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McNamara Papers

Contacts
India (1972)

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New Delhi Mr. McNamara

January 31, 1972

To: Files
From: M. van der Mel
Subject: Meeting of Mr McNamara with Planning Commission

1. The meeting took place on January 24, 1972. Present were:

Planning Commission: Messrs. Subramaniam (Minister for Planning), Dharia (Minister of State for Planning), A. Mitra (Secretary-Member), Chakravarty, Minhas and Pathak (Members), Guhan (Special Assistant to Minister).

Ministry of Finance: Messrs. I.G. Patel (Secretary, Dept. of Economic Affairs), S.R. Sen (Executive Director, IBRD).

RBI: Mr. Jagannathan (Governor).

IBRD: Messrs. McNamara, Cargill, Clark, Blobel, McDiarmid, Kraske, Ljungh, van der Mel.

2. Mr Subramaniam recalled that after the elections in 1971 the membership of the Planning Commission had changed. He said that Mr Minhas was in charge of agriculture, integrated land development and rural programs. Mr Pathak was principally concerned with industry and public sector projects and Mr Chakravarty with perspective planning and fuel-power survey. There had been related changes in the Commission's tasks and areas of emphasis. New elements included multi-level planning (with greater emphasis on planning in the States and Districts), a better information system on Plan progress (by setting up a monitoring system) and better project preparation (also leading to more projects "on the shelf"). More attention was also being given to preparing industrial projects, integrated land development, redirection of education and perspective planning.

3. Mr McNamara enquired about work on rural development, which was a major problem in many developing countries. Perhaps up to 40% of India's population in rural areas (as in the LDC's generally) had not benefitted from economic growth. Mr Minhas explained that already in the Fourth Plan considerable attention had been devoted to this problem. Schemes had been devised for drought-prone areas, dry farming, small farmers, agricultural labor, rural works, etc. Many of these schemes were very new (less than a year old) and therefore there were few tangible results. The scheme for drought-prone areas (taken up by districts to wipe out the impact of drought) had made some progress. The object was to free the drought-prone areas from reliance on the weather.

4. Mr Minhas said that future efforts in these areas were intended to center around the consolidation of holdings (every State has some

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COMMUNICATIONS SECTION

President has seen

sort of consolidation scheme); related aspects like relief from drought, water development, drainage and land levelling would be integrated as and when needed; credit and off-season works also could be part of it. The program called for doing a lot of things at the same time in the same place as they inter-acted on each other. All this was intended to result in a concentrated rural resource development program in contrast to a policy of assistance to smaller farmers on a scattered basis. Credit was a very basic component of the whole program. The intention was not to replace present agencies such as the SFDA, MFDA etc but rather to integrate them. However Mr Minhas implied that there was room for rationalizing coordination and control.

5. A few experiments with the new program were going on. Agricultural growth seemed to be better where land holdings had been consolidated. The intention was to expand the effort under the Fifth Plan. In the end it probably would be necessary to survey individual villages. A consolidated program had made headway in the past in Punjab, Haryana and Western Uttar Pradesh and results had been good. Mr Minhas estimated that 10 - 15 years would be needed to bring the whole country under a rural program of this kind. One problem was to obtain the required staff; a multi-disciplinary approach was necessary.

6. Mr Subramaniam emphasized that one would have to learn from experience. He hoped that the nationalized banks would become involved, not only for finance but also as service agencies for extension, supplies and marketing. (Care would have to be taken not to burden banks with too many non-banking functions). The Reserve Bank also had to play its role in stimulating rural development.

7. Mr McNamara said he hoped the Bank group could be associated with this program through a pilot project to be financed by IDA.

8. Mr Pathak was asked to comment on the Commission's work regarding public sector industries. These were being looked into on a case-by-case basis. Different units suffered from different ailments. In steel it was top management and coal, in fertilizer it was lack of power in the Punjab. Capacity utilization left a lot to be desired. In 2 - 2½ years capacities would be utilized fully. In some cases there were additional capacity needs such as in cement. Also needed were better production and materials planning (including faster availability of spare parts; one possibility was the establishment of banks for this purpose) and improved plant operation and maintenance.

9. Mr McNamara said he had the impression that at present the steel and fertilizer plants were inefficient. Mr Pathak agreed that there was a need for rapidly increasing efficiency, referring to the management, maintenance and labor problems of the steel plants. He estimated it would take 2 - 3 years to reach full capacity utilization at Durgapur. For the fertilizer plants average capacity utilization was about 65%.

The problems of this sector had included shortage of power, technical problems in the case of phosphatic fertilizer, design problems (Trombay) and feed-stock problems (Rourkela - coke oven gas from steel plant). Again he thought that in two years these problems could be overcome.

10. Both Mr Subramaniam and Mr Pathak emphasized that the first objective in relation to the public sector industrial enterprises was to aim at full capacity utilization through follow-up on bottlenecks. In many cases this and possible price adjustments would improve profitability, although this would not necessarily be true in all cases (i.e. in case of structural demand problems).

11. Mr Pathak recalled the important task being confronted in the fields of power (where one was moving towards regional integration and high voltage transmission), research and development (which now was receiving increasing emphasis through the National Committee on Science and Technology and the National Research and Development Corporation), road building (which had lagged badly) and river utilization. Mr Pathak made a significant distinction between the import of equipment and technology. He implied the two should be separated which has implications for our projects.

12. Mr McNamara wanted to know how cost efficiency considerations entered into the planning process. The general reply was that the overriding need now was plant utilization more than cost effectiveness. Of course in power development the alternative sources of power were compared economically.

13. In reply to a question of Mr McNamara about national resource surveys, Mr Pathak explained that task forces had been set up three months ago for iron, copper, zinc, groundwater etc; these groups were to report by mid-February. The Geological Survey of India, Indian Bureau of Mines, Oil and Natural Gas Mission, Groundwater Board (which also looked at surface water) etc., were associated with these efforts. Prospects for some of the minerals were good. Hydro resources would have to be utilized more fully for power. Prospects for oil remained a question mark. In reply to a question of Mr Cargill it was said that off-shore shallow water exploration near Bombay had started, as yet without result. A mobile rig was being obtained from Japan (Mitsubishi) and Off-Shore Co. of Texas was looking after the installation. Deep water exploration was awaiting the rig to be supplied by Japan around October. In respect of power Mr Pathak said that India was very interested in the Karnali project in Nepal which could export power to India.

14. Mr Chakravarty commented on his work in the field of perspective planning. This was not a new activity of the Commission but efforts were being made to improve it. Starting from a consolidated production pattern by sectors, investment requirements were determined. More attention than in the past was being given to the space in addition to

the time element in investment. He hoped that the Fifth Plan could be based on a rationalized inter-sectoral, inter-regional optimization model. For instance, in the areas of power and river utilization, there was a clear need for an inter-state and inter-regional approach, Also more attention needed to be given to the timing of investments within the Plan period. This is neglected in the Fourth Plan.

15. In reply to a question of Mr McNamara, Mr Chakravarty said that he was basing his projections on alternative population growth rates of 2.2 and 2.3% up to 1980. The right energy balance caused headaches. Fuel and power had to be studied very closely. There were large quantities of low quality coal against the uncertain oil prospects. To use coal properly required advance planning and investment. Mr McNamara observed and Mr Chakravarty acknowledged that the optimal mix of hydro and thermal power also needed more attention. Coal fields were unevenly spread over the country causing transport problems. Oil demand was going up fast and prices were rising. Coal demand was not coming up as fast as expected. Mr Chakravarty confirmed in reply to a comment of Mr McNamara that in meeting the expected power shortage in the north utilization of Nepalese power also deserved consideration. New techniques for utilizing the energy from coal as developed in the US and South Africa also were being studied. The results of the Energy Study are expected by May.

16. Mr McNamara enquired about the planning activities in the field of urban development. Mr Chakravarty said the Commission had reached the conclusion that in the Indian context rural development was necessary to contain the problems of urban development. This is also obviously Mr Subramaniam's view. One could not possibly solve the problems of the rural areas by moving people out of agriculture. Agro-industries might become an important link between rural and urban development. Here also multi-level planning was needed.

17. Mr McNamara said a key question was which shares of investment should go to the rural and urban areas respectively. He noted that although Calcutta and Bombay had been active in planning, relatively little had been done by way of implementation and that people had continued moving to the towns. Mr Subramaniam pointed out that urban growth was spread over many towns. Mr Cargill felt that the migration aspect of the growth of towns had been overstated; cities had kept growing in part simply because the urban population itself had continued to increase. Mr Chakravarty commented that migration to the towns had slowed but was continuing. He observed that family planning was to be considered in a much wider context of economic and social change than had been done so far. In India family planning today was practiced mainly by the middle class. Mr McNamara noted that in Korea and Taiwan family planning was having a substantial impact on population growth. Bombay was an obvious case where migration to the city was important.

18. Mr Minhas mentioned that the Commission now was giving special attention to the problems of middle-sized cities. How would they look ten years from now? There was a real danger that Kanpur might develop into another Calcutta unless action was taken. Ludhiana should be prevented from becoming a Kanpur. Reports on Kanpur, Ludhiana and a number of other cities were being prepared. Some might be ready in about six months. Mr McNamara requested that copies be made available to the Bank. It was noted that for slum clearance the tendency on the part of the States was to pass on responsibility to the Center. In some cases the time horizon for slum clearance was up to 25 years; the States politically were more interested in short-term programs.

19. Mr McNamara also brought up the link between family planning and nutrition. He recalled that GOI had asked IDA to include a nutrition element in the forthcoming family planning project. He was anxious to do this and hoped that the Bank Group would be able to learn more about the links between improved nutrition and other important objectives like family planning and higher labor productivity. When properly calculated the long run rates of return on projects of this kind might conceivably be quite high. But our knowledge in this area as yet was very limited.

20. Mr Chakravarty said female literacy among the lower clasees was very low (in rural areas on average 12 - 13%) and communication facilities were very limited. These factors at present severely limited the impact of the family planning program and would continue to do so for quite some time. He therefore was inclined to place relatively more emphasis on the problems of increase of productivity in agriculture. Mr Subramaniam emphasized the desirability of progressively transforming the family planning program into a wider program including elements of health and nutrition. Also new ideas were brought into the family planning program, such as the concentrated approach through organization of special family planning camps. Mr McNamara said he realized the difficulties of the family planning program and he was in favor of trying out the package approach.

21. Mr McNamara then enquired about the Commission's thinking on education. Mr Chakravarty said that one of the basic objectives in the Fourth Plan had been to slow down the growth of higher education in relation to primary and secondary education. Unfortunately just the opposite had occurred. It was politically difficult to restrict higher education but the switch in emphasis would have to remain an important element of the strategy in the Fifth Plan. Mr Subramaniam said there was a need for special programs in education for backward districts to be financed by the Center. In the Congress Manifesto the objective was to have all children attend school up to age 11 by 1975 and up to 14 by 1980.

22. Mr Chakravarty remarked that the problems in education were compounded by those in other fields. For instance, drop-out rates were influenced by problems of nutrition (for which the mid-day meal was important), seasonal labor and caste. Mr Minhas mentioned that the

Commission was looking into the pattern and related financing of earmarked Plan expenditures in the States. These included in the Fourth Plan programs in agriculture, irrigation, flood control, power (including rural electrification), elementary education and rural water supply. It was necessary to reassess requirements.

23. In addition to re-establishing the targets the pattern of finance was being scrutinized. It was felt that the present pattern which was part of the general scheme of Plan financial support by the Center to the States under the Gadgil formula (the so-called block allocation to States consisting of 70% loans and 30% grants) was less than satisfactory. Instead, the Planning Commission apparently is thinking in terms of more earmarking. A task force was to report by March 15. Its views would be important not only for the Fifth Plan, but also for the work of the Sixth Finance Commission which would convene this year and have to advise on the constitutional awards of financial assistance by the Center to the States for another five years from 1973/74. However the National Development Council must approve and the Finance Commission be brought in. It was not clear how the Finance Commission gets involved or what relation all this had to ad hoc assistance.

24. Coming back to nutrition Mr Subramaniam recalled that in his report to the United Nations, of which Mr McNamara was aware, he had recommended initially to focus on nutrition in the tribal and poorer areas. Finance was an obvious problem, but the primary need was for more research on the types of food required. Food would have to be indigenous and cheap and the best delivery system had to be carefully considered. A detailed study was going on in Tamil Nadu. Mr Subramaniam, in answer to a question of Mr McNamara about financial requirements, stated that ultimately 50 - 75 million children should be covered. This might involve large sums. He reemphasized the important links with education, family planning and increased labor productivity.

cc: Participants of IBRD, Mr Votaw, Mr Baneth, Resident Mission.

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New Delhi

Mr. Robert S. McNamara

January 31, 1972

To: For the Record

From: W.S. Humphrey

Subject: Mr. McNamara's Meeting with Dr. I.G. Patel

Mr. McNamara met Dr. I.G. Patel in the Finance Ministry at 11.30 am on January 24th. Dr. Sen, Governor Jaganathan and Mr. G.V. Ramakrishna were present on the Indian side. On the Bank side Messrs. Cargill, Clarke, Blobel, Kraske, Humphrey and Ljungh were present.

Impact of the Refugees and the War on Development Expenditures

Mr. McNamara asked Dr. Patel about the impact on development expenditures of the refugee support program, the war and support to Bangla Desh. Dr. Patel said the total expenditure on refugees, not compensated for by foreign relief, would probably be nearly Rs. 300 crores. Dr. Patel said that this included about 140,000 tons of food-grains to be supplied to Bangla Desh and amounts given to refugees for their journey home. In addition other assistance to Bangla Desh to provide essential commodities such as fertiliser, steel and cement together with a loan of £ 5 million to provide working exchange balances would probably total about Rs. 50 crores in this financial year. Defence expenditure itself would probably be about 10 per cent higher than the budget estimate which in turn is higher than last year's expenditure. All told the additional outlays for defence, refugees and assistance to Bangla Desh would probably amount to Rs. 500 crores this financial year, over and above foreign assistance.

The inflationary impact of this additional expenditure had been contained by raising additional taxes. Deficit financing by the Central Government would probably be about Rs. 350 crores compared with Rs. 270 crores in the budget estimate. The states' financial position would be no worse than last year. The total effect on the money supply of the overall increase in the public sector deficit was offset by reduced recourse to the banking system by the private sector. Thus monetary expansion in 1971/72 would probably be less than the expansion in 1970/71. Foreign exchange reserves had remained roughly constant over the year.

Dr. Patel maintained that developmental expenditures had probably not suffered greatly as a result of these events. The Government had not tightened imports since it was important that raw materials be made available for industry. He felt that the budget of last May might have been more ambitious in terms of developmental expenditures had it not been for the prospect of substantial spending on refugees. In addition developmental activity had probably been affected in the eastern region. Thus the Calcutta Metropolitan Development Authority, although spending at 3 times last year's rate, might have spent more in normal circumstances.

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He believed that the additional resources raised through additional taxes and public borrowings had probably reduced private savings and had affected both spending on maintenance and new investment. However, Dr. Jagannathan said that the disbursements by the public financial institutions suggested that private investment was not doing too badly.

Mr. McNamara suggested that the real impact of the war on development might come in the future since India would have run down stocks of petroleum and used up military supplies which would have to be replenished. Dr. Patel agreed with this but said that no estimate of the cost of re-equipping had yet been made. He added that the claims of Bangla Desh on India in fiscal 1972/73 had not been assessed but could well absorb a considerable volume of resources.

In a more detailed discussion of resources needed by Bangla Desh, Dr. Patel said that much depended on how fast the productive facilities got going again. The effort at the Indian end was coordinated by a Committee chaired by Mr. D.P. Dhar, Chairman of the Planning Commission with Dr. A. Mitra, the Economic Adviser, Finance Ministry and Professor Chakravarty of the Planning Commission taking the leading economic roles. One problem was that the materials needed most by Bangla Desh were ones in short supply in India. Thus any steel, POL, fertilisers, raw cotton, and oil seeds supplied by India to Bangla Desh would increase Indian imports of these items. India could supply coal, wheat and some cement to Bangla Desh without an appreciable adverse balance of payments impact. If the newsprint plant in Bangla Desh could resume operations quickly some of its production could be sold in India as could supplies of raw jute.

Dr. Patel said that the damage of physical facilities was not as great as at first thought. Both the Indian railways and telecommunication people who had been sent to Bangla Desh felt that the systems could be restored in the fairly near future provided materials were made available. India has made no assessment of what Bangla Desh might need in the medium and long term but Dr. Patel felt that re-building living accommodation for those who had suffered might make a considerable claim on resources.

International Competitive Bidding for Civil Works

Dr. Patel told Mr. McNamara that he had read the note dated January 18th setting out the Bank's position on international bidding for civil works. So far the Indian argument had been based on the premise that international bidding could be dispensed with altogether for civil works in India. This was probably no longer a realistic position. He would therefore be prepared to consider, on the basis of the proposals in the Bank paper, how to retain an element of international competition in a way which would be appropriate for Indian conditions. He was confident that it would be possible to arrive at an agreement within about 6 months. Mr. McNamara welcomed this and hoped that agreement could be reached as soon as possible.

Conditions of Effectiveness for Mysore, Gorakhpur and Railway Credits

Dr. Patel asked Mr. McNamara what the GOI needed to provide to meet the three special conditions of effectiveness relating to the recent hostilities which had been included in the Mysore, Gorakhpur and Railway credits. Mr. McNamara said that he would be asking the Delhi office to provide a report on the three points and would discuss the form of the report with the office before he left.

IDA Project Pipeline

Dr. Patel referred to Mc. McNamara's interest in financing projects with a social impact particularly related to rural works and small and marginal farmers. He pointed out that while GOI was providing funds for these programs, their evaluation and implementation had to be left largely to the local administration at the district or even block level. The earthy mix of local politics and custom meant that the degree of rationality normally associated with projects directly sponsored by the GOI and submitted to IDA for financing could not be imposed in these cases.

In the circumstances, he wondered whether it would be possible to employ the concept of counterpart financing for such projects inspite of the discouraging experiences made with this kind of arrangement under bilateral aid programs. IDA could finance imports of steel, fertilisers, etc. which would be sold locally to generate counterpart funds. These funds would be used for specific rural programs. IDA staff would be involved in the planning and general implementation policy for these programs. This would have the advantage of providing a rapid transfer of IDA resources and at the same time give IDA the satisfaction of contributing to the development in very critical areas. Mr. McNamara made two points in reaction to this proposal. First, he felt it was important to build up an adequate pipeline of projects in high priority areas to take up the expected levels of IDA's commitment authority. Second, he thought it was essential for the Bank group to get involved in programs such as the rural works and small farmers programs to develop the necessary expertise required to continue its role in attacking critical problems of economic development. India was among the first of the developing countries making serious efforts to grapple with the problem of bringing the fruits of economic development to the least fortunate members of society who are so often by-passed by normal developmental programs. It was desirable for the Bank group to disseminate the experience gained to other countries as well. He realised that the Bank was not in a position to involve itself in these areas on a large scale. He also realised that the risk of failure with projects of this kind was substantial. Accordingly, the proportion of our total lending program devoted to these new projects would remain small for some time. He recognised that it might be necessary to adopt non-standard procedures for this kind of project.

Dr. Patel wondered how IDA commitments for agriculture would be increased. The first round of agricultural credit projects would soon be completed and new irrigation projects would probably result in rather slow disbursements. Mr. Cargill suggested that financing tubewells and rural electrification would contribute to rural development in an area which would need fairly large amounts of capital and hence resource transfers.

IDA Replenishment

Dr. Patel enquired about the status of the IDA replenishment. Mr. McNamara said that although Mr. Nixon had recently announced that he regarded the replenishment of great urgency, he was unlikely to bring any pressure on Congress which would work against his domestic program. Thus, the IDA replenishment was in some difficulties. If the replenishment did not come through by the end of February at which time IDA's commitment ability would be exhausted, Mr. McNamara would propose that projects continue to be processed and approved by the Executive Directors to be signed when resources became available. He would also propose that any project not signed within 6 months of approval by the Executive Directors would lapse. He felt that this would ensure that a delay in replenishment would have the minimum impact on actual development. He added that Congress would probably consider the IDA replenishment and the additional funding for the Inter-American Development Bank together. The problem here was that, together, they made a very large claim on U.S. resources.

cc: Mr. R.S. McNamara
Mr. I.P.M. Cargill
Mr. M. Blobel
Mr. J. Kraske
Mr. O.J. McDiarmid

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Mr. McNamara

January 28, 1972

To: Files
From: T.P. Lankester
Sub: Meeting of Mr. McNamara with P.N. Haksar and P.N.Dhar

1. Mr. McNamara met with Mr. P.N. Haksar (Secretary to the Prime Minister) and Mr. P.N. Dhar (Economic Adviser to the Prime Minister) on January 24, 1972. Mr. Cargill and I were also present.

2. Mr. Haksar commented on the current political and economic situation. He said that despite all the difficulties of the past year the country was now stronger than ever. The Prime Minister's sweeping election victory was the principal reason for this new strength; the successful handling of the refugees followed by the victory in the recent hostilities and the establishment of a free Bangla Desh had also resulted in greater confidence in the central government and a greater feeling of unity in the country; however, the euphoria generated by recent events might not last long. In contrast to the time of Mr. McNamara's last visit and the period right up to the last elections, the government was now in a position to press ahead with needed reforms, and in future there would be fewer undesirable compromises on the economic front. Even so, with many important subjects including agriculture and education under the jurisdiction of the states, the Center's ability to bring about change on its own was limited; and therefore the outcome of the forthcoming state elections was important. To the extent that the Prime Minister's party was in power in the states, the possibility of introducing the reforms which the Center considered necessary - e.g. agricultural income tax and land ceiling legislation - was that much greater.

3. Mr. Haksar said that there was a strong positive correlation between political instability and poor economic performance in the states: U.P., Bihar and West Bengal were the chief laggards. At the other end of the scale, the economic performance of Punjab, Haryana and Maharashtra would compare very favorably with any LDC. The problems of U.P. and Bihar were aggravated by their huge size, and smaller administrative units might be preferable. In West Bengal, the political and economic climate had improved somewhat over the past year and in particular the Naxalite violence had virtually ended. Special measures had been taken to revive economic activity in the state, and with the setting up of the Calcutta Metropolitan Development Authority and a substantial financial commitment by the Center, much more was being done now about the problems of Calcutta city. Nevertheless, it was an uphill task to persuade private investors to invest anew there, and companies continued to move their offices to more congenial places such as Delhi. Mr. McNamara said that the Bank was willing to assist in Calcutta's development; Mr. Dhar replied that a study of Calcutta's development needs was currently being undertaken

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by GOI, following which the Bank might be approached for assistance.

4. Mr. Haksar agreed with Mr. McNamara that vast numbers of people had barely been touched by development so far. He said that the government was now trying to redirect its planning so that more people would benefit in future, and to some extent he thought that the government's strong position at present reflected satisfaction that it was moving in the necessary direction. However, the cost of the refugees and then the war had set back these efforts.

5. At Mr. McNamara's request, Mr. Dhar gave his impressions of Bangla Desh, which he had visited a month previously. He said that the damage to physical assets was relatively small, and even when he was there a good deal of repair work (e.g. of minor bridges) was already under-way. The disruption of economic activity was much less than he had expected. As against earlier reports, the summer rice crop had been quite good and hence the current food position was reasonable. He was impressed by the endeavours of the administrators, many young and inexperienced, to bring the country back to normal. A key problem, however, was the lack of top technical personnel, many of whom had either left for West Pakistan or been killed. This applied particularly in the railways. He also agreed with Mr. McNamara that the rehabilitation of the 10 million refugees from India plus other refugees within the country would be an enormous administrative and financial burden. Mr. McNamara said that the Bank was willing to do whatever it could in the reconstruction of Bangla Desh, and he himself was willing to go to Dacca next week if that would prove useful.

6. Mr. Haksar said that he hoped a new era of cooperation would emerge on the sub-continent. Already the possibilities of collaboration with Bangla Desh was being explored, particularly in the area of irrigation and flood control. There was also considerable potential for economic cooperation with West Pakistan, if only the latter would change its hostile attitude towards India.

7. Mr. Haksar expressed his government's admiration for Mr. McNamara's stewardship of the Bank. He was happy that by and large the Bank's objectives coincided with those of the government; he hoped that the Bank would be responsive to India's changing needs and that the coincidence of objectives would continue.

cc. M/s. McNamara, Cargill, Votaw, Kraske, Blobel,
McDiarmid, Humphrey, van der Mel, Naylor,
King, Ladejinsky, Barry

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OFFICE MEMORANDUM

To: Files

February 2, 1972

From: O.J. McDiarmid O. J. McDiarmid

Subject: Principal Points made in Meetings of Finance Minister Chavan and Dr. I.G. Patel with Messrs. McNamara, Cargill, McDiarmid et al.

1. Lending Program - Mr. McNamara said that he was pleased with the general relations between India and the Bank Group. He was concerned about the pipeline of projects as he was not certain that there were enough projects in the program to provide $ 360 - 370 million a year of commitments to India if the IDA replenishment is ratified. Probably the pipeline for 1972 - 73 is adequate but he had doubts about 1973 - 74. While strongly supporting the rural programs not much financial assistance in the near future is likely to be provided through that channel. Mr. Chavan said that the performance of these rural programs was mixed, with the drought prone areas and rural works programs going quite well but the programs for the small and marginal farmers had not yet really taken off.

In connection with the IDA replenishment Dr. Patel observed that there was a great need to establish some sort of automatic formula for IDA replenishment. The link with SDRs seems the only practical proposal but the time that will be required to achieve agreement on a new international monetary system will delay the availability of SDRs for financing economic development. (Surely an agreement will be reached in 2 - 3 years). Dr. Patel also expressed concern about the conditions that might be attached to the IDA replenishment. Mr. McNamara explained that no conditions can be attached to the agreed formula for IDA replenishment but that if any one contributor attached conditions to its contribution it might have the effect of nullifying the agreement. He considered it likely that conditions would be proposed in Congress but he hoped that they would not stick. He referred to the expropriation issue and hoped that conditions on this point will not be attached to the US contribution. He pointed out that in Mr. Nixon's recent statement of policy on foreign aid the US Director would only be required to abstain in the case of a loan to a country that had expropriated property without adequate compensation but would not be required to vote against the proposed loan or credit. He observed that the US had suggested that certain projects be held back because of the expropriation issue but nevertheless the Bank had proceeded with them and they had been approved. He felt that the US Administration is trying hard to get the IDA Bill through. If it is delayed the Bank will continue processing projects on the same basis that it did pending the second IDA replenishment and last July pending partial replenishment. In answer to Mr. Chavan's question Mr. McNamara said that if the Bill was not passed by the House when presented on February 1, it might be delayed until after the US elections. He said that Sir Denis Rickett was starting to work on the fourth replenishment.

In a subsequent conversation with Mr. Cargill, Dr. Patel was concerned about how a lending program of $ 350 - 400 million could be expected without

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at least $ 100 million a year of non-project aid. He felt that the railways, power and communications sectors would have diminishing requirements of imports probably not, more than $ 150 million a year. Rural programs would take a long time and would involve the Bank in difficult areas for project preparation and execution. Then there was the ICB issue. He hoped that the annual battle over industrial imports would not become a regular feature. Messrs. Cargill and McDiarmid observed India seemed to be qualified for non-project lending under the conditions in the Chenery paper and the report now being prepared on industrial imports should make the case at least for the rest of the Fourth Plan.

International Competitive Bidding

Mr. Chavan said that this was a subject on which the Government had not yet taken a final position. He observed that States as well as the Center would be involved. Dr. Patel said that the last section of the Bank paper (revised Thalwitz report) dealing with the steps necessary to improve the construction industry in India should be separated from the main issue of procurement policy. Mr. McNamara agreed. In the subsequent meeting with Dr. Patel, Mr. Cargill reviewed the main points in the Thalwitz report and reiterated the problem faced by the Bank, viz. the concern of capital exporting (Part 1) countries that they should have a chance to compete for Bank Group financed civil works. His second point was that he felt that there was a wide range of works in India where labour intensive methods were appropriate and mentioned the Kadana project as an example. The proposals in the Thalwitz report for (a) slicing and packaging (b) introduce labour intensive considerations at the design stage and (c) use shadow prices in project evaluation, were discussed and their limitations explored. The trouble with the slice and package idea was that unless each part of the job attracted the bids of small contractors the large contractor who bid on the project as a whole would probably get the award. Also the way in which one could slice and package a dam project in contrast with a road project was not clear. The possibility of designing projects with the labour intensive objectives was also probably quite limited if quality standards were to be maintained. Alternative designs (capital and labour intensive) are seldom possible. Of course, once designed alternative factor proportions could be used. On the question of evaluation Messrs. Cargill and Patel felt that it would be difficult for a Government to give an overt subsidy for the difference between the market and shadow wage rate. Mr. McDiarmid observed that in reality this might already be done if projects were evaluated simply on the basis of market prices without ICB. Mr. Cargill suggested that there was a lacuna in the investigations made thus far and Indian engineers should be consulted as to whether or not they can work as fast with labour intensive as with capital intensive methods. Also whether the Thalwitz proposal of shadow pricing in project evaluation could be made understandable to those "soiling their hands" with contracting.

Despite the shortcomings of the proposals in the latest Bank paper, Dr. Patel felt that the Cabinet might be approached on the basis of two or three concrete projects such as Tawa and Jayakwadi. He thought this would have more appeal than discussing general principles. He would like to know what portions of the Pochampad project was deemed by the Bank as suitable for international tendering. There was some worry that foreign contractors could afford to outbid Indian contractors by bringing in equipment and selling it in India and thus making a profit on the equipment rather than on the project. A procedure needed to be devised that would give a "tilt" in favour of domestic contractors by providing methods of project execution with which Indian contractors are familiar. Dr. Patel asked whether a flat preference for domestic contractors was not the best way to adjust for the problem of factor prices and whether such a preference is negotiable in the Bank. Mr. Cargill did not rule this out. Mr. Kraske observed that the Bank's position had been that a preference was not the way of dealing with the problem of market versus shadow prices. Dr. Patel said that the proposal for joint ventures with foreigners was not acceptable as contracting was not included among the areas where collaboration is possible under present policies. In closing the subject Mr. Cargill observed that Mr. McNamara wanted to establish a record in a few cases to show the degree of interest of foreign contractors in Indian projects. Also we need evidence that shadow pricing is not practicable. Mr. Ramakrishna suggested that roads and Jayakwadi might be the best testing grounds since the Bombay Water Supply project was probably ruled out since there cannot be much IDA financed civil works involved in any case in that project.

The Dry Land Farming Institute - Mr. McNamara mentioned this subject because the Institute is to be established in India and Dr. Cummings is coming here shortly on a follow-up mission. Mr. McNamara pointed out that these international agricultural institutes are autonomous. They had accomplished a great deal with a comparably small amount ($ 16 million initially for the IRRI) and were supported by the Ford and Rockefeller Foundations. The proposed International Research Institute for Arid Areas would require about $ 25 million of which $ 6 million was available from the Foundations. Techniques developed by the Institute of course would be applied on a worldwide basis. Mr. Chavan said that India was interested in these techniques and was keen about having the institute established in India.

Calcutta - Mr. McNamara said that the Bank Group would be interested in providing finances for Calcutta. Dr. Patel observed that the CMDA was an efficient executing agency and that a line of credit for CMDA rather than the project approach would be preferable. Mr. Chavan said that the urban problem was not confined to Calcutta and Mr. McNamara mentioned Mr. Minhas' point about helping the smaller cities before they become problems. Mr. McNamara said that the Bank Group was interested in urban transport but not very keen on building subways. He thought that satellite cities might be a better bet than rapid transit schemes, including the development of sites with various public services. This approach was probably not practicable in Calcutta. He felt that the costs of even low cost housing were beyond the Bank Group's capability to finance the $ 300 billion.

Additional Bank Lending to India - Dr. Patel asked whether in view of the IDA situation the Bank could not increase its own lending in India.

Mr. McNamara linked this with the debt problem mentioning that the Bank had to borrow from 1974 - 78 about twice the $ 1.4 billion it had borrowed for a similar period in the past. This impelled him to refrain from participation in debt rescheduling since he felt that such rescheduling would impair the Bank's creditworthiness for the volume of borrowing that had to be contemplated, viz. $ 2.5 billion in the next 5 years. The groups of underwriters before whom Mr. McNamara has to appear in connection with the Bank's bond issues usually raise the question of the debt problem and rescheduling. Dr. Patel observed that the debt problem was aggravated by the freezing of bilateral aid flows. However, Mr. McNamara could not visualize a reversal of the Bank's policy of reducing its exposure in India. It would be too much of a contradiction to go in for more Bank loans when the Bank will not participate in debt rescheduling.

In a subsequent brief discussion between Mr. Cargill and Dr. Patel the question of the Bank's debt/aid study came up. Mr. Maurice Williams had indicated that it might be possible for the US to participate in a debt exercise regardless of its position on bilateral aid. Mr. Cargill has asked Mr. Coombs of the Reserve Bank of Australia to participate in the debt exercise. Mr. Cargill intends to raise the matter during the Pakistan Consortium on February 25 and ask if it might be possible to extend the Guindey exercise for another year or at least until the Bank's long term debt/aid study is completed which he thought would be about six months. This subject is to be pursued further. A likely solution might be to extend the Guindey exercise for a year and develop a long-term solution in the interim. After discussing the matter further at the NDO, Mr. Cargill told Dr. Patel that we expected to finish the debt/aid paper in two or three weeks by focussing on the next two years. This would permit a WP meeting in March or April. Dr. Patel spoke about his budget problem. He already had a fair idea of aid from non-US sources for next year. It would be difficult to provide for US debt service in the budget if no fresh US aid is in prospect. There would be questions. He hoped the February 25th meeting would cast some light on the matter. The budget speech is scheduled for March 16. While musing on the debt/aid problem, Dr. Patel wondered whether the bilateral approach might not be better since it was becoming increasingly difficult to fit all the Consortium members into an aid cum debt package.

Regarding the aid/debt study the Indian position under present circumstances must be somewhat ambivalent. It is difficult for the officials to request high aid levels when ministers are talking of self-reliance. Therefore in preparing the aid/debt paper Dr. Patel requested that alternative projections be made (a) on the assumption of 1971/72 net aid flow and (b) level of net aid needed to close resources gap. The paper is to be shown to GOI in draft.

Special Conditions attached to the Mysore, Gorakhpur and Railway Credits

These conditions are -

(a) the government's financial position is such as to ensure that the project continues to justify expenditure of the required resources;

(b) the project can be completed in accordance with the plan presented to the Directors and will achieve the developmental objectives on the basis of which they approved it; and

(c) the project is not related, directly or indirectly, to any military operations which may at the time be under way.

Condition (c) is no longer a problem but something will have to be presented on conditions (a) and (b). Dr. Patel would like to get these special conditions for effectiveness out of the way as soon as possible even before the other conditions for effectiveness of these credits are met. It was agreed that the Delhi Office would provide material indicating that condition (a) was satisfied. Mr. Cargill seemed to think that something quite general would suffice. Mr. McDiarmid said that we would have to get information from DEA to support the proposition that the Government was able to finance the execution of the projects.

Tractors - Partly in preparation for the meeting with FICCI (Mr. Nanda) Dr. Patel said that the domestic demand for tractors had been overestimated and that not all the provision for tractors in the IDA agricultural credits would probably be used. He felt that the distributors of foreign tractors have jacked up their prices and the farmers prefer to buy domestic tractors. This does not seem to be consistent with Mr. Nanda's complaint that he cannot sell his tractors. Probably there is a lack of demand for both foreign and domestic tractors. Mr. McDiarmid said that Mr. Nanda claimed that the credit arrangements favor foreign tractors. Mr. Cargill suggested that Mr. Naylor might look into this problem. At a subsequent meeting Dr. Patel asked if domestic tractors could be included for IDA financing. Mr. Cargill said Mr. Kraske was looking into it.

cc: Mr. Cargill
Mr. Kraske
NDO staff

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MR. ROBERT S. McNAMARA

February 2, 1972

To: Files

From: W.S. Humphrey

Subject: Meeting between Mr. McNamara and Representatives of Industry

1. The industrialists present were: Mr. S.S. Kanoria, President, Mr. Madanmohan Mangaldas, Vice-President, Mr. G.L. Bansal, Secretary-General of Federation of Indian Chambers of Commerce & Industry, Mr. H.P. Nanda, President, Escorts Ltd., and Mr. Ashok Jain, Calcutta.

2. Mr. McNamara asked the industrialists to give their assessment of the current industrial scene. They told him that industry at present was very profitable and that their main concern was a lack of new investment. New industries are not coming up. Industrial production had been slowed down by a shortage of raw materials and other constraints on the supply side such as labour unrest and power and transport bottlenecks. They felt that the raw material position was now improving and that the government was processing investment applications more rapidly. The licensing had been streamlined. They were however concerned about the possible prolonged cut off of U.S. aid. If sufficient raw materials were provided, engineering goods production could expand quickly particularly to meet export demand. They felt that the Government's failure to authorise sufficient imports of raw materials arose more from inadvertent bureaucratic delays in administering the import control system rather than lack of appreciation that more raw materials were needed to boost industrial production. They estimated that capacity to produce textiles was used up to 85%, machinery 60% and other engineering goods 50%. Mr. McNamara asked why much new investment was needed if a substantial amount of industrial capacity was unused. It was pointed out that in a number of industries such as paper, cement and heavy chemicals, production would only be increased if additional investments were made. Other industries would be stimulated if public and private investment picked up. In answer to Mr. McNamara Mr. Kanoria said the refugees had not been much of a burden because of the good supply of food.

3. Mr. Nanda said that he felt that the government was importing too many tractors and that domestic producers were therefore suffering. He wondered why domestic producers were not permitted to bid on tractors procured under IDA credits. He also felt that it would be better to import 50% of the requirements for tractors and assemble them here rather than import complete tractors. This would give more employment in India. He said Escorts were producing only 18,000 tractors a year now as compared with 20,000 in 1969. Price ceilings were too low being based on a lower value of machinery than at present. He also felt that the recent increases in the import and excise duties for tractors would considerably reduce demand. Mr. McNamara said that he agreed with the decision to increase tractor prices since it was necessary to ensure that tractors did not replace labour.

President has seen

4. Mr. Nanda also referred to the difficulties which India exporters faced when competing with credit terms offered by developed countries. This arose particularly where India was trying to export all the equipment needed for substantial industrial and power projects. He wondered whether the Bank could help developing countries by providing export credit. Mr. McNamara said that the amount of IDA financing available to India was limited and it was largely a matter for government to decide to which uses this financing could be put. Export credit financing was not a normal activity for IDA and it would therefore be more appropriate for the government to provide better export financing on its own if this was required. Mr. Nanda estimated India's need for export financing as rising from Rs. 100 to Rs. 500 now over 5 years.

5. Mr. McNamara recalled that when he was in Calcutta in 1968, industrial activity was at a very low ebb. The industrialists told him that in the last 6 months there had been a tremendous improvement. The law and order position was much better and the purchase of supplies for refugees had given a boost to West Bengal's economy. When normal trade between Bangla Desh and India resumed, this would further improve the industrial climate. Because of all this, industrial investment was beginning to revive, the jute industry, now producing at record levels, was beginning to modernise and the engineering industry had the prospect of more orders from the railways. One of the principal reasons for the improvement in law and order was the excellent team work between administrators and the politicians. The industrialists had high hopes that the forthcoming state elections would see the Congress party returned with an absolute majority. The main problem was continuing labour unrest as a struggle for control of unions continued between the Congress and the Communist Marxist Party.

6. Items of secondary importance mentioned were that the impact of CMDA was still not very great, that Haldia port and refinery should be opened next year and a shipyard and free port were planned.

7. In conclusion, Mr. McNamara said that he was encouraged by the optimistic assessment for the future given by the industrialists, since it somewhat offset his earlier impression that the industrial sector was at present rather weak.

c.c. Messrs. McNamara
Cargill
Blobel
Kraske
McDiarmid

MR. ROBERT S. McNAMARA

February 2, 1972

To: Files

From: W.S. Humphrey

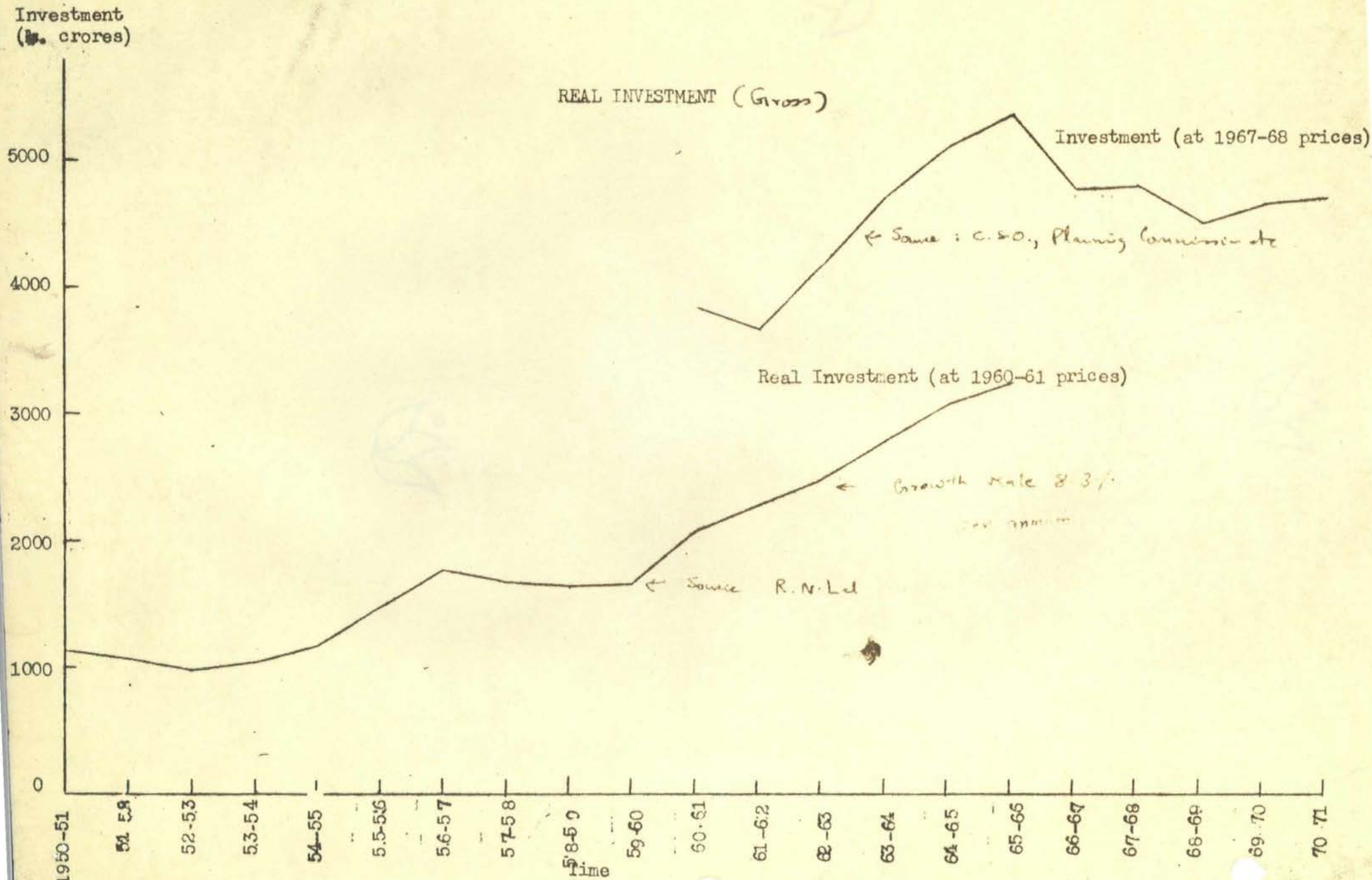
Subject: Mr. McNamara's meeting with Mr. Bhoothalingam (NCAER) and Dr. T.N. Srinivasan (Indian Statistical Institute)

1. Mr. McNamara asked about the impact of the recent growth of the economy on the bottom 40% of income earners. Mr. Bhoothalingam said that there had probably not been much improvement in the standard of living of this 40%. The only encouraging feature was the probable reduction of the number of people in the lowest income group of all (under Rs. 1000 per family). At the other end of the scale, incomes of more prosperous farmers had undoubtedly increased, leading to more inequality of income in rural areas. Taxing increased rural incomes was a high priority but this was difficult both for administrative and political reasons. Mr. McNamara asked why it was difficult politically to tax agricultural incomes since the number of tax payers in each village would be relatively small compared with the total number of voters. Mr. Bhoothalingam said that the 6 or 8 people in each village who would have to pay income tax were the village leaders who also provided credit and other facilities to local farmers. Villagers would therefore be reluctant to support anything which hurt the interests of the village elite for fear of being deprived of credit and other facilities.

2. Mr. Bhoothalingam and Dr. Srinivasan cautioned against over-optimism on future economic trends. Even in agriculture, success had been almost entirely confined to wheat and rice in certain areas. (Srinivasan said he saw no progress in rice) Cotton and oilseeds production had shown virtually no growth. Both public and private investment had run at rather low levels since 1965/66 and the trend was declining. Srinivasan's chart (attached) shows gross investment in real terms (1967/68 prices) declined from about Rs. 5300 crores in 1965/66 to about Rs. 4400 crores in 1968/69. Since then it has increased to about Rs. 4600 crores. Public investment (also at 1967/68 prices) fell from about Rs. 2700 crores in 1964/65 to Rs. 1600 crores in 1969/70 and rose to about Rs. 1950 crores in 1970/71. Unless investment levels picked up markedly, it was difficult to see how even the present modest economic growth rates could be sustained. Raising resources to permit investment to increase was clearly a major problem. Both Mr. Bhoothalingam and Dr. Srinivasan thought that a lowering of controls on both imports and investment would be needed to permit output and investment to grow faster. Mr. Bhoothalingam particularly emphasised the rigidities in the control system together with the complexities which made it difficult to operate it sensibly even when the policy directives from the top were quite clear. Both the economists were much more gloomy about the future of industrial and overall economic growth than the industrialists whom Mr. McNamara had talked to earlier.

cc. Messrs. McNamara, Cargill, Blobel,
Kraske, McDiarmid, N.D.O.

President has seen


Investment
(Rs. crores)
REAL INVESTMENT (Gross)
Investment (at 1967-68 prices)
Real Investment (at 1960-61 prices)
Source : C.S.O., Planning Commission etc
Growth rate 8.3%
per annum
Source R.N.Lal
5000
4000
3000
2000
1000
0
1950-51
51-52
52-53
53-54
54-55
55-56
56-57
57-58
58-59
59-60
60-61
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62-63
63-64
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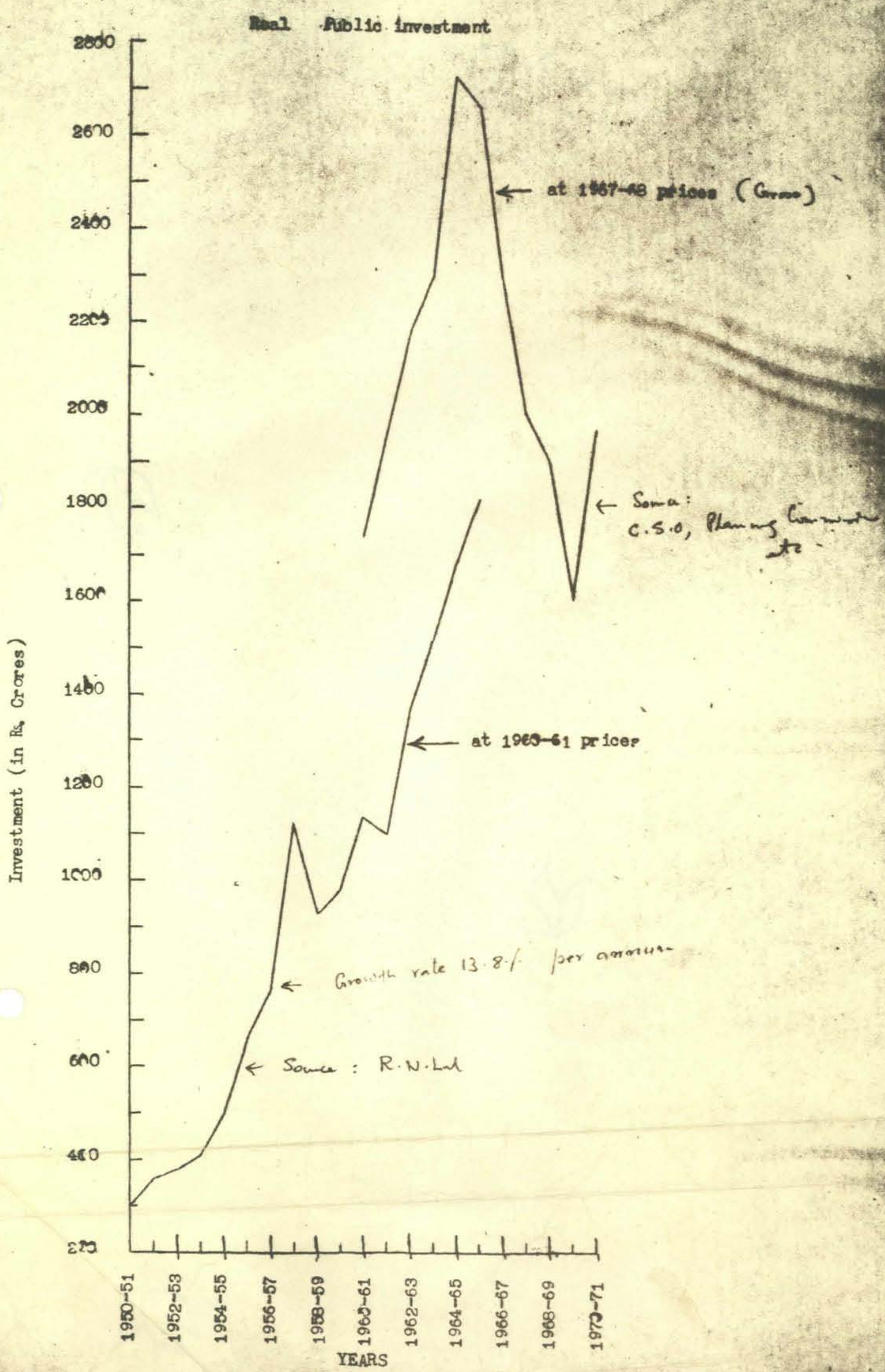
65-66
66-67
67-68
68-69
69-70
70-71
Time



Real Public investment
Investment (in Rs. Crores)
2800
2600
2400
2200
2000
1800
1600
1400
1200
1000
800
600
400
200
1950-51
1952-53
1954-55
1956-57
1958-59
1960-61
1962-63
1964-65
1966-67
1968-69
1970-71
YEARS
at 1967-68 prices (Gross)
at 1960-61 prices
Source: C.S.O, Planning Commission etc.
Growth rate 13.8% per annum
Source : R.N. Lal

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MR. ROBERT S. McNAMARA

69

February 2, 1972

To: Files

From: W.S. Humphrey

Subject: Mr. McNamara's meeting with Mr. Bhoothalingam (NCAER) and Dr. T.N. Srinivasan (Indian Statistical Institute) - 1/28/72

1. Mr. McNamara asked about the impact of the recent growth of the economy on the bottom 40% of income earners. Mr. Bhoothalingam said that there had probably not been much improvement in the standard of living of this 40%. The only encouraging feature was the probable reduction of the number of people in the lowest income group of all (under Rs. 1000 per family). At the other end of the scale, incomes of more prosperous farmers had undoubtedly increased, leading to more inequality of income in rural areas. Taxing increased rural incomes was a high priority but this was difficult both for administrative and political reasons. Mr. McNamara asked why it was difficult politically to tax agricultural incomes since the number of tax payers in each village would be relatively small compared with the total number of voters. Mr. Bhoothalingam said that the 6 or 8 people in each village who would have to pay income tax were the village leaders who also provided credit and other facilities to local farmers. Villagers would therefore be reluctant to support anything which hurt the interests of the village elite for fear of being deprived of credit and other facilities.

2. Mr. Bhoothalingam and Dr. Srinivasan cautioned against over-optimism on future economic trends. Even in agriculture, success had been almost entirely confined to wheat and rice in certain areas. (Srinivasan said he saw no progress in rice) Cotton and oilseeds production had shown virtually no growth. Both public and private investment had run at rather low levels since 1965/66 and the trend was declining. Srinivasan's chart (attached) shows gross investment in real terms (1967/68 prices) declined from about Rs. 5300 crores in 1965/66 to about Rs. 4400 crores in 1968/69. Since then it has increased to about Rs. 4600 crores. Public investment (also at 1967/68 prices) fell from about Rs. 2700 crores in 1964/65 to Rs. 1600 crores in 1969/70 and rose to about Rs. 1950 crores in 1970/71. Unless investment levels picked up markedly, it was difficult to see how even the present modest economic growth rates could be sustained. Raising resources to permit investment to increase was clearly a major problem. Both Mr. Bhoothalingam and Dr. Srinivasan thought that a lowering of controls on both imports and investment would be needed to permit output and investment to grow faster. Mr. Bhoothalingam particularly emphasised the rigidities in the control system together with the complexities which made it difficult to operate it sensibly even when the policy directives from the top were quite clear. Both the economists were much more gloomy about the future of industrial and overall economic growth than the industrialists whom Mr. McNamara had talked to earlier.

cc. Messrs. McNamara, Cargill, Blobel,
Kraske, McDiarmid, N.D.O.

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

OFFICE MEMORANDUM

TO: Records DATE: February 14, 1972

FROM: Jochen Kraske

SUBJECT: India/Nepal - Power Development

Mr. McNamara met with Dr. I.G. Patel, Secretary, Ministry of Finance, on January 28, 1972, to enquire about the state of discussions between the Indian and Nepalese Governments concerning the development of the Karnali power project. Mr. Rajagopolan, Deputy Secretary, Ministry of Finance, two representatives from the Ministry of Irrigation and Power, Dr. Sen, Executive Director, and Messrs. Cargill, McDiarmid, Ljungh and Kraske were present at the meeting.

Mr. McNamara explained that in his discussions with Nepalese Government officials he had been asked repeatedly whether the Bank would consider assisting in the financing of the proposed Karnali hydroelectric scheme. He had pointed out that the viability and justification of the scheme would seem to depend entirely on India's willingness to purchase the bulk of the power generated by the project. Once it was established that India was interested in purchasing a sufficient amount of the available power it was necessary to determine whether Karnali was the right choice among possible alternatives. Furthermore, a solution of any technical problems associated with the project and satisfactory contractual arrangements with India would be necessary before the question of financing really became an issue. Mr. McNamara thought that compared with the problems which had to be resolved in reaching agreement among the interested parties and in the process of preparing the project, finding the required financial resources should not be too difficult. He had agreed that he would mention the project to the Indian Government and find out the Indian Government's views about it.

Dr. Patel said that an expansion of cooperation with Nepal, already active in some areas, was being considered as a matter of general policy. Discussions of joint efforts in developing Nepal's hydroelectric power potential had been going on for some time between the Ministry of Irrigation and Power and the Nepalese Government and were continuing. India was interested in the possibility of a joint development of the Karnali project. However, it was premature to say that agreement in principle had been reached between the two Governments.

Dr. Patel explained that the question was not one of immediate concern to India. Power supply in the area adjacent to Nepal was relatively ample considering existing capacity and projects under construction in India. Undoubtedly, power consumption would continue to increase and substantial additional generating capacity would be needed eventually. Various alternative sources of additional power, including the possibility of power purchases from Nepal, would have to be studied in this context.

President has seen

Dr. Patel went on to say that cooperation with Nepal in power development raised difficult problems related to the security of supplies, the operation of the power facilities, the price to be paid by India for the power and the financing of the investment. So far none of these questions had been seriously tackled in the consultations with the Nepalese; the problem of outside financing had never been mentioned to his knowledge. In addition, there were technical issues to be considered; India would like to carry out on her own a technical survey of alternative projects in Nepal.

Mr. Cargill mentioned that a major unresolved problem affecting the Karnali project was the question of the appropriate site which had important implications for the technical design of the dam. Mr. Cargill mentioned that the Bank could carry out a desk study based on the reports available so far on the Karnali project. This study should focus inter alia on the benefits which Nepal could expect to derive from the Karnali project assuming that the bulk of the power would be sold to India.

Mr. McNamara concluded the discussion by saying that it would seem to be a matter for India and Nepal to come to an agreement before the Bank could play a role in this project. He noted that there was in Kathmandu and in Delhi a rather different concept of the immediacy of the project. Mr. McNamara encouraged efforts by the Indian Government to bring about closer cooperation with Nepal. He was convinced that important advantages could be gained by India not only from joint power development but more importantly perhaps from the joint development of irrigation schemes and erosion control.

JKraske:rk

cc: Messrs. McNamara
Cargill
Votaw
McDiarmid
Kirk
Roulet

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

OFFICE MEMORANDUM

TO: Files

DATE: August 1, 1972

FROM: N. S. Segal

SUBJECT: INDIA--Discussions on India Debt Relief

1. Dr. H. C. Coombs met with Mr. R. S. McNamara on June 5, 1972. Also present at this meeting were Mr. Gregory B. Votaw, Deputy Director, South Asia Department and Mr. N. S. Segal, Economist, South Asia Department.

2. Dr. Coombs outlined briefly the view he had reached on the Indian debt problem. He said it was, in fact, not purely a debt problem, because it also involved questions of the form and quality of aid. By and large, he had been influenced in his assessment of the situation by the Bank's 1972 Economic Report on India. He had concluded from this that India's minimum import requirements could be met only by substantially drawing down her reserves at a dangerously fast rate, or by increasing aid disbursements significantly above the levels that would normally be achieved. Of course, India's imports could be cut back, but this would be costly in terms of economic growth. Since India's economic management tended to be so cautious it was unlikely that she would proceed with her import program and thereby approach a default situation. But this was a factor that the Consortium had to bear in mind. Fundamentally, therefore, there was a trade-off between economic growth and a stable international financial position, and he felt that it was up to the Consortium countries to ensure economic growth. As far as the form and quality of aid were concerned, Dr. Coombs said that he was satisfied that for a variety of reasons which would be well known to Mr. McNamara the particular economic conditions pertaining in India demanded that as high a proportion as possible of aid be made available in free foreign exchange.

3. Dr. Coombs said that the general picture he had outlined above had been more or less accepted by the Consortium governments he had visited so far. However, it was clear that governments were constrained in various ways in the amounts of debt relief they could provide, and hence he was thinking of providing governments with some flexibility in the way they could make their contributions to the present exercise. He was still groping for the solution to this difficulty. One possibility was to stipulate that governments make a minimum contribution by means of pure debt relief and that the balance of their share be made up by means of debt relief and/or aid untying and/or a credit for increases in new commitments of non-project aid.

4. Dr. Coombs said that partly because it was certain that bilateral members of the Consortium would not be able to meet the target of US$200 million he had given serious thought to the participation of the Bank/IDA in the exercise. There were powerful economic reasons for wanting to reach the total of US$200 million, which would also have a strong political impact on the Government of India. There were also more general factors which had led him to believe that the Bank/IDA should participate. It was the Bank staff who had proposed the debt relief exercise, and it seemed only right that the Bank/IDA as a creditor of India like other members of the Consortium should follow the logic of these proposals in joining a concerted Consortium action. Moreover, Bank/IDA held a special position in the Consortium. It was a major creditor; it took the part of India in various discussions and nego-

President has seen

tiations; and overall it exercised the moral and intellectual leadership of the Consortium. Dr. Coombs said that there was strong feelings in some of the countries he had visited that the Bank would be withdrawing its responsibility as a bank and as the leading member of the Consortium if it were to refuse to share in the risks and obligations which were a normal part of development lending. Dr. Coombs said that he was aware that the Bank was confronted by particular constraints and problems which made its participation in debt relief different in kind from that of other Consortium members. As a result it would probably be necessary for the Bank to evolve its own particular way of dealing with the problem.

5. Dr. Coombs said that over the following few days in Washington he would be talking to the US Government of its participation in the exercise. He had met with US officials in mid-April at the start of his mission and at that time he had understood that the question of their participation was essentially a political one. It had appeared to him that it would be technically easy for the USA to contribute its share of debt relief and indeed most of the officials concerned appeared very sympathetic to the Bank staff's proposals. However, it was now seven weeks later and the Consortium meeting would soon take place and the US Government would have to make a decision as to how it would deal with the situation. He would be most grateful for any advice Mr. McNamara had to offer on whom he should see in the US Government and how to broach the subject with them.

6. Dealing with the latter problem first, Mr. McNamara said that the US attitude towards India was evolving albeit slowly. It would be some time before "a new plateau of stability" in the relationship with India would be reached. US aid remained suspended and he felt that it would be some time before that would be changed. On a more hopeful note, the proposed budget for FY 1973 contained a fairly substantial level of aid for India which could be taken to indicate that the US Government was envisaging a continuing aid relationship with that country. He said that in his own view it was extremely unlikely that Dr. Coombs would receive at his meetings with the US Government a favorable response on the question of its participation in the debt relief exercise; in fact he doubted that the US would give even a definitive answer. He said that this indecision was partly due to the President and partly also due to the fact that the entire bureaucracy in the US Government was currently in a mood to question all aspects of US policy towards India. There was little that an outsider could do in such a situation other than to attempt to keep the Government moving "in the right direction". If the US remained adamant as far as new commitments to India were concerned, Mr. McNamara said that it may be necessary to have a fifth year of the Guindey exercise rather than to undertake an entirely new exercise--he felt it more likely that the US would go along with such a proposal than with anything new. Mr. McNamara suggested that Dr. Coombs meet with Mr. Maurice Williams, Deputy Administrator, USAID, preferably before he meet with others in the US Government. Mr. Williams was not in a position to change US policy but he was very familiar with all aspects of it.

7. As far as Bank/IDA participation in the debt relief exercise was concerned, Mr. McNamara said that he had always been concerned about the ambivalent approach adopted by Consortium Governments and the anomalous position in which

this placed the Bank. He said that the Executive Directors of the Bank had said that the Bank should borrow around US$11 billion over the next 6-7 years. This was a huge borrowing program, more than four times that of the recent past. To raise this money it would, amongst other things, be essential for the Bank's financial guarantees to be strengthened, because this would be the most significant way in which the Bank's capital structure could retain an appropriate debt/equity ratio. However, governments had not so far indicated their willingness to extend the Bank's guarantees. Therefore, much as he would like to participate in the present debt relief exercise, and in fact in debt relief exercises in general, he could not do so at the same time as governments wanted him to raise US$11 billion without providing him a strengthened capital structure.

8. Mr. McNamara said that as far as its source of funds were concerned the Bank was unique in two respects. First it differed from commercial banks in that most of its debtors were what would normally be regarded as commercial risks. Secondly, the Bank differed from governments in that it had no recourse to taxation and that unlike public institutions such as the US Exim Bank it was not able to borrow with an unrestricted guarantee authority.

9. Mr. McNamara said that in addition to these considerations the Bank had to guard its credit rating in world markets with the utmost care. There was no doubt in his mind that unless there were to be greatly increased guarantees provided by member Governments to the Bank and/or additional equity made up in some other form, the Bank's bond rating would drop drastically if it were to participate in the present debt relief exercise. After all, the Bank could not stop at India. Chile, Ghana, and Pakistan were recent examples of what could well become a much greater problem in the future extending to many other developing countries. In reply to this latter point Dr. Coombs remarked that the very fact that debt problems were going to become a continuing feature of the aid situation in the 1970's seemed to him to make it imperative that the Bank find as soon as possible an appropriate means to discharge its responsibilities along with other creditors.

10. Dr. Coombs said that he had listened with great interest to what Mr. McNamara had said and readily understood the difficulty that could be created for the Bank if its policy and capital structure were to be judged by the bond market to be inappropriate to its normal lending operations. He had not until the present meeting been aware that the Bank guarantees were as dangerously limited as Mr. McNamara had explained. Nevertheless, he felt the arguments that he had given earlier that it was of the utmost importance for the future of the India Consortium that the Bank participate in the Indian debt relief exercise remained valid, and therefore he wondered whether there might not be other ways and means by which the Bank could make its contribution. For instance, he wondered whether it might be possible for IDA to increase the proportion of program lending within its allocation to India or whether it might be possible for the Bank to extend non-projects loans. Mr. McNamara replied that the very same governments which had been persuading Dr. Coombs that the Bank/IDA should participate in the debt relief exercise also gave considerable difficulty on the Board of the Bank when it came to approving non-project lending to India as well as to other countries. Therefore he felt that the chances of increasing IDA's non-project lending commitment to India above the present level of US$75 million were not good. The same

governments also created considerable difficulties on the question of local cost financing. For instance, in considering recently the Indian population project (which was approved by the Board), the Executive Directors for France, USA, and Germany had opposed the high degree of local cost financing contained in the project. The trouble was that Governments were highly compartmented: one group dealt with multilateral lending, another with bilateral lending, and a third with debt problems. It was quite possible that each group would express itself without due consultation with the others, even with respect to issues affecting the same debtor country.

11. Mr. McNamara said that it was a very difficult time for the Bank/IDA to do anything in the way of debt relief for India, particularly as the third IDA replenishment had yet to be ratified by the USA. Part of the problem in this respect was that there was a general lack of support for India within the USA. He repeated that the Bank/IDA stood prepared to do whatever was necessary in the way of debt relief or new aid within the practical and policy constraints which operated on both institutions. At present this meant that in fact Bank/IDA could not provide debt relief, but he would gladly reopen the issue as soon as he was confident that his borrowing program would not be adversely effected.

12. Dr. Coombs said that he was only too familiar with the divisions that existed within government bureaucracies. For his part in the present exercise, he could only repeat what had been forcefully expressed to him by most if not all the governments he had met on his mission, and he thought that it would be up to the governments to repeat their position at the forthcoming meeting of the Consortium or in the Board of the Bank in order to remove any ambiguity.

13. Dr. Coombs mentioned that a number of countries had expressed to him strong interest in the untying of new aid and hence he was inclined to propose that untying be included as some small part of his final proposal. He also mentioned that he had been greatly impressed by the marked change in the attitude of the Japanese Government on the whole issue of aid. He felt that Japan was now psychologically ready to do what it was financially capable of doing in discharging its international aid obligations. It was his private intention to do his utmost to stress to Japan the importance of making a special effort with respect to aid to India. Finally, Dr. Coombs mentioned that he had had a meeting with Mrs. Ghandi while in Delhi.

cc Messrs. McNamara, Cargill, Votaw, Blobel, Kraske, Mrs. Hamilton

NSSegal:cmc

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

URGENT

June 5, 1972

Mr. McNamara

Bob,

I think you will want to read these few pages before meeting Dr. Coombs at 12:10 today. I have asked Mr. Segal, who has been traveling with Dr. Coombs, to attend your meeting. I expect to be at the Area Heads' meeting at that time but can be called out should you also wish me to join.

G. B. Votaw

May 30, 1972

Dear Mr Cargill,

As you know, since the Working Party meeting of the Consortium in Paris on April 24, I have been engaged in a round of discussions with the bilateral members of the Consortium with respect to the contributions of each to the proposed provision of debt relief to India. It occurred to me in the course of these talks that it would be useful if, at the conclusion of my visit to India, I were to give Consortium members an informal indication of the progress of my mission, particularly when I came to consider the recommendations I might make at the meeting on June 13-14. In this way I hoped to get the benefit of their reaction to these ideas before I reached final conclusions early in June.

In the event I found the formulation of my preliminary conclusions more difficult than I had anticipated, particularly as at that stage I still had to have discussions with Japan, Canada, the U.S.A., and the Bank. Nevertheless, I sketched out my then current ideas in a brief and informal memorandum which I sent on a personal basis to the Head of Delegation of each Consortium country. I emphasised that the note was of a provisional nature and without commitment on my part and that I hoped that each Head of Delegation would feel free to communicate his comments and suggestions to me soon after my arrival in Washington in early June.

Since the Bank and IDA are major creditors of India within the framework of the Consortium and also, as you will see below, I am hoping that it will be possible for them to participate in some way or other in the debt relief exercise, I am enclosing a copy of the memorandum for your consideration. Naturally I would be grateful if you would regard it on the same informal basis as it has been offered to the other members of the Consortium.

The question of Bank and/or IDA participation was raised by a number of delegates at the Working Party meeting and has been discussed in some detail at all of my meetings so far with Consortium Governments. I have listened with interest and, I must say, with considerable sympathy to the arguments put forward by the Governments concerned. Nevertheless, I am aware that the Bank/IDA has a stated policy that it should not be involved in debt relief operations, so I still need to have full discussions with your management before reaching a final judgment on this issue.

There are various inter-related reasons for my wishing to raise this whole question in the context of the proposed debt relief for India. First, I feel I have a responsibility to the country members of the Consortium, the great majority of whom have questioned the Bank/IDA's prior decision not to participate and have urged me to give it due consideration. Secondly, there is no doubt in my mind that, especially for the Government agencies responsible for foreign aid in the major creditor countries, it would be a significant psychological advantage if it could be pointed out that the Bank/IDA, whose staff recommended the provision of debt relief, was itself intending to participate. Thirdly, it seems clear that unless Bank/IDA were to make its proportionate contribution it will not be possible to achieve the aggregate figure of US$200 million which was proposed as the target for the exercise and which I regard as a reasonable estimate of India's requirements.

For all these reasons, I hope that the Bank/IDA will be able to reconsider its position on debt relief to India. I realise that the Bank cannot look at India in isolation from its responsibilities throughout the developing world, but at the same time I would like to urge upon you arguments that you and your staff have made to the Consortium and in private conversations with me, namely, that India poses problems which are different both in degree and kind from those of most other less developed countries. In the first instance, there is the fact that simply in quantitative terms India's needs are so much larger than those of other less developed countries. Perhaps more important, however, is the question of the quality of aid to India. Given India's well-developed capital goods industry, her substantial need of imports from other developing countries, and her extremely high total debt service payments, it is important that a substantial part of aid to India be in as easily utilisable a form as possible. I am satisfied that in the main this should be in the form of free foreign exchange, essentially because of the flexibility thereby allowed the Government of India in the application of these funds as well as because of the much faster speed of disbursement relative to other forms of new aid.

In the course of my discussions with Consortium Governments it has become clear that, without exception, each country is constrained in some way or other as to the contribution it can make of pure debt relief. Accordingly, I am contemplating that members be allowed a range of options in meeting their share of the exercise, perhaps along the following lines: some minimum proportion of the total contribution should be pure debt relief, with the remainder being made up by debt relief and/or by untying the corresponding amounts of non-project aid. (I have also considered the possibility that any increases in non-project aid relative to past levels be counted in some way towards a member's contribution. At present I am inclined to believe that this would be a less practicable option, partly because of the difficulties of assessment, although I have not wholly discarded it.)

I mention this probable introduction of flexibility into the means of contributing to the exercise because I believe it may be relevant to the question of participation by the Bank Group. Since I consider Bank/IDA participation so essential to the successful outcome of the exercise I have given more thought to options possibly open to the two agencies than I would otherwise have done before full discussions with their management and therefore it might be useful if I were to refer briefly to some which may be possibilities.

It has occurred to me that one or a combination of the following choices might be available to the Bank and/or IDA:-

a. Rescheduling of past Bank loans. It is my informal understanding that this could pose considerable difficulties for the Bank. I would, nevertheless, like to explore the matter in more detail at the official level.

b. Rescheduling of past IDA credits. not really relevant?

c. A substitution of non-project for project aid within the over-all Bank/IDA allocation to India. In this respect I would particularly like to mention the idea which emerged in my discussions in India that fertiliser imports as inputs into the agricultural sector be considered eligible for non-project financing in the same way as various industrial raw materials and components are already financed under IDA credits as inputs into the industrial sector.

now that US money not available?

d. An increase in Bank non-project lending to India relative to what might be considered a normal level. Again, I should mention the Government of India's interest in this possibility because, in effect, Bank money, relatively hard as it may be, would substitute for the even harder commercial loans that India would otherwise have to contract. (I am presuming that an increase in the IDA allocation to India would be ruled out by the replenishment arrangements under which IDA operates.)

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I look forward to my discussions in the Bank early next week. I hope that the note which I have sent to the various Consortium Delegation leaders and these comments will provide a useful starting point.

With kind regards,

Yours sincerely,

H.C. Coombs

H. C. Coombs

Mr I. P. M. Cargill,
Director,
South Asia Department,
IBRD,
1818 H Street, N.W.,
WASHINGTON D.C. 20433

INDIA CONSORTIUM - COOMBS MISSION

Provisional Conclusions

1. In the absence of substantial aid and/or debt relief, India faces a serious depletion of her international currency reserves which could, within a few years, face it with a possible default situation. Otherwise, the only alternative is a sharp contraction in import flows which could not be achieved without serious interruption to India's economic growth. This would be contrary to the purposes of the Consortium and would at least seriously postpone the achievement of independence of concessional aid.

2. The Bank's 1972 Economic Report on India makes clear that even if total non-project aid commitments, including debt relief, are of the order of US$700 million in 1972/73, it will be necessary for India to draw substantially on her international reserves. To the extent that actual aid falls short of this figure, the depletion of reserves will be the more serious. A substantial reduction appears to be unavoidable but, if it is to be contained within acceptable limits, aid approaching the Bank target seems essential.

3. I am satisfied that a substantial part of the aid should be in the form of debt relief or freely available foreign exchange.

4. A strong case can be made for debt relief of the order proposed by the Bank staff (US$200 million per annum in 1972/73 and in 1973/74). However, in the task before me I have to take account of the following considerations:

   a) some countries' capacity to participate in a new debt relief exercise is subject to genuine constraints, particularly in the current year when the budgetary pattern has, in some instances, already been determined;

   b) most Consortium countries consulted questioned the decision of the Bank not to participate in future debt relief exercises.

I believe, therefore, that at least in the first year the total of pure debt relief sought from Consortium countries may have to be less than US$200 million. The effect of this on the total relief available to India would be lessened if the Bank/IDA were to participate. This possibility has not yet been discussed with the Bank's management.

5. It may be possible for countries unable substantially to increase their debt relief to India to improve the quantity and quality of their aid in other ways so as to provide India with the equivalent of debt relief. This could be achieved if -

   a) there is an increase in non-project aid over the level of recent years of the order contemplated by the Bank's Economic Report; and

b) a significant part of this aid is provided on an untied basis both as to source of supply and commodities (other than possible negative lists).

6. I contemplate, therefore, a target figure for debt relief or its equivalent of US$200 million, including a proportion to be provided by the Bank/IDA, of which approximately US$175 million would fall on the Consortium members, of which however a proportion (say one third) could be met by debt relief and/or by untying a corresponding proportion of their new non-project aid. Assuming total aid including debt relief of the order envisaged in the Economic Report, this would appear to require an untying of between 10 - 15% of the total non-project aid for all Consortium countries. I envisage this debt relief or equivalent would be granted on the terms proposed in the Bank staff paper, i.e. with a grant component of not less than 62%.

7. Additional flexibility to meet the special problems of individual members could be provided by allowing a moderate transfer of debt relief from one year to the other, possibly with appropriate adjustment of the amounts.

8. I have considered the problem of the distribution of the burden of the debt relief proposed among the members. I am conscious that the search for a formula for this purpose must take into account both the different constraints and practical considerations that affect each member's position and also the various principles of equity that have been advanced. I have considered in particular the following possible bases :

a) the share of debt service due;

b) the "hardness" or "softness" of past aid terms;

c) the capacity of individual members as affected by their relative affluence and domestic development responsibilities;

d) the effect on Indian import capacity of other aspects of trade and payments between individual members and India.

9. I am satisfied that responsibility for debt relief should be broadly related to amounts of debt service due. The problem is to determine how far this responsibility should be qualified to allow for other considerations. The allocations I am at present contemplating are for one part to be proportional to these amounts of debt service alone, and for a second part to be based on other considerations also.

10. I believe that to take account of relative hardness is a valuable contribution but find the Guindey technique somewhat arbitrary in its division of members into two groups. I have, therefore, compiled an index of hardness for each member relative to the Consortium average and have applied this index to the proportionate distribution so as to modify it for the benefit of those whose terms have been more generous and who therefore have added less to the debt service burden in the years with which we are concerned.

11. Although the individual circumstances of members will presumably have been taken into account by them in determining their original contributions, I find it reasonable that these factors should be taken into account in relation to debt relief also. It is not easy, however, to find a satisfactory measure in this respect nor to judge what weight to attach to it. I have, for want of better, accepted the per capita G.N.P. as a percentage of the Consortium average as a usable index. I consider this factor of less significance than the terms on which past loans have been made and I have, therefore, applied the adjustment suggested by this index to only a minor part of the proportionate distribution.

12. Some countries have urged that they see aid to India in the context of their general trade and payments with that country and that the contribution to Indian import capacity which derives from these relationships should also be allowed for. While some persuasive instances can be quoted, I feel that to give them weight would encourage the consideration of aid in a pattern of bilateral relationships. It is desirable rather to emphasise the multilateral context of trade and payments.

13. I attach a table which sets out the division suggested by this approach between the Consortium members of the recommended amount of debt relief and equivalent in the two years. The table also shows the minimum amount of pure debt relief that would have to be provided by each member on the assumption that two-thirds of the total contribution would have to be made in this form. I emphasise that these are provisional and are given essentially to illustrate the effects of the principles I have in mind. For purposes of comparison I set out the division which would have been implied by the application of the Guindey formula.

14. This exercise has been conceived essentially as transitional to the action which would be decided upon in the light of the projected Bank study of the long-term aspects of debt and aid for India. It seems to me that such a study must be closely related to the Indian Fifth Plan and the progress it anticipates towards independence of concessional aid from the Consortium and other sources. It is perhaps unlikely that the necessary study and negotiations could be completed early enough to avoid another transitional exercise if the present proposals are limited to two years. I contemplate suggesting, therefore, that the Consortium consider now the extension of these proposals for an additional year on the same basis.

H.C.Coombs
27 May 1972

Possible Formulae for
the Distribution of Debt Relief and its Equivalent
up to a Total Amount of US$200 million per year in
1972/73 and 1973/74 1/

(US$ million)

	Distribution based on principles explained in accompanying note		Distribution based on Guindey formula
	Total Contribution	Minimum amount to be provided as pure debt relief	
Austria	1.53	1.02	2.12
Belgium	1.57	1.05	2.11
Canada	2.32	1.55	1.67
Denmark	0.12	0.08	0.07
France	11.19	7.46	14.60
Germany	42.81	28.54	55.78
Italy	8.60	5.73	11.90
Japan	41.95	27.97	57.02
Netherlands	2.61	1.74	2.72
Norway	0.03	0.02	0.02
Sweden	0.82	0.54	0.41
U.K.	20.99	13.99	18.12
U.S.A.	41.57	27.72	21.25
Bank/IDA	24.28	16.19	13.04
Total 2/	200	133	200

1/ Figures may not add exactly due to rounding.

2/ On assumption that two-thirds of total contribution would have to be in the form of pure debt relief.

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

OFFICE MEMORANDUM

TO: Files

DATE: September 7, 1972

FROM: Gregory B. Votaw

SUBJECT: INDIA - Visit of Dr. M. S. Swaminathan (Indian Council of Agricultural Research) to McNamara, August 4, 1972

1. Dr. Swaminathan, who has recently taken over as head of the Indian Council of Agricultural Research (ICAR) was in Washington to attend meetings of the Bank's Consultative Group on Agricultural Research. He reminded McNamara (unnecessarily) that they had met in Delhi in November 1968; he said he wanted to see him now simply to commend the magnificent contribution McNamara had made to international development by starting the Consultative Group, which was doing fine work and encouraging a new spirit throughout the world research community. The Group had identified problems internationally, which should have been done long ago, and provided a cluster of experts focused on major issues.

2. The Center to study semi-arid crops, planned for India, was making rapid progress. McNamara said he had been particularly pleased by the strong, prompt and effective action taken by the Government of India to make that Center possible and to get it established in record time. Relay stations in Africa had also been agreed.

3. <u>1972 Monsoon</u>: In India the rains had failed for the first time in several years. Unfortunately, too little research has been done on the type of seed needed when rains fail, and there is in India no buffer stock of such seed.

4. <u>Effective Management Technology</u>: Progress in rice research has been considerable. But to reap results of new findings, new crop management techniques have to be developed. The new varieties of wheat can be adopted by small farmers; there are no serious pest or water management problems. But with rice, collective management is necessary for proper irrigation, drainage and pest control. Some way must be found to provide the community effort which is essential if the progressive farmer's rice crop is going to be protected from the less progressive farmer's pests.

5. <u>Land Ceilings</u>: The uncertainty of recent months has now ended, in Dr. Swaminathan's opinion, by a political decision to enforce uniform land ceiling legislation throughout India by the end of 1972. The limit will be 18-20 acres of irrigated land and 50 acres unirrigated; plantations are exempted. This will satisfy the great mass of Indian farmers and ends the damaging uncertainty of recent years. (Told of this conversation later, Wolf Ladejinsky said he felt

Swaminathan had been much too sanguine about recent "decisions" and the prospects for meaningful land reform.)

6. Programs for Agriculture: McNamara asked how Swaminathan would approach the farm management problem. Swaminathan outlined steps as follows:

(a) Credit: Banks had been nationalized in order to provide better credit for rural India. But the banks had little experience in the countryside and there is still an administrative gap.

(b) Cooperatives: Their success is spotty. Anand is the most outstanding. Other organizations are now needed.

(c) Inputs (and knowledge about their proper use) must be better coordinated.

(d) Scientific water management and pest control must be developed and enforced on a communal basis. "Now that the political decision has been taken on land ceilings, India must solve this management problem during the next 2-3 years."

(e) Cotton: A newly developed hybrid variety offers a quick jump in production, the results of which already show up in 1971 statistics.

(f) Grain legumes and pulses need further research. Traditionally, they are grown without irrigation; when a farmer obtains water, he switches to other crops, leaving a gap in production. ICRISAT will work especially on chickpeas and pigeonpeas from this group.

(g) Village panchayats will be used more and more to organize agriculture.

(h) Fundamental literacy with a simplified alphabet must be encouraged.

(i) Insurance may be given for some crops. The Gujarat State Fertilizer Corporation tried this experimentally to encourage hybrid corn.

(j) The educated unemployed must be found jobs. This is the fundamental concept behind the Fifth Plan, now being formulated.

7. Dr. Swaminathan said he would emphasize (i) dryland crops, (ii) collective management of water and pest controls, (iii) credit for small farmers and (iv) warehousing to ensure small cultivators a good price.

GBVotaw/js

c.c. Mr. McNamara's office
New Delhi office
Mr. Ladejinsky

73.

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

OFFICE MEMORANDUM

TO: Records

DATE: October 3, 1972

FROM: Jochen Kraske

SUBJECT: India - Meeting of Annual Meeting Delegation with Mr. McNamara

10/6

The Minister of Finance, Mr. Y. B. Chavan, called on Mr. McNamara on September 26. The Minister was accompanied by Dr. I. G. Patel, Secretary, Economic Affairs, Ambassador L. K. Jha, Governor Jagannathan of the Reserve Bank, and Messrs. Sen, Shroff and Manmohan Singh. Present for the Bank were Messrs. Knapp, Cargill, Diamond, Votaw and Kraske.

International Competitive Bidding for Civil Works Contracts

Mr. McNamara referred to the remarks made by the Minister in his Annual Meeting address concerning the question of civil works procurement. He agreed that an acceptable solution had to be reached urgently so that India and the Bank could resume work on the preparation of high priority projects in irrigation and highway construction. Mr. McNamara said that he understood the political difficulty which the Government of India had in accepting international competitive bidding and agreed that some modification of the bidding procedures would be justified in the interest of ensuring labor intensive forms of construction and of fostering general development objectives through the encouragement of local enterprises. Mr. McNamara took exception to the 15 percent preference proposed by the Government. He thought that the Executive Directors would not agree to such a level of preference which implied an inordinate level of effective protection. He reminded the Minister of the Board discussion on local preference for equipment suppliers several years ago when the Executive Directors had rejected his recommendation of a 25 percent preference on the grounds that the resulting effective protection would be excessive. Mr. McNamara asked Messrs. I.G. Patel and Cargill to continue their discussions and expressed the hope that a suitable compromise could be reached by the end of the Annual Meeting week.

IDA Replenishment

Mr. McNamara noted that the third replenishment had finally become effective following the ratification of the agreement by the U.S. Government; the shipping credit and the seventh industrial imports credit, which had been approved by the Executive Directors earlier this year contingent on effectiveness of IDA's replenishment, had been signed just prior to the meeting with the Minister. Mr. McNamara welcomed the Minister's suggestions that discussions about IDA's fourth replenishment should start without delay to prevent any interruptions in IDA's activities.

Project Preparation

Mr. McNamara expressed his serious concern with the status of the FY 1974 operations program. There was an urgent need to speed up and improve the preparation of an adequate number of projects to be able to commit the prospective amount of IDA funds available for India. He requested the

President has seen

Minister to review the Government's efforts and procedures in the area of project preparation in order to ensure more timely presentation of well prepared projects. The Bank stood ready to provide any assistance the Minister felt was needed. Mr. McNamara admitted that the problem of project preparation was not confined to the Indian program alone and explained that one of the important reasons for the recent reorganization of the Bank had been to provide for closer integration of country program planning, project preparation and appraisal. Mr. McNamara said he had found the monthly review meetings with Dr. Sen extremely helpful and strongly urged that the meetings be continued on a monthly basis and their coverage expanded to include problems of disbursement and implementation of ongoing projects.

Disbursements

Mr. McNamara also expressed serious concern with the slow progress of disbursements which reflected delays in project implementation. As examples, he mentioned the agro-aviation, wheat storage and agricultural credit projects. Mr. McNamara urged the Minister to take action to expedite the execution of these and other projects so that their benefits and the benefits of IDA's assistance would become available to India at the earliest possible date. At Mr. McNamara's suggestion, a copy of the recent paper on "Delays in Disbursements" was subsequently given to the Indian delegation for their information.

The Minister admitted that there were projects which were substantially behind schedule. He referred to disagreement within the Government over the agro-aviation project. However, he also felt that agreement by the Bank to suggested procedural changes under the agricultural credit projects could help to expedite disbursements. The Minister mentioned the Government's request to include the financing of indigenously manufactured tractors under our credits and the Government's proposal to lower the required down-payments for various categories of investments financed through the agricultural credit projects. Mr. McNamara suggested that Messrs. Cargill and Shroff consider these proposals and work out an acceptable solution.

I. G. Patel wondered whether closer involvement of the resident mission might not be a way to speed up communications and facilitate solutions to outstanding problems affecting the preparation and implementation of projects. Mr. McNamara welcomed this proposal and agreed that there should be monthly meetings between the Government and the resident mission to consider the status of our lending program and of ongoing projects and to monitor progress of project preparation and execution.

Debt Rescheduling

The Minister enquired about the progress made towards agreement on debt relief. Mr. Cargill mentioned that he intended to meet with members of the Japanese delegation on the following day and expected to reach agreement on an acceptable statement concerning the terms of future Japanese debt relief. One of the issues still outstanding was India's attitude towards non-Consortium debt. Several Consortium members insisted that they receive from India as part of the debt relief agreement a firm statement of inten-

.../3

tion to negotiate some form of debt relief with non-Consortium creditors. I.G. Patel expressed reluctance to give such a statement as long as final agreement on debt relief with Consortium members, particularly with the U.S., was still a matter of some uncertainty. He explained in some detail the nature of India's trade and financial relationship with non-Consortium countries. Because of the nature of this relationship, he felt the concern of Consortium members that their debt relief might ultimately benefit non-Consortium members unless non-Consortium members took equivalent action, was inappropriate and misplaced. Mr. McNamara suggested that Dr. Patel draft a statement which he considered appropriate in order to prepare the ground for a conclusion of negotiations.

Mr. McNamara concluded the meeting by expressing concern about performance of the industrial sector, export growth and the inefficiency of public sector enterprises. He felt that time did not permit to discuss these problems in detail and suggested that they be taken up at another suitable occasion.

cc: Messrs. McNamara
Knapp
Cargill
Diamond
Weiner
Votaw

MEMORANDUM FOR THE RECORD

Addendum to Minutes from Mr. McNamara's Meeting with the Indian Delegation, September 26, 1972

After the meeting the Minister of Finance made two requests privately to Mr. McNamara.

(a) He said that it was the wish of the Government of India that, if possible, Mr. Cargill be in charge of the forthcoming consortium meeting.

(b) The Minister had noticed that there was no Indian national in a senior position within the framework of the new organization and asked if Mr. McNamara could do anything to bring about a change in this regard.

AL
September 28, 1972

MEMORANDUM FOR THE RECORD

Addendum to Minutes from Mr. McNamara's Meeting with the Indian Delegation, September 26, 1972

After the meeting the Minister of Finance made two requests privately to Mr. McNamara.

(a) He said that it was the wish of the Government of India that, if possible, Mr. Cargill be in charge of the forthcoming consortium meeting.

(b) The Minister had noticed that there was no Indian national in a senior position within the framework of the new organization and asked if Mr. McNamara could do anything to bring about a change in this regard.

AL
September 28, 1972

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MEMORANDUM FOR THE RECORD

Visit by Mr. G.V. Ramakrishna, Economic Minister of Embassy of India, December 11, 1972

Present: Messrs. McNamara and G.V. Ramakrishna

Mr. Ramakrishna said that he had recently arrived in Washington to take up his duties as Economic Minister at the Indian Embassy and as informal Alternate to the Executive Directors for India in the Bank and the Fund. He would be particularly concerned with following up the Bank's program in India.

Mr. McNamara said that he attached great importance to the progress of the Bank's work in India and that there were some deficiencies in the FY73 and FY74 programs. The monthly meetings between the Bank staff and the Indian representatives had proven very useful.

Mr. McNamara said he anticipated a difficult period for India during the next 5-10 years with the prospects for external aid diminishing. In the Bank's view, India needs all the capital assistance it can find. However, in the face of diminishing aid, it is understandable that the Government would have to take the position that India can do without it. The measure of the Bank's success in India will be the soundness of the projects which it finances. He offered Mr. Ramakrishna all the assistance which he or others in the Bank staff could provide.

AL
December 12, 1972

President has seen

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

OFFICE MEMORANDUM

TO: Mr. R. McNamara

DATE: December 13, 1972

FROM: I. P. M. Cargill

SUBJECT: INDIA - Visit of Mr. G. D. Birla

G. D. Birla, the Indian industrialist, whom you have met before is calling on you on December 13th. It is, I understand, simply a courtesy call.

When I was in Delhi recently, I met D. P. Dhar (who now heads the Planning Commission), with P. N. Dhar (the Economic Adviser to Mrs. Gandhi) and with C. Subramaniam (now the Minister for Industries). With each of them I talked about the extraordinary confusion of industrial policy in India. Two main considerations have affected thinking on this matter in recent years: first, a desire to protect Indian industry and to reduce imports at almost any cost; second, to restrict the growth of the "big houses" of which Birla is one of the most important. These objectives have been sought so hard that industrial performance in India has suffered a great deal. Investment in the private sector by the larger enterprises where the real managerial skills are available, has almost come to a standstill in the past three years and almost all private sector plants have been running well below their capacities for lack of raw materials and components. Meanwhile, the performance of the public sector has by and large been dismal. It was really to cope with this situation that Mrs. Gandhi put Subramaniam into the Ministry of Industries.

He and the two Dhars are very close confidantes of Mrs. Gandhi and all three have very balanced views about the role of the public and private sectors. They are currently engaged in trying to formulate rational industrial policies, which will at the same time stand up to the criticism of the Left. The opposition of the Left to private industry and especially large private industry is a political fact that cannot be ignored, and it is going to be difficult to devise sensible policies which will not cause considerable political problems. Recently Subramaniam made a public statement about a new approach which he called "the joint sector approach". I do not believe this has been worked out in any detail, but according to him, his objective is to try to marry the managerial skills available in the private sector to the massive investments proposed for the public sector. Whatever it means, it was greeted as a great advance by Tata, and Subramaniam said that Tata's enthusiasm has for the time being killed the idea. He said that the Left wing of the Congress party concluded that any proposal that could be welcomed by a capitalist like Tata must have something wrong with it.

It might be interesting to get Birla's views on these matters.

IPMCargill:ap

President has seen