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FOREIGN ASSISTANCE, DEBT SERVICE AND FOREIGN EXCHANGE RESERVES

Foreign Assistance : The Recent Past

Foreign assistance to India has declined sharply in the past five years, from a level of gross aid disbursements of more than $ 1,600 million in 1965/66[a] to $ 1,050 million in 1970/71. Approximately half of this decline has been in food aid. Gross disbursements of Consortium aid of all types have fallen from $ 1,500 million in 1967/68 to $ 973 million in 1970/71, and in forms other than foodstuffs from about $ 1,050 million to $ 800 million over the same period.

Commitments have declined even more than disbursements. Of the major categories of aid, food commitments have more or less kept pace with the decline in food aid disbursements from about $ 450 million in 1967/68 to $ 177 million in 1970/71. On the other hand new commitments of project and non-project aid (including debt relief) have remained significantly below disbursements for each of the past four years. Total commitments of these two forms of aid have been about $ 2,980 million over this period, whereas disbursements have been nearly $ 3,720 million. This is to be expected in a period of falling aid commitments because disbursements from old aid (the pipeline) are normally more rapid than from new commitments. As a result the pipeline declined from more than $ 2,800 million at the beginning of 1967/68 to an estimated $ 2,080 million at the beginning of 1971/72.

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a/ Years referred to are Indian fiscal years, beginning on April 1st of each year.

The most significant part of the decline in the pipeline has been that in non-project aid, which, as a/secondary foreign exchange reserve, supports the utilization of India's existing industrial capacity, and is provided only by Consortium members. Commitments of non-project aid declined from a high of $ 895 million in 1966/67 to $ 456 million in 1970/71, and the decline in the non-project pipeline over thefour year period ending March 31, 1971 has been from $ 845 million to about $ 590 million, or a decline of 30 per cent. Over the same period project aid committed declined from $ 738 to 296 million. The decline in the project pipeline, although larger in absolute amount, has been relatively smaller, and has been largely in non-Consortium project aid. The Consortium project pipeline has, in fact, risen somewhat in thepast two years, reflecting a revival in project aid commitments by Consortium members.

Debt Service and the Net Aid Transfer

The effect of the decline in aid commitments and in gross disbursements has, of course, been accentuated, in terms of the net transfer of resources to India, by an increase in the return flow of debt service payments. Over the five year period ending March 31, 1971, debt service (interest plus amortization) has risen from $ 315 million to $ 600 million, resulting in a decline in the net transfer from $ 1,300 million to about $ 450 million (Table 1), which is a figure substantially less than the net transfer of $ 700 million in 1958/59, the year in which the Consortium was formed.

In terms of Consortium assistance, the net transfer has fallen from about $ 1,160 million in 1967/68 to not much more than $ 500 million in 1970/71

(Table 2).[b/] In terms of non-food aid, the decline has been from something in the order of $ 720 million to not much more than $ 330 million (Table 3).

The real impact of increasing debt service payments is, of course, only partly reflected in the declining net transfer, since debt service is in free foreign exchange, whereas most new foreign assistance is restricted either as to source of procurement and/or as to the purpose for which it may be used.

As an indication of the proportion of India's free foreign exchange which must be used for debt service, the ratio of debt service (before debt relief) to exports rose to nearly 30 per cent in 1970/71, and even with the significant increase in exports now expected in the current year, seems likely to be in the order of 28 per cent in 1971/72.

Many members of the Consortium have, of course, been increasing their aid allocations for India, as well as improving the terms of assistance, but in most cases this has not yet been sufficient to offset the increase in debt service payments. Table 4 shows that the net transfer from Germany, Italy, Japan and Norway, as well as the Bank, was negative in 1970/71. The net outflow of $ 74 million to these particular aid donors was in addition to the apparent net outflow of $ 55 million to non-Consortium countries, so that the overall net transfer of about $ 452 million represents the extent to which the net transfer from certain Consortium members (including IDA) exceeded a net outflow of nearly $ 130 million to certain other countries and the Bank.

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b/ The net transfer from the Consortium is higher than the overall net transfer because there is now a . . . net outflow to non-Consortium countries (Table 4).

Such comparisons for a single year can be misleading, as they do not show trends or reflect recent increases in aid commitments. Such comparisons also do not reflect the "quality" of aid now being given, which includes an improvement in terms by some donors such as Japan, and a greater freedom in the use of aid in some cases, including Japan and Germany. They do, however, give some indication of the overall nature of the problem.

Aid Prospects for 1971/72 and 1972/73

The aid recommendations in the Bank's last economic report on India were intended, as a first step, to achieve a levelling off in the downward spiral of first gross and secondly net aid. These recommendations were for a minimum of $ 650 million in new commitments of non-project aid (including debt relief), $ 500 million in project commitments, and $ 100 million in food aid. Indications of possible aid at the Consortium meeting came fairly close to this figure, with $ 580 million non-project aid, $ 440 million project aid, and about $ 210 million as food aid or non-food PL 480.c/ As has been true of recent years, however, actual commitments in respect of 1970/71, especially of non-project aid, are likely to fall short of these amounts. The amount of U.S. aid is, of course, particularly uncertain this year. Nevertheless, estimates of the probable level of aid disbursements during the current year suggest that the downward spiral may in fact very nearly level out this year, with gross disbursements of perhaps $ 1,020 million and a net transfer of about $ 420 million (Tables 1 and 6). In terms of Consortium assistance, the present estimate of the probable net transfer is $ 484

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c/ Refugee assistance is not included in these figures.

million (Table 2), with a small increase in the net transfer of Consortium non-food aid, to perhaps $ 350 million (Table 3). These forecasts, however, are still subject to many uncertainties, including the status of U.S. aid and the effect of recent changes in exchange rates,

It should also be noted that the estimate of aid disbursements in 1971/72 includes as much as $ 137 million in food aid, a category in which a substantial reduction is likely to take place next year, without any directly compensating increase in other categories of aid.

To some extent, it can probably be argued that the downward spiral in recent years is somewhat overstated by aid disbursement and net transfer figures, in that there have been a number of improvements in the quality of aid, so that non-project aid in particular may now in most cases be used with a substantial measure of flexibility to finance whatever India may require most from the country concerned. However this increase in the real value of aid has probably not offset more than a small part of the decline in the level of non-food aid. The decline in food aid, of course, is the counterpart of the success of foodgrain production in India. This substitution of Indian for foreign food does not reduce the real resources available for investment, although it does accentuate the Government's internal cash problem, in that taxes or other forms of resource mobilization must now be used to fill the gap left by the withdrawal of the rupee counterpart of food aid.

The aid prospects for 1972/73 remain highly uncertain, but if actual aid commitments during this fiscal year are in the order of $ 1,100 million,

as seems possible,[d/] then disbursements from the aid pipeline during 1972/73 might be in the order of $ 670 million.[e/] If commitments in 1972/73 were again at the same level (and on the same division between project and non-project aid), disbursements from those new commitments might bring gross aid disbursements to something in the order of $ 870 million, for a possible net aid transfer of $ 270 million (or perhaps $ 300 million if some allowance is made for the possibility of some food aid and/or non-food PL 480), figures which remain well below the level which would appear to be necessary to permit any significant revival in imports, investment and economic growth. Because of the lag between commitments and disbursements, and the time it takes for improvements in terms of aid to be reflected in reduced debt service payments, the only way by which these figures could be significantly increased without the kind of major increase in non-project commitments which seems unlikely is by the refinancing or rescheduling of debt service payments on old debt.

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d/ Non-project commitments now in sight are in the order of $ 320 million, and if there were a resumption of U.S. aid, this could raise non-project commitments to perhaps $ 450 million. Project commitments are likely to be exceptionally high, at perhaps $ 650 million, largely because of the bunching of a significant part of the 1970/71 IDA allocation into the first three months of the 1971/72 Indian fiscal year.

e/ All figures are expressed in terms of pre-December exchange rates. The overall impact of recent exchange rates cannot yet be accurately estimated.

Foreign Exchange Reserves

India's reserve position has improved significantly from the very low levels prevailing from 1962 to 1968. In part, this has been offset by a decline in what might be called the "secondary reserves" in the form of the pipeline of undisbursed non-project aid, and in the past two years the improvement is partly a result of the allocation of SDR's by the IMF. There has nevertheless been a significant strengthening of reserves, and this is a major factor permitting greater flexibility in foreign exchange management, despite a declining level of foreign aid commitments and disbursements, and a rising level of foreign debt service.

Over the period since the beginning of the Fourth Plan in April 1969, India's official holdings of foreign exchange, the most freely usable part of her reserves, rose from about $ 526 million to a high of $ 794 million in June 1970. This was followed by a decline of somewhat more than $ 200 million during 1970/71, with a gradual reconstitution in the current fiscal year, and the level of foreign exchange holdings stood at $ 672 million at the end of October. Of the other components of reserves, official gold holdings have remained constant at a level of $ 243 million (a figure which is related to existing statutory provisions relating to currency cover). SDR allocations in 1970 and 1971 totalled $ 227 million, of which India retained about $ 148 million at theend of October.

Total reserves, therefore, were in the order of $ 1063 million as of the end of October, as compared with about $ 770 million in April 1969. Overall reserves, including India's IMF gold tranche position, stood at

$ 1,139 million, which is equivalent to slightly more than 30 per cent of annual import and debt service payments at the estimated 1971/72 level. Holdings of actual foreign exchange represent somewhat less than 20 per cent of estimated 1971/72 imports and debt service payments. The comparable percentages at the beginning of the Fourth Plan in April 1969 were about the same, at 29 per cent and just under 20 per cent respectively. The relationship between reserves and annual import and debt service payments, therefore, has improved only marginally, but it should be remembered that the level of imports in 1969/70 was relatively depressed, and there has been a slightly more significant improvement of 3 to 5 per cent if viewed against the 1968/69 level of imports and debt service.f/

Where there has been a substantial improvement has been in India's IMF position. The restoration of India's credit position with the Fund has represented a reduction in India's external short-term liabilities of $ 340 million over this period. As a result, India's net reserve position has improved from about $ 430 million at the beginning of the Plan to $ 1,139 million at the end of October, of which $ 227 million represents the effect of SDR allocations todate.

From the point of view of India's balance of payments, there was an actual use of reserves of about $ 237 million during 1970/71, and the Government's present estimates for 1971/72 show a further use of reserves of perhaps $ 60 million in the current year. The difference between the use of reserves in the balance of payments in 1970/71 and the change in actual

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f/ Overall reserves and foreign exchange holdings in April 1969 represented about 25 per cent and 17 per cent respectively of the 1968/69 level of imports and debt service.

reserves was a result of the 1971 SDR allocation and some use of previously non-monetary gold. In respect to the current year, a use of reserves would still permit some increase in the level of reserve holdings, because of the expected further SDR allocation in January 1972.

Because of the lag between commitments and disbursements, and the time it takes for improvements in the terms of aid to be reflected in reduced debt service payments, the only way by which these figures could be significantly increased, without the kind of major increase in non-project commitments which seems unlikely, is by the refinancing or rescheduling of debt service payments on old debt.

India's Attitude Toward Foreign Aid

The Fourth Plan document established the goal of reducing net foreign aid by 50 per cent during the Plan period, and dispensing with it entirely by the end of the decade. The first of these goals will almost certainly be over-achieved. As for the second, before the war with Pakistan there appeared to be, at least at the official level, an inclination to forget about the time horizon for dispensing with net aid that was postulated in the Plan. In the balance of payments and aid projections prepared by the GOI for the Bank's Debt/Aid Study for the last two years of the Fourth Plan and the first year of the Fifth Plan, the implied levels of aid commitments were substantially higher than present levels, and by implication at least were on an ascending scale.

The suspension of some U.S. aid and the temporary threat of similar action by Japan has, however, given renewed impetus to independence-from-aid sentiments. This seems partly a personal and instinctive political response on the part of the Prime Minister to apparent external pressures, but there is no doubt that the theme of economic and therefore political, self-sufficiency, even at substantial economic cost, has considerable

appeal for other political figures and the press. As a result, the Planning Commission, which has only just issued a mid-Plan review indicating the need for an increase in aid levels, and this on the basis of internal resource estimates considerably above Fourth Plan achievements thus far, has now been asked to consider what can be done to replace aid with other resources. Thus one can only speculate about the future, and such speculation is largely in the political arena. Our own appraisal is that India will not wish for too long to forego the external assistance required to achieve the growth rate postulated in the Fourth Plan, but will endeavor to obtain more aid from multilateral and perhaps non-Consortium sources, including perhaps the Soviet Union, which is now in a negative aid position with India. In the meantime, we may expect India to make a determined effort to accelerate export growth even above the 8 per cent achieved in 1970/71. This objective probably figured in the internal discussions regarding a new exchange rate. We understand the economists in the Finance Ministry proposed a 10 per cent devaluation, but were overridden by Ministers mindful of the reaction to the 1966 devaluation, which still pervades political thinking on this subject. However, the decision to devalue against gold by 5.1 per cent and appreciate against the dollar by about 3 per cent is described privately by GOI officials as an interim one which remains subject to review in the light of action taken by India's principal export competitors.

Foreign Exchange Reserves

India's reserve position has improved significantly from the very low levels prevailing from 1962 to 1968. In part, this has been offset by a decline in what might be called the "secondary reserves" in the form of the pipeline of undisbursed non-project aid, and in the past two years the improvement is partly a result of the allocation of SDR's by the IMF. There has nevertheless been a significant strengthening of reserves, and this is a major factor permitting greater flexibility in foreign exchange management, despite a declining level of foreign aid commitments and disbursements, and a rising level of foreign debt service.

Total reserves were in the order of $ 1,071 million as of the end of December 1971, which, although less than a year earlier, compared with about $ 770 million in April 1969. However at that time India was using IMF credit to the extent of $ 340 million, which she has now entirely paid off and, in addition, reconstituted her gold tranche to the extent of $ 76 million. Thus India's net reserve position has improved from about $ 430 million at the beginning of the Plan to $ 1,147 million at the end of October, of which $ 227 million represents the effect of SDR allocations todate, and another $ 17.5 million the use of gold from non-monetary sources.

$ 1,147 million is equivalent to slightly more than 30 per cent of annual import and debt service payments at the estimated 1971/72 level. Holdings of actual foreign exchange represent somewhat less than 20 per cent of estimated 1971/72 imports and debt service payments.[h/]

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h/ Overall reserves and foreign exchange holdings in April 1969 represented about 25 per cent and 17 per cent respectively of the 1968/69 level of imports and debt service.

The Government's present estimates for 1971/72 show a use of reserves in the balance of payments of perhaps $ 60 million in the current year. There was a comparable use of reserves of about $ 237 million during 1970/71 (after payments to the IMF of $ 253 million), but the resulting decline in the level of reserves was reduced substantially as a result of the 1971 SDR allocation and some use of previously non-monetary gold. Similarly, the expected use of reserves this year is less than the 1972 allocation of SDR's of $ 99 million, so that there should be a small increase in the level of reserves over 1971/72 as a whole.

Table 1

GROSS AND NET AID TRANSFERS

(Consortium and Non-Consortium)
(U.S. $ million)

	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72 (estimated)
Gross Aid	1,623	1,494	1,583	1,213	1,194	1,038	1,023[a]
of which:							
food aid [b]	476	538	466	287	240	177	131
project aid	684	497	386	368	307	289	304
non-project aid (including debt relief)	421	424	674	547	593	547	552
non-food PL 480	42	35	57	11	49	25	36
Debt Service	315	365	443	500	550	600	600
Net Aid Trasfer	1,308	1,129	1,140	713	644	438	423

a/ Excluding foreign assistance for refugees, which could be up to $ 200 million in 1971/72. Also excludes, as in previous years, assistance provided through voluntary agencies (e.g. U.S. PL 480 Title II), as well as technical assistance. These latter categories may average something in the order of $ 100 million per year.

b/ The category of "food aid" has been revised to include some assistance in the form of edible oils, milkpowder, etc which was previously included under "non-food PL 480" or other categories.

January 10, 1972

Table 2

CONSORTIUM GROSS AND NET AID

(U.S. $ million)

	1967/68	1968/69	1969/70	1970/71	1971/72 (estimated)
Gross Aid	1,500	1,091	1,086	959	985 a/
of which:					
food aid b/	466	283	231	174	128
project aid	303	250	208	213	269
non-project aid (including debt relief)	674	547	598	547	552
non-food PL 480	57	11	49	25	36
Debt Service	333	406	434	465	500 c/
Net Aid Transfer	1,167	685	652	494	485
of which:					
Net non-food aid	701	402	421	320	357

a/ Excluding assistance for refugees. Also excludes, as in previous years, assistance provided through voluntary agencies, as well as technical assistance.

b/ The category of "food aid" has been revised to include some assistance in the form of edible oils, milkpowder, etc. which was previously included under "non-food PL 480" or other categories.

c/ Includes $ 479.87 million shown in Table 5 for debt service on debt outstanding as of April 1, 1971 plus an estimate of $ 20 million for debt service on new loans signed after April 1st, as well as for incomplete coverage of supplier credits and private sector debt.

January 10, 1972

Table 3

GROSS AND NET AID FLOWS: 1970/71
(in million U.S. Dollars)

	Project aid dis-bursements (1)	Non-Project aid disbursements[a] (2)	Food aid and non-food PL 480 (3)	Total[b] (4)	Debt Service Payments (5)	Net aid transfer[c] (6)
A, Consortium Members						
1. Austria	-	2.80	-	2.80	2.79	0.01
2. Belguim	3.43	3.43	-	6.86	3.17	3.69
3. Canada	14.71	47.26	42.00	103.97	6.32	97.65
4. Denmark	0.16	1.74	-	1.90	0.34	1.56
5. France	8.19	15.37	-	23.56	20.58	2.98
6. Germany	20.95	55.17	-	76.12	86.25	- 10.13
7. Italy	3.80	10.50	-	14.30	21.92	- 7.62
8. Japan	2.12	46.60	-	48.72	74.04	- 25.32
9. Netherlands	3.20	19.07	-	22.27	5.26	17.01
10. Norway	-	-	-	-	0.19	- 0.19
11. Sweden	5.29	-	-	5.29	1.99	3.30
12. U.K.	16.35	84.03	4.08	104.46	44.44	60.02
13. U.S.A.	55.43	226.00	152.28[d]	433.71	103.98[e]	329.73[f]
14. IBRD	40.55	15.00		55.55	86.13	- 30.58
15. IDA	38.99	20.38		59.27	7.61	51.66
Sub-total	213.17	547.25	198.36[g]	958.78[h]	465.01	493.77
B. Non-Consortium						
1. Bulgaria	-	-	-	-	0.05	- 0.05
2. Czechoslovakia	1.78	-	-	1.78	11.98	- 10.20
3. Hungary	0.88	-	-	0.88	0.36	0.52
4. Poland	3.72	-	-	3.72	5.13	- 1.41
5. USSR	49.00	-	-	49.00	93.46	- 44.46
6. Yugóslavia	17.79	-	-	17.79	8.83	8.96
7. Switzerland	2.79	-	-	2.79	5.37	- 2.58
8. Others	-	-	3.77[i]	3.77	9.99[j]	- 6.22
Sub-total	75.96	-	3.77	79.73	135.17[j]	- 55.44
TOTALS	298.13	547.25	202.13	1038.51	600.18	438.33

a/ Including debt relief
b/ Excluding such other forms of aid as technical assistance, miscellaneous grants and US PL 480 Title II.
c/ Net resource transfer would in a number of cases be higher if technical assistance or PL 480 Title II were included.
d/ PL 480 Title I, food and non-food.
e/ Excludes debt service payable in rupees, of which that portion allocated to "US Uses" would represent a real resource transfer to the United States.
f/ Real resource transfer would be higher by amount of US technical assistance and PL 480 Title II, and lower by amount of "US Use" counterpart rupees actually utilised.
g/ May be incomplete.
h/ Largest, single omission is probably PL 480 Title II, but technical assistance grants may also be significant.
i/ Australian food aid.
j/ Includes repayments to Kuwait, Qatar, Bahrain, etc for which no figures on new credits are available.

TABLE 4

December 29, 1971

CONSORTIUM PLEDGES AND COMMITMENTS FOR 1971/72

(U.S. $ million)

	Indications of aid for 1971/72				Agreements signed[a]				BALANCE			
	Non-Project		Project	Total	Non-Project		Project	Total	Non-Project		Project	Total
	Debt Relief	Other			Debt Relief	Other			Debt Relief	Other		
Austria	1.0	-	-	1.0	1.0	-	-	1.0	-	-	-	-
Belgium	1.1	2.9[c]	-	4.0[d]	1.1	2.9[c]	-	4.0[d]	-	-	-	-
Canada[e]	0.8	41.0[c]	-	41.8[d]	0.8	47.3[c]	2.8	50.9[d]	-	-	-	-
Denmark[e]	-	-	-	-	-	-	-	-	-	-	-	-
France	5.0	12.6[b]	14.4[b]	32.0	5.0	12.6	14.4	32.0	-	-	-	-
Germany	30.0	23.2[b]	20.5[b]	73.7	30.0	35.5	16.4	81.9	-	-	-	-
Italy	6.0	-	8.0[f]	14.0	-	-	-	-	6.0	-	8.0	14.0
Japan	20.6	25.4[g]	15.0[f]	61.0	20.6	-[g]	-	20.6	-	25.4	15.0	40.4
Netherlands	0.7	13.9[h]	-[h]	14.6[h]	0.7	13.9[g]	-	14.6	-	-	-	-
Norway	-	3.2[h]	1.0[h]	4.2[h]	-	-	-	-	-	3.2	1.0	4.2
Sweden	-	10.0	5.0	15.0	-	7.7	21.4	29.1	-	-	-	-
U.K.	18.0	64.8[i]	48.0	130.8[j]	18.0	64.8	19.2	102.0	-	-	28.8	28.8
U.S.A.	8.71	220.0[i]	6.0	234.7[j]	8.7	-	-	8.7	-	220.0	6.0	226.0
IBRD	-	-	50.0[k]	50.0[k]	-	-	60.0	60.0	-	-	-[k]	-[k]
IDA	-	75.0[k]	275.0[k]	350.0[k]	-	-	114.0	114.0	-	75.0[k]	161.0[k]	236.0[k]
Total	91.9	492.0	442.9	1026.8	85.9	184.7	248.2	518.8	6.0	323.6	219.8	549.4

a/ Agreements signed, i.e. commitments, in respect of 1971/72 pledges, up to December 29, 1971. Total commitments during 1971/72 will be higher to the extent of commitments made against previous years' pledges as well as against advance commitment authority.

b/ No indication given at Consortium meeting. Amounts shown are actual commitments for 1970/71.

c/ Allocation between project and non-project aid of $ 41 million in development loans assumed.

d/ Plus $ 41 million in grant food aid.

e/ $ 1.5 million balances from previous authorisation may be utilised during the current year.

f/ Annual average of 3-year commitment of $ 45 million.

g/ General purpose loan, available for both project and non-project purposes.

h/ Estimated amount attributable to 1971/72 out of allocation of $ 20 million for 1971 to 1974. Allocation between project and non-project aid also estimated.

i/ Subject to Congressional approval.

j/ Plus $ 220 million in food aid and $ 9 million in technical assistance.

k/ Subject to availability of IDA funds and IDA Board approval. Figures are on basis of IDA's fiscal 1971/72.

Table 5

ESTIMATED GROSS AND NET AID FLOWS : 1971/72
(in million U.S. dollars)

	Project aid disbursements (1)	Non-Project aid disbursements[a] (2)	Food aid and non-food PL 480 (3)	Total[b] (4)	Debt Service Payments (5)	Net aid transfer (6)
A. Consortium Members						
1. Austria	-	0.99	-	0.99	2.73	- 1.74
2. Belgium	2.00	4.10	-	6.10	3.27	2.83
3. Canada	19.14	53.06	35.50	107.70	6.41	101.29
4. Denmark	6.69	1.81	-	8.50	0.39	8.11
5. France	26.96	19.59	-	46.55	21.68	24.87
6. Germany	24.60	62.66	-	87.26	87.19	0.07
7. Italy	10.00	13.39	-	23.39	29.54	- 6.15
8. Japan	15.12	42.15	-	57.27	71.79	-14.52
9. Netherlands	2.00	10.02	-	12.02	6.08	5.94
10. Norway	0.27	-	-	0.27	0.19	0.08
11. Sweden	10.85	-	-	10.85	2.10	8.75
12. U.K.	29.73	105.27	2.00	137.00	55.13	81.87
13. U.S.A.	25.14	175.08	126.67	326.89	108.33	218.56
14. IBRD	34.11	-	-	34.11	76.16	-42.05
15. IDA	62.57	64.61	-	127.18	8.88	118.30
Sub-total	269.18	552.73	164.17	986.08	479.87	506.21
B. Non-Consortium						
1. Bulgaria	0.50	-	-	0.50	0.04	0.46
2. Czechoslovakia	2.22	-	-	2.22	12.72	-10.50
3. German Democratic Republic	-	-	-	-	0.53	- 0.53
4. Hungary	0.50	-	-	0.50	0.44	0.06
5. Poland	4.43	-	-	4.43	5.48	- 1.05
6. Rumania	1.50	-	-	1.50	-	1.50
7. U.S.S.R.	22.50	-	-	22.50	56.04	-33.54
8. Yugoslavia	-	-	-	-	10.51	-10.51
9. Switzerland	3.07	-	-	3.07	5.57	- 2.50
10. Others	-	-	2.80[c]	2.80	9.50	- 6.70
Sub-total	34.72	-	2.80	37.52	100.83	-63.31
TOTALS	303.90	552.73	166.97	1023.60	580.70	442.90
Adjustment for incomplete coverage of supplier credits and private sector, and for interest on new loans signed after April 1, 1971					+20.00	-20.00
				1023.60	600.70	422.90

a/ Including debt relief.
b/ Excluding such other forms of aid as technical assistance, miscellaneous grants and U.S. PL 480 Title II.
c/ Australian food aid.

TABLE 6

PAST GROSS AID FLOW AND PROJECTION FOR 1971/72 AND 1972/73

($ million)

		Non-Project[a/]	Project	Total
1.	Balance available on 1.4.1969	755	1487	2242
2.	New commitments in 1969/70	525	306	831
3.	Total available for 1969/70 (1+2)	1280	1793	3073
4.	Disbursements during 1969/70	598	307	905[b/]
5.	Balance available on 1.4.1970 (3-4)	682	1486	2168
6.	New commitments in 1970/71	456	296	752
7.	Total available for 1970/71 (5+6)	1138	1782	2920
8.	Disbursements during 1970/71	547	289	836[b/]
9.	Balance available on 1.4.1971 (7-8)	591	1493	2084
10.	Expected commitments during 1971/72	460	645	1105
11.	Total available for 1971/72 (9+10)	1051	2138	3189
12.	Expected disbursements during 1971/72	551	304	855[b/]
13.	Balance available on 1.4.1972 (11-12)	500	1834	2334
14.	Possible commitments in 1972/73	550	500	1050[d/]
15.	Total available (13+14)	1050	2334	3384
16.	Disbursements during 1972/73	520[c/]	400[c/]	920[d/]
	(a) from existing pipeline	300[c/]	370[c/]	670
	(b) from new aid	220[c/]	30[c/]	250
17.	Balance available on 1.4.1973 (15-16)	530	1934	2464

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a/ Including debt relief.

b/ Food aid and non-food PL 480 are additional to the figures shown for 1969/70 to 1971/72. Total aid disbursements for each of these years would therefore be higher by $ 296, 277 and 267 million respectively.

c/ Disbursement assumptions (i) for non-project aid : 60 percent of the pipeline at the beginning of the year plus 30 percent of new non-IDA commitments received in that year plus 100 percent of the expected IDA commitments; (ii) for project aid : 20 percent of the pipeline at the beginning of the year plus 6 percent of new commitments received in that year.

d/ No assumptions have been made with respect to food aid or non-food PL 480 in 1972/73. Any assistance in these categories would be additional to the disbursement figures shown in the table. Disbursements would also be higher if more than $ 90 million out of new commitments were in the form of quick-disbursing debt relief.

January 7, 1972.

SUMMARY
January 7, 1972

Foreign Aid. Foreign assistance to India has declined sharply in the past five years, from a level of $ 1,600 million in 1965/66 to $ 1,040 million in 1970/71. The net transfer, after subtracting the return flow of debt service payments, has declined even more sharply, from about $ 1,300 million to $ 440 million over the same period. About half of the decline in gross aid flows has been in food aid. Most project aid, and all non-project assistance, is provided by Consortium members, and the overall decline in the aid flow is therefore parallelled by the decline in Consortium assistance. As recently as 1967/68, the level of Consortium assistance was $ 1,500 million gross, and $ 1,167 million net, while in 1970/71 the comparable figures were $ 959 million and $ 494 million.

In 1971/72, however, the decline seems likely to begin to level out, to perhaps $ 1,020 million in gross aid disbursements from all sources, and $ 420 million net. The comparable figures for the Consortium seem likely to be about $ 980 million gross and $ 480 million net. There seems likely, in fact, to be a significant increase in aid disbursements by Consortium members other than the United States, from $ 525 million last year to perhaps $ 660 million this year, an increase which more than offsets the expected rise in debt service payments to those same members of some $ 30 million. All of the increase was, of course, in non-food assistance. The future, however, is clouded by present uncertainties with respect to U.S. and Indian attitudes towards United States assistance, and to a lesser extent with respect to the possibilities of further debt relief and U.S. action on IDA replenishment.

It seems likely that there will be a further decline in overall aid levels in 1972/73, even if IDA replenishment is assured and U.S. assistance to India is resumed. These factors are discussed in the separate brief on foreign assistance.

The future of the Consortium seems particularly in doubt, since although non-food aid from Consortium members other than the United States has increased significantly this year, the largest contributor of bilateral assistance, and particularly of non-project aid, remains the United States, whose aid to India has again declined, and at present remains suspended. The Bank's present Debt/Aid Study, which is due to be circulated to the Consortium shortly, is intended to be a basis for a major re-examination of aid to India, and particularly of the possibility of a higher level of debt relief. Whether any substantive action on the Study will be possible in the present climate of United States aid relations with India, however, seems dubious.

(iii) FOREIGN ASSISTANCE, DEBT SERVICE AND FOREIGN EXCHANGE RESERVES

Foreign Assistance : The Recent Past

Foreign assistance to India has declined sharply in the past five years, from a level of gross aid disbursements of more than $ 1,620 million in 1965/66[a/] to about $ 1,040 million in 1970/71. Approximately half of this decline has been in food aid. Gross disbursements of Consortium aid of all types have fallen from $ 1,500 million in 1967/68 to about $ 960 million in 1970/71, and in forms other than foodstuffs from about $ 1,030 million to $ 785 million over the same period.

Commitments have declined even more than disbursements, as is to be expected in a period of falling aid commitments, since disbursements from past aid (the pipeline) are normally more rapid than from new commitments. Of the major categories of aid, food commitments have more or less kept pace with the decline in food aid disbursements. On the other hand, new commitments of project and non-project aid (including debt relief) have remained significantly below disbursements for each of the past four years. Total commitments of these two forms of aid have been about $ 2,980 million over this period, whereas disbursements have been nearly $ 3,720 million. As a result, the pipeline declined from more than $ 2,800 million at the beginning of 1967/68 to an estimated $ 2,080 million at the beginning of 1971/72.

The most significant part of the decline in the pipeline has been that

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a/ Years referred to are Indian fiscal years, beginning on April 1st of each year.

in non-project aid, which, as a kind of secondary foreign exchange reserve, supports the utilization of India's existing industrial capacity. This type of assistance is provided only by Consortium members. Commitments of non-project aid declined from a high of $ 895 million in 1966/67 to $ 456 million in 1970/71, and the decline in the non-project pipeline over the four year period ending March 31, 1971 has been from $ 845 million to about $ 590 million, or a decline of 30 per cent.

The pipeline of project aid declined sharply in 1967/68 and 1968/69, but then stabilized at about $ 1,490 million in the two following years, as new commitments approximately offset disbursements. The Consortium pipeline of project aid has, in fact, risen somewhat in the latter two years, reflecting the revival in project aid commitments by Consortium members.

Debt Service and the Net Aid Transfer

The effect of the decline in aid commitments and in gross disbursements has, of course, been accentuated, in terms of the net transfer of resources to India, by an increase in the return flow of debt service payments. Over the five year period ending March 31, 1971, debt service (interest plus amortization) has risen from $ 315 million to $ 600 million, resulting in a decline in the net transfer from $ 1,300 million to $ 438 million (Table 1), which is a figure substantially less than the net transfer of $ 700 million in 1958/59, the year in which the Consortium was formed.

In terms of Consortium assistance, the net transfer has fallen from nearly $ 1,170 million in 1967/68 to less than $ 500 million in 1970/71

(Table 2).[b/] In terms of Consortium non-food aid, the decline has been from just over $ 700 million to $ 320 million.

The real impact of increasing debt service payments is, of course, only partly reflected in the declining net transfer, since debt service is in free foreign exchange, whereas most new foreign assistance is restricted either as to source of procurement and/or as to the purpose for which it may be used.

As an indication of the proportion of India's free foreign exchange which must be used for debt service, the ratio of debt service (before debt relief) to exports rose to nearly 30 per cent in 1970/71, and even with the significant increase in exports now expected in the current year, seems likely to be in the order of 28 per cent in 1971/72.

Many members of the Consortium have, of course, been increasing their aid allocations for India, as well as improving the terms of assistance, but in many cases this has not been sufficient to offset the increase in debt service payments. Table 3 shows that the net transfer from Germany, Italy, Japan and Norway, as well as the Bank, was negative in 1970/71. The net outflow of $ 74 million to these particular aid donors was in addition to the apparent net outflow of $ 55 million to non-Consortium countries. Such comparisons for a single year can be misleading, however, as they do not show trends or reflect recent increases in aid commitments. Such comparisons also

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b/ The net transfer from the Consortium is higher than the overall net transfer because there is now a net outflow to non-Consortium countries (Table 3).

do not reflect the "quality" of aid now being given, which includes an improvement in terms by some donors such as Japan, and a greater freedom in the use of aid, as in the case of Japan and Germany, as well as considerable variations in the prices charged for aid-financed goods.

Aid Prospects for 1971/72 and 1972/73

The aid recommendations in the Bank's last economic report on India were intended, as a first step, to achieve a levelling off in the downward spiral of gross and net aid. These recommendations were, in the case of 1971/72, for $ 650 million in new commitments of non-project aid (including debt relief) and $ 500 million in project commitments, for a total of $ 1,150 million. Indications of possible aid following the Consortium meeting fell short of these figures, with $ 584 million in non-project aid and $443 million in project aid, for a total of $ 1,027 million. c/ As has been true of recent years, however, actual commitments in respect of 1971/72, especially of non-project aid, are likely to fall short of these amounts. d/ U.S. aid, which accounted for 23 per cent of the indications mentioned for project and non-project aid, is particularly uncertain.

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c/ See Table 4, which shows revised GOI records of aid indications following the Consortium meeting. The Bank's report also assumed an additional $ 100 million in the form of food aid and $ 50 million in non-food PL 480. These two categories taken together now seem likely to total slightly more than was assumed, or about $ 167 million (exclusive of food aid for refugees), as shown in Table 5.

d/ Table 4 indicates that commitments so far this year against Consortium pledges or indications of project and non-project aid have been only $519 million out of $ 1,027 million. Total commitments during this fiscal year, however, have been somewhat higher as a result of some

Estimates of the probable level of aid disbursements during the current year, however, suggest that the downward spiral may in fact very nearly level out this year, with gross disbursements of perhaps $ 1,020 million and a net transfer of about $ 420 million (Tables 1 and 5). In terms of Consortium assistance, the present estimate of the probable net transfer is just over $ 480 million (Table 2), which is not much less than the year before. The net transfer of Consortium non-food aid may in fact show a small increase, to perhaps $ 350 million. These forecasts, however, are still subject to many uncertainties, including the effect of recent changes in exchange rates, as well as the timing of any resumption of disbursements from that part of the U.S. aid pipeline which is presently suspended.

To some extent, it can probably be argued that the downward spiral in recent years is somewhat overstated by aid disbursement and net transfer figures, in that there have been a number of improvements in the quality of aid, so that non-project aid in particular may now in most cases be used with a substantial measure of flexibility to finance whatever India may require from the donor country concerned or, as in the case of U.S. aid, from other developing countries. This increase in the real value of aid, however, has probably not offset more than a small part of the decline in the level of non-food aid.

Looking to the future, the aid situation is clouded by a number of factors, some relating to the general availability of aid, such as the IDA

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commitments against previous years' pledges as well as against advance commitment authority.

appropriation by the U.S. Congress, and others peculiar to India. During the recent Indo-Pakistan hostilities, the United States suspended disbursements on about $ 87 million of non-project aid. While only a small part of this would have been disbursed in 1971/72, its continuing suspension, together with the uncertainty over new U.S. commitments, will inevitably reduce India's import licensing against expected U.S. aid in the early months of 1972. Thus, whatever the ultimate decision of the United States Government to provide, and the Indian Government to accept, foreign aid we must anticipate that non-project aid disbursed in 1972/73 will be substantially reduced unless a reversal of the U.S. suspension occurs very soon.

The aid prospects for 1972/73, therefore, remain highly uncertain. Assistance in the form of food aid and non-food PL 480 can in any case be expected to decline sharply from the anticipated level of more than $ 160 million in the current year. Disbursements of non-project assistance seem at best unlikely to increase, and may well decline, with the extent of the decline depending on the level of debt relief as well as on the timing and level of any resumption of U.S. bilateral assistance. Only project aid disbursements seem likely to increase, but probably by less than the possible decline in other categories of assistance.

Project aid commitments have risen sharply in the current year, largely because of the bunching of a significant part of the 1970/71 IDA program into the first three months of the 1971/72 Indian fiscal year. As a result, actual project commitments in the current year may be close to $ 650 million, bringing the pipeline of undisbursed project assistance at

the beginning of 1971/72 to something in the order of $ 1,830 to $ 1,840 million.[e/] Disbursements from this pipeline may be as much as $ 370 million in 1972/73. Some disbursements may also result from new project commitments during the year, but these are not likely to be large. Bank/IDA commitments of project aid will certainly be less than the $ 460 million which may be signed during the 1971/72 Indian fiscal year. If new project aid from bilateral sources were to remain at about the expected $ 190 million level of 1971/72, total project commitments in 1972/73 might be in the order of $ 500 million. Disbursements from new commitments at this level during the same year would probably not be more than $ 30 million on the basis of past experience. Total project disbursements during 1972/73 may therefore be in the order of $ 400 million (see Table 6).

Commitments of non-project aid in the current year seem unlikely to be much more than $ 450 million, even if U.S. bilateral assistance is resumed before the end of March, and could well be less.[f/] Of this, about $ 90 million is in the form of debt relief. Since disbursements of non-project

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e/ All figures are at pre-December exchange rates. It is not yet possible to evaluate the overall impact of recent changes in exchange rates, but because of the present level of debt service payments to those countries which have revalued their currencies by the largest percentages, the net effect in terms of the net transfer of resources over the next year or so seems likely to be relatively small. The dollar equivalent of the undisbursed pipeline of project and non-project aid, however, as well as the figure for gross aid disbursements, will increase as a result of the revaluation of certain currencies.

f/ Non-project commitments in 1971/72 would probably be as low as $ 320 million in the absence of any new U.S. assistance.

aid during the current year seems likely to be over $ 550 million, this will mean a further decline in the non-project pipeline, to no more than $ 500 million as of the beginning of 1972/73. On the basis of past experience, no more than $ 300 million of this might be expected to disburse during 1972/73. If commitments of new non-project assistance from bilateral sources in 1972/73 remain at about the same level as in 1971/72, or increased only slightly, the proposed IDA industrial imports credit would bring new commitments of non-project assistance to something in the order of $ 525 to $ 550 million. If at least $ 90 million of this is again in the form of debt relief, and if the IDA credit is fully disbursed during the year, disbursements from these new commitments might be in the order of $ 220 million. Total disbursements of non-project aid, on this basis, would be in the order of $ 520 million (Table 6).

Total disbursements of project and non-project aid during 1972/73 could, therefore, be in the order of $ 920 million. Even if there were to be some food aid, and if non-food PL 480 were to be continued at the level of the recent past, total disbursements of aid of all types would probably not be much more than $ 1,000 million.[g/] With debt service payments expected to be in the order of $ 640 million, the net transfer in 1972/73, therefore, could well be no more than $ 360 million, which would remain well below the level which would appear to be necessary to permit any significant revival in imports, investment and economic growth.

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g/ Excluding any aid-financed imports under the international refugee assistance program.

Because of the lag between commitments and disbursements, and the time it takes for improvements in the terms of aid to be reflected in reduced debt service payments, the only way by which these figures could be significantly increased, without the kind of major increase in non-project commitments which seems unlikely, is by the refinancing or rescheduling of debt service payments on old debt.

India's Attitude Toward Foreign Aid

The Fourth Plan document established the goal of reducing net foreign aid by 50 per cent during the Plan period, and dispensing with it entirely by the end of the decade. The first of these goals will almost certainly be over-achieved. As for the second, before the war with Pakistan there appeared to be, at least at the official level, an inclination to forget about the time horizon for dispensing with net aid that was postulated in the Plan. In the balance of payments and aid projections prepared by the GOI for the Bank's Debt/Aid Study for the last two years of the Fourth Plan and the first year of the Fifth Plan, the implied levels of aid commitments were substantially higher than present levels, and by implication at least were on an ascending scale.

The suspension of some U.S. aid and the temporary threat of similar action by Japan has, however, given renewed impetus to independence-from-aid sentiments. This seems partly a personal and instinctive political response on the part of the Prime Minister to apparent external pressures, but there is no doubt that the theme of economic and therefore political, self-sufficiency, even at substantial economic cost, has considerable

appeal for other political figures and the press. As a result, the Planning Commission, which has only just issued a mid-Plan review indicating the need for an increase in aid levels, and this on the basis of internal resource estimates considerably above Fourth Plan achievements thus far, has now been asked to consider what can be done to replace aid with other resources. Thus one can only speculate about the future, and such speculation is largely in the political arena. Our own appraisal is that India will not wish for too long to forego the external assistance required to achieve the growth rate postulated in the Fourth Plan, but will endeavor to obtain more aid from multilateral and perhaps non-Consortium sources, including perhaps the Soviet Union, which is now in a negative aid position with India. In the meantime, we may expect India to make a determined effort to accelerate export growth even above the 8 per cent achieved in 1970/71. This objective probably figured in the internal discussions regarding a new exchange rate. We understand the economists in the Finance Ministry proposed a 10 per cent devaluation, but were overridden by Ministers mindful of the reaction to the 1966 devaluation, which still pervades political thinking on this subject. However, the decision to devalue against gold by 5.1 per cent and appreciate against the dollar by about 3 per cent is described privately by GOI officials as an interim one which remains subject to review in the light of action taken by India's principal export competitors.

Foreign Exchange Reserves

India's reserve position has improved significantly from the very low levels prevailing from 1962 to 1968. In part, this has been offset by a decline in what might be called the "secondary reserves" in the form of the pipeline of undisbursed non-project aid, and in the past two years the improvement is partly a result of the allocation of SDR's by the IMF. There has nevertheless been a significant strengthening of reserves, and this is a major factor permitting greater flexibility in foreign exchange management, despite a declining level of foreign aid commitments and disbursements, and a rising level of foreign debt service.

Total reserves were in the order of $ 1,071 million as of the end of December 1971, which, although less than a year earlier, compared with about $ 770 million in April 1969. However at that time India was using IMF credit to the extent of $ 340 million, which she has now entirely paid off and, in addition, reconstituted her gold tranche to the extent of $ 76 million. Thus India's net reserve position has improved from about $ 430 million at the beginning of the Plan to $ 1,147 million at the end of October, of which $ 227 million represents the effect of SDR allocations todate, and another $ 17.5 million the use of gold from non-monetary sources.

$ 1,147 million is equivalent to slightly more than 30 per cent of annual import and debt service payments at the estimated 1971/72 level. Holdings of actual foreign exchange represent somewhat less than 20 per cent of estimated 1971/72 imports and debt service payments.h/

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h/ Overall reserves and foreign exchange holdings in April 1969 represented about 25 per cent and 17 per cent respectively of the 1968/69 level of

The Government's present estimates for 1971/72 show a use of reserves in the balance of payments of perhaps $ 60 million in the current year. There was a comparable use of reserves of about $ 237 million during 1970/71 (after payments to the IMF of $ 253 million), but the resulting decline in the level of reserves was reduced substantially as a result of the 1971 SDR allocation and some use of previously non-monetary gold. Similarly, the expected use of reserves this year is less than the 1972 allocation of SDR's of $ 99 million, so that there should be a small increase in the level of reserves over 1971/72 as a whole.

Table 1

GROSS AND NET AID TRANSFERS

(Consortium and Non-Consortium)
(U.S. $ million)

	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72 (estimated)
Gross Aid	1,623	1,494	1,583	1,213	1,194	1,038	1,023 a/
of which:							
food aid b/	476	538	466	287	240	177	131
project aid	684	497	386	368	307	289	304
non-project aid (including debt relief)	421	424	674	547	598	547	552
non-food PL 480	42	35	57	11	49	25	36
Debt Service	315	365	443	500	550	600	600
Net Aid Trasfer	1,308	1,129	1,140	713	644	438	423

a/ Excluding foreign assistance for refugees, which could be up to $ 200 million in 1971/72. Also excludes, as in previous years, assistance provided through voluntary agencies (e.g. U.S. PL 480 Title II), as well as technical assistance. These latter categories may average something in the order of $ 100 million per year.

b/ The category of "food aid" has been revised to include some assistance in the form of edible oils, milkpowder, etc which was previously included under "non-food PL 480" or other categories.

January 10, 1972

Table 2

CONSORTIUM GROSS AND NET AID

(U.S. $ million)

	1967/68	1968/69	1969/70	1970/71	1971/72 (estimated)
Gross Aid	1,500	1,091	1,086	959	985 [a/]
of which:					
food aid [b/]	466	283	251	174	128
project aid	303	250	208	213	269
non-project aid (including debt relief)	674	547	598	547	552
non-food PL 480	57	11	49	25	36
Debt Service	333	406	434	465	500 [c/]
Net Aid Transfer	1,167	685	652	494	485
of which:					
Net non-food aid	701	402	421	320	357

a/ Excluding assistance for refugees. Also excludes, as in previous years, assistance provided through voluntary agencies, as well as technical assistance.

b/ The category of "food aid" has been revised to include some assistance in the form of edible oils, milkpowder, etc. which was previously included under "non-food PL 480" or other categories.

c/ Includes $ 479.87 million shown in Table 5 for debt service on debt outstanding as of April 1, 1971 plus an estimate of $ 20 million for debt service on new loans signed after April 1st, as well as for incomplete coverage of supplier credits and private sector debt.

January 10, 1972

Table 3

January 10, 1972

GROSS AND NET AID FLOWS: 1970/71
(in million U.S. Dollars)

	Project aid dis-bursements (1)	Non-Project aid disbursements[a] (2)	Food aid and non-food PL 480 (3)	Total[b] (4)	Debt Service Payments (5)	Net aid transfer[c] (6)
A, Consortium Members						
1. Austria	-	2.80	-	2.80	2.79	0.01
2. Belguim	3.43	3.43	-	6.86	3.17	3.69
3. Canada	14.71	47.26	42.00	103.97	6.32	97.65
4. Denmark	0.16	1.74	-	1.90	0.34	1.56
5. France	8.19	15.37	-	23.56	20.58	2.98
6. Germany	20.95	55.17	-	76.12	86.25	- 10.13
7. Italy	3.80	10.50	-	14.30	21.92	- 7.62
8. Japan	2.12	46.60	-	48.72	74.04	- 25.32
9. Netherlands	3.20	19.07	-	22.27	5.26	17.01
10. Norway	-	-	-	-	0.19	- 0.19
11. Sweden	5.29	-	-	5.29	1.99	3.30
12. U.K.	16.35	84.03	4.08	104.46	44.44	60.02
13. U.S.A.	55.43	226.00	152.28[d]	433.71	103.98[e]	329.73[f]
14. IBRD	40.55	15.00		55.55	86.13	- 30.58
15. IDA	38.99	20.38		59.27	7.61	51.66
Sub-total	213.17	547.25	198.36[g]	958.78[h]	465.01	493.77
B. Non-Consortium						
1. Bulgaria	-	-	-	-	0.05	- 0.05
2. Czechoslovakia	1.78	-	-	1.78	11.98	- 10.20
3. Hungary	0.88	-	-	0.88	0.36	0.52
4. Poland	3.72	-	-	3.72	5.13	- 1.41
5. USSR	49.00	-	-	49.00	93.46	- 44.46
6. Yugóslavia	17.79	-	-	17.79	8.83	8.96
7. Switzerland	2.79	-	-	2.79	5.37	- 2.58
8. Others	-	-	3.77[i]	3.77	9.99[j]	- 6.22
Sub-total	75.96	-	3.77	79.73	135.17[j]	- 55.44
TOTALS	298.13	547.25	202.13	1038.51	600.18	438.33

a/ Including debt relief
b/ Excluding such other forms of aid as technical assistance, miscellaneous grants and US PL 480 Title II.
c/ Net resource transfer would in a number of cases be higher if technical assistance or PL 480 Title II were included.
d/ PL 480 Title I, food and non-food.
e/ Excludes debt service payable in rupees, of which that portion allocated to "US Uses" would represent a real resource transfer to the United States.
f/ Real resource transfer would be higher by amount of US technical assistance and PL 480 Title II, and lower by amount of "US Use" counterpart rupees actually utilised.
g/ May be incomplete.
h/ Largest, single omission is probably PL 480 Title II, but technical assistance grants may also be significant.
i/ Australian food aid.
j/ Includes repayments to Kuwait, Qatar, Bahrain, etc for which no figures on new credits are available.

TABLE 4

December 29, 1971

CONSORTIUM PLEDGES AND COMMITMENTS FOR 1971/72

(U.S. $ million)

	Indications of aid for 1971/72				Agreements signed[a]				BALANCE			
	Non-Project		Project	Total	Non-Project		Project	Total	Non-Project		Project	Total
	Debt Relief	Other			Debt Relief	Other			Debt Relief	Other		
Austria	1.0	-	-	1.0	1.0	-	-	1.0	-	-	-	-
Belgium	1.1	2.9[c]	-	4.0[d]	1.1	2.9[c]	-	4.0[d]	-	-	-	-
Canada[e]	0.8	41.0[c]	-	41.8[d]	0.8	47.3[c]	2.8	50.9[d]	-	-	-	-
Denmark[e]	-	-	-	-	-	-	-	-	-	-	-	-
France	5.0	12.6[b]	14.4[b]	32.0	5.0	12.6	14.4	32.0	-	-	-	-
Germany	30.0	23.2[b]	20.5[b]	73.7	30.0	35.5	16.4	81.9	-	-	-	-
Italy	6.0	-	8.0[f]	14.0	-	-	-	-	6.0	-	8.0	14.0
Japan	20.6	25.4[ff]	15.0[f]	61.0	20.6	-[ff]	-	20.6	-	25.4	15.0	40.4
Netherlands	0.7	13.9[ff]	-[h]	14.6[h]	0.7	13.9[ff]	-	14.6	-	-	-	-
Norway	-	3.2[h]	1.0[h]	4.2[h]	-	-	-	-	-	3.2	1.0	4.2
Sweden	-	10.0	5.0	15.0	-	7.7	21.4	29.1	-	-	-	-
U.K.	18.0	64.8[i]	48.0	130.8[i]	18.0	64.8	19.2	102.0	-	-	28.8	28.8
U.S.A.	8.71	220.0[j]	6.0	234.7[j]	8.7	-	-	8.7	-	220.0	6.0	226.0
IBRD	-	-	50.0[k]	50.0[k]	-	-	60.0	60.0	-	-	-[k]	-
IDA	-	75.0[k]	275.0[k]	350.0[k]	-	-	114.0	114.0	-	75.0[k]	161.0[k]	236.0[k]
Total	91.9	492.0	442.9	1026.8	85.9	184.7	248.2	518.8	6.0	323.6	219.8	549.4

a/ Agreements signed, i.e. commitments, in respect of 1971/72 pledges, up to December 29, 1971. Total commitments during 1971/72 will be higher to the extent of commitments made against previous years' pledges as well as against advance commitment authority.

b/ No indication given at Consortium meeting. Amounts shown are actual commitments for 1970/71.

c/ Allocation between project and non-project aid of $ 41 million in development loans assumed.

d/ Plus $ 41 million in grant food aid.

e/ $ 1.5 million balances from previous authorisation may be utilised during the current year.

f/ Annual average of 3-year commitment of $ 45 million.

g/ General purpose loan, available for both project and non-project purposes.

h/ Estimated amount attributable to 1971/72 out of allocation of $ 20 million for 1971 to 1974. Allocation between project and non-project aid also estimated.

i/ Subject to Congressional approval.

j/ Plus $ 220 million in food aid and $ 9 million in technical assistance.

k/ Subject to availability of IDA funds and IDA Board approval. Figures are on basis of IDA's fiscal 1971/72.

Confidential
January 10, 1972

Table 5

ESTIMATED GROSS AND NET AID FLOWS : 1971/72
(in million U.S. dollars)

	Project aid disbursements (1)	Non-Project aid disbursements[a] (2)	Food aid and non-food PL 480 (3)	Total[b] (4)	Debt Service Payments (5)	Net aid transfer (6)
A. Consortium Members						
1. Austria	-	0.99	-	0.99	2.73	- 1.74
2. Belgium	2.00	4.10	-	6.10	3.27	2.83
3. Canada	19.14	53.06	35.50	107.70	6.41	101.29
4. Denmark	6.69	1.81	-	8.50	0.39	8.11
5. France	26.96	19.59	-	46.55	21.68	24.87
6. Germany	24.60	62.66	-	87.26	87.19	0.07
7. Italy	10.00	13.39	-	23.39	29.54	- 6.15
8. Japan	15.12	42.15	-	57.27	71.79	-14.52
9. Netherlands	2.00	10.02	-	12.02	6.08	5.94
10. Norway	0.27	-	-	0.27	0.19	0.08
11. Sweden	10.85	-	-	10.85	2.10	8.75
12. U.K.	29.73	105.27	2.00	137.00	55.13	81.87
13. U.S.A.	25.14	175.08	126.67	326.89	108.33	218.56
14. IBRD	34.11	-	-	34.11	76.16	-42.05
15. IDA	62.57	64.61	-	127.18	8.88	118.30
Sub-total	269.18	552.73	164.17	986.08	479.87	506.21
B. Non-Consortium						
1. Bulgaria	0.50	-	-	0.50	0.04	0.46
2. Czechoslovakia	2.22	-	-	2.22	12.72	-10.50
3. German Democratic Republic	-	-	-	-	0.53	- 0.53
4. Hungary	0.50	-	-	0.50	0.44	0.06
5. Poland	4.43	-	-	4.43	5.48	- 1.05
6. Rumania	1.50	-	-	1.50	-	1.50
7. U.S.S.R.	22.50	-	-	22.50	56.04	-33.54
8. Yugoslavia	-	-	-	-	10.51	-10.51
9. Switzerland	3.07	-	-	3.07	5.57	- 2.50
10. Others	-	-	2.80[c]	2.80	9.50	- 6.70
Sub-total	34.72	-	2.80	37.52	100.83	-63.31
TOTALS	303.90	552.73	166.97	1023.60	580.70	442.90
Adjustment for incomplete coverage of supplier credits and private sector, and for interest on new loans signed after April 1, 1971					+20.00	-20.00
				1023.60	600.70	422.90

a/ Including debt relief.
b/ Excluding such other forms of aid as technical assistance, miscellaneous grants and U.S. PL 480 Title II.
c/ Australian food aid.

TABLE 6

PAST GROSS AID FLOW AND PROJECTION FOR 1971/72 AND 1972/73

($ million)

		Non-Project[a/]	Project	Total
1.	Balance available on 1.4.1969	755	1487	2242
2.	New commitments in 1969/70	525	306	831
3.	Total available for 1969/70 (1+2)	1280	1793	3073
4.	Disbursements during 1969/70	598	307	905[b/]
5.	Balance available on 1.4.1970 (3-4)	682	1486	2168
6.	New commitments in 1970/71	456	296	752
7.	Total available for 1970/71 (5+6)	1138	1782	2920
8.	Disbursements during 1970/71	547	289	836[b/]
9.	Balance available on 1.4.1971 (7-8)	591	1493	2084
10.	Expected commitments during 1971/72	460	645	1105
11.	Total available for 1971/72 (9+10)	1051	2138	3189
12.	Expected disbursements during 1971/72	551	304	855[b/]
13.	Balance available on 1.4.1972 (11-12)	500	1834	2334
14.	Possible commitments in 1972/73	550	500	1050[d/]
15.	Total available (13+14)	1050	2334	3384
16.	Disbursements during 1972/73	520[c/]	400[c/]	920[d/]
	(a) from existing pipeline	300[c/]	370[c/]	670
	(b) from new aid	220[c/]	30[c/]	250
17.	Balance available on 1.4.1973 (15-16)	530	1934	2464

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a/ Including debt relief.

b/ Food aid and non-food PL 480 are additional to the figures shown for 1969/70 to 1971/72. Total aid disbursements for each of these years would therefore be higher by $ 296, 271 and 267 million respectively.

c/ Disbursement assumptions (i) for non-project aid : 60 percent of the pipeline at the beginning of the year plus 30 percent of new non-IDA commitments received in that year plus 100 percent of the expected IDA commitments; (ii) for project aid : 20 percent of the pipeline at the beginning of the year plus 6 percent of new commitments received in that year.

d/ No assumptions have been made with respect to food aid or non-food PL 480 in 1972/73. Any assistance in these categories would be additional to the disbursement figures shown in the table. Disbursements would also be higher if more than $ 90 million out of new commitments were in the form of quick-disbursing debt relief.

January 7, 1972.

DEVELOPMENT ASSISTANCE TO INDIA - ALL SOURCES

Gross and Net Aid Flows, 1965/66-1970/71 a/

(in U.S. $ million)

	Gross Aid (Disbursements)	Of which: Food Aid and Non-Food PL480	Of which: Other Aid	Debt Service b/	Net Aid
1965/66	1,623	518	1,105	315	1,308
1966/67	1,494	573	921	365	1,129
1967/68	1,575	523	1,052	444	1,131
1968/69	1,211	295	916	500	711
1969/70	1,201	296	911	550	651
1970/71	1,052	216	836	600	452
1970/71 (Consortium members only)	973	213	760	465	508 c/
(of which USA)	448	167	281	104 d/	344 e/
(of which IBRD/IDA)	115	-	115	94	21

a/ Indian fiscal years (April 1 to March 31).
b/ Amortization and interest.
c/ The figure for net aid from the consortium for 1970/71 (508) is larger than the net aid from all sources for the same year (452) because the net aid from non-consortium sources is negative in that year.
d/ Excludes debt-service payable in rupees.
e/ Omits PL480 Title II and technical assistance. US bilateral assistance for the period 1965/66-1970/71 was over 50% of gross disbursements by the Consortium and over 60% of the net transfer (excluding food aid). US disbursements were over 70% of the Consortium total including food aid.

Source: Government of India.

DEVELOPMENT ASSISTANCE TO INDIA - ALL SOURCES

Gross and Net Aid Flows, 1965/66-1970/71 [a]

(in U.S. $ million)

	Gross Aid (Disbursements)	Of which: Food Aid and Non-Food PL480	Of which: Other Aid	Debt Service [b]	Net Aid
1965/66	1,623	518	1,105	315	1,308
1966/67	1,494	573	921	365	1,129
1967/68	1,575	523	1,052	444	1,131
1968/69	1,211	295	916	500	711
1969/70	1,201	296	911	550	651
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1970/71 (Consortium members only)	973	213	760	465	508 [c]
(of which USA)	448	167	281	104 [d]	344 [e]
(of which IBRD/IDA)	115	-	115	94	21

a/ Indian fiscal years (April 1 to March 31).
b/ Amortization and interest.
c/ The figure for net aid from the consortium for 1970/71 (508) is larger than the net aid from all sources for the same year (452) because the net aid from non-consortium sources is negative in that year.
d/ Excludes debt-service payable in rupees.
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Source: Government of India.

N

STATUS OF LENDING PROGRAM

1. Attached is a copy of the latest monthly report on the status of lending operations in the current and in the next fiscal year. We foresee no difficulty meeting a commitment target of US$420 million of IDA funds in the current fiscal year. IDA credits amounting to US$189 million have been approved, so far in this fiscal year. A further US$123.5 million for agricultural credit in Maharashtra, marketing in Bihar, and oil tankers will be negotiated presently. Processing of the Industrial Imports credit (US$75 million), the Family Planning project (US$12 million) and the IDBI project (US$25 million) is well in hand, leaving three projects - Power Transmission III (US$60 million), Fertilizer Nangal (US$20 million) and Fertilizer Trombay (US$15 million) for carry-over into FY 1973.

2. With the approval of the Railways XI project, all but about US$30 million of IDA funds currently available for the Indian program have been used up. Processing of projects is continuing through the stage of their approval by the Executive Directors, the signing of Credit Agreements remaining subject to actual replenishment.

3. Despite the carry-over of approximately US$100 million of credits into FY 1973, the program for FY 1973 remains weak. The probable deletion of the Shipping II project from the program, because of substantial doubt of its economic justification, reduces the comfortable margin against slippage by a significant amount (US$80 million). Above all, the achievement of our lending targets in FY 1973 will depend on a solution to the civil works procurement question.

US$108 million of planned IDA commitments in FY 1973 are affected by this question. While the operations program, including carry-over from FY 1972 would still amount to US$528 million, this figure includes a number of projects such as Marcona Iron Ore, Agricultural Credit - Punjab II or Small Scale Industry, whose probability cannot be regarded as very high.

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

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

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I N D I A

LIST OF LOANS AND CREDITS NOT FULLY DISBURSED

No. of Loan/Credit	Project	Amount ($ M)	Date	Closing Date	Undisbursed as of Dec. 31, 1971 ($ M)	Last Supervision Report	Remarks
Agriculture							
176-IN	Kadana	35.0	9/2/70	9/30/76	31.5	Mission Nov/Dec'71 just returned	1. Construction work on project now expected to be about 2 years behind schedule - completion now 1976 viz. 1974. Hiatus caused by suspension of contractor. Work now being undertaken by force account. 2. Some tenders for machinery approved others under review as also is revision of list of goods to permit purchase of additional machinery and also some machinery previously reserved. 3. Progress now on construction and project coordination, especially of agriculture, found to be quite satisfactory.
614-IN (Loan)	Tarai Seeds	13.0	6/18/69	12/31/74	10.8	November 1971	1. Disbursements about 6-9 months behind schedule. 2. Tenders for all machinery now approved - there were some delays resulting from technical considera tions. A change in list of goods has also been approved. 3. Slow progress in land levelling due to lack of expertise.

No. of Loan/Credit	Project	Amount ($ M)	Date	Closing Date	Undisbursed as of Dec. 31, 1971 ($ M)	Last Supervision Report	Remarks
268-IN	Pochampad	39.0	8/23/71	3/31/77	39.0	First mission scheduled for February	1. Declared effective Nov. 15. 2. Significant disbursements not scheduled to start until Dec. 1972. 3. An on-going project for which certain new contracts to be financed are being reviewed.
230-IN	Agro-Aviation	6.0	1/28/71	12/31/71	6.0	November 4, 1971	1. Disbursements about 6 months behind schedule. 2. No significant progress has been made in project implementation due to administrative delays. 3. Request to approve import of five helicopters by a government-owned company is being reviewed by IDA. 4. Shortage of agricultural pilots remains critical.
Industry							
307-IN (Loan)	IISCO	19.5	12/22/61	1/31/67 6/30/74	2.6	August 1971	1. Disbursements running about six months behind revised schedule but closing date should be met. 2. Technical and managerial problems have caused delays. Project is under constant supervision by a consultant (last visit Aug'71) and satisfactory progress is now being made.
182-IN	6th Industrial Imports	75.0	4/24/70	6/30/71 12/31/71	12.3	Nov/Dec 1971 (appraisal of 7th too)	1. Disbursements delayed on account of slow licensing during early period and extended delivery dates. $74.6 million disbursed on Dec. 31 and claims for balance now being processed.

No. of Loan/Credit	Project	Amount ($ M)	Date	Closing Date	Undisbursed as of Dec. 31, 1971 ($ M)	Last Supervision Report	Remarks
414-IN	ICICI VI	50.0	5/28/65	6/30/72	4.6		1. Fully committed. Affected by 1966-68 recessions which meant a substantial lengthening of the interval between ICICI's approval of sub-projects and actual commitment and disbursement of funds.
515-IN	ICICI VII	25.0	9/19/67	12/31/72	6.0		
683-IN	ICICI VIII	40.0	6/3/70	9/30/74	25.3		
153-IN)		27.5			4.2	November 22, 1971	1. Disbursements about 9 months or so behind schedule.
615-IN)	Telecom III	27.5	6/18/69	12/31/72	20.6		2. Due to difficulties present in local factories and delivery delays of key imported items, it is estimated that the program has slipped by about one year behind target.
(Loan))							3. In view of the above, a further supervision mission is to visit India in early spring.
241-IN	Telecom IV	78.0	5/3/71	12/21/74	78.0	November 22, 1971	1. Significant disbursements not scheduled to start until March 1972.

No. of Loan/Credit	Project	Amount ($ M)	Date	Closing Date	Undisbursed as of Dec. 31, 1971 ($ M)	Last Supervision Report	Remarks
89-IN	Beas	23.0	6/29/66	12/31/72	8.3	Nov./Dec. 1971 (not yet returned)	1. Disbursements not now expected to be completed until end of 1974. Request for extension of closing date submitted. 2. Purpose of credit was to finance purchase of machinery and also equipment for power house. The project is part of the large scheme for integrated development of the Eastern rivers of the Indus Basin consequent upon the Indus Basin Waters Agreement with Pakistan. Initially, there were serious delays in executing the project until 1966 when IDA and USAID provided foreign exchange assistance. Drawdown of IDA credit is dependent upon progress of these large works and with installation of generating units now scheduled for March 1974, full disbursement is not expected until the end of that year.
191-IN	Gujarat Ag. Credit	35.0	6/3/70	6/30/74	33.6	September 1971	1. Large disbursements expected in near future.

P

STATUS OF THE FOURTH PLAN

The economic growth targets for the Fourth Plan (1969/70-1973/74) are substantially higher in almost all categories than Indian experience over the last two decades. In part this was a reflection of the hope of the planners for revival from the general recession that accompanied the two severe drought years of 1965/66 and 1966/67 when cereal production fell off by about 18%. It also reflected confidence in the green revolution, of stronger emphasis on exports particularly of non-traditional items and the combined effect of these two factors on industrial production. The growth in real national income of 5.5% envisaged in the Fourth Plan was about 2% a year higher than that achieved from 1955/56-1968/69. Although the Plan frame contemplated a decline in net foreign aid of about 50% over the plan period thanks to a postulated marginal rate of domestic savings of 27% (the average net rate of savings was to rise from 8.8% of national income in 1968/69 to 13.2% by 1973/74) the ratio of net investment to national income was expected to increase by about 25% during the five year period reaching 14.5% by 1973/74. If achieved this would be higher than at any time during the 1960's with the possible exception of 1965/66 when net investment may have been about 15% of national income. The resources provided by net foreign assistance were expected to decline to about 8-9% of investment in 1973/74 as compared with the nearly 20% which they had contributed in 1965/66. Exports and non-food imports were expected to rise at about the same rate of 7% per annum during the Fourth Plan. This would represent an approximate doubling of the rate of export growth achieved from 1960/61-1968/69 and an even more precipitious increase in imports. As can be seen from the relative economic growth and investment rates referred to above the framers of the Fourth Plan (perhaps in expectation of the success of the green revolution) expected a much more favorable relationship between investment and growth than India has experienced heretofore with a net investment-output ratio of about 2:1 as compared with close to 3:1 in previous five year plans.

With the very important exception of foodgrain production, at the mid-point of the Fourth Plan both the rate of investment in real terms and the growth in physical production in most sectors of the economy have fallen short of the plan targets. The statistical evidence thus far available does not justify an exact quantification of this statement but it seems safe to say that the relative shortfall in physical output was substantially less than that in net investment. While it is doubtful whether the target rate of 5.5% in real income was achieved in either of the first two years of the plan the shortfalls probably were not more than 0.5% and may have been even less whereas public sector investment seems to have been below plan objectives by 14-15% in real terms and private investment was probably even less buoyant. Considering that the plan postulated a population increase of 2.5% per annum whereas the last census (1971) indicates that the population of India may be growing at 2.25% it would seem to support the conclusion that the growth in per capita income may have about reached the plan objective of 3% in these two years. Despite this rather encouraging development, however when the aggregate figure for economic

growth is broken down by sectors and sub-sectors any feeling of complacency about ultimate achievements of the Fourth Plan targets seems hardly justified. For example the annual gross increase in foodgrain production of 6 and 8% in 1969/70 and 1970/71 (as compared with the target of 5.6%) reflects various factors which may not be repeated on an equivalent scale (such as very favorable weather, the technological break-through particularly in wheat and the extention of the irrigated and cultivated area) in future years. The rest of the agricultural sector has done much less well with the principal fibre crops of jute and cotton showing very little progress towards achieving the 9.3% and 5.5% annual growth objectives indicated in the Plan. However by far the most disappointing sector has been manufacturing industry where growth achieved is only about half the envisaged 8-10% projection over the plan period. The Fourth Plan has thus shown a reversal of the normal relation for developing countries where industry is usually the leading sector. This more orthodox relationship did in fact prevail in India during the first two plans with agriculture growing at about 4% a year as compared to industry's 7-8%, and as noted above, a similar relation was expected to repeat itself in the Fourth Plan. That it has not done so is the result of many factors both positive (for foodgrains) and negative (for industry) which were fully discussed in the last economic report (SA-25a - May 11, 1971).

While the largely non-economic (technology and weather) impetus to agricultural growth are fairly self-evident, the poor showing of industry is more complex. The elements involved such as labour problems, the semi-paralysis that has afflicted West Bengal which normally produces nearly 15% of India's industrial production, shortages of imported and domestic materials and components, the shortfall in investment in the public sector and some innovations in industrial policy discussed elsewhere in this report have all played a part. It may also be contended with some justification that the industrial production index contains a considerable downward bias due to antiquated weighting and the exclusion of the small scale sector which government regulatory and credit policies has particularly favored. However, no one contends that the performance of large and medium scale manufacturing industry has been satisfactory.

In view of this it is somewhat paradoxical that the "success" feature of the Plan to-date has been in exports and that non-traditional manufactures have been a leading component of this export expansion. Export growth over the two year period appears to have averaged about 6.3% per annum and reached 8% in 1970/71. This was combined with a sharp contraction of imports in the first year of the Plan to which the desire to achieve a more comfortable foreign reserve position even in the face of precipitious decline in net foreign aid, appears to have played an important part. It resulted in a quite favorable evolution of the trade balance with the deficit declining from $ 732 million in 1968/69 to only $ 178 million in 1970/71. Only part of the lower level of imports is attributable to reduced dependency on foodgrain supplies. Non-food imports were cut by 17% in 1969/70 and less than two-thirds of this decline was compensated by the growth in non-food imports

permitted in 1970/71. India has been able to increase her foreign exchange reserves from $ 397 million (net of IMF drawings) at the start of the Plan to about $ 1134 million at the end of September 1971 or roughly from 20% to 50% of her annual non-food imports.[1/] At the same time net aid (gross aid less interest and amortization) declined from $ 1173 million in 1968/69 to $ 436 million in 1970/71. The improvement in the trade balance is striking though there is little doubt that an overly restrictive import policy (at least as far as the timing of raw material imports is concerned) has played a significant part in the poor showing of industrial production. Critics of Indian economic planning should welcome the anticipated sharp rise in imports of industrial materials expected during the current year (25%) even though a portion is made necessary by managerial errors in the Indian steel industry.

Turning to the resources side of the Fourth Plan, no reliable data are thus far available on the evolution of overall domestic savings and investment, although tentative estimates would indicate that savings may be increasing somewhat faster than the decline in net foreign aid so that marginal increases in investment are probably occurring. However, after the sharp slump in investment that occurred in the immediate pre-plan years neither the absolute amount of investment in real terms and much less its percentage of national income have yet approached the level of 1965/66. Since the proceeds of the industrial imports funds will supplement public sector investment resources (while the imports thus financed will alleviate raw material shortages in the private sector) our principal attention will be on the public sector investment program. The Fourth Plan frame indicated total investment of Rs. 226 billion plus an additional Rs. 23 billion of planned public sector outlays for non-investment purposes. Of this Rs. 249 billion, Rs. 160 billion was to be expended by or channelled through the public sector.[2/] Of the Rs. 160 billion of public sector plan expenditures, Rs. 26 billion (17%) was to come from foreign assistance.[3/]

In monetary terms total plan expenditures in the public sector during the first two years have not fallen very far short of anticipations; they amount to about 37% of the five year total as compared with the 32% originally envisaged. If the targetted expenditure for 1971/72 is achieved more than 51% of the plan target in

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1/ $ 227 million of this increase of $ 737 million was due to the allocation of SDR's.

2/ Of the Rs. 90 billion of investment reserve for the private sector only Rs. 0.3 billion were to be generated externally.

3/ Gross foreign aid disbursements less principal repayments were expected to be between 10.4% of plan expenditures and a little more than 11% of total investment expenditures. The difference between this 11% and the 8.2% of investment resources expected from net resource inflows mentioned above is the interest on external debt estimated at Rs. 7.5 billion during the Fourth Plan period.

terms of current prices will be reached. However the plan has drawn up on the basis of constant prices and taking account of price increases the shortfall in real public sector planned expenditures is probably in the order of 10-12%. The mobilisation of public sector resources is discussed in more detail elsewhere in this report. However the main factors involved may be summarised as

(a) an excess thus of about 1% (in current prices) in the target for total domestic resource mobilisation;

(b) less recourse to deficit financing than was anticipated so that the other sources of public sector funds exceeded expectations by about 3%;

(c) the foreign resource input to the public sector has fallen short of projections by about 14%.

While this brief summary would appear to place the onus for the shortfall in real plan expenditures largely on foreign aid the analysis will indicate that the internal resource mobilisation and particularly its source, leaves a good deal to be desired as far as the overall investment health of the economy is concerned. For example the current surplus at the centre has fallen substantially short of expectations as have the savings of public enterprises both at the centre and state levels. In financial terms this has been made up by a greater recourse to private sector savings than the plan anticipated and together with concommittant credit contraction appears to be a factor in the under-investment which seems to be occurring in the private sector (this will require correction and elaboration when we receive the mid-plan review). On the evidence thus far available of the government's plans for additional resource mobilisation during the rest of the plan period this line of development appears likely to continue and be exacerbated by the refugee problem if adequate foreign assistance (accompanied by import liberalization) is not forthcoming.

During the first two years of the Plan the sectoral disbursement of public sector plan finance was roughly in accordance with the Plan allocations. Overages occurred for agriculture, irrigation and power and small industry. Where shortfalls occurred in the fields of large industry, transport and family planning absorptive capacity played an important role and there seems to be considerable correlation between plan expenditures and the rate of growth of current production in the different sectors.

Fourth Plan Revision

When the Prime Minister appointed a new Planning Commission shortly after the last election, there was much talk in government circles about revising the Plan to give more emphasis to schemes which would increase employment and deal with social problems. This has not been done but the staff of the Planning Commission and the different ministries in the last few months have been giving more thought to integrated rural works programs, measures to improve the performance of public sector enterprises, a national resource survey and reviewing center state financial relations. Commission members have also focussed on better economic evaluation of projects and monitoring plan targets. In addition, the Commission has devoted much of its energies to making a comprehensive mid-term appraisal of the fourth plan which was published in late December. It became obvious as 1971 wore on that the refugee problem, the war and the uncertain future of foreign aid made a definitive forecast of the last three years of the Plan very difficult. It also became clear that the weight of continuing schemes in total plan expenditures combined with the time it would take to work out new employment creating projects ruled out any major changes in the investment pattern for the balance of the Fourth Plan. Thus the increased concern about employment and other questions will be reflected in the Fifth Plan rather than in any major changes in the Fourth.

The mid-term plan appraisal document gives a fairly clear picture of events during the first two and a half years of the Fourth Plan which were summarized above. Its analysis of the remaining years, although taking account of the refugee burden this year, does not reflect the impact of the war, possible transfer of resources to Bangla Desh and the more uncertain aid

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picture. All these are likely to make it much more difficult to find the resources to meet the investment targets in the Plan.

The appraisal recognizes that most of the Fourth Plan agricultural production targets will not be met. The outturn of all foodgrains in 1973/74 is now expected to be 122 - 125 million tons against a target of 129 million tons. This is a much more realistic figure, though it still assumes a degree of improvement in rice production which is scarcely warranted on present evidence. The target for wheat is likely to be substantially exceeded. In the case of commercial crops despite the allocation of additional Plan resources for research, extension and subsidization of pesticides, even the new targets may well not be reached.

Additional Plan resources (Rs. 1,000 million) have been allocated to the Agricultural Refinance Corporation (ARC) for long-term agricultural lending. The Review attributes this increase to the large volume of IDA lending going through ARC. Similarly additional funds allocated for the development of the command areas of irrigation projects are earmarked for projects being financed by IDA.

Progress has been much slower than expected in building a number of major public sector industrial projects. This together with difficulties in operating existing plants has led to a downward revision of production targets for 1973/74 in some major industries while a lower level of private investment, combined with sluggish demand for some products, has led to lower targets in others. The targets for ingot steel production has been revised downwards from 10.8 million tons to 8.2 million tons and even this will be hard to achieve. Production of nitrogenous fertilisers is now optimistically projected at 1.8 million tons instead of 2.5 million tons of nutrient while the

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phosphate target is down to 0.45 million tons from 0.9 million tons. Production of non-ferrous metals, refined oil, newsprint, machine tools, cotton textiles and commercial vehicles all will be substantially below the original targets. On the other hand original production targets may well be achieved in cement, paper, sugar, electronic items, power driven pumps and electronic motors.

In other sectors physical progress has been disappointing. The mid-term appraisal now puts total electricity generating capacity in 1973/74 at 21.2 million kw instead of 23 million kw in the Plan. It is doubtful whether even this lower figure will be achieved since capacity is only likely to be 17.6 million kw at the end of 1971/72. However, targets for rural electrification and the installation of rural pump sets are likely to be reached. Railway freight traffic will fall well short of original targets mainly due to the slow growth of steel, coal, cement, iron ore and fertiliser production. Additional enrolments in primary, middle or upper schools will probably be 95%, 85% and a 100% of original targets.

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The Agricultural Scene

1. In "The Year of Refugees" which also included a major though short war, Indian political and economic problems are more numerous and greater than usual, but food shortages do not claim the headlines. Earlier in 1971 India was afflicted with damaging drought and devastating floods, but such are the new trends in the agricultural economy that this year is likely to register a further rise in agricultural production - from 108 to an estimated 112 million tons of foodgrains or the best crop recorded to-date. With no food shortages, ample stocks, elimination of grain imports under PL 480, and food prices stable, India is on the threshold of self-sufficiency. Recalling the situation of the none-too-distant past, this is India's major economic achievement of far-reaching importance.

2. The green revolution continued to hold sway, even if the earlier on-rush of technological change has slowed down. The cynical references on "How Green is the Green Revolution", implying that "nature's bounty" is mainly responsible for the rise in production, need not be taken seriously. While not denying the effects of favorable climatic conditions, they only partly explain the character of the gradual shift from traditional to modernized agriculture where it is taking place. The manifold increase in the consumption of fertilizer, electric and diesel pumps, tubewells, tractor and of other inputs provides a better index for the changeover observable in certain sections of rural India. Wheat is so far the big success story, but in view of the ongoing research work on rice chances are that a breakthrough will be achieved in the next few years. Other crops, including cash crops, must await some attention, but it may be said in summary that important as the green revolution has been to-date in enhancing production, it is probably

equally as important as a testing ground for general changes in agricultural technology. And not the least to its credit is not so much enrichment of the well-to-do farmers, but the participation in the new technology of some of the smaller owners and the awakening of keen desire for betterment among those who lack the resources to share in it and are mere onlookers of the transformation.

3. Despite the unquestioned progress, the green revolution is not green all over, accounting as it does for only about 10 percent of the country's 340 million of cultivated acres. It is "selective" with the stress on bigger farmers, though many smaller farmers are also involved in the new process. In a country of great inequality of land ownership, other resources and marketed surpluses, income inequality is the normal state of affairs. But the new farm strategy has served to polarize income distribution to a much greater degree than in the past. In widely prevailing poverty (an estimated 154 to 210 million rural people live below the poverty line) the new technology has exacerbated this long standing issue. Mechanization of agriculture is another issue accelerated by the technology, and according to Minister Subramaniam

> " A national policy for selective mechanization with accent on improving productivity of land and labor without displacement of labor is an essential requirement for promoting employment and growth".

Whatever the condition of farm labor in the future, under the impact of the green revolution the already weak position of tenants and share-croppers has undergone a decided change for the worse. Their displacement into the status of landless laborers is far from a remote possibility. In general,

the green revolution with the heightened value it attaches to unencumbered ownership has made any agrarian reform attempts that more difficult. Germaine to all of this, and not of the new technology's making, is the persistent and widespread rural poverty.

4. The Union Government fully appreciates the new problems that have cropped up and the many of old standing, mentioned and unmentioned here. It is to these ends that an effort is being made to fashion an integrated agricultural program to commence a process of combating rural poverty. A number of programs are now underway to increase rural employment (Public Works Program), to make the potentially viable small farmers viable (Small Farmers Development Agency), and to render special assistance to marginal farmers ("crash programs") to raise their level of living. All these programs call for an expenditure of about Rs. 2 billion during the Fourth Plan. If effectively carried out it will be the clearing of the ground for a nation-wide effort for greater sharing of benefits among the poor. Now more than ever before, India enjoys a political climate, confidence and mood suitable for significant undertakings. Added to this is the recognition that the country has the talent, the professional dedication and is not without material resources. In such circumstances, where "saying" may well be replaced by "doing", it is conceivable that the rural poor could be helped to secure modest but significant benefits. This will not happen overnight, but the opportunities 1971 created may just prove to be the agents of rural uplift long overdue. One thing is clear: for its major contributions the green revolution cannot be relied upon as the sole answer to all the disabilities which beset the rural economy. However productive the new technology may be

and however quickly India achieves self-sufficiency on higher consumption and qualitative levels, in the end result the question of "who gets what" will have to be answered in a manner more nearly in accord with all the promissory notes for improvement of the living conditions of the rural multitudes.

Land Reform, Small Farmers and Rural Works Program

1. Attached is W. Ladejinsky's most recent paper on land reform "Land Ceilings and Land Reform in India". In brief, Ladejinsky has emphasized that the problem of tenurial rights is only one aspect, albeit a vital one, of the huge disparities in wealth and political power in rural India. He has also pointed out that the focus of Government policy in this area - the introduction of legal ceilings on land-holdings - is likely not only to be ineffective but also to be counter-productive since it diverts attention from the fundamental issue of securing small farmers and tenants on their land.

2. While we are aware of the enormous obstacle to equitable rural development imposed by the prevailing land tenure system, our position generally has been that in this sort of problem, which is so bound up in the socio-political system, it is the better part of wisdom for non-Indians not to get actively involved. The special status which Ladejinsky enjoys has allowed him, and therefore the Bank, to express concern about this issue. Indeed, as we continue efforts to devise projects to assist small farmers and the rural poor we may have to press for improvements in this area despite the delicate nature of the issues. In this context, L. Walinsky has recently returned from a mission to investigate the government's small farmer and rural works programs. His Back-to-Office Report (attached) describes promising beginnings which could be worthy of the Bank's financial support pending evaluation in further detail.

OFFICE MEMORANDUM

TO: Mr. I. P. M. Cargill

DATE: January 6, 1972

FROM: L. J. Walinsky

SUBJECT: INDIA - Rural Employment and Works Programs
Back-to-Office Report - Appendix

Partly due to considerations of time and space and due partly to oversight, my back-to-office report of December 27 failed to deal with a number of points which belong in the overall picture. I shall present these questions briefly here.

1. The Larger Program Framework. If there exists ample scope and, I think, justification for expansion of the rural works, employment and small and marginal farmers' programs here described, this is by no means to imply that, even if greatly expanded, they would constitute a sufficiently comprehensive program for overcoming rural poverty in India. Nor are they viewed that way by the GOI. A comprehensive program would obviously have to deal with major questions of land distribution, tenure, rents and the consolidation of fragmented holdings, and with even broader trans-sectoral questions of integrated rural development, as well as with credit for on-farm improvements, productive rural works and dry farming technology. Possible support for the programs examined here should therefore be considered in a larger framework which would take into account current, planned and needed GOI efforts in respect of all the program elements necessary to a comprehensive attack on rural poverty in India.

2. The Micro Framework. The new programs differ from the rural works programs contained in the Third Five-Year Plan in that a specific attempt has been made to integrate them with existing state and district plans incorporated in the Fourth Five-Year Plan. This is especially evident with respect to the rural works (drought prone areas) program. Under this scheme, each district was required to present its proposals within the broader framework of the overall district development plan. The Crash Scheme for Rural Employment may also be said to be at least partly-integrated in that the road, minor irrigation and other rural works selected for execution are frequently those which except for financial constraints would have been included in the overall plan. Doubtless the integration achieved is something less than optimum, but it is significant that the attempt has been made, perhaps with a fair degree of success.

3. Experimental Nature of the Programs. The guidelines and other materials issued by the GOI and the observations of key officials concerned with these programs in the Planning Commission and elsewhere make it very plain that these programs are considered to be experimental in nature. It is anticipated that experience during the remainder of

the Fourth Plan period will serve to test these programs and suggest a number of ways in which the several programs should be restructured and strengthened. It may be that, quite apart from the financial constraint, this avowedly experimental approach would itself suffice to explain the relatively modest size of the several programs initiated. The thinking at both the Ministry of Agriculture and at the Planning Commission anticipates that when this experimental period is over, the programs - modified in the light of this experience - will be expanded very considerably. The time horizon for these programs seems to extend at least ten or fifteen years beyond the end of the Fourth Plan.

4. Engineering and Technical Base. In the current programs, the road, minor irrigation, soil conservation, afforestation and other rural works projects proposed by local authorities are all subject to technical scrutiny and approval by government engineers at the district and state level, and finally at the Center. In a great many cases, however, minimal information required for the preparation of adequate project plans is lacking. In order to provide this, and as part of a scheme to provide useful employment to a large number of technicians and sub-technicians presently unemployed, the Government has prepared a related scheme for rural engineering surveys. Under this scheme 200 technical parties were to have begun a four-months training period in December 1971, and are to go out into the field in April 1972. An additional 200 parties are similarly to be trained during April-July 1972, and a third group of 150 parties from August to November 1972. Thus 550 trained parties should be in the field by 1973-1974. Each party will be composed of two graduate engineers, one junior soil surveyor, one field assistant-cum-tracer and five survey "lascars". These teams will be equipped with the necessary instruments and transportation and will be able, it is anticipated, to survey some 30 villages yearly. The surveys envisage collection of data on agricultural statistics, population and income; the compilation of information on existing facilities for irrigation, drinking water, communications and power supply; and the preparation of maps at one-foot intervals to facilitate the preparation of projects for rural works, roads, electrification, land use planning, soil surveys, minor irrigation, water supply, etc. These field survey parties will be supported and supervised at district headquarter level by technical and scientific teams with a more sophisticated capability. In view of these preparations, it may be anticipated that the informational basis for soundly based rural works projects will be considerably expanded.

5. The Land Army. An organizational innovation in Mysore which may be considerably expanded in that state, and possibly in others as well, is known as the Land Army. Under this scheme, which is being actively supported by the Mysore state government, young men of 18 to 35 are recruited to work on rural works programs. Only recently begun, the

Land Army in Mysore has enrolled about 1500 young men thus far. They are engaged on 14 sanctioned projects under the Crash Scheme for Rural Employment. These are mostly road building. The Chairman and Chief Executive Officer of the Land Army are both retired military men who have introduced physical and literacy training for all recruits, and endeavor to instill both discipline and the concept of service. They hope to do a considerable amount of training in artisan skills and in fact have already opened one course to train some of their young people in the service, maintenance and repair of water pumps. Recruits are paid 3 rupees daily in accordance with the CSRE guideline. Although recruits thus far are from the local communities in which projects are being executed and return to their homes nightly, it is intended that part of the Land Army will eventually become mobile and move from site to site, living in camps.

6. SFDA and MFAL Programs. Three additional points in connection with these programs may be mentioned here.

A. Although the report referred at paragraph 10 to the credit problem of tenants and sharecroppers who could not demonstrate tenurial rights, this point was not pursued. A Reserve Bank of India team which appraised the Small Farmers' Development Agency in Bihar's Purnea district found that the SFDA recently established there had indeed failed to designate as eligible small and marginal farmers who lacked tenurial documentation but worked rather on oral leases. The appraisal team insisted that SFDA's should bear at least a residual responsibility for certification of eligibility for credit in such cases. (If these farmers were members of cooperative societies, it suggested that the managing committee of the primary credit society concerned should be the certifying agency.) The difficulties here are partly those of staff inadequacy (see "B" following) but seem to be due even more importantly to fear that landlords might terminate informal lease arrangements if such certification were made, or alternatively, fears that such certification might lead to outbreaks of violence between landlords and tenants. The Bihar case is, I suppose, an extreme one, but this problem of tenurial rights will undoubtedly confront many SFDA's and MFAL's.

B. So far as I have been able to gather, most SFDA's and MFAL's operate with a single project officer and secretary only, although in some cases an assistant project officer has apparently been authorized. The theory of course is that the project officer will stimulate and coordinate the existing government bureaucracy in all the pertinent agencies to serve the general purposes for which the new agencies were established. Taking into account the fact that the SFDA's and MFAL's are expected to service some 10,000 and 5,000 small and marginal farmers respectively in their project areas every year, it seems unrealistic to expect that even a coordinating function could adequately be performed by a single project

officer. It would seem more realistic if these project officers were supplied with at least a minimal staff so that single officers could concentrate on individual program objectives or on major agencies whose cooperation was needed.

C. The same Reserve Bank of India team which appraised the Purnea project found that, in their well-intentioned efforts to achieve increased lending goals to small and marginal farmers, the cooperative credit agencies had neglected completely to take into account the repayment capacity of the borrowers. It points out that in many cases loans (e.g., for bullocks) are frequently needed just to maintain the borrower's income, and do not serve to increase it. It is in such cases especially that the question of repayment capacity requires examination.

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

OFFICE MEMORANDUM

TO: Mr. I. P. M. Cargill

DATE: December 27, 1971

FROM: L. J. Walinsky

SUBJECT: INDIA - Rural Employment and Works Programs
Back-to-Office Report

A. INTRODUCTION

1. Accompanied by Mr. Norman Reynolds, I visited India November 17 to December 7 to explore India's new employment-oriented rural works programs. We spent some days in New Delhi visiting at the Planning Commission, the Ministry of Agriculture, the National Agricultural Commission, the Rural Electrification Corporation, and the Unemployment Commission for general orientation, to pick up basic information as to the nature and objectives of the programs and the guidelines which had been issued concerning them. We also made the necessary arrangements for a selective tour which would enable us to observe projects in action and learn how state governments and district, development block and village level organizations participated in and coordinated their efforts in program formulation and project implementation. With the assistance of the Ministry of Agriculture, we arranged to tour three states - Maharashtra, Mysore and Bihar. Mr. Reynolds accompanied me on the Maharashtra tour, where we met first with officials of the state government in Bombay and proceeded for three days to tour quite extensively in Poona and Sitara districts, after which we had concluding discussions with the state government in Bombay. I then proceeded to the Mysore state, accompanied by Mr. Peter Naylor of the resident mission. Again, after initial discussions with state officials to finalize our tour arrangements, we spent three days touring intensely the Tumkur and Chitradurga districts. This tour was also concluded with a meeting of state government officials. Coincidentally with this, Mr. Reynolds, accompanied by Timothy King of the resident staff, toured Bihar. Upon our return to New Delhi after the outbreak of the war, we had a lengthy meeting with the Ministry of Agriculture officials most directly concerned with these programs, as well as a concluding meeting with Dr. I. G. Patel.

2. Although I had thought on leaving Washington that I should be looking only at the so-called Crash Scheme for Rural Employment (CSRE) and the Rural Works Program (RWP), it became clear to me during our first days in New Delhi that this perspective was not broad enough. Closely related to these programs in terms of their employment, income distribution and social justice objectives are at least two and probably three additional programs. These are the centrally-sponsored schemes for assisting small farmers and marginal farmers and agricultural laborers through newly created agencies - small farmers development agencies (SFDA's), marginal farmers and landless laborers agencies (MFAL's) - and the so-called dry farming program. Although these programs do not everywhere

co-exist, they do frequently overlap geographically, and they do represent related elements in the Government's approach to the questions of rural poverty and development. I concluded therefore it was important to get a picture of all these programs. Accordingly, we arranged our tour so as to have the opportunity to observe as many of these programs as possible.

B. THE PROGRAMS

3. It will be useful at this point to describe briefly the salient aspects of the several programs mentioned.

a. The Crash Scheme for Rural Employment was initiated only this year (1971/72). Under this scheme the Government of India allots Rs. 12.5 lakhs annually to each of India's 336 (?) districts to finance durable and productive labor-intensive rural projects. In broad, the Center's guidelines stipulate that 80 per cent of the costs of such projects should be wage costs. This, it was anticipated, would provide for the employment of 1,000 workers at a daily wage of 3 rupees and not more than 100 rupees per month for an average employment period of 10 months in the year. The remaining Rs. 2.5 lakhs, it was thought, would suffice to cover the costs of materials and equipment for these projects. The allotment of equal funds to all districts was based on the theory that in even wealthier districts, say, the Punjab, there would inevitably be areas where the allotment of funds for work creation purposes would be warranted. Most of the projects we saw under construction were village roads (metalled for durability) and minor irrigation works (earth dams and percolation tanks). The Government has allotted CSRE Rs. 150 crores for the years 1971/72-1973/74. The requirement, at 12.5 lakhs annually per district, would actually be about Rs. 125 crores. In Bihar, GOI has provided more than double the basic allotment. This may be the case in other states as well.

b. The Rural Works Program is also called the Drought Prone Areas Program. Under this scheme the Government of India provides Rs. 2 crores to each of 54 selected drought prone areas for the four years 1970/71-1973/74. These areas have been selected on the basis of criteria which relate to rainfall distribution, the frequency of water and crop failure and existing irrigation facilities. These areas, which frequently cut across district boundaries, are distributed among 13 states. Of the states we visited, Maharashtra has six such areas; Mysore, five; and Bihar, three. The rural works undertaken under this scheme fall chiefly under the

headings of village roads, medium and minor irrigation works, soil conservation and afforestation. These too are for the most part highly labor intensive, although the guidelines do not in the case of this scheme stipulate the percentage of costs to be paid out in wages, as is the case under the CSRE program. Where the works executed (as in soil conservation) benefit individual farmers, these are granted a subsidy of 25 per cent on the cost of the work done, while the remaining 75 per cent is extended to them as a loan. The government expectation is that each crore of expenditure under the program will provide employment "in the relevant working season of the year" for some 25-30,000 persons. The total allotment in the Plan for this program is 100 crores. (A full Rs. 2 crores for each of the 54 areas designated would require Rs. 108 crores.)

c. The Small Farmers Development Agencies program (SFDA) provides Rs. 1.5 crores to each of some 46 newly created small farmer development agencies for the Fourth Plan period starting with 1970-71. The stated functions of these agencies are chiefly to identify the small farmers eligible for assistance, formulate programs responsive to their problems and, importantly, to provide risk guarantee funds to the cooperative lending institutions at primary, district and state levels to stimulate additional short, medium and long-term lending to these farmers. 1/ Importantly, the SFDA's may make available to the farmers assisted by the lending institutions subsidies of up to 25 per cent of the capital inputs undertaken. The cooperative lending institutions are to be encouraged to increase their short and medium-term lending to small farmers by risk subsidies of 9 per cent (6 per cent to the primary lending society, 3 per cent to the central cooperative bank). Risk subsidies to cooperatives lending long-term loans (land development banks) are only 3 per cent. It is contemplated that some 50,000 potentially viable small farmers with holdings between 2.5 and 7.5 acres will be assisted by each SFDA with subsidized support for irrigation (wells and pump sets), land levelling, soil conservation, improved agricultural implements, etc., as well as in subsidiary occupations like dairy, poultry, fishery, piggery, sheep rearing and horticulture. It is contemplated that the use of SFDA funds in subsidies to the lending institutions will generate additional lending by them in three or four times the amount of SFDA expenditures.

1/ A small farmer was defined as one operating a 2.5-5 acre farm, hence potentially viable. The upper limit was apparently later increased to 7.5 acres.

d. The Marginal Farmers and Landless Laborers Scheme (MFAL's) is closely analogous to that of the small farmer program. Marginal farmers, by definition, have holdings of less than 2.5 acres and are not generally considered potentially viable crop producers. To assist them, 41 MFAL's have been established in selected districts throughout the country. It is anticipated that some 20,000 marginal farmers and agricultural laborers will be assisted in each project area with capital subsidies and subsidized credit support for livestock, poultry, fishery, horticultural, etc. operations. The provision to each MFAL of Rs. 1 crore during the Fourth Plan period will also be used in part, it is anticipated, to finance employment creating works for the benefit of landless laborers. Whereas the SFDA scheme limits subsidies to farmer beneficiaries to 25 per cent, the MFAL scheme permits subsidies up to 33 1/3 per cent of the credit extended for livestock and similar purposes. As compared to the 9 per cent risk subsidy accorded by SFDA's to the cooperative lending institutions, MFAL's may grant similar subsidies in the amount of 11 per cent to the credit institutions for their increased lending to the higher risk marginal farmers (8 per cent to the primary institution, 3 per cent to the central institution). In both SFDA's and MFAL's, the operating responsibility is vested in a project officer who operates under the general direction of a board composed of appropriate area officials, with the district deputy commissioner or the divisional commissioner serving as chairman. These are coordinated at the state level by a coordination committee under the chairmanship of a senior officer (development commissioner/chief secretary/agricultural production commissioner).

800,000 farmers

e. The Dry Farming Scheme (integrated dry land agricultural development scheme) is a pilot and demonstration program designed to test the application of the latest research findings and inputs in some 21 selected areas, originally of some 8,000 acres each (2,000 acres in each year of the Fourth Plan from 1970/71). This is apparently being increased to 12,000 acres in each project, for each of which Rs. 1 crore has been allotted for the Plan period.

40,000 farmers

C. GENERAL OBSERVATIONS

4. It would be tedious here to relate in detail what we saw and learned of each of these programs in the course of our tour. We saw mostly road projects and minor irrigation works. These latter were either small irrigation dams, percolation "tanks" (dams) and individual farmer or "community" wells. We saw also some bunding, land terracing and other conservation work, as well as afforestation projects. While we

were unable to visit a dry farming project area, we did have the opportunity to talk to an officer from the Bellary district in Maharashtra about the project he was supervising there, and we learned more about this program when we returned to New Delhi from Agriculture Ministry officials. We visited and spoke in the course of our tour with the presidents and chief executive officers of Zilla Parishads (elective district-level local government councils) and district-level coordinating committees, Samiti Parishads and Taluk Development Boards (elective local councils at the development block level) and their block development officers, with members of village Panchayats (councils) and in a few cases with project laborers. On visits to project sites, we were almost invariably presented with statements of project description, costs, benefits and so on and up-to-date progress data on outlays, physical progress, employment and so on.

5. In general, it was my strong impression that the CSRE and RWP projects were constructive, durable and well-managed, that they reflected locally felt needs and preferences in considerable degree and that they were having a substantial local impact. Although the CSRE program had been started only in the Spring of this year, a year later than the others, it and the drought prone areas program appeared to be well ahead of the SFDA and MFAL programs, for reasons to which I shall soon advert. The Government of India, it was obvious, was supplying on time the funds it had promised for these programs (unlike the experience with the rural manpower program incorporated in the Third Plan period, when only Rs. 19 crores out of Rs. 150 crores notionally allotted for the Plan period were actually spent). There is no doubt that these programs address themselves in a practical way to some of the outstanding aspects of the rural poverty and unemployment problems and to the rural development objective. By the same token, although they allot some Rs. 96 crores a year for these purposes and something over 375 crores for the Fourth Plan period (taking into account only three years for the CSRE program and four for the others), they are obviously only a very small beginning in terms of the magnitude of the job to be done. There is clearly much room for intensification of these programs where they have already been initiated, and much scope for expansion of these programs to areas not yet covered by them. 1/ Although I stated earlier that the projects in general were constructive in nature, I must add here that the economic analysis justifying some of them is clearly less than adequate, and may represent an uneconomic use of resources. Thus in the Maharashtra state the economic benefits of percolation tanks have been calculated only in terms of the acreage which it is estimated will indirectly be served by raising the water level in wells in the command area. No attempt has been made to calculate the value of additional crop production which it is estimated might result, and indeed the cost per acre indirectly served, which comes on average to about Rs. 2500, seems quite high. In contrast, some of the minor irrigation works,

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1/ For example, in the Mysore state where five drought prone areas have been selected which embrace some 42 talukas (development blocks), I was told that they had originally proposed over 100 talukas for inclusion in the program.

including wells, seem to have very considerable benefits. Thus a well costing, say, 6500 rupees and the accompanying pump set costing some 3500 rupees will irrigate approximately five acres of land. Such land in shadow rainfall and drought prone areas seems to have a market value of about 500 rupees and to produce crops averaging 300 rupees per acre in value. With the water, the average value of crop is said to rise to 2000 and more rupees per acre, while the value of the land multiplies many fold to 4,000-5,000 or more rupees per acre.

6. What impressed me very strongly was the non-applicability to these programs of the much mooted economic growth versus social justice issue. My general impression is that the larger and better-off farmers in these areas have been able to put in wells and have already achieved a good part of their economic growth potential, while it is the small farmers who have not yet been able to do so. In this case, programs which will assist small farmers to make the necessary capital and short-term inputs will serve simultaneously both growth and social justice objectives.

D. INDIVIDUAL PROGRAMS

7. Those were general observations. I might make a few more specific comments on some aspects of the individual programs.

The CSRE Program

8. The project scope of this program varies from district to district. In one it may be comprised entirely of village roads and minor irrigation works, while in another the scope may include soil conservation, afforestation and other project types as well. Laborers seemed to have been selected in accordance with the program's guidelines. Wage payments, we found, while stated usually to be three rupees daily, were paid actually on the basis of work performance in accordance with norms established by the engineers. This no doubt accounted for what I thought was the quite unusual pace of work visible on most of the projects we visited. It resulted also, however, in somewhat disparate rates of pay from project to project even within a smallish area, since actual production performance, e.g., in terms of cubic feet of earth moved, inevitably varied in accordance with disparate soil and other conditions. On different projects, actual pay ranged from 2 to 3 rupees for male workers and took a somewhat lower range of about 1.5 to 2.5 rupees for female workers and even less for boys. Progress on earth embankment work was slowed in more than one instance observed by the lack of rollers. The Government of India has made practical concessions to disparate local conditions as regards its stipulated 80 per cent wage cost component. 1/

1/ Revised guidelines permit a 60/40 wages to other costs ratio on up to one-half the moneys spent.

In the case of some projects visited, workers' attendance was down because of coincidence with the harvest season. Project scheduling obviously should seek to avoid seasonal agricultural employment peaks and to coincide with agricultural seasonal employment troughs. When I remarked on this, I was told that the late sanctioning of the program in the Spring of this year had made it impossible to do such scheduling. In future years, it was affirmed, this would be done.

The RWP (Drought Prone Areas Program)

9. I have already commented that the designation of only 54 such areas leaves many relatively dry areas uncovered, so that the program can usefully be both intensified and extended. The subsidy of 25 per cent permitted to individual farmers whose lands benefit by the soil conservation component of this program is sometimes out of line with other subsidies paid. Thus in Maharashtra, where a state-sponsored scheme for land terracing has been under way for some years, the state government provides a subsidy of 62.5 percent of land terracing costs up to 600 rupees per acre. I saw also one "community" well designed to serve five farmers in the Mysore state which was being subsidized 100 per cent under the CSRE program. When I questioned this subsequently at my meeting with state government officials and also later in Delhi, I was told that this and a few others had been approved as fait accomplit, but that further subsidies of this kind had been prohibited. Several officials to whom I spoke voiced the opinion that the RWP program was the most constructive of the group.

SFDA and MFAL Programs

10. Since these programs aim essentially at stimulating increased short, medium and long-term lending to small and marginal farmers, their success will obviously be influenced in very considerable degree by the lending capacity of the cooperative credit institutions, the realism of their security requirements and the creditworthiness of their borrowers. This picture, as I see it, is a quite complicated one. Wolf Ladejinsky had expressed the view, before I started on tour, that these programs might come to little, because so many small and marginal farmers were tenants and sharecroppers who could not demonstrate tenurial rights to the banks, and who therefore would be unable to obtain loans. This made me sensitive to the credit question, and I tried to pursue it throughout my tour. It turned out actually that in Maharashtra and Mysore most small and marginal farmers do indeed own their own land, quite unlike the situation in Bihar which Ladejinsky had previously explored. Other constraints, however, seemed equally serious.

11. In Maharashtra, for example, the land development banks (the long-term cooperative lending institutions) calculate the security value of the potential borrower's land on the basis of an unrealistic 500 times

the land revenue plus the value of the new capital input, against which they would lend only 50 per cent. By this criterion, a farmer's borrowing capacity apparently comes to considerably less than it would on the basis of a realistic market valuation. This criterion should change in due course, as it is already in process of doing in the Mysore state on the basis of instructions recently issued by the Reserve Bank of India following on loan negotiations with IBRD. The new security criterion will be the farmer's capacity to service his debt on the basis of the net incremental return which may be expected to result from the capital input financed by the loan. A constructive change in this criterion will still leave two other problems unsolved - that of the heavy debt with which many small and marginal farmers are already burdened, and the weak condition of the cooperative lending institutions themselves in many states (including Maharashtra and Mysore). A large proportion of the cooperative lending institutions in these areas have been weakened by poor collections on outstanding loans. 1/ The general concensus is that this is due to several factors, chiefly the misuse of borrowed funds for non-productive purposes, frequent crop failures and evasion of repayment responsibility by many borrowers who are in a position to service their debts. Behind the first and third of these lies the widely reputed belief that larger farmers have in a great many cases captured the management and control of the cooperative lending institutions, have abused this control to their own advantage and generally account for the largest part of loan arrears. In talks with some officials of these lending institutions, they readily conceded that they have been overly lax in the past in their collection efforts. They acknowledge ruefully that, under pressure from above (whether their apex institutions or the Reserve Bank of India), their more vigorous current collection efforts are being productive of results.

12. Talks with the Ministry of Agriculture in Delhi and with the Chairman of the Agricultural Refinance Corporation in Bombay on the conclusion of my tour did much to improve the rather dour impressions I had formed in the field concerning the adequacy of prospective lending to small and marginal farmers under these programs. It is clear that the recently negotiated Mysore Agricultural Credit will greatly strengthen the lending capabilities of the land development banks in that state, and I presume that similar action will be undertaken with respect to the term lending banks in Maharashtra before long. I was also informed of the SFDA's plan to strengthen the central cooperative banks which do the short- and medium-term lending by extending loans of some 10 lakhs each to 48 out of a total of 88 such banks. The SFDA's, it is planned, will also make loans to small farmers so that they may purchase membership shares

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1/ The Department's memorandum to the Loan Committee (November 2, 1971) on the Mysore Agricultural Credit documents this, so far as the land development banks are concerned. The cooperatives engaged in short- and medium-term lending are apparently even weaker.

in the primary credit cooperative societies and thereby gain a more effective voice in their management and lending practices. It appears therefore that remedial action directed towards strengthening the capabilities of the lending institutions, towards a more realistic appraisal on their part of borrowers' creditworthiness, and possibly also towards a democratization of control of the primary lending societies is on the way. But it is by no means yet clear to me whether all this will indeed result in a flow of credit to small and marginal farmers adequate to their needs. A field check on this some months hence should help answer this question.

13. I have concentrated thus far on the credit stimulation aspect of the SFDA and MFAL programs because this was the major task they were created to perform and because, in the drought-prone areas visited, wells, pump sets and livestock requiring credit must obviously be major elements in any program designed to increase small and marginal farmers' incomes. But this objective will require also progress towards more productive farming methods and land uses, towards improved storage, processing and marketing, towards rural industries development, and so on. These are also assigned tasks of the SFDA's and the MFAL's. Their ability to progress in such areas will significantly affect the success of these programs.

14. Still on the SFDA's and MFAL's, a few other comments are in order. I noted in one village covered by a SFDA but not by an MFAL that a very few of some 640 village land holders qualified for SFDA assistance, while most of the remainder, by definition marginal farmers, had no access to assistance. This struck me as a quite ironic situation with which it would be quite impossible politically to live. When I mentioned this in New Delhi (at the Ministry of Agriculture) on the way out, I was told that orders had just been passed to all SFDA's instructing them to extend their benefits to marginal farmers in their areas as well. No additional funds, however, were being made available to them for this expanded coverage and service. 1/ I had noted also that the stated definitions of small and marginal farmers did not seem to be very practicable, in that they made no allowance for irrigated versus non-irrigated land, different soil, rainfall levels or income. To my pleasant surprise, I learned later that a new criterion is being introduced on the initiative of the Reserve Bank of India (again I think as a result of its IBRD loan negotiations) which will stipulate a net income of Rs. 2,400 a year, inclusive of debt service obligations, as the upper definitional limit of the small farm. Whether a lower figure designed to distinguish the marginal from the small farmer has or will be set I did not learn. Another point pertinent to the lending programs in drought-prone areas, where so many loans must inevitably be for wells and pump sets, is the question of groundwater

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1/ This may substantially alter the previously programmed distribution of funds (Rs. 67.5 crores for SFDA's, Rs. 41 crores for MFAL's).

and how much well-digging the groundwater level will sustain. Groundwater studies have been under way, for example, in Mysore State but will not be completed for another two or three years. In the absence of such information, the installation of new wells might reach a point where they would begin to draw down the level of already existing wells rather than add to total water availability.

15. I would make only two brief additional points on these programs. The livestock, poultry and similar loans extended for three years only in the Maharashtra State seem to me to be too short and to impose an onerous repayment burden on the borrower. In Mysore, by contrast, these loans may be for up to five years' maturity. Second, in neither state do such loans incorporate an insurance feature. The loss of animals by accident or disease before loan repayment was completed could impose an intolerable burden on the borrower, and I should think that a self-insurance scheme could easily be built into such loans at very little added cost to the borrower.

The Dry Farming Scheme

16. As regards the dry farming program, I can report only on the basis of one project officer's description of his experience with this program. He reported that in the case of the first crop which had matured with his control group of some 175 farmers, the use of selected seeds, fertilizers, pesticides, etc., had resulted in an increase in average yields of from 1-2 quintals per acre to an average of 8-10 quintals per acre, and that this has been accomplished with very little more water than had been available in the previous year. Although this is very scanty evidence, it does sound rather impressive. The description given us by the Ministry of Agriculture staff in New Delhi of the kinds of thingsthey were doing in the new program, on which I shall not elaborate here, did tend to confirm this impression.

E. GENERAL CONCLUSIONS

17. I come out of all this with a very strong feeling that these programs are in general support-worthy. They provide, I believe, a clear opportunity for the Bank to move in support of programs which have important employment, income distribution and equity concomitants. As already indicated, I believe they are clearly growth-oriented as well. Of the several programs, the clearest case for support, I believe, lies with the drought-prone areas and the crash employment schemes. The small and marginal farmer schemes are not necessarily less support-worthy, but it seems clear that judgment here must depend in part on the degree to which the credit needs of these groups are likely to be served as a result of the loans the Bank has been making for on-farm agricultural lending in India, as well as on the plans of these agencies to move in fields other than credit stimulation. As regards the dry farming program,

since this is still in a pilot, demonstration and experimental stage, it seems to me that judgment can be made only after a year or two. I shall leave to a later time a note on what further action by the Bank may be in order further to pursue the possibilities which I believe have here emerged. What kind of mission, how composed, with what terms of reference and when are questions I should like to reflect upon and discuss with various people within the Bank before venturing even tentative proposals.

18. I have provided in Table I attached some general measures of the direct employment which may be generated by these programs. Because the number of man-days of work which would be feasible (in terms of the monsoon) and desirable (in terms of harvest peak employment requirements) is unclear, I have estimated potential direct employment generation on the alternative basis of 200- and 150-day employment seasons. While the wage component of outlays is fairly clear in the case of the CSRE scheme, I have had to do a certain amount of guessing on the others. (I haven't ventured any guess on the Dry Farming Scheme.) Nevertheless, I think my calculation of some 1.8 million to 2.4 million man-seasons of average annual employment to be created by these programs reasonably approximates the magnitudes involved. While this obviously represents only a small contribution in relation to the national need, it is not exactly a negligible contribution either. Doubling, tripling or quadrupling the levels of expenditure presently planned would of course correspondingly magnify their employment effects, at the same time that success over time in increasing small and marginal farmers' self-produced income will be reducing their needs for off-farm employment and increasing their own seasonal needs for hired labor. As to the scope for, and the relative priorities in, considerably expanding these programs, I have little doubt.

19. It remains to describe my meeting with I. G. Patel on December 6. Since he was under considerable time pressure, I described only very briefly the nature of my tour, and stated to him my generally favorable reactions to these programs. He confessed that his own attention to them had been quite marginal, and asked with (I thought) an air of slight surprise, whether the Bank might be interested in supporting them. I responded that I could not answer for the Bank, but that I thought, in view of the Bank's interests in questions of employment, income distribution, rural development, and so on, as well as its desire to identify projects which could help achieve target levels of agricultural lending, that the reaction to these possibilities would be positive. At this point, I mentioned that, when separately asked, Dr. Minhas at the Planning Commission had stated his belief that a mission further to assess these prospects should not be mounted for the next year or so, while his Vice-Chairman, Dr. Subramaniam, had stated he thought a near future one would be desirable, to develop interest and involvement on the part of the Bank. Dr. Patel indicated he shared Dr. Subramaniam's view.

Schedule this

cc: Messrs. Votaw, Blobel, Baneth, Kraske, Thomas, Reynolds, Segal, Dragomanovich
Evans, Wapenhans, Takahashi
Chenery, Henderson, Stevenson, Haq, Reutlinger, Mrs. Lele
Knapp, Demuth, Adler, Hayes, Lindau
Waterston Mw. Hughes, Gordon, Sadove, Martin Abel
Heaud

Ladonne
Cassen,
Ferma

Table I

AVERAGE ANNUAL OUTLAYS AND ESTIMATED DIRECT EMPLOYMENT

	Program Allotment		Employment 1/	
	Total	Annually	'000 Man Seasons	
	(Rs. crores)		@ 200 days	@ 150 days
CSRE	150.0	50.0	583 2/	778 2/
RWP	100.0	25.0	333 3/	444 3/
SFDA	67.5	16.9	507 4/	676 4/
MFAL	47.5	11.9	357 4/	476 4/
Dry Farming	21.0	5.3	?	?
TOTALS	386.0	109.1	1,780	2,374

1/ At estimated average of Rs. 3 daily.

2/ At an estimated average 70 per cent wage component.

3/ At an estimated average 80 per cent wage component. GOI estimate of 25,000-30,000 employment for "relevant working season of the year" per crore of expenditure would come to .625 million.

4/ Assumes lending agencies will effectively triple agency outlays, and that the average wage component of outlays will be 60 per cent.

Successes and Failures in Agricultural Production

FOODGRAINS

General. Foodgrain production was nearly 108 million tons in 1970/71, about 15% higher than the relatively good harvest of 1968/69. Prospects for the current year indicate a further increase of between 3.5 and 4.5%. This is a satisfactory performance though one must not overlook that it has been greatly assisted by a series of relatively favorable monsoons. While it is below the rate needed to attain the target set in the Fourth Five Year plan, of 129 million tons of foodgrain in 1973/74, it has been sufficiently fast for India to be able to cease all concessional imports of foodgrains from the end of 1971.

This satisfactory foodgrain situation is also reflected in the comfortable stock position. The Fourth Plan proposed the building-up of a buffer stock of 5.0 million tons of foodgrains by the end of the Plan Period, equivalent to a total stock of about 7.0 million tons. At the end of June1971 (the annual peak) total stocks were 8.6 million tons, up 3.1 million tons on June 1970. This sudden and unexpected jump, which has caused considerable storage and financial problems, was caused by a large increase in the volume of wheat procured by government agencies in 1971, itself the result of an excellent wheat crop and high official procurement prices.

Wheat. The prime success story of Indian agriculture during the past few years has been the very rapid growth of wheat production. From a pre-"Green Revolution" peak of 12.3 million tons in 1964/65, production in 1970/71 had risen to 23.2 million tons, an increase of almost 89% in six years. Production in 1971/72 is likely to be close to 25 million tons - one million tons and two years ahead of the Fourth Plan Target. The growth between 1964/65 and 1970/71 is equivalent to an annual rate of 11.2%, against an annual rate in the fifteen years up to 1964/65 of 5.3%.

This rise in wheat production has been the result of two factors. First, even though it is estimated that as yet only one-third of the total wheat area is sown to the new varieties average yields have risen, from 913 kg per hectare in 1964/65 to 1300 kg per hectare in 1970/71 (an increase of 42%). Second, the production of wheat has become relatively more profitable than the production of most competing crops, particularly since the new varieties' higher yield potential has been supplemented by the Government's high procurement price with the result that the area under wheat has expanded very rapidly (by 39% between 1967/68 and 1970/71). Some of this has been at the expense of other crops, particularly pulses. There has also been more intensive cropping made possible by rapid private development of

groundwater, as well as the spread of wheat into non-traditional wheat growing areas such as Bengal and Mysore.

For the future the prospects are that, unless the Government lowers its procurement price, wheat production will continue to expand significantly faster than demand. Even though the Government has announced that concessional imports of wheat would cease beyond the end of 1971 it is likely that wheat stocks will continue to rise in 1972. Present stock levels are already adequate to operate the Government's buffer stock program. The options open are (1) to continue to increase stocks; this is likely to be strongly resisted in financial circles because of its inflationary effects (2) to export wheat; but with the present glut on world markets and with an Indian farm price already 40% above cif import prices for US wheat this does not seem a profitable venture although it has been mentioned by more than one Minister as a possibility (3) to lower wheat prices; a highly unpopular move politically but one which a strong Government could introduce after the state elections in February. It is clear that the large subsidies to wheat producers should not continue much longer particularly in light of the present monetary and fiscal situation and the relative freedom of agriculture from taxation.

Rice. New high yielding rice varieties became available at much the same time as the new wheats but their national impact to-date has been far less; only in a number of more favorable areas have they had significant effects on production. Rice production in 1969/70, at 40.4 million tons, was only 1.4 million tons (3.5%) above the pre-"Green Revolution" peak five years earlier. In 1970/71 production rose a further 5%. While some of this increase must be attributed to favorable weather conditions there can be little doubt that, with 15% of the rice area now under the new varieties, they are at last beginning to have an impact on national production figures. Future years will probably see a quickening growth of rice production in India but a very rapid jump in output, such as occurred for wheat is not expected. To a great extent this is due to the less favorable environmental conditions under which rice is grown; but also to the lack of a wider selection of new varieties specifically tailored to varying regional requirements.

India has a large and successful rice breeding and research program and a whole series of new varieties are becoming available which are more closely tailored to local conditions and which also incorporate many characteristics lacking in the new strains introduced originally while maintaining the capacity to produce high yields, e.g. greater resistance to pests and diseases, greater tolerance of water-logged conditions, better grain quality, shorter growth period. The basis for a more rapid increase in rice production is thus becoming available. Unfortunately seeds of these new varieties are only getting out to farmers in relatively small quantities and with long delays and

Jute and mesta. The production of jute and mesta is subject to very large annual fluctuations partly because of large price fluctuations which react on acreage for the following year. As with cotton the long-term production increase, that was apparent up to 1964/65, has ceased. To get production rising again the Government is relying on an intensive campaign, backed by subsidies, to induce farmers to adopt a package of improved practices. This type of effort has not been very successful in the past unless the cultivator is able to obtain rather large increases in production. The present package does not inspire hope in this respect and, combined with the growing competition from the new rice varieties for the same land, the prospects for increasing jute production are poor. The re-entry of Bangla Desh raw jute into the Indian market on a large scale might profoundly affect production of the fibre in India.

Oilseeds. The story for oilseeds is similar to that for cotton and jute. Both area and production, while fluctuating greatly from year to year depending on the weather, have remained virtually unchanged for a decade. As consequences prices are rising, per capita consumption is declining and the country has been forced to turn to imports to meet the deficit.

The Government has been popularising the cultivation of soyabeans for the past two years in an attempt to increase oilseed output. This is meeting some success and their cultivation could spread rapidly since parts of the country are well-suited for soyabean cultivation. It is too early yet to judge. A similar campaign to popularise sunflower cultivation for oil production is also beginning. Little work is underway to produce higher-yielding varieties of existing oilseed crops (principally peanuts). Nor has much success been attained through campaigns aimed at getting farmers to adopt an improved package of practices, largely because the benefits of the package are themselves highly variable.

Sugarcane. India is self-sufficient in sugar and indeed exports a small quantity each year at a heavily subsidised price. In 1970 exports valued at $ 34 million required a subsidy equivalent to $ 12 million. Sugar production is very responsive to price changes and, with only just over 1% of the cropped area devoted to sugarcane, only a small proportionate shift from other crops leads to a sharp increase in sugar output. This has occurred during the past three years. As a result of relaxation of government controls allowing the sugar factories to sell an increasing proportion of their production at uncontrolled prices, the production of milled sugar almost doubled in two years, from 2.25 million tons in 1967/68 to 4.26 million tons in 1969/70. During the same period consumption is estimated to have risen from 2.2 to 3.3 million tons. In 1971 all controls over sugar distribution were removed but this was preceded by a long period of uncertainty over government policies. Together with record carryover

they are not making the impact which their potential promises. There is little sign at present that this situation is widely recognised although the National Agricultural Commission has recently drawn attention to it. This is a further reason why rice production is likely to grow rather slowly in the next few years.

Other Cereals. New high-yielding varieties of three of the other cereals have been available for some years (for maize since 1961) but their success has been variable. Both maize and millet have performed well. Maize production in 1970/71 was 59% above the 1964/65 level while millet production was 77% above. On the other hand the new sorghum varieties have not been a success and 1970/71 sorghum production was 15% below the 1964/65 level. There are no new varieties for the remaining cereals whose production in 1970/71 was 7.0 million tons.

Pulses. Pulses, the main source of vegetable protein in India, represent each year a steadily smaller proportion of the total foodgrain availability. From 13.9% in 1964/65 this proportion had fallen to 10.8% in 1970/71. This has serious repercussions from the nutritional point of view but the prospects for a rapid reversal of this trend are not promising. Research to breed new higher-yielding, shorter-duration varieties is producing promising experimental results but these are unlikely to be translated into production gains very rapidly.

COMMERCIAL CROPS

Cotton. Cotton production has been stagnating for the past decade at around 5.2 million bales per annum against the Fourth Plan target of 8.0 million bales. Neither the area sown to cotton nor the yield have shown any upward trend during this period. This is probably a reflection of the official neglect of commercial crops in general, relative to foodgrains, in research and extension efforts which has characterised the post-independence period.

There are, however, two favorable factors which may indicate the beginnings of a new upward trend in production. The first is the availability of some new higher-yielding varieties, although these are only suitable for the 17% of the cotton area which is irrigated. The second is a greater urgency in official circles that something must be done, reflected in a higher allocation for important cotton growing areas to induce cultivators to adopt a package of improved practices. Even official estimates, however, do not anticipate that this will raise production by more than 450,000 bales per year by 1973/74, still short of India's present consumption of around 6.5 million bales. This shortage of raw cotton has had a severe impact on industrial production (textiles are weighted at 27% of the industrial index) and severely restricted the growth of textile exports.

stocks at the end of the 1969/70 season, this uncertainty led to a reduction in the area under sugarcane. As a result milled sugar production declined in 1970/71 to 3.85 million tons. These fluctuations indicate that India can easily remain self-sufficient in sugar, given an appropriate price policy, but until agronomic improvements can be introduced leading to higher yields India will remain a high cost producer of sugar.

A NOTE ON INDIAN FERTILIZERS

Fertilizer Production

A list of Fertilizer Plants in production, together with those under construction is attached. Actual production in 1970/71 amounted to 852,000 tons of N and 230,000 tons of P_2O_5. The forecasts of 1,330,000 tons of N and 379,000 tons of P_2O_5 for 1971/72, made earlier this year in connection with out appraisals of the Cochin and Gorakhpur plants now look optimistic in the light of delays in bringing the three new plants on stream and continuing problems in a few existing plants. Recent progress also suggests that the Government's present target for producing 2,185,000 tons of N in 1973/74 is unlikely to be achieved. Even assuming that existing plants can operate on average at 80% of capacity (as opposed to 62% in 1970/71) and that new plants operate at 40%, 60% and 80% of capacity in the first three years after they come on stream, total production in 1973/74 would only be 1,556,000 tons of N and 481,000 tons of P_2O_5.

Fertilizer Consumption

In the decade ending 1968/69 the consumption of nitrogen and phosphatic fertilizers increased almost tenfold, from 174,000 nutrient tons in 1959/60 to 1.6 million in 1968/69 equivalent to an annual growth of 28%. Although starting from a low base, and also admitting the fact that the rate of increase was slowing down in the latter part of the decade, this was a remarkable growth. Since 1968/69 consumption growth of N and P_2O_5 has slackened. It is officially estimated that between 1968/69 and 1969/70 consumption of N and P_2O_5 grew 11.9%, and between 1969/70 and 1970/71 6.0%. Our own studies, however, reveal that the coverage of the official statistics is

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incomplete and we consider it more likely that consumption has grown at around 15% per annum for N and 20% for P_2O_5 during the past two years. A joint Bank/GOI study of fertilizer demand forecast a growth rate of 22% in the consumption of N and P_2O_5 between 1968/69 and 1973/74 (19% for N and 3% for P_2O_5). The last two years slowing down in consumption growth are making this forecast look rather optimistic. If one assumes that the rate over the past two years can be maintained at 15% per annum for N and 20% for P_2O_5 the 1973/74 demand for each will be far in excess of indigenous production capacity.

A comparison of production estimates and demand forecasts, using the assumptions for each already stated, indicates the continued, indeed the rising, need for fertilizer imports at least as far as 1974. This therefore, justifies the proposed Bank Group financing for four new fertilizer plants (Trombay and Nagal (IDA), Dharamsi Morarji and probably Coromandel (IFC)).

Comparison of Indigenous Production and Consumption for Nitrogenous and Phosphatic Fertilizers

(in 000 nutrient tons)

	1967/68	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74
Nitrogen							
Production 1/	370	550	710	850	1,168	1,352	1,556
Consumption 2/	920	1,197	1,356	1,575	1,811	2,083	2,395
Deficit	550	647	646	725	643	731	839
Phosphates							
Production 1/	207	213	224	230	382	410	481
Consumption 2/	287	408	490	588	706	847	1,016
Deficit	80	195	266	358	324	437	535

1/ Assuming production at 80% of capacity for existing plants and at 40%, 60% and 80% for new plants in the first three years of operation.

2/ Assuming 15% growth in demand for N from 1970/71 to 1973/74 and 20% growth in demand for P_2O_5.

INDIAN FERTILIZER PRODUCTION

(000 metric tons)

	Design Capacity		Production 1970/71	
	N	P	N	P
Public Sector				
FACT-UDL	92	40	35	15
FCI-Namrup	45	-	30	-
FCI-Sindri	117	-	75	-
FCI-Nangal	80	-	75	-
FCI-Trombay	90	43	40	16
FCI-Gorakhpur	83	-	70	-
Rourkela	120	-	40	-
Neyveli	70	-	35	-
GSFC, Baroda	12	50	12	30
Superphosphate factories	-	45	-	15
Sub Total	925	178	542	70
Private Sector				
Coromandel	80	73	60	50
DCM, Kota	130	-	100	-
IEL, Kanpur	200	-	120	-
Other producers	34	-	30	-
DMCC, Bombay	-	11	-	5
E.I.D. Parry, Ennore	-	10	-	9
Superphosphate factories	-	172	-	90
Sub Total	444	266	310	154
TOTAL	1369	444	852	230

PROJECTS UNDER CONSTRUCTION

	Design Capacity	
	N	P
Public Sector		
FACT-Cochin I	152	
FCI-Durgapur	152	
FCI-Barauni	152	
FCI-Namrup	152	
FCI-Sindri	-	156
Madras	190	85
Sub Total	798	241
Private Sector		
Zuari Agro-Goa	175	45
Total under Construction	973	286

Farm Taxation

India is in great need to secure additional revenue for development and one of the most obvious sources is the agricultural sector. It is exempt from the highly progressive income tax applied to the non-agricultural sector, and the State levied land revenue and agricultural income taxes are only token sources of revenue, the first accounting for less than 0.1 percent and the other for 0.7 percent of farm income. In fact, it is so low that revenue from direct agricultural taxation has no relation whatsoever to rising land values, agricultural productivity, and farm prices. This was true before the green revolution and it is especially so since its advent, with a prosperous farmer segment very much in being. Additionally, agriculture is a net recipient of Central Government funds and as such it neither pays its own way developmentally nor contributes significantly by way of revenue to the accumulation of resources for the development of the country as a whole. For all these reasons, studies, special commission reports and annual budget presentations are all in agreement that agriculture, more particularly the well-to-do part of it, is undertaxed.

Since taxes on farm income are constitutionally a State matter, the Union Government has been trying for years to bring taxation of agricultural income within the purview of the general income tax, as well as to induce the States to raise the land revenue tax - but not successfully. The pros and cons are too numerous and too involved to spell out here. Suffice to say that according to some estimates agricultural income tax could be raised from the current Rs. 12-13 crores to a range of Rs. 75-150 crores, while the land tax could be raised from current Rs. 120 crores to over Rs. 300 crores. Whatever the estimates, there is ample evidence that well-off farmers on good land should not continue to pay no agricultural income tax in most cases, or a land tax of only Rs. 3 or 5 on net income of between Rs. 500 to 800 per acre. The question is how to prevail upon the States to institute suitable tax reforms in consonance with the changing agricultural economy.

Difficult technical and administrative problems apart, the obstacles are essentially political. In India, as elsewhere, tax reform is predominantly a matter of political power. A former Deputy Prime Minister didn't speak idly when he reminded his audience that "a villager exercises a great deal of pull at election time". While this is undeniable, a few other things are equally so - the unprecedented need for resources by the States and by the Union Government alike; the emergence of a rich farm group no longer in need of a holiday from taxation; the exclusion by the various reform schemes of the vast majority of the farmers who are also voters; politically speaking, the sharp differentiation in income and wealth in the countryside has created more favorable conditions for tax reforms.

The influence of the rich farmers over the poor farmers is not as crucial as it used to be and mostly importantly, there is the unprecedented prestige presently enjoyed by the Union Government. If all these are brought to bear upon the need to mobilize a greater volume of resources via a long overdue reform of the rural taxation system, who is there to say that the issue must remain in the doldrums much longer?

In his last budget speech, Mr. Chavan said he was going to start a dialogue with the State Chief Ministers on this subject. He did but the outcome, thus far, has been only the appointment of still another committee to study the matter. More recently, Government officials have referred to the agricultural income tax as an important resource for the Fifth Plan. A work from Mr. McNamara to the Finance Minister on the subject would be useful. We will be dealing with the economics of the subject in greater detail than heretofore in the 1972 economic report.

R

INDUSTRY

General The slow down of the growth of industrial production has been noted earlier. Labour unrest and shortages of steel and raw cotton are chiefly to blame. The Government did not arrange imports of these items quickly enough to offset declines in domestic steel and cotton production. Lower public investment in some sectors has affected certain industries such as railway wagons while the rapid spread of rural electrification has reduced the demand for diesel pumps. Insufficient capacity hindered faster growth in cement, paper and certain chemicals. However, some industries have done very well. Machine tools enjoying a good export demand and durable consumer goods such as scooters, radios and sewing machines have all maintained a good growth rate. Many steel using industries have begun to pick up and will probably do better still in the months ahead as imported steel supplies continue to increase.

The war has probably had relatively little impact on industrial output except, presumably, munitions which do not figure in the industrial production index. Re-equiping the armed forces is bound to increase demand for certain products - particularly vehicles. Of greater importance, however, is the increase in demand for Indian industrial products which will stem from making good the damage in Bangla Desh. Here a lot depends on whether Indian goods will have a preference in the Bangla Desh market. Even without a preference, Indian railway rolling stock, rails, commercial vehicles, and cement would probably be cheaper than supplies from other countries due to low transport costs. Presumably large quantities of vehicles, rolling stock, boats, structural steel for bridges and construction equipment and materials will be needed. Stepping up Indian production of these items should be possible provided steel is available and if labour relations improve as a result of the increase in national unity caused by the war. It should also be possible to step up cotton textile production if sufficient raw cotton is available. Supplying Bangla Desh with cement will be more difficult since the Indian industry is already operating close to capacity.

The Government's mid-term appraisal of the Fourth Plan expresses great concern at the slow growth of industrial production and the inadequate levels of investment. One measure, recently announced, to increase production, permits firms to produce a 100% more than their licensed capacity provided they can do so without installing additional machinery. This, unfortunately, will probably not have much impact since many firms ignore licensed capacity if they see ways of profitably producing more without additional investment. A loosening of the controls on both imports and investment would be a more certain way of permitting production.

In the last economic report we expressed concern about the volume of investment held up while the bureaucratic system geared itself up to operate a new licensing policy and a new monopolies policy. The investment control system was revamped in early 1970 with the aim of reducing controls over smaller investments while at the same time curbing the growth of the larger industrial groups. However, strict controls were retained over certain key industries in the highest priority "core" sector, large investments, investments by foreign firms and investments requiring

substantial amounts of foreign exchange. In addition to controls administered through the industrial licensing system. The Monopolies & Restrictive Trade Practices Act became law in June 1970. Under it most substantial investments by firms with more than Rs.200 million of assets or by firms controlling more than one third of the market for a particular product are subject to additional scrutiny by the Government. Fortunately in the last nine months, the Government has approved a large number of investment proposals and has shown itself willing to operate the Monopolies Act - which could have been a highly restrictive piece of legislation - in a fairly liberal manner. The number of applications for industrial licences has also risen sharply although these do not necessarily all represent firm investment proposals.

There are no reliable up to date statistics on what is happening to private industrial investment. It appears to have recovered quite significantly since the recession low of 1967-68 and 1968-69, though in real terms it is probably still less than the levels achieved in 1965/66 and those envisaged in the fourth Plan. The main indication of an upswing since 1968/69 is that disbursements from the term financing institutions (which are estimated to have accounted for 25% of total investment in the private corporate sector of industry in 1970/71) rose by 35% in 1969/70 and 28% in 1970/71. Some of these loans have, however, been for replacements rather than new investments. Another indicator of an upswing in private investment is the substantial increase in approvals for import of capital goods which in 1970/71 were more than double those of 1968/69. Nonetheless a bias in industrial policy against the larger industrial groups is undoubtedly preventing the growth of some firms who are well placed to expand efficiently. Other features of the policy, such as the requirement that a portion of loans over Rs.5 million from the public financial institutions be converted into equity, may also be holding back some schemes.

Industrial investment must be increased if India is to sustain her own economic growth and help reconstruct Bangla Desh. Investment can only be stepped up quickly if the delays and frustrations which businessmen encounter when seeking government approval for both new investment and for imports of capital equipment can be reduced. Although there is much talk in government circles - including the mid-term appraisal of the plan - of the need for "streamlining" procedures and setting up special "task forces" for the purpose, the bureaucratic scrutiny of proposals still takes far too long. Fortunately, the Indian business community has learnt to live with the system and work within it. However, it is difficult to see how a dramatic increase in private investment can take place in the short run unless the system is changed.

Public Sector Industry The Government's industrial policy resolution of 1956 envisaged that the state should progressively assume a predominant role in the industrial sector. In the last 20 years, India has invested over $5 billion in public sector industries. This investment was particularly heavy during the second and third plans when it took up 36% of fixed investment in manufacturing at 1960/61 prices. However, public sector industry today probably accounts for only about 12% of total output and 16% of employment in the factory sector.

Overall this massive investment has yielded disappointing financial returns - about 3% on total capital employed. A number of leading enterprises notably Hindustan Steel have come in for much criticism. Inefficient management and political interference are frequently blamed for the poor results. However, although there has been more than enough of this, some of the undertakings have done quite well. For example, the public sector oil refineries have had few problems partly because the process involved are almost entirely automatic so that they can be operated by a small staff with maintenance as the only real problem. The Fertilizer Corporation of India though less successful, has usually managed to show profits. Similarly plants involved in the repetitive production of items, such as Hindustan Machine Tools and the electronics plants have not done too badly. The worst performers have been the great machine building plants where under-use of capacity has been the main cause of the poor financial results. Part of the problem here was that the original investment decisions in the 1950's were based on estimates of demand for certain products which turned out to be too high. The economic theory of the day related economic growth largely to capacity to produce capital goods.

One third of all public sector investment has gone into steel. The three integrated steel plants of Hindustan Steel account for two thirds of Indian steel making capacity of 9 million ingot tons. As long ago as 1966/67, India's steel production peaked at 6.5 million tons in 1969/70 it was 6.4 million tons, in 1970/71 6.1 million tons and this year will probably not be much higher. Falling production has led to a shortage of steel in the country since Government was slow in arranging for additional steel imports. Although some plants have done better than others the main reason for under-use of capacity have been poor maintenance, labour unrest and inadequate management. Management has been a problem in other public sector industries as well, partly because top level people were deputed from the civil service for short periods with frequent transfers. The fourth plan document rightly points to the need to rely on professional managers and to give ample scope for initiative by persons within the enterprise. Earlier this year the Government finally enforced the decision which obliges all civil servants on secondment to public sector enterprises either to opt for permanent service with the enterprise or to return to a regular civil service post. In addition, the Chairman and 3 plant managers of Hindustan Steel have been replaced, with steel men taking over from civil service men at Bhilai and Rourkela. At Durgapur, the plant most severely affected by labour unrest, the Government is trying the interesting experiment of appointing a respected trade union leader - not connected with any of the unions represented at the plant - as general manager.

India would be a low cost steel producer if her steel plants ran

nearer their rated capacity. Ambitious plans for building new plants are therefore appropriate. However, it is a cause for concern that the Government intends to base these new plants almost entirely on Indian equipment. They will also be completely engineered and designed with the expertise available in the country. It would appear highly desirable to put the equipment for one of the new plants out for international tender. Perhaps if our interest in financing steel was once again expressed at the highest level, it might help to modify the Government's intentions to go it alone with the maximum possible amount of Indian equipment regardless of cost and the almost inevitable delays.

PUBLIC SECTOR INDUSTRY

The guiding principles of Indian industrial policy are enunciated in the Government's industrial policy resolutions of 1948 and 1956. The 1956 resolution stated that the "socialist pattern of society has been accepted as the object of social and economic policy". It envisaged that the State should progressively assume a predominant role in the industrial sector and 17 industries were reserved exclusively for the public sector. 12 others were to be predominantly State-owned and the rest left to the private sector under the general regulation of the state. The public sector has absorbed a large share of investment in manufacturing, particularly during the second and third plans when it took up 36% of fixed investment in manufacturing at 1960/61 prices. However, public sector industry still probably accounts for only between 10 and 15 per cent of total output in the factory sector.

India has invested more than $5 billion in public sector industries. Over the years there has been much dissatisfaction with their performance. Recently, particular attention has been focussed on the poor financial results of some of the leading enterprises - notably Hindustan Steel. These poor results have led to shortfalls in the resources which the public sector industries were expected to contribute to financing the fourth plan. This has worsened the general resource shortage which has been one of the principal factors causing overall investment in the public sector to be lower than envisaged in the Plan. The popular view attributes most shortcomings of public sector industry to inefficient management and political interference. Although there has been more than enough of this, the different undertakings have had widely varying results. Broad condemnations of the evils of public sector management are therefore not called for.

A number of the public sector industries have done well. The public sector oil refineries are an example. These plants have had few problems partly because the processes involved are almost entirely automatic so that they can be operated by a small staff with maintenance as the only real problem. Similarly, the Fertilizer Corporation of India, though less successful, has usually managed to show profits (a note on fertilizer production is attached). At the other extreme are the great machine building plants. Under-use of capacity has been the main cause of the poor financial results of the Heavy Engineering Corporation, the Mining and Allied Machinery Corporation and the heavy electrical machinery plants. Part of the problem here was that the original investment decisions in the 1950's were based on estimates of demand for certain products which turned out to be too high. The economic theory of the day related economic growth largely to capacity to produce capital goods. Many plants have been slow in building up an adequate skilled labor force and a sufficiently experienced cadre of managers. Problems have been created by the practice of obtaining top level managers on deputation from the civil service for short periods with frequent transfers. The Plan rightly points to the need to rely on professional managers and to give ample scope for promotion to the top positions from within the enterprise. Earlier this year the Government finally enforced the decision which obliges all civil servants on secondment to public sector enterprises either to opt permanently for service with the enterprise or to return to a regular civil service post.

The heavy electrical plants have come into production slowly and it will probably be some time before they are profitable. Unfortunately the State Electricity Boards have been obliged to place most of their orders with the public sector plants rather than abroad. Thus in March 1971, Heavy Electricals Ltd had orders on hand for Rs.404 million (about $54 million) of heavy rotating plant whereas its production of such equipment in 1970/71 was only Rs.16 million ($2.1 million). Unless orders are switched abroad it would appear impossible to carry out India's ambitious power investment program on schedule. The Heavy Engineering Corporation, designed to produce steel plant equipment, has had similar production problems. However, plants involved in the repetitive production of smaller items such as Hindustan Machine Tools and the electronics plants have done much better.

India has nine oil refineries - four in the private sector owned by foreign oil companies and five in the public sector. Their throughput is 18.5 million tons of crude of which nearly 7 million tons is from Indian wells and the rest imported. The recent increase in the price of crude oil imports led to renewed calls in Parliament for the nationalisation of the foreign refineries which account for about 40% of the throughput. However no hasty and ill-considered action by the Government seems likely.

One third of all public sector industrial investment has gone into steel. The Indian steel industry has been beset with serious problems in recent years which, combined with tardy import licensing, has had repercussions throughout the economy. India has five major integrated steel plants with some smaller secondary producers. Three of the big public sector plants - Durgapur, Rourkela and Bhilai with installed capacity of 5.9 million tons of ingot steel, are combined under the aegis of the Hindustan Steel Corporation. The other two big plants in the private sector are Indian Iron's plant at Burnpur and Tata's Jamshedpur plant which together have capacity of 3.0 million tons of ingot steel. As long ago as 1966/67 India's steel production peaked at 6.5 million tons. In 1969/70 it was 6.4 million tons, in 1970/71 6.1 million tons and this year will probably be still lower. This situation has caused a shortage of steel in the country since the Government was slow in arranging for additional steel imports. Had the plants operated near capacity, India would have been self-sufficient except for certain special steels. Despite the lowest steel prices in the world, India's steel industry would have been quite profitable if all plants had operated at 80% of capacity. Hindustan Steel showed a loss of Rs.105 million ($14 million) in 1969/70 reduced, thanks to a price increase, to Rs.54 million ($7.2 million) in 1970/71.

The reasons for under-use of steel making capacity vary from plant to plant. Bhilai, Hindustan Steel's largest plant built with Russian technical and financial aid, has a good record and operated at 77% of rated capacity in 1970/71. Tatas Jamshedpur plant (TISCO) part of which was financed by the Bank in the late 1950's, managed to run at 85% of rated capacity last year but probably at the expense of adequate maintenance and replacement. Rourkela, built with German aid, suffered from labour problems and also a shortage of lime in 1970/71 and operated at only 56% of capacity. In July 1971 the roof of Rourkela's steel melting shop collapsed due to an accumulation of dust. This accident - entirely due to faulty maintenance - deprived India of about 300,000 tons of finished steel this year. Indian Iron's Burnpur plant in West

Bengal suffered from continuous labour disputes and managed to operate at only 62% of its capacity in 1970/71. Worst of all was the British aided Durgapur plant also in West Bengal which was reduced to 43% of its capacity by labour unrest and damaged coke-oven batteries.

This poor performance is most frustrating since India could be the world's lowest cost steel producer. She has relatively plentiful supplies of rich iron ore, coal and limestone. She has the necessary skilled labour force - if they are not caught up in inter union rivalries. She also has some capacity for producing steel plant equipment. Sweeping changes have recently been made in the management of Hindustan Steel. The Chairman and all three plant managers have been replaced. At Bhilai and Rourkela, steel men have taken over from civil servants. At Durgapur, the Government is trying the interesting experiment of appointing a respected trade union leader - not connected with any of the unions represented at the plant - as general manager.

India's natural comparative advantage in steel is sufficient to justify the Government pressing ahead with new plants at the same time as it tries to improve the old ones. The first 1.7mn tons stage of the Russian financed plant at Bokaro is expected to be completed by March 1973. A year later capacity will be raised to 2.5mn tons per year going up to 4 mn tons by 1975/76. Bhilai's capacity is scheduled to be increased to 4.0 million tons by 1976/77. In addition two new plants of 2 million tons each are planned to be in production by 1978/79 at Vishakapatnam in Andhra Pradesh and Hospet in Mysore. An alloy steel plant is planned for Salem in Tamil Nadu to produce 250,000 tons per annum. This schedule will be difficult to meet if the Government continues to insist that these new plants will be based mostly on Indian equipment. It has also announced that the three new plants will be completely engineered and designed with the expertise available in the country. Given the past record of the Heavy Engineering Corporation - the sole producer in India of many types of steel plant equipment - it would appear highly desirable to put the equipment for one of the new plants out for international tender. At least one official in the Steel Ministry would welcome Bank group participation to help get the lowest cost solution and avoid delays. Perhaps if our interest in financing steel was once again expressed at the highest level, it might help to modify the Government's present intention to go it alone with the maximum possible amount of Indian equipment regardless of cost and with almost inevitable delays.

Fertilizer Production

A list of Fertilizer Plants in production together with those under construction is attached. Actual production in 1970/71 amounted to 852,000 tons of N and 230,000 tons of P_2O_5. The forecasts of 1,330,000 tons of N and 379,000 tons of P_2O_5 for 1971/72, made earlier this year in connection with our appraisals of the Cochin and Gorakhpur plants now look optimistic in the light of delays in bringing the three new plants on stream and continuing problems in a few existing plants. Recent progress also suggests that the Government's present target for producing 2,185,000 tons of N in 1973/74 is unlikely to be achieved as we mentioned in the 1971 economic report. Even assuming that existing plants can operate on average at 80% of capacity (as opposed to 62% in 1970/71) and that new plants operate at 40%, 60% and 80% of capacity in the first three years after they come on stream, total production in 1973/74 would only be 1,556,000 tons of N and 481,000 tons of P_2O_5.

Fertilizer Consumption

In the decade ending 1968/69 the consumption of nitrogen and phosphatic fertilizers increased almost tenfold, from 174,000 nutrient tons in 1959/60 to 1.6 million in 1968/69 equivalent to an annual growth of 28%. Although starting from a low base, and even though the rate of increase was slowing down in the latter part of the decade, this was a remarkable growth. It is officially estimated that between 1968/69 and 1969/70 consumption of N and P_2O_5 grew 11.9%, and between 1969/70 and 1970/71 only 6.0%. Our own studies, however, reveal that the coverage of the official statistics is incomplete and we consider it more likely that consumption has grown at around 15% per annum for N and 20% for P_2O_5 during the past two years. A joint Bank/GOI study of fertilizer demand forecast a growth rate of 22% in the consumption of N and P_2O_5 between 1968/69 and 1973/74 (19% for N and 30% for P_2O_5). The last two years slowing down in consumption growth are making this forecast appear optimistic. If one assumes that the rate over the past two years can be maintained at 15% per annum for N and 20% for P_2O_5 the 1973/74 demand-supply gap for each will continue to expand. India is not likely to be self-sufficient in fertilizer till at least the end of this decade.

A comparison of production estimates and demand forecasts, using the assumptions for each already stated, indicates the continued, indeed the rising, need for fertilizer imports at least as far as 1974. This therefore justifies the proposed Bank Group financing for four new fertilizer plants (Trombay and Nangal (IDA), Dharamsi Morarji and probably Coromandel (IFC).

Comparison of Indigenous Production and Consumption for Nitrogenous and Phosphatic Fertilizers

(in 000 nutrient tons)

	1967/68 Actual	1968/69 Actual	1969/70 Actual	1970/71 Actual	1971/72	1972/73	1973/74
Nitrogen							
Production 1/	370	550	710	850	1,168	1,352	1,556
Consumption 2/	920	1,197	1,356	1,575	1,811	2,083	2,395
Deficit	550	647	646	725	643	731	839
Phosphates							
Production 1/	207	213	224	230	382	410	481
Consumption 2/	287	408	490	588	706	847	1,016
Deficit	80	195	266	358	324	437	535

1/ For 1971/72 onwards assuming production at 80% of capacity for existing plants and at 40%, 60% and 80% for new plants in the first three years of operation.

2/ Assuming 15% growth in demand for N from 1970/71 to 1973/74 and 20% growth in demand for P_2O_5.

Industrial Controls, Production and Investment

Indian industry operates under a pervasive system of controls on both investment and imports. These controls, which replace market forces by administrative fiat over wide areas, discourage or at best delay investment and impose a considerable burden on the government authorities. The investment control system was revamped in early 1970 with the aim of reducing controls over smaller investments while at the same time curbing the growth of the larger industrial groups. However strict controls were retained over certain key industries in the highest priority ("core") sector, large investments, investments by foreign firms and investments requiring substantial amounts of foreign exchange. Further investment in 127 product lines was reserved for the small scale sector. In addition to controls administered through the industrial licensing system, the Monopolies and Restrictive Trade Practices Act became law in June 1970. Under it most substantial investments by firms with more than Rs.200 million of assets or by firms controlling more than one third of the market for a particular product are subject to additional scrutiny by the Government before permission to go ahead is given.

In the last economic report we expressed concern about the volume of investment held up while the bureaucratic system geared itself up to operate both the new licensing policy and the new monopolies policy. Fortunately, in the last nine months, the Government has approved a large number of investment proposals and has shown itself willing to operate the Monopolies Act - which could have been a highly restrictive piece of legislation - in a fairly liberal manner. The number of applications for industrial licences has also risen sharply. Nonetheless the bias against the large industrial groups in the new policy is undoubtedly preventing the growth of some firms who are well placed to expand efficiently.

Although one aim of the investment controls is to encourage competition by promoting the growth of smaller units and curbing the growth of monopoly power, the import policy works in the opposite direction. Imports of nearly all goods are banned where domestic production is deemed sufficient to meet domestic demand, usually regardless of the comparative prices of domestic and imported goods. Both the amount and allocation of the imports which are permitted is determined administratively. This effectively makes Indian industry one of the most protected in the world. The only spur to cost reduction and greater efficiency is competition with other firms within India and - in certain lines such as engineering goods - the incentives provided to increase sales by exporting. Because imports tend to be reduced in a way which leaves a gap between domestic demand and the ability of industry to fill it, a sellers market is created where high profits can be made often combined with low levels of efficiency and capacity use. Exporting is difficult even for individual firms which are highly efficient since they are forced to buy high cost domestic inputs.

On the positive side, India has succeeded in building up a wide range of industries serving the domestic market, and, as noted elsewhere, has made important gains in industrial exports. The industrial recession, induced by the two drought years in the mid sixties, was the first time most firms had suffered from demand problems. Initial recovery from the relatively low production levels of 1968 was quite rapid. The index of

industrial production (which does not cover units in the small scale sector) showed growth of 7% in 1969 falling to 4.8% in 1970. Early in 1971 growth has slowed down even more sharply. The index for the first five months of 1971 was only 1.8% higher than for the same period of 1970. Such indicators as are available suggest that production in 1971 as a whole may be no higher than 1970 - a far cry from the 8-10% annual growth postulated in the fourth plan. The small scale sector may be growing faster, but statistical evidence is sparse.

Since India has been enjoying good harvests and therefore presumably substantial increases in rural income, it is hard to see how the slow down could be mainly due to lack of consumer demand. In certain industries, raw material shortages have undoubtedly been the main problem. The cotton textiles industry - which has a weight of 20% in the index - has been short of raw cotton because the government failed to arrange imports in time in the face of a shortfall in the domestic cotton crop. The government also mismanaged the import of steel to offset the decline in domestic production thus creating unnecessary shortages in 1970 and early 1971. However, steel imports increased sharply after early 1971 and the supply position is now much easier. However, while it lasted, the steel shortage had pervasive effects on production since many items could not be completed for want of particular kinds of steel. Another area where supply rather than demand factors are constraining production is in industries where past investment failed to keep pace with demand. Thus, the paper and some chemical industries cannot increase production further due to capacity constraints. Demand factors have been a brake on production in some heavy capital goods industries and in wagoon building. This is partly due to a shortfall in the public investment programs.

However, some industries have done very well. Machine tools, faced with a good export demand, and consumer goods like scooters, radios and sewing machines have all maintained a good growth rate. So has the production of aluminium. The existence of a flourishing open market for most scarce raw materials has meant that industries facing a very rapidly growing demand and enjoying high profits have been able to keep up their momentum by paying inflated prices for their materials.

There are no reliable up to date statistics on what is happening to private industrial investment. It appears to have recovered quite significantly since the recession low of 1967/68 and 1968/69, but in real terms it is probably still less than the levels achieved in 1965/66. The main indication of an upswing since 1968/69 is that disbursements by the term financing institutions (which are estimated to have accounted for 25% of total fixed investment in the private corporate sector of industry in 1970/71) rose by 35% in 1969/70 and 28% in 1970/71. Some other features of industrial policy, such as the requirement that a portion of loans over Rs.5 million from the public financial institutions be converted into equity, may be holding back some schemes. An increasing number of applications for industrial licences and increased sanctions by the term lending institutions suggest that there is the potential for a considerable further increase in the investment rate.

The future trends are difficult to predict. However, in the past the private sector, confident of continued protection from imports, has been prepared to invest in the face of many uncertainties. It is to be hoped that this will continue to be the case.

THE INDUSTRIAL CREDIT & INVESTMENT CORPORATION OF INDIA (ICICI)
(US$1 = Rs. 7.47)

Bank Group Involvement

1. The Bank, which helped promote the establishment of ICICI in 1955, has made 9 loans totalling $265 million. The recent 9th loan (US$60 million) became effective on December 20, 1971. The amount now outstanding is $88.3 million. Undisbursed is $98.4 million.

General Background

2. ICICI is a national institution with headquarters in Bombay and regional offices in Calcutta and Madras. ICICI provides the bulk of institutional foreign exchange lending in India. Ownership of ICICI's share capital is about 70% Indian and 30% foreign. Following Bank nationalization in July 1969, about 60% of ICICI's shares are now held by public sector institutions. The Board consists of 15 directors, most of whom are close to or come directly from industry and one from the Government. Mr. G.L. Mehta has just resigned as Chairman after 13 years, and Mr. H.T. Parekh has replaced him. ICICI is one of the most experienced and sophisticated development finance companies among those associated with the Bank Group. Its appraisal standards are high, the staff competent and the Board strong. These all contribute to the company's sound portfolio. ICICI's impact on economic development is significant. On several occasions, the Bank has used ICICI's expertise in extending technical assistance to other development finance companies.

Problems and Issues

3. There is no problem or issue that needs to be dealt with.

THE INDUSTRIAL DEVELOPMENT BANK OF INDIA (IDBI)
(US$1 = Rs. 7.47)

Bank Group Involvement

1. IDBI has applied for a first Bank loan. A Bank mission appraised IDBI in October/November 1971, with a view to relending to industrial enterprises through 18 State Finance Corporations (SFCs). A loan of $20/25 million is tentatively scheduled for Board presentation in May/June 1972.

General Background

2. IDBI was established in 1964 as a fully-owned subsidiary of the Reserve Bank. The Board is identical with the Reserve Bank Board. Its Chairman is Mr. S. Jaganathan, who was an Executive Director of the Bank. IDBI is the largest term-lending institution in India, co-ordinates lending activities among term-lending institutions, and acts as a lender of last resort. Together with the Reserve Bank, it holds shares of SFCs, refinances term loans extended by them, and guides and supervises SFCs' operations. The proposed credit is intended to spread Bank's loan benefits to medium- and small-scale enterprises and to help IDBI's efforts in institution-building.

Problems and Issues

3. IDBI has also requested for a Bank loan of about $50 million for its direct industrial assistance, in addition to the IDA credit currently envisaged. It would be prudent to defer consideration of the request until the Bank has had an opportunity to review IDBI's performance on the first IDA credit.

S

TRANSPORT SECTOR - Transport Policies and Coordination

Indian Transport Sector

1. The transport sector which contributes about 4 percent of India's GNP has been the focus of a relatively large part of the planned development outlays absorbing 1/4 of the total public funds made available in the four development plans.

2. Indian Railways are the second largest railway system in the world under one management exceeded only in size by USSR railways. Being the major mode of transport, the railways operate about 60,000 km of route and transport annually 112 million ton km offreight traffic and 113 billion pass. km of passenger traffic. This is equivalent roughly to two-thirds of total freight traffic and half of total passenger traffic.

3. Roads and air transport have grown rapidly in the last 20 years, thereby not only breaking the monopoly position IR once held in remote areas of the country, but extending transport services far beyond the railway network. The highway system expanded by 50 percent to 600,000 km, while the registered number of trucks and buses more than tripled, from around 100,000 to nearly 400,000 units and airline passenger km went up sevenfold to 1.6 billion.

4. Despite these developments, the road network per unit of area is low at .18 km per km^2 and similarly, the number of commercial vehicles is very meager at .73 units per 1,000 head of population. Aviation today carries only about 2 million passengers per annum, which represents less than 1 percent of India's population, and suggests great scope for expansion.

Transport Planning and Coordination

5. Investment planning in the transport sector has been carried out largely within the framework provided by the government's successive five-year plans. Consequently, the emphasis of planning has been on the short-term needs of providing transport capacity implicit in certain wider economic targets of production, exports, etc. Yet, the nature of investment decisions in the transport sector is predominantly long-term and the proper determination of investment and investment priorities require a longer plan horizon. At our suggestion, the railways will embark on the preparation of a 15-year corporate plan which would be well in line with the average life of typical railway assets and would provide a basis for more effective coordination of investments among different modes of transport. Within the context of the corporate plan, the railways will further refine their traffic forecasting procedures as well as the techniques employed in the appraisal of major sub-projects. Related to the issue of investment planning is the question of transport coordination. This is especially pressing in a transport system the size of India's and in a situation where pricing and regulation of services are determined by wider economic goals such as employment, generation of public savings, and income redistribution.

6. The development of consistent transport policies and planning is complicated by the structure of the Indian government. At present, three Central Government ministries are directly concerned with transport. These are the Ministry of Railways, the Ministry of Shipping and Transport and the Ministry of Tourism and Civil Aviation. Modal planning is loosely coordinated by the Planning Commission whose functions, however, cover much more than the transport sector itself and relate primarily to setting performance targets for the whole economy. Some coordination through control of investment levels is also exercised by the Planning and Finance Ministries. The general effect, however, is that the action of Government, which is fundamental in any transport system, falls unequally on the various modes. Prices for the services of some modes, such as railways and aviation, are strictly controlled while much of road transport is in effect priced by the market. On the other hand, road transport operations are licensed at the state level. Road vehicle production is in the private sector, but the quantities produced are controlled by the Government through its industrial policy administration. The incidence of taxation on the modes varies considerably and is not designed to keep them at equal competitive advantage.

7. The need for a comprehensive review of transport policies and coordination was discussed during the negotiation of the Eleventh Railway credit and recognized by the Government. The attached letter from I. G. Patel outlines what the Government proposes to do. We intend to assist the Government's review through a comprehensive sector review mission later this year. We expect to reach an understanding with the Government in the conclusion of the review of the policies to be followed in the transport sector which would form the basis of future Bank Group operations in this sector.

Bank Lending to Transport in India

8. Since 1949 the Bank Group has extended US$984 million in loans and credits to the Indian transport sector. Of this total US$706 million was given to the Indian Railways (of which US$125 million has been repaid), US$82 million for ports, US$60 million for roads, US$5.6 million for civil aviation, and US$130 million for the purchase of commercial vehicles and components through industrial import credits. While the share of our lending devoted to the transport sector has declined in recent years and is likely to decline further as we increase agricultural lending and further diversify our program, we will remain active in this sector with an average of about two projects per year. An US$80 million credit for the purchase of oil tankers will be negotiated shortly; a second highway project is ready for appraisal pending resolution of the procurement issue concerning civil works contract.

सत्यमेव जयते

No. F.2/13/71-FB.II

वित्त मंत्रालय
अर्थ विभाग

MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

नई दिल्ली/New Delhi 4.12. 1971.

International Development Association,
1818 H-Street, N.W.,
Washington DC 20433.

Subject: Transport Policy and Coordination.

Dear Sirs,

In connection with the negotiations for the proposed Eleventh Indian Railway Credit, representatives of the Government of India and the Association have exchanged views concerning the Government's transport policy. The Association had expressed its view that there is an emerging need for a comprehensive review of transport policy in India since investment planning, pricing and other decisions vital to the sector need to be made with a greater degree of coordination instead of on an isolated model basis.

2. We have considered the views expressed by the Association and we are now writing to you to set forth in more detail the Government's current thinking on the subject of transport policy and coordination.

3. As you are aware, the Government of India's general policy is to strengthen the planning process for the Indian economy and to increase the effectiveness of economic management. The Planning Commission has currently under consideration a number of measures to ensure a more detailed review of investment projects as well as a more comprehensive preparation of proposals by the agencies concerned. These measures will be implemented in the transport sector as well and should lead to important improvements in transport investment. It is recognised, however, that the transport sector in India is increasingly characterized by competition among the different modes and that planning has to take into account the other responsibilities and powers which the Central Government has over transportation in the areas of pricing and regulation. The Government of India, therefore, wishes to strengthen the machinery for transport coordination and to review any areas where policy objectives are now not clearly defined.

4. The Government is well aware of the Association's interest in the Government's policy for the transport sector which has absorbed more Bank Group lending to India than any other sector. In recognition of this interest the Government agreed during the negotiations for the Tenth Indian Railway Credit to submit semi-annual reports to the Association concerning progress in transport coordination. These reports represented

by the Government in certain important areas of transport policy, such as a further shift toward investment in highways, an expansion of zonal arrangements for licensing of interstate movement of trucks and larger availability of credit to finance the sale of commercial road vehicles. The Association has commented on the Government's reports and indicated areas where further work might be rewarding and both parties appear to have found the exchanges useful. The Association has indicated, however, that some points appear to deserve more emphasis in the Government's work and we believe that the preparation of the Fifth Plan presents an appropriate occasion to examine this question.

5. The Government first appointed the Committee on Transport Policy and Coordination in 1959. This Committee stimulated considerable research on the transport sector and culminated in the issuance of a Final Report early in 1966. A number of other bodies have also been appointed to examine various issues related to transport policy such as the Road Taxation Enquiry Committee whose report came out in 1967. However, some time has passed since these Committees examined the question and there is now scope for a review and updating of their findings. In addition, new developments have taken place in the transport sector, including the recent deterioration in railway finances which suggest the desirability of another detailed look at the transport sector. The Government of India intends to review the findings of past studies and the progress that has been made in recent years with respect to investment planning and rationalization of pricing and regulatory policies, having regard to the powers which the Central and State Governments can bring to bear on these problems. The emphasis of this review will be on the need for better coordination and effective institutions to achieve policy objectives.

6. We expect to have a useful exchange of views with the Bank Group in the course of the review and would welcome the Bank's sending a comprehensive sector review mission at the appropriate time. We expect our review to take 18 months and that we will then be in a position to evolve a mutually acceptable framework for future Bank Group activity in the transport sector.

Very truly yours,

I. G. Patel

(I.G. Patel)
Secretary to the Govt. of India

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Annex B

CONFIDENTIAL

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

OFFICE MEMORANDUM

TO: Dr. K. Kanagaratnam September 9, 1970

FROM: G. Zaidan

SUBJECT: INDIA - Family Planning Mission
Back to Office Report

1. Introduction

In accordance with terms of reference dated June 10, 1970 the family planning mission (consisting of Dr. K. Kanagaratnam, Chief, Mr. G. Zaidan, Deputy Mission Chief, Mr. P. Demeny from the East-West Population Center, University of Hawaii, Dr. I. Sirageldin of Johns Hopkins University, Mr. F. Wilder of the Ford Foundation, and Dr. G. Zatuchni from the Population Council) visited India from July 13 to August 21. Professor R. Freedman, the Bank's consultant on population, joined the mission during the week of final discussions. Mr. R. Cassen and Mr. T. Lankester lent their assistance to the mission in the field. After the first week in New Delhi, the mission proceeded to Bangalore (Mysore) for 3 days before making field visits to the six Districts of Bangalore Division. On August 2, 1970 the mission proceeded to Lucknow (U.P.) for 3 days followed by field visits to five Districts in Eastern U.P. and three Districts of Western U.P. The mission then returned to New Delhi for a week of final discussions with the Central and State Governments.

2. Overview of Recent Trends

Acceptance of family planning services in India has been decreasing over the past three years. The number of IUD insertions has decreased from 910,000 in 1966-7 to 440,000 in 1969-70. Similarly the total number of sterilizations has decreased from 1.84m. in 1967-8 to 1.37m. in 1969-70. (This reflects a sharp decrease in vasectomies together with a small increase in tubectomies). Some increases in the distribution of condoms have also been registered. This overall picture of India is also true of all States and the vast majority of individual districts. Imaginative and determined efforts are necessary if these trends are to be reversed. Several possible explanations can be offered for the decline in acceptances. The Government is not presently pushing the program to the same

extent as in the initial years. In particular, non-medical personnel (revenue and agricultural extension workers), who were responsible for enlisting a large proportion of acceptors in the initial years, are no longer active in the family planning program. There have also been some counter-reactions to the use of specific contraceptive methods - (bleeding from the IUD, which is a cultural as well as a medical problem; inadequate follow-up of patients who have had a vasectomy or an IUD insertion etc.) Also important is the use of a large number of family planning workers (particularly Family Planning Health Assistant's (FPHA's) or male motivators) with insufficient training, leading to counter-productive results. But while all these explanations are partially true, analysis in greater depth will be needed before one can satisfactorily explain the relative importance of the various reasons for this decline and in particular why such a decline should be so pervasive. The mission could not find one District (population 1.5 -2.0m.) nor one subdivision within the Districts that were visited (population 80,000-100,000) that showed an increase in the number of vasectomies or IUD's between 1968-9 and 1969-70.

3. In the light of the above analysis and the need to devote maximum effort to reducing India's rate of population growth, the objective of the proposed Bank project should be twofold. First to suggest alternatives that are likely to change present trends. And second to develop a strong evaluation and management-information system capable of throwing light on the reasons for success or failure in particular areas. In developing a project that would meet this objective, the mission was conscious of the need to minimize changes in the present GOI plan. There was a reluctance by the Central and State Governments to recognize the existence of deficiencies and hence to alter the existing program. This attitude was discouraging - declines in recent performance were often not recognized ("we have arrested the rate at which acceptors are declining"), or the record was presented in a misleading light (on the basis of increased distribution of condoms and questionable arithemetic, it was emphasized that the number of acceptors had recently increased), or when declines in acceptances were recognized, this was explained as inevitable because initially the highly motivated persons became acceptors and now the "cream had been skimmed" (although only 10-12% of women in their child bearing ages have been reached). This attitude of the Government means that the phasing of the project should be such that the potential for success is initially maximized. Though the detailed phasing of the proposed Bank project has yet to be worked out, the mission is agreed that efforts should be concentrated initially in urban Districts (Bangalore and Lucknow) where people are more highly motivated and where the logistics of providing family planning services are simpler. Subsequently, the project would extend to ten rural Districts - five in Mysore and five in U.P. Details of two approaches for providing services to rural areas are discussed below. The first would follow closely the pattern of

the GOI plan, while the second will include additional innovations. Each of these variants would be applied to two Districts in each State -- one District having relatively advanced socio-economic conditions and the other being less advanced. In the two remaining Districts the GOI plan will also be implemented but the phasing will be such that work will begin towards the latter part of the project period. The evaluation and management-information input would be far more intensive than the present GOI plan, and it would be similar in all twelve Districts (subject to minor variations dictated by differences in the provision of services in different Districts). The project would thus allow us to determine the difference between leaving things unchanged, implementing the GOI plan and including additional inputs, while controlling for differences in levels of socio-economic development.

4. Selection of Districts

The Districts of Bangalore Division (with a population of 9.1m.) provide a good potential for a possible Bank project. There is sufficient variability in socio-economic conditions as well as in program inputs and results to warrant a suitable experimental design. In U.P., however, the mission concluded that the districts initially suggested by the Government of India, namely those of Faizabad Division, would not alone be suitable for a Bank project. The reason for this is twofold. First, not sufficient variability exists in socio-economic conditions, program inputs and results between the six Districts. Secondly, levels of socio-economic conditions are lower than the average of U.P. making the prospects of a successful family planning program in these areas lower than in other regions of U.P. Consequently, the mission visited Lucknow urban and additional Districts in Western U.P. which have demonstrated substantial economic progress in recent years. The mission concluded that the following six Districts (with a population of 10.8m.) would be suitable for Bank involvement: three in Faizabad Division (Faizabad, Pratapgarh and Sultanpur), Lucknow and two Districts in Western U.P. (Muzzafarnagar and Sahranpur). The inclusion of Lucknow is necessary for political and administrative reasons. The six Districts thus include three with relatively advanced socio-economic conditions and three where these conditions are relatively backward. This provides the framework for a suitable experimental design as discussed above.

5. Content of the Project

The following provides the framework of the urban Variant and the two rural Variants. The details of each approach and the phasing within a five-year period has still to be worked out. As already noted, however, efforts will be initially concentrated in urban areas.

A. Variant I: Urban Areas

The main components of this approach which would be applicable to Lucknow and Bangalore urban, would be as follows:

(i) a postpartum program concentrating family planning services on recently delivered mothers;

(ii) involving private doctors in the program; and

(iii) the use of the pill as a method of contraception.

In addition measures proposed under Variant II and III below, could be included, where they are relevant to urban areas.

B. Variant II: Ideal GOI Plan

This Variant would introduce only "minor" changes from the GOI plan as it is on paper - in practice it would hopefully differ from the situation in the field as observed by the mission. The objective of this Variant is to -

(i) extend the coverage of the present GOI plan to the whole population instead of only half or less of the total population as is the case at present. The GOI plan requires one Assistant Nurse Midwife (ANM) for every 10,000 population. In practice an ANM can cover a maximum population of 5,000 and often less;

(ii) institute effective training and supervision along the principles but not the practice of the GOI plan; and

(iii) solve the problem of the Family Planning Health Assistant (FPHA) who is a full-time family planning worker for a 20,000 population but who is not effective and may even be counter-productive.

Thus this Variant would have the following main components:

(a) Retrain ANM's and dais by a mobile training team that trains them in their environment, and have effective supervision by revisits from this team. Several such teams would be needed for each District.

(b) Devise a method of rewarding ANM's and indigenous midwives (dais) for family planning work - particularly the latter who at present only receive a referral fee.

(c) Ensure that the ratio of ANM's and trained dais is not below 1/3000-4000 population in Mysore and 1/6000-7000 in U.P.

(d) The FPHA's should be removed (by transfer to areas outside the project areas and/or by not rehiring them after dismissal for inefficiency) and/or, as a less desirable alternative, have their functions redefined so that they become only identifiers of target couples but not motivators and/or pay them on a piece-work basis instead of the present high salary so that they have a strong incentive to improve their performance.

C. Variant III: Additional Inputs: Rural Postpartum and Intensive Motivation Districts

These would be added to the above inputs. They would include:

(a) An effort in rural areas to concentrate on recently delivered women and to improve MCH services.

(b) Mobile service teams with more effective motivation but especially with adequate follow-up.

(c) Face to face motivation to be done by a married couple or close relatives.

(d) Involvement of key personnel not in the program - village leaders, Panchayat Chairman, up to the District Magistrate - both by grouping them in fairs and/or incentive payments.

(e) Referral fees to acceptors for bringing in friends as a method of effective motivation and better follow-up to acceptors.

(f) Possibly, increasing incentives to acceptors and/or referrers.

6. The following is the suggested geographical location of each Variant. Districts in Variants II and III are interchangeable, since those where the leadership is more receptive to experimentation will have to be included in Variant III.

State		U.P.	Mysore
I.	Urban Districts	Lucknow	Bangalore Urban
II.	Ideal GOI Plan Districts	Sultanpur, Muzzafarnagar, Pratapgarh	Tumkur, Bangalore Rural, Shimoga
III.	Additional Input Districts	Faizabad, Sahranpur	Kolar, Chitradurga

7. Organization and Administration

To implement the above approaches, one Population Institute or Center would be needed in each State. The detailed functions of this Center and its exact relationship to the Government administration has yet to be worked out, but broadly the Center would be responsible for evaluation and training. On the evaluation side, this would mean the training and supervision of evaluators, the regular compilation and analysis of data and possibly some studies. Training would include the training and supervision of family planning workers, mainly ANM's by mobile teams. As far as the relationship of the Center to the State machinery responsible for the execution of the program is concerned, one possibility here would be to have a Director for the Center of rank at least equivalent to that of Director of Health Services. The Deputy Director (or the Director of the Evaluation Unit) of the Center would also be an Assistant State Family Planning Officer in the State Government - a post that has to be newly created. In this way the Center would be more than an advisory body removed from the running of the program. Other alternatives that achieve the same objective could also be considered. Finally, the Board of this Center would have to be a prestigious and influential body so that the experiences gained from the project areas can be readily transferred to the whole State and changes in program operations that are decided to be desirable in the light of the results of the ongoing evaluation can also be quickly implemented.

8. Some additional personnel will also be needed at the District level in the Bank project area. An additional District Medical Officer of Health in charge of family planning will be needed. Under the new reorganization, there is at present no one who is devoting all his attention to family planning. There will also be a need for two additional persons per District to implement the intensive evaluation and management-information efforts.

9. Reaction of the Government

The broad conclusions of the mission as summarized in the previous paragraphs were discussed in an informal way with the Health Ministries of Central GOI and the State Government as well as the Planning Commission and the Ministry of Finance at the Center. There was some reservation by the U.P. Health Ministry on the creation of any machinery which appears to duplicate existing government units in charge of similar functions. A separate evaluation cell would be acceptable, provided such a cell would be concerned with research rather than with ongoing evaluation. An additional person in the State Government in charge of the execution of the program in the Bank project area could be considered, provided he was under the State Family Planning Officer.

10. The Mysore Health Ministry was much more receptive to the idea of a separate population center in charge of the project areas. Although specific details were not discussed, the principle that evaluation and training pertaining to the Bank project areas could be carried out in a separate institution was accepted.

11. Of particular importance is the reaction of the Central GOI. Here the attitude of the Health Ministry was defensive and there was a reluctance to admit that the India Family Planning Program was suffering from any deficiencies. In fact the Secretary of Health (Mr. B. P. Patel) was extremely sensitive to any intimation that things may not be going well or that the Government Family Planning Plan should be changed. He wanted Bank assistance within the framework of the Fourth Five Year Plan and sought assurances that the Bank report would be written "within the framework of the UN mission report of 1969" and that no changes in the GOI pattern would be recommended. Dr. Kanagaratnam responded by saying that the mission would bear in mind the points made by the Secretary of Health but the mission would be guided by its findings and consultations in India. The mission would prepare its report in Washington and forward it to the Government. On the basis of this report detailed discussions could take place. Subsequent discussions with the Planning Commission and the Ministry of Finance revealed an attitude which was different from the Health Ministry. Here, there was more recognition of current problems and the consequent need for modest change.

12. Cost of the Bank Project

The preliminary cost estimate for construction within the project areas is US$12.0m. The recurrent expenditures are very tentatively estimated at US$10.0m. for the five-year period. Construction costs are for administration buildings, 2 Maternity Hospitals, Maternity Homes, Urban Family Welfare Centers and Family Planning Training Centers in urban areas; and administration buildings, the addition of a maternity-sterilization wing and an ANM Training School to District Hospitals, Primary Health Centers with a Family Planning Annex and living quarters for staff and ANM student-nurses, and sub-centers for ANM's and dais to reach a ratio of 1/5000 population, in rural Districts. The services of foreign consultants, which could be either part of the project or provided outside the project would have to be added and would be approximately US$1.0m. for the five-year period. With foreign consultants, equipment, and contingencies the final cost estimates (excluding recurrent costs) will be closer to US$15.0m. With the exception of consultant costs and some specialized equipment, the costs of the project are local currency expenditures.

The following is the breakdown of the estimated construction costs:

		Rs.(in m.)	US$(in m.)
A.	In Urban Areas		
1.	Population Center Buildings (2)	3.0	0.4
2.	100-bed Maternity Hospitals with ANM Training School (2)	6.0	0.8
3.	Extension of and new Maternity Homes (16)	5.0	0.67
4.	Urban Family Welfare Centers (14)	1.0	0.13
5.	Regional Family Planning Training Centers with Hostel accommodation (2)	1.0	0.13
6.	Additional ANM Training Schools (3)	1.2	0.16
B.	In Rural Districts *		
7.	Administrative Buildings (9)	6.75	0.9
8.	Additional maternity-sterilization ward for each District Hospital	3.0	0.4
9.	ANM Training Schools (9)	3.6	0.48
10.	PHC Dispensary, Family Planning Annex and Living quarters	25.0	3.33
11.	Primary Health Center (PHC) Maternity Wings of 15-20 beds in selected Districts	4.5	0.6
12.	Sub-Centers for ANM's and dais	27.0	3.6
13.	Vehicles	3.0	0.4
		90.0	12.0

* District Hospitals and ANM Schools attached to these hospitals in all rural Districts except Bangalore Rural; Maternity wings in 4-6 PHC's close to the District Hospital in each of four intensive rural postpartum Districts (Variant III); PHC's and FP Annexes in all Districts according to GOI plan plus additional living quarters in 4 selected PHC's for the rural training teams; sub-centers for ANM's in all Districts to reach a ratio of 1/5000 population in Bangalore and sub-centers for ANM's and for dais in U.P. to reach this same ratio.

cc: Messrs. Chadenet, Baum, Baldwin, Messenger, Piccagli, Finne, Rovani, Engelmann, J. King; Cargill, Votaw, Kirk, Dunn, Cassen; McDiarmid, Lankester (New Delhi Office); Stevenson, Hawkins, King; R. Freedman, P. Demeny, I. Sirageldin, F. Wilder, G. Zatuchni (Consultants)

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INDIA

Briefing Note On Family Planning and the Proposed Population Project

1. The preliminary result of the 1971 census in India shows a population of 547 million, with 12 million persons being added to the population every year. The present growth rate is 2.25 percent. The fertility over the last 50 years has remained at a more or less constant level of about 40 births for every 1000 population, while the death rate has decreased, estimated at present at around 17 per 1000. Life expectancy has increased from 20 years two decades ago to 52 years in 1966-70. The present population is young with 42 percent of persons under 15 years of age.

2. More than 60 percent of India's growth in national income was absorbed by the increasing population between 1951-69. Although the growth of real national income over that period was 3.6 percent annually, the growth of per capita income slowed down, from 1.65 percent per year in 1951-60 to 0.6 percent per year in 1961-66. During the largely drought induced recession of 1967 and 1968 economic growth was insufficient to offset population growth. The effects on unemployment, though difficult to measure, are considerable. Given the projected increase in the labor force and rough estimates of the present level of unemployment, about 40 million additional jobs have to be created in 1971-75 and about 75 million jobs over the next decade, to eliminate unemployment.

3. While the Government of India was the first to proclaim an official population policy in 1951, it was only in 1965-66 that a large-scale effort to expand the national family planning program was made. The Ministry of Health was renamed the Ministry of Health and Family Planning with a separate Department of Family Planning; program targets to reduce the birth rate to 25 per 1000 population by 1980 were set; a vast administrative machinery presently employing more than 80,000 persons was set up; the Intrauterine Device (IUD) was introduced and sterilization was offered with compensation payments made to acceptors of these methods; the camp-approach was introduced to provide services for groups of villages; postpartum programs were initiated in selected large hospitals of several cities; and country-wide schemes for the commercial distribution of condoms at subsidize rates were initiated.

4. As a result, acceptors have steadily increased from 200,000 in 1960-61 to 3.75 million in 1970-71; but progress has been uneven with acceptors levelling off in the last two years. After the introduction of the IUD in 1965-66 a peak was reached two years later but this was followed by a large decline; this pattern was also true for vasectomies.

The decline in IUDs and vasectomies was counteracted principally by a large increase in condom distribution, and to a lesser extent, by tubectomies. All these efforts have resulted in an estimated 11 percent of all couples being protected, and the birth rate being reduced by almost three points from about 41 to about 38 per thousand.

5. The trend of these achievements is not sufficient to meet GOI's program target to reduce the birth rate to 25 per 1000 population or a growth rate of 1.5 percent by 1980. To achieve this target, about 56 million births have to be prevented in this decade, as compared with 7-8 million births already prevented, and 50-60 percent of couples will have to be practicing contraception in 1979-80, as compared with the present 11 percent. By the turn of the century the population could vary between 792 million and 1.1 billion depending upon the extent to which the family planning program is successful. Even with a moderate decline in fertility (i.e. a birth rate falling to 35 per 1000 in 1980 and 30 per 1000 in 1990) the population would reach 948 million in the year 2000.

6. The present program suffers from severe constraints. The supply of services is hampered by a scarcity of personnel at the field levels and the low quality of their training, the overcentralized administration, and inadequate acceptance of safe contraceptive methods. Illiteracy, a large rural population and low standards of living all conspire to put an upper ceiling on the effective demand that can be expected. However, a recent study suggests that those constraints notwithstanding, there is a large potential for improved program performance, although there at present is no guidance as to what needs to be done to exploit this potential fully.

Proposed Population Project

7. The Bank's recently appraised population project, planned for Board presentation in May 1972, will cover a combined population of 19.3 million in Mysore and Uttar Pradesh. The objectives of the project are to (a) establish and operate two Population Centers, where an improved Management Information and Evaluation System (MIES) will be developed, to evaluate performance and recommend changes (b) provide the health infrastructure, training facilities and equipment to implement the GOI plan in all project areas, with additional inputs in selected regions to test alternative approaches, including a nutrition program to mothers and infants in one District of Mysore; and (c) provide the necessary technical assistance and incremental costs on experimental aspects of the project.

8. Project execution will be the responsibility of the State Governments who are responsible for family planning operations. Implementation will be carried out by three units: (a) the Population Center for the MIES; (b) a Project Implementation Unit responsible for the provision of services and other aspects of the program; and (c) a Construction Unit.

Two Indian Management Institutes will provide technical support to the Population Centers on a continuous basis. An Architectural Institute and a consulting architect's firm will render assistance in design and administration of construction. In each State, a high level Governing Board, chaired by the Chief Secretary will be set up to make policy decisions.

9. Physical project components in each State will include the Population Centers, buildings for program administration, and for training, sterilization and maternity annexes to existing hospitals, vehicles and over one thousand rural subcenters for delivery of health and family planning services to rural people up to now not reached by the health system.

10. The total cost of the project has been estimated to be about U.S. $31 million. The Swedish Government, through SIDA, has participated in project appraisal, and may participate in the financing of the project.

Population, Family Planning and Employment

The Population Census

1. The 1971 decennial census was held in March. The provisional figure for the total population was 547 million, about 14 million lower than the official projections and giving a 2.25% annual growth rate for the previous decade. The reason for this shortfall has given rise to much speculation, but will remain elusive at least until the age distribution becomes available. This will be in late 1972, but a 1% sample should be ready in the Spring. The bulk of demographic opinion regards it as unlikely that most of the shortfall reflects a more rapid fall in fertility than expected, though this may have made a marginal contribution. Unfortunately there has until recently been no way of estimating vital statistics for the country as a whole apart from the census. In 1964, however, work started on a sample registration scheme which by 1970 has been extended to virtually the entire country. This contains too many fluctuations from period to period, and too many apparent anomalies to be regarded yet as completely reliable but appears to show that India's birth rate in rural areas, where 80% of the population lives, is about 38-39, and its death rate about 17; in urban areas the birth rate is about 30-32 and the death rate, 10-11.

2. It seems more probable that mortality was underestimated in the projections for two reasons. First, the life tables for 1951-60, which underlay the projections, understated infant mortality and so exaggerated the expectation of life at birth; and secondly, mortality did not decline to the predicted level (14 per 1000 in 1968), as evidenced by the sample registration scheme. It is also possible that undernumeration was greater in 1971 than in 1961, perhaps because of political disturbances in West Bengal during the enumeration period, or because March is a peak harvesting month in some states. Results of post enumeration checks are awaited, but some commentators have expressed doubt about their adequacy, since they are carried out by census staff who cannot be anxious to denigrate earlier figures.

3. Among the other results so far published, the census shows a rise in literacy from 24% to 29.3%. It is hard to assess the significance of this rise until age distribution figures are available. There is however a marked difference between urban areas (52.5% literate) and rural areas (23.6%) and between men (39.5%) and women (18.4%). The low level of female literacy, especially in rural areas (12.9%) is widely thought to be a considerable deterrence to improving health and nutritional practices and to the adoption of family planning.

4. Although four-fifths of the Indian population still live in rural areas, urbanisation is proceeding steadily and the proportion in urban areas has risen to 19.9% from 18.0% in 1961. Towns of over 100,000 have been growing about twice as fast as general population growth, and about 30% faster

than the urban average. An exception is the Calcutta Metropolitan area (though this may have been affected by underenumeration) which grew by only 22.1% during the decade - slower than the national average of 24.7%. Nevertheless Calcutta with a population of 7.0 million remains larger than faster-growing Bombay, which has 6.0 million.

Family Planning

5. The prospects and problems of the family planning program were extensively discussed in the last year's economic report. India's achievements in the last five years have been to build up an extensive network of family planning centers, with some 80,000 full-time staff plus many with part-time responsibilities, and to create a widespread awareness of the existence of family planning. The density of the network of centers varies a good deal; on average there is one center for 15,000 people instead of one for 10,000 as aimed at; but some states have reached or are close to this target while others are very far away. There is general agreement, however, that for the program to establish really effective personal contact with all married couples in the reproductive age groups would necessitate a network of centers and personnel 2-3 times greater than the present target level.

6. The absolute numbers of couples in the reproductive ages now protected by family planning methods is estimated to be 11.6 million. Although large, this is less than 12% of the total couples of reproductive age. In contrast, it has been estimated that a reduction of the birth rate to 25 per thousand in 1978/79 (the basis for present family planning targets) would require some 50-60% of these couples to practice family planning. Target setting in family planning is a somewhat conjectural exercise and a failure to reach an a priori target is not itself a demonstration of failure, but India will not even remotely approach its Fourth Plan target of a birth rate of 32 by 1973/4, and the 1978/9 target appears almost equally unattainable. It is a furthering sobering thought that even the achievement of the 1978/9 figure would still leave India adding over nine million people per year to its population at the end of the decade.

7. More discouraging than the gap between present performance and the a priori targets has been the fact that from 1967-8 until this year, the program has had very little forward momentum. An impressive rise in the users of conventional contraceptives (mostly condoms) has been almost offset by a drop in the annual numbers of sterilisations and IUCD insertions. This year, however, may see a change in trend. Use of conventional contraceptives has continued to rise - estimated users during April/September 1971 were 26% above the equivalent period in 1970. IUCD insertions were down 8%. Most interesting, however, is a reversal of the trend of sterilisations, which were 14% up during April/September 1971. Most, but not all, of this increase can be attributed to a spectacularly successful one-month-long sterilisation camp held in July at Ernakulam in Kerala, in which 65,000 sterilisations were

performed.[1/]

8. The effect of these camps should be to reverse the decline in the number of vasectomies experienced in each of the past three years. Undoubtedly they represent the most interesting recent new development of the program. In a way they are a culmination of the approach that India has taken to family planning - its emphasis on rather simple propaganda on a wide scale and on trying to build up an effective mechanism to distribute services. Few would deny that there is still a lot more India could usefully do along these lines. But, in the Planning Commission and elsewhere, there has been growing a belief that such measures by themselves still inevitably prove inadequate, and that more fundamental changes in rural society are needed. It is often argued that unless the probability of survival of a child can be increased, by improvements in health and nutrition, people will be reluctant to limit their families sufficiently. This view has lead the Health Ministry to propose a nutrition component for the Bank Population Project. Similarly, improvements in environmental sanitation, especially in rural areas, might be a way of reducing the birth rate, and this is being urged by some senior officials. So too is the effort to upgrade women's education, which might indirectly improve standards of health and nutrition, encourage women to work outside the home, and by broadening horizons, increase women's perception of the advantages of small families to the family unit itself.

Employment

9. One of the most striking changes between the 1961 and 1971 censuses is an apparent decline in the size of the labor force. It is, of course, a question of definitions - the 1971 census has dropped from the labor force those whose primary activities were being full-time students or housewives. A detailed occupational breakdown is not yet available, but there is no evidence of any significant shift out of agriculture, which (excluding livestock

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1/ This followed an earlier camp in December 1970 in the same district which carried out 15,000 sterilisations. By common consent, the energetic Collector at Ernakulam must take a good deal of credit for the organization which seems not only to have brought the entire district administrative machinery into action, but also to have stimulated a great deal of non-official action at the village level, both inside and outside the district. One element in the camp's success was undoubtedly the lavish provision of incentives - the equivalent of Rs. 100 in cash and kind for all those sterilised, free transport, and generous payments to those who brought acceptors to the camp and to camp personnel. The Ernakulam camps are being followed by several similar ones elsewhere, most of which have also adopted high incentives. Most of these have just started or are yet to come. First reports suggest varying but generally high levels of success, though below the Ernakulam level.

production) occupied about 69% of the work force in both 1961 and 1971.

10. The 1961 census showed extremely low unemployment rates especially in rural areas. It was felt that this was misleading, and no attempt at all was made in 1971 to estimate unemployment: the unemployed were classified as non-workers. This decision can be criticized on the grounds that a little information is better than none, and the 1961 data at least showed open unemployment of the Western variety to be very little. This is not surprising in a society which has no social security benefits for the unemployed. In most rural areas there appears to be full employment at peak agricultural seasons. Underemployment, resulting from seasonal fluctuations in the demand for agricultural labor, or from a large number in self-employed urban services, perhaps while searching for more steady employment, is undoubtedly large. There appears to be no clear trend as to whether underemployment is worsening or improving - there appears to be a good deal of regional variation in both this and the level of wage rates. Similarly, though the information that exists on the trend in real incomes is the poorer sections of Indian society suggests some gains during the period 1960/61 to 1967/8, these gains were small; it is quite conceivable that some of the poorest groups actually became worse off. Whatever the trend, whatever the extent of under-employment, it is all too evident that the employment that is available offers vast numbers only the most meagre incomes. Defining a poverty level very austerely by international standards, estimates for 1967/8 showed about 200 million people or some 40% of the Indian population had incomes of below that level (approximately 1 rupee per capita per day at 1967/8 prices). Of course, 1967/8 is now some time ago, and the effects of the Green Revolution have been largely felt since that date, but unfortunately we have no recent information.

NUTRITION

1. Nutritional problems are nothing new in India. Famines under British rule led to a series of Famine Commissions in the late nineteenth and twentieth centuries and to the establishment of research into the seriousness of the problem and ways of combating it. It has been established that in India, unlike many developing countries, the nutrition problem does not stem principally from basic diets that are relatively high in calories but very low in protein, but rather from a general inadequacy of both protein and calories; if existing diets met caloric requirements they would also meet protein ones. This inadequate level of calorie intake is a result of deep levels of poverty. This does not mean that nutrition education has no place - there are undoubtedly ways in which valuable nutrients are wasted through unwise methods of food processing or preparation. Nor does it mean that there are no specific mineral or vitamin deficiencies which could not be tackled by marginal dietary changes or supplements to basic food; of course there are. But it does mean that the most important measures to solve nutritional problems will be those that raise the real incomes of the poorestmembers of Indian society, and those which increase the total output of food. Research on pulses and oilseeds and on breeding cereals with higher nutritive value has recently been stepped up. There are also a large number of programs devoted both to nutrition education and to providing food supplements to nutritionally vulnerable groups. Some are run by voluntary agencies, some by State Governments, and others by the Central Government. Some are small and experimental and in a few villages only; some are comparatively large.

2. Government programs include a midday meal program for primary school children in a number of States. These are run by Education Departments of State Governments. About 10 million children are now covered. The program is assisted by CARE and most of the food is provided by the US under Title II of PL 480. This source of food is also important in most of the other nutrition programs. A rapidly growing program is run by the Department of Social Welfare for pregnant and nursing mothers and pre-school children in urban slums and tribal areas. Begun in 1970, it now already feeds over 1 million and is aiming for 2 million by March 1972. The Community Development Department runs two programs which concentrate primarily on nutrition education, though they also provide some supplementary feeding for 25-30,000 beneficiaries. Finally the Health Ministry has programs for preventing nutritional anaemia and vitamin A deficiency.

3. Most of these programs are recent, and rather small. Only 1-2% of pre-school children are now reached; it has been estimated, however, that 60-70% of Indian children suffer from "nutritional dwarfism". There is no consensus on how such enormous numbers of pre-school children might best be provided with food supplements, either as to the type of food, or the manner of its processing, or the logistics of its supply. Nevertheless, there is much serious attention now being paid to nutritional questions in an attempt to advance the date at which satisfactory levels of nutrition are reached well before the process of economic development would normally bring them about.

U

URBAN DEVELOPMENT

1. Our involvement with India's overwhelming urban problems has so far been not very deep. A water supply project in Bangalore which was discussed and appraised between 1964 and 1968 was finally abandoned when agreement on the financial organization, especially the level of rates to be charged, could not be reached. We have pursued a water supply and sewerage project in Bombay going back almost as far as the Bangalore project. We are now confident of being able to appraise this project next April. More recently, we have carried out a review of the urban problems affecting Bombay. The report completed by a mission led by Ben King in May 1971, has been our largest effort to gain some inside knowledge of India's urban problems. This report is at present being reviewed by the Government and may lead to the formulation of specific project proposals.

2. India has an urban population of some 100 million (1971 estimate) of which about 6.0 plus million are concentrated in Calcutta and its environs and 4.6 million in Bombay. There are a further nine cities (Delhi, Madras, Hyderabad, Bangalore, Ahmedabad, Kanpur, Poona, Nagpur and Lucknow) with populations exceeding one million. Such numbers and such concentrations set amidst the poverty of Asia have created formidable difficulties. At this stage, we know little more than the bare statistical facts of the situation and an impression of the scale of the problem. However, what can be said on the basis of our Bombay review is that the administration of urban areas is often unnecessarily fragmented and, as a result, uncoordinated. Lack of a comprehensive analysis of resource allocation has resulted in the waste of scarce funds (our Bombay review questioned, for instance, the large expressway program when only modest improvements were required to the existing railway system to make available the necessary capacity). The absence of consistent policies for resource mobilization has limited the funds available for urban investments and tended to discriminate against the urban poor.

3. The Government has repeatedly suggested that the Bank review the development program for Calcutta and provide support to the staggering investment needs of that City. We have been hesitant to respond so far. The political situation in West Bengal and in Calcutta has been in almost perpetual disarray making any engagement in what would have to be a long and continuous relationship a doubtful undertaking. Moreover, the limitations of our experience in the field of urban development did not fill us with the confidence to take on as difficult a problem as Calcutta as our first urban project in India.

4. The establishment of a Calcutta Metropolitan Development Authority seems now to have brought an end to the administrative chaos which formerly frustrated all attempts to implement a well thought-out program. Indian Government officials and knowledgeable foreigners alike agree that CMDA has already brought about significant improvements and is moving ahead with a sensible program. In the circumstances, we

could examine the various schemes under execution by the CMDA with a view to providing some financial support to projects which have come close to the implementation stage or which may have already gotten underway satisfactorily. This would be a way of approaching the complex and messy problems of urban development in Calcutta. It would enable us to provide financial support in an area which is clearly in desperate need. As long as we can be satisfied that CMDA does provide the necessary minimum of sound planning and administration, we could limit our attention in selecting and appraising an initial project strictly to the project aspects in a narrow sense. Once involved in a project, it would be possible to enter into a dialogue which as time goes on would enable us to focus more sharply on the causes underlying the urban problems of Calcutta.

V

INDIA - Agricultural Universities

The proposed agricultural universities project would provide financial assistance for construction, equipment and technical assistance to:

(i) Assam Agricultural University;
(ii) Bihar Agricultural University; and
(iii) a new Computer Center at the Indian Council of Agricultural Research.

The appraisal mission considers that the establishment of agricultural universities in the States of Assam and Bihar is justified, and the computer center at the Indian Council of Agricultural Research is a viable proposal. Approval of the request is therefore recommended, subject to certain changes and conditions.

Higher agricultural education in India received considerable attention during the last decade when it was decided to establish at least one high quality agricultural university in each State. This would be the one major agricultural institution for the whole State, responsible for developing agriculture through resident instruction, research and extension education, based on the U.S. land-grant college system. With substantial support from the central government through its Indian Council of Agricultural Research (ICAR), including assistance with capital investment and recurrent costs, the States are encouraged to integrate, under a single administration, the various colleges of agriculture, veterinary science and others, under the new agricultural university. State-wide agricultural research is transferred to the university which would also have responsibility for agricultural education at all levels and for extending the findings of research to farmers through extension education. This integration of education, research and extension under one single institution has contributed in States such as Punjab and Uttar Pradesh in adapting discoveries of significant importance to agricultural development in India and has improved agricultural education at all levels. Beyond the green revolution that is now taking place, India needs a new kind of agriculture, under a new concept of developing natural resources by small farmers practicing subsistence agriculture, in which the Indian agricultural universities should play an important part.

At present, 15 agricultural universities have been established in 14 States (Annex). Some of them have been operating for more than eight years (Uttar Pradesh, Punjab, Orissa and Rajasthan) and are better staffed and equipped; while others are relatively new (Andhra Pradesh, Madhya Pradesh, Mysore, West Bengal, Haryana) and lack essential equipment and qualified staff. The most recently created agricultural universities (Assam, Bihar, Gujarat, Maharashtra-Rahura and Akola- and Kerala) are still in the preliminary stages of implementation.

The Government of India requested Bank group support for financing some of the recently created agricultural universities. An identification mission under the FAO/IBRD Cooperative Program therefore visited India in September-October 1970, which was followed by an IBRD reconnaissance mission in May 1971. These missions justified financial support to the above-mentioned agricultural universities on the grounds of improving the quality and orientation of their graduates, rather than increasing the number of agricultural graduates of whom there is already a surplus.

The Assam Agricultural University has already been established with Assam Agricultural College at Jorhat and Assam Veterinary College at Gauhati as constituent colleges. The main university campus will be located in Jorhat where new colleges of Home Science and Basic Sciences and Humanities will be added. The control and management of state-wide research and agricultural education institutions, as well as the extension education functions of the Department of Agriculture, are being transferred to the university. Financial support will be required to develop the main campus of the agricultural university in accordance with its new role. The Bihar Agricultural University has incorporated the following colleges: (i) Bihar Agricultural College, Sabour; (ii) Ranchi Agriculture College, Kanke; (iii) Tirhut College of Agriculture, Dholi; (iv) Bihar Veterinary College, Patna; and (v) Ranchi College of Veterinary Science and Animal Husbandry, Kanke. The univeristy's main campus will be located at Pusa, where various research institutions and associated farms exist in an area of diversified farming and high agriculture potential. State agricultural research and education institutions, and extension training centers are being transferred to the university. Development of the main campus-- to accomplish the new role of the university-- will require financial support to expand and improve the existing College of Agriculture and to establish new colleges of Home Science and Basic Sciences and Humanities. The Ranchi College of Veterinary Science and Animal Husbandry at Kanke is well located in an important live-stock area and it is not advisable to integrate it with the main campus; but it would also require financial assistance.

A considerable amount of local funds would be required during the implementation period of the project for capital and recurrent expenditures. The Rs.20 million provision in the present (Fourth) 5-Year Plan under ICAR to support 10 agricultural universities, is now being used to assist 15 universities and no additional funds are likely to be available under the present plan. The first disbursements of the proposed project, however, are likely to occur before the middle of 1974 when the Fifth 5-Year Plan (beginning April 1974) will be under way. The central government authorities, and those of the State Governments of Assam and Bihar, have accepted, in principle, the inclusion of the necessary provisions in the Fifth 5-Year Plan for both capital and recurrent expenditures for the proposed project.

CVidalon:ldz

January 17,1972

ANNEX

INDIA

AGRICULTURAL UNIVERSITIES

State & Capital	Agricultural University	Location	Creation Year	Technical Assistance
1. Andhra Pradesh (Hyderabad)	Andhra Pradesh Ag. Univ.	Rajendranagar	1964	Kansas S. U.
2. Assam (Gauhati)	Assam Ag. U.	Jorhat	1969	Missouri S.U.
3. Bihar (Patna)	Rajendra Ag. U.	Pusa	1970	
4. Gujarat (Ahmedabad)	Gujarat Ag. U.	Banaskantha	1969	Kansas S.U.
5. Haryana (Chandigarh)	Haryana Ag. U.	--	-	--
6. Jammu & Kashmir (Srinagar)	--	--	-	--
7. Kerala (Trivandrum)	Kerala Ag. U.			Tenn. S.U.
8. Madhya Pradesh (Bhopal)	Jawarlal Nehru Ag. U.	Jabalpur	1964	Illinois S.U.
9. Maharashtra (Bombay)	Mahatma Phule Ag.U. Punjabrao Ag. U.	Rahuri Akola	1967 1969	Kansas S.U.
10. Mysore (Bangalore)	U. of Ag. Sciences	Bangalore	1964	Tenn. S.U.
11. Orissa (Bhubaneshwar)	Orissa U. of Ag. & Tech.	Bhubaneshwar	1962	Missouri S.U.
12. Punjab (Chandigarh)	Punjab Ag. U.	Ludhiana	1962	Ohio S.U. Ford - Rock.
13. Rajasthan (Jaipur)	U. of Udaipur	Udaipur	1962	Ohio S.U.
14. Tamil Nadu (Madras)	----	--	--	Tenn. S.U.
15. Uttar Pradesh (Lucknow)	Uttar Pradesh Ag. U.	Pantnagar	1959	Illinois S.U. Ford - Rock.
16. West Bengal (Calcutta)	Kalyani Ag. U.	Kalyani	1965	--

W

INDIA

UNDP Projects in Special Fund Component

As of October 31, 1971

Project	Agency	Approved by Governing Council	Governing Council Earmarkings
Power Engineering Research Organization, Bhopal and Bangalore	UNESCO	Dec. 1959	2,246,800
Cavitation Research Centre, Poona	UN	Dec. 1960	364,100
Assistance to the Survey of India for Pre-Investment Surveying, Mapping and Training	UN	Jan. 1964 (June 71)*	1,564,700
Soil Survey and Soil and Water Management Research and Demonstration in the Rajasthan Canal Area	FAO	Jan. 1965 (June 71)*	894,800
Grassland and Fodder Development	FAO	Jan. 1965	391,500
Groundwater Project in Rajasthan	UN	Jan. 1965 (Jan. 71)*	973,600
National Institute of Foundry and Forge Technology at Ranchi, Bihar	UNESCO	June 1965	871,400
Training and Advisory Services in Tool, Die and Mould Making for the Plastic and other Industries, Guindy, Madras	ILO	Jan. 1966	864,700
Pre-investment Survey of Fishing Harbours	FAO	Jan. 1966	1,284,700
Improvement of Milk Production in the Calcutta Area	FAO	Jan. 1966	815,900

* Field work completed.

cont'd...

Project	Agency	Approved by Governing Council	Governing Council Earmarkings
Land and Water Use and Management in the Chambal-irrigated Area, Rajasthan	FAO	June 1966 (March 71)*	1,366,200
Mechanical Engineering Research Development Organization, Durgapur	UNESCO	Jan. 1967	689,300
Mineral Development in Madras State	UN	Jan. 1967	1,020,600
Advanced Vocational Training Institute, Madras	ILO	June 1967	1,051,200
Central Institute for Tool Design, Hyderabad	ILO	June 1967	961,500
Farm and Community Grain Storage Development	FAO	June 1967	1,095,400
National Apprenticeship Scheme	ILO	June 1967	1,362,300
Design Centre for Electrical Measuring Instruments	UNIDO	Jan. 1968	833,000
Nuclear Research in Agriculture	IAEA	Jan. 1968	1,419,700
Sheep and Wool Development in Eight States	FAO	Jan. 1968	1,634,300
Groundwater Investigations in Madras State (PHASE II)	UN	June 1968	707,900
Farmers Training and Functional Literacy	FAO	Jan. 1969	1,502,400
Pelagic Fishery Investigation on the Southwest Coast	FAO	Jan. 1969	2,018,800
Post Graduate Agricultural Education and Research	UNESCO	June 1969	470,900

* Field work completed.

cont'd...

Project	Agency	Approved by Governing Council	Governing Council Earmarkings
Post-Graduate Education of Engineers	UNESCO	Jan. 1970	2,003,900
Television Production and Studio Technical Operations Training Centre, Poona	UNESCO	June 1970	1,147,000
Expansion of the Experimental Satellite Communication Earth Station, Ahmedabad	ITU	June 1970	1,068,900
Mineral Surveys - Uttar Pradesh	UN	Jan. 1971	683,700
Coastal Engineering Research Centre and Development of Hydraulic Instrumentation	UN	Jan. 1971	936,300
National Metallurgical Laboratory, Jamashedpur	UNIDO	Jan. 1971	671,600
Groundwater Surveys in Rajasthan and Gujarat	UN	Jan. 1971	664,900
Demonstration Plant for Irradiation Sterilization of Medical Products	IAEA	June 1971	630,500
Centre for the Development of Educational Mass Media, New Delhi	UNESCO	June 1971	778,700
Assistance to the Survey of India for Pre-Investment Surveying, Mapping and Training (Phase II)	UN	June 1971	638,300

281.

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

OFFICE MEMORANDUM

TO: Mr. A.E.E. Ljungh **DATE:** January 4, 1972

FROM: Gregory B. Votaw

SUBJECT: INDIA - Books

1. You asked me to suggest books on India. Several of those I would have suggested are already on Cassen's list of December 8 (especially items 1-4), so I will not repeat those titles. Here are some others.

2. Impressions

a) Ved Mehta - Portrait of India, 1970,- some of which appeared originally in the NEW YORKER.

b) Bernard Nossiter - The Soft State - a newspaperman's chronicle of India, 1970 - short, glib, hostile; but concise presentation of what bugs many Americans when confronted with India.

3. Fiction. I cannot claim to have read all of these but from reviews and friends' comments believe they are all useful historical or sociological statements, as well as readable.

a) Malgonkar, M. - Bend in the Ganges, 1965.

b) Hosain - Sunlight on the Broken Column.

c) B. Bhattacharya - So Many Hungers (Bengal Famine of 1943) or He Who Rides a Tiger

d) Jhabwala, R.P. - various titles, all about urban joint family life. Esmond in India, 1958; Householder, 1960; Like birds, like fishes, 1964; Stranger climate, 1969.

4. Weighty

a) Neville Maxwell - Recent book on the 1962 China Crisis: considered "dishonest" by all Indians I know, rated very accurate by non-Indians!

b) Khushwant Singh - Train to Pakistan, 1961 - story of the earlier partition, when the British departed.

c) Dandekar - Poverty in India - Recent, much quoted by our economic report.

d) F. Frankel - India's Green Revolution: (just published in September).

e) George Rosen - Democracy and Economic Change in India, 1966 - pedestrian 1967.

f) Ranjit Kothari - Politics in India (1970) - good despite too much sociological jargon.

g) Alastair Lamb - Crisis in Kashmir, 1967 - An Australian's 1966 account of the main bone of contention between India and Pakistan.

5. As you know, there are too many titles on India, few really outstanding ones. I still think John Lewis' Quiet Crisis in India (1962), written long before he was AID Mission Director, is one of the best.

GV/cf