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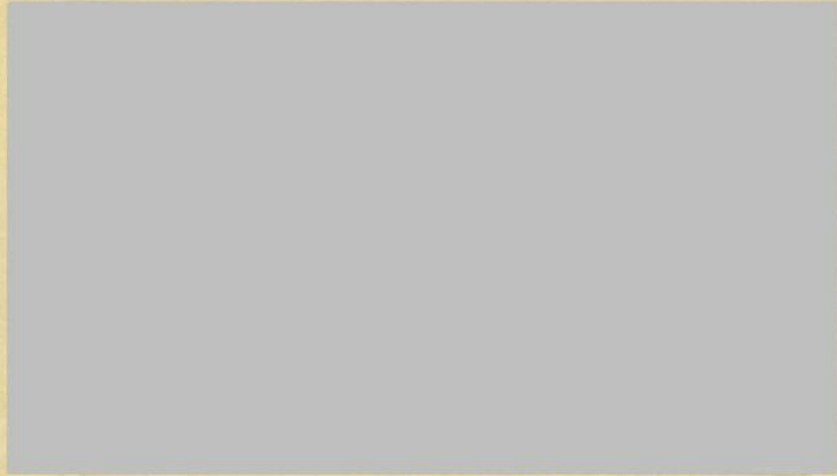
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BERNARD R. BELL FILES

India Consortium 1967

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Bernard R. Bell Files: India Consortium - Correspondence - Volume 3

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AUG 29 2013

IND 67-25

FROM: The Secretary

WBG ARCHIVES

May 15, 1967

MEETING OF THE INDIA CONSORTIUM

Attached is the Chairman's Report of Proceedings of the Meeting of the India Consortium held in Washington on April 25, 1967.

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IND 67-

MEETING OF THE INDIA CONSORTIUM

REPORT OF PROCEEDINGS

Prepared by the Chairman

**DECLASSIFIED**

**AUG 29 2013**

**WBG ARCHIVES**

1. The consortium of countries and institutions interested in development assistance to India met in Washington on April 25, 1967, under the chairmanship of the World Bank. The meeting was attended by representatives of the Governments of Austria, Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, the United Kingdom, and the United States. A representative of the International Monetary Fund was also present. A list of delegates is attached as Annex I.
2. The Chairman reminded those present that this meeting was a continuation of the one held in Paris on April 4-6, with the purpose of reviewing progress toward meeting the non-project, and particularly the cash and food aid requirements agreed upon in Paris. He stressed that in view of the critical food situation it was urgently necessary that India be in a position to place orders soon. It was important to have firmer commitments or indications than those announced in Paris of available cash assistance within non-project aid, if the new economic policies in India, particularly the promising new start in agriculture and the de-control measures, were not to falter. He hoped that if countries were not yet in a position to make firm pledges they could at least give a clear indication of their intent and a tentative date by which it would be reasonable to expect final decisions. A copy of the Chairman's opening remarks is attached as Annex II.
3. Mr. Sundara Rajan, Executive Director to the Bank for India, gave a brief progress report on actions taken by the Government of India since the Paris meeting. A copy of this statement is attached as Annex III. By mid-June the pipeline of food aid would be dry except for commercial purchases of some \$39.5 million which were either being negotiated or had been allocated by the Government of India. It was urgent that India be able to place further food orders in the next few weeks in order to restore the pipeline. As total non-project assistance indicated at Paris had been less than half of the agreed requirement, the Government had felt compelled to delay further its announcement of this year's import licensing policy; therefore, it was essential that further indications of non-project assistance be forthcoming.
4. The Chairman announced that after study of various alternatives the Bank had found it difficult to arrange quick disbursing loans adequate to provide the amount of debt relief it was prepared to consider within a multi-lateral framework for this fiscal year. Therefore, it had sought other means of alleviating India's cash problem, and an arrangement providing an equivalent amount of debt relief was possible. Under this arrangement, for technical reasons, payments to the Bank this year would

be made as scheduled. Contingent upon commensurate action by all members of the consortium, the President of the Bank would recommend to the Executive Directors that the IBRD deposit in an account at the Reserve Bank of India an amount in foreign currencies equivalent to the 1967/68 debt service payments to the IBRD from India. The amount so deposited would be freely usable by India and no interest or service charges would be payable on this account. This special account would be maintained until March 31, 1968. In the meantime, the Bank expected the consortium to work out an arrangement for dealing with the long-term problem of the terms of aid and debt relief which would include a long-term solution for these payments due to the Bank during the current fiscal year. The Bank had not ruled out the possibility of quick disbursing loans; indeed this might be the form of any long-term solution for debt relief from the Bank. A copy of the Chairman's statement on the IBRD proposal is attached as Annex IV.

5. Few delegates were able to indicate advances beyond their country's positions as stated at the Paris meeting. Those positions were summarized in Annex X to Document IND 67-22, circulated on April 21, 1967. New developments indicated by members were as follows:

(a) The Austrian delegate announced that his government was as yet unable to make a formal pledge, but that the cabinet council was meeting on April 25 to take action.

(b) Belgium was unable to announce a firm decision on aid for this year although the Government had no objection to continuing either project or program aid or to participating in food aid if all other members acted; however, any action with regard to debt relief would have to be regarded as an alternative to one of the other three methods of aid.

(c) The representative of Canada pointed out that the possibility of debt relief was not large in Canada's case because past Canadian aid had been largely in the form of grants or very soft loans. Canada had however previously announced that it would make arrangements to cancel payments due on two 1958 wheat loans during this fiscal year. With respect to other payments, Canada had indicated it was prepared to participate in a rescheduling or standstill arrangement. In the absence of an agreed approach, however, the Canadian Government had decided to postpone for one year all remaining payments of principal. Total debt relief in 1967/68 would thus be US\$2.15 million. Total Canadian non-project aid would now be \$84.7 million, of which US\$48.4 million would be in the form of food aid or free foreign exchange released by debt relief.

(d) France confirmed its pledge of \$17 million of non-project aid including food for this fiscal year. In response to a question, the French delegate stated that it was not excluded that all of this pledge could be used for the purchase of fertilizers or other agricultural chemicals.

(e) The representative of Germany reminded members that his country's delegation at Paris had expressed grave doubts that his Government's position could be decided in so short a time. Although recommendations

had now been made by the ministry staffs, a decision would not be made by the Cabinet until May, after which it was still necessary to seek approval of a parliamentary committee.

(f) The Italian delegate stated that his Government was fully aware of the urgency of the matter and had aid proposals under active consideration. The problem was that of enlargement of the list of goods available for procurement under Italian aid, to allow India to take full advantage of outstanding pledges. The Chairman stated that it would help him considerably in recommending that the Bank take the actions it was considering this year if something could be done toward disbursement this year of the \$74 million of undisbursed aid in the pipeline from Italy.

(g) The representative of Japan announced that his Government had explored and analyzed the possibility of taking debt relief action beyond that indicated in Paris; however, the Government had reached the conclusion that it would not be possible to make any arrangements with regard to relief or payments due on the second yen credit.

(h) The Netherlands delegate stated that his government had taken a final decision to make available a general purpose development loan of \$7.3 million as well as \$3.8 million of supplier credits. His government considered its development loans to be quick disbursing, and it was willing to discuss with India changing procedures for the use of such loans to enable even more rapid utilization; the Netherlands therefore considered its development loans an effective contribution to the cash gap problem. Fertilizers would be available for procurement under the development loan.

(i) The United Kingdom indicated that it also required responses from other members before deciding how much of the \$33.6 million of general purpose aid announced in Paris could be used for the refinancing of debt.

(j) The United States delegate indicated that the debt relief proposed by the United States this year would not require further legislation. What was necessary was that commensurate action be taken by other members as a basis for debt relief by his country. In response to a question by the Chairman, the United States indicated that there had been no final decision as to whether new quick disbursing loans could be used to cover freight charges on U.S. food shipments.

6. The Chairman expressed his concern that there had been so little advance from the positions indicated by members at Paris. He had hoped that by now most members could at least have indicated the line of action which they proposed to take. He would find it difficult to recommend that the Bank take any action in the absence of parallel efforts by all members and particularly in the absence of substantial actions by major creditors. He emphasized the urgency of commensurate action by the creditor countries and hoped they would announce such action in the near future. He expressed appreciation of the decision of Japan to provide \$7 million of food aid in addition to \$45 million of other non-project aid, and to make \$6.2 million of the latter amount available in the form of debt refinancing.

7. The United States expressed similar disappointment in the response of other members. It considered that its request for food matching had been approximately half-way met. Therefore, the United States delegation would recommend that 1.5 million tons of grains, about half of its conditional pledge, be released promptly. Canada also expressed its disappointment in the progress made since Paris and reminded members that it was India that would suffer the consequences of the consortium's failure to act.

8. The German delegate said that he understood the dismay of other members at delays in taking action, but reminded the consortium that his country among others had said that it was unrealistic to expect further progress in so short a time. Moreover, the specifics of the arrangement which the Bank now proposed with regard to relief to cover 1967/68 debt payments from India had only recently been announced, so that members had not had sufficient time to respond.

9. The Chairman announced that the Bank expected in the next two or three months to analyze in greater detail the long-term problem of debt service and the terms of aid, as it affected the consortium countries as a whole and individually. The Bank would hope thereafter to be able to discuss a tentative set of principles for the softening of terms of aid. He reminded the delegates that in the future, it would be necessary to think in terms of net aid actually disbursed during a particular year. The consortium also would have to consider all debt owed to its members and not just debt incurred as a result of consortium pledges. A copy of the Chairman's remarks on the long-term problem is attached as Annex V.

10. With regard to the contribution which a speed-up of utilization of aid could make to solution of the cash problem, the Netherlands requested that the Bank prepare a note on procedures involved in the utilization of aid from all consortium members. This could be considered by the Working Party in its review of the long-term problem of the terms of aid.

11. Several delegates including the Chairman suggested that in view of both the need of some members for more time and the urgency of early consortium agreement and action, the consortium should meet again much earlier than in the autumn. Members agreed to meet on June 2, subsequent to the Pakistan consortium meeting, in London, and to endeavor to reach firm agreement on pledges of non-project aid including food and cash aid.

MEETING OF THE INDIA CONSORTIUM

Washington, April 25, 1967

LIST OF DELEGATES

<u>BANK</u>	Mr. I.P.M. Cargill Mr. B. R. Bell Mr. William M. Gilmartin Mr. Benjamin B. King Mr. G. Votaw Mr. David A. Dunn	Head of Delegation
<u>AUSTRIA</u>	Mr. Othmar Haushofer	Head of Delegation
<u>BELGIUM</u>	Mr. M. D'Haese Mr. Herman Biron	Head of Delegation
<u>CANADA</u>	Mr. Peter M. Towe Mr. A. J. Barry Mr. Fergus Chambers	Head of Delegation
<u>FRANCE</u>	Mr. Rene Larre Mr. Jean Malaplate Mr. Georges Beisson	Head of Delegation
<u>GERMANY</u>	Dr. Otto Donner Mr. G. A. von Trotha	Head of Delegation
<u>ITALY</u>	Dr. Ugo Toscano	Head of Delegation
<u>JAPAN</u>	Mr. Michiya Matsukawa Mr. Hiromu Fukada	Head of Delegation
<u>NETHERLANDS</u>	Mr. J. Grooters Mr. J. Everts	Head of Delegation

(continued)



<u>UNITED KINGDOM</u>	Mr. R. E. Radford	Head of Delegation
<u>UNITED STATES</u>	Mr. Maurice J. Williams Mr. Charles E. Houston Mr. Michael F. Cross Mr. Walter Furst	Head of Delegation
<u>INTERNATIONAL MONETARY FUND</u>	Mr. W. John R. Woodley Mr. Erik Elmholt	Head of Delegation

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<u>INDIA</u>	Mr. K. S. Sundara Rajan
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Secretary's Department  
April 25, 1967

ANNEX II

CONFIDENTIAL

MEETING OF THE INDIA CONSORTIUM

OPENING STATEMENT OF THE CHAIRMAN

(Washington, April 25, 1967)

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WBG ARCHIVES

1. This is a continuation of the consortium meeting in Paris three weeks ago. Apart from Mr. Towe and Mr. Barry and members of the Bank delegation, I don't think there is anyone here today who was present in Paris. I hope it isn't necessary to go over the ground we covered in Paris, because you've all had the Chairman's report. Consequently you will be aware that our purpose today is to review progress in providing India with non-project aid in 1967/68 and to agree on concerted action by all members of the consortium toward meeting India's immediate cash requirements. Three weeks ago in Paris I stressed how important I felt it was to have a more definite idea of what could be expected in the form of free exchange assistance this year, including especially exchange for the purchase of food. I had hoped that by now specific problems of individual countries, which we discussed in Paris, might be sufficiently resolved so that at this meeting we could have a clearer indication of the prospects for aid to India this year.

2. In Paris we agreed that within the context of an overall goal of \$1,300 million of non-project aid from consortium members in this fiscal year, there was an urgent need for about \$400 million in a form as near as possible to free foreign exchange. This, as we noted then, is vital to help India to fill out this year's food import program with direct food purchases and to add an essential element of flexibility to India's exchange management.

3. We had a number of indications of this type of aid at Paris, but mostly in a tentative or conditional form. I should note again that the food requirements can be met not only in the form of food but also aid which provides or releases exchange with which India can itself purchase food. In view of the critical food situation it is urgent that orders be placed soon to ensure timely food deliveries in this calendar year. I should also note that in the absence of early indications of the probable level and approximate type of consortium aid this year, there is a danger that the new economic policies in India, particularly the promising new strategy in agriculture and the 1966 decontrol measures, will falter.

4. It is most important that we have a better idea than was possible in Paris of available assistance that in one way or another will contribute to the alleviation of this year's food shortage without jeopardizing other essential imports, and I therefore hope that you will now be able to indicate what is likely to be possible for your countries, particularly with respect to aid, including debt relief, which will be of help to India in meeting its free foreign exchange problem.

ANNEX II

5. I propose to ask each delegation to let us know where its country stands on these two matters. If you are not yet in a position to make a firm pledge, I would hope that you can at least give us an indication of what you intend to do this year, when you expect your government to reach final decisions on this matter, and by what date it would be reasonable to expect appropriate agreements to be negotiated with India.

6. To bring us up to date on arrangements India is making to import essential foodstuffs and to pursue the question of debt relief with creditors outside the consortium, I have asked Mr. Sundara Rajan to attend this meeting and I will now call upon him to make a statement.

Asia Department

ANNEX III

CONFIDENTIAL

MEETING OF THE INDIA CONSORTIUM

STATEMENT MADE BY MR. K. S. SUNDARA RAJAN  
EXECUTIVE DIRECTOR TO THE BANK FOR INDIA

(Washington, April 25, 1967)

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AUG 29 2013

WBG ARCHIVES

Mr. Chairman and Members of the Consortium,

1. I appreciate this opportunity of participating in the proceedings on behalf of the Government of India. I shall indicate the position in respect of each of the main headings of our aid requirements, namely, debt relief, food aid and non-project assistance. The last meeting of the consortium had recognized that the cash gap in India's balance of payments during 1967-68 would be about \$400 million and that the most useful way of meeting this cash requirement would be through debt relief. Some of the members of the consortium had indicated in a positive way what they would be doing by way of debt relief but then they had made it conditional on there being general agreement and action. During the last three weeks we had pursued this matter with the members of the consortium through our Ambassadors and particularly through Ambassador Swaminathan in Europe. We have pointed out how in respect of certain countries the debt servicing charges which we will be paying this year by way of principal and interest almost equal the total new aid likely to be committed by that country. By and large the members had appreciated the need for urgent action for debt relief but had pleaded legislative, budgetary and other difficulties. It has sometimes been said that such extraordinary action would cause complications in respect of aid or loans given by the Governments to their own provinces or local bodies. May I point out that this is a problem which is not peculiar to any one country and that countries which are extending aid to developing countries on generous terms have squarely met this difficulty by pointing out to their legislatures and the public how developmental aid to poor countries stand on an entirely different footing. I need hardly stress what is already known to every one of you, the peculiar characteristics of the Indian debt problem, how it requires both long-term and short-term action and how without immediate action now by way of debt rescheduling or debt refinancing or standstill agreement, our entire developmental effort will be nullified and our economic progress will be halted. We do hope that decisions taken at this meeting will resolve the debt problem at least for this fiscal year 1967-68.

2. Members will be interested in knowing the action taken by us with regard to debt service charges payable to the non-consortium countries. This question has been discussed with the major non-consortium creditors. The earlier loan agreements had provided for repayments of principal and interest charges in foreign exchange. We got the agreements changed so that these debt servicing charges could also be paid in rupees which were to be utilized for the purchase of our goods. Particular care is taken at various stages to ensure that there is neither a diversion of exports nor a disproportionate share of exports like tea and jute manufactures going to

particular countries. The consortium will agree that to the extent the non-consortium countries are willing to take new manufactures including woolen textiles, refrigerators, sewing machines, etc., they are truly additional and that this trend should be encouraged. In response to our request a major non-consortium country has already agreed to give us non-project assistance for the import of components, spares, etc. This reduces not only our free foreign exchange outgo on such imports but also reduces the need to increase exports to that country in order to balance our trade and payments. It will be noted that this line of credit for import of components, spares, etc., is not dissimilar to the non-project or commodity loans which have been indicated by some consortium members for debt relief. Some of the non-consortium countries are also keeping sizeable rupee balances in India, the effect of which on our balance of payments, is the same as a deposit of dollars or sterling with our central bank.

3. Matching food aid. Coming to the question of food aid, we have completed the purchase of the entire quantity of two million tons envisaged in the U.S. PL-480 Agreement of February 1967. It is expected that the shipments of this entire quantity will be completed by June 10, 1967. Some 600,000 tons of wheat have been purchased from Canada against the C\$50 million new aid extended by Canada. The first ship with this grain is leaving the port of Vancouver today. The entire shipment of the 600,000 tons will be completed by the first week of June. This would mean that, barring some commercial purchases, about which I shall speak later, the pipeline will be dry by the 10th or 15th of June. As it takes normally six weeks from the time of signing a PL-480 agreement for us to purchase the wheat, to arrange for ships and to load them, it will be appreciated that we have not much time to lose. You have seen in the press the account of the sufferings and the privations already faced by the people in Bihar. Any delay in the finalization of matching aid and the consequential release of the three million tons generously promised by the United States will mean the cutting of this lifeline. Indian port capacity, particularly during the monsoon months from June to August, is somewhat limited and any interruption of shipments will result in irretrievable loss of our capacity to import foodgrains during these critical months ahead.

4. So far as our commercial purchases go, we had this year purchased wheat and rice from a number of countries to the extent of \$56.5 million. In addition, contracts for the purchase of \$20 million worth of rice are being entered into. The Government of India had allocated last week a further sum of \$19.5 million for purchase of 250,000 tons of wheat. The total free foreign exchange expenditure incurred by the Government of India on these commercial purchases (including contracts under negotiations) so far this year is \$96 million. Government have also incurred or will be incurring some \$55 million on freight charges for the transport of foodgrains from the U.S.A. and Canada up to mid-June 1967. Hopefully, on the conclusion of the further three million tons foodgrains agreement, a further \$36 million on freight charges for the three million tons will be spent from our resources.

5. To bring the consortium uptodate on the latest developments in India on the food situation, I should say that the Chief Ministers of all the States met in conference at New Delhi with the Prime Minister and the Food and Agriculture Minister of India. The important conclusions reached in that conference were that maximum efforts for the procurement of rice and wheat within the country should be made by all the States, both surplus and deficit. Targets for particular States were fixed. The Food Corporation will also intensify its efforts. A Standing Committee of the Chief Ministers of deficit as well as surplus States was created to deal with the food problem on a continual basis. The conference further agreed that all possible efforts should be made to grow short-term crops over as large an area as possible between the two main crops and that even more incentive prices for foodgrains should be announced within the next few days.

6. We have also approached several non-consortium countries. Of these, Sweden has promised to give 14,000 tons of calcium ammonium nitrate as a gift and has suggested that the credit of Swedish Kroner (SKR) 24 million (\$4.64 million) earmarked for us in the Swedish financial year commencing July 1, 1967, should be used for the improvement of the food situation in India. Norway has given a grant of \$140,000 for purchase of calcium ammonium nitrate. Assistance for an equal sum has been received from a non-official organization known as NORAD. The USSR has indicated that they will consider the question of granting further aid when the next harvest is in sight later in the year. Australia too will review the position in their new fiscal year beginning July 1, 1967.

7. Non-project assistance. At its last meeting in Paris, the consortium had come to the conclusion that \$1,300 million (including foodstuffs) should be provided as new aid in non-project form for the current fiscal year 1967-68. The total non-project assistance indicated at that meeting was however, only \$610 million and the gap is more than half. As was made clear by the Indian Economic Secretary in his presentation to the consortium on April 4, 1967, an indication of reasonably firm non-project assistance that will be available for the year as a whole is essential for the Government of India to announce its import licensing policy. I may mention here that it is usual to announce the import licensing programme and policy at the commencement of the new financial year, namely April 1, 1967. An announcement was delayed, since the necessary non-project assistance required for the support of and continuance of the liberalized import policy was not available. We had hoped that after the conclusion of the Paris meeting, we would have the assurance necessary to enable the announcement of the import licensing policy at least on the same basis as last year. You are all aware that one of the cardinal elements of the new economic policy introduced since June 1966 was the liberalized import programme. As Mr. Jagannathan said in his statement of April 4, any delay in issuing licenses against demand as it materializes would cast doubts on our ability to sustain a policy which both we and you consider to be of fundamental importance. We cannot afford to delay the announcement of this policy much longer and at the same time without an assurance in some form from the consortium we cannot take the risk of announcing the policy on our own. Any retraction or abridgement of the import liberalization policy will cause

untold harm and is too serious even to be contemplated. It is no exaggeration to say that the eyes of many people in India are directed towards this meeting. We are aware that there are budgetary, legislative and appropriation difficulties but having regard to the critical importance of the matter, it is hoped you will be able to arrive at an appropriate form, which, while taking into account all these difficulties, would still be clothed in such terms as to enable us to continue the policy. An essential ingredient will be the acceptance that new non-project assistance will be available to cover orders placed from April 1, 1967, whatever be the date of agreement.

8. Thank you.

ANNEX IV

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MEETING OF THE INDIA CONSORTIUM

CHAIRMAN'S STATEMENT ON WHAT IBRD PROPOSES FOR  
SHORT-TERM DEBT RELIEF IN 1967/68

(Washington, April 25, 1967)

1. Thank you very much Mr. Sundara Rajan. Mr. Sundara Rajan is going to leave us now but he will be available if any questions come up that he needs to answer.
2. I don't think there is any need for me to say more on the points that Mr. Sundara Rajan touched on. It is of course getting extremely late for India to be able to start making its arrangements. They postponed formulating their import program until the meeting in Paris. Now they have postponed formulating the program until this meeting and with each passing week the matter gets to be more and more urgent.
3. I'll be asking each delegation to let me know what the present position is in its country, but before I do that perhaps it would be appropriate for me to say what the Bank proposes to do. Some of you may not know what everyone in Paris knew, that is, that two months ago the Indian Government asked the Bank to ask the members of the consortium to have a standstill on debt payments during this fiscal year. The position with regard to Indian debt will be familiar to you; you have all had the papers the Bank has prepared. You will know that there are \$450 million of debt service payments this year against expected export earnings of \$1700-\$1800 million. That in itself is getting to be a serious problem, but a critical situation has been brought about by the fact that there have been two years of drought in India, and I would say that at least a billion dollars of additional resources have had to be devoted to keeping the present famine in Bihar just below the limits of a complete disaster.
4. Accordingly in Paris I stressed the need to do something to provide \$400 million of aid in a form that would make free foreign exchange available. As far as the Bank was concerned, I said that we were working on the possibility of arranging quick-disbursing loans, which would offset the \$80-\$85 million of debt service payments (principal and interest) due to the Bank during this fiscal year. Since then we've done a great deal of work on this, but our examination of the various alternative lending proposals has revealed a number of difficulties which preclude immediate negotiation of new Bank loans which would be disbursed quickly. Accordingly, last week we decided to approach the problem in a different way, to make other arrangements to insulate the Indian balance of payments from the impact of payments of principal and interest due to the Bank this year.
5. Subject to the approval of the Executive Directors of the Bank, and I have to emphasize that this has not been discussed with the Executive Directors, the President of the Bank is prepared to recommend the following



arrangements to offset payments of approximately \$80 million due to the Bank this year. For technical reasons, payments, which are due to the Bank in 29 different currencies, will be made as scheduled. However, the Bank would immediately place in a special account with the Reserve Bank of India an equivalent amount in the three or four principal currencies outstanding on loans to India. The amounts so deposited would be freely usable by India. No interest or service charges would be paid to the World Bank on this account. It is understood that the special account would be maintained until March 31, 1968. In the meantime we would expect the consortium to work out arrangements for dealing with the long-term problem of the terms of aid (including some substantial measure of relief from payments due on existing debt) and that these arrangements would include a long-term solution for payments due to the Bank during the current Indian fiscal year. I would hope that we could reach agreement within the consortium on these matters by about September of this year (that is on the long-term problem) so as to allow sufficient time for creditor countries to take whatever steps may be necessary for new arrangements to be fully effective no later than April 1, 1968. A little later this afternoon, under the third item of the Agenda, I will have more to say about how we propose to pursue the long-term debt problem.

6. I should say that the Bank has not abandoned the idea of quick-disbursing loans to India, which I mentioned when we met in Paris three weeks ago. Such loans would release foreign exchange for other purposes and this may well be the technique which the Bank will employ to offset payments due in 1967/68 as our contribution to general arrangements within the consortium to deal with the long-term debt servicing problem.

7. I would like to say, however, what I said in Paris, that these quite unusual proposals which the Bank is making could not possibly be made to the Executive Directors unless in the first place substantial action of a similar kind is taken by members of the consortium, and unless it is evident that we are all agreed that something must be done about the long-term debt servicing problem. Having said that, perhaps I could start off by asking Heads of Delegations to tell me what their positions are.

Asia Department

ANNEX V

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MEETING OF THE INDIA CONSORTIUM

STATEMENT BY THE CHAIRMAN  
ON THE LONG-TERM DEBT PROBLEM

(Washington, April 25, 1967)

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1. I would now like to say something about the long-term debt problem, which we have left aside in order to deal with the more immediate problems, which have to be resolved within the next few weeks. We cannot, however, put the long-term problem off indefinitely; otherwise we shall simply lurch from one crisis to another.
2. The salient facts about the Indian debt situation were set forth in my report on the Working Party Meeting in Washington last March (IND 67-17). After that meeting, the Bank prepared some illustrative tables, showing the consequences of applying DAC terms to new aid granted to India. These were circulated as IND 67-20. It is clear to me that, even if these terms were applied to all new debt assumed by India - which would in itself be a real departure from the past - the consequent debt service would still make India's foreign exchange position precarious, to say the least.
3. I hope that, by now, everybody accepts the seriousness of the situation, whatever you may think about the possibilities of meeting it. But it might be worthwhile spending a short time refreshing our memories about it. I would be happy to answer any general questions that delegations might have. For the moment, however, I doubt that we can do more than underline the seriousness of the situation and the urgency of finding an agreed approach for dealing with it. We will have to carry our work further after this meeting.
4. So far, we have presented the problem in general terms. The exercises we have done are on such global terms that they relate all debt to all trade, consortium and non-consortium. I think it is time that we got down to particulars.
5. In the next two months or so we hope to make a more detailed analysis of the debt problem, as it affects the consortium countries as a whole and individually, and we will aim at some tentative set of principles for future terms of aid, which we would discuss with each member individually during the summer. After that we will attempt to synthesize the results of these discussions and come up with a specific proposal, which we will put to the consortium early in the fall.
6. I might say that we have been and still are handicapped by lack of knowledge in detail on suppliers credits - lack of knowledge both from the creditors and the debtor. We have now asked the Indian Government to institute a better reporting system in this respect and I hope the results may begin to emerge later in the year.

ANNEX V

7. It would be foolish of me at this stage to predict what kind of solution we might want to propose, but I might even now hazard some guidelines. First, what we would be aiming at is a certain uniformity of result in the softening of terms of aid. I do not think this necessarily means uniformity of method, although, of course, it would be simpler if that were the case. Perhaps the lesson we learned in Paris is that we can accomplish more if we focus more on uniformity of ends than uniformity of means.

8. Secondly, we are faced with a debt problem, not just a problem of debt under consortium auspices. Whatever we may wish to do - or not do - about debt previously incurred outside the consortium, we cannot put the two types of debt service into different compartments in the future. I am not talking of debt owed to countries outside the consortium, but about the problem which exists with regard to some consortium members where there are debts which are regarded as debts "inside" the consortium and other debts which are regarded as debts "outside" the consortium.

9. Thirdly, there is no doubt in my mind that in all our deliberations on aid to India, we shall have to think in the future in terms of net aid, that is, the amount of gross aid less debt service payments. Moreover, to the extent that we can do so, we shall have to think in terms of net aid actually disbursed and used during a particular year. This means that when we talk of softening the terms of aid we should also consider not only new aid but old aid which gives rise to the present pattern of debt repayment. We have to realize that commitments are only a means and the end is the actual utilization of aid. This subject was discussed in a preliminary way in Paris. We hope to pursue it further during the coming year.

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IND 67-25/1

June 8, 1967

FROM: The Secretary

MEETING OF THE INDIA CONSORTIUM

Corrigendum

Please amend paragraph 5 (g) of the Chairman's Report of Proceedings of the Meeting of the India Consortium (IND 67-25) held in Washington on April 25, 1967 as follows:

"(g) The representative of Japan stated that his Government had explored and analyzed the possibility of taking debt relief action beyond that indicated in Paris; however, the Government had reached the conclusion that it would not be possible to make any arrangements with regard to relief on payment due on the second yen credit."

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President, Asian Development Bank

M. Bell

CONFIDENTIAL

OFFICE MEMORANDUM

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**AUG 29 2013**

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TO: Files

April 25, 1967

FROM: David A. Dunn

SUBJECT: Meeting of India Consortium, April 4-6: Meeting of Heads of Delegations, Thursday Morning, April 6

1. A meeting of the Heads of Delegations to the Paris meeting of the India consortium was convened on the morning of April 6 to review preliminary indications of non-project aid, food aid, and debt relief action. A list of country Heads of Delegations who attended is attached as Annex I. Mr. I.P.M. Cargill of the Bank was in the Chair, and Mr. D. A. Dunn of the Bank's delegation also attended.

2. The Chairman emphasized that it was important that delegates to the meeting to be held in Washington on April 25 be able to speak for their governments and give definite indications of action to be taken with regard to the cash problem in 1967/68. If this were not done, the Bank might find it impossible to take the extraordinary actions it had indicated in the plenary session the preceding day. The purpose of the morning's meeting was to see if any further indications of progress toward the goals for non-project, food and debt aid could be achieved before delegations left Paris.

3. Mr. Rostow of the United States indicated his particular anxiety that as much action as possible be indicated before the end of the Paris meeting. The United States had shown a tentative willingness to grant balance of payments relief for 1967/68. Action in identical form from all countries was not necessary, but some willingness and cooperation to grant one year of substantial cash relief on the part of all members was necessary before his own country could take definite action. He wished to go around the table one more time to see what further comments could be added at this time by Heads of Delegations. In addition to the Chairman and Mr. Rostow, Sir Alan Dudley of the United Kingdom and Mr. Towe of Canada also stated that it would be necessary to get commensurate action on an international level before the preliminary pledges indicated by their countries could be released.

4. Mr. Trotta of Italy indicated that his country had two principal problems with regard to aid for India. The first priority for Italy was to widen the list of goods available to be obtained under the Italian credits; in particular it was necessary to allow for procurement of fertilizers. The second priority was to speed up utilization of existing credits through the elimination of administrative difficulties slowing down the flow through the pipeline of aid. With regard to new assistance in 1967/68, Mr. Trotta expressed his personal opinion that any new export credit should be a government credit on soft terms. This was a problem not yet solved within his government. Mr. Trotta expected that if the government both widened the list and softened its terms, any new pledges of assistance would be

lower in amount than those of recent years. Mr. Trotta indicated that an Italian pledge this year might be on the order of \$10-\$15 million, but that the government would probably not be in a position to make a final commitment within the next three weeks. Mr. Trotta also indicated that he hoped to get government agreement to refinance the \$7 million of principal repayments owed by India in 1967/68. In addition to this, he expected that the speed-up of utilization of aid might achieve disbursement of \$30 million in this fiscal year which would include fertilizers needed for food aid.

5. The head of the Japanese delegation indicated that he had nothing further to add to his comments in the previous day's plenary session. In addition to its ordinary \$45 million non-project pledge, Japan had offered \$7 million of food aid for this year. As part of its non-project assistance Japan was refinancing the \$6.2 million principal repayment due on the first yen credit. There was some discussion of Japan's problem of finding a means of offsetting the \$9.4 million due on the second yen credit, part of which had been refinanced by private banks. The Chairman suggested that some means such as a government-to-government loan or a central bank-to-central bank credit might give India the means to pay and ensure that the private banks in Japan would be paid as scheduled. The Japanese delegate indicated that he would take this suggestion to his government for consideration.

6. Mr. Elson, the chief of the German delegation, said that it would be difficult for anything to happen if too many countries made their offers of aid conditional upon action by all other countries. Germany was willing to consider partial refinancing of debt payments due in 1967/68 but the government would face problems in explaining this to Parliament because there seemed to be no question of default on the part of India. Mr. Elson stated that it was good that the immediate problem had come to be viewed as a cash or liquidity problem and not a normal debt club problem. Mr. Elson stated that it was too early for his government to be able to make a concrete suggestion. As this was an exceptional problem the administration required time to seek means of meeting India's requirements. He was reluctant to have a new meeting convened in April to discuss the same matters again because he was doubtful that more could be achieved on the part of Germany in such a short time.

7. The Chairman stressed that this was not the first time that these problems had been discussed in the consortium. It was his opinion that the consortium could not continue to talk about these problems without taking definite action. India's obligation to make debt repayments went on while the consortium talked and would reach a peak for this year in July. There was a balance of payments problem now which must be faced by prompt action on the part of consortium members. Sir Alan Dudley stated his government's belief that there would be a balance of payments crisis in India in May. There was serious danger that India's reserves would go below the legal minimum position in that month.

8. The Chairman stated that he understood Germany's problem over the amount of aid assistance allotted in the budget. On the other hand, if any German action on debt relief was to be a part of this total, then it seemed that not much could be done this year. He thought it was necessary that a

new solution be sought on Germany's part. He did not think the Bank could consider action on debt relief to be commensurate if such relief applied to only ten percent of debt payments due during the year. The Chairman said that whether or not there was a meeting in April the Bank must be in a position to know at that time what action other members could take. Even if it was not possible to make a formal commitment, governments should at least indicate what action they proposed to take. He requested that the German delegation examine possible extra-budgetary means of action on the cash problem.

9. M. Hirsch-Girin of France stated his pleasure with the way the Indian aid problem was now presented. As there was no longer an emphasis on project aid the French Government would find it easier to resist the pressures of industrialists. It was his opinion that the worst possible way to present the debt problem was to request a standstill or moratorium. On the contrary, it was beneficial to present the problem as one of presenting India with as much free foreign exchange as possible. With these emphases the French Government could ask its Parliament for a larger portion of aid in non-project form, and could stress liberalization of terms and a speed-up of utilization of aid. France had offered \$17 million in 1966/67 for various raw materials and fertilizers; it would probably make the same amount available in 1967/68, of which a large part would be available for various forms of food aid. It was possible that within two or three weeks his government might indicate that part of this \$17 million would be in the form of cash relief.

10. Mr. Trotta asked if any members were willing to make untied loans connected with debt relief. There was some discussion by various members as to what constituted untied aid. Sir Alan Dudley indicated that the United Kingdom had given substantial aid last year and would do the same again this year in a form which, although it was tied geographically, was not tied to specific goods. Mr. Elson said that improving the terms of debt repayment was equivalent to giving untied aid. Mr. Rostow indicated that the United States was willing to have free use of its funds as far as goods to be procured were concerned. The freight part of his country's aid was untied geographically although the rest of United States aid was tied to that country. Mr. Towe of Canada said that it was the equivalent of granting free foreign exchange to give a fifty-year credit for raw materials obtainable at prices which would be competitive on the world market. The Chairman stressed that all of the Bank's aid was untied geographically and that the new quick disbursing loans proposed for this year would be for goods for which India would otherwise have to use free foreign exchange. On this point Dr. Neudoerfer, the head of the Austrian delegation, indicated that to give \$0.7 million of debt relief as Austria had the previous year was to give away free foreign exchange with no chance of promoting the exports of his country. It was possible for a small country such as his to take such action on a one-time basis, but it would be difficult to do so again. Sir Alan Dudley stated that the United Kingdom found itself in a similar position in that exporters in his country were beginning to note that aid which was substantially equivalent to free foreign exchange undercut the position of exporters in the United Kingdom.

12. Mr. Lieftrinck of the Netherlands indicated that India's cash position should be improved by a speed-up of utilization in the aid pipeline which he hoped would represent an additional \$3-\$4 million to be made available to India this year from the Netherlands. On the question of refinancing, he indicated that his government would examine the proposition and report by the end of the month.

13. The Belgian delegate, Mr. de Dobbeleer, noted that he was in a difficult position because of the recent government crisis in his country which prevented his being able to make definite commitments. He indicated, however, that the Belgians would try to think of a solution for the problem of short-term debt relief, possibly in the form of a new loan on soft terms, which would offset debt payments due this year. At the same time he was sure that his government would continue its non-project assistance. He added that it would be hard for Belgium to take such actions unless all other members of the consortium took similar action. He stated that it would facilitate the Belgian position if the Bank could make available a statement of definite and preliminary pledges of aid made so far.

14. The Chairman indicated that apart from the report of proceedings of the meeting which would indicate all such proposals yet made, he would write a letter to each government about the particular problems it faced in granting aid in the form required this year.

15. The Chairman then stated that as he believed it would be useful to have a meeting in Washington on April 25 he would convene such a meeting with the goal of reviewing and assisting progress towards achieving the target of \$400 million of the total of non-project aid in the form of cash relief. There would also be a review of progress on pledges toward the total non-project assistance target of approximately \$1.3 billion.

17. Delegates then considered the text of a draft press release which was discussed and redrafted. A final version for release to the press was agreed upon and the meeting was adjourned.

cc: Messrs. I.P.M. Cargill

G. Votaw

B. King

B. Bell ✓

K. Bohr

Sir John Crawford

New Delhi office

Paris office



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IND 67-23

April 25, 1967

INDIAN CONSORTIUM

April 25, 1967

TENTATIVE LIST OF DELEGATES

<u>BANK</u>	Mr. I.P.M. Cargill Mr. B.R. Bell Mr. William M. Gilmartin Mr. Benjamin B. King Mr. G. Votaw Mr. David A. Dunn	
<u>AUSTRIA</u>	Mr. Othmar Haushofer	Head of Delegation
<u>BELGIUM</u>	Mr. M. D'Haeye Mr. Herman Biron	Head of Delegation
<u>CANADA</u>	Mr. Peter M. Towe Mr. A.J. Barry Mr. Fergus Chambers	Head of Delegation
<u>FRANCE</u>	Mr. Rene Larre Mr. Jean Malaplate Mr. Georges Beisson	Head of Delegation
<u>GERMANY</u>	Dr. Otto Donner Mr. G.A. von Trotha	Head of Delegation
<u>ITALY</u>	Dr. Ugo Toscano	Head of Delegation
<u>JAPAN</u>	Mr. Michiya Matsukawa Mr. Hiromu Fukada	Head of Delegation
<u>NETHERLANDS</u>	Mr. J. Grooters	Head of Delegation
<u>UNITED KINGDOM</u>	Mr. R.E. Radford	Head of Delegation

UNITED STATES

Mr. Maurice J. Williams  
Mr. Charles E. Houston  
Mr. Michael F. Cross  
Mr. Walter Furst

Head of Delegation

INTERNATIONAL  
MONETARY FUND

Mr. W. John R. Woodley  
Mr. Erik Elmholt

Head of Delegation

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IND 67-22

April 21, 1967

FROM: The Secretary

INDIA - MEETING OF THE INDIA CONSORTIUM

Attached is the Chairman's Report of Proceedings of the India Consortium which was held in Paris on April 4-6, 1967.

Additional copies of this report will be available for delegates attending the Consortium meeting in Washington on Tuesday April 25.

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IND 67-22

April 21, 1967

MEETING OF THE INDIA CONSORTIUM

REPORT OF PROCEEDINGS

Prepared by the Chairman

1. A meeting of the consortium of countries and institutions interested in development assistance to India met in Paris on April 4-6, 1967, under the chairmanship of the World Bank. The meeting was attended by representatives of the Governments of Austria, Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, the United Kingdom and the United States. The International Monetary Fund and the OECD (DAC) sent observers. A delegation from the Government of India was also present during part of the meeting. (A final list of delegates is attached as Annex 1. The preliminary list was circulated as IND 67-19.) During the course of the meeting, two working parties were established to consider ways and means of improving India's balance of payments position in 1967/68 (a) by providing interim debt relief and (b) by speeding up the utilization of aid.

Economic Development and Prospects

2. At the first session, delegates considered recent Indian economic developments and prospects for the immediate future. During this session statements were made by Mr. S. Jagannathan, Secretary, Ministry of Finance, and Messrs. A. L. Dias and B. Sivaraman, Secretaries in the Ministry of Food and Agriculture. (These statements are attached as Annexes II, III and IV.)

3. Discussions focused on India's progress in implementing the policy changes initiated last year, with particular emphasis on Government efforts to improve the food and agriculture position.

4. Several members expressed their concern that India should take all measures necessary to ensure adequate incentives to farmers and to effect better internal distribution of food. Many members commented favorably on India's plans to increase food and other agricultural production by providing ample supplies of new high-yielding seed varieties, fertilizers, plant protection materials, and equipment for the installation of wells and other irrigation facilities. Members welcomed indications that the family planning program would continue to be given high priority. Some members expressed the view that India should give much greater emphasis to export promotion, measures that would encourage private foreign investment in India, and steps to increase industrial efficiency. Several members expressed the hope that resources would be found to continue and to expand

the policy of relaxing controls over imports and industrial investment. Some members voiced concern that it was likely to require several years more than indicated in present plans for India to achieve self-sufficiency, either with respect to food production or in its overall balance of payments. Many delegations noted that they were encouraged by the fact that the Bank seemed to be satisfied with the first steps taken by India to improve the climate for economic development and urged that the Bank continue an active dialogue with India on policy issues, in order to keep in close touch with further developments as they occur.

5. In a statement reproduced as Annex V the Chairman noted that there were several short-term problems approaching crisis dimensions. Although it could never have been expected that the new policies would produce immediate results, their beneficial effect had been obscured to some extent by two years of drought. Statements by Sir Alan Dudley of the United Kingdom and Mr. Eugene Rostow of the United States, made during the general discussion of the economic situation, are reproduced as Annexes VI and VII. A summary of major points made by Mr. Peter Towe of Canada at various stages in the discussion is reproduced as Annex VIII.

#### Total Non-Project Aid Requirements

6. Delegates in later plenary sessions attacked three principal problems: an assessment of the total amount of non-project aid (including food) required by India in 1967/68, and the two related short-term problems of finding, within that amount, sufficient quick-disbursing aid both to permit India to meet the payments coming due in 1967/68, and to enable India to contract for necessary food imports without reducing the flow of resources for other priority purposes. Delegates agreed with the Chairman's proposal that for planning purposes the consortium should adopt a target of about \$1,280 million for non-project aid in 1967/68, including \$900 million of the type provided in 1966/67 and approximately \$380 million for the import of foodgrains.

#### Food Aid Requirements

7. Within the total amount of non-project aid, delegates noted that an amount sufficient to purchase up to six million additional tons of foodgrains was required in the very near future in order to permit timely delivery of food required during the remainder of this calendar year. Taking into account the 4.3 million tons of foodgrains already arranged, the three million additional tons conditionally offered by the United States, approximately 700,000 tons offered by Canada, additional amounts likely to be offered from countries and institutions outside the consortium, and various offers from other delegations in the form of cash, fertilizers, debt relief or quick-disbursing aid, all of which would release free foreign exchange for the purchase of foodgrains, the Chairman noted that it seemed likely that India would be in a position to contract for a total supply of 10 million tons of imported foodgrains in 1967.

### The Free Foreign Exchange Requirement

8. There was considerable discussion of the need for providing a portion of the total non-project aid in a form as nearly as possible equivalent to free foreign exchange. It was generally agreed that an amount of approximately \$400 million was needed in this form to make possible additional purchases of food and to prevent a serious "cash gap" in India's balance of payments during 1967/68. Before the meeting the Chairman had contacted all members to point out the role which debt relief could play in providing free foreign exchange. It was an important accomplishment of the discussions in the working party and in the plenary sessions that delegates realized that what was contemplated was not by any means a moratorium action prompted by imminent default; by contrast, it was proposed to take prompt action to deal with a major cash or liquidity problem, and debt relief at least on an interim basis was considered a means to deal with the 1967/68 cash problem and to provide time to find a solution to the long-term problem of the terms of aid. (Members' own estimates of debt service payments falling due to them in 1967/68 are attached as Annex IX.)

9. The Chairman said that the President of the Bank was willing to consider, as an extraordinary action, that fast-disbursing loans be recommended to the Executive Directors. Such loans, which might have to depart somewhat from past Bank practices and procedures, would involve disbursement of an amount equal to the value of both principal and interest repayments due to the Bank in 1967/68. This would be in addition to loans already negotiated or under discussion with India and to any normal pledging that IDA might be able to do towards non-project aid later in the year. The Bank was willing to act, however, only if all other members were prepared to take similar action covering a substantial part of debt repayments due in 1967/68 as a contribution to solving the cash problem, and also only if all consortium members were agreed that during the next few months they would work toward a solution to the long-term problem of the terms of aid.

10. During the course of the discussions, several delegates were able to give indications of interim action which they were prepared to take in order to give India relief from debt payments falling due in 1967/68. Preliminary indications of non-project aid (including food and debt relief) announced during the course of the meeting are summarized in Annex X, and it was generally agreed that all non-project aid commitments should be made or at least indicated to the Government of India as quickly as possible. However, at this meeting many delegations could only say that, although they had not been authorized to agree to debt relief even on an interim basis in 1967/68, they would seek to find some means, such as refinancing, which would give debt relief in the short-term to help deal with India's immediate balance of payments situation.

11. It was agreed that the consortium would meet again in Washington on April 25 to agree on concerted action by all members toward meeting India's 1967/68 cash requirement. The Chairman expressed his confidence that, provided all members made their best efforts, it would be possible to find the cash necessary to meet the free foreign exchange problem in good time; and he urged that all members bring specific proposals to the April meeting.

12. In the context of the free foreign exchange or "cash gap" problem, many delegations stressed the possibility of speeding up the utilization of aid already committed but experiencing very slow disbursement. Many delegations expressed the view that concerted action on the part of both India and donor countries could do much to speed up the movement of aid through the "pipeline" and thereby to alleviate the cash problem.

#### Project Aid

13. It seemed to be the consensus of the delegates that it was important to attempt to reach agreement with respect to the non-project and cash requirements first and to leave project aid for further consideration and later discussion. A number of the delegates, however, suggested that each of the members of the consortium should make project loans on a case-by-case basis and that project aid and project aid requirements should be thoroughly discussed at a fall meeting of the consortium.

#### Future Work of the Consortium

14. At the closing session, which was attended by the delegation of the Government of India, the Chairman summarized the accomplishments of the meeting and the matters agreed upon. He also noted the feeling of several delegations that if concrete action on debt relief were taken by consortium members, India would be expected to seek similar relief from its non-consortium creditors. For its part, the consortium agreed to continue the recent working party discussions on the terms of aid and debt relief which were begun in Washington in March 1967, with a view to reaching a settlement of some kind in time for implementation beginning at the start of the next Indian fiscal year (April 1, 1968). To this end, the Chairman announced his intention to convene a meeting of the working party in two or three months, at which time the Bank would make a specific proposal for action.

15. It was agreed also that, in addition to the meeting on April 25 to review progress towards achieving the pledges required immediately, another meeting of the consortium would be held in the fall to review economic developments in India and progress toward reaching the target for total 1967/68 non-project aid. In addition, at that time, attention would be given to project aid requirements and the extent to which they were being met.

16. At the close of the meeting a brief press release was issued (attached as Annex XI).

MEETING OF THE INDIA CONSORTIUM

Paris, April 4-6, 1967

LIST OF DELEGATES

<u>BANK</u>	Mr. I.P.M. Cargill Mr. B.R. Bell Sir John Crawford Mr. Benjamin B. King Mr. G. Votaw Mr. D.A. Dunn Mr. Kenneth Bohr  Mr. John D. Miller Mr. Arthur Karasz	Head of Delegation
<u>AUSTRIA</u>	Dr. W. Neudoerfer Mr. E. Musyl	Head of Delegation
<u>BELGIUM</u>	Mr. T. de Dobbeleer Mr. Jan Vanormelingen Mr. Hynderick de Theulegoet Mr. W. Herregodts	Head of Delegation
<u>CANADA</u>	Mr. Peter M. Towe Mr. A.J. Barry Mr. L.H. Brown Mr. L.A.H. Smith	Head of Delegation
<u>FRANCE</u>	Mr. Jacques Hirsch-Girin Mr. G. Lapeyre Mr. Bernard Prague Mr. B. Rouhier	Head of Delegation
<u>GERMANY</u>	Mr. Erich Elson G. Graf von Westphalen Mr. Rolf Fluisch Mr. Georg Schneider Mr. W. Ritter Dr. Otto Schmidt Mr. H.U. Meyer-Lindemann	Head of Delegation
<u>ITALY</u>	Mr. Girolamo Trotta Mr. Lorenzo Tozzoli Dr. L. Bellingeri Dr. B. Clemente Dr. P. Ricci	Head of Delegation



JAPAN

Mr. Shoji Sato  
Mr. Seitaro Hattori  
Mr. Masanao Matsunaga  
Mr. Hirotake Fujino  
Mr. Shiro Miyamoto  
Mr. Takao Kawakami

Head of Delegation

NETHERLANDS

Mr. E.A. Lieftrinck  
Mr. C. van der Tak  
Mr. G.A. Posthumus  
Mr. G.H. Ledeboer

Head of Delegation

UNITED KINGDOM

Sir Alan Dudley  
Sir Henry Hardman  
Mr. H.A. Harding  
Mr. G.S. Whitehead  
Mr. D.F. Stone  
Mr. J.C. Edwards  
Mr. J.D. Rimington  
Mr. J.M. Healey

Head of Delegation

UNITED STATES

Mr. Eugene V. Rostow  
Mr. John P. Lewis  
Mr. C. Herbert Rees  
Mr. Ernest Stern  
Mr. Walter C. Furst  
Mr. Alan Novak  
Miss Mary Olmsted  
Mr. Samuel Costanzo  
Mr. Albert Cizauskas  
Mr. Martin Abel  
Mr. Charles E. Houston  
Dr. E.C. Fei

Head of Delegation

\* \* \* \* \*

INDIA

Mr. S. Jagannathan  
Mr. A.L. Dias  
Mr. B. Sivaraman  
Mr. T. Swaminathan  
Dr. I.G. Patel  
Mr. K.S. Sundara Rajan  
Mr. C.S. Swaminathan  
Mr. S. Guhan  
Mr. Gurbachan Singh  
Mr. G.S. Banavalikar

Head of Delegation

\* \* \* \* \*

OBSERVERS

INTERNATIONAL  
MONETARY FUND

Mr. W. John R. Woodley  
Mr. Robert C. Effros

Head of Delegation

MEETING OF THE INDIA CONSORTIUM

STATEMENT BY MR. S. JAGANNATHAN,  
HEAD OF THE GOVERNMENT OF INDIA DELEGATION  
(Morning Session, April 4, 1967)

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**AUG 29 2013**

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Mr. Chairman,

May I say first of all that I welcome this opportunity of participating in the deliberations of what has come to be known as the Aid-India consortium. It was about two years ago that we met on a similar occasion in this city of Paris. Many things have happened during these two years of which you have been kept informed by the World Bank which has continued to play so ably its valuable role of serving as a bridge of understanding between India and her friends. On this occasion also, the Bank has made available to you a number of reports on Indian economic development which make my task easier. At the same time, I appreciate that you would like me to put before you the development in the Indian economy, our assessment of the current situation, the prospects for the coming months and the context in which we are now approaching you for a renewal of your generous support for Indian economic development.

Background

It is perhaps not inappropriate to recall that it is our common concern for the development of the Indian economy and the well-being of its people that brings us here together. Beyond this basic concern itself, there lies perhaps the concern for many other important things such as the future of democracy and peace in our part of the world. Of the vigour of Indian democracy you have no doubt heard a great deal in recent months. I do not wish, and I am sure you do not expect me, to dwell on the significance of the elections we have just completed in India. But, I think, it is proper to note at this gathering that these elections have once again dramatised how real and insistent is the urge of the Indian people for a rapid improvement in their meagre economic lot. That this urge is not without a response in more fortunately placed countries has been brought home most vividly in the recent Papal encyclical, "Populorum Progressio".

A great deal has been achieved in India during the first three Plan periods. At the same time, it has been clear for some time that the tempo of Indian development will have to be accelerated if it is to come up to the expectations of our own people. That is why we, together with the experts from the World Bank, have been exploring for some time now the ways and means of imparting greater momentum to Indian economic development.

I need not outline at any great length here the many new initiatives that we have taken in India over the past few years in order to achieve the objective I have just mentioned. In an essential sense, even the sizeable achievements of the past have not proved impressive because of the rapid increase in population. That is why we have now undertaken a substantial intensification of the family planning programme which seeks to reduce the birth rate from 40 to 25 per thousand during the next 10 years. This programme has greatly increased in its tempo. Up to the beginning of this year 1.4 million IUD insertions have been made and over 2 million sterilisations have been carried out. The administration of the programme has been greatly strengthened at all levels, and budgetary constraints have been removed. We are confident that the scope of the programme - using all available methods - can be increased rapidly this year.

In regard to agriculture, we were not perhaps quick to realise that the task of transforming our basic economic activities would assume different forms from time to time. In the initial stage it was perhaps natural to rely on extension of area, on protective irrigation and dissemination of techniques already tried and proved. But once this phase was over, we had to move on to a different plane where the emphasis had to be on more intensive cultivation with the help of more inputs not only of water but also of fertiliser and pesticides and newly developed varieties of seeds. This new agricultural strategy which is based on a combination of fertiliser, new seed and water has now been in operation for about a year during which period the main targets for supplies of inputs required have been met. This pace will be kept up in the coming year also. In 1967-68, we shall distribute about 1.35 million nutrient tonnes of nitrogenous fertilisers as compared to 0.5 million tonnes in 1965-66. Other needed fertilisers are also being supplied. The high yielding varieties programme which began last year will cover 15 million acres in 1967-68 as against 6 million acres in the last year. Although the acreage under new seeds was modest in the first year of the new strategy, competent observers believe it accounted for 2 million tons of additional production in this drought year in rice and wheat. Agricultural investment will go up by 40 per cent and agricultural credit will be increased by Rs. 1 billion while we continue to develop and improve a variety of institutional means to make credit available to all who want to invest in the new technology. Unfortunately, the drought has masked the advances made on ground, but the evidence we have in areas not affected by the drought demonstrates clearly that we are on the right track. My colleague, Mr. Sivaraman, will be glad to comment further on our agricultural progress. In this context, I should also welcome the admirable report on agricultural policies which the Bank has prepared under the leadership of Sir John Crawford.

A country like India - I might say a continental country - with its particular pattern of resource endowment could not neglect industrial development, including the development of sophisticated industries. However, these industries require a heavy commitment of resources so that it becomes all the more important that investments already undertaken are utilised fully and profitably before new investments are taken up. This emphasis is being reflected in our annual plans.

Foreign exchange has been the most important limiting factor in Indian economic development. That is why the second and the third plans laid emphasis on the development of industries which might stave off a crippling dependence on imports. It was equally important to promote the growth of exports on an enduring basis. While exports increased rapidly in the early years of the third plan, this growth was not sustained in later years. I shall have more to say on this crucial subject of exports later. Restrictions on imports, while necessary in our circumstances, would also, it was felt, fail to promote the development of industries on competitive lines unless these restrictions took increasingly a more uniform and stable character and were consistent with the desire to get the best out of existing investments. It is in the light of this broad assessment that we took a number of decisions in the recent past including the adjustment in the exchange rate and the substantial liberalisation of imports. These decisions themselves followed a series of moves which we had made in earlier years in the direction of achieving greater efficiency in resource allocation.

Apart from the emphasis on family planning, agriculture, capacity utilisation and greater regard to efficiency to which I have already referred, I would like to mention in particular, the growing importance that we have been attaching to decentralisation of economic decisions. This is true not only in respect of the substantial removal of price controls and controls over industries but also in respect of the management of public sector units. The details of these initiatives have been spelt out in the Bank's reports and my purpose here is merely to refer to them in brief to indicate why we ourselves attach importance to the continuance and the strengthening of all these various aspects of the broad policy framework that we are trying to evolve.

#### Recent Economic Trends

To some extent, the impact of the new policies has been swamped by the second successive drought. It was our expectation that with normal weather conditions, the year 1966-67 would mark the beginning of a sharp uptrend in both agricultural and industrial production. This has not happened, although there are definite indications of a revival in industrial production in recent months. Agricultural production in 1966-67 will perhaps be 5 per cent higher than the all time low level reached in 1965-66 - which means that it will be lower than the 1964-65 output by more than 10 per cent. The set-back to agriculture in the current year has affected industries also in many ways so that industrial production during the current year is not expected to show an increase of more than 3 to 4 per cent as compared with an overall increase of 7 to 8 per cent that we had maintained throughout the 50s and the early 60s. This is, however, mainly the result of a set-back in industries like sugar, textiles and vegetable oils which depend on agriculture for their raw materials. There are many other industries, particularly those that supply the needs of agriculture and some chemical and miscellaneous industries, where growth rates of more than 10 per cent have been achieved even in the current year. More generally, there has been

a distinct revival after October which indicates that liberalisation of imports has already begun to produce the impact expected of it.

Imports worth \$2.4 billion have been authorised (exclusive of food, other PL 480 aid, and project aid imports) during 1966-67 as compared to only \$1.4 billion in 1965-66 and \$2 billion in 1964-65. There is reason to believe that large orders have been placed and will result in larger arrivals in the near future. A preliminary study we have made indicates that by December 1966 ordering had been completed for a substantial proportion of the licences authorised. This impression of a stepping up in the pace of ordering is also supported by the volume of requests for supplementary licences which are being automatically granted. The delay in committing a part of the current year's non-project aid and our own anxiety not to delay import licensing has meant that a large part of the licenses which will come up for payment in the next few months will be against our own cash reserves rather than aid.

At the beginning of 1966-67, it was apprehended that the drought in the preceding year will affect exports adversely. That is why a special emergency drawing was arranged with the International Monetary Fund. The repetition of drought conditions in 1966-67, slackness of demand abroad, particularly in some of our major markets, and the temporary dislocation after devaluation have been additional adverse factors affecting exports. The year as a whole is likely to show a reduction in export earnings of about \$100 million as compared to 1965-66. Unit prices have declined for a number of our major products, notably tea, black pepper, oil cakes, tobacco and sugar; and the quantum has also declined, notably in respect of tea, cotton, cloth and jute products. In part, these trends were in evidence even before June 1966 and reflected conditions in world trade. The drought has naturally affected the exports of agricultural products, particularly of oil cakes, tobacco and sugar. On the other hand, where supply conditions at home or demand conditions abroad were not particularly adverse, export performance has been satisfactory. A number of items which have a long term potential have registered increases in exports, e.g. leather products, iron ore, steel, fish, etc. There are also definite signs that export earnings have already begun to pick up after the temporary dislocation caused by devaluation, and this has been responsible in part for the recent improvement in our reserves.

Normally, a situation in which excess capacity exists in many engineering industries and when non-project assistance is available to facilitate greater capacity utilisation is one in which it would be desirable to step up investment rapidly. This is, in any case, desirable if the Indian economy is to realise its full growth potential - a potential which will be increasingly backed by the success of the new strategy of agricultural development and which is bound to become manifest as weather conditions return to normalcy. Unfortunately, in the short run, the urgent need to restore price stability and better budgetary balance make it difficult to bring about any rapid increase in investment unless this increase is backed up substantially by greater availability of foodgrains, other agricultural raw materials and the requisite project and non-project imports. Food aid, debt relief, continuance of non-project assistance, and resumption of project aid are all essential and

integral parts of the assistance we need from our friends at this stage if we are to be able to tackle our problems in the coming year in a climate of expansion which is so badly needed after the stagnation of the last two or three years.

#### Requirements of Aid

We are discussing the question of food aid separately. The Bank document has referred to this and my colleague Mr. Dias will be giving a fairly full picture. Briefly we are dependent for the first half of the year on arrangements already made. For the second half of the year we need at least six million tons of which 600,000 tons has already been promised by Canada and the US has shown a willingness to supply a further 3 million tons under the Food for Peace Programme. I should take this opportunity to acknowledge once again this generous assistance. We still need assistance to enable us to import the balance of our requirements of 2.4 million tons. I would only reiterate at this stage that as we see it, food aid cannot be in substitution of other assistance. It must also be in a form which releases our own free foreign exchange resources during 1967-68 itself. Only so can we buy food on our own unless, of course, food aid takes the form of food itself and releases foreign exchange directly.

Our second urgent requirement is for debt relief. This matter has been discussed by the Working Group and the papers prepared by the Bank, and our own views in this respect have been placed before you already. It has been rightly emphasised that India's debt problem is a long-term one and that it is a facet of the problem of development as such. Improvement in the terms of aid, both future aid and past aid, are essential and would help relieve the debt problem over time. But there is also a short-term aspect to this problem which makes substantial debt relief an urgent necessity in our case.

Essentially, since aid is tied and our own requirements are of a nature which cannot be met entirely from the aid-giving countries themselves, we have to deploy our foreign exchange earnings to a substantial extent for making purchases of essential raw materials and other requirements from countries from whom we cannot get aid. In a sense, the Indian economy is neither fully developed nor really undeveloped. It is at an intermediate stage where, like the economies of many countries represented here, it has to rely to a substantial extent on imports of raw materials such as cotton, jute, non-ferrous metals, rock phosphate, sulphur, petroleum and the like. Indeed, a very large part of our traditional exports including those, for example, of jute products, cashew kernel, cotton textiles are also dependent on raw materials imported from other developing countries. In this sense, the area of complementarity between the Indian economy and the economy of most of the aid-giving countries is not as great as one might imagine at first sight. This situation is further aggravated by the fact that not all the imports we normally make from aid-giving countries are eligible for aid-finance.

India is also perhaps a unique case of a country which has liberalised her imports even while facing a very restrictive balance of payments position. This year, our exceptionally large food imports will make a particularly heavy claim on our free foreign exchange resources -- a claim which would run into as much as \$310 million even after taking credit for concessional supplies of food of the value of \$410 million. The result is that our free foreign exchange resources are not sufficient to meet at the same time the growing burden of debt payments and the inescapable requirements of imports for essential consumption and for keeping our industries and exports going. That is why, in the absence of debt relief on an urgent basis, there is a serious danger of our not being able to continue with the liberal import policies on which we have embarked.

In the course of time, as our exports grow and become diversified and some of the exceptional requirements of imports come down, this problem of debt relief or the cash gap, as we sometimes call it, will become more manageable. We hope it would also become more manageable by improvements in terms of aid, including extension of eligibility for aid-finance for the goods and services we buy from aid-giving countries. But for the immediate period ahead, I cannot emphasise too strongly that, in our circumstances, there is no adequate substitute for debt relief unless it be assistance in pure cash form; that is, without any obligation on our part to purchase anything. That is why it is our hope and expectation that at this meeting, decisions will be taken or announced about the intention of the countries represented here to provide relief to us in respect of debt payments, both principal and interest, that have fallen due since the 1st of April and will fall due hereafter. Our assessment of the cash gap for 1967-68 is of the order of \$400 million. The best way of covering this gap is debt relief. That is one reason why we have proposed a standstill in respect of all the debt payments due in the current year while discussions on the debt problem for the Fourth Plan period as a whole are carried forward. Whether one attributes the cash gap to food import requirements in particular or to the general balance of payments position is a matter essentially of presentational convenience.

Perhaps one more point about the urgency of this question can be added. Normally, the period from April to September is seasonably difficult for our balance of payments. This year, we expect these difficulties to be all the greater because of the agricultural situation and the somewhat larger amounts of payments against free foreign exchange licences issued since liberalisation. From the point of view of our needs, therefore, debt relief in respect of payments already falling due is vitally important.

Greater flexibility in the utilisation of non-project assistance would, to some extent, reduce the magnitude of the cash gap. For example, if non-project aid is admissible for importing all the required commodities from the aid-giving countries and if non-project aid could be similarly used for covering import authorisations made from the beginning of the fiscal year, a part of the burden on our free foreign exchange resources will be reduced. I would, however, underline that in any event some improvement in regard to the usability of non-project aid is necessary if it is to serve its essential purpose of sustaining liberalisation of imports and the progress

of the Indian economy. We, on our part, are trying to shift as much of our imports as possible to aid financing and hope that there will be diminution in the restrictions on the use of non-project aid that will assist this effort. In particular, I would urge that all non-project aid for the current year should finance orders placed from the beginning of April 1967, with maximum possible coverage of the items that can be financed with aid. Even so, the cash gap will be reduced only slightly because of commitments already made, unless similar improvements are made retrospectively on the use of last year's non-project assistance which has been subject to many limitations.

This brings me to the requirement of non-project assistance for 1967-68. I should take this opportunity of expressing our gratitude to the countries and institutions assembled here for the non-project assistance of \$900 million for the year 1966-67. We hope that non-project assistance for the next year will be indicated at this meeting itself so that our import programme for 1967-68 could be announced without any delay. In a matter like liberalisation, credibility is most important. Any delay in issuing licenses against demand as it materialises would cast doubts on our ability to sustain a policy which we consider of fundamental importance. I earnestly hope that at the conclusion of this meeting, we will have the assurance which would enable us to go ahead with import licensing at least on the same basis as we have done during the current year.

As for the quantum of non-project assistance for 1967-68, our estimate as presented in the Bank Report is that we need a total commitment of \$1.3 billion of which some \$400 million has to be in cash form. The Bank's estimate is that a total commitment of non-project assistance or approximately \$1.1 billion may well suffice provided it is in a form which can cover the cash gap of \$400 million. Both the estimates are inclusive of our food requirements. We have assumed that licences for maintenance imports during 1967-68 would be of the same order as in 1966-67, i.e. \$2.4 billion, whereas the Bank's estimate is that a somewhat smaller volume of licences may well suffice. In a matter like this, some margin of uncertainty is bound to be there, and the actual requirements may fall anywhere within the range of \$2.2 to \$2.4 billion. I would only urge that at this crucial stage in Indian economic development, it is important to build up and sustain confidence in the new policies that we have initiated; so that if one has to err on one side or the other, it would be prudent to err on the side of a somewhat liberal provision for non-project imports.

In addition to non-project assistance, it is also important that project assistance is committed to enable us to start work on these projects where preparatory work has already been done and where any further set-back in actually starting construction would have serious repercussions on the growth prospects of the Indian economy. Some project assistance is also needed for continuing work on programmes financed hitherto on a partial funding basis. I hope that the countries represented here would be able to indicate at least in broad terms the amount of project assistance that they would be willing to commit subject, of course, to mutual agreement on suitable projects. We also hope that official aid would be supplemented by the inflow of foreign private capital for which there are many specific investment



opportunities in India, notably in the field of fertiliser production. We on our part intend to maintain a hospitable climate for private investment. In this connection, I might mention that the Government of India have recently decided that the concessions available to fertiliser projects licensed up to 31st March 1967 should be extended.

#### Coming to the Tasks Ahead

I should now turn to some of the problems which confront us today and where the responsibility for taking appropriate action would be that of the Indian people and the Indian Government. We attach the highest priority to the continued vigorous implementation of the new agricultural and family planning programmes. I might mention that even in the interim Budget, we have provided fully for the requirements of agriculture and of family planning. Foreign exchange has also been already allotted for the current year's fertiliser import requirements.

Our immediate task at the moment however is to frame the Budget for the current fiscal year. Most of you are undoubtedly aware that the interim budget presented a fortnight ago does not represent our final intentions in this regard and that we propose to introduce a proper Budget some time in May. Our primary concern in the Budget will be that of resuming the momentum of growth without adding further to inflationary pressures. It is in this context that the result of this particular consortium meeting has a great bearing.

Undoubtedly, if investment is to be stepped up even modestly above the low level of 1966-67, we shall have to make an effort to mobilise additional internal resources. This is first of all a question of exploring economies in less essential or avoidable expenditure. We are exploring all possible opportunities in this regard, including reduction in subsidies and economies in non-plan expenditure. We continue to be committed to utmost economy in defence expenditure and, to this end, to exploring all possible avenues of reduction in the threat to our security. We recognise that cooperation in economic matters is often the best way - and a mutually beneficial way - of reducing tension between nations.

At a time when prices have been rising rapidly for some time and when real production, in per capita terms, has perhaps declined, at least over the past two years taken together, it is not at all an easy task to mobilise more resources by way of additional taxation or otherwise. This is all the more so since over the past several years, despite the setback in growth rates, there has been no pause or diminution in our drive to mobilise greater resources internally. Nevertheless, I can assure you that the new Government is determined to explore all possible avenues of mobilising additional resources in a non-inflationary manner.

We intend also to review our fiscal policy as well as controls to see if greater flexibility and greater reliance on decentralised decisions could not be introduced over a wider area than what has already been done.

Perhaps the most difficult area which calls for a continuing review relates to exports. We are fully aware of the urgent need to increase exports. We are confident that in time the measures already taken will stimulate investments in industries and activities where we have an enduring comparative advantage and thereby assist the expansion of exports. In cases where export duties have been levied in order to prevent an avoidable and unrewarding deterioration in terms of trade, we fully appreciate that these duties must be assessed from time to time in the light of changing circumstances without regard to revenue circumstances. In respect of the small area of newer manufacturers where export subsidies are being given, we will continue to strive to avoid distortions between sectors without disregarding new factors which may have a general bearing on the export prospects in this field to which we look for substantial expansion of exports in future. Along with additional incentives, the Government is fully aware of the need to strengthen institutional support for marketing and distribution and generally to promote an aggressive attitude towards export promotion which fully reflects the urgency that exists in this matter.

I should not, in this connection, fail to mention the fact that whereas many discussions on international trade proceed in terms of giving the maximum edge to competition and comparative advantage, this is a recipe which works only when it is adopted by most if not all trading partners. You will perhaps not misunderstand me if I say that there are many commodities in international trade which are very significant in our export picture where freedom of trade under competitive conditions, to say the least, is conspicuous by its absence. In such cases, we are often faced with the prospect of dwindling export earnings unless we take such action as we ourselves can take at our own expense. It would, of course, be much better if the brunt of the burden of adjustment was borne by more capable shoulders. And it is our hope that that would be the case sooner rather than later.

In regard to exports, encouragement for the creation of additional capacity in appropriate directions is as important as exploiting present opportunities to the full in order to make a lasting beneficial impact on our export potential. In this connection, I would like to suggest that a part of the project assistance would be available for our export industries even if their requirements in individual cases may be small and miscellaneous. I would, of course, hope that it would be possible for us to import capital goods at least for modernisation and rationalisation of our export industries from the cheapest possible source. But whatever the source, I hope that it would be possible to provide the needs of our export industries not only for raw materials and components but also for capital goods to modernise and expand capacity.

I would like now to refer to the Fourth Five-Year Plan, an outline of which has been published. The documents placed before you by the World Bank give the assessment of the Bank to this Draft outline of the Fourth Plan. We are still in the process of giving a final shape to this Plan. As it stands, the plan is based on a fairly consistent set of targets; it would be appreciated, however, that in our circumstances we have unavoidably lost some time and it is possible that not all the targets will be achieved as scheduled.

But whichever way the Plan is reviewed and adjusted keeping in view the recent trends and factors in the economy, the tasks which we have to accomplish in the next twelve months should be fairly clear. It is for this reason that I have concentrated my attention on the current year in terms of what India needs to do and what she requires by way of external support.

There are many other things on which perhaps I should say something at least in brief. But I have already taken a great deal of your time. My purpose this morning has been mainly to supplement what has already been said in the Bank documents. Perhaps there would be an occasion when my colleagues and I would be able to respond to any specific question that you may have to ask. For my part, I would only repeat that I consider it a privilege to be here. If there is anything that I can add to what I have said in order to assist the Bank in constructing that bridge of understanding to which I referred at the outset, I shall consider it only my pleasant duty to do so.

MEETING OF THE INDIA CONSORTIUM

STATEMENT BY MR. A. L. DIAS,  
MEMBER OF THE INDIA DELEGATION  
(Morning Session, April 4, 1967)

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The situation which has confronted the country in 1967 is extraordinary. We were afflicted by an unprecedented drought in 1965-66 but were able to meet the situation in that year as a result not only of the generous aid received from friendly countries but our own stupendous efforts in organising crash short-term production programmes, in enlarging and streamlining the system of public distribution of food grains and in stepping up port handling capacity from half a million to nearly 1.2 million tonnes per month and moving this quantity through our inland transportation system to thousands of distribution points all over the country. A major catastrophe was thereby averted in that year. Meanwhile, we had built an agricultural production potential of about 95 million tonnes which we were confident of achieving in 1966-67. In 1964-65 when the season was good, we reached a production of 89 million tonnes. This record production was attained before the exciting breakthrough on the agricultural front which has taken place in the last two years and about which my colleague, Mr. Sivaraman, will speak later.

The 1966-67 agricultural season, despite a late start of the monsoon, gave every hope that the new strategy of agricultural production would yield a result varying between 90 to 95 million tonnes. Nature, however, dealt us an unkind blow for the second year in succession. Except in the South, where a late but adequate north-east monsoon came to the rescue, the rest of the country was affected in varying degrees. Some States like Rajasthan, Gujarat, the normally surplus State of Madhya Pradesh, West Bengal and Orissa were affected for the second year in succession. Other States like Bihar, which has among the highest density of population in the world, and East and Central U.P. experienced an intensity of drought unknown in the century. In these two States alone, very extensive areas have not been able to raise any crop whatsoever and the shortfall in production is about 5 million tonnes. The population affected is 60 million. Our country has had periodic droughts but none in this century so extensive and intense as those in 1965-66 and 1966-67. Moreover, and this is important, there may not have been more than one or two occasions during the last 100 years when the people have had to face two severe droughts in quick succession.

The preliminary forecast of production for 1966-67 is that it may be as low as 76 million tonnes. The difference between last year and this year is that there is hardly any carryover and imports have been inadequate and uncertain. During the first quarter of this year, we have practically been on a ship to mouth and wagon to mouth basis and the monthly allocations to the States have been less than their minimal needs necessitating a cut in the quantum of the cereal ration to a little below 9 oz. per adult per day in the statutorily rationed areas of Calcutta and Bombay and to a bare 8 oz.

even in the worst affected areas of Bihar. Elsewhere, the quantum has varied with availability and has ranged from 4 to 8 oz. per adult per day. A major breakdown has been averted so far because of some availability of grain in the post-harvest period and the effective functioning of the public distribution system through which the distribution of grain, imported or internally procured takes place. The absence of the winter rains affected the wheat crop in the major producing States of Punjab and U.P. and the recent unseasonal rains, when the crop was about to be harvested may have caused some further damage. Distress, therefore, will deepen in the lean period ahead, that is from the months of April to October.

In estimating our requirements for the current year, different modes of assessment are possible, but judged by any indicators, the needs for 1967 will be more than 1966. Though the production is marginally better, it is still 13 million tonnes less than the production of 1964-65. Moreover, and this is important, the carry-over stocks with the trade or producers are at an all-time low. This is clearly reflected in the price levels. In respect of rice, the average price index which was 135 in 1965 and 165 in 1966 is now 182. The index for wheat has increased from 140 in 1965 and 146 in 1966 to 191 in the first quarter of this year. The index for millets has moved from 194 in 1966 to 214 in the first quarter of 1967.

For the majority of the population in India food grains constitute the only food - there being hardly any addition to diet in the form of proteins or other foods. In 1965-66 production was 72 million tonnes and imports were above 11 million tonnes making a total of 83 million tonnes. The carryover of stocks (privately held, not Government stocks) from 1964-65 may be assumed to be of the order of 5 million tonnes. Taking account of this and allowing for seed, food and wastage, the total availability of food grains for consumption in 1965-66 was probably of the order of 79 million tonnes. For a 1966 population of 499 million this would permit a per capita availability of about 435 gms. (15.3 oz.) per day. As against this in 1967 out of a production of 76 million tonnes something under 67 million tonnes would be available for consumption after allowing for seed, feed and wastage. The carryover stocks into 1967 are estimated to be negligible. Consequently in order to make up a per capita availability of at least to last year's low level viz., about 436 gms. per day for an estimated population of 510 millions, 14 million tonnes of imports would be necessary.

In the period 1961-63, when the food situation was relatively free from strain, it is estimated that per capita availability was about 455 gms. (16 oz.) per day. To sustain this level of availability, imports of the order of 18 million tonnes would be necessary in 1967. Imports of this order are clearly impracticable. The Government of India are therefore proceeding on the assumption that, taking the population as a whole, there is no escape from a further restraint on consumption by reducing the average consumption of food grains by about 1 oz. per day (say 30 gms.)

from the level of 1961-63 i.e. to about 425 gms. (15 oz.) per head per day. This will be lower than the level of 1966. Even on the basis of the reduced consumption level, the requirements for 1967 would be about 11 million tonnes. Although this assumes a per capita availability of 425 gms. (15 oz.) per day, in the statutorily rationed areas actual consumption will amount to substantially less as it is clearly not possible to achieve a comparable cut in the consumption of food grains by producers of food. Steps have already been taken therefore to curtail consumption in the statutorily rationed areas where the rations provided are sufficient for no more than 250 gms. (8.75 oz.) of cereals per person per day.

Arrangements have been made for the import of 4.3 million tonnes during the first half of 1967. With total minimum requirements of imports of the order of about 11 million tonnes as indicated above the balance still to be arranged amounts to more than 6 million tonnes. If the supplies additionally available are no more than 6 million tonnes, total availability would be increased by 10.3 million tonnes, which is the absolute minimum of our import requirements.

A natural question would be what we are doing to meet the situation! Over the past 15 months the Administration, Central and State, has tackled a most difficult job - procuring, handling, moving and distributing nearly 17 million tonnes of grain of which nearly 4 million were locally procured and the rest obtained by imports. Statutory rationing has covered a population of nearly 30 million and informal rationing 200 million. In 1967 alone, 14 million tonnes of foodgrains was provided, channelled through a network of 140,000 ration and fair price shops at reasonable prices. Over 10 to 12 million children, women and nursing mothers, the old and infirm have been fed under the emergency food programme, in which international organisations like the UNICEF, CARE, and Red Cross have played a big part assisted by a large number of local organisations. In 1966, more than 3 million people were provided an income through the scarcity relief works, many of which have had to build productive assets. The total number of persons on scarcity relief works in Bihar and U.P. in March 1967 is about 1.8 million. During the lean months ahead it is expected that this number will increase to 2.5 to 3 millions. In Bihar, the number of persons receiving gratuitous relief and a cash dole is over 350,000. 140 free kitchens are operating in this State. The feeding programme for children and expectant and nursing mothers organised under the UNICEF and the Red Cross now cater in Bihar to about 1.5 million persons and is planned to go on to 3.5 million in a month or so and 6 million persons a little later. Despite the staggering blow of a second successive year of drought, our peasants have gone about agricultural operations with zest and enthusiasm. For instance, in Bihar, despite the almost complete failure of the paddy crop, cultivators as a result of the absence of rains in the latter part of November took a risk and brought large areas of traditionally paddy growing land under wheat. Against a normal area of 1.6 million acres of wheat, the area during the current rabi season is 2.8 million acres. Unfortunately, the absence of winter rains has blighted the prospects of this crop. The production of potatoes and sweet potatoes has also, in this State, been increased from the normal 7 lakh tonnes to 1.4 million tonnes

and this has helped, to some extent, in meeting the acute shortage of food grains.

Besides the import of food grains, measures have also been taken during the past 15 months to intensify procurement within the country so as to ensure equitable distribution at reasonable prices of a substantial portion of the marketable surplus. Prior to 1964-65, procurement was undertaken on a very limited scale only in surplus States, but it has now been extended to surplus pockets in deficit States as well as surplus producers in deficit States. Procurement has also been undertaken not only with regard to rice and wheat but also of coarse grains. The procurement system varies from State to State. In 1965-66 despite a shortfall in production of 17 million tonnes over the previous year, procurement was done to the extent of nearly 4 million tonnes. This represents a significant percentage of the marketable surplus. In the case of rice the percentage increased from 22% in 1964 to 34% in 1965-66. For the reasons already explained, procurement is more difficult this year than the last. Already about 1.4 million tonnes has been procured and all the States are now making the maximum effort to step up procurement. It should be noted, however, that procurement does not add to the total availability of food grains. To the extent that it is intensified, marketable surpluses get reduced and the obligation on the part of Government to meet requirements of non-producers and partial producers get enlarged. Procurement operations have, therefore, to be undertaken in keeping with the State's capacity to meet commitments.

One step to facilitate procurement has been restriction on the movement of food grains from one State to another. Our experience over the past quarter of a century has categorically proved that in conditions of shortage, free trade in food grains inevitably results in acute consumer distress to the vulnerable sections of the population. The reason is simple. In the absence of inter-state restrictions the trade would tend to move the surplus from one State to points of highest purchasing power in another and not to those areas of greatest need. The result is that prices get pushed up and vulnerable groups suffer. The transfer, therefore, of food grains from surplus to deficit States in 1965-66 brought about a more equitable distribution. The coefficient of variation of inter-State per capita availability declined significantly from 17.7 in 1964 to 16.4 in 1965 and to about 12 in 1966. In view of the wide variation in the traditional consumption patterns of food grains from State to State, distribution of food grains on a uniform per capita basis is not feasible. Except under a system of rigid regimentation of the entire food economy it is needless to add that this has limitations and hazards.

The problem, therefore, of transfer from surplus States must be seen in its proper perspective. Even in normal times the only surplus States are Punjab, Madras, Andhra Pradesh, Madhya Pradesh and Orissa. In the last two years, Orissa and Madhya Pradesh were both drought-affected. In 1965-66 the crops were also below normal in Andhra Pradesh

and Madras. Even so, Madras exported rice to meet the needs of Kerala to such an extent that there was a breakdown in its own distribution system owing to want of stocks in December 1966 and January 1967. Orissa, despite the drought, made available 75,000 tonnes. In Punjab almost the entire marketable surplus of about 275,000 tonnes of rice was procured. In the case of wheat, procurement was limited as the zone was enlarged and Punjab was linked with the deficit State of Uttar Pradesh. In 1965-66 the maximum extra procurement that may have been possible was in Andhra Pradesh, where perhaps an additional quantity of 50 to 70 thousand tonnes of rice could have been procured. Apart from the fact that this small quantity would not have made any difference to the general supply position, it would have caused internal problems in the State itself consequential to a sharp rise in prices. During the current year, procurement in surplus States to meet the needs of deficit States continues. Orissa may be expected to give from 75 to 100 thousand tonnes and in Andhra Pradesh there is a reasonable expectation that anything between 600 to 700 thousand tonnes will be procured. Apart from the surplus States, there is procurement in the deficit States as well to meet their own needs. Food control envisaged under the zonal system is not a policy to which Government is wedded for all time. If there is a succession of two good seasons and sufficient buffer stocks are built up, the occasion would arise for freeing the food economy from some of the existing restrictions.

We are conscious that with dwindling world surpluses of food grains the problem of meeting India's needs is more difficult than in previous years. It is because of the awareness of this difficulty that we have scaled down our import requirements to a level which means a tightening of the belt to a greater extent than took place in 1966. Drought has brought untold hardship to millions of my countrymen but it also has a brighter side. In the midst of distress, an exciting agricultural revolution has taken place - almost unsung and unnoticed by many. My colleague will tell you more of the significance of the break-through that has taken place. At all the echelons of the Government and at all the levels of the people, there is a realisation that the top-most priority must be given to agriculture so as to enable us to reach self-sufficiency in 1971. We are now confident, as we have never been before, that this goal will be reached and that imports given an average season will take place at a diminishing scale from the next year. It is necessary to mention only the significant achievements in many States under the stress of emergency during the last two years. In one of our largest and heavily deficit States - namely Maharashtra - to which we supplied nearly 2.4 million tonnes of grain in 1966, the Chief Minister organised an emergency agricultural programme, the beneficial result of which is being realised in the current year, when it may not be necessary to supply that State with more than about 1.2 million tonnes. Moreover, the Chief Minister has publicly announced, and this is not a boastful claim, that the State will reach self-sufficiency in 1968. This is a stupendous achievement which, we are confident, will be repeated in other States as well. The next six months, however, are crucial even to attain our objective on the agricultural and economic fronts. It would be a pity when we are so near the shore if a minimum quantity of food grains to avert a collapse of the public distribution system did not materialise.



MEETING OF THE INDIA CONSORTIUM

STATEMENT BY MR. B. SIVARAMAN,  
MEMBER OF THE INDIA DELEGATION  
(Morning Session, April 4, 1967)

**DECLASSIFIED**

**AUG 29 2013**

**WBG ARCHIVES**

Mr. Chairman,

My Government is grateful to you for this opportunity to explain the salient features of the strategy and Programme of Agricultural Production that India has now adopted. The World Bank Mission came to India at a time when we were busy in the process of formulating the agricultural strategy for the Fourth Five-Year Plan period. The Draft Report has been helpful to us in pin-pointing certain important aspects of our programme which, in the view of the Report, appear to require further examination and modification. By the time Sir John Crawford and his colleagues came to India last year, we were able to spell out much of the outlines of the new strategy and a good deal of the details also. Broadly, the new strategy is based on scientific agriculture with all its implications. We are thankful to Sir John Crawford for the trouble he took in discussing the various aspects of the strategy, in detail, with a large number of our workers and in helping us also to get our ideas organised. His advice has been used by us in finalising our approach to the Fourth Plan Agricultural Programme. We are pleased to notice that in its Second Report, the Bank has commended our approach. The Report has also raised certain queries about the detailed formulation of our programme in certain aspects. Some more work has been done in this direction and I shall try to give you a brief exposition of the further action we have taken.

The Government of India, in their policy statement early this year, have declared that after 1971 no concessional imports of food grains would be sought from other countries. The Fourth Plan proposals tries to translate this policy into a Programme of Agricultural Production which will meet the situation. A view has also been taken of the requirements of the Fifth Plan period, so that the policy declaration can be taken as the dividing point between need and sufficiency. The present thinking is that this will require a production of 120 million tons of food grains in 1970-71 and a production of 150 million tons of food grains in 1975-76. In the short term, it is not likely that the consumption patterns will change much; but, in the long term, it is not unlikely, as will be explained further on, that the balance between food grains and other foods may change or should be changed, thereby requiring different targets. Considered from a base potential of 90 million tonnes of food grains created in 1965-66, the target of 120 million tonnes in 1970-71 is definitely a challenge. This will represent a growth rate of 6.7 per cent per year, which, on world experience, is a formidable task. Yet the new strategy and our experience of the last three or four years give us the confidence that these targets are achievable, provided we take note of the vagaries of the monsoon in India and the dangers of a drought

cycle and provide in this strategy safeguards for such phenomena.

In simple terms, the new strategy has two important programmes for increasing food grains production. They are:

- 1) Applying a package of practices comprising water management, high-yielding varieties of seeds, pest control and a sufficiency of fertiliser application along with good cultural practices reaching an area of 32.5 million acres in 1970-71.
- 2) Introducing short-term varieties in the major cereals of the country which are as good yielders as the long-term varieties under a suitable package of practices; thereby allowing for the growing of a major second crop in the irrigated areas of the country where previously only one crop was being grown under irrigated conditions. This programme is expected to reach 30 million acres in 1970-71.

In the First Report, Sir John Crawford drew attention to the stagnation of traditional agriculture in India and to the possibility of the new genetic stock of high-yielding varieties being an answer. Results have come sooner than expected. The co-ordinated research schemes sponsored by the Rockefeller Foundation and carried through by the Indian Research Workers had thrown up hybrid maize strains, hybrid jowar strains and hybrid pearl millet strains (bajra) which had already been tested in the field when Sir John Crawford made the comments. In paddy, which is our major cereal crop, exotic varieties like Taichung Native-1, Taiwan-3, Taichung 65 and ADI-27, an Indian development, had been under test in various stations for some time. In wheat, the dwarf Mexican varieties, Sonora-64, and Lerma Rojo, had been tested under field conditions. A decision was taken to introduce these high-yielding varieties on a large-scale in the field. Seed multiplication and convincing the farmer of the utility of these varieties were problems hinted at by Sir John Crawford in his Report. We are glad to report that the seed multiplication has been tackled and the needs of the programme were met substantially in 1966-67 and are expected to be met in 1967-68 and thereafter. The National Seeds Corporation which was formed in 1963 has taken the leadership in organising foundation seed production and encouraging growing of the farmers requirements in seeds through State Farms and registered seeds growers, with a programme of certification for quality. A Pilot Scheme for Large-Scale Improved Seed Production in Pant Nagar in Uttar Pradesh is now being considered by the World Bank for financing. Results coming in from the field show that the expectations raised by the programme of high-yielding varieties will be more than fulfilled. The statistical backing for a scientific analysis of growth is being organised.

In the last year of the Third Plan, out of 340 million acres of net area sown in India, only 70 million acres (net) had irrigation facilities. In this area, only 12 million acres were grown with a second crop; thereby making irrigated cultivation 82 million acres (gross). In 1964-65, for which figures can be computed, it was found that out of 58 million acres irrigated (gross) under food grains, production could be estimated at only 29 million tonnes. The large total yield of 89 million tonnes of food grains in 1964-65 came substantially from the unirrigated areas of the country which depend on the monsoon. The large dependence on production from the rainfed areas has resulted in the drastic reduction in foodgrains output in 1965-66 and again in 1966-67. It has, therefore, been accepted that maximization of production from the irrigated and assured rainfall areas in the country is the obvious answer to the problem. This has led to the formulation of the second part of the strategy in trying to grow two crops in an irrigated acre as against one crop before. It is possible to fit in a suitable crop rotation so that without expanding the net area of cultivation, more cereals can be grown. Various experiments in such crop rotations have been introduced in the season 1965-66 and 1966-67, and the country is now poised for a specific program of 7.5 million acres of an extra cereal crop in 1967-68.

The break from traditional agriculture to scientific agriculture is undoubtedly not easy. The most exhilarating feature of the new venture is the tremendous response of the Indian farmer to the new ideas. During the last two years, the response of the Indian farmer to the following programmes has been very significant:

- a) The willingness of the farmer to try out the new varieties and even experiment with them using the large amounts of fertilisers and pesticides for plant protection;
- b) The willingness of the farmer to invest in supplementary irrigational projects like open wells, pump sets, filter-points and tubewells; and
- c) The willingness of the farmer to take to proper land levelling for optimum use of water including contour terracing and his readiness to invest money in this programme.

In 1964, the Government of India took an important policy decision to support prices for the main agricultural commodities. This, to some extent, and the prevailing high prices for the important cereals and cash crops, has energized the farmer to try for greater profits by re-investment of profits in improving the infrastructure for his agriculture. This response is continuing and has led to re-thinking on the volume of medium and long-term credit that will have to be found in the Fourth and Fifth Plans for supporting this venture. There are also indications that investment is not necessarily from borrowed funds. Borrowings are being returned in advance of commitments and sufficient direct private investment

is also flowing into this sector. These have germs of progress for the future.

The Intensive Programmes have established a rising demand for fertilisers. An active programme for enlisting private enterprise into the fertiliser production field has been in operation for the last two years. Direct State investment is also increasing in this sector. We are, at present, actively investigating the possibility of producing the modest targets of fertiliser consumption we have laid for ourselves in 1970-71 by indigenous production.

Demand for mechanization is rising with intensive cultivation. The normal bullock and man power is not sufficient to cope with the demands of a quick cultivation programme. Signs are developing that the farmer is now willing and anxious to invest in small tractors, power tillers, power sprayers and such mechanical aids to his farm. Demands are being assessed and steps are being taken to ensure that the necessary equipment is produced within the country or imported till production can be organised. Large-scale land levelling operations require medium-sized crawler tractors, for which also there is a programme of production and a programme of import. The demand for groundwater has led to a demand for boring rigs, tubes and other equipment to install filter points and tubewells. Consequent demand for rural electrification requires support in material for expanding electrical supplies. All these sectors are being attended to in the detailed formulations of our Fourth Plan.

Earlier, a mention was made about a possible difference between a short-term approach for our production pattern in agriculture and a long-term approach. The per capita consumption of cereals in India is one of the highest in the world. Even on the basis of consumption of carbohydrates, India is not consuming much of tubers, the consumption being 1.0 oz. per head, as against 12.4 oz. in Germany, 9.1 oz. in U.K. and 10.0 in France. Even in India, tuber consumption is substantial in Kerala and Bihar. An active programme for substantial increase in production of potatoes and sweet potatoes and tapioca is a part of our Fourth Plan formulations. This is bound to have an impact on the consumption pattern of cereals by the time Fifth Plan formulations come up for detailed planning. Protective foods, especially proteins and fats are very low in India. The Fourth Plan formulations aim at increasing oil production and increasing the protective foods, like milk, poultry, eggs, pork, and so on. As these programmes gain momentum, it is reasonable to expect that the demand for cereals will go down, as is happening in the rest of the world. All this will go to show that the foodgrain target of 150 million tonnes by 1975-76 should enable India to go through without difficulty on the food front in spite of the rising population. The new strategy with the infrastructure created and proposed to be created in the Fourth Plan should be sufficient to ensure this production.

It has been recognised that the new strategy requires rapid research support and rapid extension of results achieved in research which will be of benefit to the farmer. The Indian Council of Agricultural Research has been reorganised to take charge of co-ordination of agricultural research in the country. By general consensus and agreement, the Agricultural Universities and State Experimental Stations in the country have accepted the leadership of the Indian Council of Agricultural Research in organising the rapid research programmes necessary for the support of the high-yielding varieties programme. The scientists are directly involved in national demonstrations all over the country showing the potential of the new scientific agriculture to the farmer. These demonstrations will be annual demonstrations on a farmer's field where a suitable crop rotation using scientific agriculture will be demonstrated to show possible economic return in the new ideas. The response of the farmer to these demonstrations has been so significant, wherever he has seen it, that a second line of demonstrations has been organised through the Extension Programme. Research has already thrown up further varieties reasonably acclimatised to the country for paddy and wheat. In maize and jowar, composites have been developed and will be issued shortly. A similar composite in pearl millet, it is understood, will be ready for issue in the next year. The scientists are now responding to the challenge and there is every hope that science will keep pace with the farmer.

Credit is obviously one of the main ingredients for the Agricultural Programme. Short-term credit for inputs for the crop and medium and long-term credit for building up the infrastructure for agriculture are both necessary on very large scales. The Co-operative Sector will be taking responsibility for a substantial portion of these requirements. At the same time, new institutions are being activated to come into the field. The Agricultural Refinance Corporation is being strengthened with funds to take up medium and long-term refinancing of programmes of land development, tractor purchase, tubewell installation, etc. Agro-Industries Corporations, which have been developed in the States and will be developed further, will also take up a Hire-Purchase Programme for pumps, power sprayers, power tillers and tractors. The Commercial Banks are showing interest now in entering the agricultural field for medium-term credit. It is hoped that very soon these institutional aids to the credit programme will be rationalised and expanded. There are certain interesting developments taking place in the Farmers Investment Programme. It is noticed that a farmer who has benefited by a high-yielding varieties programme, generally prefers to reserve funds for purchase of fertilisers for his next year's programme instead of further depending on loans. Long-term loans given for tubewell installation, purchase of pumps and land development are being returned, in some cases, within two years. As a result of this experience, the periods of loans are being curtailed in many parts of the country in agreement with the State authorities for the next financial year. This interesting development shows that the Indian farmer is responding really most favourably to the programme for his betterment and is taking his due share in furthering development. Every attempt is being made to encourage these good tendencies.

**Proper water utilisation, suitable drainage and proper levelling** of fields for maximum benefit from water and fertiliser are all demands which are being thrown up by the Intensive Programmes. The Indian Council of Agricultural Research is undertaking coordinated research in these fields through one of its major Wings. Knowledge already gained is being used in the field in supporting Land Development Programmes and improving the commands of the existing major irrigation sources for better response. A major example is the programme of the Madras Government for improving the drainage and irrigation of the ancient Tanjore Delta Scheme with an investment of more than \$16 million. In Andhra Pradesh, in the Nagarjunasagar Project, drainage and land shaping have been taken up even before the irrigation has started so that maximum utilisation of the resources can be made forthwith.

It has been realised that a vast programme of the nature attempted in India requires rapid training and education of the farmer to get full value out of scientific agriculture. A Farmers' Training Programme with a supporting programme of farmers' study groups in villages supported by broadcasts from the All India Radio Stations has been accepted as part of the Fourth Plan and is now under detailed study for implementation. The Education Commission appointed by the Government of India has commended this approach in its Report and it has been supported by the UNESCO Group which examined the Scheme.

Mr. Chairman, I have tried to place before you a broad picture of the new agricultural strategy in India and how the Government of India are trying to solve the various problems arising out of the implications of the strategy. I have also tried to touch upon some of the doubts raised in the Second Report of Sir John Crawford and have indicated the present position about the action. I shall be glad to answer any questions that you may like to raise on this presentation.

MEETING OF THE INDIA CONSORTIUM  
STATEMENT BY THE CHAIRMAN  
(Afternoon Session, April 4, 1967)

**DECLASSIFIED**  
**AUG 29 2013**  
**WBG ARCHIVES**

1. Before calling on Sir Alan Dudley to speak, I would like to make a few remarks which arise out of the morning's session. As you know, India's economic policies have been the subject of considerable concern to the consortium over the years, and there has been much discussion of them at previous meetings. You also know that about a year ago the Government of India sent Mr. Asoka Mehta, the Minister of Planning, to have discussions with Mr. Woods in Washington about the new policies which were being adopted to accelerate economic growth. You have all had a report of these discussions, and we also talked about these matters at the meeting last November.
2. From the latest Bank report, which you received a month ago, and from the statements this morning, it is clear that India has in fact taken the first steps to implement these new directions in policy and that we in the Bank are encouraged by the start that has been made, especially in agriculture.
3. I understood from our discussions at the last meeting in November that members of the consortium endorsed the approach which the Bank has taken in its discussions with the Government of India. Therefore, I think there is no need to review these matters again in any detail. However, I might just repeat what I said last November that, as far as the Bank is concerned, it will continue to serve as Chairman of the consortium only as long as it is satisfied that conditions are present which will make it highly probable that the rate of economic growth in India will be satisfactory. You will also recall that we believe these conditions must include (a) continued implementation of the new policies by the Government; (b) adequate amounts of external aid, for several years, to support these changes in policies; and (c) a form of aid which is appropriate to India's needs.
4. It has been obvious from the start that we could not expect the new policies to have an immediate effect and that it would take some time for them to result in any significant improvement in production or in the Indian balance of payments. It is also clear that if during the next decade India is to be able to reach the point where her own resources are more or less sufficient to cover fully the costs of growth, then the amount of aid that will be adequate for her needs will be very substantial and this aid will have to come largely from countries and institutions represented around this table.
5. The situation this year has been much aggravated by the serious shortages of food caused by the droughts.
6. But food aid is only part of the total aid which India requires in non-project form if import de-control and the associated policy measures are to be sustained and further expanded during the next year. In our judgment, total

non-project requirements of India, including food, for which firm new commitments are needed is an amount of about \$1.3 billion. This figure takes into account food that must be delivered in the second half of 1967 as well as support for an adequate level of import licencing of non-food items through the current Indian fiscal year. If we take into account the U.S. and Canadian offers of food aid, to which Mr. Jagannathan referred this morning, there remains something under \$1.1 billion.

7. Our estimate is broadly consistent with the Government of India's assessment of its needs. Within this total the Bank and India agree that, even after taking into account the balance of the non-project aid committed in 1966/67 and the amount of 1967/68 non-project aid which is likely to be disbursed this year, there is still a cash gap of some \$400 million. This must be met by a form of assistance which is equivalent to free foreign exchange and which can therefore be used to buy food or other imports not financed by aid.

8. Action on food is particularly urgent, and I would suggest therefore that members of the Consortium give priority to pledges which will enable the rest of the Consortium to match the U.S. offer of 3 million tons of food. Unless orders for food are placed in the next few weeks, there is no hope of importing the 10 million tons, which now appear to be the bare minimum required for 1967.

9. Closely related to this, of course, is the question of debt relief. I believe Mr. Rostow will confirm that any debt relief which increases India's free foreign exchange resources will be regarded as part of the matching for the U.S. offer of food. It is also related to the \$400 million cash gap. I had hoped that by this time we would have made more progress in dealing with India's debt problems and future terms of aid. But progress has been slow, and it was with this in mind that I recommended in a letter I wrote to the heads of the delegations that we accede to the Indian request for a debt standstill.

10. As I explained this morning, the Indian request is for a straightforward deferment of obligations falling due in this fiscal year. I prefer not to use the word standstill for the present discussion because in fact the Bank is not in a position to help in that particular way. I shall talk instead of "action to ease the burden of debt", if that is not too cumbersome a circumlocution. When I talk about taking action to ease the burden of debt, I mean some action on all obligations, including principal and interest regardless of the terms of the original debt contract. For this purpose it seems to me inappropriate to make exceptions as the whole point of the proposal is to buy time to consider which of these distinctions can be considered appropriate in dealing with the long-term problem. It is precisely because we have not been able to resolve issues of this nature that the standstill now appears to be necessary.

11. The Bank is prepared to do its full share to achieve the objectives of the proposal. Some of you know that for the past three or four years the Bank has so ordered its lending in India that its net investment has remained at a level of about \$525 million, and apart from minor fluctuations, it has been our practice to lend new money so that disbursements would be at approximately the same level as amortization payments received from India.



This year there will fall due to the Bank principal payments of between \$50 and \$55 million and interest payments of about \$30 million. We are proposing therefore to make a loan, or loans, which would be fully disbursed in the period of the next twelve months and would therefore have the effect of increasing the Bank's investment during the year to the full extent of this \$80-85 million. The terms of this lending would be as generous as we can make them. It would certainly have a grace period extending beyond the Fourth Plan, and its term would be 25 to 30 years; interest charges would be at 6%, or whatever our standard lending rate is at the time we make one of these loans. To achieve the objectives of this whole proposal, quick disbursement of the entire \$80-85 million is essential. Accordingly, Mr. Woods is prepared to recommend to the Executive Directors a form of loan which would result in very quick disbursements but which might be different from anything we have done before.

12. However, the Bank is prepared to take this action, which for us might have to be out of the ordinary, only as part of a general cooperative effort to meet the needs of the Indian situation in this coming year. For the Bank to take this action there are really two conditions which need to be fulfilled. The first is that there should be general action to meet the 1967/68 "cash" problem. When we come down to details it is possible that there will be some minor exceptions to a standstill, but they will have to be minor if the President of the Bank is to be in a position to make recommendations of the kind I have outlined. The second condition is that members are agreed that we should work toward some effective action to deal with the long-term debt and terms of aid problem. The standstill, or any other action of the kind that we are talking about, is solving no problem whatsoever except that it is buying a little time, as I said this morning. This is the only purpose of this proposal and it is only worthwhile doing if, in the time that we buy, adequate action is taken to deal with the long-term problem. Accordingly, I expect to be hearing from each of you what action, if any, you propose to take about the debt falling due this year, and I would also like to hear whether you agree that we should continue the intensive discussions which started in Washington two or three weeks ago with the view to coming up with some agreed proposal to deal with the long-term problem of India's debt. Once agreement is reached on these points, I have some suggestions I want to make about how to proceed with the discussions on debt. One suggestion I have in mind is that it would be appropriate if the Bank did not provide the chairman of the group which is discussing this problem. But we can come to that after we have reached agreement that some action is necessary and will have to be taken during the next few months.

13. It will of course be clear that if we agree to a standstill or equivalent action it would meet the estimated cash gap in 1967/68, including whatever may be required for financing food imports. However, as we have already stated, India's total external assistance requirements for 1967/68 are considerably higher than the so-called cash gap. I realize that many governments and, for that matter, IDA, will not be in a position to make firm pledges at this meeting. Despite this, if proper economic policies are to be pursued, we must find some means to assure India that an adequate level of total assistance will become available in due course during the coming

months. I therefore believe that during the next day or so, one of our more important objectives must be to reach agreement on the amount of total non-project aid which the consortium should aim to make available in 1967/68.

14. Finally, we will have to consider what we can add in the form of project aid.

15. These problems, the total non-project requirements, including food, the immediate necessity to finance food imports this year, the cash gap, the debt problem, project aid, are to a great extent closely and inextricably intertwined. Yet I think we must make some effort to consider them separately, while realizing their relationships, if we are to make progress at this meeting.

16. Now, I shall ask Sir Alan Dudley to speak.

APRIL 5, 1967

MEETING OF THE INDIA CONSORTIUM

STATEMENT BY SIR ALAN DUDLEY,  
HEAD OF THE UNITED KINGDOM DELEGATION  
(Afternoon Session, April 4, 1967)

**DECLASSIFIED**  
**AUG 29 2013**  
**WBG ARCHIVES**

Thank you Mr. Chairman.

I might compliment you on having said so many of the things that I should like to say myself. If I say them with a slightly different kind of British accent from your own, I hope you will forgive me. I should also like, because it is not merely out of politeness but out of very genuine recognition of what we heard this morning, to compliment Mr. Jagannathan and Mr. Dias and Mr. Sivaraman on the statements they made to us and indeed Mr. I. G. Patel on the answers he gave to some knotty questions as well.

I think it is a great advantage to us that the Indian delegation should be with us during the whole of the discussion on this item so far as possible because they may be able if we go wrong to correct us in what we say. I have not asked any questions myself but I do beg the Indian delegation if they have any observations to make on what I do say, to make them because that will help us. I hope that my colleagues will forgive me if I make a fairly extended statement. We do not usually in this consortium make long speeches to each other; it has not been the practice in the past. Maybe it is the influence of this unexpectedly splendid room that leads one in this kind of direction. At any rate, I hope to be forgiven for what I have to say.

It seems to me also appropriate under the heading of this item on the agenda: "Recent Economic Developments and Future Prospects" to look a little backwards as well as a little forwards if we can. India is in a very special position at present, and I think we are faced by a situation which is in a sense different from that with which we have dealt before though it is a development of what we have seen before. The problems that we see before us have been coming along in one way or another for the last two years or so, and I think it was absolutely right and proper, if I may be allowed to say so, that Mr. Jagannathan concentrated so much of his attention as indeed, Mr. Chairman, you have concentrated yours on the immediate problems. What I am going to say is an expression of our view of events and situations which have already been described in part. I shall be going over, that is to say, some of the same ground and to that extent I beg you to bear with me. It seems worthwhile to go back to the winter of 1965/66, in this discussion. That was the winter after the Kashmir fighting. U.S. aid was suspended, although PL 480 was being kept going on a month by month basis. The flow of new aid from other countries, so far as we could see, was not proceeding as swiftly as it

had been. India was undoubtedly in a difficult situation then, not only as a result of the fighting, but probably much more because of the failure of the monsoon and the threat of famine. Food and cash were already both short, and because of the shortage of cash the Government of India was quite evidently much more aware of the difficulties imposed by debt repayment. The British Government never thought it right, in these circumstances to curtail their aid because of what had happened in Kashmir, and they kept it going. They made this quite clear to the Government of the United States and other Governments at the same time, and, as far as I know, no difficulties were seen to arise out of this somewhat different approach to the situation which then existed. At any rate, we all got along perfectly happily together. We ourselves had already decided in that year that the increasingly serious debt situation which was arising in a number of developing countries and particularly in India required a change in our own terms of aid, and it was during the course of that summer that Mrs. Castle, who was then Minister of Overseas Development, announced that she was proposing to provide to countries whose situation seemed to justify it interest free loans with long grace periods. That summer also we took up the question of debt relief in the consortium, but I cannot say that we were wholly encouraged by the progress we made on that occasion. I am very glad to see that it is being pursued so much more effectively, now.

We applied the policy of interest free loans first of all to India, in the autumn of 1965. We provided £ 14 million in interest free and general purpose loans against that year's pledge. Out of this £ 14 million, £ 10 million was in the form of general purpose aid.

It may be that there are some new members of the delegations, of donors here who do not know what we mean in the British sense by general purpose aid, and I should perhaps explain that this is a form of aid which is very readily disbursable; it involves a minimum of formality and red tape as far as the recipient is concerned, and it leaves to the Indian Government a very wide discretion indeed about the commodities which can be purchased with it. I have been assured by Mr. Bhoothalingam in the past, by Mr. C. S. Krishna Moorthi and others that it is really as good as money in the Bank, and I hope it will continue still to be regarded in that way.

In February, 1966, the Indian need for increased readily disbursable resources was so evident that we undertook to transform £ 6 million which had already been allocated for project purposes into a food emergency loan, and we added to it £ 1.5 million of new money, which was subsequently included in our pledge for that year. To complete the use of our 1965 pledge we added another £ 5 million of non-project loans in April 1966, so that already in the spring of 1966, and in recognition of India's particularly difficult food and cash situation that winter, we had committed over 99% of our 1965 pledge in non-project form.

As everyone will remember, we have been reminded of it twice this morning, the long continued discussions between the Bank and the Government of India about India's trade and financial and fiscal policies

came to a head in May 1966, in the form of the Ashoka Mehta/George Woods discussions. These were followed by discussions with the IMF. Some information was given to members of the consortium at that time and later, as you Mr. Chairman have reminded us, and the trade liberalisation, and devaluation aspects which were involved were explained. It was of course always abundantly clear that the discussion of devaluation was a very delicate matter, and the Bank can particularly be excused for its delicacy in handling this sort of matter in discussions with members of the consortium because if it did talk about that it was treading on the IMF's ground.

No one I think in his senses can at that time or any other time have opposed the idea of liberalisation of India's trade if it could be achieved; it would have been obviously the right sort of course for any other country in a similar situation. It is clearly extremely important to all of us that the shackles of quantitative restriction should be removed from trade when they can be, as they have been in fact in Europe over the period since the war. Devaluation coupled with adequate resources, - if it was possible to find them, was recognizably a practical method of contributing towards liberalisation.

Such information, as was available to the British Government at that time, suggested that the estimate of \$900 million of non-project aid, which was made by the Bank and was related to estimates made by the Government of India, was about a minimum requirement: such information as we had, confirmed that. We said this to the Bank's officials, as Mr. Bell will remember but, as he will also remember, we added that in our view while such a sum might - and we hoped would - be found in the first year, it would be extremely important to continue to find a sum of that sort and the Government of India would find itself in considerable difficulties if this process was not kept up for a period after that, perhaps for 2 or 3 years.

Otherwise we thought the experiment would not be a success and we expressed our own fear about the difficulties of finding adequate resources from the consortium over that period of time. We therefore naturally felt considerable anxiety about the prospects for the Indian economy. We did not ourselves feel, at that stage, that for these reasons we could undertake the responsibility of under-writing the proposed policy to the extent of endorsing it fully and saying that we believed that it was going to succeed, but we were determined to do everything we could to help with the relief of those pressing problems which this particular policy of liberalisation was so closely related. In advance, therefore, of the devaluation and liberalisation decision and arising out of our recognition of this situation, we signed loans for £ 17 million of non-project aid, of which £ 10 million was for general purpose aid. It was a deliberate recognition of the situation which existed. As we all know, and as we have been reminded, the second successive failure of the monsoon caused renewed shortages last autumn and made the situation recognizably worse. There were further appeals for help from India to deal with the current situation. Help was then required in the form of ready cash and quickly usable resources. The British Government decided it would respond by a further effort in that

direction. Again, as we had done before, we postponed project aid allotments and we converted them into commitments for non-project aid. We completed our 1966 pledge by providing £ 13.5 million of non-project loans, and we made over £ 8.2 million worth of these available for refinancing India's debt repayments to us on earlier aid loans.

For us, this step broke new ground of a very important kind and incidentally it brought the consortium's contributions above the \$900 million target - only just, but it did. It also brought our contribution in the form of non-project aid in 1966 up to \$90 million, which was 10% of the whole, against the \$74 million which the Bank had put us down for in recommending what donors could afford. Thus, despite our fears that the whole exercise was a rather "dicey" one - as it were - we found that it was up to that point a success, and that we had ourselves contributed to it in a way we thought was as useful as it could be. These new loans were, of course, again on a non-interest basis, over 25 years, with a 7-year grace period. Better terms, of course, for the refinancing loan than those which were discussed in the working party on the debt problem the other day. And this, moreover, brought 100% of our 1966 pledge on to the non-project side.

Finally, as a farther contribution during last financial year to the immediate problems, because India's utilization of certain project aid was not being maintained at the level we should have wished, we arranged for about £ 2 million outstanding from certain old loans to be re-allocated so that this sum could be used as general purpose aid and could be expended before the end of the financial year. This brought Indian utilisation of our aid in 1966/67 up to a little over £ 43 million, not quite 50% higher than two years earlier. We should have been glad to see the Government of India spend several million pounds more of our money if they had been able to do so. And it is disbursements that count in a situation like this, as you have just now, Mr. Chairman, reminded us.

I am sorry to keep on rubbing this in, but I just want to sum up this part of the history of the past.

Measures such as these that I have been describing have in our opinion made a major contribution to the alleviation of the Indian situation. Let me recapitulate. We have softened the terms of our aid to a major extent, and it is now softer than that which most, if not all other countries, are offering. We have made virtually 100% of our aid available on a non-project basis in the last two years. A large proportion of this non-project aid takes the form of general purpose aid which amounts in effect to balance of payments support. We have thus tried to make our contribution more effective and more useful; every penny of our general purpose aid offered in 1966/67 has in fact been spent, and furthermore, we have very substantially raised the disbursements from our aid by the measures we have taken. And we have refinanced £ 8 million of debt.

Well, so much Mr. Chairman for the past. Now to the present and future. As is very clearly seen from the admirable papers put before us by the Bank, which analyse this kind of situation so well, and particularly in the last part of Volume I - which is described as the main report - and as the Government of India's evidence also shows, there are three very closely related problems which characterise the present situation. I will take them in the order in which they appear on the agenda and make brief reference to our own attitude towards them.

We are all of course extremely much indebted to the United States Government for the energy with which it has taken up the question of food for India. I cannot say how much we admire what they have done in that respect. We regard it as a major humanitarian cause, but we also regard it as a most important element in the Indian economic situation and one which affects the prospects of development very closely. We have not tried to make our own independent estimate of the actual requirements for the supplementation of India's food resources during the current year. We are quite ready to accept for working purposes the minimum estimate of 10 million tons which has been in circulation and which was in effect confirmed by Mr. Dias this morning, although he gave us some supplementary and rather alarming figures of India's additional needs. We realise that it is important that this tonnage of grains should not only be committed but be shipped as soon as possible.

Then, there is the cash problem. India's balance of payments difficulties are explored very fully in the Bank documents and were explored this morning. We have been following this aspect of the situation very closely ourselves. We recognise India's need for very substantial amounts of liquid resources. This recognition indeed is reflected in the description I have given of our past policy. There may be some differences between the Bank's assessment and the Government of India's assessment and our own about the extent to which cash is needed, but I do not think these differences are of major importance. I think that the situation which now exists is very much what we expected when the subject was under discussion last May. But it has been made much worse by the food situation, and the fact that India has to find the foreign exchange costs of importing much of the food that is made available to her. The fact that debt repayments amount to nearly 30% of India's export earnings is another indication of the way these problems are mixed up together. There is no doubt therefore that the food crisis and the cash crisis are very closely interwoven.

Thirdly, I would put the commitments problem. Clearly if liberalisation is to succeed and if Indian trade is to be freed the Government of India must be able to see where the backing for the issue of new licences is going to come from for maintenance and other goods and they must be able to see it for quite a long way ahead.

In connection both with the cash problem and the commitments problem it is instructive I think to see how much of the \$900 million of non-project aid promised last year is still left over. There is a considerable difference I think again between Indian and World Bank estimates of the extent to which the Government of India will be able to draw down the available non-project aid from last year, and from the 1967/68 pledges during the course of the coming financial year. I would not necessarily go along with the Indian estimate of requirements for payment of maintenance imports, because there seems to be some evidence that they were not flowing as fast as the Government of India would like them to, though I was very glad to hear this morning that they are in fact moving faster now. On the other hand, I must say that I am very much inclined to accept the Government of India's estimate of the slow rate of disbursement and I am inclined to think that the Bank's estimates are a bit optimistic. I think this slowness of disbursement to which you yourself have drawn attention, Mr. Chairman, is partly due to the arrangements controlling the supply of non-project aid and partly to the Government of India's own difficulties in making adequate and rapid use of tied aid of this kind. To the extent that Indian estimates of cash needs are excessive the excess probably arises chiefly from over-optimism about the restoration of business activity and again I am back to what Mr. Jagannathan said this morning. The excess probably arises chiefly from Indian over-optimism about the restoration of business activity. The difference between the two estimates is perhaps of the order of 20%, but I say again that refinements of calculation of this sort are not of the greatest importance. Our first task here in this consortium is to see whether we can reach the minimum level of commitments of non-project aid recommended to us by the Bank and whether a high enough proportion of these can turn out to be the equivalent of cash. If we do what the Bank recommends, we should have done a great deal.

We recognise India's great need for liquid resources and her great need for food, and that foreign exchange under the present system is needed to cover the cost of importing food. But, so far as the British Government is concerned, we cannot regard with equanimity the prospect of continuing to give so large a proportion of our aid in a liquid or semi-liquid form unless others do so too.

Aid in the form of grain, if I may be permitted to say so, Mr. Rostow, is not a great burden on the balance of payments of the giver, but the provision of a cash equivalent is a heavy burden on the balance of payments of its giver and it would not be right, in my view, to try to "match" one against the other on equal terms for this reason. It is not easy for us to explain to our people in Britain in our present very difficult balance of payments situation, that we are providing foreign exchange in order to enable the products of other countries to be exported to India or anywhere else. I am not at all sure how long we shall be allowed to go on doing this.



It might be, I suppose, suggested that if this is our difficulty we ought to provide aid in the form of fertilisers or in the form of other "agricultural" inputs, manufactured in the U.K. But frankly the more we made provision of our aid dependent on the acceptance of particular commodities the less should we be able to provide the general purpose aid which is so demonstrably and very obviously what India needs most. We have, moreover, always done our best to try to avoid and discourage the double tying of aid to particular commodities, if only because this is a disadvantage to the recipient in that aid tied in this way almost always means higher prices to the consumer. This, certainly in the past, and still in the present I may say, has been true for fertilisers.

Moreover, the Government of India as I believe already provided with aid in the form of fertilisers to such an extent that, as I understand it, decreasing quantities are in fact being paid for from free foreign exchange. This does not seem to me to be economically a satisfactory situation, in that the purchaser's choice of supplier is increasingly limited.

As we have seen and I think we are all agreed, the various elements in the short-term balance of payments and economic situation are inseparable. For the reasons I have given I do not think it makes very good sense to try to divide them up into various pockets or separate accounts, or to require what is called "matching" within any one category of non-project aid, and we would not want ourselves to undertake a separate accounting of that kind. But I must immediately say that if others find merit in the way in which we give our aid, far be it from us to object to their doing so, and if they want to count it as matching their contributions, well, I shall be delighted.

The British Government are anxious that the maximum achievable results shall come out of this meeting of the consortium. For that reason we propose, despite what I have just said and despite the anxieties I have expressed, to continue on the same liberal road that we have chosen so far. I am authorised at this meeting to offer as the first tranche of our aid pledges this year £ 19 million of non-project aid, of which £ 12 million will be general purpose aid. We shall be ready to sign the agreements as soon as they can be prepared and responding to what Mr. Jagannathan said this morning, we shall be prepared to back-date them to April 1st. This again raises, this time by £ 2 million, the level of our first commitment in the year, and it comes a good deal earlier than it did in previous years. We shall once again be prepared to consider using part of the available resources, as we did last year, to permit the refinancing of debt. We should like to see what others are prepared to do, if I may use the term, to "match" us on this, or to "match" our performance last year, before we decide just exactly what we can do. The terms are of course a good deal more liberal than those which would be involved in a simple roll over. We have every intention of maintaining our liberal disbursement practices, and we hope to help the Government of India to draw down at least as much of our aid in the coming year as they did in the last one.

What form the rest of our commitments for this year will take, whether they will be in non-project or project form, and what expenditure will result from them will depend very largely on discussions which we still have to have with the Government of India, and we shall be ready to talk about that with them as soon as they like.

I think I had better leave over, because I have been talking much too long, until a later stage in the agenda anything about project aid. But I do think that we ought at some stage, without pressing the Government of India because we know they have not had time to re-furbish - as it were - the Fourth Plan, to get some impression from them of the context in which they will be wanting to discuss project aid with us. But this can, I think, come under the separate item of the agenda.

Again, my apologies, Mr. Chairman; thank you for listening to me.

MEETING OF THE INDIA CONSORTIUM

OPENING REMARKS OF UNDERSECRETARY OF STATE

EUGENE V. ROSTOW, CHAIRMAN OF THE

UNITED STATES DELEGATION

(Paris, April 4, 1967)

**DECLASSIFIED**

**AUG 29 2013**

**WBG ARCHIVES**

I should like first to report the position my Government has taken in support of the Government of India's vigorous efforts to expand food production and to meet her urgent requirements for food aid and economic development. The Indian program rests on plans we believe to be sound and practical, and on a mobilization of energies which, year by year, seems more and more effectively addressed to underlying realities.

My Government views the programs of the Indian Government in the fields of food and population with sympathy and understanding. In the perspective of the next ten or fifteen years, they define a policy which in our view deserves the full support of the industrially advanced nations of the world. The consequences of failure are too grave to be considered for a moment - a set-back to democratic progress which simply cannot be allowed to happen. As a matter of simple humanity, the plight of India exemplifies the issue which His Holiness Pope Paul VI recently stated with compelling eloquence. "Today," he said, "the peoples in hunger are making a dramatic appeal to the peoples blessed with abundance." The duty of social justice, the duty of human solidarity, and the duty of universal charity, he concluded, require an effort on a new scale. "The question is urgent, for on it depends the future of the civilization of the world."

We have taken a clear national position on these difficult and important problems. President Johnson issued a Message on the problem of Hunger on February 2, 1967. In response, our Congress passed a Resolution supporting the President's proposals for additional food aid to India during the present year.

The text of the President's Message, and of the Joint Resolution of our Congress, are available here to those who may wish to have copies.

In signing the Resolution last Saturday, the President said: "The War on Hunger is the work of the entire world. This resolution supporting emergency food assistance to India--is a new expression of America's commitment to that humane task."

"The resolution also underlines the certain truth that success depends on other nations' help. The United States is not able to supply all the assistance that India needs. Our offer of up to three million tons of food grain is contingent on appropriate matching from other countries. Other nations have responded generously in the past, and I believe they can and will meet this goal."

"I urge the nations attending the April meeting to continue and to expand their food aid and general economic aid. I hope that nations which have not been associated with this effort in the past will join with us now, either formally or informally.

"Hunger transcends national borders and ideologies. It is a condition that all understand and none can countenance. This resolution reaffirms America's intention to do its part to help India meet the threat of hunger that confronts her today."

### A Crucial Two Years

This is the first meeting of the consortium in two years with representatives of the Government of India. The intervening period has been one of difficulty for India. Looking back, members of the consortium might at first see these two years as a period of stagnation, or even of falling back.

In our view, such a judgment would not be correct. Politically, the country has continued to exhibit remarkable resilience. Twice within two years India had to choose a new Prime Minister under tragic circumstances and executed the succession with poise. Despite droughts, poverty, a brief war, and internal stresses, it has confidently adhered to its democratic processes of government. It has just conducted a massive national election, the first of the post-Nehru era, on schedule and with few disorders. The election's full consequences have yet to be seen; but it was a conspicuous exercise in democracy and, hopefully, marked a further step in the maturing of constitutional government.

Economically, India has faltered statistically. Performance has lagged behind the plans. Per capita gains in food production have remained inadequate - indeed, most recently they have been negative. With data for the two intervening years added, the output record for the sixties remains the same or slightly worse than the consortium contemplated in the Spring of 1965.

On first impression the picture is one of economic growth far too slow and halting to be politically viable - and of a foreign assistance requirement, only barely adequate, that stretches out into an interminable future.

But these statistics are misleading, as is often the case. Beneath the surface of the output series the past two years have been a period of profound change and, we believe, of far reaching promise in Indian economic policy. Specifically:

Agricultural production has been accorded an urgent top priority, and a new agricultural strategy--featuring incentive prices for cultivators, the introduction of new technology, the provision of greatly expanded supplies of fertilizers, improved seeds, and other inputs, and increasing reliance on the market to allocate the inputs--is now being actively implemented.

Family planning has been upgraded in priority and shifted from the role of a national aspiration to a national action program--liberally financed; staffed with vigorous administrative and professional personnel; with dynamic leadership; and becoming effectively engaged in grappling, state by state, in its complex problems of technique, organization, supply, and motivation.

Import liberalization and the necessary concomitant devaluation of the rupee (in order to allow price rationing to begin to substitute for administrative rationing of imports) was, with consortium non-project support, undertaken last June-July. These steps were meant to facilitate increased use of existing industrial capacity. They have been implemented by a substantial relaxation and simplification of import-licensing procedures and been accompanied by significant further reductions in domestic controls over materials, prices, and industrial expansions.

Enlistment of private enterprise, both foreign and domestic, especially in the agro-industry side of the development effort, has been pressed more effectively via simplifications of procedures, removals or adjustments of constraints, and positive recruitment. The effort thus far has been noteworthy chiefly with respect to foreign private investment in fertilizer production, but there are signs of its extension to other priority areas. The Government of India has just announced an important decision - to extend for nine months its incentive offer to private investments in new fertilizer plants.

These all are promising reforms. They constitute the core of a program to introduce an upward lift into Indian growth trends--to raise the food production growth rate from 2-1/2% to 5%, to raise the real GNP growth rate from 4-1/2% to 6%--and thereby to bring India's need for net foreign assistance to an end sometime during the seventies. These reforms, encouraged in behalf of the consortium by the World Bank, deserve strong, sustained consortium support. They must be pressed forward and expanded by the Government of India.

#### The Present Situation

Unfortunately, the results of India's promising economic policy changes of 1965-66 have been delayed and disguised by two years of extraordinary drought. This event has had an unfortunate impact on food prices, and therefore on other prices, on the health of the people, and on the balance of payments.

The first year of drought, while a grievous burden, helped to stimulate the commitment of new energies and resources to agriculture. But the second drought, during the crop year just ending, has been an almost unmitigated setback. As the World Bank correctly diagnoses, the

drought has curbed cultivators' demand, diverted urban consumers' demand from non-food items, and caused the Indian Government to hold back on its investment programs in the face of inadequate and price-inelastic food supplies. Thus the food shortage has effectively delayed the post devaluation-liberalization industrial recovery and is threatening the whole development effort for the time being. Relief is not foreseeable before the next kharif crop is harvested in October.

Meanwhile, a new Government, facing a new challenge in State-Center relationships, is indicating its intention to stick with and make good the policy innovations of the past 18 months.

It faces the following sequence of foreign aid requirements. All of them are important, but they are listed in descending order of urgency.

First, an assurance of minimum essential food aid for the balance of the calendar year 1967.

Second, enough free, or very quickly flowing, foreign exchange to check the alarming shrinkage of India's foreign exchange reserves--a problem compounded this year by the need for commercial food imports.

Third, assurance of the continuity, during the Indian fiscal year begun on April 1, of general consortium non-project support for the import liberalization program.

Finally, project assistance to permit the resumption of the investment-development program which has suffered a virtually complete hiatus of new starts for about 18 months.

We shall expand briefly on each of these requirements and then, finally, indicate a few vital self-help policies which, it seems to us, should receive particular attention during these uncertain middle months of 1967.

#### Food Aid

Throughout the sixties, food aid always has been the condition precedent for the rest of Indian development and assistance program, and until now, it has been provided outside the consortium by a few food exporting countries which still had surplus supplies. The Government of the United States is grateful to the World Bank, to the other members of the consortium, and to the Government of India for their understanding of our representations that this way of handling India food aid can no longer persist. This change is not the result of a shift in our own national preferences or priorities. It is forced, simply, by the hard arithmetic of declining American food reserves, and the rising food deficits in the less developed world as a whole.

Having already supplied the larger part of India's concessional food imports thus far in calendar 1967, we have offered to contribute half the 6 million tons of foodgrains that remain to be pledged for completing India's minimum concessional import requirement of 10 million tons in 1967. Naturally, we strongly endorse the Bank's recommendation that other countries contribute a matching \$190 million worth of food or food equivalents. We are happy to note that Canada and certain non-consortium countries may be able to supply about \$70 million of this amount. We therefore join the Bank in suggesting that other members of the consortium undertake at these meetings to supply the remaining \$120 million in food or in additive resources, preferably those readily fungible with food.

As for this matter of "food fungibility," in the event matching contributions cannot be supplied in food per se, India's inescapable need for foreign exchange to buy the food commercially means that the best substitutes for food would be convertible cash contributions or (what amounts to the same thing) postponements of debt payments. Hence the logic of the Bank's suggestion that matching food contributions from members of the consortium other than Canada and ourselves take the form of a one-year debt standstill or other debt adjustment is sound.

As the analysis of the Bank makes clear, India's monetary reserves and balance of payments position present us all with an implacably obvious fact: The time has come to rationalize India's structure of external debt. A Working Party of the consortium has been studying the problem since the fall. India's debt problem is a classical illustration of the general debt crisis among the less developed countries about which the O.E.C.D. warned us in a perceptive report last year.

In our view, there is no choice but to adopt a policy equivalent to standstill now, as a step towards a rational long range plan of debt harmonization and rescheduling which should take a year or so to prepare.

#### Quick, Flexible Foreign Exchange

Both the World Bank and the representatives of the Government of India have explained India's immediate and pressing need for free foreign exchange. This includes the \$190 million of food-matching requirements but extends beyond it to include essential commodities, including raw materials for export industries, that are either unavailable from consortium countries or ineligible for consortium financing under present non-project loan terms.

Our own minimum estimate of the total of such quick, flexible foreign exchange immediately required to arrest the drop in Indian foreign exchange reserves and meet the inescapable first condition for maintenance of the import liberalization program is \$320 million--i.e., the \$70 million of Canadian and non-consortium food, plus the \$120 million of additional (consortium) food-matching assistance, plus a further \$130 million.

The most clearly recognizable and reliable form in which such quick foreign exchange could be provided would be in response to the Bank's call for a postponement or standstill on debt payments falling due during the fiscal year beginning April 1, 1967. However, similar relief also can be provided in the form of fresh loans if these are sufficiently flexible and capable of being spent quickly enough to serve the same end. In this connection, the U.S. delegation believes that the consortium must look with some care into the specifics of loans proposed for this purpose and may, at these meetings, wish to evolve criteria as to the adequacy of flexibility and timing. The Bank report also suggests the need for changes in Indian procedures. But we defer these details until later in our deliberations.

#### General Non-Project Assistance

The Bank judges that, in addition to the new food-matching requirement, India will need during its new fiscal year the same amount of general non-project consortium assistance, namely \$900 million, pledged for fiscal year 1966/67. The U.S. Government endorses this estimate for planning purposes and proposes that the consortium adopt it.

Use of the initial \$900 million has been somewhat slower than would have been expected during the past year from a resurgent Indian economy unencumbered by a second drought. Moreover, it is difficult at this point to make precise forecasts of imports and exports during the second half of the year just started. These will be easier to estimate at a fall meeting of the consortium. Meanwhile, however, there is every present prospect that economic resurgence in India will finally take hold in the latter part of this year; a \$900 million non-project requirement for the current year probably would have been somewhat too low if the recovery had proceeded as expected; and endorsement of the Bank's requirements estimate can convey the consortium's awareness of the need for sustained non-project support to the new Government as the latter forms its foreign exchange budget and sets its priorities to maintain the liberalization program.

It will not be possible at the end of these meetings to supply the Government of India with a completed array of members' pledged shares of the annual non-project requirement. But the new Government's confidence will be fortified--and the process of orderly aid utilization under the liberalized import program will be assisted--by any announcements that members may be in a position to make of first-tranche contributions to their unspecified shares.

#### Project Assistance

We expect there will be little time at these meetings for systematic discussions of project aid requirements either for the current Indian fiscal year or for the Fourth Five Year Plan as a whole. However, it is obvious that a development program does require a strong pulse of expansion investment, that this necessitates the kind of inflow of public capital that in the past has taken the form of consortium project assistance, and



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that such an inflow cannot be long interrupted without injecting serious discontinuities into the growth process.

Accordingly, we propose that an autumn meeting of the consortium give pointed attention to overall project aid requirements. By that time we should have heard from the GOI concerning the strong points on international competitiveness and comparative advantage made by the Bank in its discussion of project planning in its recent report. Meanwhile we hope that other members, like us, will plan to make selected project loans on a case-by-case basis as proposals mature.

### Indian Self-Help Measures

Action as these meetings of the sort just outlined should provide the Government of India both with the minimum added wherewithal and the necessary reassurance to continue its economic reform policies during the months next ahead. At the same time, we propose that the consortium inform the Government of India that when the consortium next meets in the autumn it will be anxious to learn what actions India meanwhile has taken in the following key "self-help" areas:

Import liberalization - What action to continue and extend?

Export expansion - This by all odds thus far has been the most disappointing aspect of the liberalization - devaluation experiment. Anything like a projection of recent export trends would discredit the Balance of Payments calculus in even the more conservative drafts of the Fourth Five Year Plan. Urgent action appears necessary with respect both to reviewing the post-devaluation system of general incentives to exports and to strengthening and sharpening specific export-promotion efforts.

Attraction of foreign private investment in priority fields. - We note with satisfaction the recent 9-month extensions of the conditions offered foreign private investors in fertilizer production. There will be continuing interest in the measures - and their success - being taken to facilitate investment, not only in fertilizer, but in such other agriculture-related areas as improved seeds, pesticides, and farm implements. It is apparent that large scale private investment, self-reinforcing as confidence develops, is an important factor both to the success of India's program of economic development, and to the successful termination during the next ten years of the international aid effort.

Food pricing and distribution - This is the other, equally difficult, side of the agriculture-food problem, and the consortium has less reason in this area than in the case of agricultural production for confidence that India is making orderly

progress toward its solution. The concern is accentuated in a context of newly complicated Central Government-State Government relations, and it involves, most particularly, the maintenance of reliable incentive prices for cultivators.

Agricultural production and family planning - What actions to press forward the good beginnings that now have been made?

Regional cooperation - What can be done on regional trade and cooperative projects as suggested in the Bank report?

Inflation - The food shortage and large budget deficits of recent years have generated strong inflationary pressures and distortions in the Indian economy. Important budget decisions will be made in the next few weeks. An assessment of fiscal policies and progress toward achieving better equilibrium in the economy will be of great interest when the consortium meets in the fall.

#### Conclusion

The near term is in all respects a difficult one for the aid-India program and the Indian development effort itself. As is normal, all members of the consortium are beset by financial problems. The new Government of India is struggling to maintain a set of promising new economic policies that have been denied the opportunity as yet either to pay off at home or to convince skeptics abroad. The opportunity for break-through is at hand, however, and with goodwill and a long view all around, it can be seized.

ANNEX VIII

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MEETING OF THE INDIA CONSORTIUM

SUMMARY OF MAJOR POINTS MADE BY  
MR. PETER TOWE OF CANADA DELEGATION  
(Paris, April 4-6, 1967)

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The Canadian delegate indicated that his Government had been impressed by the policy measures undertaken by the Government of India in the past year, and attached great importance to their continuation and strengthening. These measures called for an appropriate response from the Consortium. He endorsed the target of \$1.3 billion for total non-project assistance, including food aid, debt relief and other forms of program aid.

With respect to food aid, the Canadian Government had decided to maintain in the calendar year 1967 the exceptionally high level of approximately one million tons of food grains which had been provided in 1966. This assistance would be entirely on a grant basis as in the past. To implement this decision, the Government had obtained a supplementary appropriation of \$21 million (Cdn.) to cover shipments in the first three months of 1967 and made a regular allocation of \$50 million (Cdn.) for the fiscal year beginning April 1. Orders for this latter amount had been placed and shipments would be completed by June. The Canadian delegate observed that food aid at the exceptionally high level which Canada was now providing to India represented a significant burden and had made it difficult to provide other forms of assistance to India and to other parts of the world.

With respect to non-project aid, other than food aid or debt relief, the Canadian Government would continue last year's high level of approximately \$40 million. This would involve use of the entire allocation of \$38 million in development loan funds in the current year, as well as \$1.25 million in grant funds and \$1.3 million in forgiveness of debt payments, of the \$38 million development loan program, \$10 million as fertilizers, and \$18 million in other forms of program assistance.

With respect to debt relief, the Canadian Government had taken a decision in the previous year, as an extraordinary measure, to forgive an amount of some \$10 million remaining due on two special 1958 loans, and steps to this end were being carried forward. The amount involved had originally been due partly in 1966-67 and partly in 1967-68. The Canadian Government was also prepared to extend an additional measure of debt relief in the form of a rescheduling of debt service payments, provided that this was done in concert with other members of the Consortium on the basis of an agreed approach. Some indication of the principles which the Canadian Government would wish to see included in such an agreed approach had been given to the Consortium in November and to members of the working

party in March. The Canadian Government accepted the need for an early measure of relief from debt service payments in the fiscal year which had begun on April 1, and had therefore taken the decision that it was prepared to participate in a standstill arrangement pending further discussion of an agreed approach to rescheduling. Such a standstill would be of an interim character and essentially a postponement of the payments concerned. It could reasonably cover the same area of debt service payments that the Consortium was prepared to discuss the possibility of rescheduling. The Canadian delegate indicated his Government's hope that further discussions on the Indian debt problem would be held under the chairmanship of the Bank.

In summary, the Canadian delegate indicated that, quite apart from any additional debt relief which might result from a standstill or an agreed approach to rescheduling, Canadian assistance to India in 1967-68 on an appropriations basis would again be in excess of \$100 million (Cdn.) (actually \$103.8 million) and ninety percent of this would be non-project assistance and in the form of grants or interest-free fifty-year loans. The Balance of \$12.5 million (Cdn.) would be long term export credits and would be used to meet disbursements on the Rajasthan Nuclear Power Project. Disbursements on other continuing projects would be met from previous appropriations. In addition, the Canadian Government would also be in a position to undertake new projects in the current year under forward planning procedures which allowed commitments to be entered into against appropriations in future years. New projects undertaken on the basis of this authority would be additional to appropriations in the current year.

Asia Department  
April 17, 1967

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- 50 -

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ANNEX IX

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CORRECTED  
APRIL 12, 1967MEETING OF THE INDIA CONSORTIUMPROVISIONAL ESTIMATES OF DEBT SERVICE 1967/68  
(U.S. \$ Million)

	<u>Official</u>			<u>Guaranteed Suppliers' Credits</u>					
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Total</u>			<u>Inside Consortium only</u>		
				<u>Prin.</u>	<u>Int.</u>	<u>Total</u>	<u>Prin.</u>	<u>Int.</u>	<u>Total</u>
Austria	0.88 <sup>1/</sup>	0.89	1.78 <sup>1/</sup>	0.26	-	0.26	-	-	-
Belgium	-	-	-	2.02	0.64	2.66	1.75	0.62	2.37
Canada	9.44 <sup>2/</sup>	3.32 <sup>2/</sup>	12.76 <sup>2/</sup>	-	-	-	-	-	-
France	-	-	-	n.a.	n.a.	17.9	n.a.	n.a.	11.4
Germany	23.0	25.2	48.2	n.a.	n.a.	16.0 <sup>3/</sup>	5.8 <sup>4/</sup>	2.4 <sup>4/</sup>	8.2 <sup>4/</sup>
Italy	-	0.02	0.02	7.60	2.06	9.66	6.50	1.41	7.91
Japan	15.7	12.3	28.0	n.a.	n.a.	24.4	2.16	0.57	2.73
Netherlands	-	1.51	1.51	2.14	0.60	2.74	1.14	0.60	1.74
U.K.	30.70	22.76	53.46	n.a.	n.a.	7.5	-	-	-
U.S.A.	36.3 <sup>4/</sup>	29.1 <sup>4/</sup>	65.4 <sup>4/</sup>	-	-	-	-	-	-
Subtotal	116.0	95.1	211.1	n.a.	n.a.	81.1	n.a.	n.a.	34.4
IBRD/IDA	54.9	38.1	93.0	-	-	-	-	-	-
<u>TOTAL</u>	170.9	133.2	304.1	n.a.	n.a.	81.1	n.a.	n.a.	34.4

<sup>1/</sup> of which 0.44 refinanced<sup>2/</sup> Arrangements are being made to waive 8.73, 0.56 and 9.29 respectively of these amounts<sup>3/</sup> Rough estimate by Bank staff for calendar 1967.<sup>4/</sup> Calendar year 1967

Source: Compiled by IBRD Economics Department from information supplied by delegations to April 4-6, 1967 Consortium meeting.

ANNEX X

CONFIDENTIAL

MEETING OF THE INDIA CONSORTIUM

PRELIMINARY INDICATIONS OF 1967/68  
NON-PROJECT AID (INCLUDING FOOD)  
ANNOUNCED DURING THE INDIA CONSORTIUM MEETING  
IN PARIS, APRIL 4-6, 1967

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(U.S. Dollars)  
in million

Austria	5.0	Including \$1 million of special aid to help meet the food emergency (which may be used for milk, fertilizers, pesticides, etc.), \$1 million in suppliers credits and \$3 million of official aid.
Belgium	-	-
Canada	91.2	Including \$46 million in foodgrains under active discussion and about \$6 million in flour and milk (reported in IND 67-16 but not previously counted in paragraph 2 of IND 67-3); to this approximately \$38 million of new development aid is to be added, plus \$1.2 million of loan payments due in 1967/68 but already cancelled, and whatever additional debt relief is agreed within the consortium.
France	17.0	Plus \$4.1 million of food aid outside the Consortium.
Germany	-	Total amount of contribution not yet decided, pending parliamentary action on budget. Contribution will probably include \$10 million for food production resources and whatever interim action is agreed on debt; outside the consortium \$11.2 million will be provided for agricultural pilot projects (Mandi, Nilgiris) and subsidy to church relief programs.
Italy	-	-

Japan	52.0	Including \$7 million as a special contribution for food production resources and \$6.2 million in debt relief.
Netherlands	11.1	Including \$7.3 million general purpose official aid and \$3.8 million of suppliers credits.
United Kingdom	53.2	Including \$33.6 million equivalent to debt relief.
United States	305.0	Including \$190 million of PL480 foodstuffs, up to \$50 million of other non-project aid and up to \$65 million in debt relief; all of the above is conditional upon commensurate action by others. Additional non-project aid is contemplated later in 1967/68 subject to action by Congress on appropriations.
Bank	85.0	Conditional on general action on debt relief.
<u>Total</u>	<u>629.5</u>	Including the U.S. PL480 contribution of \$190 million conditional on appropriate matching from other sources; also including substantial amounts from various members, which are conditional on an agreed action on debt relief. However, as noted in individual entries, this total does not include \$15.3 million in food aid from France and Germany, which is described as "outside the consortium," nor does it include possible action on debt relief for which amounts were not specified.



PRESS RELEASE  
FOR IMMEDIATE PUBLICATION

SUBJECT: India Consortium Meeting

April 6, 1967

The consortium of governments and institutions interested in development assistance to India met in Paris on April 4 - 6, 1967, under the chairmanship of the World Bank. The meeting was attended by representatives of the Governments of Austria, Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, the United Kingdom and the United States. The International Monetary Fund sent observers.

A delegation representing the Government of India, led by Mr. S. Jagannathan, Secretary, Ministry of Finance, and also including Mr. A. L. Dias and Mr. B. Sivaraman, Secretaries in the Ministry of Food and Agriculture, was present during part of the meeting in order to describe India's plans and aid requirements for the fiscal year which started April 1, 1967. Consortium members welcomed the Indian representatives' report that the Government planned to pursue vigorously the new programme to increase food and other agricultural production by providing ample supplies of new high-yielding seed varieties, fertilizers, plant protection materials and equipment for the installation of wells and other irrigation facilities. They also welcomed indications that the family planning programme would continue to be given high priority, that there would be continued emphasis on export promotion, on measures to encourage private foreign investment in priority sectors in India and on efficiency in Indian industry in general. Subject to the availability of adequate resources, it was understood that the liberal import policies for the raw material and component requirements of priority industries will be continued.

During its discussions the consortium concentrated mainly on short-term problems of food and the pressing need for quick-disbursing aid.

The consortium agreed on the urgency of enabling India to contract for food imports without reducing the flow of resources for other priority purposes. New aid for food, fertilizer and related agricultural production materials as well as aid in a form which releases cash for the purchase of food was indicated by consortium members during the meeting. In addition to 4.3 million tons of foodgrains already shipped, the three million tons of additional foodgrains offered by the United States and 700,000 tons offered by Canada, the new aid is believed to be adequate to enable India to import about 10 million tons of foodgrains during 1967. It was also reported that some countries and institutions outside the consortium were considering contributions of foodstuffs to help meet the Indian requirement. Together with adequate total non-project assistance, India's immediate import requirement of food should therefore be met without jeopardizing other essential imports.

In reviewing India's overall aid requirements for the fiscal year April 1, 1967 - March 31, 1968, the consortium was of the opinion that for planning purposes a target of approximately \$1,300 million (including foodstuffs) for new aid to be provided in non-project form was appropriate. While most members will not be able to make aid pledges until budget and related decisions have been made in capitals, some members did indicate contributions toward this target. Consortium members also agreed that they would so concert their efforts with the Government of India that a substantial portion of the new aid will be in a form that can be utilized quickly.

The consortium agreed to meet again in order to keep in close touch with economic development in India and to review progress toward the total aid target.

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IND 67-21

FROM: The Secretary

April 19, 1967

MEETING ON INDIA'S FOREIGN EXCHANGE SITUATION

A meeting of the India Consortium will be held in Room 1038 of the Bank, in Washington D.C., at 2:30 p.m. on Tuesday, April 25, 1967. An Agenda for the meeting is attached.

It would be appreciated if names of delegates attending this meeting could be sent as soon as possible to the Secretary of the Bank, in Washington.

Distribution:

Executive Directors for:

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

Embassy of Japan  
Managing Director, IMF

Director, Asia Department

For information:

President  
President's Council  
Executive Vice President, IFC  
Executive Director for India  
Department Heads (Other)  
Resident Representative, New Delhi  
European Office  
Development Assistance Committee, OECD

MEETING ON INDIA'S FOREIGN EXCHANGE SITUATION

Tuesday, April 25, 1967 - 2:30 p.m.

Room 1038, IBRD, Washington, D.C.

AGENDA

1. OPENING STATEMENT BY CHAIRMAN

2. AID REQUIREMENTS IN 1967/68

Discussion will focus on (a) action, such as interim debt relief, to meet the estimated \$400 million cash requirement, (b) food aid to complete arrangements for matching the United States offer of approximately \$190 million and (c) arrangements members propose over the next few months to finalize agreements with India on non-project aid for 1967/68 and to enable such aid to be disbursed quickly.

3. WORKING PARTY ON TERMS OF AID AND DEBT RELIEF

The Chairman will indicate the schedule he has in mind for further work on the long-term problem of debt relief and the terms of aid.

4. OTHER BUSINESS (INCLUDING ARRANGEMENTS FOR THE NEXT CONSORTIUM MEETING)

5. CHAIRMAN'S REPORT OF PROCEEDINGS

# INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT



4, AVENUE D'ÉNA, PARIS 16<sup>e</sup>

TELEPHONE : 553.25-10

TELEX : 27.029 PARIS

PRESS RELEASE  
FOR IMMEDIATE PUBLICATION

SUBJECT: India Consortium Meeting

April 6, 1967

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aid in a form which releases cash for the purchase of food was indicated by Consortium members during the meeting. In addition to 4.3 million tons of foodgrains already shipped, the three million tons of additional foodgrains offered by the United States and 700,000 tons offered by Canada, the new aid is believed to be adequate to enable India to import about 10 million tons of foodgrains during 1967. It was also reported that some countries and institutions outside the Consortium were considering contributions of foodstuffs to help meet the Indian requirement. Together with adequate total non-project assistance, India's immediate import requirement of food should therefore be met without jeopardizing other essential imports.

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The Consortium agreed to meet again in order to keep in close touch with economic development in India and to review progress toward the total aid target.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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April 5, 1967

INDIA CONSORTIUM

STATEMENT BY SIR ALAN DUDLEY, HEAD OF THE UNITED KINGDOM DELEGATION.

(Afternoon session, April 4, 1967)

Thank you Mr. Chairman.

I might compliment you on having said so many of the things that I should like to say myself. If I say them with a slightly different kind of British accent from your own, I hope you will forgive me. I should also like, because it is not merely out of politeness but out of very genuine recognition of what we heard this morning, to compliment Mr. Jagannathan and Mr. Dias and Mr. Sivaraman on the statements they made to us and indeed Mr. I.G. Patel on the answers he gave to some knotty questions as well.

I think it is a great advantage to us that the Indian delegation should be with us during the whole of the discussion on this item so far as possible because they may be able if we go wrong to correct us in what we say. I have not asked any questions myself but I do beg the Indian delegation if they have any observations to make on what I do say, to make them because that will help us. I hope that my colleagues will forgive me if I make a fairly extended statement. We do not usually in this consortium make long speeches to each other; it has not been the practice in the past. Maybe it is the influence of this unexpectedly splendid room that leads one in this kind of direction. At any rate, I hope to be forgiven for what I have to say.

It seems to me also appropriate under the heading of this item on the agenda: "Recent economic developments and future prospects" to look a little backwards as well as a little forwards if we can. India is in a very special position at present, and I think we are faced by a situation which is in a sense different from that with which we have dealt before though it is a development of what we have seen before. The problems that we see before us have been coming along in one way or another for the last two years or so, and I think it was absolutely right and proper, if I may be allowed to say so, that Mr. Jagannathan concentrated so much of his attention as indeed, Mr. Chairman, you have concentrated yours on the immediate problems. What I am going to say is an expression of our view of events and situations which have already been described in part. I shall be going over, that is to say, some of the same ground and to that extent I beg you to bear with me. It seems worthwhile to go back to the winter of 1965/66, in this discussion. That was the winter after the Kashmir fighting. U.S. aid was suspended, although PL 480 was being kept going on a month by month basis. The flow of new aid from other countries, so far as we could see, was not proceeding as swiftly as it had been. India was undoubtedly in a difficult situation then, not only as a result of the fighting, but probably much more because of the failure of the monsoon and the threat of famine. Food and cash were already both short, and because of the shortage of cash the Government of India was quite evidently much more aware of the difficulties imposed by debt repayment. The British Government never thought it right, in no circumstances, to curtail their aid because of what had happened in Kashmir, and they kept it going. They made this quite clear to the Government of the United States and other Governments at the same time, and, as far as I know, no difficulties were seen to arise out of this somewhat

different approach to the situation which then existed. At any rate, we all got along perfectly happily together. We ourselves had already decided in that year that the increasingly serious debt situation which was arising in a number of developing countries and particularly in India required a change in our own terms of aid, and it was during the course of that summer that Mrs. Castle, who was then Minister of Overseas Development, announced that she was proposing to provide to countries whose situation seemed to justify it interest free loans with long grace periods. That summer also we took up the question of debt relief in the consortium, but I cannot say that we were wholly encouraged by the progress we made on that occasion. I am very glad to see that it is being pursued so much more effectively, now.

We applied the policy of interest free loans first of all to India, in the autumn of 1965. We provided £ 14 million in interest free and general purpose loans against that year's pledge. Out of this £ 14 million, £ 10 million was in the form of general purpose aid.

It may be that there are some new members of the delegations, of donors here who do not know what we mean in the British sense by general purpose aid, and I should perhaps explain that this is a form of aid which is very readily disbursable; it involves a minimum of formality and red tape as far as the recipient is concerned, and it leaves to the Indian Government a very wide discretion indeed about the commodities which can be purchased with it. I have been assured by Mr. Bhoothalingam in the past, by Mr. C. S. Krishna Moorthi and others that it is really as good as money in the Bank, and I hope it will continue still to be regarded in that way.

In February, 1966, the Indian need for increased readily disbursable resources was so evident that we undertook to transform £ 6 million which had already been allocated for project purposes into a food emergency loan, and we added to it £ 1.5 million of new money, which was subsequently included in our pledge for that year. To complete the use of our 1965 pledge we added another £ 5 million of non-project loans in April 1966, so that already in the Spring of 1966, and in recognition of India's particularly difficult food and cash situation that winter, we had committed over 99% of our 1965 pledge in non-project form.

As everyone will remember, we have been reminded of it twice this morning, that the long continued discussions between the Bank and the Government of India about India's trade and financial and fiscal policies came to a head in May 1966, in the form of the Ashoka Mehta/George Woods discussions. These were followed by discussions with the I.M.F. Some information was given to members of the consortium at that time and later, as you Mr. Chairman have reminded us, and the trade liberalisation, and devaluation aspects which were involved were explained. It was of course always abundantly clear that the discussion of devaluation was a very delicate matter, and the Bank can particularly be excused for its delicacy in handling this sort of matter in discussions with members of the consortium because if it did talk about that it was treading on the I.M.F.'s ground.

No one I think in his senses can at that time or any other time have opposed the idea of liberalisation of India's trade if it could be achieved; it would have been obviously the right sort of course for any other country in a similar situation. It is clearly extremely important to all of us that the shackles of quantitative restriction should be removed from trade when they can be, as they have been in fact in Europe over the period since the war. Devaluation coupled with adequate resources - if it was possible to find them - was recognizably a practical method of contributing towards liberalisation.

Such information, as was available to the British Government at that time, suggested that the estimate of \$ 900 million of non-project aid, which was made by the Bank and was related to estimates made by the Government of India, was about a



minimum requirement: such information as we had, confirmed that. We said this to the Bank's officials, as Mr. Bell will remember but, as he will also remember, we added that in our view while such a sum might - and we hoped would - be found in the first year, it would be extremely important to continue to find a sum of that sort and the Government of India would find itself in considerable difficulties if this process was not kept up for a period after that, perhaps for 2 or 3 years.

Otherwise we thought the experiment would not be a success and we expressed our own fear about the difficulties of finding adequate resources from the consortium over that period of time. We therefore naturally felt considerable anxiety about the prospects for the Indian economy. We did not ourselves feel, at that stage, that for these reasons we could undertake the responsibility of underwriting the proposed policy to the extent of endorsing it fully and saying that we believed that it was going to succeed, but we were determined to do everything we could to help with the relief of those pressing problems which this particular policy of liberalisation was so closely related. In advance therefore of the devaluation and liberalisation decision and arising out of our recognition of this situation, we signed loans for £17 million of non-project aid, of which £10 million was for general purpose aid. It was a deliberate recognition of the situation which existed. As we all know, and as we have been reminded, the second successive failure of the monsoon caused renewed shortages last autumn and made the situation recognizably worse. There were further appeals for help from India to deal with the current situation. Help was then required in the form of ready cash and quickly useable resources. The British Government decided it would respond by a further effort in that direction. Again, as we had done before, we postponed project aid allotments and we converted them into commitments for non-project aid. We completed our 1966 pledge by providing £13.5 million of non-project loans, and we made over £8.2 million worth of these available for refinancing India's debt repayments to us on earlier aid loans.

For us, this step broke new ground of a very important kind and incidentally it brought the consortium's contributions above the \$900 million target - only just, but it did. It also brought our contribution in the form of non-project aid in 1966 up to \$90 million, which was 10% of the whole, against the \$74 million which the Bank had put us down for in recommending what donors could afford. Thus, despite our fears that the whole exercise was a rather "dicey" one - as it were - we found that it was up to that point a success, and that we had ourselves contributed to it in a way we thought was as useful as it could be. These new loans were of course again on a non-interest basis, over 25 years, with a 7-year grace period. Better terms, of course, for the refinancing loan than those which were discussed in the working party on the debt problem the other day. And this, moreover, brought 100% of our 1966 pledge on to the non-project side.

Finally, as a farther contribution during last financial year to the immediate problems, because India's utilization of certain project aid was not being maintained at the level we should have wished, we arranged for about £2 million outstanding from certain old loans to be re-allocated so that this sum could be used as general purpose aid and could be expended before the end of the financial year. This brought Indian utilisation of our aid in 1966/67 up to a little over £43 million, not quite 50% higher than two years earlier. We should have been glad to see the Government of India spend several million pounds more of our money if they had been able to do so. And it is disbursements that count in a situation like this, as you have just now, Mr. Chairman, reminded us.

I am sorry to keep on rubbing this in, but I just want to sum up this part of the history of the past.

Measures such as these that I have been describing have in our opinion made a major contribution to the alleviation of the Indian situation. Let me recapitulate. We have softened the terms of our aid to a major extent, and it is now softer than that which most, if not all other countries, are offering. We have made virtually 100% of our aid available on a non-project basis in the last two years. A large proportion of this non-project aid takes the form of general purpose aid which amounts in effect to balance of payments support. We have thus tried to make our contribution more effective and more useful; every penny of our general purpose aid offered in 1966/67 has in fact been spent, and secondly we have very substantially raised the disbursements from our aid by the measures we have taken. And we have refinanced £8 million of debt.

Well, so much Mr. Chairman for the past. Now to the present and future. As is very clearly seen from the admirable papers put before us by the Bank, which analyse this kind of situation so well, and particularly in the last part of Volume I - which is described as the main report - and as the Government of India's evidence also shows, there are three very closely related problems which characterise the present situation. I will take them in the order in which they appear on the agenda and make brief reference to our own attitude towards them.

We are all of course extremely much indebted to the United States Government for the energy with which it has taken up the question of food for India. I cannot say how much we admire what they have done in that respect. We regard it as a major humanitarian cause, but we also regard it as a most important element in the Indian economic situation and one which affects the prospects of development very closely. We have not tried to make our own independent estimate of the actual requirements for the supplementation of India's food resources during the current year. We are quite ready to accept for working purposes the minimum estimate of 10 million tons which has been in circulation and which was in effect confirmed by Mr. Dias this morning, although he gave us some supplementary and rather alarming figures of India's additional needs. We realise that it is important that this tonnage of grains should not only be committed but be shipped as soon as possible.

Then, there is the cash problem. India's balance of payments difficulties are explored very fully in the Bank documents and were explored this morning. We have been following this aspect of the situation very closely ourselves. We recognise India's need for very substantial amounts of liquid resources. This recognition indeed is reflected in the description I have given of our past policy. There may be some differences between the Bank's assessment and the Government of India's assessment and our own about the extent to which cash is needed, but I do not think these differences are of major importance. I think that the situation which now exists is very much what we expected when the subject was under discussion last May. But it has been made much worse by the food situation, and the fact that India has to find the foreign exchange costs of importing much of the food that is made available to her. The fact that debt repayments amount to nearly 30%, I think, of India's export earnings is another indication of the way these problems are mixed up together. There is no doubt therefore that the food crisis and the cash crisis are very closely interwoven.

Thirdly, I would put the commitments problem. Clearly if liberalisation is to succeed and if Indian trade is to be freed the Government of India must be able to see where the backing for the issue of new licences is going to come from for maintenance and other goods and they must be able to see it for quite a long way ahead.

In connection both with the cash problem and the commitments problem it is instructive I think to see how much of the \$900 million of non-project aid promised last year is still left over. There is a considerable difference I think again between Indian and World Bank estimates of the extent to which the Government of India will be able to draw down the available non-project aid from last year, and from the 1967/68 pledges during the course of the coming financial year. I would not necessarily go along with the Indian estimate of requirements for payment of maintenance imports, because there seems to be some evidence that they were not flowing as fast as the Government of India would like them to, though I was very glad to hear this morning that they are in fact moving faster now. On the other hand, I must say that I am very much inclined to accept the Government of India's estimate of the slow rate of disbursement and I am inclined to think that the Bank's estimates are a bit optimistic. I think this slowness of disbursement to which you yourself have drawn attention, Mr. Chairman, is partly due to the arrangements controlling the supply of non-project aid and partly to the Government of India's own difficulties in making adequate and rapid use of tied aid of this kind. To the extent that Indian estimates of cash needs are excessive the excess probably arises chiefly from over-optimism about the restoration of business activity and again I am back to what Mr. Jagannathan said this morning. The excess probably arises chiefly from Indian over-optimism about the restoration of business activity. The difference between the two estimates is perhaps of the order of 20%, but I say again that refinements of calculation of this sort are not of the greatest importance. Our first task here in this consortium is to see whether we can reach the minimum level of commitments of non-project aid recommended to us by the Bank and whether a high enough proportion of these can turn out to be the equivalent of cash. If we do what the Bank recommends, we should have done a very great deal.

We recognise India's great need for liquid resources and her great need for food, and that foreign exchange under the present system is needed to cover the cost of importing food. But, so far as the British Government is concerned, we cannot regard with equanimity the prospect of continuing to give so large a proportion of our aid in a liquid or semi-liquid form unless others do so too.

Aid in the form of grain, if I may be permitted to say so, Mr. Rostow, is not a great burden on the balance of payments of the giver, but the provision of a cash equivalent is a heavy burden on the balance of payments of its giver and it would not be right, in my view, to try to "match" one against the other on equal terms for this reason. It is not easy for us to explain to our people in Britain in our present very difficult balance of payments situation, that we are providing foreign exchange in order to enable the products of other countries to be exported to India or anywhere else. I am not at all sure how long we shall be allowed to go on doing this.

It might be, I suppose, suggested that if this is our difficulty we ought to provide aid in the form of fertilisers or in the form of other "agricultural" inputs, manufactured in the U.K. But frankly the more we made provision of our aid dependent on the acceptance of particular commodities the less should we be able to provide the general purpose aid which is so demonstrably and very obviously what India needs most. We have, moreover, always done our best to try to avoid and

discourage the double tying of aid to particular commodities, if only because this is a disadvantage to the recipient in that aid tied in this way almost always means higher prices to the consumer. This, certainly in the past, and still in the present I may say, has been true for fertilisers.

Moreover, the Government of India is I believe already provided with aid in the form of fertilisers to such an extent that, as I understand it, decreasing quantities are in fact being paid for from free foreign exchange. This does not seem to me to be economically a satisfactory situation, in that the purchaser's choice of supplier is increasingly limited.

As we have seen and I think we are all agreed, the various elements in the short-term balance of payments and economic situation are inseparable. For the reasons I have given I do not think it makes very good sense to try to divide them up into various pockets or separate accounts, or to require what is called "matching" within any one category of non-project aid, and we would not want ourselves to undertake a separate accounting of that kind. But I must immediately say that if others find merit in the way in which we give our aid, far be it from us to object to their doing so, and if they want to count it as matching their contributions, well I shall be delighted.

The British Government are anxious that the maximum achievable results shall come out of this meeting of the consortium. For that reason we propose, despite what I have just said and despite the anxieties I have expressed, to continue on the same liberal road that we have chosen so far. I am authorised at this meeting to offer as the first tranche of our aid pledges this year £19 million of non-project aid, of which £12 million will be general purpose aid. We shall be ready to sign the agreements as soon as they can be prepared and responding to what Mr. Jagannathan said this morning, we shall be prepared to back-date them to April 1st. This again raises, this time by £2 million, the level of our first commitment in the year, and it comes a good deal earlier than it did in previous years. We shall once again be prepared to consider using part of the available resources, as we did last year, to permit the refinancing of debt. We should like to see what others are prepared to do, if I may use the term, to "match" us on this, or to "match" our performance last year, before we decide just exactly what we can do. The terms are of course a good deal more liberal than those which would be involved in a simple roll over. We have every intention of maintaining our liberal disbursement practices, and we hope to help the Government of India to draw down at least as much of our aid in the coming year as they did in the last one.

What form the rest of our commitments for this year will take, whether they will be in non-project or project form, and what expenditure will result from them will depend very largely on discussions which we still have to have with the Government of India, and we shall be ready to talk about that with them as soon as they like.

I think I had better leave over because I have been talking much too long, until a later stage in the agenda anything about project aid. But I do think that we ought at some stage, without pressing the Government of India because we know they have not had time to re-furbish - as it were - the Fourth Plan, to get some impression from them of the context in which they will be wanting to discuss project aid with us. But this can, I think, come under the separate item of the agenda.

Again, my apologies, Mr. Chairman; thank you for listening to me.

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IND 67-20

March 31, 1967

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FROM: The Secretary

INDIA - DEBT RELIEF AND THE TERMS OF AID

The attached paper, "India: Additional Illustrative Debt Tables", supplements the paper (IND 67-8) distributed on March 8, 1967. This was prepared by the Bank staff, as requested at the March 8-9 Meeting of the Consortium Working Party, for use in connection with item 3(b) of the Agenda distributed on March 24, 1967 (IND 67-15). Additional copies will be available to delegations attending the forthcoming Consortium Meeting in Paris, April 4-6, 1967.

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INDIA: ADDITIONAL ILLUSTRATIVE DEBT TABLES

1. At the meeting of the Working Party on March 8, 1967, a paper was distributed entitled: "India: Illustrative Debt Tables and their Consequences" (IND 67-8). That paper illustrated the consequences of applying different rates of interest and amortization to rescheduling of existing debt and new debt.
2. The present paper endeavors to do the same thing for a more specific set of terms which were the subject of discussions at the meeting of the Working Party. There is some change in the assumptions about existing debt and its repayment as a result of later information but they are broadly similar to the ones used before. Two examples are given. In neither is there any rescheduling of existing debt; service payments fall due as currently scheduled. In both examples it is assumed that gross aid will be provided sufficient to cover:
  - (a) Net aid of \$1.1 billion per annum during the Fourth Plan; \$0.4 billion per annum during the Fifth Plan; and nil during the Sixth and Seventh Plan.
  - (b) All service payments on existing debt and new debt incurred.
3. The difference between the two examples lies in the terms on which this gross aid is provided. In the first, all gross aid is provided on DAC terms, i.e. at 3 percent interest and 25 years maturity with 7 years grace. In the second example, we assume that all service payments due on suppliers' credits are exactly balanced by new suppliers' credits at 6 percent interest and 8 years maturity with two years grace. The remainder of the gross aid required is provided on the same DAC terms as before.
4. At the Working Party meeting there was some discussion as to whether principal payments only or principal and interest payments should be refinanced. From some points of view there would be an important difference; for the purposes of this exercise, however, there is none. It might be envisaged that one set of arrangements is made for the provision of aid to offset principal payments falling due and another set of arrangements for the remainder of the gross aid required, which would include interest payments falling due. But if the debt incurred under both arrangements is on the same terms, for the purposes of this exercise the formal difference between the arrangements is of no consequence.

The First Example

5. The results of applying the DAC terms to all gross aid required are illustrated in Table I. It should be pointed out that a substantial part of the gross aid required in the Fourth Plan, nearly

\$3 billion, would be provided by disbursements on existing debt. The DAC terms apply only to the balance of something over \$5 billion.

6. As a consequence of applying these terms, service payments, which amount to \$450 million at the beginning of the Fourth Plan, rise to \$688 million, \$877 million and \$1,129 million respectively at the beginning of the three succeeding Plans. These figures may be compared with the criterion set forth at the Working Party meeting, namely 20 percent of the prospective net export earnings. At that meeting some rather optimistic projections were used as the basis for comparison, namely \$2.7 billion, \$4 billion and \$6 billion at the beginning of the Fifth, Sixth and Seventh Plans. This assumes an increase of 50 percent in each Plan period. Comparing 20 percent of these figures with debt service, we arrive at the following (in \$ million):

	<u>Export earnings</u>	<u>Twenty percent of export earnings</u>	<u>Debt Service</u>
1971/2	2,700	540	688
1976/7	4,000	800	877
1981/2	6,000	1,200	1,129

---

7. Thus the debt service would not meet the twenty percent criterion in the first two years listed in the table. This does no more than confirm what one might have expected by looking at Table 2 in the Illustrative Tables distributed earlier (IND 67-8). Under the heading of 3% Interest, the DAC terms are in effect identical in 1971 with the first line because by that time there would have been no repayments under the 7 years grace provision. As time goes on and the outstanding debt is more of a mixture of old and new, the service payments more closely approximate the third line (Repayment at 4%).

8. The DAC terms in other words are helpful in solving the problem of the hump in the schedule of service payments but they are not helpful enough. As was pointed out in the previous paper (paragraph 10) the burden of service payments during the Fourth Plan and much of the Fifth will exceed the criterion we have set, "unless there is a grace period of 5 to 10 years, depending on the date at which the loan is made, during which neither interest nor amortization is charged."

9. In this paper we have carried the projection of service payments forward by five more years than before. We have assumed that during these additional five years, India continues to receive no net aid. Service payments continue to rise fairly rapidly not

only because of the fact that debt is continuing to increase at roughly the rate of interest i.e. 3 percent, but also because there is a continuously greater burden of amortization payments, as the proportion of debt on DAC terms, which is more than seven years old, gets larger.

The Second Example

10. In this example which is illustrated in Table II, we assume that new suppliers' credits are made exactly in the amount that service payments on previous suppliers' credits fall due. In other words, net aid on suppliers' credits is zero. The net aid required by India plus service payments on official aid are provided on DAC terms.

11. Service payments due on existing suppliers' credits amount to \$441 million during the Fourth Plan. However, disbursements still to be made on existing suppliers' credits are sufficient to offset these service payments for the first four years. Consequently, under our assumptions, most of the new aid during the Fourth Plan would be on DAC terms. There is, therefore, very little difference during the Fourth Plan between Table I and Table II.

12. The difference begins to appear in the Fifth Plan, when service payments and gross aid required are each about \$100 million higher as a result of the harder terms. The difference is very much greater during the Sixth Plan when service payments are \$475 million higher in the second example than in the first. During this plan the higher amortization rate of the suppliers' credits has had time to take effect whereas service on the greater part of the debt incurred on DAC terms would still be within the grace period.

13. During the Seventh Plan the difference is still larger namely \$668 million. It is of some interest that under our assumptions the amount of suppliers' credits required simply to balance service payments on previous suppliers' credits amounts during the Seventh Plan to \$858 million. If all aid had been under DAC terms, as in the first example, this amount of new suppliers' credits would have been replaced by only \$190 million of new aid under DAC terms.

14. A comparison between export earnings and debt service similar to that in paragraph 6 would be as follows (in \$ million):

	<u>Export earnings</u>	<u>Twenty percent of export earnings</u>	<u>Debt Service</u>
1971/2	2,700	540	690
1976/7	4,000	800	945
1981/2	8,000	1,200	1,249

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15. It is evident from this table that not only is there a problem during the so-called hump but that it continues into the beginning of the Seventh Plan. Indeed, Table II shows that service payments during the Seventh Plan are continuing to rise at about 5 percent per year. It is obvious, therefore, that even if exports grow fairly rapidly, the gap between debt service and twenty percent of export earnings will only narrow slowly.

16. The inclusion of some aid as suppliers' credits, even only up to the amount where it brings in zero net aid, thus extends the problem facing India farther into the future. If new suppliers' credits are going to be made, the terms of official aid would have to be even softer than those referred to at the end of paragraph 8.

Economics Department  
March 31, 1967

TABLE I: ALL GROSS AID ON DAC TERMS  
(\$ Million)

	<u>Net Aid Required</u>	<u>Total Service Payments</u>	<u>Gross Aid Required</u>	<u>Outstanding Debt <sup>1/</sup></u>
<u>Total Fourth Plan</u>	<u>5500</u>	<u>2705</u>	<u>8205</u>	
1966/67	1100	450	1550	6915
1967/68	1100	472	1572	7357
1968/69	1100	538	1638	7906
1969/70	1100	605	1705	8795
1970/71	1100	640	1740	9909
<u>Total Fifth Plan</u>	<u>2000</u>	<u>3659</u>	<u>5659</u>	
1971/72	400	688	1088	11,135
1972/73	400	701	1101	11,837
1973/74	400	724	1124	12,557
1974/75	400	742	1142	13,296
1975/76	400	804	1204	14,063
<u>Total Sixth Plan</u>	<u>---</u>	<u>4947</u>	<u>4947</u>	
1976/77	---	877	877	14,853
1977/78	---	953	953	15,274
1978/79	---	1004	1004	15,710
1979/80	---	1036	1036	16,157
1980/81	---	1077	1077	16,610
<u>Total Seventh Plan</u>	<u>---</u>	<u>6265</u>	<u>6265</u>	
1981/82	---	1129	1129	17,084
1982/83	---	1182	1182	17,571
1983/84	---	1258	1258	18,067
1984/85	---	1317	1317	18,579
1985/86	---	1379	1379	19,110

<sup>1/</sup> During the Fourth Plan, the figures include the undisbursed part of existing debt.

Economics Department  
March 31, 1967

TABLE II: MIXED TERMS <sup>1/</sup>  
(\$ million)

	<u>Net Aid Required</u>	<u>Total Service Payments</u>	<u>Gross Aid Required</u>	<u>Outstanding Debt <sup>3/</sup></u>
<u>Total Fourth Plan</u>	<u>5484 <sup>2/</sup></u>	<u>2704</u>	<u>8188</u>	
1966/67	1096	450	1546	6915
1967/68	1095	472	1567	7353
1968/69	1096	538	1634	7897
1969/70	1097	605	1702	8782
1970/71	1100	639	1639	9893
<u>Total Fifth Plan</u>	<u>2000</u>	<u>3766</u>	<u>5766</u>	
1971/72	400	690	1090	11,118
1972/73	400	705	1105	11,822
1973/74	400	742	1142	12,546
1974/75	400	775	1175	13,292
1975/76	400	854	1254	14,065
<u>Total Sixth Plan</u>	---	<u>5422</u>	<u>5422</u>	
1976/77	---	945	945	14,867
1977/78	---	1038	1038	15,303
1978/79	---	1106	1106	15,755
1979/80	---	1144	1144	16,220
1980/81	---	1189	1189	16,696
<u>Total Seventh Plan</u>	---	<u>6933</u>	<u>6933</u>	
1981/82	---	1249	1249	17,189
1982/83	---	1308	1308	17,700
1983/84	---	1392	1392	18,221
1984/85	---	1457	1457	18,761
1985/86	---	1527	1527	19,320

<sup>1/</sup> Net aid on suppliers' credits is zero; remaining aid is on DAC terms.

<sup>2/</sup> For Fourth Five-Year Plan, the discrepancy of \$16 million in net aid required is due to rounding.

<sup>3/</sup> During the Fourth Plan, the figures include the undisbursed part of existing debt.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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April 5, 1967

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MEETING OF THE INDIA CONSORTIUM

PARIS, APRIL 4 - 6, 1967

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INDIA CONSORTIUM

STATEMENT BY MR. S. JAGANNATHAN, HEAD OF THE INDIA DELEGATION  
AT MORNING SESSION, TUESDAY, APRIL 4, 1967

Mr. Chairman,

May I say first of all that I welcome this opportunity of participating in the deliberations of what has come to be known as the Aid-India Consortium. It was about two years ago that we met on a similar occasion in this city of Paris. Many things have happened during these two years of which you have been kept informed by the World Bank which has continued to play so ably its valuable role of serving as a bridge of understanding between India and her friends. On this occasion also, the Bank has made available to you a number of reports on Indian economic development which make my task easier. At the same time, I appreciate that you would like me to put before you the development in the Indian economy, our assessment of the current situation, the prospects for the coming months and the context in which we are now approaching you for a renewal of your generous support for Indian economic development.

Background

It is perhaps not inappropriate to recall that it is our common concern for the development of the Indian economy and the well-being of its people that brings us here together. Beyond this basic concern itself, there lies perhaps the concern for many more important things such as the future of democracy and peace in our part of the world. Of the vigour of Indian democracy you have no doubt heard a great deal in recent months. I do not wish, and I am sure you do not expect me, to dwell on the significance of the elections we have just completed in India. But, I think, it is proper to note at this gathering that these elections have once again dramatised how real and insistent is the urge of the Indian people for a rapid improvement in their meagre economic lot. That this urge is not without a response in more fortunately placed countries has been brought home most vividly in the recent Papal encyclical, "Populorum Progressio".

A great deal has been achieved in India during the first three Plan periods. At the same time, it has been clear for some time that the tempo of Indian development will have to be accelerated if it is to come up to the expectations of our own people. That is why we, together with the experts from the World Bank, have been exploring for some time now the ways and means of imparting greater momentum to Indian economic development.

I need not outline at any great length here the many new initiatives that we have taken in India over the past few years in order to achieve the objective I have just mentioned. In an essential sense, even the sizeable achievements of the past have not proved impressive because of the rapid increase in population. That is why, we have now undertaken a substantial intensification of the family planning programme which seeks to reduce the birth rate from 40 to 25 per thousand during the next 10 years. This programme has greatly increased in its tempo. Up to the beginning of this year 1.4 million IUD insertions have been made and over 2 million sterilisations have been carried out. The administration of the programme has been greatly strengthened at all levels and budgetary constraints have been removed. We are confident that the scope of the programme - using all available methods - can be increased rapidly this year.

In regard to agriculture, we were not perhaps quick to realise that the task of transforming our basic economic activities would assume different forms from time to time. In the initial stage it was perhaps natural to rely on extension of area, on protective irrigation and dissemination of techniques already tried and proved. But once this phase was over, we had to move on to a different plane where the emphasis had to be on more intensive cultivation with the help of more inputs not only of water but also of fertiliser and pesticides and newly developed varieties of seeds. This new agricultural strategy which is based on a combination of fertiliser, new seed and water has now been in operation for about a year during which period the main targets for supplies of inputs required have been met. This pace will be kept up in the coming year also. In 1967-68, we shall distribute about 1.35 million nutrient tonnes of nitrogenous fertilisers as compared to 0.5 million tonnes in 1965-66. Other needed fertilisers are also being supplied. The high yielding varieties programme which began last year will cover 15 million acres in 1967-68 as against 6 million acres in the last year. Although the acreage under new seeds was modest in the first year of the new strategy, competent observers believe it accounted for 2 million tons of additional production in this drought year in rice and wheat. Agricultural investment will go up by 40 per cent and agricultural credit will be increased by Rs. 1 billion while we continue to develop and improve a variety of institutional means to make credit available to all who want to invest in the new technology. Unfortunately, the drought has masked the advances made on ground, but the evidence we have in areas not affected by the drought demonstrates clearly that we are on the right track. My colleague, Mr. Sivaraman, will be glad to comment further on our agricultural progress. In this context, I should also welcome the admirable report on agricultural policies which the Bank has prepared under the leadership of Sir John Crawford.

A country like India - I might say a continental country - with its particular pattern of resource endowment could not neglect industrial development, including the development of sophisticated industries. However, these industries require a heavy commitment of resources so that it becomes all the more important that investments already undertaken are utilised fully and profitably before new investments are taken up. This emphasis is being reflected in our annual plans.

Foreign exchange has been the most important limiting factor in Indian economic development. That is why the second and the third plans laid emphasis on the development of industries which might stave off a crippling dependence on imports. It was equally important to promote the growth of exports on an enduring basis. While exports increased rapidly in the early years of the third plan, this growth was not sustained in later years. I shall have more to say on this crucial subject of exports later. Restrictions on imports, while necessary in our circumstances, would also, it was felt, fail to promote the development of industries on competitive lines unless these restrictions took increasingly a more uniform and stable character and were consistent with the desire to get the best out of existing investments. It is in the light of this broad assessment that we took a number of decisions in the recent past including the adjustment in the exchange rate and the substantial liberalisation of imports. These decisions themselves followed a series of moves which we had made in earlier years in the direction of achieving greater efficiency in resource allocation.

Apart from the emphasis on family planning, agriculture, capacity utilisation and greater regard to efficiency to which I have already referred, I would like to mention in particular, the growing importance that we have been attaching to decentralisation of economic decisions. This is true not only in respect of the substantial removal of price controls and controls over industries but also in respect of the management of public sector units. The details of these initiatives have been spelt out in the Bank's reports and my purpose here is merely to refer to them in brief to indicate why we ourselves attach importance to the continuance and the strengthening of all these various aspects of the broad policy framework that we are trying to evolve.

#### Recent Economic Trends

To some extent, the impact of the new policies has been swamped by the second successive drought. It was our expectation that with normal weather conditions, the year 1966-67 would mark the beginning of a sharp uptrend in both agricultural and industrial production. This has not happened, although there are definite indications of a revival in industrial production in recent months. Agricultural production in 1966-67 will perhaps be 5 per cent higher than the all time low level reached in 1965-66 - which means that it will be lower than the 1964-65 output by more than 10 per cent. The set back to agriculture in the current year has affected industries also in many ways so that industrial production during the current year is not expected to show an increase of more than 3 to 4 per cent as compared with an overall increase of 7 to 8 per cent that we had maintained throughout the 50s and the early 60s. This is, however, mainly the result of a set-back in industries like sugar, textiles and vegetable oils which depend on agriculture for their raw materials. There are many other industries, particularly those that supply the needs of agriculture and some chemical and miscellaneous industries, where growth rates of more than 10 per cent have been achieved even in the current year. More generally, there has been a distinct revival after October which indicates that liberalisation of imports has already begun to produce the impact expected of it.



Imports worth \$ 2.4 billion have been authorised (exclusive of food, other PL 480 aid and project aid imports) during 1966-67 as compared to only \$ 1.4 billion in 1965-66 and \$ 2 billion in 1964-65. There is reason to believe that large orders have been placed and will result in larger arrivals in the near future. A preliminary study we have made indicates that by December 1966 ordering had been completed for a substantial proportion of the licences authorised. This impression of a stepping up in the pace of ordering is also supported by the volume of requests for supplementary licences which are being automatically granted. The delay in committing a part of the current year's non-project aid and our own anxiety not to delay import licensing has meant that a large part of the licenses which will come up for payment in the next few months will be against our own cash reserves rather than aid.

At the beginning of 1966-67, it was apprehended that the drought in the preceding year will affect exports adversely. That is why a special emergency drawing was arranged with the International Monetary Fund. The repetition of drought conditions in 1966-67, slackness of demand abroad, particularly in some of our major markets, and the temporary dislocation after devaluation have been additional adverse factors affecting exports. The year as a whole is likely to show a reduction in export earnings of about \$ 100 million as compared to 1965-66. Unit prices have declined for a number of our major products, notably tea, black pepper, oil cakes, tobacco and sugar and the quantum has also declined notably in respect of tea, cotton, cloth and jute products. In part, these trends were in evidence even before June 1966 and reflected conditions in world trade. The drought has naturally affected the exports of agricultural products, particularly of oil cakes, tobacco and sugar. On the other hand, where supply conditions at home or demand conditions abroad were not particularly adverse, export performance has been satisfactory. A number of items which have a long term potential have registered increases in exports, e.g. leather products, iron ore, steel, fish, etc. There are also definite signs that export earnings have already begun to pick up after the temporary dislocation caused by devaluation and this has been responsible in part for the recent improvement in our reserves.

Normally a situation in which excess capacity exists in many engineering industries and when non-project assistance is available to facilitate greater capacity utilisation is one in which it would be desirable to step up investment rapidly. This is, in any case, desirable if the Indian economy is to realise its full growth potential - a potential which will be increasingly backed by the success of the new strategy of agricultural development and which is bound to become manifest as weather conditions return to normalcy. Unfortunately, in the short run, the urgent need to restore price stability and better budgetary balance make it difficult to bring about any rapid increase in investment unless this increase is backed up substantially by greater availability of foodgrains, other agricultural raw materials and the requisite project and non-project imports. Food aid, debt relief, continuance of non-project assistance, and resumption of project aid are all essential and integral parts of the assistance we need from our friends at this stage if we are to be able to tackle our problems in the coming year in a climate of expansion which is so badly needed after the stagnation of the last two or three years.

### Requirements of Aid

We are discussing the question of food aid separately. The Bank document has referred to this and my colleague Mr. Dias will be giving a fairly full picture. Briefly we are dependent for the first half of the year on arrangements already made. For the second half of the year we need at least six million tons of which 600,000 tons has already been promised by Canada and the US has shown willingness to supply a further 3 million tons under the Food for Peace Programme. I should take this opportunity to acknowledge once again this generous assistance. We still need assistance to enable us to import the balance of our requirements of 2.4 million tons. I would only reiterate at this stage that as we see it, food aid cannot be in substitution of other assistance. It must also be in a form which releases our own free foreign exchange resources during 1967-68 itself. Only so can we buy food on our own unless of course food aid takes the form of food itself and releases foreign exchange directly.

Our second urgent requirement is for debt relief. This matter has been discussed by the Working Group and the papers prepared by the Bank and our own views in this respect have been placed before you already. It has been rightly emphasised that India's debt problem is a long-term one and that it is a facet of the problem of development as such. Improvement in terms of aid, both future aid and past aid, are essential and would help relieve the debt problem over time. But there is also a short-term aspect to this problem which makes substantial debt relief an urgent necessity in our case.

Essentially since aid is tied and our own requirements are of a nature which cannot be met entirely from the aid-giving countries themselves, we have to deploy our foreign exchange earnings to a substantial extent for making purchases of essential raw materials and other requirements from countries from whom we cannot get aid. In a sense, the Indian economy is neither fully developed nor really undeveloped. It is at an intermediate stage where like the economies of many countries represented here, it has to rely, to a substantial extent, on imports of raw materials such as cotton, jute, non-ferrous metals, rock phosphate, sulphur petroleum and the like. Indeed, a very large part of our traditional exports including those, for example, of jute products, cashew kernel, cotton textiles are also dependent on raw materials imported from other developing countries. In this sense, the area of complementarity between the Indian economy and the economy of most of the aid-giving countries is not as great as one might imagine at first sight. This situation is further aggravated by the fact that not all the imports we normally make from aid-giving countries are eligible for aid-finance.

India is also perhaps a unique case of a country which has liberalised her imports even while facing a very restrictive balance of payments position. This year, our exceptionally large food imports will make a particularly heavy claim on our free foreign exchange resources -- a claim which would run into as much as 310 million \$ even after taking credit for concessional supplies of food of the value of \$ 410 million. The result is that our free foreign exchange resources are not sufficient to meet at the same time the growing burden of debt payments, and the inescapable requirements of imports for essential consumption and for keeping

our industries and exports going. That is why, in the absence of debt relief on an urgent basis, there is a serious danger of our not being able to continue with liberal import policies on which we have embarked.

In course of time, as our exports grow and get diversified and some of the exceptional requirements of imports come down, this problem of debt relief or the cash gap, as we sometimes call it, will become more manageable. We hope it would also become more manageable by improvements in terms of aid, including extension of eligibility for aid-finance for the goods and services we buy from aid-giving countries. But for the immediate period ahead, I cannot emphasise too strongly that, in our circumstances, there is no adequate substitute for debt relief unless it be assistance in pure cash form, that is, without any obligation on our part to purchase anything. That is why it is our hope and expectation that at this meeting, decisions will be taken or announced about the intention of the countries represented here to provide relief to us in respect of debt payments, both principal and interest, that have fallen due since the 1st of April and will fall due hereafter. Our assessment of the cash gap for 1967-68 is of the order of \$ 400 million. The best way of covering this gap is debt relief. That is one reason why we have proposed a standstill in respect of all the debt payments due in the current year while discussions on the debt problem for the Fourth Plan period as a whole are carried further. Whether you attribute the cash gap to food import requirements in particular or to the general balance of payments position, is a matter essentially of presentational convenience.

Perhaps one more point about the urgency of this question can be added. Normally, the period from April to September is seasonably difficult for our balance of payments. This year, we expect these difficulties to be all the greater because of the agricultural situation and the somewhat larger amounts of payments against free foreign exchange licences issued since liberalisation. From the point of view of our needs, therefore, debt relief in respect of payments already falling due is vitally important.

Greater flexibility in the utilisation of non-project assistance would, to some extent, reduce the magnitude of the cash gap. For example, if non-project aid is admissible for importing all the required commodities from the aid-giving countries and if non-project aid could be similarly used for covering import authorisations made from the beginning of the fiscal year, a part of the burden on our free foreign exchange resources will be reduced. I would, however, underline that in any event some improvement in regard to the usability of non-project aid is necessary if it is to serve its essential purpose of sustaining liberalisation of imports and the progress of the Indian economy. We, on our part, are trying to shift as much of our imports as possible to aid financing and hope that there will be diminution in the restrictions on the use of non-project aid that will assist this effort. In particular, I would urge that all non-project aid for the current year should finance orders placed from the beginning of April 1967, with maximum possible coverage of the items that can be financed with aid. Even so, the cash gap will be reduced only slightly because of commitments already made, unless similar improvements are made retrospectively on the use of last year's non-project assistance which has been subject to many limitations.

This brings me to the requirement of non-project assistance for 1967-68. I should take this opportunity of expressing our gratitude to the countries and institutions assembled here for the non-project assistance of \$ 900 million for the year 1966-67. We hope that non-project assistance for the next year will be indicated at this meeting itself so that our import programme for 1967-68 could be announced without any delay. In a matter like liberalisation, credibility is most important. Any delay in issuing licences against demand as it materialises would cast doubts on our ability to sustain a policy which we consider of fundamental importance. I earnestly hope that at the conclusion of this meeting, we will have the assurance which would enable us to go ahead with import licensing at least on the same basis as we have done during the current year.

As for the quantum of non-project assistance for 1967-68, our estimate as presented in the Bank Report is that we need a total commitment of \$ 1.3 billion of which some \$ 400 million has to be in cash form. The Bank's estimate is that a total commitment of non-project assistance or approximately \$1.1 billion may well suffice provided it is in a form which can cover the cash gap of \$ 400 million. Both the estimates are inclusive of our food requirements. We have assumed that licences for maintenance imports during 1967-68 would be of the same order as in 1966-67, i.e. \$ 2.4 billion, whereas the Bank's estimate is that a somewhat smaller volume of licences may well suffice. In a matter like this, some margin of uncertainty is bound to be there, and the actual requirements may fall anywhere within the range of 2.2 to 2.4 billion dollars. I would only urge that at this crucial stage in Indian economic development, it is important to build up and sustain confidence in the new policies that we have initiated so that if one has to err on one side or the other, it would be prudent to err on the side of a somewhat liberal provision for non-project imports.

In addition to non-project assistance, it is also important that project assistance is committed to enable us to start work on these projects where preparatory work has already been done and where any further setback in actually starting construction would have serious repercussions on the growth prospects of the Indian economy. Some project assistance is also needed for continuing work on programmes financed hitherto on a partial funding basis. I hope that the countries represented here would be able to indicate at least in broad terms the amount of project assistance that they would be willing to commit subject, of course, to mutual agreement on suitable projects. We also hope that official aid would be supplemented by the inflow of foreign private capital for which there are many specific investment opportunities in India notably in the field of fertiliser production. We on our part intend to maintain a hospitable climate for private investment. In this connection, I might mention that the Government of India have recently decided that the concessions available to fertiliser projects licensed up to 31st March 1967 should be extended.

#### Coming to the Tasks Ahead

I should now turn to some of the problems which confront us today and where the responsibility for taking appropriate action would be that of the Indian people and the Indian Government. We attach the highest priority to the continued vigorous implementation of the new agricultural and family planning programmes. I might mention that even in the interim Budget, we have provided fully for the requirements of agriculture and of family planning. Foreign exchange has also been already allotted for the current year's fertiliser import requirements.

Our immediate task at the moment however is to frame the Budget for the current fiscal year. Most of you are undoubtedly aware that the interim budget presented a fortnight ago does not represent our final intentions in this regard and that we propose to introduce a proper Budget some time in May. Our primary concern in the Budget will be that of resuming the momentum of growth without adding further to inflationary pressures. It is in this context that the result of this particular consortium meeting has a great bearing.

Undoubtedly, if investment is to be stepped up even modestly above the low level of 1966-67, we shall have to make an effort to mobilise additional internal resources. This is first of all a question of exploring economies in less essential or avoidable expenditure. We are exploring all possible opportunities in this regard, including reduction in subsidies and economies in non-plan expenditure. We continue to be committed to utmost economy in defence expenditure and to this end, to exploring all possible avenues of reduction in the threat to our security. We recognise that cooperation in economic matters is often the best way - and a mutually beneficial way - of reducing tension between nations.

At a time when prices have been rising rapidly for some time and when real production, in per capita terms, has perhaps declined, at least over the past two years taken together, it is not at all an easy task to mobilise more resources by way of additional taxation or otherwise. This is all the more so since over the past several years, despite the setback in growth rates, there has been no pause or diminution in our drive to mobilise greater resources internally. Nevertheless, I can assure you that the new Government is determined to explore all possible avenues of mobilising additional resources in a non-inflationary manner.

We intend also to review our fiscal policy as well as controls to see if greater flexibility and greater reliance on decentralised decisions could not be introduced over a wider area than what has already been done.

Perhaps the most difficult area which calls for a continuing review relates to exports. We are fully aware of the urgent need to increase exports. We are confident that in time the measures already taken will stimulate investments in industries and activities where we have an enduring comparative advantage and thereby assist the expansion of exports. In these cases, where export duties have been levied in order to prevent an avoidable and unrewarding deterioration in terms of trade, we fully appreciate that these duties must be assessed from time to time in the light of changing circumstances without regard to revenue circumstances. In respect of the small area of newer manufacturers where export subsidies are being given, we will continue to strive to avoid distortions between sectors without disregarding new factors which may have a general bearing on the export prospects in this field to which we look for substantial expansion of exports in future. Along with additional incentives, the Government is fully aware of the need to strengthen institutional support for marketing and distribution and generally to promote an aggressive attitude towards export promotion which fully reflects the urgency that exists in this matter.

I should not, in this connection, fail to mention the fact that whereas many discussions on international trade proceed in terms of giving the maximum edge to competition and comparative advantage, this is a recipe which works only when it is adopted by most if not all trading partners. You will perhaps not misunderstand me if I say that there are many commodities in international trade which are very significant in our export picture where freedom of trade under competitive conditions, to say the least, is conspicuous. by its absence. In such cases, we are often faced with the prospect of dwindling export earnings unless we take such action as we ourselves can take at our own expense. It would, of course, be much better if the brunt of the burden of adjustment was borne by more capable shoulders. And it is our hope that that would be the case sooner rather than later.

In regard to exports, encouragement for the creation of additional capacity in appropriate directions is as important as exploiting present opportunities to the full in order to make a lasting beneficial impact on our export potential. In this connection, I would like to suggest that a part of the project assistance would be available for our export industries even if their requirements in individual cases may be small and miscellaneous. I would, of course, hope that it would be possible for us to import capital goods at least for modernisation and rationalisation of our export industries from the cheapest possible source. But whatever the source, I hope that it would be possible to provide the needs of our export industries not only for raw materials and components but also for capital goods to modernise and expand capacity.

I would like now to refer to the Fourth Five-Year Plan, an outline of which has been published. The documents placed before you by the World Bank give the assessment of the Bank to this Draft outline of the Fourth Plan. We are still in the process of giving a final shape to this Plan. As it stands, the plan is based on a fairly consistent set of targets; it would be appreciated, however, that in our circumstances we have unavoidably lost some time and it is possible that not all the targets will be achieved as scheduled. But whichever way the Plan is reviewed and adjusted keeping in view the recent trends and factors in the economy, the tasks which we have to accomplish in the next twelve months should be fairly clear. It is for this reason that I have concentrated my attention on the current year in terms of what India needs to do and what she requires by way of external support.

There are many other things on which perhaps I should say something at least in brief. But I have already taken a great deal of your time. My purpose this morning has been mainly to supplement what has already been said in the Bank documents. Perhaps there would be an occasion when my colleagues and I would be able to respond to any specific question that you may have to ask. For my part, I would only repeat that I consider it a privilege to be here. If there is anything that I can add to what I have said in order to assist the Bank in constructing that bridge of understanding to which I referred at the outset, I shall consider it only my pleasant duty to do so.

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INDIA CONSORTIUM

STATEMENT BY Mr. A.L. DIAS OF THE INDIA DELEGATION  
AT MORNING SESSION, TUESDAY, APRIL 4, 1967

The situation which has confronted the country in 1967 is extraordinary. We were afflicted by an unprecedented drought in 1965-66 but were able to meet the situation in that year as a result not only of the generous aid received from friendly countries but our own stupendous efforts in organising crash short-term production programmes, in enlarging and streamlining the system of public distribution of food grains and in stepping up port handling capacity from half a million to nearly 1.2 million tonnes per month and moving this quantity through our inland transportation system to thousands of distribution points all over the country. A major catastrophe was thereby averted in that year. Meanwhile, we had built an agricultural production potential of about 95 million tonnes which we were confident of achieving in 1966-67. In 1964-65 when the season was good, we reached a production of 89 million tonnes. This record production was attained before the exciting breakthrough on the agricultural front which has taken place in the last two years and about which my colleague, Mr. Sivaraman, will speak later.

The 1966-67 agricultural season, despite a late start of the monsoon, gave every hope that the new strategy of agricultural production would yield a result varying between 90 to 95 million tonnes. Nature, however, dealt us an unkind blow for the second year in succession. Except in the South, where a late but adequate north-east monsoon came to the rescue, the rest of the country was affected in varying degrees. Some States like Rajasthan, Gujarat, the normally surplus State of Madhya Pradesh, West Bengal and Orissa were affected for the second year in succession. Other States like Bihar, which has among the highest density of population in the world, and East and Central U.P. experienced an intensity of drought unknown in the century. In these two States alone, very extensive areas have not been able to raise any crop whatsoever and the short-fall in production is about 5 million tonnes. The population affected is 60 million. Our country has had periodic droughts but none in this century so extensive and intense as those in 1965-66 and 1966-67. Moreover, and this is important, there may not have been more than one or two occasions during the last 100 years when the people have had to face two severe droughts in quick succession.

The preliminary forecast of production for 1966-67 is that it may be as low as 76 million tonnes. The difference between last year and this year is that there is hardly any carryover and imports have been inadequate and uncertain. During the first quarter of this year, we have practically been on a ship to mouth and wagon to mouth basis and the monthly allocations to the States have been less than their minimal needs necessitating a cut in the quantum of the cereal ration to a little below 9 oz. per adult per day in the statutorily rationed areas of Calcutta and Bombay and to a bare 8 oz. even in the worst affected areas of Bihar. Elsewhere, the quantum has varied with

availability and has ranged from 4 to 8 oz. per adult per day. A major breakdown has been averted so far because of some availability of grain in the post-harvest period and the effective functioning of the public distribution system through which the distribution of grain, imported or internally procured takes place. The absence of the winter rains affected the wheat crop in the major producing States of Punjab and U.P. and the recent unseasonal rains, when the crop was about to be harvested may have caused some further damage. Distress, therefore, will deepen in the lean period ahead, that is from the months of April to October.

In estimating our requirements for the current year, different modes of assessment are possible, but judged by any indicators, the needs for 1967 will be more than 1966. Though the production is marginally better, it is still 13 million tonnes less than the production of 1964-65. Moreover, and this is important, the carry-over stocks with the trade or producers are at an all-time low. This is clearly reflected in the price levels. In respect of rice, the average price index which was 135 in 1965 and 165 in 1966 is now 182. The index for wheat has increased from 140 in 1965 and 146 in 1966 to 191 in the first quarter of this year. The index for millets has moved from 194 in 1966 to 214 in the first quarter of 1967.

For the majority of the population in India food grains constitute the only food - there being hardly any addition to diet in the form of proteins or other foods. In 1965-66 production was 72 million tonnes and imports were above 11 million tonnes making a total of 83 million tonnes. The carryover of stocks (privately held, not Government stocks) from 1964-65 may be assumed to be of the order of 5 million tonnes. Taking account of this and allowing for seed, food and wastage, the total availability of food grains for consumption in 1965-66 was probably of the order of 79 million tonnes. For a 1966 population of 499 million this would permit a per capita availability of about 435 gms. (15.3 oz.) per day. As against this in 1967 out of a production of 76 million tonnes something under 67 million tonnes would be available for consumption after allowing for seed, feed and wastage. The carryover stocks into 1967 are estimated to be negligible. Consequently in order to make up a per capita availability of at least to last year's low level viz., about 436 gms. per day for an estimated population of 510 millions, 14 million tonnes of imports would be necessary.

In the period 1961-63, when the food situation was relatively free from strain, it is estimated that per capita availability was about 455 gms. (16 oz.) per day. To sustain this level of availability, imports of the order of 18 million tonnes would be necessary in 1967. Imports of this order are clearly impracticable. The Government of India are therefore proceeding on the assumption that, taking the population as a whole, there is no escape from a further restraint on consumption by reducing the average consumption of food grains by about 1 oz. per day (say 30 gms.) from the level of 1961-63 i.e. to about 425 gms. (15 oz.) per head per day. This will be lower than the level of 1966. Even on the basis of the reduced consumption level, the requirements for 1967 would be about 11 million tonnes. Although this assumes a per capita availability of 425 gms. (15 oz.) per day, in the statutorily rationed areas actual consumption will amount to substantially less as it is clearly not possible to achieve a comparable cut in the consumption of food grains by producers of food. Steps have already been taken therefore to curtail consumption in the statutorily rationed areas where the rations provided are sufficient for no more than 250 gms. (8.75 oz.) of cereals per person per day.



Arrangements have been made for the import of 4.3 million tonnes during the first half of 1967. With total minimum requirements of imports of the order of about 11 million tonnes as indicated above the balance still to be arranged amounts to more than 6 million tonnes. If the supplies additionally available are no more than 6 million tonnes, total availability would be increased by 10.3 million tonnes, which is the absolute minimum of our import requirements.

A natural question would be what we are doing to meet the situation ! Over the past 15 months the Administration, Central and State, has tackled a most difficult job - procuring, handling, moving and distributing nearly 17 million tonnes of grain of which nearly 4 million were locally procured and the rest obtained by imports. Statutory rationing has covered a population of nearly 30 million and informal rationing 200 million. In 1967 alone, 14 million tonnes of foodgrains was provided, channelled through a network of 140,000 ration and fair price shops at reasonable prices. Over 10 to 12 million children, women and nursing mothers, the old and infirm have been fed under the emergency food programme, in which international organisations like the UNICEF, CARE, and Red Cross have played a big part assisted by a large number of local organisations. In 1966, more than 3 million people were provided an income through the scarcity relief works, many of which have had to build productive assets. The total number of persons on scarcity relief works in Bihar and U.P. in March 1967 is about 1.8 million. During the lean months ahead it is expected that this number will increase to 2.5 to 3 millions. In Bihar, the number of persons receiving gratuitous relief and a cash dole is over 350,000. 140 free kitchens are operating in this State. The feeding programme for children and expectant and nursing mothers organised under the UNICEF and the Red Cross now cater in Bihar to about 1.5 million persons and is planned to go on to 3.5 million in a month or so and 6 million persons a little later. Despite the staggering blow of a second successive year of drought, our peasants have gone about agricultural operations with zest and enthusiasm. For instance, in Bihar, despite the almost complete failure of the paddy crop, cultivators as a result of the absence of rains in the latter part of November took a risk and brought large areas of traditionally paddy growing land under wheat. Against a normal area of 1.6 million acres of wheat, the area during the current rabi season is 2.8 million acres. Unfortunately, the absence of winter rains has blighted the prospects of this crop. The production of potatoes and sweet potatoes has also, in this State, been increased from the normal 7 lakh tonnes to 1.4 million tonnes and this has helped, to some extent, in meeting the acute shortage of foodgrains.

Besides the import of foodgrains, measures have also been taken during the past 15 months to intensify procurement within the country so as to ensure equitable distribution at reasonable prices of a substantial portion of the marketable surplus. Prior to 1964-65, procurement was undertaken on a very limited scale only in surplus States, but it has now been extended to surplus pockets in deficit States as well as surplus producers in deficit States. Procurement has also been undertaken not only with regard to rice and wheat but also of coarse grains. The procurement system varies from State to State. In 1965-66, despite a shortfall in production of 17 million tonnes over the previous year, procurement was done to the extent of nearly 4 million tonnes. This represents a significant percentage of the marketable surplus. In the

case of rice the percentage increased from 22% in 1964 to 34% in 1965-66. For the reasons already explained, procurement is more difficult this year than the last. Already about 1.4 million tonnes has been procured and all the States are now making the maximum effort to step up procurement. It should be noted, however, that procurement does not add to the total availability of foodgrains. To the extent that it is intensified, marketable surpluses get reduced and the obligation on the part of Government to meet requirements of non-producers and partial producers get enlarged. Procurement operations have, therefore, to be undertaken in keeping with the State's capacity to meet commitments.

One step to facilitate procurement has been restriction on the movement of foodgrains from one State to another. Our experience over the past quarter of a century has categorically proved that in conditions of shortage, free trade in foodgrains inevitably results in acute consumer distress to the vulnerable sections of the population. The reason is simple. In the absence of inter-state restrictions the trade would tend to move the surplus from one State to points of highest purchasing power in another and not to those areas of greatest need. The result is that prices get pushed up and vulnerable groups suffer. The transfer, therefore, of foodgrains from surplus to deficit States in 1965-66 brought about a more equitable distribution. The coefficient of variation of inter-State per capita availability declined significantly from 17.7 in 1964 to 16.4 in 1965 and to about 12 in 1966. In view of the wide variation in the traditional consumption patterns of foodgrains from State to State, distribution of foodgrains on a uniform per capita basis is not feasible. Except under a system of rigid regimentation of the entire food economy it is needless to add that this has limitations and hazards.

The problem, therefore, of transfer from surplus States must be seen in its proper perspective. Even in normal times the only surplus States are Punjab, Madras, Andhra Pradesh, Madhya Pradesh and Orissa. In the last two years, Orissa and Madhya Pradesh were both drought-affected. In 1965-66 the crops were also below normal in Andhra Pradesh and Madras. Even so, Madras exported rice to meet the needs of Kerala to such an extent that there was a breakdown in its own distribution system owing to want of stocks in December 1966 and January 1967. Orissa, despite the drought, made available 75,000 tonnes. In Punjab almost the entire marketable surplus of about 275,000 tonnes of rice was procured. In the case of wheat, procurement was limited as the zone was enlarged and Punjab was linked with the deficit State of Uttar Pradesh. In 1965-66 the maximum extra procurement that may have been possible was in Andhra Pradesh, where perhaps an additional quantity of 50 to 70 thousand tonnes of rice could have been procured. Apart from the fact that this small quantity would not have made any difference to the general supply position, it would have caused internal problems in the State itself consequential to a sharp rise in prices. During the current year, procurement in surplus States to meet the needs of deficit States continues. Orissa may be expected to give from 75 to 100 thousand tonnes and in Andhra Pradesh there is a reasonable expectation that anything between 600 to 700 thousand tonnes will be procured. Apart from the surplus States, there is procurement in the deficit States as well to meet their own needs. Food control envisaged under the zonal system is not

a policy to which Government wedded for all time. If there is a succession of two good seasons and sufficient buffer stocks are built up, the occasion would arise for freeing the food economy from some of the existing restrictions.

We are conscious that with dwindling world surpluses of food grains the problem of meeting India's needs is more difficult than in previous years. It is because of the awareness of this difficulty that we have scaled down our import requirements to a level which means a tightening of the belt to a greater extent than took place in 1966. Drought has brought untold hardship to millions of my countrymen but it also has a brightest side. In the midst of distress, an exciting agricultural revolution has taken place - almost unsung and unnoticed by many. My colleague will tell you more of the significance of the break-through that has taken place. At all the echelons of the Government and at all the levels of the people, there is a realisation that the top-most priority must be given to agriculture so as to enable us to reach self-sufficiency in 1971. We are now confident, as we have never been before, that this goal will be reached and that imports given an average season will take place at a diminishing scale from the next year. It is necessary to mention only the significant achievements in many States under the stress of emergency during the last two years. In one of our largest and heavily deficit States - namely Maharashtra - to which we supplied nearly 2.4 million tonnes of grain in 1966, the Chief Minister organised an emergency agricultural programme, the beneficial result of which is being realised in the current year, when it may not be necessary to supply that State with more than about 1.2 million tonnes. Moreover, the Chief Minister has publicly announced, and this is not a boastful claim, that the State will reach self-sufficiency in 1968. This is a stupendous achievement which, we are confident, will be repeated in other States as well. The next six months, however, are crucial even to attain our objective on the agricultural and economic fronts. It would be a pity when we are so near the shore if a minimum quantity of foodgrains to avert a collapse of the public distribution system did not materialise.

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JUN 03 2021

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IND 67-18

FROM: The Secretary

WBG ARCHIVES

March 30, 1967

MEETING ON INDIA'S FOREIGN EXCHANGE SITUATION

The four attached tables relating to Indian debt and servicing obligations were prepared by Bank Staff for Consortium use in connection with item 3(b) of the Agenda distributed under IND 67-15 on March 24, 1967. These tables present debt and service data as of September 30, 1966, the most recent period for which information has been received and processed, and up-date the corresponding data provided in the previously-distributed documents listed under Agenda item 3(b). Additional copies will be available to delegations attending the forthcoming Consortium Meeting in Paris on April 4-6, 1967.

Distribution:

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Executive Vice President, IFC  
Executive Director for India  
Department Heads (Other)  
Resident Representative, New Delhi  
European Office  
Development Assistance Committee,  
OECD

TABLE 1

INDIA: ESTIMATED EXTERNAL DEBT OUTSTANDING, BY CREDITORS, AS OF  
SEPTEMBER 30, 1966 /a

(In millions of U.S. dollars)

Creditor	Official assistance	Supplier and other credits /b	Total	Percent of total
TOTAL	<u>6,739</u> /c	<u>731</u> /d	<u>7,470</u>	<u>100.0</u>
Consortium	<u>5,495</u>	<u>656</u>	<u>6,151</u>	<u>82.3</u>
Austria	21	1	22	0.3
Belgium	-	23	23	0.3
Canada	77	-	77	1.0
France	-	131	131	1.8
Germany	569	134	703	9.4
Italy	-	145	145	1.9
Japan	307	128	435	5.8
Netherlands	31	10	41	0.5
United Kingdom	721	51 /e	772	10.3
United States	2,225	33 /f	2,258	30.2
Bank	720	-	720	9.6
IDA	825	-	825	11.0
Non-Consortium (of which USSR)	<u>1,243</u> (901)	<u>76</u> /g (-)	<u>1,319</u> (901)	<u>17.6</u> (12.1)

Note: Details may not add to totals due to rounding.

/a Supplier credits are in most cases reported as of January 1, 1966.

/b Excludes a relatively small amount of unguaranteed supplier credits and supplier credits extended outside the consortium for which data are not available.

/c Includes approximately \$2,013 million undisbursed.

/d Includes approximately \$ 375 million undisbursed. Also includes both principal and interest liabilities totaling about \$457 million where these servicing components cannot be separately identified.

/e Includes \$5 million publicly-issued bonds.

/f Includes \$28 million private bank credits.

/g Includes \$32 million Swiss bank credits.

Source: Staff estimates based on External Debt Reports submitted to Bank by India supplemented by: (a) GOI annual Reports on External Assistance, (b) Exchange Plan Data and (c) "Quarterly Reports on the Utilization of Aid."

Table 2

INDIA: ESTIMATED ANNUAL SERVICE ON DEBTS OUTSTANDING AS OF  
SEPTEMBER 30, 1966

(In millions of U.S. dollars)

Year	Service on official aid		Total service on supplier & other credits	Total debt service
	Principal repayments	Interest payments		
Total 1966/67 - 1970/71	<u>1,312</u>	<u>741</u>	<u>441</u>	<u>2,494</u>
1966/67	211	136	104	451
1967/68	231	150	85	466
1968/69	270	156	84	510
1969/70	298	153	83	534
1970/71	302	145	85	532
Total 1971/72 - 1975/76	<u>1,581</u>	<u>600</u>	<u>312</u>	<u>2,493</u>
1971/72	307	142	81	530
1972/73	314	132	69	515
1973/74	324	118	63	505
1974/75	318	108	55	481
1975/76	320	100	44	464
Total 1976/77 - 1980/81	<u>1,259</u>	<u>365</u>	<u>73</u>	<u>1,697</u>
1976/77	302	92	33	427
1977/78	295	83	18	396
1978/79	251	72	12	335
1979/80	221	63	7	291
1980-81	189	55	2	246
Total 1981/82 - 1985/86	<u>707</u>	<u>204</u>	<u>3</u>	<u>914</u>
1981/82	166	49	*	215
1982/83	147	45	*	192
1983/84	137	40	2	179
1984/85	130	37	1	168
1985/86	128	33	-	161

Note: Details may not add to totals because of rounding.

\* Less than \$500,000.

Source: Staff estimates based on same information as Table 1.

Table 3

INDIA: PROJECTED TOTAL SERVICE (INTEREST AND PRINCIPAL) ON DEBTS OUT-  
STANDING AS OF SEPTEMBER 30, 1966, BY FIVE-YEAR PERIODS

(In millions of U.S. dollars)

Creditor	1966/67 to 1970/71	1971/72 to 1975/76	1976/77 to 1980/81	1981/82 to 1985/86	1986/87 to 1990/91	Total 1966/67 to 1990/91
TOTAL	<u>2,496</u>	<u>2,493</u>	<u>1,697</u>	<u>914</u>	<u>679</u>	<u>8,279</u>
Consortium	<u>1,926</u>	<u>1,859</u>	<u>1,380</u>	<u>885</u>	<u>679</u>	<u>6,729</u>
Austria	10	13	7	*	-	30
Belgium	11	12	3	-	-	26
Canada	35	35	26	11	*	108
France	75	55	14	-	-	144
Germany	341	350	205	72	25	992
Italy	68	88	31	-	-	181
Japan	262	210	86	8	-	566
Netherlands	12	19	13	11	8	63
United Kingdom	306	309	261	193	89	1,158
United States	358	388	456	326	375	2,004
Bank	422	340	207	66	35	1,070
IDA	27	45	70	99	146	386
Non-Consortium	<u>569</u>	<u>634</u>	<u>317</u>	<u>29</u>	<u>-</u>	<u>1,559</u>

Note: Details may not add to totals because of rounding.

\* Less than \$500,000.

Source: Same as Table 1.

Table 4

INDIA - ESTIMATED SERVICE PAYMENTS DUE DURING 1967/68 ON EXTERNAL DEBT  
OUTSTANDING AS OF SEPTEMBER 30, 1966

(In thousands of U.S. dollars)

Country	Official assistance		Supplier and other credits/1	Total
	Principal	Interest		
TOTAL	<u>231,343</u>	<u>149,980</u>	<u>85,525</u>	<u>466,848</u>
Consortium	<u>157,517</u>	<u>132,397</u>	<u>80,865</u>	<u>370,779</u>
Austria	885	673	87	1,645
Belgium	-	-	2,220	2,220
Canada	2,070	2,212	-	4,282
France	-	-	14,713	14,713
Germany	19,853	24,803	14,147	58,803
Italy	-	-	11,447	11,447
Japan	15,929	12,641	19,804	48,374
Netherlands	-	1,262	903	2,165
United Kingdom	30,668	23,402	7,670	61,740
United States	33,213	29,282	9,874	72,369
IBRD	54,899	35,047	-	87,946
IDA	-	5,075	-	5,075
Non-Consortium	<u>73,826</u>	<u>17,584</u>	<u>4,660</u>	<u>96,070</u>
Czechoslovakia	3,860	970	-	4,830
Denmark	-	22	-	22
Hungary	-	167	-	167
Kuwait	6,749	1,603	-	8,352
Poland	3,546	685	-	4,231
Sweden	-	31	80	111
Switzerland	-	274	4,580	4,854
Yugoslavia	1,260	602	-	1,862
U.S.S.R.	58,411	13,230	-	71,641

Note: Details may not add to totals because of rounding.

/1 Service payments for supplier credits are based on data as of January 1, 1966.  
Source: Staff estimates based on same information as Table 1.



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AUG 29 2013

WBG ARCHIVES

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IND 67-17

March 29, 1967

FROM: The Secretary

INDIA - DEBT RELIEF AND THE TERMS OF AID

Attached is the Chairman's Report of Proceedings of the India Consortium Working Party Meeting which was held in Washington on March 8 and 9, 1967. Additional copies will be available to delegations attending the forthcoming Consortium Meeting in Paris on April 4-6, 1967.

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WORKING PARTY ON DEBT RELIEF AND THE TERMS OF AID

REPORT OF PROCEEDINGS

Prepared by the Chairman

**DECLASSIFIED**

**AUG 29 2013**

**WBG ARCHIVES**

1. A working party of the consortium of countries and institutions interested in development assistance to India met in Washington on March 8 and 9, 1967, under the chairmanship of the World Bank. The meeting was attended by representatives of the governments of Austria, Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, the United Kingdom and the United States. The International Monetary Fund and the OECD (DAC) sent observers. (A revised list of delegates is attached as Annex I.)
2. The purpose of the meeting was to consider Indian debt relief and the terms of aid. A Bank staff paper entitled "India: Debt Relief and the Terms of Aid" had been circulated to consortium members on January 31, 1967 (IND 67-1). Government of India comments on that paper had been circulated on March 2, 1967 (IND 67-5). At the meeting revised Tables 1 and 2 of the Bank staff paper were distributed (IND 67-7) along with a second staff study entitled "India: Illustrative Debt Tables and Their Consequences" (IND 67-8).
3. Copies of the Chairman's opening statement (IND 67-9) were also circulated during the meeting.

Background facts

4. On the basis of the information which the Bank had put before the consortium, the working party took note that the main facts of the situation were as follows:
  - (a) The problem of Indian debt was a long-term problem. It is not a matter of dealing with a hump in debt service during the two or three years immediately ahead as had been the case of a number of other countries where a lower level of debt service after a few years was reasonably clearly foreseeable. In the Indian case, if there is a hump at all, its duration is of 10 to 15 years.
  - (b) There is little doubt that if India is to make any significant economic progress, substantial net additions to India's own resources will need to be provided by governmental and multi-lateral assistance for some years to come. The estimated deficit in the next 8 to 10 years may average at least \$1 billion a year (excluding food).
  - (c) As a result of the volume and the terms of aid provided in the past, debt service already is rapidly approaching the point where it equals approximately half of the net aid flow likely to be required and it already exceeds 20 percent of India's export earnings.

- (d) Given the desirability of providing net aid in reasonable amounts to India, it is clear that either (i) gross aid will need to grow not only continuously but also very rapidly or (ii) that the terms of future aid should be softer than in the past and the service on existing debt should be reduced or at a minimum altered in its time phasing. The difficulty with alternative (i) is that prospects are not bright for gross aid in the growing amounts which would be required and, even if relief were provided by this means, aid would constitute an unmanageably large part of India's foreign exchange resources and debt service an unmanageably large part of its foreign exchange payments.

#### Approaches to debt relief

5. In the light of the considerations set forth above there was a broad consensus that debt relief - whether by rescheduling, refinancing or equivalent action - is inescapable. There was also a broad consensus that such action should be taken multilaterally on the basis of an agreed approach. (In this connection it was understood that the Bank would keep the IMF informed of developments in accordance with normal procedures between the two institutions.) It was also suggested by the representatives of Canada and the United States that one of the considerations to be taken into account in determining the basis and extent of a country's participation in a debt relief exercise would be the need to make an approach toward harmonization in the softening of past terms.
6. Several members indicated that existing legislation or regulations precluded - at least for some types of debt - the rescheduling/refinancing arrangements and/or the generous terms for all aid which the Bank was now recommending. However, others pointed out that they had already taken steps to improve their terms and to provide the legislative foundation for rescheduling or refinancing; and several representatives noted that they could not be expected to work out further improvements in terms unless there were comparable improvements from all other aid givers. The majority of the group, while recognizing the many problems involved in obtaining new legislation in order to provide debt relief and better terms of aid, believed that these problems had to be faced, and it was therefore felt that all members would look at the Indian case not solely to decide what is possible under existing rules but also to consider what new regulations, or if need be, new legislation would be necessary and appropriate.
7. Initial expressions of views in the working party indicated differences on the type of debt to be covered in debt relief, on the period of debt service for which relief was to be provided, on the terms of debt relief, on whether relief should affect interest as well as principal payments due, and on the question of the validity and utility of any distinction between principal and interest. Some members, namely Canada, the United Kingdom and the United States favored an approach in which the size of necessary total debt relief would be determined by the consortium and

then apportioned among members on an equitable basis. <sup>1/</sup> Given agreement among the members on the amount of debt service each would relieve and on the general terms of relief, each member could then decide for itself how to handle the various types of service due to it, which classes of debt to handle in which ways, interest versus principal, etc.

8. Another group of members, including Austria, France, Germany, Italy and Japan suggested a different approach which would involve different and specific treatment for different classes of debt. These countries all proposed the exclusion of interest from debt revision. As for principal they advocated different treatment for official credits and for supplier credits. Germany was most specific in its proposals and suggested inter alia that contracts governing official aid should be rearranged with regard to payments due after April 1, 1967, in a way which would reduce interest rates to not more than three percent per annum and which would provide a grace period of not less than seven years and repayment of principal over a subsequent 18-year period; as far as suppliers credits were concerned, it might be possible to arrange postponement or other concessions on maturities falling due during the next Indian fiscal year.

9. There was a broad consensus that terms such as those proposed by Germany might be an acceptable basis for revising official debt, although Japan stated its objection in this respect. Moreover, there was considerable disagreement on what to do about payments due on obligations other than official debt, such as suppliers credits. Some members felt that guaranteed suppliers credits should be treated in the same way as official aid, although other delegations suggested that only those offered within the consortium framework should be so treated. However, some participants were of the opinion that all suppliers credits should be excluded from any rescheduling of the Indian debt. Moreover, certain administrative difficulties were recognized, which might stand in the way of revising the terms of specific supplier credit contracts; in such instances refinancing or funding on generous terms through governmental aid should be considered. Concessions on maturities falling due during the next Indian fiscal year might be another feasible way of dealing with suppliers credits. Particularly in the case of suppliers credits, because of the "most favored nation" clause in many frame agreements, some members felt that special action for India might create precedents that would have wide repercussions for aid to other countries; however, several members said that so long as action on Indian debt was taken within the framework of the consortium, the question of precedents need not arise.

#### Terms of new aid

10. With respect to the terms of new aid several members of the working party would agree that terms of 3 percent interest and repayment over 25 years including 7 years of grace would be the minimum appropriate. All

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<sup>1/</sup> At the request of the United States representative a Canadian Government memorandum was distributed to all members of the consortium on March 14, 1967 (IND 67-13).

members agreed that minimum terms of this type would be desirable as a step toward dealing with the Indian requirement; however, some delegations (notably Austria, Belgium, Italy and Japan) expressed reservations about the possibility of adopting such terms. The Chairman urged that both debt relief and new aid be on as generous terms as possible and, referring to the illustrative tables in IND 67-8, noted that the Indian situation required terms which would include grace periods of 10 to 15 years during which only very nominal interest or amortization payments would be possible. At least one member objected that such generous terms would be unreasonable for rescheduling payments due on aid which had been contracted originally on IDA-type terms. Others noted that, while the Indian situation might require terms of this type, the consortium had accepted pledges on hard terms in the past and it seemed most unlikely that governments could now agree to so radical a change in terms. Nevertheless most members felt that governments should be urged to take whatever steps they can to provide future aid to India on concessional terms.

#### Payments due in 1967/68

11. Several members observed that, although they recognized the long-term nature of the problem, their governments could not at this time enter into firm or binding commitments to provide relief from debt service payments falling due more than a year or so in future. Most members felt that immediate rescheduling or refunding of all existing debt was out of the question; however, many members of the working party stated that their governments might be willing to consider suitable arrangements regarding at least a portion of the service payments falling due in the coming Indian fiscal year (April 1, 1967 to March 31, 1968). The Chairman stated that during the April meeting of the consortium, particularly in view of India's request for a standstill agreement, he would invite comments and views on the degree, technique and terms of debt relief which members were prepared to contemplate for payments falling due from India in 1967/68.
12. The Chairman stated that it would be helpful to India if all debt service payments due in 1967/68 were rescheduled or refinanced on concessional terms; however, funding from new official aid or postponement of certain maturities might be a more immediately feasible way of dealing with payments due on certain suppliers credits, where rescheduling and refinancing of the original contracts presented insuperable administrative or legal difficulties. The Chairman also recommended that such relief be on terms which take into account the long-term nature of the Indian debt problem. The type of terms that would be appropriate both for debt relief and for new aid were illustrated in the Bank staff paper IND 67-8. Members agreed to study the implications of these tables before working out specific measures to deal with debt service payments due to them.
13. In paragraph 10 of his opening statement the Chairman had also recommended that debt relief should be in a form which would increase the availability to India of free foreign exchange rather than in a form which would provide only tied aid while leaving debt service obligations to be

paid from India's free foreign exchange resources. The working party took note of this recommendation.

The "net aid" concept

14. There was considerable discussion on the implications of the "net aid" concept, which the Chairman mentioned in his opening statement. The Bank was proposing to calculate India's future aid requirements on a net basis - i.e. by indicating the net flow of resources required to sustain India's development effort over and above funds needed for debt service payments. Each member's contribution to the flow of aid would be recorded in terms of its contribution to this net aid requirement. Under such an arrangement each member would be expected to provide sufficient gross aid to cover its own debt service and to contribute its agreed share to the net requirement.

15. Some members objected to the "net aid" proposal on the grounds that it implied commitments regarding the provision of aid far into the future - at least at a level sufficient to cover debt service payments already scheduled for future years. Several members pointed out that they could not accept a long-term commitment to some predetermined share of net aid. It was also pointed out that, to maintain net aid at zero, the gross amount would have to increase annually by the amount of the applicable interest rate - for example, in the case of suppliers credits with an interest rate of six percent, this would mean a continuing increase in the amount of new credits at the same six percent rate. There was also an objection to the net aid concept on the ground that it neglects the differences in actual terms of aid which arise from the different economic capabilities of donor countries. Some members felt that they would not be able to contribute on a "net" basis the same percentage share of consortium aid to India as they had pledged on a "gross" basis during the Third Plan.

16. The meeting also noted that increasing gross aid requirements are of concern on several counts. The estimated annual requirement of net aid during at least the next 8-10 years is substantially higher than past levels of aid, but the Bank has expressed its judgment that such an increase is necessary if India is to implement a development program adequate to achieve self-reliance. Net aid requested from consortium members has also increased because United States foodgrain surpluses are no longer available to cover more than about half the estimated Indian import requirement, which has itself been growing. On top of these larger net aid requirements aid givers are also being asked to provide debt relief. Added together these factors would result in very rapid increases in allocations of gross aid to India, which in turn could cause substantial budgetary difficulties in most member countries. However, it was recognized that generous terms for debt relief and for new aid would help limit increases in the level of gross aid and would also tend to limit the accumulation of new debt.

Flexibility in the use of aid

17. Budgetary difficulties on the donors' side are compounded by administrative difficulties in using such large quantities of aid. Several members spoke of measures taken or shortly to be taken to relax restrictions on the use of aid, and some members felt that further measures were necessary to allow India complete freedom and flexibility in the use of at least that portion of aid which coincides with debt service payments, since such payments must be made on schedule and in free foreign exchange. The United States representative also urged that not only debt relief but all new non-project assistance be provided in a form that allowed India wide flexibility in the use of such aid and ensured as rapid disbursement as possible. The Chairman noted that a number of consortium governments had recently been actively considering ways of making their aid more freely usable and that as a result he expected both the aid-givers and India would soon find the flexibility that was necessary if program aid was to be used efficiently. The Bank was asked to continue to pursue this question of restrictions on the use of non-project aid both with the Government of India and with individual members of the consortium.

Next steps

18. Representatives attending the working party meeting agreed to report these discussions to their governments. At the April meeting in Paris, the Chairman's Report on the working party meeting will be laid before the full consortium and the question of debt relief will have to be discussed further in order to arrive at an agreed approach to multilateral action. Canada asked that the Bank attempt to draw together, perhaps directly from members of the consortium, more up-to-date statistics (or an approximation of such statistics) on the level of India's debt outstanding to each consortium member as of March 31, 1967, its composition and the amount of debt service due in each of the next few years, in order to provide an adequate statistical basis for consideration of a multilateral approach to relief from debt payments due in 1967/68; the Chairman indicated that the Bank would continue to present to the consortium as up-to-date data as the Bank had available, but he pointed out that several previous attempts to obtain complete data from consortium members had fallen short of the objectives outlined by Canada and that the Bank could only present a complete picture if consortium members reported the necessary data promptly. The Bank was also asked to calculate the implications of some of the measures proposed during the working party meeting. The Chairman also stated that at an appropriate time it would be desirable to report to India on the status of consortium discussion of the debt relief proposal and to request that India endeavor to make comparable arrangements with non-consortium creditors and aid-givers.

Asia Department  
March 28, 1967

March 8, 1967

INDIA CONSORTIUM WORKING PARTY  
(March 8/9, 1967)

LIST OF DELEGATES

BANK

Mr. I.P.M. Cargill  
Mr. William Gilmartin  
Mr. B. R. Bell  
Mr. B. B. King  
Mr. G. Votaw  
Mr. Stanley Katz

AUSTRIA

Mr. Othmar Haushofer

BELGIUM

Mr. H. Biron  
Mr. W. Stoop

CANADA

Mr. A. J. Barry  
Mr. A. J. Darling  
Mr. Fergus Chambers

FRANCE

Mr. Rene Larre  
Mr. Jean Malaplate  
Mr. Denis Schrameck

GERMANY

Mr. Erich Elson  
Dr. Karl Heinz Penning  
Miss Helga Steeg

ITALY

Mr. Pietro Ricci  
Mr. Felice Gianani

JAPAN

Mr. Junichiro Kumada  
Mr. Michiya Matsukawa  
Mr. Hiromu Fukada  
Mr. Akihiko Ito (Interpreter)

NETHERLANDS

Mr. J. Grooters



UNITED KINGDOM

Mr. Robert E. Radford  
Mr. J. C. Edwards

UNITED STATES

Mr. Herbert Rees  
Mr. Walter Furst  
Mr. Michael Cross

OBSERVERS

INTERNATIONAL  
MONETARY FUND

Mr. W. John R. Woodley  
Mr. Eric Elmholt  
Mr. M.R.P. Salgado

O.E.C.D.

Mr. Jack I. Stone

IND 67-15/1

FROM: The Secretary

March 29, 1967

INDIA CONSORTIUM

The attached revised note of the Administrative Arrangements for the meeting of the India Consortium to be held in Paris on April 4-6, 1967 replaces the note of the Administrative Arrangements attached to IND 67-15 dated March 24, 1967.

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Executive Director for India  
Department Heads (Other)  
Resident Representative, New Delhi  
European Office  
Development Assistance Committee,  
OECD

## INDIA CONSORTIUM

Tuesday through Thursday, April 4 through 6, 1967

### ADMINISTRATIVE ARRANGEMENTS

#### LOCATION

1. The meeting will be held in Room IX, Unesco, Place de Fontenoy, Paris, 7<sup>e</sup>, France, starting at 10:00 a.m. on Tuesday, April 4.

#### GENERAL INFORMATION

2. While the Group is in session, information about the meeting, documents and other arrangements may be obtained at Unesco from the Bank's staff, and at other times from the Bank's European Office, 4 avenue d'Iena, Paris 16<sup>e</sup> (Telephone: 553 25.10).

#### CHAIRMAN'S RECEPTION

3. A Reception will be given by the Chairman at the Hotel Crillon, Place de la Concorde, on Tuesday, April 4, from 6 to 8 p.m. to which all members of delegations are invited. Invitations will be distributed in Paris.

#### SPECIAL MEETING ROOMS

4. Additional meeting space will be available for use by individual delegations, upon request to the Bank's staff.

#### SIMULTANEOUS INTERPRETATION

5. Simultaneous interpretation - French/English and English/French - will be in operation during the meeting sessions. To assist the interpreters, delegates are requested to hand copies of prepared statements to the Reception Desk in advance of presentation.

#### RESTAURANT FACILITIES

6. Delegates who wish to lunch at the Unesco Restaurant on April 4, 5 and 6 should give their names to the Bank's staff before noon on that day so that reservations may be made.

#### DOCUMENTS

7. A limited number of additional copies of documents previously distributed to members of the Group will be available from the Bank's staff at Unesco.

Secretary's Department  
March 24, 1967

DECLASSIFIED

AUG 29 2013

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CONFIDENTIAL

IND 67-15

March 24, 1967

FROM: The Secretary

MEETING ON INDIA'S FOREIGN EXCHANGE SITUATION

Attached are an Agenda and a note of the Administrative Arrangements for the meeting of the India Consortium to be held in Room IX, Unesco Building, Place de Fontenoy, Paris 7<sup>e</sup>, France, on Tuesday and Wednesday, April 4 and 5, and which may continue through Thursday, April 6, 1967. The meeting on April 4 will convene at 10:00 a.m.

It would be appreciated if the names of delegates were sent to the Secretary of the Bank in Washington as early as possible by those Governments that have not already done so.

Distribution:

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Development Assistance Committee, OECD

MEETING ON INDIA'S FOREIGN EXCHANGE SITUATION

Room IX, Unesco Building, Place de Fontenoy, Paris

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AGENDA

1. OPENING STATEMENT BY CHAIRMAN
2. RECENT ECONOMIC DEVELOPMENTS AND FUTURE PROSPECTS

Statement by representatives of the Government of India, followed by general discussion with particular focus on recent economic policies and performance and the reasonableness of aid requirements as assessed in the Bank's economic report.

Document:

Report on "Indian Economic Policy and the Fourth Five-Year Plan" prepared by the Bank, dated March 7, 1967, (distributed under IND 67-10).

3. (a) FOOD AID REQUIREMENTS FOR 1967

Statement by representatives of the Government of India, followed by general discussion. Before the end of the meeting, because of the urgency of arranging shipments for delivery during the latter half of 1967, members will be expected to indicate the amount and terms of aid they propose to make available for food and/or agricultural production resources in 1967.

Document:

"1967 Food Aid Requirements", Consortium memorandum IND 67-3, dated February 16, 1967.

- (b) DEBT RELIEF

Statement by representatives of the Government of India, followed by general discussion. Before the end of the meeting, members will be expected to indicate what measures of debt relief they have offered or are proposing to offer for payments falling due from India in 1967/68.

Document:

Consortium memoranda on "Debt Relief and the Terms of Aid", IND 67-1 (January 31, 1967); IND 67-5 (March 2, 1967); IND 67-7 (March 7, 1967); IND 67-8 (March 8, 1967); IND 67-9 (March 8, 1967); and IND 67-13 (March 14, 1967).

(c) OTHER NON-PROJECT AID

Statement by representatives of the Government of India, followed by general discussion. It is expected that the meeting will agree on a level of non-project aid which it would be appropriate for the consortium to provide during 1967/68. Some members may also wish to announce at least preliminary pledges, although several members have indicated that they will have to defer pledging until a later meeting.

Document:

Report on "Indian Economic Policy and the Fourth Five-Year Plan", op. cit., pages 56-72.

(d) PROJECT AID COMMITMENTS IN 1967/68

Statement by representatives of the Government of India, followed by general discussion.

4. OTHER BUSINESS (INCLUDING ARRANGEMENTS FOR THE NEXT CONSORTIUM MEETING)
5. CHAIRMAN'S REPORT OF PROCEEDINGS

March 24, 1967  
Asia Department

INDIA CONSORTIUM

Tuesday through Thursday, April 4 through 6, 1967

ADMINISTRATIVE ARRANGEMENTS

LOCATION

1. The meeting will be held in Room IX, Unesco, Place de Fontenoy, Paris, 7<sup>e</sup>, France, starting at 10:00 a.m. on Tuesday, April 4.

GENERAL INFORMATION

2. While the Group is in session, information about the meeting, documents and other arrangements may be obtained at Unesco from the Bank's staff, and at other times from the Bank's European Office, 4 avenue d'Iena, Paris 16<sup>e</sup> (Telephone: 553 25.10).

CHAIRMAN'S LUNCHEON

3. A Reception will be given by the Chairman at the Hotel Crillon, Place de la Concorde, on Tuesday, April 4, from 6 to 8 p.m. to which all members of delegations are invited. Invitations will be distributed in Paris.

SPECIAL MEETING ROOMS

4. Additional meeting space will be available for use by individual delegations, upon request to the Bank's staff.

SIMULTANEOUS INTERPRETATION

5. Simultaneous interpretation - French/English and English/French - will be in operation during the meeting sessions. To assist the interpreters, delegates are requested to hand copies of prepared statements to the Reception Desk in advance of presentation.

RESTAURANT FACILITIES

6. Delegates who wish to lunch at the Unesco Restaurant on April 4, 5 and 6 should give their names to the Bank's staff before noon on that day so that reservations may be made.

DOCUMENTS

7. A limited number of additional copies of documents previously distributed to members of the Group will be available from the Bank's staff at Unesco.

Secretary's Department  
March 24, 1967

March 24, 1967

Mr. Andre de Lattre  
Deputy Governor  
Banque de France  
39 rue Croix-des-Petits-Champs  
Paris 1er, France

Dear Andre:

I am enclosing the finally revised report. The only significant differences between this one and the one you have are in the section entitled "Aid Requirements" and running from paragraph 120 to the end. These are now clearer than they were in the earlier version although they still do not make the point which you suggested when we talked about it Wednesday. I will, however, do this in the oral presentation to the Consortium.

Best regards.

Sincerely,

Bernard R. Bell

Encl. (Report AS-122a: Indian Economic Policy and the  
Fourth Five Year Plan - March 7, 1967 - 4 Vols.)

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IND 66-18

December 27, 1966

FROM: The Secretary

MEETING OF INDIA CONSORTIUM, NOVEMBER 7 & 8, 1966

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

Distribution:

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IND 66-18

December 23, 1966

MEETING OF THE INDIA CONSORTIUM

REPORT OF PROCEEDINGS

Prepared By The Chairman

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

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

Introduction

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

Recent Developments and the Fourth Plan

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

#### External Debt

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### Aid to India in 1966/67

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

United States: Two agreements totaling \$250 million had been signed, the first for \$100 million on May 13, usable to make payments on orders placed after March 1; and the second for \$150 million on July 9, with a corresponding eligibility date of June 1. These loans were available



for a very wide variety of commodities, were repayable in 40 years including 10 years of grace, with interest of 1 percent during the grace period and 2-1/2 percent thereafter. The first loan had been fully committed and was expected to be entirely disbursed by June 30, 1967. About \$82 million of the second loan had been committed, and full disbursement was expected by June 30, 1968. The United States Delegate expressed the hope that negotiations could be started shortly on another loan for \$132 million on similar terms. In addition, a \$13 million Export-Import Bank loan for locomotive parts for the Varnasi plant was made in October. AID was making an extended risk guarantee for \$15.7 million for a fertilizer plant in Madras, and Food for Peace foodgrain shipments were at a rate of \$40-\$50 million a month.

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

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

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

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

for refinancing of principal repayments. Interest on these credits would be about 6 percent and repayment would be over 10 years, including 2 years of grace.

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

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

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

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

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

#### Procedures and Administrative Arrangements

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

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

that it could be done without adverse effects on India.

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

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

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

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

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

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

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

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

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

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

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

ANNEXES

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

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ANNEX I

CONFIDENTIAL

IND 66-15

October 25, 1966

MEETING ON INDIA'S FOREIGN EXCHANGE SITUATION

November 7, 1966 - 10.00 a.m.

Room D at OECD, Chateau de la Muette, 2 rue Andre Pascal, Paris XVI

AGENDA

1. OPENING STATEMENT BY CHAIRMAN
2. RECENT ECONOMIC DEVELOPMENTS IN INDIA

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

Documents:

- (a) "Summary Minutes of the discussions between Minister Asoka Mehta and Mr. George D. Woods, April 21 to May 6, 1966", circulated under Mr. Wilson's note of June 1, 1966.
- (b) "Report to the President of IBRD/IDA on India's Economic Development Effort", 13 volumes, dated October 1, 1965 and circulated to consortium members under cover of Mr. Woods' letter of July 28, 1966.

3. REPORT ON AID TO INDIA DURING 1966/67

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

4. PRELIMINARY REPORT ON INDIA'S FOURTH PLAN

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

Document:

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

5. INDIA'S EXTERNAL DEBT

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

Document:

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

6. CONSORTIUM PROCEDURES AND ADMINISTRATIVE ARRANGEMENTS

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

7. OTHER BUSINESS

8. CHAIRMAN'S REPORT OF PROCEEDINGS



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November 8, 1966

MEETING OF THE INDIA CONSORTIUM

PARIS, NOVEMBER 7 AND 8, 1966

LIST OF DELEGATES

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

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

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OBSERVERS

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

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ANNEX III

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Paris, November 7, 1966

OPENING REMARKS OF THE CHAIRMAN

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

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

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

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

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

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- 2 -

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

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

\* \* \* \* \*

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

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

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It is a happy coincidence for me that my first meeting in the Chair also marks the resumption of some of the customary procedures for Consortium gatherings, which had to be interrupted during the last 18 months by delay in formulating India's Fourth Plan investment program as well as by the Bank's desire to come to some minimum understanding with India on the policy environment of that Plan. These procedures include for example a return to the

- 3 -

practice of circulating an agenda in advance. At the end of this meeting, I also expect to prepare a Summary Report of matters covered during our discussions (although I understand the former practice was to circulate the Chairman's Report in final form before adjournment, which is something I would not like to promise). So far as I am aware, the only practice of the Indian Consortium which is not now being resumed is that of numbering each meeting. I can assure you that my decision in this regard has nothing to do with the fact that this would have been the Thirteenth Meeting; it just seemed to me that the numbers no longer served any useful purpose. There is one other practice which I want to discuss later in the meeting to which I personally object - that is the issue of a press release.

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

Asia Department

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ANNEX IV

WBG ARCHIVES CONFIDENTIAL

Paris, November 8, 1966

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

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

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

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

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

With respect to the other questions raised in the Bank's paper, we would think that in the event of a rescheduling all members of the Consortium could reasonably be expected to participate in it and we would see advantages in reaching agreement on the proportion of present debt service payments to

reschedule during the balance of the Fourth Plan. Whether such an agreement would be subject to review at the end of two or three years could be a matter for consideration.

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

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

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

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

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

## ANNEX V

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

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

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

Asia Department  
November 22, 1966



ANNEX VI

CONFIDENTIAL

PRESS RELEASE

MEETING OF THE INDIA CONSORTIUM

November 8, 1966

**DECLASSIFIED**

**AUG 29 2013**

**WBG ARCHIVES**

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

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

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