and the Bank had made only modest progress in tackling this problem. In his view three things were involved: right prices and policies, finance at the level needed, and an appropriate technology. In agriculture, extension had proven to be successful in spreading improved technology with startling results. But there was nothing comparable to this for off-farm employment programs in rural industries.

8. Mr. Hopper said that, although he had worked on this problem for years, he did not have the answer. The new activities had to be experimental. The problem was not confined to finding finance. The basic question was what activities could be promoted in small areas. Mr. Hopper asked what the business community could do to promote small industries. Mr. Birla replied that unless the large industry could expand its capacity, it could not be of much help. And yet, large industry was not allowed to expand. If allowed to expand, large industries would create markets for small ancillary production units. The approach of the Government was based on creating capacity in the small sector. But where would they find the buyers for the products of these units?

9. There was some discussion about the development of the District Industry Centres. FICCI was assisting in their training programs and was also interested in offering help on the marketing aspects. Responding to a question, Mr. Hopper said that the World Bank would be interested in a project relating to the DICs if a good project could be formulated.

10. Mr. Parekh emphasized the importance of housing construction in creating employment. Mr. McNamara and Mr. Hopper explained the approach of the Bank based on the sites and services projects which aimed at providing housing at a cost that the poor could afford.

cc : Messrs McNamara
Hopper
India Division

Attachment

List of Industrialists

Mr. M.V. Arunachalam, Managing Director, Carborundum Universal Ltd., and Tube Investment of India

Mr. G.K. Bhagat, managing Director, Bengal Potteries

Mr. B.M. Birla, Birla Group

Dr. Charat Ram, Managing Director, Delhi Cloth Mills

Mrs. Sharayu Daftary, Managing Director, Bharat Radiators Pvt.Ltd.

Mr. A.K. Jain, Head of Sahu Jain Industries

Mr. P.C. Jain, Sahu Jain Industries

Mr. R.S. Lodha, Chartered Accountant, Lodha & Co. (Chartered Accountants)

Mr. Harish Mahindra, Chairman, Mahindra Ugine Steel Co., and Executive Director of Mahindra & Mahindra Ltd.

Mr. K.N. Modi, Chairman, Modi Enterprises

Mr. H.T. Parekh, Chairman, Housing Development Finance Corporation

Mr. D.N. Patodia, Chairman, Springs Ltd.

Mr. R.L. Rajgarhia, a medium scale industrialist

Mr. Viren J. Shah, Chairman and Managing Director, Mukund Iron & Steel Works

From the Secretariat (i.e. FICCI staff)

Mr. P. Chentsal Rao, Secretary General
Dr. R.G. Agarwal, Secretary (Economics)
Mr. D.H. Pai Panandikar, Secretary (Coordination)
Mr. Y.P. Srivastava

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: **Files** DATE: **October 20, 1978**

FROM: **Oktay Yenal** OY.

SUBJECT: **Mr. McNamara's Meeting with the Minister of Commerce & Civil Supplies & Cooperation, Mr. Mohan Dharia**

1. Mr. McNamara called on the Minister of Commerce & Civil Supplies & Cooperation, Mr. Mohan Dharia, on October 9, 1978. Present at the meeting were:

Mr. Narasimhan, Executive Director
Mr. P. K. Kaul, Additional Secretary, Ministry of Commerce
Dr. V. Kelkar, Economic Adviser, Ministry of Commerce
Dr. M. D. Godbole, Joint Secretary, Department of Economic Affairs

Mr. McNamara was accompanied by Messrs Hopper, Clark, Kraske, Koch-Weser and Yenal.

2. Mr. McNamara inquired why the export growth had slowed down recently after such good performance during 1975-77. The Minister said that the reasons were in a sense obvious and could be listed as follows: World recession, increasing protectionism in the industrialized countries, devaluation of the dollar vis-a-vis the rupee, specific preferences given by some of the developed countries to other developing countries and deliberate decisions by India. He elaborated the last point: As a result of sharp monetary increases during the Emergency the economy had faced the danger of inflation. To contain the price increases, the Government had to restrict the export of commodities such as groundnuts, oilcakes and onions. As a result of these measures complete stability of prices had been achieved during the past year.

3. Referring to increasing protectionism in the industrial countries the Minister wondered why these countries did not appreciate the potential demand for their exports that could come from even small increases in the per capita incomes of Indians. And he could not understand why they would impose restrictions even on handloom imports. Mr. McNamara said there was no question in his mind that the protectionist tendencies were to be deplored, but still he could not understand why India's exports were so adversely affected while the exports of the other developing countries had continued to grow. The Minister thought an important reason was the fact that India's exports consisted mostly of traditional items. Outside these the growth had been impressive. For example, diamond exports by India had risen from Rs.230 crores to Rs.460 crores last year; about 40% of this represented value added by India. Similarly, there were efforts to improve leather exports by introducing up-to-date designs. In the engineering industries the export performance had been good inspite of restrictions by the United States of America. In response to Mr. McNamara's question about these restrictions, it was explained that there had been some problems

with the export of fasteners to the U.S. but the President of the United States had overruled the proposed countervailing duty. At present, the problem was the uncertainty that exporters faced since the United States might apply the trigger price mechanism. There had not yet been restrictions by the EEC countries but there was the fear that they also might adopt the practice of the United States. Moreover, the existing quotas of the developing countries were based on their past performance and consequently biased against India.

4. In response to Mr. McNamara's question the Minister said that the Plan target for export growth was 7% per year within which manufacturing exports were expected to grow by 15%-16% per year. He felt that these targets could be achieved. An important area to be explored was the export of agricultural products. The World Bank could lend support to projects aimed at increasing the production of plantation crops -- rubber, cashew, apples, pineapples etc. Mr. McNamara said that the Bank was anxious to participate in projects that would benefit the poor and promote exports, both of which were high priority objectives. Mr. Hopper added that the Bank had financed a project in apple production and processing, and a team was at present visiting India to look into a project in cashew growing. The Minister wished that the World Bank would get involved in large scale projects in plantation crops rather than be content with experimentation and said that the Government was hoping to increase exports of tea, coffee, cashew and rubber.

5. Mr. Hopper commented that the rapid expansion of India's exports a few years ago had followed policies which provided incentives to exporters. He had the feeling that these incentives were not maintained as enthusiastically as in the past. He asked the Minister whether any consideration was being given to this aspect. The incentives were important even in the case of plantation crops. He remembered that at one stage double taxation -- by the States and the Centre -- had severely affected the financial position of plantations. The Minister replied that he was equally concerned about the adequacy of incentives and a committee under the Cabinet Secretary had been constituted to review the whole area of export incentives. It was true that the producers in India were disadvantaged in several ways. The rate of interest ranging from 11% to 15% was high, and some raw materials were costly. However, imports were now being allowed for export oriented manufacturing wherever needed. Of course, it had to be realized that Government support could only be temporary and the industries had to become competitive on a sustained basis. The Government had to be careful not to distribute incentives in an irrational way. A poor country could not afford to give incentives at high levels. Moreover, domestic prices and needs also had to be considered.

6. Mr. Hopper commented that keeping the domestic price line had been an old thesis but had at times become self-defeating. For example, oilseeds prices, because they were held down, had reduced the incentives for increasing production. For these reasons, the total incentive picture had to be kept in mind. He hoped that the committee would also look at the

constraints arising from the restrictions in the industrial sector. The Minister replied that for the first time the Government had announced support prices for soyabeans, sunflowers, and other oilseeds but the problem was not simple. High prices in the market did not always mean high incomes for farmers. There was the problem of the middlemen who might be the beneficiaries of high prices rather than the farmers. The Ministry intended to allow some oilseeds' exports on a planned basis. There were no major restrictions on industrial investments and production for exports. For 100% export oriented industry the Government even allowed foreign ownership of enterprises. There were no restrictions either on enterprises which proposed expansion for export purposes.

cc Messrs McNamara
Hopper
Picciotto
India Division

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files

DATE: October 20, 1978

FROM: Oktay Yenal OY.

SUBJECT: Mr. McNamara's Meeting with Prof. D. T. Lakdawala, Deputy Chairman, Planning Commission

1. Mr. McNamara called on Prof. Lakdawala, Deputy Chairman of the Planning Commission on October 9, 1978. Present at the meeting were:

Dr. Manmohan Singh, Secretary, Department of Economic Affairs
Mr. Narasimhan, Executive Director
Dr. Ajit Mazumdar, Secretary, Planning Commission
Dr. M. D. Godbole, Joint Secretary, Department of Economic Affairs.

Mr. McNamara was accompanied by Messrs. Hopper, Clark, Kraske, Koch-Weser and Yenal.

2. Mr. McNamara said that he was very impressed with the new Plan, particularly with its objectives. He welcomed the emphasis on creating employment and reduction of poverty. But the basic question he had was how these targets would be achieved and what actually was going to be done. He would also want to discuss the prospects for Indian exports. Prof. Lakdawala explained that the achievement of the Plan objectives would depend essentially on two factors: In what sectors growth would take place and in what manner this growth would occur. The major emphasis was in agriculture. This sector was expected to grow faster than in the past -- by 4% per year. If this happened, then it was clear that employment opportunities in agriculture would also grow and poverty in rural areas would be reduced. In addition, further increases in employment opportunities would come from allied activities in rural areas such as dairy production and fisheries, from the enlarged public construction program -- irrigation, schools etc. -- and from the expansion of labor-intensive industries. The success of the Plan would depend on the expansion of these employment intensive sectors as well as on the adoption of labor-intensive methods of production within these sectors. Fiscal and financial measures would help, not only in the form of subsidies for labor-intensive activities, but also through the credit mechanism which would be geared to promoting employment creating activities. Finally, it was hoped that rural development based on block level plans would make a significant contribution to employment.

3. Mr. McNamara wanted to know whether any concrete program existed that would make sure credit was available to the small farmers. Prof. Lakdawala replied that a large part of the bank credit was already flowing to the priority sector as a result of the policies pursued since the nationalization of the commercial banks. For example 25% of the total agricultural credits was already going to the marginal farmers. He agreed that the expansion of credit had to be supported by productive investment projects and programs.

4. Mr. McNamara was interested to know what proportion of the 49 million new jobs to be created would be dependent on some access to land and how the landless rural laborers would benefit. Prof. Lakdawala guessed that about half of the new employment could be expected to be in agriculture. Higher production in agriculture would certainly induce farmers to hire more labor. Mr. McNamara felt that creating jobs for the landless people in rural areas was the real problem and thought that the probability of absorbing much of the landless labor was low. Prof. Lakdawala and Dr. Mazumdar explained that a great deal could be achieved by increasing double and triple cropping, by new techniques for dryland farming, and by rural activities such as dairying.

5. Mr. McNamara inquired what the planned target for industrial growth was and what this implied for private investment. Prof. Lakdawala said that industrial growth and private investment were not detailed in the Plan sector-wise. However, as an overall figure, private investment would constitute about half of the total plan outlays. But neither he nor Dr. Mazumdar was sure about this figure.

6. Mr. McNamara expressed his concern about the power situation. He did not fully understand why India had a perennial shortage of power. Prof. Lakdawala attributed the power shortage to two reasons: In the past the power generation program had not kept up with the growth of demand, and the existing capacity was not being used efficiently. Dr. Mazumdar offered further explanations. India was inefficient relative to other countries in several respects: The construction periods were long; transmission losses were high and plant maintenance was poor. Prof. Lakdawala noted that power supply had increased this year by about 14%. In response to Mr. Hopper's question as to whether the target of adding 18,000 megawatts to the generating capacity would be achieved, Prof. Lakdawala replied that he was optimistic. The previous year's expenditure targets had been achieved but not the physical targets. They hoped that the pace of investments could be speeded up.

7. Mr. McNamara asked what the new Plan's strategy was with respect to the utilization of the foreign exchange and food reserves and whether the Plan could be adjusted to increase the absorption of the reserves. High reserves and stocks were causing embarrassment; but more importantly, India needed to invest these resources to accelerate economic progress. Could India absorb more aid if it was forthcoming? Prof. Lakdawala replied that it took time to make major policy changes. Use of foreign exchange will rise in the next two years as a result of import liberalization. But the Government was anxious not to allow domestic production to suffer. In the last year the demand recession had disappeared and once again the major problems were those of supply. Dr. Mazumdar added that the Plan had deliberately under-estimated the absorption of foreign resources in order to allow for contingencies.

8. After brief comments on the prospects for exports, Mr. McNamara inquired about the status of the new Plan and about the controversy between the Centre and the States. The Deputy Chairman and Dr. Mazumdar explained that there were no problems or reservations regarding the objectives or the strategy of the Plan. The issue was the statewise distribution of the plan

programs and expenditures. States were naturally interested in this. The federal finance system was due for review this year and the statewise distribution of the Plan would be determined after the report of the Finance Commission was submitted to the Government.

9. Mr. Hopper commented on the concept of the rolling plan. He had been in favor of such a system even in the past. He wondered how the first year review of the Plan would be undertaken. He was also interested to know what had emerged as the sensitive areas of the Plan and whether the Bank could provide support to overcome any constraints. Dr. Mazumdar explained that the major difficulty was related to the uneven performance among the States. There was uneven progress in resource mobilization and in setting up institutions and organizations. The rolling plan presented no difficulties. The external agencies could help by supporting the projects and the programs included in Plan.

10. Mr. McNamara and Mr. Hopper reiterated the readiness of the Bank to support in any useful way the realization of the Plan targets. Mr. McNamara thought that the Plan was an extraordinarily perceptive document with sound objectives for the Indian economy. He would follow with great interest the implementation of the Plan and hoped that the Bank could provide significant support.

cc Messrs McNamara
Hopper
India Division

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files

DATE: October 20, 1978

FROM: Oktay Yenal OY.

SUBJECT: Mr. McNamara's Meeting with the Minister of Finance, Mr. H.M. Patel

1. Mr. McNamara called on the Minister of Finance, Mr. H.M. Patel on October 10. Present at the meeting were:

Dr. Manmohan Singh, Secretary, Department of Economic Affairs
Mr. Narasimhan, Executive Director
Dr. R.M. Honavar, Chief Economic Adviser, Department of Economic Affairs
Mr. R.N. Malhotra, Additional Secretary, Department of Economic Affairs
Dr. M.D. Godbole, Joint Secretary, Department of Economic Affairs
Mr. C.C. Patel, Secretary, Department of Irrigation
Mrs. R.M. Shroff, Joint Secretary, Department of Irrigation

Mr. McNamara was accompanied by Messrs Hopper, Clark, Kraske, Koch-Weser, Nekby, and Yenal.

2. Mr. McNamara said he was very impressed by the objectives of the Plan. Emphasis on irrigation was well taken and the targets of 8 million hectares of major and 9 million hectares of minor irrigation seemed reasonable. He was also glad to see the emphasis on employment aiming at the creation of 49 million new jobs in the next five years. However, he did not understand fully how this employment objective would be accomplished. For example, the scheme of District Industry Centres and how they would function was still not clear. Nor did he have a clear idea as to how the programs for the small farmers would be implemented. He would appreciate any illumination that the Minister could offer on these points and also on how the Bank could assist in achieving the Plan objectives. Secondly, he understood that the Government had in mind a rather substantial readjustment of the Bank's lending program in India. He said he would be prepared at any time to review and adjust the lending program if this was thought to be helpful to the achievements of the Government's objectives. He asked the Minister to tell him about the proposed changes in the lending program.

3. The Minister said there were various schemes to increase employment opportunities. He agreed that several of these were experimental. If they were successful, they would provide tremendous stimulus for employment. On small scale and cottage industries, his advice was to go slow and expand only after sufficient experience was gained. Training was important not only to teach skills but also to implant the right attitudes and the right motivations. But it took time because the administrative cadres were still urban oriented. He was hopeful that these programs would gather momentum by the third year of the Plan.

4. The Minister described some of the rural development schemes, the food for work program and the village water schemes. In this last program 150,000 villages would be involved. In addition, increased use of fertilizer would also help increase productivity and create employment. Mechanization in agriculture would be closely monitored by the Planning Commission since the uses to which tractors were put varied from one region to another. Dr. Singh added that 37% of the credits for agriculture was going to small farmers and the intention was to increase these credits very rapidly over the next five years. Mr. McNamara inquired about the institutional mechanism through which these credits would be distributed. Dr. Singh explained that the credits would be allocated through the branches of the commercial banks in small rural localities and through the regional rural banks. The Minister and Dr. Singh also said that new institutions would be created if there was need for them, such as a bank for small industries.

5. Mr. McNamara then turned to the question of the Bank's lending program and said he was informed that the Ministry of Finance wanted to change the contents of the program by as much as 35%. He inquired how the Government wanted the program to be revised. Dr. Singh said that a major objective of the Government was to raise the agricultural growth to 4%. Irrigation was a key element in this. A second priority was a large program in raising power generating capacity. So, they would like large Bank programs in these two areas rather than in smaller and untried schemes which could also have high risks of failure. The Minister added that the command area development projects were also important. Mr. McNamara inquired whether there were firm and adequate plans for substantial expansion in power capacity and for command area projects. It was explained that a firm plan existed for power and projects to the tune of 16000 MW were already in various stages of implementation. Progress had also been made in improving the institutions for command area development.

6. Mr. McNamara saw no problem in principle with the proposed revision of the lending program. The Bank was here to serve its members and to help the Government where it thought the Bank's assistance would be most useful. He emphasized, however, the over-riding importance which he attached to having at all times a strong pipeline of well prepared projects. He mentioned that his concern with the availability of suitable projects was often mis-understood. Even in the Bank, there was a misconception that he was somehow concerned with the quantity of lending, while in fact he thought it was important to ensure that all projects funded by the Bank were of essential priority and of high quality in terms of their preparation. It was in this sense that he felt that the Bank could make a real contribution. India, for instance, was financing 95 percent of its investments out of its own resources. Who could argue that the remaining 5 percent had to be financed by institutions like the World Bank unless it could be demonstrated that these institutions were able to make a special contribution.

7. The Minister assured Mr. McNamara that he had given his personal attention to building up a pipeline of sound projects. He was confident that India would be able to absorb readily whatever assistance might become available. As an example of the projects coming up within the next few years

the Minister mentioned the Narmada development. He gave Mr. McNamara an outline of the proposed Narmada Development Program. Mr. Malhotra emphasized that most of the projects included in the Narmada scheme were already well prepared and ready for implementation both in Madhya Pradesh and in Gujarat.

8. Dr. Manmohan Singh wondered how the financing of this massive scheme might be organized. He asked whether a Consortium approach along the lines of the arrangement worked out for the Mahaveli development in Sri Lanka could also be worked out for the Narmada Project. Mr. Hopper explained that in the case of the Mahaveli Scheme the Bank had worked out an agreement for additional aid to be provided by the members of the Aid Group specifically for the financing of projects included in this scheme. Mr. Hopper was confident that arrangements for the financing of the Narmada Scheme would be worked out within the Consortium either as part of the on-going aid program of the various members, or, if necessary, in the form of additional assistance. He had already agreed with Dr. Manmohan Singh to set aside some time at the next Consortium meeting for the discussion of the Narmada Project. At this point it was important to assess the feasibility of the entire scheme. Mr. McNamara said that the Bank would be pleased to assist with the review and coordination of the Narmada program. Mr. Malhotra asked whether the Bank would be willing to appraise projects included in the Narmada scheme for the benefit of other, bilateral donors who were prepared to finance projects but did not have the capability for appraisal. Mr. McNamara replied that the Bank would expect in such cases to participate jointly with other donors in the financing of such projects but would not, except in special circumstances, act merely as an appraisal agency.

9. Mr. Hopper agreed that irrigation and power investments were very important, but he hoped that the Bank lending should not be confined to these only. The Bank was interested in experimental programs -- that aimed at creating employment or reducing poverty -- even if these involved difficulties and risks. Such projects were necessary for attacking India's problems and could also provide models for other countries. Dr. Singh had agreed to investigate the feasibility of setting up a mechanism whereby the non-agricultural content of the future Bank program for India could be reviewed from time to time. In response to Dr. Singh's plea that the Bank should avoid high risk projects in untried areas Mr. McNamara supported Mr. Hopper's view that the Bank should not be put off by the possibility of failure. He would not mind presenting such experimental projects to the Board provided the risks were recognized and identified at the appraisal stage.

10. The Minister expressed the hope of the Government of India that India would continue to receive the traditional 40 percent share of IDA resources under the sixth replenishment agreement now being negotiated. Mr. McNamara assured the Minister that, as in the past, he was personally as a matter of equity in favor of preserving India's share. However, he mentioned that there was concern in some circles that India was receiving too large a share of the scarce IDA resources. Some of the donor countries, as in the past, were trying to discuss the sharing of IDA resources before discussing the level of IDA replenishment, which indicated the importance attached to the issue of sharing. Mr. McNamara was confident that these questions would

eventually be dealt with in the proper order. Nonetheless, maintaining a high level of lending to India depended more than ever on the availability of a strong pipeline of sound projects related to the agreed priority of providing employment opportunities and other economic benefits to the poorest section of the population. It was also for the reason of maintaining a high level of fresh commitments to India that Mr. McNamara expressed his concern about the low level of disbursements. The Minister assured him that he was trying to speed up the implementation of ongoing projects and to bring up the level of disbursements.

11. In response to a request to use the savings available under several loans, Mr. McNamara replied that he was all in favor of preserving these savings for India's benefit. However, using them without specific authorization by the Executive Directors would give the impression that the Board was being bypassed. The price contingencies were contingencies and if price increase turned out to be lower than expected, it did not follow that the savings could be used for a purpose not originally authorized by the Board. Mr. McNamara suggested that this matter should be dealt with, as in the past, on a case by case basis.

cc: Messrs. McNamara
Hopper
Picciotto
India Division

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files

DATE: October 19, 1978

FROM: Oktay Yenal OY.

SUBJECT: Mr. McNamara's Meeting with the Minister of Petroleum & Chemicals & Fertilizers, Mr. H.N. Bahuguna

1. Mr. McNamara called on the Minister of Petroleum & Chemicals & Fertilizers, Mr. H.N. Bahuguna on October 9. Present at the meeting were:

Mr. B.B. Vohra, Secretary, Department of Petroleum
Mr. K.V. Ramanathan, Secretary, Department of Chemicals & Fertilizers
Mr. Narasimhan, Executive Director

Mr. McNamara was accompanied by Messrs Hopper, Clark, Kraske, Koch-Weser and Yenal.

2. Mr. McNamara thanked the Minister for the meeting and said that he would like to learn what the plans were in the area of petroleum and fertilizers for the next five years and in what ways the World Bank could provide assistance. The Minister outlined the plans of his Government. In fertilizer manufacturing, as the World Bank was aware, the location of the new plant to be based on Bombay High gas had recently caused some controversy. The Government was planning to set up four plants that would be based on the natural gas from the Bombay High. Two of these plants would be in Maharashtra and the other two in Gujarat. The rest of the program involved mainly the expansion of existing projects.

3. The Minister explained that the Government intended to expand petroleum exploration, both on-shore and off-shore. About two-thirds of the program would be for off-shore and one-third for on-shore exploration. No major new reserves had been discovered in recent years after the Bombay High discovery. Even the Bombay High reserves were small compared to, say, the reserves of the North Sea. The limitation on petroleum exploration was not technical. On the contrary, India had been losing technicians to the other countries. And when it was deemed necessary, Government had not hesitated to employ foreign equipment or consultants. Nor was finance a constraint at present. Mr. McNamara said he had read in the newspapers that the expenditure targets for petroleum exploration were being revised upwards but even then the projected outlays seemed rather low. The Minister agreed. India could not wait until new sources of energy were developed; it had to go full speed ahead in developing its petroleum resources. Mr. McNamara indicated that this was also necessary to reduce the burden of the oil imports on the balance of payments.

4. Mr. McNamara then raised the question of fertilizer consumption and inquired why the rate of consumption in India was low relative to other countries. The Minister said that his present responsibilities were concerned with the production of fertilizer; however, based on his experience as the

former Chief Minister of Uttar Pradesh he could comment on two aspects. First, the base of fertilizer consumption, the section of agriculture where fertilizer is used, was small. Secondly, most farms were in the form of small holdings. These small farmers could not purchase a whole bag of fertilizer. They had to go into sharing arrangements with the other farmers or purchase it from another farmer. In response to Mr. McNamara's question on whether fertilizer could not be marketed in smaller bags, the Minister said that there were difficulties of organization and marketing when it came to dealing with many small farmers.

5. Mr. Hopper commented that the packaging and the marketing of fertilizer was also related to the pricing question and asked whether the pricing policies had provided the right incentives. The Minister said that retention prices were set for each factory and the distribution procedures were being streamlined. The producer would have a 12% return on net worth. Whatever subsidy this implied between the price and the cost of fertilizer was borne by the Government. Since India was using almost all the known techniques, there were efficient plants side by side with units which were not so efficient. Some plants were doing very well such as those owned by IFFCO, by Birlas in Goa, and by Indian Explosives at Kanpur. On the other hand, there were some inefficient techniques purchased when India was short of funds, and as a result of this some units were sick. Moreover, power supply was a problem since a steady supply of electricity was very important in fertilizer manufacturing. To ease this problem captive power capacities were being installed in some units.

6. Mr. McNamara asked what the plans and the prospects were regarding the petro-chemicals industry other than fertilizer. The Minister summarized the new projects in this area. An integrated plant that would produce almost everything -- naptha, polyester, plastic pipes for irrigation etc. -- was being set up in Baroda. In response to Mr. McNamara's inquiry he said that the Government had accepted that polyester fibres should be used upto 25% in textiles. Although this had caused some worries on the part of cotton growers, he felt that the use of polyester fibre would benefit the consumer by providing more durable and cheaper cloth.

7. Mr. Hopper said that he had maintained all along that plastic pipes should be used more extensively in irrigation, instead of steel pipes, thereby reducing costs and problems like corrosion etc. He wanted to know whether any encouragement had been given to increased use of plastic piping and whether any programs were under way for disseminating the knowhow in this area. He also inquired whether the present plan contemplated a fast expansion in petro-chemicals. The Minister replied that West Bengal was already starting a petro-chemical complex in Haldia. The Central Government was planning a plant which would utilize the gas from the Bombay High, and there was also a project coming up in Assam to produce polyester fibre which would supplement the raw material for the silk weavers of Assam. This is expected to come on stream in 1982. Still another unit was at the stage of discussion. Both Gujarat and Maharashtra wanted to have it. This was expected to be not on the model of Baroda, but will leave downstream production lines to be developed by the private sector. Mr. McNamara asked whether the Government contemplated foreign collaboration in these areas. The Minister replied in the affirmative.

cc: Messrs. McNamara/Hopper/Picciotto/India Division

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files DATE: October 18, 1978

FROM: Oktay Yenal OY.

SUBJECT: Mr. McNamara's Meeting with the Minister of Industry, Mr. George Fernandes

1. Mr. McNamara called on the Minister of Industry, Mr. George Fernandes on October 9. Present at the meeting were:

Mr. V. Krishnamurthy, Secretary, Heavy Industry
Mr. Narasimhan, Executive Director
Dr. Bimal Jalan, Economic Adviser, Department of Industrial Development
Mr. Ashok Jately, Special Assistant to the Minister
Dr. M. D. Godbole, Joint Secretary, Department of Economic Affairs.

Mr. McNamara was accompanied by Messrs Hopper, Clark, Kraske, Koch-Weser and Yenal.

2. Mr. McNamara opened the discussion by saying how pleased he was to be in India and see for himself the progress that was being made. However, he was amazed that inspite of three good years of agricultural production the industrial performance had not been better. This looked like a contradiction. He wondered whether the Minister could explain the reasons for this. The Minister responded by stating that the Government expected the industrial production to grow by 7%-8% this year inspite of the damage that has been caused by the recent floods. The Minister was actually keen to make the growth rate 8% rather than 7%. Mr. McNamara enquired whether this was possible with the low level of private investment as at present. The Minister replied that the data on private investments were vague but the disbursements of the term lending institutions had been rising. There were also significant increases in the consumption of cement and steel which reflected the rise in construction activity.

3. The Minister outlined the constraints that were operative on industrial growth. Power was one important constraint where the shortages had been due to technical and management problems which accounted for low capacity utilization rather than due to shortfalls in the generating capacity; however the situation was improving under the close monitoring by the Centre. Looking to the future the Government had an ambitious program which involved Rs.20,000 crore expenditure for energy over the next five years. There would be 18,500 MW of additional generating capacity created during the Plan period.

4. Another constraint on industrial growth at present was shortage of cement. This was the result of inadequate capacity creation in the past but steps had already been taken for a large program of investment involving

Rs.1,200 crores investment in the next five years; about two-thirds of this would be in the private sector and many large houses had already gone into major investments.

5. The third constraint, according to the Minister, was the inadequacy of transportation facilities. Ports were unable to handle the loads. High priority was being given to improving the existing ports and to developing new port facilities, especially the intermediate ports, such as in Gujarat, Goa etc. There was also need for improving the coordination among the transport facilities. Railways were also not able to meet the demand. The Government had embarked on a crash program to improve railway capacity which involved the production of more wagons, the improvements in wagon manufacturing and the expansion of lines where needed. In this connection Mr. McNamara enquired what the situation was with respect to efficiency in steel production. The Minister responded that the efficiency of steel production was very good as evidenced by the fact that India produced the cheapest steel in the world. Moreover, a lot of investment had taken place in mini steel plants in earlier years. This year, in response to high demand, these mini steel plants had become productive again -- supplying almost 1 million tons out of a total production of slightly over 8 million.

6. Mr. McNamara wanted to learn about the prospects for increasing employment in the industry related activities. He said, he had not in the past realised that there were so many poor in countries like India who had no access to land and hence dependent on non-agricultural employment. The Indian plan was projecting creation of additional job opportunities for 49 million people over the next five years. He asked how much of this would be the responsibility of the Industry Ministry, and how many jobs would be created in the cottage and rural industries. The Minister said he could not give a quantitative answer but would like to explain what the Government was doing to achieve these objectives. He explained the program of District Industry Centres which were being created to provide support in the way of finance, research, and other areas under one roof for the promotion of small industries and rural industries. He then moved on to explain how changes in the purchasing policy of the Government sector could help the producers in the small scale sector and lead to significant new employment opportunities. He gave as an example the furniture purchased and used in the Government offices which were made of steel and which could, if substituted with cane furniture, create jobs for many workers in the north-east. The same was true in the case of soap consumption. If a change was made from the use of factory produced soap to hand-made soap in the public buildings, rest houses etc. this again would increase the demand for labor intensive production. Similarly if glass cups used for drinking tea at the railway stations could be replaced by earthen urns, this could create 50,000 jobs without damaging the glass industry. Moreover since these urns would be disposable, they would also be more sanitary to use. In all these cases it was not the price advantage that induced the use of capital intensive methods but it was a matter of culture which needed to be changed, and in this the Government had to take the lead. A final example he gave was the new policy of introducing polyester in the Khadi industry. Polyester fibre now produced in the

country and its use would both increase productivity and benefit the consumer because it would produce more durable and attractive cloth. If these types of industrial activity were promoted then a high rate of industrial growth could be achieved on a more desirable pattern compared to what occurred last year when a considerable proportion of growth came from the increased production of items such as alcohol, tobacco and passenger cars.

7. Mr. McNamara mentioned the two community programs that he was impressed with. One was the Antyodhaya project in Rajasthan which he had already seen and the other the Guaranteed Employment Scheme in Maharashtra. He enquired whether the Industry Ministry had anything to do with these programs. The Minister said that there was a lot that could be done in putting the idle manpower into productive employment. For example, there are the young men who want to be recruited by the army but are left out because the army does not have the capacity to recruit all applicants. There are also large numbers of soldiers who get demobilized every year. These are energetic, disciplined and skilled people who should be employed in productive programs.

8. Mr. McNamara expressed his concern at the slow growth of exports during last year and during the first half of this year and wanted to know whether the Industry Ministry was concerned with this situation. The Minister explained that exports were under the responsibility of the Commerce Ministry; nevertheless he would like to comment on a few points. India had stopped exporting some commodities because these were needed at home -- such as cement, vegetables and rice. India was not exporting much sugar either because the world prices had declined to very low levels. But he could not understand why more handloom textiles were not being exported and why the other countries would not buy these. He felt that both in the United States and the EEC there had been a prejudice against the textile exports from India. Mr. McNamara agreed with this observation and advised that India should put more pressure on these countries to change their protectionist policies.

9. Finally, Mr. McNamara wanted to know what the World Bank contribution could be in industry. The Minister suggested World Bank assistance in two areas. First the World Bank could help regional cooperation for industrial investments -- i.e. with Nepal, Bangladesh and Pakistan. He had in mind especially the construction of a cement plant in Nepal, the output of which would be used in Bihar. India could also provide clinker to Bangladesh instead of Bangladesh importing them from Korea. Mr. McNamara and Mr. Hopper responded that they would consider such projects with great interest and suggested that these projects be discussed with Nepal and Bangladesh. The other area where the Minister saw the possibility of World Bank assistance was in connection with the financing of the small scale sector. The Government intended setting up a special finance corporation for this purpose. Mr. McNamara enquired about the concrete policies that were worked out for lending to the small scale industries. The Minister thought that the present inertia was primarily the result of attitudes rather than of adverse incentives. Mr. Hopper explained that the Bank already made

a loan to the IDBI for the small scale sector. But the issue was how to deal with many small units in an efficient way. The Bank had shifted the emphasis of its program towards helping the rural poor over the years and was interested in attempting a similar shift in favor of the urban poor and the small industry. Mr. McNamara added that he felt the World Bank Program in India was not sufficiently oriented to the rural and the urban poor, but the reasons were obvious. These were difficult areas and therefore progress was slow. However, the Bank had every intention to move faster in this direction. He also said that he would be interested in the project for setting up a bank to finance small scale industry.

cc Messrs McNamara
Hopper
Picciotto
India Division

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

OFFICE MEMORANDUM

TO: Files

DATE: October 18, 1978

FROM: Jochen Kraske

SUBJECT: Mr McNamara's Meeting with the Prime Minister of India

1. Mr. McNamara called on the Prime Minister of India, Mr Morarji Desai, on October 9, 1978, at his residence. Mr McNamara was accompanied by Messrs Hopper, William Clark and Kraske. Dr Manmohan Singh, Secretary, Economic Affairs and Mr Narasimham, Executive Director, were also present at the meeting.

2. Mr McNamara opened the discussion by telling the Prime Minister that this had been his most instructive visit to India. The experience of a visit to a village in Rajasthan had been especially valuable as it had given him some idea of the constraints and rigidities in the social structure which posed a difficult obstacle to economic progress. The Prime Minister agreed and confirmed that there had not been so far any appreciable change in the social fabric of the country which was still dominated by ancient traditions. The Prime Minister thought however that there was one hopeful aspect to the problem of widespread poverty in India which was the absence so far of any deep-rooted hostility or hatred on the part of the poor.

3. Mr McNamara referred to the Government's development strategy reflected in the objectives of the draft 5 year plan; he thought these objectives were absolutely sound. However, he was wondering how the Government would try to achieve these rather ambitious objectives. He suggested that programs such as the Antyodya program in Rajasthan which he had witnessed might be useful in moving towards some of the Plan objectives. The Prime Minister agreed that the Antyodya program was a good example of the kind of action that was required. However, he felt that there might be different patterns for poverty programs in the different States. Gujarat, for example, was following a different pattern, one in which leading industrialists were assuming responsibility for the development of clusters of villages. The Prime Minister thought above all it was important that everybody should work together to achieve the objectives. An essential pre-condition for the success of the development strategy was education. It was the objective of the massive adult education campaign launched recently to eradicate illiteracy and to help people to a better understanding of economic conditions and improvement.

4. The Prime Minister went on to say that he thought education was just as essential to bring family planning to the poor who out of ignorance were the most fertile section of the population. He thought that the caste system as it had operated in the ancient days had had a built-in limit to the increase of the number of people in each caste and the growth of population overall. This mechanism was no longer working; hence, adult literacy and increasing sophistication of all people became necessary to introduce the desirable restraint on family size. The Prime Minister agreed with Mr McNamara that the size and growth of India's population was an extraordinary handicap to more rapid economic advance. India was adding the size of Australia's

population every year at the present time and this demanded a rapid increase in agricultural productivity even to maintain the present level of consumption.

5. Mr McNamara thought that the creation of 49 million jobs within the next 5 years was an extremely ambitious target of the draft five year Plan. The Prime Minister said that the problem was not so much one of unemployment but rather one of widespread under-employment with a large number of people working only part time. The Prime Minister thought that it was important to introduce programs that would offer opportunity for employment within the homes of the poor through cottage and village industries. Providing employment in the rural areas was essential because the majority of the poor were living in the rural areas and should find their livelihood there and not be drawn into the cities with all the unhealthy artificiality of city life. Mr McNamara asked how the people in the villages might be able to obtain the required financing. The Prime Minister replied that the problem was not so much the availability of funds but the interest rate. He thought it was essential for interest rates to come down and to be kept at a low level all around. Mr McNamara wondered whether the mobilization of deposits would be feasible at significantly reduced interest rates. However, the Prime Minister thought that depositors would be willing to accept low interest rates as long as they were convinced that there was no way for them to get a higher return on their money elsewhere.

6. Mr McNamara asked what the Prime Minister thought the Bank could do in India to support the Government's development program. The Prime Minister mentioned the Narmada Project which over a 15-year period would require an' investment of Rs 4000 crores. The Prime Minister also mentioned the so-called Garland Scheme as another possibility for Bank Group assistance. This scheme would require an investment of Rs 15,000 crores in the construction of two level canals across India to store and distribute the runoff from the Himalayas and the Vindhya mountains. FAO is at present examining the feasibility of this scheme. The Prime Minister thought that geological conditions in the Himalayas appeared to be posing serious problems. Manmohan Singh mentioned the financing of power projects as another important area for World Bank assistance. The Prime Minister agreed that the shortage of power was a serious problem affecting many areas in India; the construction of large additional generating capacity as envisaged by the draft Plan was consequently of high priority.

7. The Prime Minister thought it was important to approach the task of economic development with confidence and optimism and confessed to being a great optimist himself. Mr McNamara agreed that some of the existing problems in India could indeed give rise to an optimistic outlook. The low use of fertilizer, for example, could be reason for hope inasmuch as it showed the tremendous potential for additional production to be realised through the greater spread of fertilizer. The Prime Minister thought that instead of spreading the use of artificial fertilizers, it was important to emphasize the use of organic manure in India. He also thought that the use of tractors in agricultural cultivation was a doubtful proposition because of the labor displacing effect.

8. In conclusion, Mr McNamara congratulated the Prime Minister on his successful efforts at improving relations with India's neighbors. The Prime Minister thought that the intense competition between the U.S. and the USSR was today the greatest obstacle to lasting peace. It would be more constructive and helpful all around if these two countries were to devote the attention and money now being spent on arms to assisting in the development of other, less advanced countries.

Copies to: Messrs McNamara

Hopper

India Division

JK:mh

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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files

DATE: October 17, 1978

FROM: Bengt A. Nekby

SUBJECT: Meeting between Mr. McNamara and the Minister of Agriculture, Mr. S.S. Barnala on October 10, 1978

Present: Messrs. Barnala, G.V.K. Rao, R. Subramaniam, C.C. Patel, M.S. Swaminathan, M.D. Godbole, M. Narasimhan, P.K. Mukherjee, K.P.A. Menon and others.

Messrs. McNamara, Hopper, Clark, Kraske, Koch-Weser and Nekby.

1. Mr. McNamara congratulated the Government on another impressive harvest and on a very ambitious agricultural development plan. The Minister, Mr. Barnala, confirmed that present estimates indicate a 1978/79 foodgrain harvest of about 130 M tons in spite of widespread flood damage, but pointed to the need to augment the production of oilseeds and pulses. Fertilizer consumption is expected to reach 5 M tons, 2 M of which would be imported.

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2. In the field of irrigation a target of 17 M ha has been fixed for the VIth Plan, 8 M ha of which would come from expansion of surface irrigation and 9 M ha through groundwater development. Mr. Patel pointed out that the Narmada development was included in the surface irrigation targets and underlined the great need for command area development work also in the existing projects and for modernization of some of these projects. Mr. McNamara assured that the World Bank would continue to take a very active interest in the irrigation sector.

3. In response to Mr. McNamara's question about the efforts to reach the small and marginal farmers, Mr. G.V.K. Rao explained that out of 5,000 blocks in India, special programs for small and marginal farmers are being implemented in about 3,000 blocks. Intensified efforts are now underway in 2,000 out of these blocks under the Intensive Rural Development Program and the target was to achieve full employment in 1,000 blocks by March 1981. Mr. McNamara inquired about the possibilities for small and marginal farmers to invest in minor irrigation given their limited acreage. Mr. Rao reviewed the special concessions given to community tubewells (50% subsidy) and the expansion of state tubewells but acknowledged that the former type was not very common and that there is ample opportunity to improve the efficiency of the latter. The question of electric power was raised by Mr. McNamara who expressed his astonishment over the continued supply difficulties given India's hydro and coal resources. Mr. Barnala explained that the Government is attempting to reserve a minimum of 15% of available power supply in each state for agricultural purposes.

4. On the topic of public foodgrain reserves Mr. Balasubramaniam informed Mr. McNamara that present stocks amount to about 17.5 M tons and explained that present policy called for bufferstocks of 12 M tons plus operational stocks of at most (in July) 8 M tons. The stocks last July at the peak were 19 M tons and Mr. Balasubramaniam expected stocks to be about 20 M tons in July 1979. Stocks with private traders are not known but were expected to grow over the next year. With the removal of restrictions on trade in foodgrains, private trade is expected to grow and spatial and seasonal price fluctuations have been minimized. On Mr. McNamara's query Ministry of Agriculture staff explained that 1.5 M tons of grain has been earmarked for the food for work program, that the experience so far had been very positive and that one expects to expand this program next year.

5. Mr. McNamara then raised the subject of agricultural research and enquired about the adequacy of State research in relation to specific agro-climatic situations and if full advantage is taken of the international research community. Dr. M.S. Swaminathan explained that agricultural research is conducted through 21 state agricultural universities, 32 central institutes/national bureaus, about 50 All India Coordinated Research Projects and through some operational research projects in collaboration with State Departments of Agriculture. Research has the double objective of raising yields and stabilizing yields and Dr. Swaminathan emphasized that the latter objective receives increasing attention (as illustrated by the strategy to contain rust attacks). The breakthrough on rice in the Northwestern and Southern growing areas was mentioned while the Eastern region was said to require more research emphasis. Dr. Swaminathan hoped that the National Agricultural Research Project which was being considered by the Board of the World Bank the same day would help fill an important gap in location specific research. He also predicted that recent research developments on coarse grains together with the support price of Rs.85 per quintal which was announced a few days back will lead to some major adjustment in cropping patterns in many areas.

6. Mr. McNamara underlined the Bank's dedication to agricultural development and the tremendous scope for production increases, not least for small and marginal farmers, through irrigation, research, extension, etc. Mr. McNamara mentioned that he was looking for a significant increase in the World Bank lending and that he hoped to maintain India's share of the IDA resources. To do so it is, however, imperative to have a good pipeline of well-prepared projects and he hoped that the Ministry would enlarge its preparation capacity accordingly. Mr. McNamara also underlined the importance of monitoring existing projects and the necessity to assure rapid disbursement. The unutilized funds may otherwise become an embarrassment for both the Bank and the Government.

7. With reference to the devastating floods this year and the worsening trend Mr. Barnala informed Mr. McNamara of the plans to launch a large-scale effort in flood protection composed of afforestation and soil conservation in the Himalayas and of engineering works in lower areas. He

Files October 17, 1978

expressed the hope that the Bank would take an interest in these efforts. Messrs. McNamara and Hopper considered these efforts of very high priority and assured the Minister that the Bank would be delighted to become involved. Mr. Hopper pointed to the approach pioneered in the Kandi project and Mr. McNamara offered the Bank's services in trying to achieve a coordinated approach where the catchment areas extend into neighboring countries. Mr. Barnala also hoped for some Bank support for developing oilseed and pulse production.

cc: Messrs. McNamara
Hopper
Picciotto
India Division

BAN:urk