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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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IND 68-3

FROM: The Secretary

January 8, 1968

MEETING OF INDIA CONSORTIUM

Attached is the Chairman's Report of Proceedings of the meeting of the India Consortium held in Paris on November 13-14, 1967.

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IND 68 - 3

MEETING OF THE INDIA CONSORTIUM
REPORT OF PROCEEDINGS

Prepared by the Chairman

1. A meeting of the consortium of countries and institutions interested in development assistance to India met in Paris on November 13 and 14, 1967, under the chairmanship of the World Bank. The meeting was attended by representatives of the Governments of Austria, Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, the United Kingdom and the United States. Observers from Denmark, Sweden and the Asian Development Bank were present for the first time at a meeting of the India Consortium; as in the past the International Monetary Fund and the OECD (DAC) also sent observers. A delegation from the Government of India was also present during the meeting. (A final list of delegates is attached as Annex I. The preliminary list was distributed at the meeting as IND 67-39.) During the course of the meeting a working party was established to consider ways and means of speeding up the utilization of aid.

2. In his opening statement the Chairman reminded members that the main purposes of the meeting were, first, to review recent economic developments in India, and second, to consider in a preliminary way the level of aid likely to be needed in 1968/69. The Chairman noted that the meeting was not intended to be a "pledging" session nor did he intend to call for a discussion either on "net aid" (about which members had received a Bank staff paper only a few days before--distributed on October 31, 1967 under the Secretary's memorandum IND 67 - 36) or of the long-term debt-servicing problem, since the Guindey mission had spoken with only about half of the members of the consortium and was not expected to complete its first round of consultations until early January.

Review of Economic Trends and Prospects

3. Introducing the discussion on recent economic developments in India, the Chairman said that there had been no important new developments since the distribution to consortium members on October 16 (under cover of the Secretary's Memorandum IND 67 - 33) of the Bank's most recent economic report "Current Situation and Short-Term Prospects of the Indian Economy." However, he did wish to underline certain aspects of the present situation which deserved special attention.

(a) Cash requirements, emphasized in the consortium discussions in April, are still very acute. Despite relatively sluggish import demand and the interim debt relief provided by several consortium members, India's foreign exchange reserves had declined since July and were at present four or five million dollars below the level of $577 million cited in the economic report. At this level reserves were barely sufficient to pay for two months imports.

(b) Even though a record harvest, including 95 million metric tons of foodgrains, is expected, India would still need to import about six million tons of food grains in 1968, partly in order to build up the buffer stocks which are essential for sound economic planning.

(c) Although food imports would be less in 1968 than in 1967, the overall balance of payments deficit was expected to increase. Additional imports would be needed to support recovery from the recent recession, and the recovery process would almost certainly lead to a more rapid use of aid.

(d) At the time of devaluation no quick increase in exports had been expected. Nevertheless, even though expectations had been modest, recent export performance was extremely disappointing. In the twelve months following devaluation, export earnings had actually declined (by about 8 percent)compared to the twelve months immediately preceding devaluation. Whereas the Government of India had planned for an increase in exports of 8-1/2 percent per annum, the export earnings now projected for 1968/69 were only 10 percent higher than earnings in 1965/66.

(e) The shortfall in exports inevitably would be reflected in continued pressure on the economy, on aid needs and on India's already strained reserve position.

4. The Chairman then called for presentations by representatives of the Government of India. The statements of Mr. P. Govindan Nair, Secretary in the Ministry of Finance, Mr. B. Sivaraman, Secretary in the Ministry of Food and Agriculture, and Mr. K. B. Lall, Secretary in the Ministry of Commerce are reproduced as Annexes II, III and IV respectively.

5. In the discussion that followed these presentations, many delegations joined the representative of the United States in commending the Government of India for its determined response to the difficult situation caused by two years of severe drought and expressed admiration for the Government's extraordinary achievement in averting widespread disaster in the face of critical food shortages. Several delegates urged that the consortium continue to provide large scale support to India in order to allow the Government of India to continue the new policies adopted over the last two or three years, since these policies show real promise of accelerating India's economic growth. At the same time, however, some delegates expressed concern and dismay that, in spite of the efforts of both India and aid-givers, the balance of payments position had deteriorated and the rate of economic growth over the last ten years had not been anywhere near as high as consortium members had expected. The representative of Japan particularly noted his Government's disappointment at India's economic performance in the 1960's.

6. Exports. Most delegations expressed their concern at the sluggish trend in India's export earnings.

(a) Canada stressed the need for a broad ranging program of export promotion with attention to market analysis and market development and emphasis on developing real competitive advantage in certain products.

(b) Japan observed that there are three theoretical alternatives for improving the balance of payments situation--namely, to receive larger quantities of aid, to cut down on imports or to promote exports. In practice it will be extremely difficult for India to receive increased aid, in view of the fact that there are limits to the aid-giving capacity of the donor countries. Moreover, there does not seem to exist much room for reducing imports. Therefore, the only practicable way left is the promotion of export trade at a sufficient rate to keep pace with increases in the demand for imports. In future, India must make even harder efforts to increase free foreign exchange earnings, and her success in this endeavour would undoubtedly greatly impress donor countries as an important evidence of self-help.

(c) Germany congratulated the Government of India on its new export program and its efforts to encourage industrialists to enter the export field. In this connection, the German Government, which is anxious to help India with more than just finance, recently concluded an agreement with the Government of India, under which about a dozen experts are being sent to assist Indian industry in selecting products for export and in better marketing, advertising and packaging techniques.

(d) The representative of the Netherlands commended the Government of India on a well thought out program and the emphasis it was giving to export promotion. He expressed the hope that substantially increased earnings would result from so much careful planning and noted that India can only service its debts by increasing its earnings from exports.

(e) The representative of the United States stated that in his view a sharp improvement in India's export performance was a matter of "dire, urgent and grim necessity." The choice for India is to develop exports or accept economic stagnation. The record of the last decade is not a good one; clearly the former system of export promotion did not work. As for the program, the United States has serious questions about the adequacy of incentives offered to exporters. Furthermore, there still seems to be too large an element of administrative discretion in the program and too little reference to India's comparative advantage. Performance over the next few months will show if present policies are effective.

(f) The representative of the United Kingdom associated himself with the sense of urgency expressed by the representative of the United States, but noted that the problem was not one that can be solved easily. He also inquired about India's tendency to give too much protection to local industry, which has been criticized in the Bank's economic reports. The United Kingdom was prepared to accept the need to offer some protection in order to make better use of existing productive capacity but would urge India not to offer protection to any new enterprise unless the resulting industry would be fully competitive.

(g) The Chairman confirmed the Bank's view that, despite liberalization, India's present policy of banning the import of products thought to be available indigenously resulted in too much protection for some Indian industries and involved much costly delay in the administration of complicated clearance procedures. In response to a comment by the French representative, the Chairman also observed that questions about export incentives should not be regarded as in any way a reflection on the exchange rate, which was fixed last year in close consultation with the International Monetary Fund. Taking into account the present stage of development of Indian industries and difficulties encountered in entering export markets, the Government of India feels it must give special incentives to exporters. This is not an exchange rate question. The Bank has a difference of view on the best way of providing effective incentives to exporters; but in the Chairman's view the Government has recognized the urgency of its export problem and is sufficiently pragmatic to find promotional measures that work and to discard any that fail. The Chairman agreed with a suggestion by the United States that in future India should provide the consortium with periodic reports on developments in its export program.

7. In response to several points brought out in the discussion, Mr. Lall made the following observations. An underdeveloped country like India must take into account both present and potential comparative advantage when framing its trade policies. Except in very sophisticated fields, Mr. Lall felt that Indian suppliers do, or would shortly enjoy, comparative advantage. As for the allegedly absolute protection given to indigenous suppliers, he wished to point out that there were procedures in India which allowed manufacturers to import any items they felt were not available indigenously at the right price, quality, standard or delivery time. One of the most hopeful elements in the present Indian situation is that a new export consciousness is gradually replacing industrialists' former pre-occupation with the domestic market. However, industrial nations have not made it easy for Indian suppliers to enter their markets. Although the present program in India still involves a measure of administrative discretion, such discretion is tempered by entrepreneurial judgment expressed through panels of industrialists who advise the Government on policy details. Export credits are available now only on an ad hoc basis, but a comprehensive program is being developed in consultation with the Reserve Bank of India. Aid-givers could help India by following the example of the World Bank and making their financing available to Indian, as well as their own, suppliers when providing development assistance to projects in third countries. Mr. Lall agreed that India should make available to interested countries, including consortium members, a periodic assessment of progress in the export field.

8. Family Planning. In discussing India's family planning program, members noted that India appears to have made an energetic start but felt that it was difficult to evaluate progress since the whole subject was new

and particularly hazardous for laymen. Even the reports of experts seemed to disagree with each other and yet the need for an authoritative evaluation of population control measures in India was becoming more and more necessary to support requests to parliaments for aid appropriations. Responding to a suggestion from the Chairman members indicated that it would be helpful if the Bank would organize an expert team to evaluate the family planning program in India, and the Chairman agreed to ask the Indian Government if such a mission, perhaps next spring, would cause any difficulty. The representative of the United States indicated that his government was most anxious to have a careful and objective evaluation prepared periodically, inasmuch as the people of the United States were very deeply concerned about the rapid growth of India's population in view of the growing world food shortage. The representative of the United Kingdom asked whether technical assistance would be of any help in accelerating such an important, but delicate, program in India.

9. Mr. Govindan Nair reported that a request for technical assistance was at present with the Swedish Government; other offers might be absorbed in the program in due course. On the question of evaluation, he noted that India had found it very helpful to have the advice and counsel of teams from the World Bank and the United Nations two or three years ago. The question of timing would be important in considering any new team, since it was necessary to digest recommendations received earlier. The spring of 1968 might be a little too early but something later that year would certainly be appropriate.

10. Agriculture. Consortium members expressed themselves encouraged by the apparent success of the Government's recent agricultural policies. Several members noted that they expected to give primary emphasis to agricultural requirements in their own aid programs for India. In particular, Austria noted that about half of its aid in 1966/67 had been used to supply fertilizers, and Germany reported agreement with India on three new intensive agricultural development projects patterned on successful schemes in Mandi and Ootacamund. With a record crop foreseen, members felt that the Government of India would have to exercise special care to ensure that price incentives to farmers were not impaired. They also noted that a major reason for optimism about agricultural progress was the demonstrated receptivity of Indian farmers to the new techniques of scientific agriculture. One result of the farmers ready response to new techniques has been the rapid increase in demand for fertilizer, but despite the projects mentioned by Mr. Sivaraman, several delegates questioned whether fertilizer production would grow fast enough to satisfy the farmers' demand. Canada noted the possibility that private initiative could be relied on to a greater extent in meeting anticipated fertilizer requirements and suggested that this same approach might be explored too in the seed multiplication program.

11. In response, Mr. Sivaraman observed that investors were now much more interested in fertilizer manufacturing in India than ever before, since they are at last convinced that there is a large and growing market. As recently as one year ago, the Government of India had not been at all hopeful about the prospects for achieving its fertilizer manufacturing targets, but there was now no reason to expect that investors would be deterred by a feeling that they might not be able to sell agricultural chemicals at prices sufficient

to protect their investment and therefore there was much confidence that self-sufficiency would be attained by 1972 or 1973. The Chairman noted that the Bank was not as optimistic as the Government of India on certain points, and especially on the prospects for achieving adequate levels of fertilizer production in the early 1970's; but the Bank was nevertheless certain that the Government of India was committed to success in this field and would alter its present policies if it became necessary to do so.

12. Statistical services. Among the other topics mentioned during this discussion, Canada asked what was being done to improve statistical services in India, noting that qualitative improvement seemed particularly urgent in connection with statistics on agricultural production and the family planning programme. If the problem is technical, Canada would be happy to offer technical assistance. In response the Chairman observed that weaknesses in statistical reporting were a real problem in almost every field; even in the crucial balance of payments area it was difficult for the Government to be certain that its policy decisions are properly based on fact. The Bank has talked to the representatives of India about this problem, which seems to result more from organizational difficulties than from any lack of skills. The Chairman expected that at future meetings India would be able to report progress in the improvement of its statistical services and indicated that he would ask the Bank's staff resident in New Delhi to assist Government of India.

13. Non-Developmental Expenditures. The representative of the United States welcomed Mr. Govindan Nair's statement that the Government of India intends "to maintain strict control over non-development expenditures of all kinds". He stated that the United States' public has become increasingly concerned about the level of expenditures on defense by aid-receiving countries; outlays on new weapons systems are expensive and have a tendency to grow rapidly. Defense spending inevitably represents a major diversion of resources which might otherwise be devoted to development, and the United States therefore looks forward not merely to a levelling off but to a meaningful reduction in non-developmental expenditures of this type. The Chairman observed that it was not customary for questions of defense to be discussed in meetings of the consortium and noted that the Bank was certainly not competent to offer technical judgments on such matters as force levels or the choice of weapons systems. Nevertheless, it was clear that expenditures on defense diverted resources which might otherwise be devoted to development and that if these expenditures reached a level which seriously jeopardized the success of India's development program, it would be of grave concern to all consortium members. The Chairman added that he believed the Government of India was well aware of this concern among aid-givers and would keep it in mind when framing policies.

Aid Commitments for 1967/68

14. The Chairman asked members to indicate the present status of negotiations with India regarding both non-project and project aid for the current Indian fiscal year (April 1, 1967 - March 31, 1968). A summary of members' statements is attached as Annex V. Many delegations noted that disbursements, even against old commitments, were very low and in

some cases almost zero; France, Italy and Japan noted particularly low disbursement figures for the year. However, Italy's conspicuous aid-pipeline would be substantially cut as a result of the agreements signed at the end of October concerning the Barauni (Bihar) and Namrup (Assam) fertilizer plants, totalling 35 million dollars (including technical assistance); nevertheless, actual disbursements and deliveries would start at a later date. The same holds for minor agreements over fertilizer and fibre supplies under Italian aid. The Chairman expressed concern over delays in the utilization of aid and hoped that discussion in the Working Party on that topic could promote a better understanding of the causes of slow disbursement and perhaps suggest ways to improve performance in the future.

15. In response to a question from the representative of the United Kingdom, the Chairman noted that he was pessimistic about the chances of a large contribution from the World Bank Group this year; the Bank's own contribution, aside from the interim debt relief, would be limited to lending for projects in the private sector, which in their nature tended to be rather slow disbursing. On the IDA side, it was most unlikely that there could be any commitments during the current Indian fiscal year, since, as all members were aware, there continued to be delay over replenishment.

Estimated Aid Requirements for 1967/68 and 1968/69

16. The Chairman observed that the Bank's view on India's needs was expressed in the economic report and asked individual delegations for their comments on the Bank's estimates. The representative of the United States asked if the Bank's latest estimate of non-project aid requirements during the Indian fiscal year 1967/68 ($750 million) and its preliminary estimate for 1968/69 ($820 million) were estimates of the commitments or the disbursements needed in each of these years. Mr. Gilmartin replied that the figures represented probable needs for both commitment and disbursement of non-project aid. He stressed the importance of large new commitments each year, in order to maintain a pipeline large enough to sustain a high level of disbursements each year. The representative of the United States noted that, although much depended on the pace of India's economic recovery, the Bank's estimates seemed to be reasonable. Several delegations concurred on this view, and it was generally agreed that the Bank's estimates of aid requirements were a reasonable basis for planning future commitments. The United Kingdom and Canada emphasized that it seemed to them essential to maintain this high level of commitments if liberal import policies were to be maintained; the latter also pointed to the importance, in this context, of the extension of a significant measure of debt relief in the current year.

17. Several delegations raised questions about specific elements of the Bank's forecasts. Canada considered that a consortium approach should again be taken in meeting India's 1968 food import requirements. Germany asked that the consortium consider the capacity of industrialized countries to supply aid at the same time that it considered the requirements of India. In particular, the German representative wondered what the relation of members contributions to India through the International Wheat Agreement would be to the size of their ordinary consortium contributions. The Chairman stated that of course any such contributions which reached India ought to be reckoned as part of the country's total contribution to India, but he hoped that members would not interpret such a position to indicate that consortium contributions should be reduced by the amount of contributions through the Wheat Agreement.

18. The representative of France raised two questions. Would it perhaps be better to seek to use existing amounts in the pipeline faster rather than to seek new commitments? Also, did the Bank consider that the slowness of disbursements was an indication of a reduction in the capacity of India to absorb aid? In reply the Chairman said that it was always difficult to forecast the rate of disbursement accurately; however, he agreed that an acceleration in the utilization of aid was very important. He urged members to work together with officials in the Government of India to remove the causes of delay on both sides. At the same time, members should recognize that part of the recent slowness of disbursement was caused by the recession. In the Bank's view the Government of India was correct to plan for an increase in import demand - perhaps a fairly rapid increase - during the next several months as the effects of a good harvest made themselves felt in a fairly general economic recovery.

19. Experience had shown that most members must plan their financial assistance to India far in advance of actual disbursements; it took time to obtain parliamentary authorizations, more time to negotiate specific agreements with India and, then, under procedures followed by most members, at least another year or two to disburse fully funds covered by such agreements. Because of this experience, the Bank, at this meeting, was placing great emphasis on the need for early commitments by Consortium members in a form that will assure India of a sufficient flow of resources in future to sustain the liberalized import programme. The Chairman underlined the Bank's view, reiterated at all recent meetings of the Consortium, that aid requirements will continue at a high level for several years and that non-project aid will continue to represent a very large portion of the total aid need. Just now the Bank was recommending that Consortium members also provide assistance for projects at a higher level than in the recent past in order to help finance the resumption of investment activity, which is expected next year. At the same time it was necessary to realize that project aid would have to be reckoned over and above the large requirements on non-project aid.

20. In response to these points, the representative of India stated the hope and determination of his Government to speed up its utilization of aid. Concerning project aid, India wished to emphasize that a very large portion of the project aid requested in the Government's "blue book" (distributed to Consortium members on October 20, 1967, under the Secretary's memorandum IND 67-34) was for fertilizer factories, agricultural projects and schemes related to the export promotion effort. It was hoped that within the next two or three months members would indicate to India, at least in a preliminary way, which of these projects interested them, so that discussion of detailed arrangements could be started early in 1968.

21. The Chairman thanked members for their very helpful response to the Bank's estimates of aid required during this fiscal year and next. He reminded members of the limited objectives of this particular meeting, which he had stated at the outset. He had been glad to hear members' reports on the aid for which they would sign agreements during the current fiscal year

but repeated that it was of primary importance to realize that the overall need for aid was certainly not likely to be any less in future than it had been in the recent past. In a country such as India, even with successful economic policies and an increased rate of growth, there would be a continued need for a high level of aid for at least another decade. The Bank was convinced that the Government of India was committed to pursuing policies which offer real promise of achieving self-sustaining growth and significant economic progress would be recorded in the next few years. However, it was necessary in order to ensure such progress that members of the Consortium continue to provide substantial amounts of new aid for the next several years. The Chairman was particularly gratified to note that, while some members had expressed concern at the levels of aid likely to be required, at least none had stated that they thought the Bank's estimates were unrealistic.

Press Release

22. It was agreed that a brief press release should be issued at the close of the meeting. The text (reproduced as Annex VI of this Report) was approved at a Heads of Delegations meeting following adjournment of the plenary session.

Future Meetings

23. The Chairman announced his intention to convene a pledging session of the Consortium no later than March 1968 to consider ways of assuring that India's aid needs for 1968/69 would be met. In the interim, he expected that Mr. Guindey would have made a report to the President of the Bank about the results of his discussions on the future terms of aid and India's long-term debt-servicing problem. If the President of the Bank decided to forward the report and its recommendations to members of the Consortium for their consideration, the Chairman would hope to be able to do this by the middle of January, 1968; another meeting of the Consortium might therefore be required to take action on Mr. Guindey's proposals for dealing with the long-term debt-servicing problem in February.

Asia Department
January 2, 1968

MEETING OF THE INDIA CONSORTIUM

Paris, November 13 - 14, 1967

LIST OF DELEGATES

BANK	Mr. I.P.M. Cargill	Chairman
	Mr. Raymond J. Goodman	
	Mr. William Gilmartin	
	Mr. Gregory Votaw	
	Mr. David A. Dunn	
	Mr. John D. Miller	
AUSTRIA	Dr. Maria Pilz	Head of Delegation
BELGIUM	Mr. Jan Vanormelingen	Head of Delegation
	Mr. M. Geûens	
CANADA	Mr. George P. Kidd	Head of Delegation
	Mr. R.W. McLaren	
	Mr. Allan J. Barry	
	Mr. L.A.H. Smith	
	Mr. J.A. Millard	
FRANCE	Mr. Jacques Hirsch-Girin	Head of Delegation
	Mr. Jacques-Paul Moreau	
	Mr. Georges Lapeyre	
	Miss I. Cheyvialle	
	Mr. Paul Rouhier	
	Mr. Jean Allègre	
	Mr. Bernard Prague	
	Miss S. Borel	
GERMANY	Mr. Erich Elson	Head of Delegation
	Mr. Karl Heinz Penning	
	Mr. Wolfgang Seeliger	
	Mr. Georg Schneider	
	Mr. Rolf Pluisch	
	Mr. Ottokar Hahn	
ITALY	Mr. Lorenzo Tozzoli	Head of Delegation
	Mr. Paolo Pensa	
	Mr. Annio Milani	
JAPAN	Mr. T. Arita	Head of Delegation
	Mr. T. Maeda	
	Mr. Masanao Matsunaga	
	Mr. T. Mori	
	Mr. I. Ohtaka	

NETHERLANDS	Mr. J. Grooters Mr. F. Kupers Mr. J. Tiemensma	Head of Delegation
UNITED KINGDOM	Mr. R.H. Belcher Mr. A. Mackay Mr. E.P. Haslam Mr. A.A. Duff Mr. J.C. Edwards Mr. J.M. Healey	Head of Delegation
UNITED STATES	Mr. Maurice Williams Mr. John Lewis Mr. C. Herbert Rees Mr. William Felstiner Mr. Daniel Pfoutz Mr. Alan Novak Miss Mary Olmsted Mr. Samuel Costanzo Dr. E. Fei	Head of Delegation
INTERNATIONAL MONETARY FUND	Mr. John R. Woodley Mr. Erik Elmholt Mr. Alexander Mountford	Head of Delegation

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OBSERVERS

DENMARK	Mr. Poul Kryger
SWEDEN	Mr. Lars Kalderen Mr. K.G. Engstrom
O.E.C.D. (DAC)	Mr. Jack Stone Mr. H. Führer
ASIAN DEVELOPMENT BANK	Mr. Song Chil Lee

* * * * * * *

INDIA	Mr. P. Govindan Nair Mr. B. Sivaraman Mr. K.B. Lall H.E. T. Swaminathan Mr. K.S. Sundara Rajan Mr. C.S. Swaminathan Mr. M.R. Shroff Mr. G.S. Banavalikar	Head of Delegation

European Office (Paris)
November 13, 1967

MEETING OF INDIA CONSORTIUM

STATEMENT BY MR. P. GOVINDAN NAIR
SECRETARY, MINISTRY OF FINANCE, GOVERNMENT OF INDIA

1. This is the fourth meeting of the consortium in the current year and a second major meeting; as we meet here today, our concern, it appears to me, should be to take the deliberations of the India Consortium a step further towards the general objectives defined in the earlier meeting, to take a final view of this year's requirements and preliminary view of the next year's. My colleague, Mr. Jagannathan, had, in his presentation to the April meeting, described in some detail the economic background in India, the policies and programmes which the Government of India was pursuing and the need for external assistance to support these programmes and policies. I do not wish to go over the same ground again; I shall, with your permission, confine my remarks to the more recent developments in the Indian economy and the outlook for the near future. The Bank has made its own assessment of the Indian economic situation and has given you a report which should serve as an adequate background to our discussions here. May I take this opportunity of conveying my Government's appreciation of the valuable task performed by the Bank Mission which had, I must admit, a none-too-easy responsibility of making an assessment within a short time of the rather complex phenomenon of recession in the midst of continuing inflation. As I see it, my task here this morning is to underscore some of the more important elements in our present economic situation and to outline to you our own assessment of the prospects for future.

2. The consortium had indicated a target of $1300 million new aid--non-project aid and food aid--for the Indian fiscal year 1967-68. It was also agreed at the last meeting that consortium members would "so concert their efforts with the Government of India that a substantial portion of the new aid will be in a form that can be utilised quickly". It was the understanding that in addition to food aid, non-project assistance of $900 million would be provided. The present meeting would no doubt review the progress made towards this aid target and it is in this context that I wish to present before you the developments in India since the last meeting of the consortium.

Recent Economic Trends

3. Since we last met, the Indian economy has encountered a phase of recession. With prospects of better agricultural production during the current year, which will have effect both on the demand for goods as well as supply of raw materials for our major industries, we expect that industrial production would soon begin to pick up and resume the steady growth, which it had displayed for several years. The liberalisation of import licences which we introduced in the middle of 1966 and which we have continued, will begin to have effect on production. Already, in the first quarter of the current year, imports of industrial inputs, such as metals, intermediates and chemicals have shown a substantial increase as compared to last year. Our traditional industries such as cotton textiles,

will also benefit by the recovery in agriculture. Altogether, therefore, the Indian economy is poised on the threshold of a recovery which would bring it back to its long-term growth path within a year or so.

Decontrol

4. Over the last few years, we have also followed a policy of progressive relaxation of controls over prices, distribution and investments. This process has been carried forward during the last year. Basic producer goods like cement, coal and steel are no longer subject to price and distribution controls. And substantial freedom from such controls has been given to new investors in fertiliser production. Several industries have been delicensed; i.e. they no longer require Government permission for making new investments. Control over fresh issues of capital by companies has been relaxed. Industries are permitted to diversify their production and liberal provision of imports of raw materials, components, etc. is made for this purpose as also for the purpose of sustaining current production even when it is in excess of the capacity reported by individual firms to Government. We are confident that these policies provide the right environment for the growth of investment and output in the private sector. We will keep under constant review the few remaining controls on investment and production so as to modify them as and when necessary in the interest of promoting growth.

5. In the very difficult period which we had to face because of the severe droughts in the last two years, our efforts were concentrated at meeting the food shortage and relieving distress in the areas most affected by the droughts, namely Bihar and Eastern U.P. and by the greatly enlarged distribution of foodgrains all over the country. Because of this vast organisational effort and the substantial imports from abroad, financed by friendly foreign assistance, we were able to avert a major disaster.

Industrial Output

6. The slow growth in industrial activity to which I referred a little while ago was ascribable mainly to the set-back in agriculture from which we are now recovering. Agricultural incomes were inevitably affected, especially incomes of those farmers, whose output had fallen sharply. High and rising prices of food articles affected demand in basic consumer goods industries such as cotton textiles, which were already suffering from the shortage of raw materials. The change in the exchange rate last year had brought about a new alignment of costs and prices and many industries could not pass on the higher costs resulting from the increase in the rupee value of imports to consumer in the face of the recession in demand. Profit margins, therefore, tended to be squeezed and affected adversely--and no doubt temporarily--the climate for new investment. The rise in prices necessitated a deliberate cutback in the public sector outlays and this, in turn, added to the recessionary tendencies in the economy which were concentrated in a few sectors such as transport equipment and engineering industries. Liberalisation of imports also meant better maintenance of existing capacity and this itself affected to some extent new

investments. It was only to be expected that the devaluation of the rupee and the liberalisation of imports would require considerable adjustments in the economy; the process of adjustment has taken somewhat longer because of the second successive drought which reduced raw material supplies, increased food prices and thereby accentuated the recession.

7. Many of these defects which the Indian economy has faced in the recent past are transitory; they are due to a concatenation of circumstances not likely to be repeated. It is worth noting that many industries have continued to grow at fairly rapid rates and these include industries supplying inputs to Indian agriculture, namely fertilisers, pesticides, power-driven pumps and agricultural implements. In several industries, the recession was a matter of decline in the rate of growth; absolute decline in production occurred in a few industries only. We are confident that with the revival in agricultural production and with the continuance of liberal policies in regard to industrial licensing, price controls and imports, we can expect a substantial increase in industrial production during the next year.

Exports

8. My colleague, Mr. K. B. Lall, will give a fuller picture of exports and I will therefore touch on this subject only very briefly. In the period immediately following devaluation, there was a dislocation of trade; soon after the second successive drought affected supplies of agricultural based exports. In the more recent period however India's exports have picked up to some extent. Even during the earlier period, the decline in export earnings was concentrated in agriculture-based industries and products. Exports which were not dependent on agriculture showed an increase which was substantial in quite a few cases. Considerable increases occurred in the quantities and values of exports of carpet-backing cloth, tobacco, leather and leather goods, marine products, iron ore and iron and steel. Exports of iron and steel were doubled over the last 12 months. In those cases where there was a decline in export earnings, this was due in a large measure to a decline in unit prices rather than in quantities. Unit value of tea, raw cotton, coffee, sugar, spices, wool, manganese ore, vegetable oils, oil cakes and hides and skins declined over the last 12 months.

9. With the better prospects of agricultural production there is every prospect that the recovery in exports which has occurred in the very recent past will be sustained and that there would be an appreciable increase in our export earnings during the next 12 months.

10. Government has given high priority to export promotion. In the last budget which was presented in May, 1967, export duties on jute manufactures were reduced substantially and there was a reduction in other items also, including tea. The scheme of export subsidies is being maintained with a view to providing a stable environment in which exporting industries can plan their future programme. More recently, the Reserve Bank of India has made substantial credit facilities available for export.

We are hopeful that the broad structure of the present policies, if maintained stable during the period of expected revival in agricultural and industrial production, would yield the results expected of them.

Imports

11. The recession in industrial activity was expected to result in some slowing down of imports; and this has occurred. But it is important to appreciate that imports of many commodities which figure prominently in India's import bill have, so to say, a life of their own and are not dependent on the general trends in the industrial economy. I would include in this category imports of fertilizer and fertilizer raw-materials as well as petroleum products. Import requirements of export industries have also continued to be large since recession in internal demand has resulted in at least some of the industries looking out towards foreign markets. Substantial orders have been received from abroad by engineering industries in the last few months. Imports of raw materials for certain traditional export industries have also continued at the expected levels. In the year 1966-67, the largest declines had occurred in imports of metals and machinery. But since the beginning of the current fiscal year this trend is already reversing itself. Large increases have occurred in imports of iron and steel, non-ferrous metals and chemicals. In the first quarter of the current fiscal year imports of metals and chemicals alone have gone up by 50% and those of other industrial inputs have also shown considerable increases. Machinery imports continue to be lower than last year reflecting in part the lower levels of investment in the economy but also the substantial capacity for production of machinery which is now available in India.

Outlook

12. The immediate economic outlook is governed by the very large increase in agricultural production which is now expected. Production of foodgrains is estimated at 95 million tonnes for the current year if the winter crop is favourable. Production of raw jute, raw cotton and oilseeds will be substantially higher though not of sugar cane. We expect that with these trends in agricultural production, industrial output will also revive although somewhat more gently. Altogether, national income in the current fiscal year is likely to show an increase, in real terms, of at least about 10% and, hopefully, as much as 12%. There are good prospects of higher exports of agricultural commodities and also of cotton textiles. Much of the increase in production in the coming year would no doubt result from a better utilization of existing capacity, especially in engineering industries. This will require large imports of raw materials, components and spares.

13. We do not expect any immediate revival of investment demand although sometime about the middle of 1968, both public and private investment should pick up along with the expected rise in industrial production. The resources of the Indian economy would no doubt be

stretched to finance these new investments which would be in addition to the investments required for replenishing public and private inventories of foodgrains and raw materials, which were badly depleted over the last two years. It is in this context that Government will have to formulate its credit and financial policies for the coming year. We intend to maintain strict control over non-development expenditures of all kinds. While the accent on restraining further increases in the price level will have to continue, Government will seek to secure a step-up in investment which is necessary in order to regain the momentum of growth which was lost during the last two years.

Food Policy

14. As I said before the prospects of foodgrains production during the current agricultural year are good. My colleague, Mr. Sivaraman, will present to you a detailed account of the measures taken by Government, and proposed to be taken, to increase food and agricultural production. I would like however to take a few moments to explain what the basic objectives of our food policy would be in the coming year in the light of the good harvest in sight. These are: to maintain an appropriate level of prices for the producer so as to augment the uptrend in output; to ensure adequate supplies at reasonable prices to consumers in urban and other deficit areas for which purpose Government will acquire sufficient stocks from internal procurement and through imports; and to build up a buffer stock which would provide an insurance to both producers and consumers against price fluctuations. In our view, these objectives can all be tackled simultaneously. For instance, we have announced procurement prices which are higher than those of last year but at the same time lower than the unconscionably high free market prices. We thus expect to procure substantial quantities at prices which the farmer will find attractive and yet would enable us to maintain public distribution at adequate levels and at fairly reasonable prices. For this purpose we have to continue for the present the movement restrictions as between one State and another, since any premature removal of these restrictions would jeopardise the procurement effort and upset the stable base of food policy which is about to be built up. I must emphasise that these restrictions are not absolute. Government does permit movement on a planned basis whenever required. For instance, we do not believe that market prices are likely to come down below the procurement prices. In any case it is our intention to hold these prices by buying very large quantities both for public distribution and the buffer stock. However in the unlikely contingency of any great downward pressure on prices in any particular area, we would also be able to use the technique of movement permits to the advantage of the farmers.

15. Overall we expect the requirements of the public distribution system to be considerably less than they were in the last two years. Even so, they are expected to be of the order of 10.5 million tonnes. To this has to be added the requirements of a buffer stock of 3 million tonnes making a total of 13.5 million tonnes. Of this we hope to be able to procure about 6 million tonnes of foodgrains internally and the

remaining 7.5 million tonnes represent our import requirements for 1968. This compares with the 9.2 million tonnes of import in 1967. If we leave out the buffer stock, it will be seen that the requirement of imports for current consumption is only 4.5 million tonnes which is less than half of that in 1967 and 1966. I should also point out that with this level of imports, it has been calculated that the per capita availability for human consumption of all foodgrains in India would even then be just under the level obtaining five years ago.

16. In considering our food aid requirements for the next year this is the perspective to be kept in view. Some part of the import requirements can and will be met by India's own resources; but this, I am afraid, can cover only a very small part. Consequently, a stable food policy, with the long-term objectives I mentioned earlier, can be set in motion only if adequate food aid is available.

Family Planning

17. May I, at this stage, refer to the subject of family planning programme which we regard as of the highest priority. As you know, the Government of India was amongst the first to sponsor a family planning programme officially. In more recent years, these efforts have gathered considerable momentum. We have set for ourselves the goal of bringing down the birth rate to 25 per thousand within a decade, which would bring the population growth rate down to 1.5 per cent. In operational terms, this means we have to provide for 90 million couples in the reproduction age group, constituting 90 per cent of the married population, facilities for adoption of family planning methods and acceptance of the small family norm. This involves a major organizational effort and sufficient provision of financial and manpower resources and choice of techniques. I think it would be worthwhile my taking a few minutes to summarise our efforts in this direction.

18. First, we have streamlined the organizational set up. Starting with a Cabinet Committee at the Centre headed by the Prime Minister, down to the sub-centres in rural areas, there is a complete and direct chain of authority and responsibility and at each level, the highest authorities, such as the Chief Ministers, Chief Secretaries and the District Collectors, are associated with it. At the base of this pyramid there are rural family welfare planning centres and sub-centres. Each centre covers a population of approximately 100,000 and each sub-centre a population of 10,000. On this basis we estimate that we would need to set up 5,300 centres and 42,000 sub-centres for the entire country. Of these we have already set up 4,600 centres and over 16,000 sub-centres. Secondly, we have to see that no budgetary or resources constraint stands in the way of funds required for implementing the programme and also that procedures do not stand in the way of getting quick approvals for projects and programmes. This is not only at the Centre but also in the State Governments who have been assured that the entire expenditure on the family planning programme for the next ten years would be met by the Central Government. Thirdly, we have undertaken

a big training programme in order to overcome the shortage of manpower. Our intention is to set up 5 Central Training Institutes and 46 State Training Institutes besides augmenting the capacity of existing Institutes. The 5 Central Institutes and 40 of the State Institutes have already been set up. We are also constantly investigating opportunities for the increased use of para-medical personnel, subject, of course, to ensuring that we are not taking any risks with the health of our citizens. Fourthly, in order to improve our knowledge and control of the programme we are augmenting the statistical set-up and our data collection machinery. Simultaneously we are building into it a mechanism to evaluate the results achieved. Finally, as to choice of techniques, we have adopted what is called the cafeteria approach in which the contracepting couples have the choice of sterilisation, IUCD and conventional contraceptives such as condoms. We are also launching now an oral contraception programme. Concurrently, substantial effort is being devoted to research, not only on the medical and technical aspects of the programme but also on the motivational and communications aspects.

19. Despite all this effort, much more remains to be done. We are particularly conscious of these deficiencies particularly in manpower and training. The size of our problem is very large but, may I submit, our achievement has also not been insignificant. For instance, it might interest you to know that as at the end of March 1967, the total number of sterilised couples, IUCD cases and users of other contraceptive methods were about 2.5 million, 1.7 million and 0.5 million respectively, i.e. a total of 4.7 million contracepting couples. By September 1967, with 3 million sterilizations and over 2 million IUCD insertions, the number has gone up to 5.6 million. And a very substantial part of this effort was made in the last two years, progress during which has surpassed the results obtained in the preceding decade. We intend to continue and increase these efforts and to maintain the special characteristic of this programme, which is that we are not committed to any particular dogma - whether of organization, technique or motivation - and we are willing to examine and consider whatever inflow of ideas we may get from any source.

Aid Requirements

20. Coming now to our aid requirements, I have already mentioned the broad magnitude of the food aid requirements for the next year. Our next urgent requirement is for debt relief. I am glad to note some progress on this since the April consortium. The U.K. Government has given debt relief to the extent of £11.6 million covering the principal and interest payments due to them during the first half of the Indian fiscal year. The World Bank has also agreed to give interim relief by keeping at deposit with the Reserve Bank of India up to the end of March, 1968 amounts equivalent to the principal payments due to it. Canada has written off or postponed the principal payments due to them during the current year and Japan and West Germany have also indicated debt relief of \$8.1 million and \$7.25 million respectively. Altogether we have obtained debt relief of approximately \$100 million so far, inclusive of provisional relief from

the Bank. Up to date in the current fiscal year, we have made debt service payments to the members of the consortium, other than those covered by debt relief, amounting to $116 million and during the rest of the year our obligations amount to $119 million in respect of which there is as yet no additional relief in sight. We appreciate the Bank's efforts to mobilise debt relief. These efforts have concentrated on the long-term debt problem, which is important. In the short-run, the problem can be met only by ad hoc arrangements and I do hope that consideration will be given to these at the present meeting.

21. The Bank Report has estimated our requirements of non-project aid commitment during the current fiscal year at $750 million. This amount is inclusive of debt relief and is about $150 million less than the target indicated at the last consortium meeting. The estimate is lower, if I have understood the Bank Report correctly, because the assessment is that import requirements have been lower as a result of the recession. While the short-run situation may lend substance to this view, I am afraid the Bank Report tends to under-estimate to some extent the import needs for the current year as a whole. I have already referred to the substantial increase in imports of raw materials and components which is revealed by the latest import figures. And with the revival of the economy, there will be a further increase in these imports.

22. We now reckon that imports during the current fiscal year will amount to about $3,150 million; this figure includes food imports, imports of agricultural commodities other than foodgrains which are financed by PL 480 assistance and imports financed by project-tied aid. The rest of the imports which cover broadly the maintenance requirements of the economy, and which are included in the total of $3,150 million, are estimated at a little over $1,800 million as compared with $1,550 million in 1966-67. Of the increase of $250 million, fertiliser alone accounts for $100 million. The balance represents an increase of a little over 10 percent over 1966-67, which was a year of relatively low imports since for the greater part of that year, the actual imports still reflected the severe restrictions which had to be imposed in 1965-66.

23. It is in the expectation that the requisite amount of aid will be available that we have continued liberal import licensing. All but a small part of the non-project assistance which was committed by the consortium members for the year 1966-67 has been covered by authorisations and licences for imports. The amount of non-project aid made available so far for the year 1967-68 aggregates less than $250 million. This amount is clearly not sufficient to meet the day-to-day demands for new import licences which have not declined materially, despite the recession. Further, a substantial portion of the non-project aid is being used for agricultural imports for which the demand is growing. For instance, nearly one-third of the total of $900 million of non-project aid for 1966-67 was for the import of fertilisers, pesticides and other agricultural inputs. Moreover, import of fertiliser requires issue of import authorisation and placement of orders nearly twelve to fifteen months in advance of the actual delivery. Hence we have to commit during the current year foreign exchange

for the substantially higher demand for fertiliser use during the next (1968-69) agricultural year.

24. It is also worth mentioning that disbursements from the IDA credits for industrial imports amounting now at the rate of $16 to $17 million per month which, at the annual rate, is approximately equal to the amount of $215 million committed for the last year. We are continuing to issue licences to the industries which are beneficiaries under the IDA credit, in the expectation that IDA would be able to replenish its resources soon and that, at the latest by the beginning of the next year, India would be able to get disbursements from this most valuable source.

25. At the last meeting of the consortium, it was indicated that most members were not able to make aid pledges because budget and related decisions were yet to be taken in their capitals. I do hope that those members who have not yet done so would be able to indicate, at an early date, their pledges for the current year.

26. As I said at the outset, consideration needs to be given at this meeting to the requirements for the next year also. We are broadly in agreement with the Bank's assessment that India's maintenance imports (other than food) will rise by about $200 million in 1968-69. We also agree with the calculation made by the Bank of the non-project aid needed in 1968-69. We hope that an early indication would be given to us of the amounts that can be made available and that some of the procedures connected with the use of aid would be relaxed suitably.

Project Aid

27. May I now turn to the question of project aid. We have already presented a memorandum outlining these requirements. As I said earlier, we expect investment to pick up and for this purpose it is necessary to go forward with financial arrangements for projects which have already reached a certain stage of readiness. Altogether, we need from the consortium project aid commitments calculated at about $660 million between now and the middle of 1968. A large part of this total is required for agriculture, and the balance for industry, transport and communications, power, education and health programmes. Much of the imports we expect to cover with project aid will consist of machinery and equipment in small lots rather than supply of complete equipment under "turn key" contracts. This is but a reflection of the development of the indigenous machine-making industry to which I have already referred. We attach considerable importance to the need for early commitments of project aid since a stage has now been reached when in the absence of such commitments, there would be a hiatus in our development and the prospects for stepping up investments and for economic growth would be adversely affected.

Tasks Ahead

28. With a better agricultural season we can hope to turn the corner in the coming year and we can look forward to a satisfactory rate of growth in production as well as exports. We shall continue to attach high priority to the programmes of export promotion, agricultural production, to the family planning programmes, to the task of stimulating an adequate flow of resources to promote a reasonable degree of step-up in public and private investments and to the creation of conditions in which while the industrial base of the country is further expanded, the competitive efficiency of the economy is also increased.

29. Mr. Chairman, I hope I have said enough to transmit to this gathering the atmosphere of hope and confidence that is now prevailing in India. After two years of economic difficulties which were due mainly to reasons beyond our control and which interrupted the steady growth of the economy we feel that we would soon turn the corner. The progress which Indian economy has made over the 15 years of planning should not be under-rated. At the end of this period we had almost reached a position from which economic growth at the rate of 5 to 6% per year could be achieved. With another good agricultural year, we would reach back to that growth path. At this crucial stage of our development when we are at the threshold of a recovery we trust that India will continue to get adequate friendly support from her friends abroad.

Delivered on November 13, 1967 at the morning session of the India Consortium meeting in Paris.

ANNEX III

CONFIDENTIAL

MEETING OF INDIA CONSORTIUM

STATEMENT BY MR. B. SIVARAMAN
SECRETARY, MINISTRY OF FOOD AND AGRICULTURE,
GOVERNMENT OF INDIA

1. When we met here seven months ago, the situation regarding agricultural production in India was quite bleak. However, we found widespread and deep sympathy and interest among the members of the Aid India Consortium and the World Bank over the situation. Most valuable help in foodgrains, funds and materials has been extended to India by your countries. India is certainly grateful for the same. Our country has passed through an extremely difficult period characterized by food shortages, rapidly rising food prices, huge expenditure on relief in areas afflicted by drought and consequent economic and other strains. Intensive development efforts coupled with generally favourable rainfall conditions this year in most parts of the country have, however, brought new hope and confidence. We raise about two-thirds of our foodgrains during the autumn season and the balance during the winter and summer seasons. On the basis of weather conditions so far, we expect a bumper harvest in the autumn season. The prospects in terms of availability of soil moisture for the next crop and of water in the reservoirs is on the whole quite satisfactory.

2. All of you would be happy to know that as compared to the foodgrains production of 72 million tons in 1965-66 and of 75 million tons in 1966-67, India might achieve a production level of 95 million tons in the current year of which 65 million tons in the autumn season is more or less in sight and the balance of 30 million tons will be achieved in the winter and summer seasons if winter rains are normal. This level of production will be 6 million tons higher than the previous record level production of 89 million tons achieved in 1964-65. Because of the poor crops in the past two years, our pipeline is virtually empty and Government reserves are negligible. Therefore, the increased production of 20 million tons is not likely to create a situation of abundance.

New Strategy of Agricultural Development

3. At the last meeting of the Consortium in April, we gave an idea of the new strategy of agricultural development adopted by our country for increasing foodgrains production. It was specially stressed that the two programmes of key importance in this strategy were: (i) the cultivation of high-yielding exotic varieties of paddy and Mexican wheat and hybrid varieties of jowar, bajra and maize over 32.5 million acres of area having assured irrigation or rainfall by 1970-71, and (ii) introduction of short duration quick maturing varieties in place of traditional long duration varieties, leading to the raising of two or more crops in place of one. Thereby we hope to extend the gross cropped area by about 30 million acres in the four years ending 1970-71.

4. High Yielding Varieties Programme. A beginning with the high yielding varieties programme was made in 1966-67. The target was to cover 6.2 million acres. However, due to widespread drought over large parts of North India the achievement was 4.8 million acres. The programme was supported with special allocation of 264,000 tons of nitrogen and adequate supplies of pesticides and other plant protection requisites. There was some shortfall in the supply of hybrid seeds, specially hybrid bajra seeds, due to adverse seasonal conditions in the growing areas. Liberal credit limits were allowed by the Reserve Bank of India. According to the reports received from the States the results of production of high yielding varieties have been quite encouraging. The Taichung Native 1 variety has given yields ranging from 3,000 to nearly 6,000 lbs. of rice per acre and Taiwan 3 and ADT-27 have given up to a maximum of 5,500 lbs. of rice per acre. The results for hybrid varieties of maize, jowar and bajra have also been encouraging inasmuch as the average yields have been 2,000 to 3,000 lbs. per acre.

5. The target for high yielding varieties programme for the current year was 15 million acres of which about 6 million acres will be covered in the autumn season and the balance will be covered in the winter and summer seasons. I am happy to say that the planning and implementation of this programme during the current year has marked great advance over the last year. Our State Governments finalised the selection of areas for the implementation of the programme in terms of districts, blocks and villages and had also identified participating farmers in time. Short duration training camps for farmers were organized in all the States. Special allocation of 228,000 tons of nitrogen was made for high yielding varieties during the autumn season of the current year. The Government have ensured that the fertiliser requirements of the high yielding varieties were adequately met. In the supply of credit also, the Reserve Bank of India has informed the cooperative central banks that suitable relaxations will be given to them if more funds are needed by them beyond prescribed limits, in view of the needs of the high yielding varieties programme. Technical experts and crop production specialists of the Central Government have been continuously going round the States to ensure that progressive advance was being made in meeting the input, extension and organizational requirements of the programme. The response of our farmers to new ideas and new techniques of production in most of the States has been quite heartening. Presently we are going ahead with measures for the implementation of the high yielding varieties programme in the coming winter and summer seasons. In view of the good response from farmers we are envisaging a target of 22.5 million acres to be covered under the high yielding varieties during 1968-69. Other linked arrangements for the success of this programme are also being worked out.

6. You are aware that our overall economic situation has been very adversely affected by the two successive years of drought, scarcity, shortages and high prices. In spite of this, a very high priority has been given to agriculture and maximum possible financial resources have been allocated to this sector. We are extremely conscious of the huge problems to be faced and the limitations, in spite of which, progress has to be made. During the period 1949-50 to 1964-65, the rate of growth in food production at about 3.3

percent per annum has been higher than that of population growth. There is every reason to hope for a much higher rate of growth than this in food-grains production during the coming years. In the very gloomy period of the last 2 or 3 years, certain developments have taken place which have opened up new horizons. The high yielding varieties whose production was undertaken from 1966-67 are creating a definite and perceptible impression on the farmers inasmuch as they give yields which are higher by 100 percent or more as compared to traditional varieties. They have roused the curiosity and keenness of the farmer to break with tradition and to undertake the production or trial of new varieties. The farmers who are able to earn profits are showing preparedness to plough them back in pump sets, tractors, power sprayers and such other investment which helps to improve the standards of productivity. Others are becoming more and more anxious to obtain credit and to invest it for increased productivity. Meanwhile, our agricultural scientists are achieving considerable advances in their experiments and trials with various crops. Already certain new varieties of wheat have been evolved which have shown capability for giving higher yields as compared to the dwarf Mexican wheat varieties. Also, through trials with short duration varieties and new rotations, the scientists are breaking valuable new ground in revealing that considerable intensification of production in irrigated areas is possible. The actual application of these results in the field is not simple or easy. It has deep implications in terms of extension efforts, credit, input, supplies, organization, education and training of farmers. However, there is no reason to under-estimate the hope they hold out for our food production effort in the coming two decades or more.

7. Reverting to matters of immediate concern, we would clarify that the new strategy for agricultural development does not entirely consist of production of high yielding varieties and multiple cropping in areas with assured irrigation or rainfall. It really implies a break with traditional technology and the adoption of modern techniques. We are trying to promote and strengthen these trends. Some of the important new measures for this purpose are:

> Firstly, increased support to private investment by individual farmers through substantial increases in the supply of institutional credit at reasonable rates of interest;
>
> Secondly, special programmes which are designed to benefit small farmers are being taken up. These include establishment of departmental centres for hiring of tractors and agricultural machinery on deferred payment basis for various operations;
>
> Thirdly, proposals for establishing repair and servicing centres for pump sets, tractors and other equipment so as to encourage individual farmers to use machinery;
>
> Fourthly, greater attention is proposed to be given to scientific water utilization for maximum economic return; and

Fifthly, to undertake development projects where simultaneous attention is given to various requirements of agricultural development such as land levelling and shaping, development of transport and communications, marketing facilities, provision of supplies, etc.

8. Agricultural Credit. In the sphere of credit, major changes are taking place. Support to satisfactorily organized cooperative institutions from Government, the Reserve Bank of India, the State Bank of India and the Life Insurance Corporation is being substantially stepped up so that with higher resources, the cooperatives can substantially increase the supply of medium and long-term credits to farmers. Government is making available more financial resources to the Agricultural Refinance Corporation, established four years back, so that it can play a major role in providing financial support for agricultural development schemes. New institutions like State Agro Industries Corporations for undertaking hire purchase of agricultural machinery and equipment to farmers are being set up. Eight such State Corporations have been established and more of them are expected to come up soon. The Central and State Governments are helping these Corporations with contributions to share capital. Refinance to these Corporations from commercial banks on pledge of the mortgages has been organized by the Reserve Bank at favourable rates of interest. The most significant recent development is that the commercial banks, which had hitherto concentrated on financing trade and industry, have started taking an interest in financing programmes related to agricultural production, marketing and processing. They have already agreed to provide a sum of Rs. 17 crores during 1967-68 to support the debenture issues of Land Development Banks.

9. Irrigation. Water management and water utilization has to occupy a position of key importance in the programmes. A number of new projects are being formulated for the optimum development and utilization of irrigation potential in selected areas. Several studies are being proposed to be undertaken by India in collaboration with experts of the United Nations Agencies and under bilateral agreements with certain countries and institutions.

10. Price Policy. The importance of providing the producer with an incentive price for his produce has been recognized. Taking into account the increased cost of cultivation due to the increase in the prices of various inputs, minimum support prices for autumn foodgrains were raised by Rs. 4 to Rs. 7 per quintal for the coming year. A similar policy has been followed in fixing the procurement prices for Government stocks. Normally, with a good harvest, there would be a tendency for prices to go down. It could, therefore, be argued that the procurement prices could be at a level lower than that of last year, since last year's prices reflected the condition of scarcity prevalent in the country; but recognizing the paramount need for providing an incentive to the producer, it has been decided to fix the procurement prices at a higher level than last year's prices in most States. The increase in the case of some of the States has been as much as Rs. 10 per quintal over last year's prices.

11. Buffer Stocks. The importance of building up a buffer stock, which is the core of a rational food policy deserves to be strongly emphasized. Without such a stock in hand, it would not be possible to sustain any rational food policy in respect of either distribution or prices. The optimum size of a buffer stock can be a large one; but within the realm of practicability, one can think of a buffer stock of only about three million tons at the end of the next autumn season, i.e., by the end of October, 1968. The buffer stocks will be met partly from imports and partly from internal procurement. The target for internal procurement has been fixed at about 6 million tons for the year 1968, as compared to 3.75 million tons for the year 1967. With a good crop season and with continuance of the zonal restrictions, there is every hope that the procurement target for 1968 would be achieved. If more quantities are offered at the fixed procurement prices, we intend to purchase all such additional quantities. In effect, the procurement prices would be acting as support prices.

12. At the last meeting we expressed gratitude to Sir John Crawford for a very penetrating study of our agricultural situation and a number of valuable suggestions that he made in his report. We are continuously striving to create the conditions which were suggested in his report, as necessary for our agricultural progress. We may also refer to the report of the Gilmartin Mission which visited India in July last. We are thankful for the considerable understanding of India's difficulties, achievement and progress shown in the report.

13. Seed Development. For ensuring the quality of foundation seed the National Seeds Corporation has taken measures for prior planning and production of breeders seed through the Indian Council of Agricultural Research with effective check on quality. Further, checks on foundation seeds produced by the Corporation will be maintained through experts of the Indian Agricultural Research Institute and Agricultural Universities.

14. Improvement in packing material, development of processing and storage facilities, training of staff and using the latest scientific identification techniques for seeds, are further improvements under implementation. Following the enactment of the Seed Law last year, seed certification arrangements are being developed. State Seed Farms are being strengthened and their difficulties regarding lack of irrigation, storage of adequate supplies of nucleus or breeder seeds are being removed. The Government of India is also proposing to set up a number of large mechanized farms for production of high quality foundation seeds under competent management. With the help of the Pantnagar Agricultural University in Uttar Pradesh, progressive farmers and the National Seeds Corporation, a project is being taken up for the production of quality seeds in over 40,000 acres in the Terai area of U. P. World Bank assistance particularly for land levelling and development, drainage and irrigation and processing equipment is being sought. Parrys in Madras are trying to organize a programme of developing up to 24,000 acres in the private sector for quality seed production and are expecting help from the State Bank of India. The Government is giving full encouragement

for the development of the private seed industry for which the climate is favourable. A seed review team has been recently set up for making a critical appraisal of the entire seed development programme in the country and to make recommendations for the future.

Fertiliser Production and Supply

15. The Gilmartin Report has noted that in 1966-67 there was a 50 percent increase in fertilizer consumption over the previous year. The report has, however, also referred to the slow progress in building up domestic production of fertilizers. The Government of India are conscious about the shortfall in achievement of the targets of indigenous production of nitrogenous and phosphetic fertilizers during the last year and the current year, but they are keeping the situation under close review. In June 1966, the existing capacity for production of nitrogenous fertilizers was 681,000 tons and four projects with a total capacity of 213,000 tons were under construction. The demand then envisaged was 2.4 million tons of nitrogen by 1970-71.

16. Against this background, the Government of India sent a special team to the United States and Canada to find out ways and means of filling up the gap. We are glad to report that action taken since then has resulted in finalizing seven new projects and two expansions. All these projects have passed the contract stage and even allowing for unforeseen delays of six to nine months in actual construction, three of the new projects and two expansions should start producing in 1969-70 and four new projects in 1970-71. These will add to installed capacity a further 1.27 million tons of nitrogen. The Trombay Expansion Scheme will be on the anvil shortly and with luck should add 229,000 tons of nitrogen by early 1971. We have to thank our friends in Japan, Italy and the United States for helping us to achieve this solid result in the last one year. Along with the US A.I.D. we are now examining a proposal for a cooperative fertilizer factory at Kandla with a capacity of 215,000 tons of nitrogen. We are very keen on pushing this scheme through, as this opens up new vistas for investment in fertilizer production. We understand that in the free economy of the U.S.A. the cooperative sector is producing and distributing 26 percent of the total fertilizer production. We are therefore hoping that the cooperative sector in our country may be able to emulate this example to add substantially to the capacity in the quinquennium 1971-72 to 1976-77. The Kandla Factory is expected to go on stream in 1971-72 if the initial difficulties in a new type of venture are quickly overcome. Coromandel Fertilizers have come forward with proposals for expansion of their plant in Vizag and our expectations are that by 1971-72 this should add 155,000 tons of nitrogen to the capacity. All this will add up to an installed capacity of 2.76 million tons of nitrogen by 1971-72. These are firm estimates.

17. The Birla Armour Project at Goa and the Modi-Rohm Haas project at Gaziabad are in a fairly advanced stage of decision and our expectations are that these two projects with an installed capacity of 320,000 tons of nitrogen

should be on stream, at the latest, by 1971-72. Birlas have a second string to their bow in a proposal for a Urea plant at Mirzapur in collaboration with Kaisers of America. The Mangalore project with a capacity of 240,000 tons of nitrogen and the Philips project at Haldia with a capacity of 142,000 tons of nitrogen are still under discussion. If they go through, the total installed capacity in 1971-72 will be 3.46 million tons. Our demand in 1972-73 is of the order of 3.2 million tons of nitrogen. In order to make the position more secure we have alternative projects in hand for building factories on the same basis as at Durgapur at two of our port sites and a proposal for a cooperative factory on the east coast. We have other interesting proposals from Tatas and others. In 1971-72, our fertilizer imports will have to be of the order of 700,000 tons of nitrogen. By 1972-73, this should be marginal.

18. We are taking steps to increase the indigenous content in the building of a fertilizer factory by putting up a fabricating plant for pressure vessels and tubes under Czechoslovakian collaboration at Vizag. In several of the plants now under contract, the indigenous fabrication has been increased substantially. In this we have had the cooperation of all contractors including Japanese, Italian and American. With the profits evident in this sector in the Indian market, expansion of several of the projects now being started is not too unrealistic a prospect. We have the example of Coromandel Fertilizers and Gujarat Fertilizers before us. All this may not be taken to mean that a sense of complacency is developing in the Indian planning in this sector. The problem is under close study at very high levels of the Government machinery and all worthwhile schemes are given the most careful and earnest consideration.

19. In the phosphatic fertilizer sector by 1970-71, the installed capacity will be of the order of 1.1 million tons of P2O5. Direct application of raw phosphate powder should take care of a demand of one to two hundred thousand tons per year by 1970-71. Government have taken a liberal view about import of phosphoric acid in the initial stages of phosphate production so as to expedite the production of complex fertilizers. Several interesting projects are now under discussion and scrutiny so as to increase both nitrogenous and phosphatic fertilizers capacity quickly. We do not therefore share the view that the gap between requirements and domestic production will widen rapidly after 1970-71. On the contrary, our view is that on the present forecast of demand, near self-sufficiency will be reached by 1972-73. We appreciate the advice that this matter should receive close and consistent attention.

Long Term Planning

20. Before closing, I may mention that in addition to high priority to agricultural production programmes now and in the coming three years, we are also giving thought to the long-term strategy. In this context we attach special importance to the building up of a massive infra-structure to support modern agriculture comprising integrated development of groundwater and surface water resources for irrigation all over the country and soil and water

management including coordinated programmes of irrigation, drainage and soil conservation. Special problems of farmers' education and training are being attended to. The long-term strategy requires changes in food habits and consumption patterns and the development of subsidiary foods. These factors are being kept in view in our perspective planning.

21. We are thankful to the Members present here for the intimate and kind interest in our agricultural development problems and programmes. I can assure you, Sir, the suggestions and recommendations made by the Consortium will receive the closest attention of the Government of India.

Delivered on November 13, 1967, at the morning session of the India Consortium Meeting in Paris.

ANNEX IV

CONFIDENTIAL

MEETING OF INDIA CONSORTIUM

STATEMENT BY MR. K. B. LALL
SECRETARY, MINISTRY OF COMMERCE,
GOVERNMENT OF INDIA

1. I am glad to be amidst this group once again to talk on a difficult and uncertain subject. Apart from the uncertainties of the national scene, so far as exports are concerned, one has to function within the uncertainties of the International scene. You will, therefore, forgive me and you will be understanding if I am less sure than some of my other colleagues.

2. I have already seen the Gilmartin report and have since had discussions with the IMF. These discussions have been of particular value to us; we have also in the normal pursuit of our commercial policy been having discussions on a bilateral basis with our trading partners and on a multilateral basis with what I call the GATT types. The results of this latter discussion, which have a much greater bearing, if I may say so, on our performance, are unfortunately not available to you. You also have a handicap in the sense that we start off with a very unfavourable situation during the year which has passed. The Gilmartin report contains a brief review of our disappointing performance and also gives some reasons for it. In order that the disappointing performance does not discourage us when we view the future, I would like to point out that although there has been a decline in our earnings in dollar terms, there has been considerable expansion in rupee terms. This need not be regarded as just a debating point, because if you look at the volume figures and if you relate the volume figures to the production figures in India, you will come to the conclusion that the percentage of national product which has been exported from the country is higher than in the past.

3. There are, of course, very special reasons for our disappointing performance. In the year covered by the report, the conjunction of factors including, inter alia, the decline in production in the agricultural field covering the greater part of our exports and also the difficulties in the industrial field was particularly unfavourable. The difficulty of adjustment to the new rate of exchange, the post devaluation measures and the re-evaluation of export contracts with East-European countries, combined with the recessionary tendencies in some of our principal importing countries, completed a circle which proved exceptionally difficult to break. If you look at the performance of the economy in the context of these adverse developments you will, I trust, come to the conclusion that our performance is not as disappointing as the figures might lead one to believe.

4. There is another general point which I would like you to appreciate. In this particular field, the period of gestation for the policies to have an impact on earnings or on statistics is longer than in most other fields. I was disappointed to see in the otherwise objective Gilmartin report the

statement that in the 1950's the Government of India paid no attention to export problems in their policy motivations because of their preoccupation with import substitution. I was particularly disappointed because, from 1956 or 57 to 1960, I did whatever little I could to build up the export capabilities of the country. But the impact of whatever was done during that period was felt in the opening years of the 1960's. The point I am trying to drive at is that it takes somewhat longer for the policies to have an impact on actual visible performance. Therefore the policy-mix which has been followed since the change in the rate of exchange is likely to take some time, not necessarily as long as on the last occasion but still some time, to make an impact. If you had a new policy-mix in August/November, 1966, I would humbly suggest that an expectation for it to have an impact on the figures for 1966/67 would be unrealistic and unreasonable.

5. I have earlier said that it seems to me that many of my colleagues around this table are not sure in their minds that even in the late 1960's the Government and people of India are attaching as great an importance to the problem of export promotion as they need to attach, realising that this is one of the serious problems to be faced in our attempt to get on to a self-sustaining plane of development. I think, if you look at the political scene - and, if I may say so, I had an opportunity to look at it somewhat with a fresh mind when I returned to my base from my foreign assignment - the one thing which would impress itself on your mind would be the universal recognition of the incongruity of depending heavily on external resources via somewhat uncertain aid programmes with the urge to gain and enjoy the fruits of economic freedom. The experience of the preceding three to four years had convinced almost everybody on the political scene of the absolute necessity not merely to mobilise internal resources but to do the best they can to mobilise external resources through earnings by the promotion of exports and the promotion of tourism.

6. This made itself felt on the administrative side in the streamlining of the decision-making structure inside the Central Government. Because of the internal connection between exports, production and prices, there is now a Cabinet Committee presided over by the Deputy Prime Minister which deals with this integrated problem of prices, production, and export. It is called the PPE Committee - although it means something different from what PPE means in Oxford.

7. At the lower level there is a Secretaries' Committee called the Interministerial Group on Exports and Tourism whose concept and organisation has been changing. I do not know whether a change is for the better; but it is at any rate indicative of a new trend. Previously, all matters relating to export promotion used to be decided at that level by a Secretaries' Committee presided over by the Cabinet Secretary or the Secretary of the Department of Economic Affairs. Now the leadership of this Committee is vested in the Secretary in the Ministry of Commerce. Mr. Chairman, you will appreciate best the qualitative impact of this innovation insofar as the Chairman is in a position to lead discussion and to influence final decisions

which emerge from a meeting. I think this is a change in direction which should give to all concerned with the export promotion effort in India a bit of confidence. The final imprint on administrative decisions will be made by minds who are in administrative terms more directly responsible for securing results in this difficult field.

8. Going lower down the rungs of the administrative ladder, the Ministry of Commerce has reorganised itself in administrative terms in order to deal with the new problem or the new urgency of an old problem. The Ministry of Commerce now has been divided into three Divisions. One is the Territorial Division, the task of which is to secure diversification and increases in the exports directed to different regions. The second is the Commodities Production and Industrial Division the task of which is to pay attention to production problems, to the generation of surpluses and the development of markets for different industrial products. One of the weaknesses in the administrative structure until this organisation was put in train was that, while the production or harmonization of the production in the commodities production and industrial fields was the responsibility of other Ministries, it was very difficult for the Ministry of Commerce to influence their decisions and their patterns of work in directions which could lead one to hope that sufficient export surpluses would be generated. Still, of course, in administrative terms, the responsibility for those different products remains with the Ministries concerned. But because there is now a separate Division in the Commerce Ministry which is in direct touch with those who are in charge of production, - let us say, Mr. Sivaraman in the Ministry of Agriculture or Mr. Wanchoo in the Ministry of Industrial Development - it is the function of the Commodities Production and Industrial Division to keep on reminding the other ministries that their important task is not merely to produce enough for domestic consumption but to produce adequately to meet also the demands of overseas markets. The third Division - the Trade Services Division - is at the disposal of the exporters or the producers for export and at the disposal of the Ministry as a whole to provide the whole conspectus of services which are required in order to propel movement in the right direction.

9. Now leaving the administrative organisation aside, I would, with your permission, Mr. Chairman, like to say a few words on what we describe to be the new policy-mix on export promotion. These measures were not undertaken immediately after devaluation, because my colleagues in the Ministry of Commerce had not had enough warning on the decision of devaluation to prepare the mix. Inevitably, it took a month or two to produce the mix. It was produced in August, 1966. But in very strict administrative terms, it could be said that it was in full operation only from October or, perhaps, November, 1966.

10. This mixture consists of a number of elements. The main governing factor in the mix, if one may simplify it, is first of all, simplicity. In place of a whole plethora, or as some people describe it, a jungle of export promotion measures, the emphasis of the new approach is to simplify and rationalize procedures. A second element is stability, in order to

create confidence and to eliminate the uncertainties of policies to the maximum extent practicable. The third is an optimum combination of what we call, for want of a better phrase, selectivity, with uniformity. And, the last is to substitute to the maximum extent practicable, entrepreneurial judgment and initiative for administrative judgment and initiative. The administrative judgment and initiative have, in this new scheme, a supporting role and not the main role. In the policy-mix the main role is assigned to the development of entrepreneurial judgment and initiative.

11. Now, to examine the actual content of the policy-mix, let us take the combination of selectivity with uniformity. Let us take the field of export duties in respect of which judgments have varied from time to time as to whether what was done or what is being done can be expected to produce the kind of results which we are all seeking. The new approach to the problem of export duties was to avoid a collapse of export prices. It was to avoid the depression of export earnings while at the same time to build in, in the policy, the basic purpose of the change in the exchange rate, viz: that the exporter and the producer for export should have a reasonable gain from devaluation and from export and should channel these gains into increasing the level of investment in building up his production and in building up his marketing efficiency. While by adopting somewhat rigid techniques it may be easier to secure stability over the very short term, it leads to bad consequences if stability is attained at the cost of flexibility. What may be all right or appropriate for a given situation at the time when it was introduced may not be all right when you deal with the problem of changing international commercial situations. Therefore our policies are subject to a quarterly review. In my Ministry and in the Inter-ministerial Group which I have mentioned, we have made such changes as have been necessary at these quarterly meetings. It is possible that we may make a more comprehensive change when we come to the next budget. The object of the policy, if I may say so, has been secured inasmuch as the decline in the unit values, which has been considerable because of the international situation, had not been as large and as deep as it would have been if this particular policy had not been followed. Otherwise the impact on our export earnings would have been much more adverse. On the volume which is really a function of production, there were limitations last year. Yet, I am suggesting for your consideration that, in relative terms, the percentage of production which was made available for exports was higher than in previous years.

12. Now, the second factor in the mix is export assistance and this concerns mainly the industrial products group. Here again the three current principles of simplicity, uniformity, and stability have been taken into account. The difficulty in this field has been that some of the assistance which some products had been receiving under the old scheme to overcome their handicaps was perhaps greater than the advantage which had been provided for them in the new mix of export assistance. But it is a much simpler operation: exporters are provided with cash assistance. The rates of cash assistance are divided into three categories so far as engineering

products are concerned. Chemical products are divided into only two categories. A measure of uniformity has thus been secured.

13. Stability has been secured inasmuch as there has been only one major revision; and that also in the upward direction. This change took place some three or four months ago. The original placing of the different products in the different slabs had been somewhat on a tentative basis. Therefore, a division into fewer and simpler categories was called for. Our present approach is that in the interests of both simplicity and stability, we should not make any changes except those which are justified on a deep study. We have had meetings with different industrial groups in order to see whether this mix is not adequate to make the kind of effort which is necessary.

14. We accept the conclusion reached by the Gilmartin mission that we must do whatever we can to provide a much higher rate of growth for the export of non-traditional industrial products than for the export of traditional products. It is our expectation that we should be able to double the exports of these products over a period of 4 to 5 years. In order to realise this expectation, the industry has organised itself, of course, with the support and initiative of the Government, but has organised itself in a number of panels. Within each panel there has been a discussion on their targets from year to year. Within each panel there has been a discussion on what needs to be done in order to reinforce the capacity of industrial units which have shown interest in developing production for export markets, and as to what needs to be done for them to enlarge the lines of their production or to adapt their products for the foreign market.

15. I think in view of the shortness of time at my disposal I need not deal with the other measures of detail which we are taking so far as export assistance for industrial products is concerned. Mr. Govindan Nair has already referred to the measures which have been taken by the Reserve Bank of India to liberalize credit terms. On the fiscal side the procedures for drawback of indirect taxes have been rationalized and simplified. But our taxation system does not yet provide for giving to the exporters benefit in the field of direct taxes as a reward for their efforts to achieve exports. This matter is under consideration and it is hoped that decisions will be reached when the Finance Minister comes to present his next budget.

16. We have concentrated attention on what can best be described under the heading of product development and diversification. In the jute industry we are increasingly turning our attention to increase the production and export of broadloom products. In the field of coir fabrics we are encouraging the production and export of rubberized coir fabrics and concentrating on the greater use of machines in extraction of fibres. In tea, an effort is being made to produce instant tea. At the same time some financial resources are being made available by Government to improve the output, especially of good quality teas which fetch a good price and in respect

of which the demand is sufficiently large. In leather we are taking to chrome-tanned leather; in tobacco, to filter tobacco; in paper, to white and brown paper. In all fields, a great deal of attention is being paid to product development and diversification.

17. There have also been some interesting developments in the field of restraint on domestic consumption. Now as many as twelve commodities are subjected to internal excise duties in order to make them a little more expensive for the domestic consumer and a little more interesting for the producer and the exporter to export them abroad.

18. There have been interesting developments in our approach to technical assistance. International agencies and our friends in foreign countries have been making a mistake, - if I may use the word - a mistake which has been attributed by its critics to the Government of India in the 1950's. This mistake has continued to be made right until a year ago by my foreign friends, to direct their investments, their aid, their technical assistance to import substitution efforts and not to export promotion efforts. For importing industrialized countries, it seemed to them very hard to use their funds and their technical resources for building up competition in new emerging exporting countries. But there has been a very welcome change with the Government of Germany and a new scheme of export promotion assistance has been evolved. I need not enlarge on the details; UNIDO sent an excellent team as a result of which a number of technical assistance measures will be devised. US AID has been taking interest in this field; and many other governments, including for instance the French Government, have provided facilities for market surveys and for the training of our personnel.

19. We have also been taking a number of other steps, such as securing an improvement in the technical competence of overseas missions, opening foreign offices of export promotion councils, relaxation of Reserve Bank conditions regarding the opening of foreign offices by exporters and manufacturers or the appointment of agents by them. There is now a fairly important complex of offices under the control of Ambassador Swaminathan in Brussels, there is a complex in Dusseldorf, there is a complex in London. Then there is the establishment of the IIFT, the Indian Institute of Foreign Trade and the coordination of its work with the work of ministries and export promotion organizations. The work which this Institute has done, the literature which it has produced, the interest which it has stimulated and the methods which have been adopted by the Institute for the stimulation of such interest, I am quite sure, are likely to produce very interesting results in the form of entrepreneurial decisions and confidence in the important field of production and marketing efficiency.

20. There has been a change in the policies of our participation in fairs and exhibitions. For quite a long while, we were concentrating on building up the image of India. Now we are also building up the image of Indian products and Indian production. Every participation is judged with reference to the enquiries received and dealt with and converted into cash sales.

21. Attempts have also been made to take advantage of free port facilities in a number of importing countries and to organize after-sales service for our industrial products like machine tools, pumps and electrical equipment. A very determined effort is being made to secure improvement in shipping opportunities and the provision of shipping services which continue to be wholly inadequate in dealing with the growth possibilities of our exports to countries in Africa and Asia.

22. Now, for a brief while, I will refer to international commercial problems. How much we are able to organize production and marketing competence depends on ourselves. But the volume of the fruits we are able to enjoy depends a great deal on the external commercial policies which are pursued by the importing countries. It is quite normal for every trading country to adapt its commercial policies to the requirements of the defence of national production and not so much to the advancement of international commerce and certainly not to the advancement of importation from other and particularly developing countries. What has been described at one time as good creditor country policies followed by the United States in relation to European countries have to be transformed into their modern version or the version of the 1960's, to be adapted to the needs of India and developing countries. These modifications and transformations have yet to be undertaken. Some advance was made in the Kennedy Round of negotiations. But those who are familiar with the results of the Kennedy Round negotiations know that while a very considerable advance has been secured for established exporters of industrial products from industrialized nations, the advantage secured for the producers of industrial products or for the producers of such traditional commodities as jute products and cotton textiles from the developing countries, particularly India and Pakistan, has not been particularly meaningful in commercial terms. Pressure continues to be maintained at bilateral and multilateral levels and it is to be hoped that the issue of genuinely non-discriminatory preferences by developed countries in favour of developing countries will soon be settled. The dismantling of quota restrictions on the importation of jute products into certain countries of the European Economic Community is important. Believe it or not, even coir products, continue to be subject to quota restrictions; the level of duties on these products is much, much higher than the level of duties on more advanced or complex products. The structure of tariffs is such that it does not make sufficient distinction between the manufactured and the simply processed product. The impact of the margin of duty between a raw material and a simply processed material is such that in a large number of cases, it gives as much as 75 to 100% protection to national processing industries in advanced countries. Nevertheless, certain techniques are being developed with regard to industrial cooperation, many importing countries have now set up joint bodies in which a great deal of discussion is taking place as to which semi-manufactured product or which simply processed products can be produced in India for incorporation in a finished product from a major industrial nation. We expect that in due course very considerable results will flow from this approach.

23. Very briefly I would like to refer to some of the more intractable problems with our principal trading partners. For instance in the case of Western Europe, particularly the European Economic Community, the problems of the imbalance in our trading relations with them continue to be obstinate. Yet you will be pleased to hear that after many many years, last year was the first year in which there has been growth in our exports to the EEC. It is quite possible that this is a starting point to break away from the tradition of stagnation in our trade with this very important trading area. Now that the construction of the community is nearing completion we have an expectation that as a result of the discussions and negotiations which Ambassador Swaminathan is due to undertake with them there will be very considerable improvement in our ability to penetrate this dynamic market. In regard to Eastern Europe you are all familiar with the enormous increase, of course beginning from a narrow base, which has taken place in our exportation to this area. Some of you I know have always the nagging fear as to whether this increase in exportation has taken place at the expense of exportation to areas from where we could expect to earn free foreign exchange or convertible foreign exchange. It would require too much time for me to go into this matter to explain to you fully. But I think if you go product by product, commodity by commodity, if you look into the volume of exportation you would come to the conclusion that there has been practically no diversion. Our export to this area has been a net addition to our exports in terms of volume. You will also come to the conclusion that the emergence of a large-buying competence and capability on the part of East European countries has helped to maintain our unit values at a higher level than they would otherwise have maintained. A third interesting feature of the development of the trade with Eastern Europe is that the progress in the diversification of the composition of exports is most interesting. In the case of the exports of industrial products, the new technique is to introduce our products to the less sophisticated markets of Eastern Europe and once the capacity of the entrepreneur to deal with the less sophisticated markets of Eastern Europe is tested and developed, then you can build up on it for export to Western Europe and the United States of America. This technique has paid dividends for instance in the field of footwear. Now our footwear exportation to Eastern Europe is of the order of Rs. 110 million and this could very well reach a figure of Rs. 200 million over the next two or three years. The first big contract with the United States for Rs. 300 million was concluded a year ago.

24. Now a few words for Japan and the United States of America. Our trade with Japan is in good balance but there are possibilities of expansion. In this trade, the two governments are engaged in a joint study of what further raw material requirements of Japan could be supplied from India. Despite all the difficulties of tradition, the Japanese Government are engaged in discussing whether they could, for instance, allow black tea to be imported so that it could to some extent replace or at least supplement the Japanese green tea. I have the expectation that in due course there will be a substantial expansion in our exports to Japan. The same is the position in the United States market although the upsurge of protectionist pressures in the United States is worrying us, as it is certainly

worrying many other countries around this table. But, one is reasonably confident that in due course the protectionist pressures will be brought under control and the United States of America will provide for us a considerable market and we will be able to organize our production and marketing in such a way as to increase our exportation to that great country.

25. Very interesting possibilities are provided by the developing countries of Asia, Africa, and to some extent Latin America. In commercial technical terms, programs of mutual assistance with some of the countries have been drawn up and we have particularly tried to improve our capacity to participate in tenders. The World Bank itself is aware of the many efforts which we have made in this direction. It would not be appropriate for me to say "with its help" because it cannot give help to single country producers. The World Bank has tried to remove obstacles so that our exporters have a chance of fair competition in this field. We have won very interesting contracts for wagons in South Korea and for electrical transmission lines in Nigeria. We expect we will win a contract in Turkey.

26. Now, the difficulty here has been that our principal competitors are those who are gathered around this table and also of the East European bloc, who are not gathered around this table. In the pursuit of their policies, of their own export promotion and also of development assistance, they provide commercial credits extending to ten years, at reasonable rates of interest. Unless we are able to compete on credit terms and not really on the price of the product, we shall be losing our battle for winning these tenders. I hope we shall have your understanding that in building up these interesting markets for ourselves, despite our own position in regard to having to depend on external borrowed resources, we need to provide competitive credit facilities for the development of these markets.

27. I have spoken at length; I have given you an insight into the commercial policy and purposes of the Government of India. To some extent I have talked of targets and objectives, but I have advisedly not used too many figures for this exposition. Concrete results depend largely of course on the Indian effort. But they depend also to a considerable extent on the evolution of good credit or commercial policies in directions which make it possible for us to sell in export markets provided we have made the necessary effort by way of production and marketing efficiency. Such sales would make it possible for us to meet increasingly from our own cash resources our day-to-day requirements for imports and to build up our capacity to repay the debts after such period of debt relief or debt rescheduling which the countries around this table may be able to propose or agree to.

Delivered on November 13, 1967, at the Morning session of the India Consortium meeting in Paris.

SUMMARY OF INDICATIONS OF AID FOR 1967/68

The following table summarizes aid for 1967/68 announced by consortium members in Paris on November 14, 1967.

	Amount (US $ Million)	
	Non-Project	Project
Austria	5.0	-
Belgium	2.5	-
Canada	85.4 a/	11.6
France	17.0 b/	-
Germany	42.2	20.3
Italy	-	-
Japan	52.0	-
Netherlands	10.5	-
U.K. c/	79.2	2.4
U.S. d/	70.0	46.3
Bank	-	25.0
Total	363.8	105.6

a/ Approximately $46 million equivalent in foodstuffs.
b/ The government of India may request that $2 million of this amount be utilized as project aid. In addition, $13 million of project aid might be forthcoming, thus bringing the potential total of aid commitments in 1967/68 to $30 million equivalent.
c/ Total of £32 million pledged; approximately £20 million, as yet undisbursed, converted at the rate of $2.40.
d/ Does not include $159.4 million of foodstuffs under PL 480 program or other similar commodity assistance. Additional financing for both project and non-project purposes is contemplated later in the year, subject to congressional approval of appropriations.

Asia Department
December 20, 1967

PRESS RELEASE
FOR IMMEDIATE PUBLICATION

SUBJECT: India Consortium Meeting

November 14, 1967

The Consortium of governments and institutions interested in development assistance to India met in Paris on November 13 and 14, 1967, under the Chairmanship of the World Bank. The meeting was attended by representatives of the Governments of Austria, Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, the United Kingdom and the United States. The International Monetary Fund sent observers.

A delegation representing the Government of India, led by Mr. P. Govindan Nair, Secretary in the Ministry of Finance, and also including Mr. K.B. Lall, Secretary in the Ministry of Commerce, and Mr. B. Sivaraman, Secretary in the Ministry of Food and Agriculture, was present during the meeting in order to describe recent economic developments in India. Members particularly welcomed the delegation's report of progress in the modernization of agricultural production and their forecast of a good harvest, with foodgrain production during the current agricultural year estimated to reach a record total of 95 million metric tons. Members also welcomed the important emphasis being given to programs of export promotion and family planning and indications that those programs would be further intensified during the next year.

Members of the Consortium commended the Government of India for the broad and sustained effort it had made together with its Consortium partners to avert widespread disaster in the face of the successive droughts of 1965 and 1966. It was observed that, after two years of drought, the Indian economy had been passing through a recessionary phase, but prospects for economic recovery in the coming twelve months were good. It was also noted that renewed growth in the economy was expected to lead to an increase in import requirements, resulting in a more rapid use of aid.

For the year 1967/68, Consortium members have already committed, or are now negotiating agreements to provide, aid for project, food and non-project purposes; further commitments would be negotiated as soon as legislative appropriation procedures are completed in certain member countries. An increasing portion of Consortium aid has recently been in a form which is freely usable including some in the form of debt relief, and a large part of this year's total is in the form of foodstuffs or their equivalent, such as supplies of fertilizers and other agricultural inputs.

The group also reviewed, in a preliminary way, the probable over-all requirements for new non-project and project assistance during the next Indian fiscal year, beginning April 1, 1968. On the basis of an analysis prepared by the World Bank, members concluded that non-project requirements would continue at a relatively high level and that there would be a need for larger commitments of project aid than in the recent past.

European Office (Paris)
November 14, 1967

CONFIDENTIAL

IND 67-36

FROM: The Secretary

October 31, 1967

INDIA: WORKING PAPER ON NET AID

The attached staff paper "India: Working Paper on Net Aid" is distributed for use in connection with the forthcoming meeting of the India Consortium, which will be held on Monday and Tuesday, November 13 and 14, 1967, in Paris.

Distribution:

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Development Assistance Committee, OECD
President, Asian Development Bank

CONFIDENTIAL

INDIA: WORKING PAPER ON NET AID

1. At the Consortium Meeting in Paris, September 7 and 8, 1967, members requested that the Bank staff prepare a working paper on the concept of net aid in general and, in particular, the way in which action on debt relief might be counted in measuring members' contributions to the total of aid to India. The concept of net aid was introduced in relation to the Indian debt problem at the meeting of the India Consortium Working Party, in the Chairman's opening statement on March 8, 1967.1/ As pointed out in that statement, it is the net inflow of aid--that is, aid after deducting interest and amortization on past aid--which contributes to the economic development of India. Any single act of lending necessarily involves a flow of net aid to the borrowing country followed by a period of outflow during the period of repayment. For a few isolated acts of lending or for lending over a short period, the terms on which loans are made, while important to both creditor and debtor, are unlikely to be critical. But if there is any prospect of a continuing need for capital inflow, which is certainly the case for a number of less developed countries including India, the terms of current aid are of critical importance. They determine the service payments due in the future. Gross aid will have to cover both these payments and the required net inflow of capital.

Some Facts and Figures

2. The fact is that, if a certain level of net aid to the borrowing country is contemplated, growth of gross aid required to maintain it can be very large. Both the term of the loan and the rate of interest affect the rate of growth; with short maturities and at high rates of interest, growth can be astronomic.

3. Detailed figures can be seen in the attached Technical Annex, "The Relation Between Gross and Net Aid." A few examples here will suffice; they are all based on loans amortized by equal annual installments. If net aid of $100 million a year is to be provided by loans of five-year maturity without a grace period, but without any interest at all, the level of gross aid needed in the 25th year would be $911 million; at six percent interest, it would be $2,169 million. The corresponding figures for 10-year loans without a grace period would be $527 million and $1,222 million.

1/ The Chairman's statement on March 8, 1967, was circulated to consortium members as IND 67-9; the Report of Proceedings of the March 8-9 meeting were circulated on March 29, 1967, as IND 67-17.

4. These are enormous figures, but even softer terms give one pause. Again, if net aid of $100 million a year is to be provided, the required gross aid for 25-year loans at three percent would be $438 million after 25 years and, even for 50-year loans at the same three percent rate, $300 million. A grace period helps. The corresponding figures for 25-year loans with seven-years grace and 50-year loans with 20-years grace would be $358 and $227 million respectively.

5. What is perhaps even more to the point is the fact that, even if net aid of $100 million per annum is contemplated for only 10 years and zero net aid thereafter, by the 25th year gross aid required simply to offset debt service can still be extremely large. For example:

Terms			Required Gross
Maturity (years)	Grace Period (years)	Interest Rate (percent)	Aid in 25th Year ($ million)
5	None	6	1,203
10	None	6	719
25	7	3	153
50	20	3	71

Limitation on Aid on Hard Terms

6. It is plain that members of the Consortium now giving all or part of their aid on hard terms cannot expect to maintain even a neutral position in the future (i.e. zero net aid), unless they are prepared to support a very rapid growth in the volume of gross aid. But, if they do not, the flow of debt service will, in the fairly near future, be larger than any new aid they give. If, for commercial or other reasons, there is no escape from giving some new aid on hard terms, it should be strictly limited in amount and **it should** be buttressed by other new aid on concessional terms which will not result in such an insupportable volume of future debt service.

7. In saying that aid on hard terms must be strictly limited, different things might be implied. What is meant here, purely as an example, is that the volume of gross aid on such terms remains the same year after year; this is sometimes known as "rolling over" the debt thereby incurred. The effect of such an action must, however, be made clear. If gross aid of $100 million per annum is made available for ten years on loans of 10-years maturity at six percent, the amount of net aid to the recipient country in these ten years would be only $352 million. After the initial ten years, even if the gross aid continued at $100 million per annum, there would be a permanent net outflow of $33 million a year on account of interest payments on a stable

amount of debt; new gross aid would do no more than offset amortization of the old. Over the period of development which must be considered relevant for India, aid on such terms and with such consequences can hardly be construed as aid at all.

8. If capital inflow on hard terms were limited on a global basis, there will still be a question whether it should be limited creditor by creditor. It might reasonably be argued that the accidents of timing and competition for particular orders could well result in erratic patterns of lending and repayment for individual creditors. The accidental nature of these ups and downs and the practical difficulties of calculating net aid over a large number of transactions might make it more useful to ignore such capital inflow in any calculation of net aid. It would be accepted that the contribution of the Consortium as a whole to net aid would, under this heading, be negative. But how the constituent parts of the negative total would be made up would be considered irrelevant.

Some Practical Difficulties

9. Aid which is pledged or even committed but not spent may be of use later, but so long as it is only in the pipeline, it does not contribute to development. The concept of net aid has, therefore, to be based on actual disbursements less debt service during a particular year. This fact causes certain practical difficulties. It means that, if the Bank is to make an estimate of the available net aid, it must also make forecasts of the likely rate of disbursement and projections of debt service in advance. Both of these are subject to error.

10. Whatever the practical difficulties, it is increasingly clear that they have to be faced. Already, the Bank, in its economic reports on India finds it necessary to cast India's requirements in terms of the disbursements needed during the coming year, rather than the amount to be pledged or committed. Part of the required amount will come from disbursements out of past commitments; the rest has to be disbursed out of new aid, which itself is of various kinds. Thus, we have, in fact, moved from a pledge or commitment basis to a disbursement basis in estimating the global requirements and the possibilities of meeting it. Whatever the difficulties, it seems clear that, in future discussions of aid, this approach will be necessary, not simply on a global basis but also creditor by creditor.

11. Thus annual consideration by the consortium of the amount of aid required by India and the amounts to be made available by the various donors would deal directly with the practical problem at hand; the likely flow of disbursements from each donor, whether from aid made available previously or currently committed, would be matched with requirements. These requirements would necessarily include the relevant debt service. The estimate of each donor would take into account not only the past terms of aid but also the readiness with which that aid can be disbursed.

Net Aid and Debt Relief

12. To the extent that a donor country extends aid in the form of debt relief, it will automatically increase the amount of net aid it is giving. If the aid is in the form of a postponement of a single principal payment, for example, net aid would be increased by that amount in the year the postponement is made and decreased by the same amount in the year to which it is postponed.

13. If relief is granted in the form of a reduction in interest rates on past loans, the amount of net aid would automatically be increased by the amount of the reduction during all the years that the loans in question remain outstanding. Thus, "credit" for debt relief would extend over a number of years.

Questions for Consortium Consideration

14. On the basis of the foregoing analysis the following questions seem to merit further consideration by the Consortium:

(a) Whether there should be a limit on the amount of capital provided in future on conventional terms; and if so, at what level?

(b) Whether the recipient government should assume responsibility for ensuring that such borrowing on conventional terms does not exceed the agreed limit?

(c) Would a limit on the overall amount of such debt be sufficient or would country-by-country limits be necessary?

Asia Department
October 30, 1967

THE RELATION BETWEEN GROSS AND NET AID

I. Introduction

1. The importance not only of the volume of aid given to a developing country but also of the terms on which it is given is now fully recognized. The flow of capital assistance tomorrow will be offset by the payments of interest and amortization on debt incurred today. Consequently, the concepts of gross and net aid have been created to distinguish the flow of capital before deducting interest and amortization payments on past debt, i.e. gross aid, from the same flow after deducting those payments, i.e. net aid.

2. If a particular volume of gross aid is contemplated over a future period, the volume of net aid will, of course, be progressively less, as debt service payments have to be made. Similarly, if a particular volume of net aid is contemplated, the volume of gross aid required will be progressively larger. It is the purpose of this note to explain with the aid of examples how these two are related.

3. Only the simplest kinds of terms are used in the examples. The loans are assumed to carry the same rate of interest throughout. Amortization is by equal annual instalments over the life of the loan or, if there is a grace period, over the remainder of the life. Debt service payments are made once a year.

4. The remainder of the paper is divided into two parts corresponding to the two cases described earlier. The first is, for brevity, called "Gross to Net" and the second "Net to Gross".

II. Gross to Net

5. If the same amount of gross aid is granted every year (say 100) by way of loans with a particular maturity (say, m years), amortization payments will increase until the year when the first loan matures. By that time, amortization of all the loans previously made will equal the annual gross aid. This will continue to be the case in the future, so that debt will not increase thereafter. This is true for any amortization schedule.

6. Thus, by the end of the m years, gross aid will be offset by amortization. As there will still be interest to be paid on the debt outstanding at the end of the period, net aid will be negative and will continue to remain so thereafter. Table 1 illustrates this for loans of 100 with a 5-year maturity. If there is no grace period and equal annual amortization payments are made each year, net aid in the fifth year will equal interest on a debt of 300 and will continue at that level thereafter. If there is a two-year grace period, the debt at the end is 400 and interest payments are correspondingly higher, but the principle is the same.

Table 1

Constant Gross Aid - 5-Year Loans at 6%

Year	Debt Outstanding (Beginning of Year)	Gross Aid	Amortization	Interest	Net Aid
No Grace					
0	-	100	-	-	100.0
1	100	100	20	6.0	74.0
2	180	100	40	10.8	49.2
3	240	100	60	14.4	25.6
4	280	100	80	16.8	3.2
5	300	100	100	18.0	-18.0
6	300	100	100	18.0	-18.0
2-Year Grace					
0	-	100	-	-	100.0
1	100.0	100	-	6.0	94.0
2	200.0	100	-	12.0	88.0
3	300.0	100	33.3	18.0	48.7
4	366.7	100	66.7	22.0	11.3
5	400.0	100	100.0	24.0	-24.0
6	400.0	100	100.0	24.0	-24.0

7. There is in fact a simple rule that can be applied to find out the debt at maturity of the first loan. Add the term of the loan, the grace period and one; divide by two; this multiplied by the annual amortization at the end of the period, which is the same as gross aid gives the debt. For example, for a 5-year loan without grace period, the factor would be 5 + 1 divided by 2, i.e. 3. With a grace period of two years, it would be 5 + 2 + 1 divided by 2 = 4. A grace period is, in effect, like prolonging the life of the loan, but it accomplishes the job quicker.

8. A fairly simple explanation of this rule can be given, when there is no grace period. In that case, the debt outstanding is distributed in the following way. If we are considering 5-year loans of 100, for example, with no grace period, there will be an amount of 20 outstanding from 5 years earlier, 40 from 4 years earlier and so on up to 100 from 1 year earlier. But the amortization on each will be 20. The relationship between debt outstanding and amortization is lowest for the old tranches of debt and highest for the new. It runs from 1:1 to 5:1. The average is 3:1, which is correct. If there is a grace period, there is no amortization at all on the newest and largest tranches of debt. Consequently, the relationship between debt and amortization is different. The debt/amortization ratio is larger. A formal explanation is given in Appendix II (page 20).

9. Net aid, of course, becomes negative much earlier than the maturity of the first loan. How early depends mainly on the interest rate. At 6 per cent, for example, it is bound to be negative in the 17th year, because of interest alone, even if there is no amortization up to that time. If there is a grace period, followed by equal annual instalments, the day is postponed, but not by as much as one might think. Amortization payments are much lower to start with, and lower throughout, but there is therefore more debt and more interest to be paid.

10. As an illustration, a series of loans of 25-year maturity and 100 each will accumulate after 25 years to a debt of 1,300 without a grace period. With a grace period of 7 years, they will accumulate to 1,650, because of the slower amortization. With a series of 25-year loans on DAC terms (3% and 7 years grace) net aid would become negative in the 18th year instead of the 17th without a grace period (see Table 2). For any normal grace period this is the sort of difference which applies. Further examples are shown in Table 3.

11. There is, of course, a cost in interest charges. The net aid during the life of a series of 25-year loans works out as follows (at 3%):*

	No Grace Period	7-Years Grace
Gross Aid	2,600	2,600
Amortization	1,300	950
Interest	663	813
Net Aid	637	837

* The period is 26 years long, from the year the first loan is made to the one in which it is repaid.

Table 2

Constant Gross Aid - 25-Year Loans at 3%

Year	Debt Outstanding (Beginning of Year)	Gross Aid	Amortization	Interest	Net Aid
No Grace					
0	-	100.0	-	-	100.0
5	460.0	100.0	20.0	13.8	66.2
10	820.0	100.0	40.0	24.6	35.4
15	1080.0	100.0	60.0	32.4	7.6
17	1156.0	100.0	68.0	34.7	-2.7
18	1188.0	100.0	72.0	35.6	-7.6
20	1240.0	100.0	80.0	37.2	-17.2
25	1300.0	100.0	100.0	39.0	-39.0
7-Years Grace					
0	-	100.0	-	-	100.0
5	500.0	100.0	-	15.0	85.0
10	983.3	100.0	16.7	29.5	53.8
15	1344.4	100.0	44.4	40.3	15.3
17	1450.0	100.0	55.6	43.5	0.9
18	1494.4	100.0	61.1	44.8	-5.9
20	1566.6	100.0	72.2	47.0	-19.2
25	1650.0	100.0	100.0	49.5	-49.5

Table 3

Year in which Net Aid Becomes Negative

	At 3%	At 6%
5-Year Loans		
No Grace	5	5
2-Years Grace	5	5
10-Year Loans		
No Grace	9	8
3-Years Grace	9	8
25-Year Loans		
No Grace	17	12
5-Years Grace	18	12
30-Year Loans		
No Grace	19	13
10-Years Grace	20	14
50-Year Loans		
No Grace	24	14
20-Years Grace	27	17

III. Net to Gross

The Growth of Debt

12. We now examine what happens to gross aid, if a constant amount of net aid is provided. This is the reverse of the previous question and a more complicated one. There are, however, some simple things about it. If annual net aid is a fixed amount, debt will necessarily increase from year to year for two reasons. First it will increase by the annual net aid; secondly it will increase by the interest on the debt, since this will be part of the gross aid. Gross aid will also have to include amortization, but, so far as outstanding debt is concerned, this is a self-balancing item. Debt will therefore increase only by net aid plus interest and will be independent of the amortization schedule.

13. Table I(i) in Appendix I (page 10) shows how debt and the annual addition to debt (i.e. net aid plus interest) grows without interest and at 3 and 6 per cent if net aid of 100 per annum is granted. The figures can be found in any compound interest tables, since debt equals the amount of an annuity of 100 and net aid plus interest simply equals 100 at the appropriate compound interest rate. The growth of debt and the interest payments required to service it is very rapid at high rates of interest.

14. Even if net aid of 100 per annum is contemplated for only a ten-year period with zero net aid thereafter, the figures are sufficiently alarming at high interest rates. Illustrations are given in Table I(ii). Debt is the same as before in the tenth year. In this case, since there is no net aid from then on, debt grows at compound interest thereafter.

The Growth of Amortization

15. The relationship between amortization and debt in the case where constant net aid is given, is broadly similar to that in which constant gross aid is given, though there are important differences. These follow from the fact that debt, instead of remaining constant, is continuously growing.

16. The simplest case and the one which bears the closest resemblance to the previous gross-to-net example is when there is no interest. The gross aid requirements for various maturities and grace periods are shown in Tables II A and III A (pages 11 and 14) in the two cases, where net aid is 100 throughout and where net aid is 100 for 10 years and nil thereafter. Table IV A shows the percentage relationship which net aid plus interest and amortization bear to debt.

17. In the last of these tables, there is a line called "Limit". This is the ultimate value of the relationship after a long time. For short maturities, it is a good approximation in the second case even in the short

run. In the first case, it is only a moderately good one, indicating the long-term tendency. Where there is no interest, but only then, this limit is in fact just the inverse of the formula used in the gross-to-net section, namely, $2/(m+g+1)$, where m is the maturity and g the grace period of the loans. It indicates again the importance of the grace period. For example, for 25-year loans with 7 years grace, the ultimate value of amortization payments in terms of debt outstanding will be 2/33 or 6.1 percent, while, for 30-year loans with no grace, it will be 2/31 or 6.5 percent (see Table IV A, page 17).

18. In the case when net aid continues throughout, the percentages are lower than this limit initially. This follows from the fact that debt is growing. When debt is not growing, total debt outstanding is distributed in a particular way, as described in Section II; the ratio of debt outstanding to amortization is highest for the oldest and smallest tranches of debt. When debt is growing, it is obvious that the old debt is proportionately even less than if it is static. The ratio of all debt to amortization is therefore lower.

19. When interest is charged, substantially the same thing happens as when it is not, with certain differences. In the first place, there is a different limit, which is more complicated, but can readily be calculated with compound interest tables.* The higher the interest rate, the lower the limit is; this is because debt is growing so much faster. The difference is particularly marked for long maturities.

20. For high interest rates, like 6 percent, the limit is a pretty good approximation even for a fairly short period ahead provided that period is at least as long as the maturity of the loans being considered. Tables IV A and B (pages 17 & 18) illustrate this. These tables also illustrate the increasing importance of the grace period as interest rates get higher, for example, in the 30/10 and 50/0 columns in Tables IV A and IV C. In the first of these the figures in the 30/10 column are substantially higher; in the second they are virtually the same.

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* The formula is given in Appendix I, page 9.

Asia Department
October 27, 1967

APPENDIX I

TABLES I - IV SHOWING DEBT AND GROSS AID ON CERTAIN ASSUMPTIONS ABOUT NET AID REQUIRED

Notes on the Tables

All these tables are based on a series of loans which are amortized by equal annual instalments. Where there is a grace period, the instalments are equal over the remaining life of the loan. Interest and amortization payments are made once a year. As an example, take a 5-year loan of 100 with 2 years grace. If this loan is made in year 0, interest payments are made during years 1 and 2; both amortization and interest payments (on the outstanding balance) are made during years 3, 4 and 5. The amortization payment in each of these years is 33-1/3.

Table I This shows debt outstanding at the beginning of the year and also net aid plus interest. Since these figures can readily be found in compound interest tables, only 10-year intervals have been shown. In Table I (i), for example, Debt equals the amount of an annuity at the specified interest rate, while net aid plus interest simply increases at compound interest. I(i) shows the growth of debt, when net aid is 100 throughout, and I(ii) when net aid is 100 for 10 years and nil thereafter. The figures in I(ii) can readily be deduced by subtracting from each of the figures in I(i) the corresponding figure 10 years earlier. For example, the entry under 3% for 30 years in (ii) is 2071. In (i) it is 4758 and the previous figure is 2687; 4758 - 2687 = 2071.

Tables II There are three tables, A, B and C for 0, 3 and 6% interest. Each table shows the growth of gross aid at 5-year intervals on the assumption that net aid is 100 throughout. Examples of different maturities and grace periods are given. These figures cannot be found in tables, but are based on a computer run.1/

Tables III These tables are subdivided as before into A, B and C. They differ from Tables II, only in that net aid is assumed to be 100 for 10 years and nil thereafter. Table III B, for example, could be deduced from Table II B, as before, by taking the figures in the latter and subtracting the figure 10 years earlier. For example, in year 30, the figure in the first column of III B is 739. In Table II B it is 1776, and the figure 10 years earlier is 1038. 1776 - 1038 = 738 (the difference is due to rounding).

In these tables only 10-year intervals are shown. The value for year 9 has also been included to show the level of gross aid in the last year when there is net aid of 100.

1/ Based on a program prepared by the Statistical Services Division.

<u>Tables IV</u> These are again subdivided into A, B and C. The figures for net aid plus interest in Table I have been divided by the debt in each year. The same has been done for amortization directly from the computer run. However, we could also take figures for gross aid in Tables II or III and divide it by the debt. For example, in Table II A, the figures in the first column for 30 years are 1078 and 3000; the former is 35.9% of the latter. In Table IV A (i) at 30 years net aid plus interest = 3.3% of debt; in the first column amortization = 32.6% of debt. 3.3 + 32.6 = 35.9. There may be differences because of rounding in other cases.

Calculation of the "limit" is described in the following note.

<u>Limit of Ratio of Amortization to Debt</u>

Assume annual net aid = 1, let i be the interest rate, and $u = (1 + i)$. Then:

$$\text{Debt } D = \frac{u^n - 1}{i}$$

$$\text{Net aid + interest} = u^n$$

If G = gross aid, let us assume, in the long run, that $G_n = c + pu^n$. The limiting value of gross aid divided by debt is then pi and of amortization $i(p - 1)$. It remains to find what p is. Let m be the maturity of the loan and g the grace period.

$$\text{Then } dG_n = d(u^n) + \frac{1}{m - g}(G_{n-g} - G_{n-m})$$

$$piu^n = iu^n + \frac{1}{m - g}(u^{n-g} - u^{n-m})$$

$$p = 1 + \frac{p}{m - g}\left(\frac{u^{-g} - u^{-m}}{i}\right)$$

$$= 1 + \frac{p}{m - g}\left[\frac{1 - u^{-m}}{i} - \frac{1 - u^{-g}}{i}\right]$$

$$= 1 + \frac{p}{m - g}\left[a(i,m) - a(i,g)\right]$$

$$p\left[1 - \frac{a(i,m) - a(i,g)}{m - g}\right] = 1.$$

The expression a(i,m) is the present value of an annuity for m years at an interest rate of i.

Asia Department
October 27, 1967

Table I
Growth of Debt

(i) Assuming Net Aid of 100 Per Annum Throughout

Year	At 0% Debt	At 0% Net Aid plus Interest	At 3% Debt	At 3% Net Aid plus Interest	At 6% Debt	At 6% Net Aid plus Interest
0	--	100	--	100	--	100
10	1000	100	1146	134	1318	179
20	2000	100	2687	181	3679	321
30	3000	100	4758	243	7906	574
40	4000	100	7540	326	15476	1029
50	5000	100	11280	438	29034	1842

(ii) Assuming Net Aid of 100 Per Annum For Ten Years and Nil Thereafter

Year	At 0% Debt	At 0% Net Aid plus Interest	At 3% Debt	At 3% Net Aid plus Interest	At 6% Debt	At 6% Net Aid plus Interest
0	--	100	--	100	--	100
10	1000	--	1146	34	1318	79
20	1000	--	1541	46	2360	142
30	1000	--	2071	62	4227	254
40	1000	--	2783	83	7570	454
50	1000	--	3740	112	13557	813

Table II A

Gross Aid Requirements Assuming Net Aid of 100 Per Annum Throughout   Interest Rate 0%

	Maturity and Grace Period*									
Year	5/0	5/2	10/0	10/3	25/0	25/7	30/0	30/10	50/0	50/20
0	100	100	100	100	100	100	100	100	100	100
5	249	200	161	129	122	100	118	100	110	100
10	412	315	259	212	148	117	139	100	122	100
15	578	439	345	275	180	144	164	125	135	100
20	744	564	437	348	219	177	193	150	149	100
25	911	690	527	419	267	217	227	178	164	117
30	1078	815	618	490	301	238	267	211	181	133
35	1244	940	709	561	338	269	296	226	200	150
40	1411	1065	800	633	376	300	326	249	221	167
45	1578	1190	891	704	416	331	358	276	244	184
50	1744	1315	981	776	454	361	391	301	269	205

* The figures at the head of each column indicate the maturity and grace period, e.g. 5/2 means 5 year loans and 2 years grace.

Table II B

Gross Aid Requirements Assuming Net Aid of 100 Per Annum Throughout   Interest Rate 3%

Year	Maturity and Grace Period*									
	5/0	5/2	10/0	10/3	25/0	25/7	30/0	30/10	50/0	50/20
0	100	100	100	100	100	100	100	100	100	100
5	272	219	180	145	139	116	135	116	127	116
10	488	375	313	256	189	152	179	134	159	134
15	742	566	453	363	253	205	233	182	198	156
20	1038	790	623	498	335	272	301	238	245	181
25	1380	1049	818	653	438	358	386	305	300	227
30	1776	1348	1045	832	544	438	490	389	366	281
35	2236	1696	1308	1041	670	540	598	467	444	343
40	2770	2099	1613	1282	818	659	726	566	537	416
45	3388	2566	1967	1563	990	797	875	684	647	501
50	4104	3107	2377	1887	1189	956	1049	820	777	602

* The figures at the head of each column indicate the maturity and grace period, e.g. 5/2 means 5 year loans and 2 years grace.

Table II C

Gross Aid Requirements Assuming Net Aid of 100 Per Annum Throughout   Interest Rate 6%

Year	Maturity and Grace Period*									
	5/0	5/2	10/0	10/3	25/0	25/7	30/0	30/10	50/0	50/20
0	100	100	100	100	100	100	100	100	100	100
5	298	240	202	163	158	134	154	134	146	134
10	582	449	380	312	241	197	229	179	208	179
15	966	740	604	487	359	295	335	268	292	240
20	1480	1132	912	733	524	431	481	387	407	321
25	2169	1657	1323	1061	754	621	682	548	562	448
30	3090	2358	1873	1500	1048	855	958	772	771	618
35	4323	3296	2608	2088	1444	1179	1314	1049	1053	846
40	5974	4552	3593	2875	1976	1613	1793	1430	1432	1151
45	8182	6233	4911	3928	2689	2194	2435	1943	1943	1561
50	11138	8482	6675	5337	3642	2970	3296	2629	2628	2111

* The figures at the head of each column indicate the maturity and grace period, e.g. 5/2 means 5 year loans and 2 years grace.

Table III A

Gross Aid Requirements Assuming Net Aid of 100 Per Annum For 10 Years and Nil Thereafter

Interest Rate 0%

Year	Maturity and Grace Period*									
	5/0	5/2	10/0	10/3	25/0	25/7	30/0	30/10	50/0	50/20
0	100	100	100	100	100	100	100	100	100	100
9	378	293	236	192	142	111	134	100	122	100
10	312	215	159	112	48	17	39	0	22	0
20	333	250	178	135	71	60	54	50	27	0
30	333	250	181	142	82	62	75	61	33	33
40	333	250	182	143	75	62	59	38	40	33
50	333	250	182	143	78	61	65	52	48	38

* The figures at the head of each column indicate the maturity and grace period, e.g. 5/2 means 5 year loans and 2 years grace.

Table III B

Gross Aid Requirements Assuming Net Aid of 100 Per Annum For 10 Years and Nil Thereafter

Interest Rate 3%

Year	Maturity and Grace Period*									
	5/0	5/2	10/0	10/3	25/0	25/7	30/0	30/10	50/0	50/20
0	100	100	100	100	100	100	100	100	100	100
9	441	342	281	229	178	142	169	130	152	130
10	388	275	213	156	89	52	79	34	59	34
20	549	415	310	242	146	121	123	104	85	46
30	739	559	422	334	210	166	189	151	121	100
40	993	750	568	450	273	221	236	176	171	135
50	1335	1008	763	605	371	297	323	254	240	187

* The figures at the head of each column indicate the maturity and grace period, e.g. 5/2 means 5 year loans and 2 years grace.

Table III C

Gross Aid Requirements Assuming Net Aid of 100 Per Annum For 10 Years and Nil Thereafter

Interest Rate 6%

Year	Maturity and Grace Period*									
	5/0	5/2	10/0	10/3	25/0	25/7	30/0	30/10	50/0	50/20
0	100	100	100	100	100	100	100	100	100	100
9	517	402	336	275	222	180	212	169	194	169
10	482	349	280	212	141	97	129	79	108	79
20	898	684	533	421	283	234	251	208	199	142
30	1610	1226	960	767	524	425	477	385	364	298
40	2883	2194	1721	1375	928	758	835	658	662	533
50	5164	3929	3081	2462	1666	1357	1503	1199	1196	960

* The figures at the head of each column indicate the maturity and grace period, e.g. 5/2 means 5 year loans and 2 years grace.

Table IV A

Net Aid, Interest and Amortization as a Percentage of Debt

Interest Rate 0%

Year	Net Aid Plus Interest	Amortization* 5/0	5/2	10/0	10/3	25/0	25/7	30/0	30/10	50/0	50/20
(i) Net Aid of 100 p.a. Throughout											
10	10.0	31.2	21.5	15.9	11.2	4.8	1.7	3.9	-	2.2	-
20	5.0	32.3	23.2	16.8	12.4	6.0	3.8	4.6	2.5	2.4	-
30	3.3	32.6	23.8	17.3	13.0	6.7	4.6	5.6	3.7	2.7	1.1
40	2.5	32.8	24.1	17.5	13.3	6.9	5.0	5.7	3.7	3.0	1.7
50	2.0	32.9	24.3	17.6	13.5	7.1	5.2	5.8	4.0	3.4	2.1
Limit	-	33.3	25.0	18.2	14.3	7.7	6.1	6.5	4.9	3.9	2.8
(ii) Net Aid of 100 p.a. For 10 Years and Nil Thereafter											
10	-	31.2	21.5	16.0	11.2	4.8	1.7	3.9	-	2.2	-
20	-	33.3	25.0	17.8	13.5	7.1	6.0	5.4	5.0	2.7	-
30	-	33.3	25.0	18.1	14.2	8.2	6.2	7.5	6.1	3.3	3.3
40	-	33.3	25.0	18.2	14.3	7.5	6.2	5.9	3.8	4.0	3.3
50	-	33.3	25.0	18.2	14.3	7.8	6.1	6.5	5.2	4.8	3.8
Limit	-	33.3	25.0	18.2	14.3	7.7	6.1	6.5	4.9	3.9	2.8

* The figures at the head of each column indicate the maturity and grace period, e.g. 5/2 means 5 year loans with 2 years grace.

Table IV B

Net Aid, Interest and Amortization as a Percentage of Debt — Interest Rate 3%

Year	Net Aid Plus Interest	Amortization* 5/0	5/2	10/0	10/3	25/0	25/7	30/0	30/10	50/0	50/20
(i) Net Aid of 100 p.a. Throughout											
10	11.7	30.9	21.0	15.6	10.6	4.8	1.6	3.9	-	2.2	-
20	6.7	31.9	22.7	16.4	11.8	5.7	3.4	4.5	2.1	2.4	-
30	5.1	32.2	23.2	16.9	12.4	6.3	4.1	5.2	3.1	2.6	0.8
40	4.3	32.4	23.5	17.1	12.7	6.5	4.4	5.3	3.2	2.8	1.2
50	3.9	32.5	23.7	17.2	12.8	6.8	4.6	5.4	3.4	3.0	1.6
Limit	3.0	32.7	24.0	17.4	13.2	6.9	4.9	5.7	3.7	3.2	1.7
(ii) Net Aid of 100 p.a. For 10 Years and Nil Thereafter											
10	3.0	30.8	21.0	15.6	10.6	4.8	1.5	3.9	-	2.1	-
20	3.0	32.6	23.9	17.1	12.7	6.5	4.9	5.0	3.8	2.5	-
30	3.0	32.7	24.0	17.4	13.1	7.1	5.0	6.1	4.3	2.8	1.8
40	3.0	32.7	23.9	17.4	13.2	6.8	4.9	5.5	3.3	3.1	2.9
50	3.0	32.7	24.0	17.4	13.2	6.9	4.9	5.6	3.8	3.4	2.0
Limit	3.0	32.7	24.0	17.4	13.2	6.9	4.9	5.7	3.7	3.2	1.7

* The figures at the head of each column indicate the maturity and grace period, e.g. 5/2 means 5 year loans with 2 years grace.

Table IV C

Net Aid, Interest and Amortization as a Percentage of Debt — Interest Rate 6%

Year	Net Aid Plus Interest	Amortization* 5/0	5/2	10/0	10/3	25/0	25/7	30/0	30/10	50/0	50/20
(i) Net Aid of 100 p.a. Throughout											
10	13.6	30.6	20.5	15.3	10.1	4.7	1.4	3.8	-	2.2	-
20	8.7	31.5	21.0	16.1	11.2	5.5	3.0	4.3	1.8	2.3	-
30	7.3	31.8	22.6	16.4	11.7	6.0	3.6	4.9	2.5	2.5	0.6
40	6.6	32.0	22.8	16.6	11.9	6.1	3.8	4.9	2.6	2.6	0.8
50	6.3	32.0	22.9	16.6	12.0	6.2	3.9	5.0	2.7	2.7	0.9
Limit	6.0	32.1	23.0	16.7	12.2	6.3	4.0	5.1	2.8	2.8	1.0
(ii) Net Aid of 100 p.a. For 10 Years and Nil Thereafter											
10	6.0	30.6	20.5	15.3	10.1	4.7	1.4	3.8	-	2.2	-
20	6.0	32.0	23.0	16.6	11.8	6.0	3.9	4.6	2.8	2.4	-
30	6.0	32.1	23.0	16.7	12.1	6.4	4.1	5.3	3.1	2.6	1.1
40	6.0	32.1	23.0	16.7	12.2	6.3	4.0	5.0	2.7	2.7	1.0
50	6.0	32.1	23.0	16.7	12.2	6.3	4.0	5.1	2.8	2.8	1.1
Limit	6.0	32.1	23.0	16.7	12.2	6.3	4.0	5.1	2.8	2.8	1.0

* The figures at the head of each column indicate the maturity and grace period, e.g. 5/2 means 5 year loans with 2 years grace.

APPENDIX II

GROSS-TO-NET RELATIONSHIPS

Debt Outstanding and Amortization

1. The relationship described in the text will be explained in terms of both an algebraic formula and a numerical example. The term of the loans will be designated by m and the grace period by g. In the numerical example, these will be taken as 7 and 2 respectively. The amount of each loan will be taken as 1. Consequently, the annual amortization on each loan, during the years it is amortized, will be $1/(m-g)$ or 0.2 in this case.

2. In any given year, there will be one old loan, which has only one amortization payment still due. The amount outstanding on this loan will therefore be $1/(m-g)$ or 0.2. Similarly, there will be one loan each with amounts outstanding of 2, 3, 4 times this amount up to $(m-g)$ times, i.e. 5 times in this case; these are the only loans being amortized in the year in question. The total amount outstanding of these loans is $\frac{1}{2}(m-g+1)$ or 3 in this case. See the table below.

3. In addition, there will be some debt outstanding which is not being amortized, because the grace period is still extant. The number of such loans will be g (here 2) and the total amount outstanding g or 2 in this case. If we add these two together, the debt outstanding equals $\frac{1}{2}(m+g+1)$ or 5 in this case. Amortization equals the amount of each new loan, i.e. 1. The ratio, therefore, is $\frac{1}{2}(m+g+1)$ or 5 in this case.

4. Briefly, one can say that, where there is no grace period, the average amount of debt outstanding is the average of m years and 1 year's amortization; in this case, the average of 7 and 1, i.e. 4 years. But the existence of a grace period increases the average to 5.

	Symbolic	Numerical
Term of loan (years)	m	7
Grace period (years)	g	2
Amount of each loan	1	1
Annual amortization of each loan	$\frac{1}{m-g}$	0.2

Debt Outstanding and Amortization After m Years

	Debt Outstanding		Amortization	
	Symbolic	Numerical	Symbolic	Numerical
From loan 7 years earlier	$\frac{1}{(m-g)}$	0.2	$\frac{1}{(m-g)}$	0.2
From loan 6 years earlier	$\frac{2}{(m-g)}$	0.4	$\frac{1}{(m-g)}$	0.2
From loan 5 years earlier	$\frac{3}{(m-g)}$	0.6	$\frac{1}{(m-g)}$	0.2
From loan 4 years earlier	$\frac{4}{(m-g)}$	0.8	$\frac{1}{(m-g)}$	0.2
From loan 3 years earlier	1	1.0	$\frac{1}{(m-g)}$	0.2
From loan 2 years earlier	1	1.0	0	0
From loan 1 year earlier	1	1.0	0	0
Total:	$\frac{1}{2}(m-g+1)+g$ $=\frac{1}{2}(m+g+1)$	3+2 = 5	1	1

Amortization Before the Maturity of the First Loan

5. Up to and including year g, amortization is zero by definition. Thereafter, if the first loan is made in year 0, amortization in year r equals:

$$\frac{r - g}{m - g}$$

6. Accumulated amortization up to and including year (r-1) will equal (provided r is at least equal to g):

$$\frac{1 + 2 + \ldots\ldots + (r - g - 1)}{(m - g)}$$

$$= \frac{(r-g)(r-g-1)}{2(m-g)}$$

Debt Before the Maturity of the First Loan

7. Debt outstanding at the beginning of year r will equal r until amortization starts. Thereafter, it will equal r less accumulated amortization up to year (r-1), i.e.

$$r - \frac{(r-g)(r-g-1)}{2(m-g)}$$

Net Aid Before the Maturity of the First Loan

8. Net aid equals gross aid less interest and amortization. If the interest rate is i, this will equal (1-ir) until the grace period is over. Then it will equal:

$$1 - ir + \frac{i(r-g)(r-g-1)}{2(m-g)} - \frac{r-g}{m-g}$$

$$= (1-ir) - \frac{(r-g)}{(m-g)}\left[1 - \frac{i(r-g-1)}{2}\right]$$

9. The year when net aid is zero can be deduced by putting this expression equal to zero. It can then be solved for r, though not without some tedium. A simpler way to deal with the problem is to guess a value of r, given i and g, and find the corresponding value for m. Then keep guessing until the answer is right.

10. Accumulated net aid for the whole period from year 0 to year m is a somewhat complicated expression derived from summing the expression above:

$$\frac{(m + 1)}{2}\left[1 - i\frac{2m + 1}{3}\right] + \frac{g}{2}\left[1 - i\frac{2m - g}{3}\right]$$

11. This can be checked against Table 1, where accumulated net aid from year 0 to 5 equals 318. By putting m=5, g=2, i=0.06 in the formula, we get 3.18.

Asia Department
October 27, 1967

CONFIDENTIAL

IND 67-35 (Rev.)

November 1, 1967

FROM: The Secretary

MEETING OF INDIA CONSORTIUM

Attached is a revised Chairman's Report of Proceedings of the meeting of the India Consortium held in Paris on September 7-8, 1967. This revision, which incorporates changes in paragraphs 6(d) and 7(d), replaces the report circulated on October 30, 1967 (IND 67-35).

Distribution:

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MEETING OF INDIA CONSORTIUM

REPORT OF PROCEEDINGS

Prepared by the Chairman

1. A meeting of the India Consortium was held in Paris, September 7-8, 1967, to consider India's long-term debt-servicing problem. The principal topic on the agenda was discussion of a working paper on debt and future terms of aid prepared by the Bank staff and distributed to consortium members on July 13, 1967. (A List of Delegates, previously distributed as IND 67-30, is attached as an Annex to this Report.)

2. The Chairman announced that Mr. Guillaume Guindey, former Director General of the Bank for International Settlements and now Chairman of the Board of Directors of the Caisse Centrale pour la Cooperation Economique, had agreed to assist the Bank in working out the details of any settlement agreed upon within the consortium.

3. The Chairman opened discussion of the debt problem by reminding members that the document distributed on July 13 was a working paper representing a staff analysis of the Indian "terms of aid" problem and that the World Bank Group was in no way committed to any of the proposals suggested in the paper. He recalled that the working paper suggested a solution in two parts: (a) that on existing debt maturities amounting to about \$80 million per year for each of the years 1968/69 to 1975/76 be cancelled or postponed for at least 10 years without interest and (b) that new aid should be on highly concessional terms such as interest free for two years and at three percent thereafter with repayment over 20 years after 10 years of grace. During this meeting of the consortium the Chairman did not expect formal commitments on actions to be taken by members. The purpose of the meeting was to seek agreement on the nature of the problem and the form of a solution, so that details could be worked out in discussions between member governments and Mr. Guindey during the next few months.

4. The Chairman noted that the proposals in the staff paper were based on assumptions regarding India's future exports and imports, which were not unrealistic at the time they were made but were none the less decidedly optimistic. Therefore, he saw little point in considering solutions which assumed higher export earnings or lower import requirements than those projected in the paper. Indeed, the prospects were, if anything, worse than those contemplated in the paper. The Chairman also said that the consortium could and should expect India to do her part in dealing with the debt servicing problem, both by undertakings regarding import and

export policies and by parallel relief from non-consortium creditors. As a final point he noted that the Bank thought that all external debt (other than trade credits of less than one year duration) should be included in determining the magnitude of the problem to be solved by improving the terms of aid. Of course it would not be necessary, once an amount of relief had been agreed upon, that action be taken on all constituent items of any creditor's total.

5. The Chairman called upon heads of delegations to present their views on the staff working paper. In the discussion which followed there was general agreement on several basic points:

(a) The problem of India's external debt burden is serious and a solution can no longer be deferred.

(b) The problem cannot be resolved only by improving the terms of future aid but must include action on the burden of existing debt. (On this point the representative of France stated a reservation.)

(c) All members with the exceptions of Italy and Japan indicated that they would be able to take some action to deal with the debt problem but this was without commitment as to the exact nature or extent of such action.

(d) The Bank staff working paper presented a good analysis of the problem and could serve as a reasonable basis for starting detailed negotiations to provide India with debt relief; however, the representative of Japan dissented from this view on the grounds that the paper was unrealistic in disregarding differences with respect to the economic capacities of various members.

6. The first day's discussion confirmed a broad consensus in favor of the approaches suggested by the staff working paper, although questions on details of the proposed solution and some reservations were noted:

(a) Austria noted that it was difficult to enter into negotiations for this year's aid while still considering long-term debt relief and new terms of aid; at the Chairman's suggestion, it was agreed that Austria should negotiate with India for this year's aid on the best terms possible under current regulations.

(b) The representative of Canada endorsed a generous rescheduling, including the waiver of interest on rescheduled amounts but was willing to defer to other members on the latter point; he particularly emphasized that suggestions in the working paper were acceptable to Canada only in so far as they included an element of "harmonization" in the terms offered by different members.

(c) The French representative stated his country's view that India's debt-servicing problem should be dealt with not by debt consolidation or rescheduling but by increasing commitments of new aid on softer terms and with more freedom as to uses. France might, however, consider participating in a debt consolidation exercise if other members were unanimous in supporting such a course.

(d) The representative of Germany noted that he was not in a position at this meeting to comment in any final way on the question of whether (and to what extent) contributions to the debt settlement should be of an additional nature or would have to be counted towards the country's contribution to the consortium. The approach to be taken by Germany will depend essentially on the possibilities offered by the budgetary law and also on all members of the consortium contributing evenly to the solution to be sought.

(e) The representative from Italy, speaking unofficially, observed that at the present time it would be impossible for Italy to agree to any of the solutions proposed in the working paper. In general Italy would prefer the French approach of new aid on softer terms rather than debt relief.

(f) The representative from Japan stated that his Government could consider action only on an annual basis. He also stated that he cannot agree to the solutions proposed in the working paper on the ground that different economic capacities among the donor countries should be duly reflected upon the terms and volume of aid of each donor country and that the solutions proposed seem to disregard such differences.

(g) The representative of the Netherlands made a reservation on the inclusion of aid already pledged but not yet disbursed in a debt consolidation operation. In view of the staff recommendation on the terms of new aid he also indicated that it would be very difficult for his government to find ways and means to replace the exporter credits which form a substantial part of the present aid from the Netherlands to India.

(h) The United Kingdom gave general approval to the Bank's proposals. It supported a general limitation on India's incurring additional short-term debt. The United Kingdom noted that its large present maturities reflected repayments on a number of long-term loans made some time ago and not any aid given in recent years under the Consortium.

(i) The United States indicated that it was not likely that it could participate in a debt relief exercise unless there is a reversal of the trend of net aid, which now is increasingly to the disadvantage of those who have given and are giving aid unter better terms.

7. At the beginning of the September 8 session the Chairman outlined further points in the broad consensus reached the day before:

(a) It was felt that the admittedly arbitrary limitation of debt service to about 20 percent of export earnings might be accepted as a target.

(b) Eight years seemed too long a period over which to consider action at this time, and there was general support for the German suggestion, that as a first step action be limited to the next three fiscal years, i.e. the period April 1, 1968 - March 31, 1971. In this connection the Chairman wanted it clearly understood that relief agreed and new aid granted during the initial period should be on concessional terms of the type outlined in the working paper. In considering the possibility of postponement of part of the debt service during the next three fiscal years, the period of postponement would have to be comparable to that suggested in the paper (i.e. 10 years). He also reminded members that, even if action was taken only for debt payments due during the period ending March 31, 1971, it would still almost certainly be necessary before the end of that period to consider further measures of debt relief extending over a longer period of time.

(c) With respect to Table 7 of the working paper some members had indicated that Column D was unacceptable; others objected to Column A. Although a generally acceptable solution would seem to lie in the areas of Columns B and C, further discussions may be necessary on this question.

(d) Several members appeared to agree with the representative of Germany who suggested that, in view of the Bank's special position, the contribution called for from the Bank in Table 7 of the working paper, especially under Column D, could perhaps be reduced; this, however, would result in a proportionate redistribution of the differential among the other creditors.

(e) Some members expressed concern that debt relief should be considered in determining members' contribution to the total of aid to India and the Chairman stated that the Bank would prepare a paper on this question, if possible before the next meeting.

8. The Chairman announced that he was planning to convene the next meeting of the consortium in late October or early November after completion and distribution of the Bank's latest economic report on India. The agenda for that meeting would include a review of recent economic development in India, progress reports on non-project aid for 1967/68 (including interim debt relief), a discussion of financing for projects and preliminary discussion of total aid requirements for 1968/69.

9. At the conclusion of the meeting heads of delegations discussed with Mr. Guindey a tentative itinerary for his visits to member governments. Dates were to be confirmed to the Bank's Paris office by the end of September. Heads of delegations agreed to make arrangements for Mr. Guindey's mission to meet appropriate personnel, both administrative and policy making, in the various agencies concerned with members' aid to India, once firm dates for the mission's visit are established. These arrangements are expected to enable Mr. Guindey and accompanying Bank personnel to meet with persons familiar with the terms and amounts of existing debt as well as those having the alternate responsibility for recommending to the governments concerned action on debt relief and on the amount and terms of future aid.

Asia Department
November 1, 1967

ANNEX

MEETING OF INDIA CONSORTIUM

Paris, September 7 - 8, 1967

LIST OF DELEGATES

BANK	Mr. I.P.M. Cargill Mr. Benjamin B. King Mr. Gregory B. Votaw	Head of Delegation
AUSTRIA	Dr. Walter Neudoerfer	Head of Delegation
BELGIUM	Mr. Jan Vanormelingen Mr. W. Herregodts	Head of Delegation
CANADA	Mr. Earl G. Drake Mr. Alan J. Barry Mr. F. Chambers	Head of Delegation
FRANCE	Mr. Jacques Hirsch-Girin Mr. Jacques Moreau Mr. Georges Lapeyre	Head of Delegation
GERMANY	Dr. Karl-Heinz Penning Mr. Rolf Pluisch Miss I. Kuhn	Head of Delegation
ITALY	Mr. Girolamo Trotta	Head of Delegation
JAPAN	Mr. Masanao Matsunaga Mr. Tadao Chino Mr. Takao Kawakami	Head of Delegation
NETHERLANDS	Mr. W. Winckel Mr. G. A. Posthumus	Head of Delegation
UNITED KINGDOM	Mr. R. H. Belcher Mr. J. C. Edwards	Head of Delegation
UNITED STATES	Mr. Maurice Williams Mr. Herbert Rees	Head of Delegation
INTERNATIONAL MONETARY FUND	Mr. D. S. Savkar Mr. Robert C. Effros	Head of Delegation

Secretary's Department
September 7, 1967

CONFIDENTIAL

IND 67-33

FROM: The Secretary

October 16, 1967

MEETING OF INDIA CONSORTIUM

Attached is a copy of a Bank report entitled: "Current Situation and Short Term Prospects of the Indian Economy" (AS 131a) dated October 13, 1967.

This report is for use in connection with the forthcoming meeting of the India Consortium to be held on Monday and Tuesday, November 13 and 14, 1967, in Conference Room A, Centre Parisien de Congres Internationaux, 120 Avenue Emile Zola, Paris 15e, France.

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Report No. AS-131a

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CURRENT SITUATION AND SHORT-TERM PROSPECTS OF THE INDIAN ECONOMY

October 13, 1967

Asia Department

CURRENCY EQUIVALENTS

1 Indian Rupee	=	U.S. $0.13
1 U.S. Dollar	=	Rs. 7.5
1 lakh	=	100 thousand
1 crore	=	10 million

The Indian financial year runs from April 1st to March 31st.

This report was prepared by a mission comprising Messrs. William M. Gilmartin (Chief of Mission), Jean Baneth, Stanley Please, E. Bevan Waide, Robert Picciotto, Basil G. Kavalsky and Timothy P. Lankester. Kenneth Bohr and Romano Pantanali of the IBRD Office in New Delhi participated in the field investigations of the mission.

TABLE OF CONTENTS

BASIC DATA

Area: 1,262,000 sq. miles

Population, 1967: 510 million (approx. est.)

Rate of growth, 1962 - 1966: 2.5% p.a.
1951 - 1961: 2.0% p.a.

Political status: Independent since 1947.

Gross national product at market prices, 1966/67: Rs. 267 billion (est.).

Rate of growth at constant prices,	1960/61 - 1964/65:	4.7% p.a.
	1964/65:	+7.7%
	1965/66:	-3.7%
	1966/67:	+2.6%

Per capita, 1966/67: US $71 1/

Gross domestic product at factor cost, 1966/67: Rs. 242 billion (est.).

Percentage breakdown in 1965/66: 2/	Agriculture:	45
	Mining:	1
	Manufacturing:	19
	Commerce & transport:	17
	Government & other services:	18

Percent of GDP at market prices:

	1955/56 - 1962/63	1965/66	1966/67
Gross investment	10	15	14
Gross savings	8	12	10
Balance of payments current account deficit	2	3	4
Investment income payments	1	1	1
Government (consolidated Centre/States) current revenues	15	16	15
Resource gap as % of investment:	17	20	27

Money and credit:

Conversion: 1 rupee = $ 0.13 1/

1 $ = 7.50 rupees

Rs. billion	March 1967 (Last Friday)	1963/64 - 1966/67 Average Rate of Increase (%)
Total money supply	49.54	9.8
Time and savings deposits	27.09	15.4
Bank credit to pvt. sector	30.62	14.4
	1965/66 - 1966/67 4/	
Rate of increase in prices:		
Consumer prices 3/:	13.0%	11.7
Wholesale:	15.8%	12.3

Public sector operations (Rs. billion):	1966/67 (est.)	1960/61 - 1965/66 Annual Average
Public sector plan outlay	22.21	17.26
Balance from current revenues plus surpluses of public enterprises 5/	3.45	5.77
Total external assistance to public sector	9.00	4.91

External public debt, excluding suppliers' credits (US $ million):	1966/67	1962/63 - 1965/66 Annual Average
Total debt outstanding 6/	7,318	5,062
Total annual debt service	319	245

Balance of Payments (US $ million):	1966/67	1960/61 - 1966/67 Average Rate of Increase (%)
Total exports	1,558	2.8
Total imports	2,892	4.1
Invisibles 7/	66	
Current account deficit 7/	-1,400	5.8

		1960/61 - 1964/65 Annual Average
Commodity concentration of exports 8/	41%	49%
Debt service ratio 9/	24%	13%
Gross foreign exchange reserves 6/	$638 million (or 2.6 months' imports)	$610 million (or 3.1 months' imports)

IBRD AND IDA OPERATIONS (US $ million)

A. Past operations	Amount committed 10/	Amount disbursed 10/
IBRD	997.8	845.5
IDA	889.1	699.8
Total	1,886.9	1,545.3

B. Terms of IBRD/IDA operations
(January 1, 1961 - October 31, 1966)

Weighted average		
Rate of interest (p.a.)	Grace period (years)	Repayment period (years)
2.16	8.7	41.3

1/ Exchange rate of Rs. 7.50 = US $1.00 adopted June 6, 1966; prior rate was Rs. 4.76 = US $1.00

2/ Percentages calculated on the basis of net domestic product, 1960/61 prices.

3/ Working class consumer price index.

4/ March 1966 to March 1967.

5/ This is somewhat different from public savings. The necessary information for arriving at the latter for 1966/67 is not yet available.

6/ At end of fiscal years.

7/ Preliminary estimate.

8/ Jute, tea, and cotton yarn and manufactures.

9/ Total service on all debt (including suppliers' credits) is estimated at $374 million for 1966/67: i.e. $319 million on public debt (excluding suppliers' credit), and $55 million on suppliers' credits and any other debt items. See Table XVI for estimates for earlier years.

10/ Total loans and credits net of cancellations as of August 31, 1967.

SUMMARY AND CONCLUSIONS

i. Even for a country as accustomed to economic difficulty as India, the present situation of the Indian economy can be described as unusually difficult. After two years of bad harvests, food is scarce and increasingly expensive. Led by food prices, the overall price level has been rising by about 15% a year. And for reasons mainly attributable directly or indirectly to the successive harvest failures, Indian industry is depressed. Industrial production as a whole has not actually fallen but neither has it increased much over the last two years. And many lines of manufacturing are suffering from unutilized capacity, rising inventories and poor earnings.

ii. The troubles of manufacturing can partly be blamed on shortages of agricultural raw materials and partly to slack demand. Some of the slack demand reflects the fact that the urban population has less to spend on manufactured goods because food prices are so high. The other weak element in demand is the curtailment of government development expenditure as part of the fiscal effort to combat rising prices.

iii. The combination of price inflation and general recession has resulted in a marked deterioration in the budgetary situation. The recession has adversely effected government revenue whilst government costs have increased. In a determined effort to combat inflation the government is trying to hold expenditure in check in order to limit the extent of Reserve Bank financing. Given the rise in expenditure on debt service and government services, as well as the emergency expenditure incurred for famine relief and food subsidies, development expenditure and particularly publicly financed investment expenditure has had to take the brunt of the government's policy of budgetary restraint. This fall in government financed investment - public and private - has been a major contributor to the industrial slump, especially in the capital goods industries where the slump is most severe.

iv. As always in India the immediate economic future rides on the harvest. Weather for the main crop in the Autumn (kharif) has been satisfactory. If this is repeated for the Spring (rabi) crop there are good chances for a record foodgrain harvest for 1967/68 as a whole, as a result of the combination of a favorable monsoon and the program of agricultural improvements. This obviously will be a great boon to India and should start an economic recovery process.

v. From the standpoint of India's balance of payments and external aid requirements the important question in all this is the rate of economic recovery that can be expected. This year India has been managing with foreign assistance largely limited to food supplies and to disbursements of aid committed from previous years. Although most members of the Consortium intimated at least the first part of their pledges early this year, the absolute amount of new aid commitments this year has been smaller so far, largely because of the unavailability of IDS funds and delay in U.S. aid appropriations. Nevertheless, it should be possible to get by this year without using reserves, provided a large part of the new aid commitments can be made available quickly against this year's disbursements. The reason for reduced new aid requirements this year, despite liberal import licensing policies, is that import demand is low because of the economic depression associated with the curbs on public investment expansion.

vi. This depressed situation is unlikely to continue if there is a good crop. In this event, and if liberal importing of industrial materials is to continue, next year's imports are likely to go up faster than exports. Hence new aid requirement will also go up and additional aid commitments should be made this year which are well beyond this year's cash requirements to ensure that next year's aid disbursements will be adequate. Otherwise, foreign exchange can become an early constraint on the recovery in circumstances in which liberal import policies will be difficult to sustain.

vii. How rapidly will import demand and aid requirements increase? Forecasts of this are difficult in the best of circumstances and especially difficult in the Indian situation because of inadequate knowledge about some of the key elements of the problem. Little is known about the marketed proportion of crops, the state of food stocks and how much of a good crop will go into rebuilding of stocks and pipelines, how much food can and should go into an official buffer stock, and therefore how much of a good crop will be available for commercial consumption. This and some idea of food import prospects are essential to a judgment about the effect of a good crop on food prices. Food price prospects are probably the most important consideration at the moment in deciding how much relaxation, if any, the government will feel able to make in financial policies, and what is likely to be the course of both consumption and investment demand. The response of industrial production and industrial import demand to any particular pattern of demand recovery is also important but difficult to foresee, especially because of limited information about existing stocks of imported and domestic products and about the pattern of utilization of outstanding import licenses.

viii. With all these and other uncertainties we can only venture a judgment, which is, that with a good crop, the recovery process should get started towards the end of this fiscal year. Room for substantial financial improvement and accelerated recovery will probably have to await the impact on prices of a second good crop, and, therefore, given another favorable monsoon, the real momentum of recovery will probably not materialize before the late Summer or Autumn of 1968. Nevertheless, a substantial increase in import requirements is likely next year which, if present import policies are to be continued, will require considerably larger aid commitments and disbursements. Whereas we would assess disbursements needed this year from new non-food non-project aid commitments to be about $250 million, we would expect the comparable figure next year to increase to about $550 million. With a good crop, next year's food import requirements will of course be smaller. However, taking account of probable farm restocking and increased consumption, the rebuilding of commercial pipelines, and the need for an official buffer stock, food import requirements will still be substantial. Something in the order of 6 million tons would appear to be a reasonable assessment of the 1968/69 requirements. It would of course be most desirable for India to know as far in advance as possible the food aid picture for next year because of its overriding importance for the planning of financial policies and domestic food procurement and distribution policies.

ix. There is a further aid consideration, arising out of the relationship between new investment and the level of operations of the capital goods industries. The latter depends on demand from the former and since both require external finance, aid for one complements aid for the other. An aid program adequate to allow for higher levels of operation in the capital goods industries and a higher level of project investment should include both non-project and project assistance. It is important therefore in consideration of next year's aid requirements to resume a larger scale of project financing.

x. It is also the purpose of this report to review some of the important aspects of economic development policy, and comments are included in the report on agricultural programs, administrative controls, family planning and export problems. In agriculture, improved farmer incentives and farmer acceptance of new agricultural techniques is most encouraging. So also is the progress of the new techniques in wheat and rice cultivation including provision of necessary farm inputs. There are however serious weaknesses in the agricultural program. Progress on domestic fertilizer production is very slow and nothing like the production aims for 1970-71 are in prospect. Consequently, the agricultural program, as it expands, will need much larger fertilizer imports than expected, and this will tax exchange availabilities and the dedication to the program in the face of competing requirements. Other lagging or uncertain elements of the program which need administrative improvement are the production of more and better hybrid seed for bajra and jowar and more active programs of farm credit and irrigation so that these do not become bottlenecks as the agricultural program expands.

xi. The family planning program continues to make encouraging progress with the full support of the Central and most State Governments. The program is handicapped by shortages of trained personnel and has run into some regional setbacks. Such developments were to be expected, however, and the program is being expanded and diversified, in terms of contraceptive methods, under capable direction and administration. Numbers of contracepting couples are estimated to have more than doubled since the start of the program in mid-1965. This, however, is from a very small base and the gains so far constitute only a modest but encouraging advance in the face of India's huge population problem.

xii. Liberalization of administrative controls has not gone very far beyond the advances described in the last economic report. Import requirements of industries representing about 85% of industrial production continue to be licensed fully, although with the important proviso that goods of a kind to be found in India are not eligible for license. Indian industry is thus fully shielded from foreign competition and this kind of protection has if anything been tightened in recent months. This is hardly conducive to the development of efficient and internationally competitive industry in India. Increased internal competition will nevertheless help in this respect, and the liberalized licensing policy together with other measures of greater production freedom should encourage Indian industries to compete with one another. While some further liberalization would undoubtedly be desirable, for the time being, the question is really whether the present import policy can be sustained in the course of economic recovery.

xiii. Perhaps the most discouraging aspect of the recent performance of the Indian economy has been that of exports. They dropped off last year and have not yet fully recovered this year. Nor is there much evidence of real ferment in the export sectors which would promise substantial improvement later on. A number of factors, especially shortages of agricultural raw materials because of drought and adverse foreign market conditions, have hurt exports. The export incentive effects of devaluation were less than the change in the exchange rate alone would suggest because of additional export duties and the elimination of export subsidies. There were later reductions in duties and a return to subsidies for some commodities but as yet there is no real momentum evident or in sight. A more dynamic Indian export sector would seem to require a variety of promotional measures on a more stable and uniform basis that in the past. The problem is being examined by the Government in consultation with Indian producers. An improvement in exports seems clearly vital to India's future, and it is also clear that the main burden of necessary export expansion will have to be carried by Indian manufacturers. If they are to succeed export manufacturing will have to become more profitable and efficient than now seems to be the case.

CHAPTER I

INTRODUCTION

1. This is the report of a mission which was in India during July 1967. The purpose of the mission was to report on the course of the Indian economy since the last Bank mission was there in the latter part of 1966, and thus in the light of recent economic developments, to reassess India's foreign aid requirements for this year and to consider in a preliminary way next year's aid requirements upon certain assumptions about the course of events over the next eighteen months. Finally, it was an objective of the mission to review recent progress in a few key economic programs and areas of economic policy in India.

2. The report does not pretend to be a comprehensive discussion of the Indian economy and its problems. It is rather an interim review which attempts to give an "up-to-date" account of some of the economic trends and some of the important aspects of India's economic performance which were identified and discussed in the report1/ of the last Bank economic mission to India.

3. No attempt is made however to cover all of the important elements of economic performance which were discussed in the last report. Instead it was decided in this interim review to focus on only a few economic policies and programs which seem of importance to the achievement of satisfactory long-term economic growth. These included the program for increased agricultural production, population control, more liberal regulation of the economy and the promotion of exports. There are of course many other aspects of economic policy which are important, but for this interim report, considering the time available, it was felt preferable to focus on a few of the more important issues rather than to attempt a coverage of the whole economic policy field.

4. It should be noted that the Indian Government has taken positions, or is attempting to decide its positions on all of these policy issues. Many of them are, however, most complicated with ample room for difference of opinion about the best course for Indian economic development. Furthermore, opinions on the course of policy may vary depending on one's assessment of the administrative capacity for execution and resource capability for financing. There is always the question of the weight to be given to non-economic considerations in arriving at economic policy decisions. And in India, choices of economic policy and their execution are very much affected by the Constitutional removal of major aspects of economic policy from the exclusive purview of the Central Government, leaving them either to the

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1/ Indian Economic Policy and the Fourth Five Year Plan, AS 122b May 22, 1967.

divided jurisdiction of Central and State Governments or entirely within the authority of the States. No less a subject of economic policy than agriculture is entirely a State matter. Coordination of Central and State economic policies is facilitated by State financial dependence on the Center and until recently by the political dominance of the Congress Party of State as well as Central Governments. Now there are non-Congress governments in 9 of the 17 States. Despite this political change there has not been notable friction over economic matters (other than food allocations to some of the deficit States) and the Center still controls the funds necessary to cover about 50% of State capital and recurrent expenditure. Nevertheless there are definite limits to the extent to which economic policies, especially controversial policies, can be centrally devised and nationally executed, and these limits have probably been narrowed by the recent course of Indian politics.

5. In these circumstances and considering the difficulty and diversity of India's economic problems, the achievement of an economic policy consensus within the Indian Government, among Central and State Governments, and between public and private interests is hardly easy. There are not many clear answers in the form of "correct" economic policies and the "proper" means for their execution. The best course to ameliorate India's economic difficulties is often murky indeed. Now fortunately, this may be less true in agriculture than it was a few years ago. Population control also seems a more clear possibility, although it remains a long slow process, with still many uncertain aspects. And on the vexed questions of what to do about exports and domestic savings practical answers are not clear at all. This report only attempts to say how some of these problems appear to the mission at this point, and to indicate what seems to the mission to be merits and shortcomings of efforts to deal with the problems.

6. Two other introductory notes may be made. First, it should be said that July, coming just at the beginning of the monsoon, is not a good time to review the shorter term situation and prospects of the Indian economy. So much that is going to happen next year depends in large measure on this year's crop, and July is just too early to assess crop prospects. This uncertainty is aggravated by insufficient information on which to judge the economy's likely response to different harvest possibilities. July was, nevertheless, chosen for the mission in order to prepare a report in time for an autumn meeting of the Indian Consortium. Since the mission was in India the rains have continued to be generally favorable and present prospects are for a very good crop.

7. A second introductory word should be said about the present status of the Fourth Five Year Plan. September will be the mid-point of the second year of the Plan period. It seems clear now that if the Plan is to constitute a fairly specific investment program, it will need substantial revision because of the investment shortfalls from Plan trends last year, this year, and probably next year resulting from

recession, price increases, and below-plan availabilities of domestic and foreign resources. The sort of revision that will be undertaken is not yet clear in view of present economic uncertainties, the revised status of the Planning Commission (which has now been designated an advisory body with a Deputy Chairman who is no longer in the Cabinet), and changes in Planning Commission personnel. The new Deputy Chairman has just taken over at the beginning of September. Considering the consequences for the Plan of two years of poor crops and associated financial stringency as well as other adverse developments in the Indian economy, it no longer seems appropriate to assess the course of the Indian economy against Fourth Plan targets. For the time being, India's shorter run economic policies are likely to be geared to ad hoc objectives fixed according to what is possible in spite of recent unfavorable economic circumstances. Some references are made in this report to differences between planned objectives and actual and prospective economic trends. But in no sense should this report be considered a progress report on the Fourth Plan.

8. There are many references in the report to the shortcomings of information about what is happening in the Indian economy. This is obviously a handicap for anyone attempting to comment on the course of the Indian economy. But much more important is the handicap for officials responsible for economic policy and for all the others who have to make production, investment and financial decisions. The state of India's economic information is no worse than in most other developing countries and much better than in many. Nevertheless, India's need for good and timely economic information is greater than most because there is so little margin for miscalculation in the constantly strained economy, and because the Central and State Governments are so extensively involved in the direction and management of the economy.

9. In the circumstances of the moment, for example, judgements are needed about the effect which a good crop will have on the course of the economy - on the size of commercial food supplies, food prices, demand for food and other goods, food procurement requirements, the monetary situation, demand for imports, use of import licenses and foreign aid requirements. All sorts of policy decisions hinge on such judgements. Yet there is little basis in currently available data on which to make these judgements. And so decisions and plans will have to await actual developments with consequent delays in policy responses and with loss of possible opportunities to influence the course of the economy. This is but one example of the difficulties of improvising major economic policy in the absence of adequate information about the economy.

CHAPTER II

THE STATE OF THE ECONOMY

(a) Recent Overall Trends

10. The Indian economy is passing through a difficult period of depression. Two years of low rainfall in 1965/66 and 1966/67 have reduced output in the agricultural sector to levels lower than in 1960 and, despite record foodgrain imports averaging 9 million tons a year over the past two years, the per capita availability of foodgrains has dropped to levels last seen in the early 1950's. This foodgrain shortage has stimulated a rise in the relative price of food with the result that consumer goods industries, particularly textiles, in the past 18 months have been suffering from depressed demand conditions. There have also been some raw material shortages, but on the whole, demand has emerged as the crucial limitation on output growth, replacing foreign exchange as the number one constraint for the first time in a decade. Agriculture and related sectors account for 40% of domestic product, and their sharp decline of the last two years has offset not only the gains in agriculture achieved earlier in the present decade but also all the per capita gains of industry and other non-agricultural sectors since 1960. If one compares present slump conditions with the situation at the beginning of the sixties, per capita income is at about the same level.

11. Recent Government fiscal and monetary policies to combat the rapid rise in food prices have necessitated curbs on government investment plans, and this has been a major contributor to the downturn in economic activity. Throughout the 1960's there has been a steady rise in money supply, mainly because of increases in credit to the public sector, and prices rose considerably faster than output. This had the important economic consequence of a marked improvement in relative farm prices which gave more favorable incentives to agriculture. With the bad harvests of 1965/66, however, the food price increases accelerated, and the Government felt the need to curtail the growth in the overall public sector deficit in 1966/67. However, this did not curtail the rise in food prices. The axe fell mainly on development expenditure which in 1966/67 fell by an estimated 2.6% in real terms, with investment expenditure falling even more. The cutback in public investment - with the public sector in India accounting for two-thirds of capital formation - has had a serious direct adverse impact on the engineering industries other than those serving agriculture, and the secondary impact is still spreading through the economy. As a result, private investment probably declined in 1966/67 by some 10% from the previous year. Changes in cost-price relations as a result of the devaluation of June 1966 and of rising wage and raw material costs were undoubtedly also factors in the disturbed industrial situation but their significance has been largely submerged in the general depression of industry. Likewise, in general, any impact which devaluation may now be having on imports, exports and expenditure decisions is largely hidden by the other effects of the depression.

12. There was no relief from the depressed domestic market through increased sales abroad because exports declined in 1966/67 for reasons subsequently discussed in Chapter III. However, imports increased slightly1/ because of more liberal licensing and larger food import requirements. Debt service is also going up. Hence, the basic balance of payments deficit reached a record level of about $1.8 billion, compared with $1.0 billion in 1960/61. This reflects the fact that although the investment rate in the past three years has stagnated or fallen slightly, both private and public savings have fallen even more - the latter probably becoming negative at the Centre in 1966/67 for the first time. The balance of payments picture will not be very different this year.

13. In short, the Indian economy is at a low ebb. The causes of this recession, and the short-run outlook, are analyzed below in more detail. It appears that the economy is at the bottom of a trough and the distinct prospect of a good monsoon in 1967/68, aided by some of the results of the new agricultural program, should improve food supplies and reverse some of the adverse trends of the past several years. The pace of recovery is difficult to predict although progress will probably initially be slow.2/

(b) Nature of the Recession

14. As indicated, the main and inter-related causes were: First, poor monsoon rains for two successive years cut agricultural production; second, because of shortage of food, aggravated by the absence of a food buffer stock or adequate food imports, the steady 8% per annum rise in the price level in the early 1960's jumped to 15% in 1965/66 and 17% in 1966/67. The Government, concerned over this rapid price rise, felt the need to curtail the rise indirectly by reducing deficit spending from 1966. Along with these two factors there were also major uncertainties in industry arising from devaluation and associated policy and price changes, wage increases and labor unrest, capital availabilities, raw material shortages and political developments in connection with the general elections of late 1966. The secondary and tertiary effects of these events are now working their way through the economy. Given the constraint of inadequate food supplies, the process cannot be reversed without further excessive price increases and consequent rise in wages and dearness allowances, unless a good foodgrain harvest occurs which would stimulate demand and permit a higher level of public sector expenditure without price increases.

1/ On a payment basis. Customs statistics show some decline in imports in 1966/67.

2/ It should be noted again that the information on the economy available either to Government policy-makers or to outside observers is inadequate, and an analysis of the economic situation thus has to rely much too heavily on informed conjecture.

15. The reduction in agricultural output in 1965/66 represented a sharp drop below the long-run trend - a variation from the trend rather larger than the upward variation during the boom year 1964/65. Output in 1966/67 was still well below the trend. The steady growth in the demand for foodgrains at a rate in excess of available supplies led to a 20% rise in food prices relative to other goods between 1960/61 and 1963/64. Foodgrain prices continued to rise both absolutely and relatively in 1964/65 despite the good harvest, and jumped relatively a further 20% by 1966/67. For this reason although the farmers' and middlemen's aggregate real income dropped significantly in 1965/66, it more than recovered in 1966/67 compared with the 1960/63 period. Incentives to agricultural producers were much improved. Imperfect distribution of food supplies and monsoon variations led of course to big regional differences. The non-farm consumer was hard hit by the rise in the relative and absolute price of food, and the consequent drop in the demand for cotton textiles was the basic initial cause of the recent troubles of the textile industry. Output of footwear, bicycles, radios, enamelware and finished clothing, etc., likewise all fell as real demand fell. Other sectors were directly affected by the cut in output of agricultural raw materials - the jute industry, for example, and food manufacturing such as sugar refining and vegetable oil preparation. By mid-1966, the cotton industry was also beginning to suffer from the shortage and high prices of raw cotton although demand and output have remained more or less in balance at the reduced level of output and exports.

16. As noted above, there has been an autonomous rise in relative foodgrain prices, and prices of many cash crops. There was also a steady increase in wholesale prices of about 7% a year up to the end of 1964/65, pushed by food prices and associated wage increases and permitted by about Rs. 280 crores a year of deficit financing by Centre and State Governments. In 1965/66, however, credit extension to Governments increased about 50% faster than previously, mainly because of a spurt in State Governments' expenditures. The rate of increase in wholesale prices, strongly affected also by the food shortages, doubled to 15% and then rose by a further 16.7% in 1966/67, still led by food prices which rose no less than 24.6% despite the decline in deficit financing.

17. Faced with this rise in prices, the Centre during 1966 began to curtail expenditure in an attempt to keep deficit financing within reasonable limits. Because of the growing recession, the buoyancy previously shown by current revenue faltered and declined slightly as a proportion of national income although not in absolute terms. Internal capital receipts also fell markedly in absolute terms. At the same time, non-development expenditure during 1966/67 was 25% higher in money terms (compared with 14-15% in previous years) and about 17% higher in real terms than in the previous year, mainly because of an increase in Centre assistance to the States for famine relief of Rs. 63 crores and in expenditures on food and other subsidies and dearness allowances of about Rs. 290 crores in an attempt to mitigate the effect of the rising cost of living. Government import and foreign debt servicing costs were also increased by devaluation. In the absence

of compensatory savings elsewhere, the excess of current revenue over non-development expenditure fell by 11% in money terms and almost 20% in real terms. Disbursement of aid to the public sector increased slightly.

18. The brunt of the cut in expenditures was thus taken by developmental outlays which fell by about 2.6% in real terms although budgeted to fall further. Since non-investment developmental outlays necessarily increase over time (maintenance expenditures, etc.), the fall was concentrated in public investment which probably fell by about 9% in real terms. A further comparable fall is budgeted for 1967/68. Actually, the change of pace in real public capital formation started in 1964/65 when such expenditures grew by only 5%, and by 1% in 1965/66, compared with an average of 17% in the previous three years. The effect of the 9% drop in 1966/67 was to cut the overall deficit financing by about 30%, but credit to the private sector was allowed to increase by a record 18% to facilitate the devaluation adjustment process, so money supply still increased by 9.6% compared with 11.1% the previous year. This did not moderate the price increases, which were, however, influenced at least as much by the worsening food shortages as by the monetary expansion.

19. This slowdown in public investment has been paralleled by private sector investment since 1965, with probably a decline of 10% in real private investment in 1966/67. In the first place, the initial recession in consumer goods industries reduced requirements for machinery in these industries, e.g., textile machinery. Curbs on public sector investment demand likewise reduced not only capital goods production for the Government but also the need of many firms to expand capacities.

(c) The Consequences of the Recession

20. The industrial sector has borne the brunt of the impact of the recession. The output of consumer goods industries has been affected both by demand and supply constraints as has been noted above. The slowdown in public and private investment from 1964/65, the decline of 15% in Centre investment in machinery and equipment in 1966/67, and the prospects of a further fall in 1967/68, have exerted their depressing effect mainly on the production of heavy engineering equipment. The sharpest initial impact was exerted by the abrupt reduction in orders for railway wagons in early 1966 which led to a drop in output by a third from 33,500 units in 1965/66 to 22,000 units in 1966/67, and also left the wagon industry without the customary assurances about longer-run order prospects. The industry responded by cutting back sharply on its orders to suppliers, particularly the foundries. The same cutback in orders, order books, and output is being experienced by producers of heavy construction equipment, machine tools, commercial vehicles, textile machinery, industrial boilers, and the like, and this in turn has reduced the demand for coal and minerals, iron and steel castings, structural steel and other basic materials. The effect is still spreading through the economy, and cement

output is the latest to fall. There are, however, some bright spots reflecting continued progress in the agriculture sector, and rising demand for agricultural materials and equipment. The official index of Industrial Production would imply that aggregate output during the first half of 1967 was stationary at the 1966 level but, since the index excludes some important industries with sagging output, it is probable that aggregate output has in fact fallen so far in 1967. The official data are give below:

	Industrial Output: % Change Over Previous Year			
	1963	1964	1965	1966
Consumer Goods	3.4	8.3	2.5	-0.7
Intermediate Goods	11.9	7.0	6.5	4.6
Capital Goods	11.0	6.3	6.6	3.5
All Manufacturing Industry	7.7	7.0	5.0	2.1

21. Sales have probably fallen faster than output since stocks of manufactured goods have been rising. This has stimulated competition and more aggressive marketing. Hence, industrial products are not experiencing the rising price trends seen in the rest of the economy. Delivery dates are also shortening markedly, as in the automobile industry. List prices are generally stable, but substantial discounts are becoming more and more common and where premia existed, they have declined. Thus, the effect of the recession has been to force the industrial sector to absorb most of the cost increases that have resulted from the impact of devaluation on imported inputs. At least for the present, it also seems that cost-of-living allowances, which in many industries are almost automatically linked to consumer goods' price indices, have likewise been absorbed without offsetting product price increases. Lay-offs of workers are, however, increasing, especially in West Bengal.

22. For these reasons, profits are being squeezed in many industries, and the problem is made worse in many cases by excess capacities which add to overhead costs. The problem of excess capacity had already been noted in 1964/65, before the recession set in, but the cumulative effect of investment decisions made early in the Third Plan has been to add to capacities in 1966 and 1967 at a time when demand is falling. This is particularly true, in, for example, industrial boilers where the ratio of output to capacity fell from 69% to 38% between 1965/66 and 1966/67, in machine tools from 80% to 66%, in mining machinery from 17% to 14% and metallurgical and heavy mechanical equipment from 37% to 18%.[1] Thus, on the whole, the recession has aggravated a situation where there was already some overinvestment in heavy industry. Because of this and reduced

1/ These statistics of capacity utilization give a misleading impression of precision but they do indicate that excess capacity of substantial magnitude has developed.

forecasts of demand, for example in steel, some cutback in planned levels of public investment in industry and transport was probably justified in any case in the light of changing priorities. In this sense, interruption of some of the investment plans was probably not damaging since a different balance of investment than the one planned was in any case desirable. The slowdown in investment could become serious if investment recovery on the basis of revised priorities were to be long delayed because of inadequate preparatory arrangements or insufficient domestic and foreign resources.

23. The excess capacity, particularly in the capital goods sector, has aroused some interest in exports, and this interest, if it were to continue and to spread, could be counted as a benefit of the recession. Some additional overseas sales of certain kinds of industrial goods has been achieved, although in total the amounts are small and as yet there are few signs of substantial industrial interest in overseas markets. In total, export of engineering and chemical manufactures fell last year. The recession and the decontrol of imports which accompanied devaluation has also increased internal competition, with resulting cost-consciousness and greater concern for quality and service as important sales factors. If these are lasting developments, they should help to improve Indian industrial efficiency and this would be of the greatest importance for export prospects.

24. In essence, the key element that has transmitted the recession through the economy has been the food shortage and the consequent jump in food prices, which are clearly very sensitive to small supply changes. The imperfect internal distribution of food aggravated the price increases especially in deficit areas such as West Bengal where much industry is concentrated. This clearly emphasizes the need in India for a food supply policy as a key element of long-term development strategy. A satisfactory growth process is difficult to achieve when the vagaries of weather can upset investment plans and, indeed, the whole balance of the economy at frequent intervals. For the longer run it can be expected that irrigation and water control programs will reduce the variations in crops due to weather. Meanwhile, fluctuations in food supplies and their consequences for finance and economic activity could be reduced if there were emergency food resources available in the form of buffer stocks or imports or both. Past reliance has been on imports, and the experience of the past two years has demonstrated that this source alone is not dependable enough in the absence of large foreign surpluses and of clear commitments from abroad about the sale and timing of food aid. Nor are there the prospects of sufficient exchange reserves to import food commercially on a sufficient scale in times of emergency. It seems necessary, therefore, to accumulate a buffer stock of food supplies within India which can be used to reduce food supply fluctuations and if possible in combination with food imports, enable price trends to be less erratic. Fiscal and monetary policy could then be more independent of the weather and food aid availabilities, and the development process smoother as a result.

(d) Centre Budgetary Policy for 1967/68

25. The concern of the Government about the rapid increase in the rate of growth of prices during the past three years has determined the broad pattern of budgetary policy for 1967/68. This policy is aimed at reducing budgetary expenditure by almost 3% in monetary terms. This is to be achieved by a budgeted rise of 3.6% in Government consumption and transfer expenditure over the 1966/67 level and a fall of over 6% in the monetary level of Centre gross capital formation and of financial assistance to the states and to public and private industry. At the same time, current revenue is estimated to increase by over 11% in 1967/68 over its 1966/67 level. Thus, the Government is hoping to balance the Centre's budget as defined in India (i.e., including as revenue PL 480 transfers and all borrowing other than on Treasury bills and advances from the Reserve Bank). This would compare with a deficit of about Rs. 300 crores in 1966/67 which represented about 14% of Centre tax revenue. In terms of the overall deficit of Centre and State Governments to be financed by the banking system (including sales of securities to the commercial banks), the budget presentation implies a drop in such financing from Rs. 313 crores to around Rs. 170 crores.

26. In fact, there is reason to doubt whether the deficit can be kept as low as Rs. 170 crores. In the first place, Centre revenue is budgeted to rise by 11% and overall revenue by 14% - a rise that assumes increases in imports and import duty, andin domestic production, that seems unlikely to take place. Such an increase in revenue would be consistent only with a much more rapid increase in expenditures than is likely to occur. There have been certain desirable changes in taxation - for example, an increase in excise duties on exportable products and in certain luxury forms of production - but there have also been reductions in export duties so overall the new taxes in practice are unlikely to enable the budgeted revenue increase to be achieved. Secondly, on the expenditure side it is doubtful that the budget estimates have made necessary allowances for this year's price increases. Also, increases in dearness allowances payable from September onwards, inducements to exporters, and expenditures on food purchases and famine relief all may be higher than budgeted. All told, although it is too early to assess the exact outcome of the 1967/68 financial year, it will clearly be difficult (as preliminary data for the first four months show) to keep deficit financing significantly below the 1966/67 level.

27. The public finance situation in India is thus far from satisfactory at present, although hopefully the recovery will reverse some present trends. Public savings dropped sharply in 1966/67 and capital expenditure continues to fall relative to non-development spending. Given limited real and financial resources, the imperatives of defence, and of social policy during a period of agricultural privation, have curtailed the rupee resources available for development and capital formation. To raise public saving for further capital investment at the cost of an inadequate maintenance and utilization of the existing capital stock would obviously provide no long-run solution. The Indian Plan documents fully appreciate the need for restraint in public non-development spending, but the elemental fact is that an adequate rate of savings can be achieved only if the real growth rate is very much better than it has so far been during the 1960's.

CHAPTER III

PROGRAMS AND POLICIES

28. As mentioned in the introduction, it was an important aim of the July mission to report on the progress of a few key economic policies and programs which are vital to the improvement of India's economic situation. Those discussed here are food and agriculture, administrative controls, family planning and exports.

A. FOOD AND AGRICULTURE

29. Considering the seemingly intractable obstacles which were believed to stand in the way of agricultural improvement in the past, the recent advances toward higher agricultural production are perhaps the brightest aspect of the present Indian economic scene. The technology of this improvement was described in the Bank's last economic report on India[1/] - essentially the use of new and much more productive types of foodgrain varieties in combination with the complementary requirements of fertilizer, pesticides, water and other inputs necessary to make the most of the new seed potential. The technological advance has been based essentially on the import and adaptation of new varieties of wheat and rice and on techniques for breeding highly productive hybrids of maize, jowar (sorghum), and bajra (millet) from improved seed stocks. In concept, the program is fairly simple - supplying the high yielding seeds and other necessary inputs to areas where soils, water and other conditions are suitable for the best possible yields. In practice, the program is complex, imposing a most taxing organizational and administrative burden to produce and otherwise assemble the necessary inputs in required amounts, to distribute them into the right hands at the right time, to insure that the farmers have the means and the incentives to adopt the new technology, and to follow in detail the progress of the program in order to correct shortcomings and make timely adjustments as necessary.

30. Perhaps most impressive of all is the acceptance of, and desire for, the new technology by the farmers themselves. In the past, farmer lethargy and tradition-bound conservatism have been blamed for disappointments in improving the technology of Indian agriculture. More recently, with the improved terms of trade of the farming sector, there has been an increasing awareness that the farmer is a pretty astute judge of techniques which, from his standpoint, are practical and make economic sense. It is most encouraging, therefore, that there is widespread farmer endorsement of the new technology,

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1/ Indian Economic Policy and the Fourth Five-Year Plan, Volume II, Agricultural Policy in India, AS-122b, May 22, 1967.

expressed by a clamoring for the new seed and other required inputs and a willingness to pay much more for them than for the old seed and the old methods. The meeting of this demand has become a political consideration to be reckoned with.

31. In many respects, the provision of sufficient inputs at the right time has gone fairly well - in other respects not so well. For the two most important crops, rice and wheat, which are open pollinated plants, progress in provision of high-yielding seed varieties has been substantial (Table IV). The statistical reporting on progress is still rather poor, but it does indicate the dissemination of high yielding rice and wheat seed in 1966/67 over 3.5 million acres or 80 percent or more of the target for the first year of the program. In terms of the five year acreage targets the first year acreage for rice and wheat was about 17 percent. Yield results in total last year are not significant because of the drought; but in selected areas where water and drainage were satisfactory, yields of high yielding rice and wheat varieties were double or more the yields of previous varieties in widespread actual farm use.

32. A further large expansion of the acreage in high yielding wheat and rice is expected again this year. However, data are not yet available on how close the planting with high yielding seed this year has approached the target. This is only one instance where the establishment of an adequate mechanism to obtain and evaluate current agricultural data is of major importance to the implementation of the new agricultural strategy.

33. Work is going forward in India in further improvement of varieties through research and experimentation. A short duration paddy variety, developed in Madras is reported to produce in test plantings on farmers plots an average of 4.5 tons per hectare compared with 1.6 tons for traditional varieties. A recent new wheat variety combines the yield characteristics of Mexican dwarf wheat with the color and taste of local wheat varieties which are preferred by consumers. As a result of testing and breeding programs now underway a steady stream of new varieties should in fact reach the market over the next few years.

34. While the rice and wheat programs are progressing reasonably well, other parts of the program are finding harder going. The provision of hybrid jowar, bajra and maize seed in requisite amounts and qualities requires a much higher level of skill and organization than in rice and wheat. Whereas harvests from the new varieties of rice and wheat can supply the seed for the next crop for 3-4 years, hybrid seed of jowar, bajra and maize has to be renewed each year, and the supply of new seed has to be hybridized each year using carefully maintained pure line foundation stock which itself must be reproduced and multiplied each year under exacting conditions and careful supervision.

Production of foundation stock for hybrids is mainly the responsibility of the National Seed Corporation, a central government agency, while the production of hybrid seed from this stock is done by state seed farms, cooperatives, and private seed farms. The hybrid seed output is subject to certification by the National Seed Corporation before distribution to farmers.

35. The main difficulties so far have been that the National Seed Corporation has not been able to meet the program requirements for foundation stock, and seed farms have not developed the capability to use the available stock to the best advantage, both in yields and in quality, in the production of hybrid seed. And in the circumstances of short stock supplies, distribution has been guided by an effort to ensure something for all the seed farms rather than by maximum provisions of stock to the most efficient hybrid seed producers. Maize hybrids have not done too badly, but jowar and bajra hybrid seed supplies have fallen way behind the program targets - to say nothing of actual demand. They were 50 percent or less of targets in the 1966/67 season and they will probably be even further behind the rapidly rising targets and demand this year. Quality of hybrid supplies has also not always been up to acceptable standards.

36. The National Seed Corporation needs massive support if it is to be equal to its tasks as main supplier of foundation stocks and exclusive certifying authority for hybrid seed supplies. The seed producers will also need more time than was foreseen to improve their physical facilities for seed processing and to meet the necessary levels of technical capability. And improvement is also needed in the machinery for seed distribution. There has been considerable progress in these respects over the past year and more can be expected. It is not likely, however, that with present administrative arrangements the progress will be as rapid as it could be. There are clearly possibilities for supplementing the present arrangements through private participation in plant breeding, the production of foundation stocks, seed multiplication and the distribution of seed. An effective demand for seed is such that these functions could be performed quite profitably if seed prices were allowed to reflect the strong farmer demand. Such a wider sharing of the tasks of improved seed supply, accompanied of course with enforcement of legislation necessary for an effective seed certification system, could undoubtedly improve the prospects of the program and remove some of the present uncertainty about the speed at which the targets for high yielding seed can be reached.

37. Demand for fertilizer has risen sharply. The distribution in 1966/67 was 50 percent more than in 1965/66, compared with an annual growth rate in fertilizer use over the 1955-1965 decade of only 20 percent. Imports of fertilizer nearly doubled (Table V). There were some regional inadequacies and late arrivals, but by and large what was available was provided where needed and on time. Prospects for continued rapid growth in effective demand for fertilizer are excellent given the still extraordinarily low usage, even in irrigated areas and

considering the satisfactory price situation.[1/] The expansion of plant protection from disease and pests was also substantial with an increase in the acreage so protected by about 50 percent in 1966/67, and with an expected increase this year by about 100 percent. Exchange allocations for plant protection materials tripled last year and will be considerably increased again this year. Intensive agricultural development requires a power input which is much larger than presently available from the bullock. Recent trends suggest that the demand for wheel tractors and small power fillers is rising. And with the need for more exacting land preparation, more crawler tractors are required (Table VI). In this connection, the provision of specialized custom services by private contractors for heavy ploughing, subsoiling, land shaping and harvesting deserves promotion and support.

38. At the moment, ensuring an adequate supply of seeds of high yielding varieties seems to be a major problem area in the agricultural program. But the major concern for the longer run prospects of the program is the slow progress in building up domestic fertilizer production. Compared with estimated nitrogen requirements of about 2.5 million tons by 1970/71, the domestic output is not likely to be more than half and may well be less than half. Furthermore, beyond 1970/71 the gap between requirements and domestic production will widen very rapidly unless there is a marked acceleration in the construction of a new fertilizer capacity. The prospects for increasing domestic deficiencies of phosphatic fertilizer are similar. When it is recognized that the landed cost of nitrogen fertilizer in India is $180-190 per ton of nitrogen, the seriousness of mounting fertilizer import requirements for the agricultural program are evident. There are a host of problems involved in expanding the Indian fertilizer industry including not only the large requirements of foreign and domestic capital but development of a management capability equal to the magnitude of fertilizer expansion requirements. The financing and management problems involve interests of both the Government and the private sector and the enlistment of external official and private participation. It is unfortunate that despite the urgency of the need the reconciliation of these interests should prove a formidable task leaving little ground for optimism that fertilizer expansion will be on an adequate scale.

39. It is possible to foresee other potential trouble spots which might impose a slower than necessary pace on agricultural expansion. Some of these are to be found in the areas of irrigation, farm credit, and incentives. The irrigation problem is essentially one of ensuring a steady expansion of the area in which water supplies and water control are adequate to realize the potential benefits of other agricultural inputs. At present the government is emphasizing programs of minor

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1/ Despite the removal of fertilizer subsidies it now takes about 3 kg of cereals to purchase a kg of nitrogen (nutrient) as compared to more than 4 kg in the early sixties.

irrigation works and there are large recent gains in these programs. The most impressive achievements are being recorded in small private irrigation schemes, partly with government financial support. Last year the number of private tubewells increased by nearly a third and a similar increase is expected this year. The proportionate increase in the number of open wells was even larger, and the number of water pumps in operation has been rising at an annual rate of about 20 percent (Table VII).

40. There is, nevertheless, reason for concern that the progress of irrigation programs may fall short of what is feasible and that water availabilities could become a bottleneck to agricultural improvement at an earlier point than necessary. The main need in this respect, along with continued acceleration of the minor private and public irrigation installation, is a re-examination of existing major irrigation works in order to determine what additional investments in financial and manpower resources are required to orient their management and operation away from low production from excessive command areas to high production from intensive irrigation. To some extent, reduction of command area can be minimized by reducing delivery losses in the main system as well as in the excessively meandering field channels. There is also scope for making more efficient use of water in the fields themselves. In many old irrigation tracts, the interpolation of tubewells in the command area could provide the increased water required by high production techniques. However, maximum groundwater development can only be safely approached if in its early development a precise evaluation of the underground water resource is carried out. Indeed, a thorough study of India's aquifer resources is long overdue. High production techniques must also be based on accelerated research in the fields of water management, water requirements of the new varieties of major crops and the drainage requirements within irrigation commands to make possible efficient double cropping. Pilot work to intensify water utilization in command areas of some irrigation schemes is being started under the guidance of the new "water cell" of the Ministry of Food and Agriculture. However, the resources channelled to this end have been small in relation to what would be required to make full use of the huge investments already made by the Center and the States in basic irrigation infrastructure utilization. Indeed, it appears that a major coordinated effort to intensify water utilization has yet to be mounted by the Ministry of Food and Agriculture, in cooperation with the Ministry of Irrigation.

41. Farm credit remains a serious problem but has not been an immediate constraint in the distribution of inputs. At the present stage of the agricultural program the distribution of the available supply of essential farm inputs have been financed through existing channels of institutional credit, farmers incomes and private sources of credit. This has been helped by recent increases in Reserve Bank credit to farm cooperatives, the State Mortgage Banks and other institutional channels of farm credit as well as currently favorable prices of farm products. There are, however, marked regional differ-

ences in the capability of rural financial institutions, with particular weaknesses where the cooperatives are weak or non-existent. Furthermore, so far the proportion of better-off farmers engaged in the program and in the addition of tubewells and other farm improvements is higher than it will be later as the program expands. And as the proportion of poorer farmers increases, credit requirements will also increase. Despite extensive consideration of what might be done to improve this situation there has so far been little action. As supplies of inputs are increased this could become a serious drag on rural progress by limiting both the use of current productive inputs and the financing of land improvements and additions of wells and machinery. As the agricultural production program expands current favorable relative agricultural prices may decline and problems of credit can become a major obstacle to further increased production. Every effort should be made to strengthen farm credit institutions and to increase the supply of farm credit through all channels, private as well as cooperative, and government.

42. With the surge of food prices in recent years, there can hardly be a question at present of the adequacy of food production incentives. The uncertainty about incentives arises from the question of the effect which a favorable harvest (or two favorable harvests) may have on relative farm prices. It seems hardly likely that an early incentive problem will emerge on a widespread scale, even if the hopes for a bumper 1967/1968 crop materialize. The reasons for this view are discussed in Chapter IV. Probably a second good crop will be needed before there need be general concern about a nationwide relative decline in food prices to the point where incentives to increased agricultural production would be impaired. Nevertheless, the question of the maintenance of adequate incentive prices in the food surplus areas already arises and may become serious - especially under the present state zone system of distribution which restricts the outflow of food from surplus areas except on an administratively controlled basis. The Government believes that this problem can be dealt with through increased official procurement in the surplus areas. This would be consistent with the aim of building up an official buffer stock as justified by supplies. But rapid and large additions to stocks from domestic supplies could be a taxing burden on finances and on regional capabilities and facilities for procurement, handling and storage. Hence, early programs are likely to be needed to expand these capabilities and facilities over the next two or three years if an adequate buffer stock is to be built up.

43. While buffer stock accumulation may involve some difficult problems, other difficulties in the management of food distribution might be eased in the event of an improved food supply situation by relaxation of inter-state trade restrictions on food after this year's kharif harvest. This could have political and economic advantages; it would remove a source of political friction between surplus and deficit states, it should reduce the wide price disparities between the surplus

and deficit states[1] and thereby ensure continued adequate incentives in the former, and it should also reduce the economic cost of the single-state food system. This cost is likely to increase with a continuation of the system because of shifts of resources from agricultural raw materials production toward food production in the food deficit states and a consequent sacrifice of advantages of regional specialization.

B. ADMINISTRATIVE CONTROLS

I. Moves Towards Decontrol, and Increased Domestic Competition

44. In June 1966 the Government substantially liberalized imports of production materials by allowing the firms of fifty-nine priority industries accounting for about 85 percent of industrial production to satisfy fully their requirements, provided no item inscribed on a special "banned list" was imported.[2] Past undertakings to progressively increase the indigenous content of production remain binding, and the type of funds to be used continues to be determined by the Government. Nevertheless, these measures constitute a very substantial step towards lifting controls on production imports.

45. Other measures of decontrol were also taken in the past year. Notably, while investment and production in large-scale industry remain subject to licensing, this requirement has been relaxed in three crucial ways. A number of industries have been altogether exempted from its requirements. Furthermore, all firms are now authorized to diversify their production, provided that no additional capital is needed and that the new products account for not more than 25 percent of the production. Finally, all restrictions on the volume of production of the priority industries have been in practice abandoned; for these industries industrial licensing has ceased to restrict the utilization of existing capacity.

46. The new policy permits industrial firms to compete with each other on the domestic market. This is not immediately beneficial to all firms; as some firms increase the utilization of their existing capacity many others are, for the first time in their existence, hurt by competition. As explained in previous Bank reports, the former control system ensured that each industrial firm should have a reserved share of the domestic market, and prices which were remunerative even for the least efficient firm. As expected, the cost increase consecu-

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1/ The wholesale price of wheat in Punjab stood at Rs 75 per quintal in mid-1967 as compared to Rs 130 per quintal in the neighboring state of Uttar Pradesh. Similarly, the wholesale price of coarse rice in Orissa was Rs 85 per quintal as compared to Rs 145 in neighboring West Bengal.

2/ It must be noted, however, that although the cotton textile industries are included in the priority list, raw cotton imports are decided only by the Government.

tive to the rise in the price of imports could not be fully translated into higher prices because of the heightened competition allowed by decontrol[1], along with the recession. The present difficulties of vast sections of industry were neither unforeseen nor altogether unwelcome, for heightened competitive pressures were always considered to be an unavoidable precondition to improving the efficiency of Indian industry.

47. The dismantling of purely domestic controls continues. Since the last economic report, the partial decontrol of steel introduced in 1963 has been extended to all steel items. Mill prices and rolling programs continue to be set by the Joint Plant Committee, a committee formed of representatives of all producers and the Government. All transactions subsequent to purchase from the mills are now completely free.

48. The price of coal was also decontrolled in July 1967. It has also been announced that, starting at the next crop season, the ceiling price of raw cotton will be abolished. A partial decontrol of sugar prices was announced in August.

II. Absolute Protection from Foreign Competition

49. In the field of import controls, the system established last June has since undergone only one major formal change. This unfortunately constituted a backward step. Following the policy announcement of June 1966, items which were thought to be available indigenously were inscribed on a list and those not explicitly banned in this manner were allowed for import. Following the announcement of a new policy in April 1967, import requests are again scrutinized item by item to make sure that indigenously available items are not imported. It seems that procedures have been improved and this examination does not considerably lengthen the time required for issuing licenses; however, the complete protection from imports given to Indian industry has been further strengthened.

50. Indigenous clearance procedures were never suspended for imports of capital goods; they not only protect even the most inefficient local producers of capital goods from all foreign competition, but they may also add to the difficulty and cost of investment projects.

51. Capital goods producing industries are suffering from a recession now, and this may not be a very auspicious time for introducing even token amounts of foreign competition. On the other hand, the cost of the absolute protection provided to Indian industry, in

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1/ Of course, in addition to the devaluation there were unforeseen pressures on costs due to the rise in agricultural prices and consecutive increase in dearness allowances.

terms of the distortion of the pattern of development and the fostering of inefficient firms and sectors, can be very high indeed. As indicated, the devaluation has reduced the cost advantages to producers of using foreign as opposed to Indian equipment and materials. In the light of this there appears to be fairly extensive reconsideration of investment plans in the direction of increasing the Indian components of plans and of seeking out new domestic sources of components. Of course in present circumstances of depressed investment most of these reconsiderations have not yet been of a size to be evident in definite orders and, hence, there is as yet no quantitative basis for an evaluation of the importance of import substitution in the capital goods field resulting from devaluation. And while it will undoubtedly be important, this is certainly not to suggest that at the new exchange rate domestic capital goods are competitive with imports over any broad areas of Indian industry, even when protected by the present tariff with its minimum rate of 27.5%. Liberal import licensing, relaxation of industrial controls and other measures to allow increasing domestic competition should improve the efficiency of Indian industry. But the process of improvement may be slower than necessary and never reach internationally competitive standards so long as Indian capital goods continue to be completely protected from foreign competition in the domestic market under the present system which excludes all goods procurable in India.

III. Continued Administrative Determination of Types of Funds

52. The import licenses issued to each importer continue to determine the type of funds to be used by them, such as free foreign exchange, exchange earned in trade with Eastern Europe, and each of the various types of aid funds. Under present conditions there is no alternative to using such procedures. Bilateral aid and trade funds are not convertible; even in their country of origin they are in large part subject to restrictions. Such restricted funds make up the overwhelming proportion of the monies usable for imports of production materials from industrialized countries, for little remains of convertible export earnings after payment for debt service, freight charges, commercial imports of food and imports of raw materials from countries which do not give aid. This problem is becoming increasingly acute; so much so that even the utilization of available bilateral aid is hampered by the shortage of free foreign exchange required for complementary imports. Only a large increase of the free foreign exchange earned by or lent or given to India would provide a satisfactory solution.

53. Unavoidably, in present circumstances the allocation of specific funds for given imports does not involve merely a technical judgment on the suitability of certain funds to certain purposes, but also a judgment on the relative priority of the import and of the importer, which will partly determine whether the particular importer deserves access to funds of high or low desirability. As time passes and reference to the past area-wide distribution of imports becomes increasingly meaningless, the share of arbitrary judgments is bound to increase. If the administrative allocation of types of funds is maintained under its present strict form, the concept of decontrol will

become increasingly meaningless. If the required import has to be obtained from, say, Switzerland, there is in practice not much difference between denying the request or allocating Bulgarian levas for it.

54. Until such time as free foreign exchange availabilities increase greatly, it is not possible to take further meaningful steps towards decontrol other than the lifting of the general ban on goods competing with Indian production. Even the limited but significant degree of decontrol introduced last year is in danger. Despite the current slackness of the economy and the parsimony of licensing in the fifteen months preceding June 1966, which presumably tended to reduce imports, there is even now an acute and increasing shortage of free foreign exchange. And with India's low reserves there is often difficulty even in using available bilateral aid because of lack of foreign exchange required for complementary imports. If continuing availability of substantial foreign aid and, in particular increased amounts of free foreign exchange, were not insured, tighter import controls could quickly become necessary again with any marked revival of the economy and associated import demands for production materials and equipment. This tightening would have to be all the more drastic since a considerable "float" of licenses issued in the past could come up for payment. Hence, a given reduction in new licensing would provide a proportionately much smaller relief to the immediate payments problem, which springs mainly from past licensing. Therefore, once a marked economic recovery gives rise to an upswing in import demand, there could be a very severe cutback in the issue of new licenses in the absence of increased foreign aid including freely usable aid.

IV. Preparing New Tools of Economic Policy

55. New tools of economic policy are required as the reliance on administrative controls to orient the economy is reduced; in fact, many controls cannot be abandoned or relaxed unless new tools are developed. Thus the devaluation was an essential precondition of the partial decontrol of imports that followed. Another necessary tool is a protective tariff system which would function effectively in providing necessary and justified protection of Indian production from foreign competition and thereby remove this as one of the tasks of administrative import control. At present this task of protection is exercised by the import control administration in addition to its other purposes of limiting imports to total foreign exchange availabilities, ensuring that exchange goes for imports of high priority, and matching import requirements to different kinds of exchange availabilities including Eastern European exchange and tied aid. As indicated, this matching requirement precludes the possibility of replacing import controls with import management by means of financial policy and a protective tariff system. Nevertheless a tariff system could perform the protection function independently of the control administration, with a reduction of the administrative burden and with advantage to the development of Indian industry.

56. At present, protection policy bans all foreign imports which could be supplied in India. This has the effect of an indefinite perpetuation of inefficiency or excessive profit and a reduction of the relative incentives for greater concentration of industrial investment where it can be used most advantageously and efficiently. A tariff system could be devised which would provide for the legitimate protection requirements of Indian industry at a finite level but still allow for the possibility of foreign competition where necessary to avoid extreme or prolonged inefficiency. While relieving the control administration of the protection function, such tariffs, if at an appropriate level, could also reduce the task of matching import demand with total exchange availabilities.

57. Selective credit control is another tool which has been very little used, but the Reserve Bank of India has recently announced its intention to rely on it increasingly. Cheaper and more liberal Bank credits will be provided to exporters and to a few selected industries such as the producers of engineering goods, agricultural machinery and commercial vehicles. The Reserve Bank will provide preferential refinancing to commercial bank credits to these industries. These measures constitute a potentially large step towards replacing exclusive reliance on administrative controls by more subtle and more efficient tools.

C. THE INDIAN EXPORT PROBLEM

58. There is little need to elaborate the seriousness of India's export problem when, even in a period of depressed import demand, the level of exports is not much more than half that of imports and balance of payments deficits are running well over $1,500 million. While imports have grown substantially in the post-war period, exports were stagnant during the 1950's and have leveled off again in the last three years after a spurt in the early 1960's. This reflects, in part at least, an official attitude of the 1950's which was resigned to the view that "increasing competition abroad" with India's staple exports "limits the scope for any substantial increase in exports in the short run".1/ Import substitution was thought to be the answer to this situation, and no special effort was made in the 1950's to challenge foreign competition either in the old staples or in new lines, nor was there any real attempt to help exports by measures to improve the relative attractiveness of sales abroad in comparison with sales in the very attractive, highly protected, fast growing home market.

1/ Second Five Year Plan, Ch. IV, para. 47.

59. Changing policies in the early sixties reflected some disillusion with this import substitution strategy and recognition of the need to foster exports in spite of the high costs and attractive profits of the home market. Specific export incentives were therefore tailored to what were believed the individual needs of each potential export item. Thus exports of vegetable oils and sugar, the domestic prices of which were well above world prices, were promoted by cash subsidies; later, as domestic prices rose, quasi-cash "tax credit" certificates were granted to a widening range of exports; exporters of manufactures (other than jute manufactures) got import entitlements to scarce commodities, which were easily, though not always legally, transferable at high prices. By June 1966, on the eve of devaluation, all but a fraction of exports were covered by one or several of these measures; the range of effective subsidy went from about 4 percent to more than 200 percent. In addition, certain general, relatively minor, tax advantages were granted to practically all exporters. The general aim of the system was to overcome the specific handicaps facing each exporter, so that "each and every industry should become self-financing and self-supporting in respect of its import requirements gradually"..1/

60. The obvious drawbacks of such a policy for the long-term growth of exports were enhanced by the specific defects of the import entitlement schemes. The actual value of the subsidy provided to each category of exporters was uncertain and the rate of subsidy varied sharply, not only from one export to the other, but also over time. From time to time, the Government itself modified the ratio of the import entitlement over the f.o.b. value of the export; but the value of the entitlement to the exporter also depended on the actual import content of his exports and on the fluctuations of the premium on import entitlements, themselves determined by the profitability of the home market and the relative parsimony of official import allocations. Furthermore, even the permanence of the system as such was not ensured. Exporters never knew what their actual earnings would be, and were understandably reluctant to invest in the building of new markets.

61. Despite the uncertainties, the incentive policies undoubtedly contributed to the export expansion of the early 1960's although there were other favorable factors, especially in the world market for jute products. After 1964 however exports leveled off and then fell sharply in 1966. This year they will probably be higher than last year, but are unlikely to exceed or even reach the 1964 level. The unfavorable export situation of this and the two preceding years can be attributed to several factors, including problems of uncertainty stemming from the devaluation of mid-1966 and associated and subsequent policy changes, raw material shortages due to the bad harvests, and sagging world market conditions first for jute goods and later for tea.

1/ Ministry of Commerce, Annual Report, 1965/66.

62. These elements of recent export stagnation, and India's export problems and prospects are discussed below. Briefly, a considerable increase in export earnings from tea, jute, iron ore and other traditional exports appears to be feasible. Clearly, however, these exports will not contribute enough of an increase to provide the basis for a more manageable balance of payments in the foreseeable future. For this, the necessary expansion of exports will have to be on a much more diversified basis than in the past.

I. Present Policy

63. On June 6, 1966, the rupee was devalued, raising the rupee value of foreign exchange by 57.5 percent. Despite this, exports fell in 1966/67 by about 8 percent and by about the same rate in the twelve months after devaluation as compared with the twelve months preceding. There were substantial increases in some exports in the twelve months after devaluation including fish and fish products, leather and leather goods, iron and steel, hides and skins and iron ore. Most other exports fell, with export mainstays like jute goods, tea and cotton textiles down by about 12 percent, 18 percent and 28 percent respectively (compared with June 1965/May 1966).

64. The fall in exports of manufactures is all the more surprising considering the large excess capacities associated with the recession in the textile and engineering industries. However, the adverse effects of the recession have not been spread evenly among the firms in particular industries. In many cases, the more efficient firms have managed to keep their markets and to continue operations at a fairly high rate of capacity use. It is the less efficient firms that have felt the main brunt of the recession in the form of reduced demand and idle capacity. Yet these are the ones least able to divert idle capacity to the highly competitive export market; it may well be that even the variable costs of such firms are too high for the export trade. Furthermore, production can not easily or quickly be switched from domestic to export markets unless export marketing channels are well established. It is one thing for a firm already in the export business to expand its exports by lowering its prices below its average total costs when times are difficult at home. It is quite another thing to invest all the effort and expenditure necessary to build up an export business, especially if there are hopes that the recession will be short.

65. As indicated there were a number of factors involved in the export drop, including the bad agricultural situation and consequent shortages of domestic agricultural raw materials, external market conditions, and uncertainties subsequent to the devaluation. Trade with Eastern Europe was in fact virtually suspended until the satisfactory renegotiation of contracts in the course of the summer. Such renegotiation was necessary because, under the bilateral trade agreements, gold value clauses in existing contracts applied only to exports from Eastern Europe, not to those from India. Along with this combination

of adverse natural and market developments and inevitable post-devaluation readjustments, there were complications associated with measures designed to neutralize part of the export benefits stemming from devaluation for traditional exports where such benefits were judged by the Government to be likely to result in a foreign price decline without a compensatory increase in foreign demand. Export taxes were imposed on commodities accounting for more than 60 percent of 1965 exports. The taxes on tea and jute goods, the most important of these commodities, were equivalent to about 25 percent relative to the overall value of these exports; but, being in fact specific taxes, of a single rate for tea and two rates for jute goods, they fell most heavily on the cheaper varieties, precisely those which face the greatest competition. The returns to other primary commodities were generally improved, albeit sometimes only slightly. These export taxes on tea and jute goods were subsequently reduced (see Para 67 below). Other measures were taken to abolish the pre-devaluation patchwork pattern of subsidies for exports of manufactured goods. This was accomplished, but it was also the intention, in cases where the Government decided that devaluation did not adequately compensate for the removal of the previous subsidies, to substitute new subsidies on a straight cash basis. Two months elapsed, however, before the new subsidies were announced. Meanwhile, for manufactured exports, the suppression of the subsidies previously granted nullified much or all of the benefit of devaluation, and for exporters of many lines of engineering goods, iron and steel, chemicals, art silk goods, and cotton textiles and clothing the net impact of devaluation in combination with the elemination of import entitlements was small or sometimes negative.

66. With this very small or even negative effect on industrial exports and with the high export taxes imposed on tea and jute goods at a time when they were in difficulties because of external demand or raw material supply conditions, there was widespread expectation that some remedy would have to be provided. And this added an important element of uncertainty to an already difficult export situation.

67. New subsidies were indeed provided to some industrial products[1/] and the export duty on all but top quality tea was reduced in November 1966; that on jute goods in May 1967. Other duties underwent less drastic but frequent, readjustments.

1/ Cotton textiles, which constitute India's third largest export, have not received cash subsidies since devaluation. Prior to devaluation they did receive export incentives (which were abolished at the time of devaluation) and for some kinds of textiles, especially the better grades, these incentives amounted to more in relation to export values than the 57 percent benefit resulting from devaluation.

Exports of engineering goods, steel and chemicals are once again subsidized, since the latter half of 1966. The main subsidy is in cash, which is better than the old system for at least the value of the subsidy is known. In addition to the cash subsidy, since May 1967 some categories of exporters can buy domestic steel and pig iron at world prices. Combined with the 20 percent cash subsidy, this facility may be very important to exporters of, say, foundry products. It has been announced that this facility will be extended to a few other raw materials. The schedule of incentives was further revised upward in September 1967 for a wide range of products. Since April 1967 and increasingly since the revision of last September, entitlements to replenishment imports, which in many cases are larger than the actual import content of exports, again have a place among export incentives.

68. However, the piecemeal nature of this process, while improving the incentives for export, adds to the air of uncertainty surrounding export policy, and to expectations of further change.

69. Furthermore, the present system is still based on selectivity, the ultimate aim of which is to permit "each and every manufacturing unit to export a part of its production".1/ The greater or lesser profitability of given exports for the country is not reflected, or reflected only in a much attenuated fashion, in the prices received by exporters. This type of selectivity tones down the signals received from the world market. A much better case could in fact be made for precisely the opposite type of selectivity which, the better to amplify comparative advantages and overcome the producers' initial inertia, would enhance, rather than reduce, the differences in profitability presented by the market. Selectivity by itself tends to entail variability in returns over time, as incentives are changed and individual items are shifted from one category to another. This is variability of a kind which, because it is consciously decided by the Government, invites pressure from exporters and foreign importers to influence Government decisions. In addition, with all the uncertainty inherent in this system of administratively selected subsidies, it is difficult to undertake long-term commitments on the basis of such a complex and changing system.

II. Export Plans and Prospects

70. Government export objectives as described in the draft of the Fourth Plan, call for a roughly 50 percent increase in the overall value of exports. Compared to needs this is still a modest target. Even if it were fulfilled, 1970/71 exports would finance only about 50 percent of India's import needs, after taking care of debt service and invisibles. However, the course of exports last year and this year and the short run export outlook suggest that the final year targets of the Fourth Plan are no longer very meaningful. Nevertheless, they still throw some light on the feasibility of a target rate of annual increase of total exports of 8 to 10 percent. Eight primary and quasi-primary commodities - tea, jute

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1/ Speech of Minister of Commerce, reported in Times of India, March 19, 1967.

goods, vegetable oils, oil cakes, tabacco, cashew kernels, marine products, and iron ore, contributing about 60 percent of exports in 1965/66 were expected to provide about one-half of the planned increase in exports. 1/ An examination of the problem and prospects of these commodities leads us to the conclusion that, even with considerably more favorable export policies towards these commodities they can contribute less than 30 percent of the total desired increase of exports. Consequently, if a satisfactory overall rate of growth is to be achieved, exports of manufactures will have to grow much faster than projected.

71. This is not an impossible aim, given a few years to build up the necessary industrial export momentum. Exports of manufactures by underdeveloped countries grew buoyantly during the past decade, at an average rate of more than 15 percent; prospects for further growth are good. India's share of this market is small. For instance, in 1965 Hong Kong exported $360 million worth of made-up garments. India's exports of such goods amounted to $10 million in 1965 and would amount only to $40 million in 1970/71 according to the Plan. Her total exports of manufactures, other than jute goods, amounted to only $300 million in 1965/66 (and fell in 1966/67). This is such a small fraction of world trade that, provided the exports are competitive, no serious market problem need arise.

III. Policies for Export Growth

72. An adequate policy framework for aggressive export promotion must include scores of specific measures dealing with particular prolems of production, distribution, foreign merchandising, competitiveness and profitability, etc. which are facing individual commodities. However, some requirements are common to all exports. Obviously they must be cheap enough to attract foreign buyers. But however regrettable it might be that an Indian product should fetch a lower price than an identical one made in Europe or the United States, this is a fact of life and must be recognized as such in the process of becoming well established in world markets.

73. Indian exporters must be given adequate encouragement, including adequate financial encouragement to overcome the domestic market orientation of their high cost, high priced economy and to face foreign competition abroad. It should be borne in mind that in terms of official encouragement, exporting gets much less favorable treatment than import substitution. No import gets into India without paying a duty of at least 27.5 percent except foodgrains and fertilizer, and no import is let in at all if it is likely to compete with any Indian product.

1/ The Government recently revised its target for tea exports from 300,000 tons to 240,000 tons thus reducing the total expected contribution of the listed commodities to about 42 percent of the total planned increase in export.

There are many ways in which export incentives could be enhanced, but whatever the ways, it would seem advisable to avoid differential selectivity among exports and to provide incentives for all or most exports on a uniform and stable basis. This would allow export profitability to vary in accordance with India's comparative advantages in international trade.

74. A much more dynamic marketing effort must also be made. Low prices and high quality must be part of it; but marketing implies much more than price. Notably, it implies investing money, time and effort in the promotion of one's products and in the establishment of machinery and channels for contact and distribution abroad. Willingness to adapt the product to foreign tastes and changes in foreign tastes is also required, which implies a continuing knowledge of foreign markets.1/

75. The public sector has an important role to fulfill in these fields by facilitating and by participating in a greatly expanded exploration and marketing effort abroad, with the resulting benefits to be available to interested parties on a freely competitive basis. Despite the need to guard against capital flight and luxury expenditures, ample provisions for legitimate business requirements must be made. Facilities for extension of export credit have also become an essential ingredient of international competition. This presents difficult resource problems, but porblems which must be solved if export development is to receive the high priority so crucial to India's economic future.

76. While considering export requirements in terms of additional incentives and other measures of export promotion, it is also worth noting that in the longer run an expanding export sector cannot be built on additional incentives alone. They cannot compensate indefinitely in world markets, for the inefficiencies and high costs of producers who can enjoy the profitability ofaa highly protected domestic market without pressure to come up to internationally competitive standards of operation. To compete effectively abroad, Indian industry must be strong, and efficient firms will have to be able to outgrow and even replace the less efficient.

1/ One major cause of the unsatisfactory export performance of Indian textiles seems to be the inflexibility of Indian mills in adapting to the size and design specifications of their foreign clients. This is not purely a problem of business mentality. Efficient firms do not have to make a great export effort, having a better market at home; other firms cannot make it. The situation may well change if competition increased on the domestic market; but so long as the Government ensures that raw material supplies should be spread around "equitably", competition is minimized. It may now be increased with recent measures to decontrol raw cotton distribution.

D. POPULATION CONTROL

77. In the Bank's last economic report on India it was stated that "the Government of India has now begun to conduct a vigorous, determined and purposeful program"1/ of population control. It went on to say that "although setbacks can occur and are to be expected, and although the new effort has not gone nearly far enough to disclose the motivational, technical and other problems that may yet be encountered, there is now a basis for hope that the program as it is enlarged will bite sufficiently widely and deeply to put a measurable break on population growth in India in not too many years." These statements still hold.

78. No major administrative change has occurred since those described in the last report. The dynamism, dedication and overall competence of the administrative services dealing with family planning at the Center continue to be most encouraging. Even under the present restrictive financial policy, high budgetary priority continues to be given to family planning expenditure. Total expenditures by the Center and the State budgeted for family planning in 1967/68 are roughly double the preliminary estimate of last year's actual expenditures. Rupee finance is not an important constraint on family planning.

79. The shortage of skilled personnel is a much more serious obstacle. As described in the previous report, financial incentives to general practitioners and scholorships to medical students are one of the means used to obviate this shortage. Nevertheless, the main solution must lie in the accelerated training of more specialized personnel. Unfortunately, there is an even more acute shortage of staff capable of giving such training; of the staff of 430 required for the 46 training centers sanctioned so far, only about one hundred have yet been found.

80. For some time the family planning program may have placed a somewhat lopsided emphasis on the intrauterine contraceptive device. The experience of the past two years, during which more loops are said to have been inserted in India than in all of the rest of the world combined, shows that substantial technical and physiological problems are still connected with the loop. A large proportion of the loops are expelled or have to be removed each year, although no more than would be expected according to the experience of other developing countries. Bleeding and similar complaints are frequent and constitute the main reasons for removal. And exaggerated rumors of the seriousness of post-insertion reactions have resulted in setbacks in the program, especially in Bengal and Gujerat, before they could be counteracted. No doubt partly because of the high rate of removals that is required and because of temporary setbacks, there has been no dramatic increase in the monthly number of insertions over the past year; a total of about 900,000 insertions were made. An increase in insertions is expected

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1/ Indian Economic Policy and the Fourth Five Year Plan, AS-122b, June 1967.

this year although the current year's target of 2 million insertions, a monthly average of 160,000, is unlikely to be fully achieved. The Government seems to be well aware of these difficulties, and of the fact that, at least under its present form, the IUCD alone is not the solution to the population problem.

81. The emphasis given to the IUCD did not occasion any letup in the sterilization program. 850,000 sterilizations - mostly vasectomies of males - were performed in 1966/67. This was 300,000 more than in the previous year. As distinct from other methods of contraception, sterilization is in practice a once and for all operation; the affected couple is permanently removed from the fertile population. However, precisely because of this, sterilization is expected to be used only by couples with several children, while the IUCD could optimally be used also for spacing births.1/

82. According to present thinking, less than half of the planned reduction in birth rate from 41.7 to 25 by 1976 2/ is to be obtained through the IUCD method. This calls for about 7 million IUCD's in place by 1971 and about 17 million by 1976, which in turn would require about 3 million insertions in 1971 and about 6 million in 1976. More than half of the planned reduction of the birth rate is to be obtained through sterilization, essentially vasectomy. Given the demographic distribution of sterilization cases, this implies that in 1976 about 25 percent of active males and a much higher proportion of those over thirty will have been sterilized. These will be difficult ratios to achieve.

83. Other contraceptives means are also given greater emphasis now and none will, in principle, be excluded. The condom factory in Madras is being expanded from about 30 million to about 60 million units per annum. A legal study of the possible relaxation of abortion laws is pursued. The Minister of Health and Family Planning has raised the possibility of raising the marriage age to 18 years. Oral contraceptives are now being introduced as part of the program. This might also become a useful addition to the arsenal of the Indian population planners.

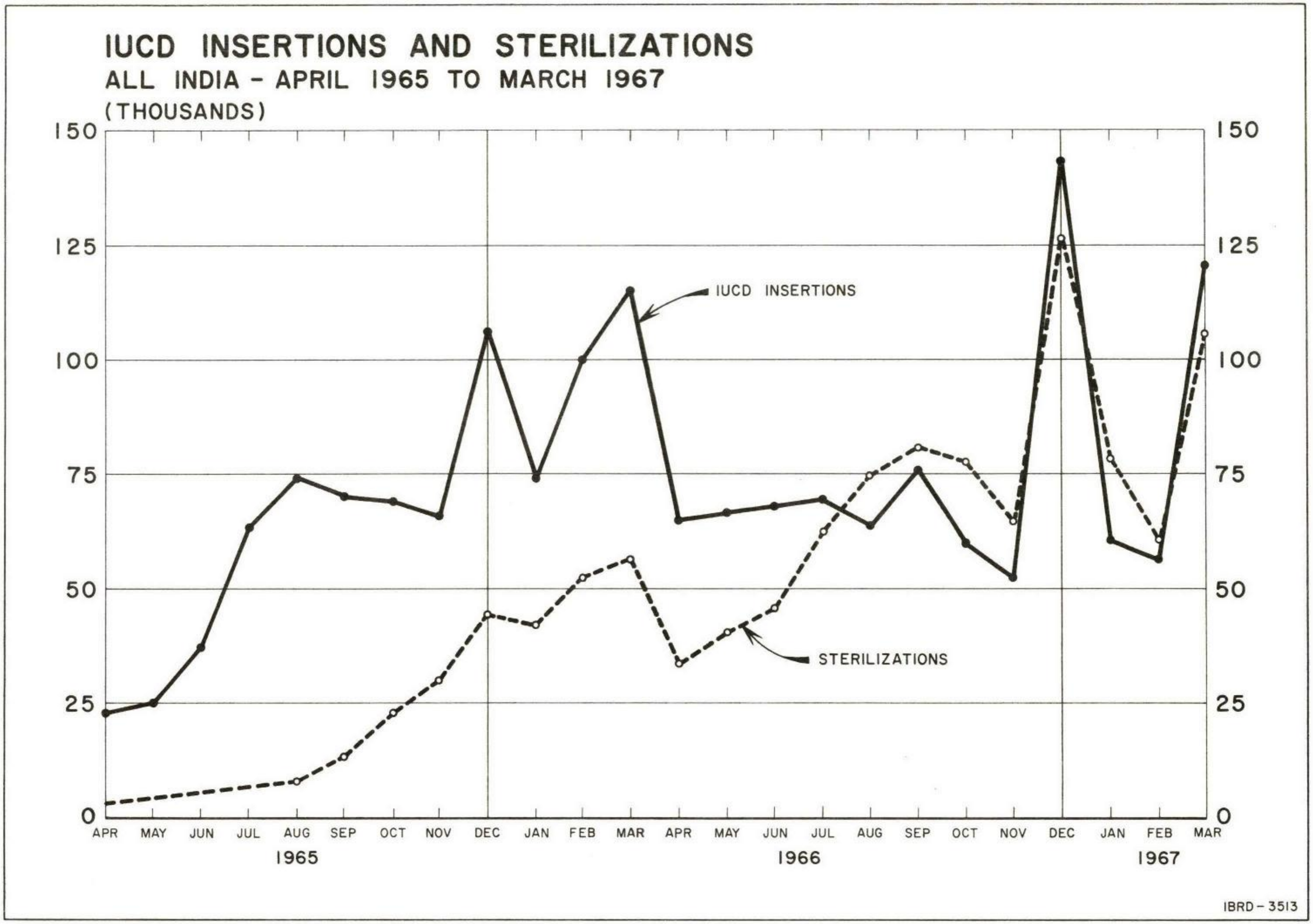
84. Nationwide advertising of family planning has also been undertaken through a variety of media, and pilot programs of mass subsidized condom distribution, which have been most successful, are now being extended to several additional areas. Commercial firms distributing in mass consumption goods, e.g. matches, are being enlisted to assist in condom distribution.

1/ However, in the only study available, the average number of children of IUCD acceptors was 4.76, with a standard deviation of 2.05 while the average for vasectomy cases was 4.61 with a standard deviation of 1.59.

2/ Per 1,000 of population.

85. As noted above, domestic financing is now not a major obstacle to expanding the program. Foreign exchange has been a more serious bottleneck. It is said, for instance, that if an additional few million dollars of free foreign exchange had been released in time, 30 million more condoms could have been imported and used last year. The shortage of jeeps also constitutes a significant bottleneck. The recent action of the United States to finance imported contraceptives is an important contribution to the family planning program. India is now beginning to set up some of its own programs of research to develop new contraceptive techniques and improvements in existing techniques without necessarily waiting for financial or scientific contribution from abroad. The program also needs demographic and motivational research, which is all the more urgent that the family planning effort, if it is to spread as intended, will have to motivate a rapidly increasing proportion of the Indian population.

86. An early impact on Indian demographic trends is not to be expected because the age structure of the population is such that other things being equal, the birth rate still tends to rise and the death rate to fall. And while the estimated number of contracepting couples has more than doubled in the 18 months from mid-1965 to the end of 1966, this was from small beginnings and is still a drop in the bucket in relation to the number of couples of child-bearing age and the size of the Indian population problem. It will take time before population growth slows down considerably. But the problem is being tackled through an intelligently conceived and well-administered program.


IUCD INSERTIONS AND STERILIZATIONS
ALL INDIA - APRIL 1965 TO MARCH 1967
(THOUSANDS)
150
125
100
75
50
25
0
IUCD INSERTIONS
STERILIZATIONS
APR
MAY
JUN
JUL
AUG
SEP
OCT
NOV
DEC
JAN
FEB
MAR
APR
MAY
JUN
JUL
AUG
SEP
OCT
NOV
DEC
JAN
FEB
MAR
1965
1966
1967
IBRD - 3513

CHAPTER IV

THE SHORT-RUN OUTLOOK

(a) Introduction

87. In considering the prospects for the coming 18 months, the main determinant of the rate of recovery from the recession, as was argued in Chapter II, is the food supply. In the first place, good harvests would increase agricultural incomes or, to the extent that relative food prices fall, would increase consumers' real incomes. Similarly, there would be improvement in supplies of agricultural raw materials such as as raw cotton, jute, sugar and vegetable oils, thus relieving some constraints. Secondly, given the Government's concern over the recent rapid price increases, a good harvest, if it were to cut off the present inflationary pressures, could open the way to a partial relaxation of present fiscal and monetary policies. With these developments, industrial production could be expected to respond and the investment rate should rise. At the time of writing, although there is a consensus that the 1967/68 crop will in all probability be high - perhaps as high as 95 million tons - this cannot yet be assumed; it would require both good kharif and rabi seasons. Also, after droughts of a severity not seen since 1943, it is difficult to predict the response the economy may make to a good crop. Moreover, the timing and extent of any possible relaxation of fiscal and monetary restraints cannot be accurately pre-determined.
It must be stressed that these factors, plus the usual statistical problems, introduce considerable uncertainty into any short-run forecast, and the following sections should be read in that light.

(b) The 1967/68 Annual Plan

88. The 1967/68 Plan, issued in July, presents a fairly optimistic assessment of the economic outlook for the year, as follows:[1/]

> "The economic outlook for 1967/68 is linked, first and foremost with prospects in agriculture. Given reasonably good monsoons, a grain harvest of around 95 million tons should be quite likely. Given a good agricultural season, industrial production should begin to pick up significantly in the second half of 1967/68. A good agricultural season may result in the prices of food and other farm produce seeking somewhat lower levels than the inordinately high levels reached at the end of June 1967. If so, this is likely to have a favorable impact on urban demand for manufactures. The policy of liberalization of maintenance

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1/ Annual Plan 1967/68, Planning Commission, New Delhi, July 1967. Pages II-14 to II-25 passim.

Imports adopted towards the middle of 1966/67 should also show its full results in 1967/68. As a result of these factors, it is quite likely that the industrial production during the second half of 1967/68 may show an increase of 6 to 7% over the corresponding period of 1966/67. Taking the year as a whole, the increase may be of the order of 5% over the previous year. The sharp increase in agricultural production and the pick up in industrial production would benefit the tertiary sector which might show a 4% growth. On the above anticipations regarding the growth of agricultural and industrial production and income generation in the tertiary sector, the increase in national income in real terms would be about 12.4%. The Wholesale Price Index might also rise by 12%."

89. There seems reason to question both the speed and the extent of the surging recovery assumed above. The first half of 1967/68 has already passed, and from all the indicators available it would appear that industrial output has remained fairly stagnant or may even have fallen slightly. Since the initial stream of higher consumer income that would flow from a good kharif crop would not begin to affect final demand until the third quarter of 1967/68 at the earliest, and since there will still be uncertainty about the rabi crop, it seems unlikely that output of consumer goods industries will begin to rise significantly until 1968. Moreover, after two years of depressed agricultural output, there will be many other claims on farmers' incomes. The uncertainties holding back private investment, described in Chapter II, likewise seem unlikely to evaporate swiftly enough to enable much new investment to take place before the end of the fiscal year. Lastly, there is as yet no sign of any slowdown in the price increases, in that the wholesale price index has climbed 8% in the first four months of 1967/68, and food articles have apparently risen in price by no less than 17% over the same period compared with 13.5% in the same period in 1966/67. This latest overall price increase is directly caused by the food element, other items being fairly stable, and appears to result from acute grain shortages (particularly wheat) uncertainty about future supplies, supported by continuous credit expansion, mainly to Government, at a rate around one-third below the 1966/67 level. Given this performance, which indicates an extension of credit to Government well in excess of the level implied by the 1967/68 budget, the prospects for a lessening of the pressure on prices, and thus additional public sector investments in 1967/68, seem remote indeed.

90. Considering all these factors, it is probable that industrial output in 1967/68 will remain at about the 1966/67 level, with some increase in output in consumer goods industries and in those based on agricultural raw materials in the last quarter, offsetting the earlier declines and the slowdown in the capital goods sector. The tertiary sector will probably likewise stagnate, so that even with a recovery in farm output national income in 1967/68 may rise by perhaps 8-9%, rather than the 12% forecast. However, the industrial sector, led by consumer goods industries, should show a fairly sustained growth during 1968/69 as the multiplier effect of a good 1967/68

harvest takes hold. The outlook may thus be as follows:

Index of Net Domestic Product in Constant Prices
1960/61 = 100

	1963/4	1964/5	1965/6 Est.	1966/7 Est.	1967/8 Proj.
Agriculture and related sectors	101	108	93	95	115
Manufacturing and mining	116	123	128	132	132
Commerce, transport, and other services	118	130	138	138	138
Net domestic product	110	118	113	116	126

(c) Prospects for Recovery

91. Because of the observed sensitivity of the price of food to supply and demand conditions, any judgment on the prospects for 1968 must start with the food price outlook, because it is not at all evident that even a 95 million ton crop will ease the food supply and price situation sufficiently to loosen financial constraints and permit any substantial investment expansion. An illustration of the food availability and price situation since 1955/56 is annexed as Table III. Assuming that the harvest reaches 95 million tons, then allowing for normal wastage and retention of seed, the available production would be about 83 million tons, a 25% increase over last year's availability. Prima facie, such an increase should result in at least a relative price decline and probably a small absolute price fall. However, there is an urgent need, as was indicated in Chapter II, for the establishment of a large Government buffer stock, which should represent a high priority claim on available supplies, and for the replenishment of Government operating stocks which are at a low level. It would be desirable to build up such stocks fairly quickly although there are obstacles in the way, including financial obstacles, which will limit the pace at which an adequate buffer stock can be accumulated. For fiscal reasons it would seem difficult for the Government to procure domestic grain for official stocks, over and above adequate official working stocks, of more than a million tons in the course of the coming year. This would be only a small beginning toward an adequate stock[1] and it would be helpful if the buffer stock accumulation could be accelerated by aid-provided foreign grain - in addition to the food imports that will be required for consumption purposes.

1/ Storage capacity owned by the Department of Food and the Food Corporation of India now stands at about 2 million tons, and the Government estimates that another 2 million tons of storage space could be mobilised from private and cooperative sources. However, the mission is not well informed about the adequacy or the regional distribution of these facilities, or their efficiency.

92. The latter requirements are of course very difficult to estimate at this point in the crop year and with all the uncertainties that there are about the amounts of any given level of grain production which will move into commercial channels. If grain production should reach about 95 million tons in the current crop year, it may still be necessary to import 5 or 6 million tons, or perhaps more, for consumption purposes in view of the substantial part of the increase in the crop that is likely to be taken up by larger farm consumption and rebuilding of farm stocks and private commercial pipelines. With a 95 million ton crop and imports of 6-7 million tons[1/] for consumption and increases in stocks the total availability (after allowing 2 million for an official buffer stock) would increase by about 12% or about 10% per capita. This is a very uncertain prospect, however because of the uncertainty of crop prospects and the difficulty of assessing food aid prospects very far in advance.

93. Past experience suggests that an improvement in availability of this magnitude would almost certainly be followed by a significant relative price fall in the period following the harvest, as Appendix Table III indicates. However, because privately-held stocks are at unusually low levels, and because of the import uncertainty and the usual lack of assurance about the following year's crop, it is possible that the relative price fall will be small at least until there is an expectation of a good kharif crop in 1968/69. This would not of course delay the start of the recovery process in that rural incomes will almost certainly increase and hence increase demand for consumer goods. However, the progress of recovery of public and private investment may well be delayed until there are better prospects of stability of food prices. Moreover, the latitude the Government at present possesses to increase public sector investment is small, because deficit financing is still continuing despite this year's economy efforts.

94. There are other elements in the present situation to hamper the pace of economic recovery. Much of the present idle industrial capacity is concentrated in the capital goods industries. This is partly attributable to expansions of capacity which would be well ahead of the growth of demand even under much more active economic conditions. For example, recovery of the economy would not require substantial increases in railway investment for some time, and assuming the absence of premature and low-priority investments, excess capacity would be likely to continue in the large segments of the engineering industry that are linked to railway expansion. Similar situations exist in other public and private heavy industries where capacity has been built to supply a higher investment level than is probable in the next year or two. Another delaying element of some importance in the recovery process is the substantial accumulation of finished stocks that has taken place in many parts of the engineering industries. In other words, both output and investment may respond fairly slowly to increases in demand, so it is not very likely that there will be a substantial economic revival in the current year except perhaps in consumer goods industries. With satisfactory weather and a good 1967/68 crop, the recovery process should get started.

1/ i.e., 5-6 million for consumption and 1 million for official buffer stocks.

But the real momentum of recovery, including the necessary revival of public and private investment growth, will probably not be possible until there are all the signs of a second good harvest year and these could not be evident before late summer of 1968. The implications of this analysis for the balance of payments and aid requirements for this year and next is analyzed in Chapter V.

CHAPTER V

BALANCE OF PAYMENTS AND AID REQUIREMENTS

(a) Trends and Prospects in Payments and Import Licensing

95. In discussing the recent behavior of the balance of payments, the prognosis for the near future, and the implications for aid requirements the main variable is the import level. This can be analysed with reference to the volume of import licenses issued, import arrivals (as recorded in customs data) and import payments. All three indicators show different trends - with the difference between import arrivals and payments often being in the range of $100-200 million, and with license issues and use being subject to yet different influences. Since the basic question of external finance at present is whether the expected recovery of the economy can be achieved without re-encountering the foreign exchange constraint, the import payment data trends clearly are more relevant than the trade data, and are thus used in the discussion below. The recent trends in import licensing are also used to help forecast import payments, but with the recognition that the factors affecting license issue and use are quite different now compared with pre-devaluation and pre-decontrol days. The absence and unreliability of statistics, on top of the uncertainties surrounding the recovery forecast, introduce a further possibility of errors.

96. The recent behavior of exports has already been discussed in Chapter III, pages 21 to 25. In 1967/68, given good crops, exports appear likely to rise, but to something less than the 1964/65 level, say $1,675 million, with the main increases being in jute goods, tea, and also iron and steel products and iron ore. Thereafter, export growth performance depends on external markets and in large part on the success of Government incentive and other export promotion policies, and with some optimism a forecast of a further 7.5% increase to $1,800 million is assumed for 1968/69.

97. Import behavior is less easy to explain and predict. Apart from an increase in food and project-tied imports in 1965/66, that year was characterized by a very sharp drop in "maintenance" goods imports partly because of the decline in national income but partly also because import licensing was curtailed because of expected adverse trends in reserves and the balance of payments. Import licensing thus fell from $1,913 million to $1,369 million.[1] Devaluation in June 1966 was followed by measures of import decontrol in August 1966, and the expectation at the time was that imports would soon surge ahead in response to the supposed pent-up demand for imported intermediate goods. The demand for licenses certainly boomed, by almost $1 billion, to the record level of $2,346 million.

1/ See Appendix Table XVI.

98. Paradoxically, however, imports and import payments showed no corresponding movement, with maintenance imports rising in 1966/67 to only $1,553 million, still significantly less than in 1964/65. Reference may be made to Table A page 40. The basic cause of this slow growth would seem to be the industrial recession and the stagnation in real national income, plus the uncertainty and higher costs induced by the devaluation. Also, since there is frequently a lag between licensing and arrivals of between 6 and 15 months, according to the commodity, it could not be expected that increased imports would actually begin to flow until the second quarter of 1967 because the bulk of the new licensing took place in August and September 1966. However, there is as yet no firm evidence of a surge in import arrivals or in license utilization, and in fact such evidence as exists - for example the slow rate of utilization of the IDA industrial imports credit or the apparently slow rate of issue of supplementary licenses (issued to importers on demand when a given proportion of the initial license is used) support the contention that the level of imports is determined more by trends and prospects of economic activity than by the immediate license issue.

99. The revival of the economy with a good crop, as discussed in Chapter IV, will probably not begin in earnest until towards the end of the fiscal year, and then the main initial impact will be on consumer goods industries which have a fairly low import content. Rapid revival of public and private industrial investment will probably not become an important factor until the summer of 1968. In other words, it is probable in the earlier phases of recovery that the upturn in imports will not be as sharp as the revival in industrial activity. Also, the present level of stock of finished goods in manufacturing industry appears to be higher than usual. However, fertilizer imports this year seems likely to increase sharply by up to $150 million. In this light, maintenance imports in the current year, 1967/68, will probably be around 12% higher than 1966/67 with, a further 12% growth the following year; thus reaching levels of about $1,750 million and $1,950 million, respectively.

100. It should be stressed that these estimates of import levels imply, however, that at least for the next two years the growth in maintenance imports will be somewhat greater than the growth in the economy as a whole, despite the effect of devaluation on prices of imported goods. However, we see no evidence to support the contention of the Indian authorities that maintenance imports will rise by 36% in 1967/68 to $2,109 million. (See Table on Page 40). Such an increase could take place only if a large speculative demand for stocks of imported goods emerged, and if credit to finance such stocks were to exist. The remote possibility of an early and very rapid recovery of the economy could also boost imports, but there is no sign of this in the first half of the year. Since decontrol, there has probably been a speculative element in the demand for licenses, and in fact, however, licenses issued from 1964/65 through 1966/67 exceed comparable import payments by no less than $1 billion, and if licenses issued in 1967/68 reach the level assumed by the Indian authorities of $2,300 million, then the excess of the volume of licenses over payments in the same period would be in the order of $1.5 billion. The validity of a significant proportion of these outstanding licenses has doubtless expired. It is nevertheless clear that the Indian authorities have had to issue licenses well in excess of the foreseeable resources against which payments might have to be made, but it is also highly probable that, in

contrast to the experience before decontrol, a significant portion of these licenses will go unutilized or will be utilized very slowly. This could quickly change, of course, if anything should happen to shake confidence in the continuation of the import decontrol program.

101. In other words, since the commencement of the liberal import licensing policy it is no longer possible or desirable to control the level of imports as exactly as before - which has implications for aid commitments. It would, of course, always be possible to maintain the liberal policy but to limit import demand to whatever are the exchange availabilities, by appropriate financial policies. But given the present limited aid pipeline this would be tantamount to clamping down on any economic revival before it gains much momentum. At the other extreme, however, although the Government cannot curtail the issue of licenses if it is to maintain the creditability of the liberal import policy, it is not essential for the Government to have assured foreign exchange resources (in the form of its own exchange earnings plus aid commitments) to cover every license issued, because of the distinct likelihood that many licenses will either not be used at all or will be used with considerable delay. Thus, the expected level of license issue is not, under these new circumstances, an appropriate criterion for assessing aid commitment needs. Rather, it is necessary to ensure that the Government has the resources necessary to meet the expected level of import payments, and also to ensure that the necessary resources are in the aid pipeline sufficiently far in advance to avoid a hiatus in import payments.

102. It would be misleading, however, to suggest that the probability of future foreign aid can be used as a basis for current import licensing. The procedures for using tied aid make it quite difficult for most of the aid and impossible for a considerable part, to apply aid commitments to import licenses previously issued. The resource basis of import licensing is therefore largely confined to prospective balance of payments receipts on current account, aid already committed, and such aid as can be foreseen in advance to be either freely usable or retroactively applicable to outstanding licenses or actual imports. The freely usable portion is so far quite small and the retroactively usable portion, although usually somewhat larger, also involves procedures and conditions which cannot be definitely anticipated.

103. These and other difficulties in the use of tied aid emphasize the need for greater aid liquidity. At the present low level of India's foreign exchange reserves it is of the greatest importance that enough of this year's new aid commitments be in a sufficiently liquid and quickly usable form to meet the uncovered payments deficit. In particular it is important that as much of this year's aid as possible be made retroactively usable against payment obligations from the beginning of the current fiscal year. Without sufficient liquidity in this year's aid there will be losses of exchange which will be serious. This is already happening. It demonstrates that at least so far this year the availability of new liquid aid is inadequate. Since the beginning of the fiscal year India's foreign exchange reserves have fallen by $60 million (during April-September), and this despite debt relief or rescheduling by some foreign creditors of more than $50 million. At the level of $577 million near the end of September, India's foreign exchange

reserves were equivalent to hardly more than two months imports at the depressed 1967 import level. This is not only a serious problem of the moment but will continue to be serious unless there is a larger share of foreign aid in a freely usable form. The need will be just as important next year and thereafter as it is this year. It is for this reason that debt rescheduling is of such significance in any satisfactory Indian assistance program.

104. On the basis of the discussion below, it is clear that, although immediate aid requirements are less than had originally been estimated because of the recession in economic activity, the aid pipeline is getting undesirably short, and new, quick-disbursing non-project aid will be necessary to meet some of the maintenance import requirements of both this year and next year if the liberal licensing policy is to be continued. Also, there will be a need for new project aid to help finance the import elements of a revised investment program. The only escape from this need for continuing large net aid flows, would seem to be through substantial export growth combined with higher rates of saving. But this appears to be a solution for the longer run rather than for the next few years. It seems clear that any solution which would rely on domestic savings and import substitution as the answer to India's balance of payments and development requirements, even in the long run, presupposes a degree of Indian independence from imports which is neither practical nor realistic in any context in which the economy grows faster than the population.

(b) Aid Requirements

105. The basic framework of India's balance of payments, for the past three years, together with forecasts by the Government of India and the Bank for the current year 1967/68, and by the Bank for next year, is presented on the following page. The levels of exports and maintenance imports have already been discussed above. Food imports reached record levels in the drought years, and with good harvests this year should fall somewhat in 1968/69. The food imports and food aid estimate for 1967/68 reflects the commitments made as of mid-September 1967. The urgent need to help India replenish private and public food stocks and build up an official food buffer stock means that food imports in 1968/69 should not fall below six million tons even if the harvests are good. It is assumed here that commercial food purchases will fall from their recent high average level of $200 million a year to about $150 million in 1968/69 but to the extent that food aid (in the form of food) of $400 million does not materialize the requirements for non-project "cash" aid would increase. Hopefully, good harvests and continued progress by the Government in its agricultural program, will sharply reduce, and possibly eliminate, the need for significant food imports by 1970/71. The expected drop in project-tied imports in 1967/68 and the projected 15% increase in 1968/69 are based essentially on the assumed trends in investment expenditure discussed above.

106. It is important to note in the above balance of payments estimates of the IBRD for 1967/68 and 1968/69 that transactions with the IMF have been left blank. Actually India has large obligations to the IFM amounting

TABLE A
BALANCE OF PAYMENTS
(US$ million)

	1965/66 1/	1966/67 2/	1967/68 Our Est.	1967/68 G.O.I. 3/	1968/69 Our Est.
Imports - Total (c.i.f)	2,803	2,892	3,050	3,415	3,150
(a) Food	598	743	720	721	550
(b) Project-tied	729	560	520	525	600
(c) Other PL 480	66	36	60	60	50
(d) Other Imports 4/	1,410	1,553	1,750	2,109	1,950
Exports - Total	1,642	1,558	1,675	1,700	1,800
Trade Balance	-1,161	-1,334	-1,375	-1,715	-1,350
Other Transactions	- 267	- 434	- 455	- 515	- 520
(a) Debt Service 5/	- 270	- 320	- 370	- 449	- 430
(b) IMF Repayment	- 75	- 57	10/	- 57	10/
(c) Others, Net 6/	+ 78 7/	- 57	- 85	- 9	- 90
Overall Deficit	1,428	1,768	1,830	2,230	1,870
Financed by:					
(a) Food Aid	460	550	450	411	400
(b) Project Aid	729	560	520	525	600
(c) Other PL 480	66	36	60	60	50
(d) IMF Drawings	137	187	10/	-	10/
(e) Use of Reserves (decrease +)	- 101	- 9	nil	nil	nil
(f) Non-project Aid Disbursements, from commitments made in 1966/67 and before	137	(165 8/ (279 9/	(450 8/ (50 9/	484	285 8/
(g) Disbursements Required from Commitments in 1967/68 and 1968/69	-	-	300	750	535

1/ Preliminary. 2/ Estimate.
3/ As estimated July 19, 1967 by Finance Ministry.
4/ This category consists mainly of "maintenance" imports - i.e. raw materials, spare parts, etc; - plus a small amount of capital goods not financed by project-tied aid.
5/ Excludes service payments on suppliers' credits; the import data also apparently excludes imports so financed.
6/ Includes invisibles, autonomous capital movements, errors and ommissions.
7/ Includes remittances under National Defence Remittance Scheme.
8/ From the initial pledge of $900 million made in 1966/67.
9/ From other prior commitments.
10/ See paragraph 106.
NOTE: Statistical uncertainties make these estimates subject to a considerable margin of error.

to over $400 million of which substantial amounts are repayable in this period. The $187.5 million drawn just before devaluation is due for repurchase before the end of 1967, $200 million drawn in the seven months after the March 1965 stand-by arrangement is due for repurchase not later than three years after each drawing, and $30 million remains to be paid in annual instalments as a result of the increase in India's IMF quota last year. There is the possibility under IMF practices of rescheduling these repurchase commitments within certain limits. This is now under consideration and at present it is not possible to assess what the repurchase pattern will be. After taking account of rescheduling possibilities the India authorities believe that about $200 million might have to be provided for this purpose during this year and next year. To the extent that there would be such net repurchases from the Fund, the above estimates of the deficits in the balance of payments for this year and next year would be correspondingly increased.

107. After taking into account exports, full interest and amortisation payments on schedule, other net payments on invisibles and private capital movements, and assuming no change in the net IMF position, the overall deficit to be financed this year will probably be about $1,830 million. It will probably be about the same next year. This would mean an increase in the deficit by almost $300 million in a three year period - not a happy outcome. The fundamental problem is that imports this decade have so far risen over 40% more than exports, and debt service has tripled. If food imports after 1968/69 begin to diminish sharply then these adverse trends in the overall deficit should be reversed and the need for continuous food aid would probably also disappear, but the remaining deficit then is unlikely to be much more manageable than it is now.

108. To finance this overall deficit in 1967/68 food aid in the form of food has already been committed and should amount to about $450 million. Project aid disbursements, mainly from old commitments should reach $520 million. If this target is not reached, there would of course be an offsetting reduction in import payments. This leaves a remaining gap of $800 million, much of which should be financed by disbursements out of past non-project aid and mainly from the $900 million committed last year, all of which was available to India by June 1967 and only a small part of which was used last year. On the basis of aid utilization so far, it appears that further to $165 million disbursed in 1966/67, disbursements from this source during 1967/68 may be about $450 million (thus leaving $285 million over for disbursement in 1968/69). After allowing for disbursements of $50 million from non-project aid commitments made prior to April 1, 1966 and $60 million for non-food PL480 assistance the remaining need for disbursements for 1967/68, uncovered by commitments as of April 1, 1967, is $300 million. The ways in which this remaining gap might be filled are discussed below in paragraph 111-114.

109. Turning to 1968/69, although it is of course difficult to assess the balance of payments outcome precisely, it appears that the overall trade deficit is likely to remain at about the same level as 1966/67 and 1967/68, i.e. $1,300 million, but debt service payment obligations

(exclusive of any rescheduling of debt payments) will rise by over $50 million to about $430 million, increasing the probable overall deficit to about $1,820 million. Of this deficit, about $285 million can probably be financed out of the remaining balance of the $900 million pledged in 1966/67, and it is assumed that $50 million of non-food PL 480 commodities will also be available. This would leave an overall deficit of $1,485 million to be covered by new food aid, project-tied aid from both new and old commitments, commodity aid from next year's new commitments, and from commitments made in this year, and from debt rescheduling or relief.

110. Before considering the size of the commitments necessary to meet the disbursement requirements in the current year and next year, two points may be made. Firstly, although there is a prospect of a somewhat lower external deficit in 1969/70 and 1970/71 because of the improved food production prospects, it may be presumed that there will also be some corresponding reductions in food aid, still leaving the need for project and non-project finance. The size of these future deficits is difficult to predict from this point in the depression, but it would need a sharp improvement in exports for the deficits to be significantly smaller than today's. There is thus a continuing need for disbursements of assistance which has to be committed far enough ahead to enable import arrivals and payments to flow smoothly. In other words, an adequate aid pipeline has to be maintained. The second point arises out of the relationship between new investment and the level of operations of the capital goods industries. The latter can increase their output only if there is a demand for their products arising out of the execution of investment projects. So, there is a foreign exchange need both for imported materials for the capital goods industries and for the imported equipment component of investment projects. Hence, there is a complementary need for aid for both purposes. With most aid tied by source and much of it by commodity, and with trade earnings in Eastern Europe limited to expenditure in that area, India has little margin for project imports from its own exchange after covering maintenance imports not financed by aid, commercial food imports and debt service. Therefore, unless aid is made available on a much more liberal and fungible basis, it is necessary to ensure that the aid package for India provides adequately for both project and non-project assistance.

(i) Non-project Aid Requirements

111. Regarding the specific commitments which are needed in the current year 1967/68, there are thus two objectives. First, the commitment must result in disbursements of about $250 million during this year; second, there must be a carry-over into next year of a commitment that will result in disbursement of an amount in 1968/69 that meets a substantial portion of 1968/69 needs. A substantial portion means, in

effect, that portion of the aid gap which cannot be financed in 1968/69 out of 1968/69 commitments - and it thus further assumes that the size and timing of commitments in 1968/69 are similar to those in 1966/67 and 1967/68.

112. As can be seen from Table A on page 40, and Table B below, the total disbursements of non-project, non-food aid likely to be required in 1968/69 is about $820 million, of which $285 is already committed leaving a balance of $535 million. It is probable that under normal circumstances about $185 million of this balance could be met from next year's (1968/69) commitment, leaving about $350 million to be met from this year's commitment. This year, the IBRD has disbursed $50 million in interim debt relief, so new disbursement from other aid committed this year must reach the balance of $250 million out of the $300 million needed. Allowing $150 million carry-over into 1969/70, the total non-project commitment required this year is thus about $750 million. For a tabular explanation see Table B row 3.

113. If this sum is committed, then the non-project pipeline into 1968/69 will be about $785 million (i.e. $500 million undisbursed from a potential commitment this year of $750 million plus $285 million from the commitment in 1966/67 of $900 million). This is the same as the pipeline carried forward into 1967/68 from last year (i.e. $50 million of earlier aid plus $735 out of last year's $900 million). For details see Table C below. The pipeline into 1969/70 depends of course on the level of commitments made next year, but in order to achieve the same pipeline a commitment next year of about $820 million would be necessary (Table B row 4). If the recovery of the economy is reasonably rapid, it might be necessary to commit a slightly larger sum than this pipeline calculation would imply, so for the present the tentative estimate of the 1968/69 commitment could be set at $800-900 million. As Table B row 4 shows, this should suffice to meet disbursement requirements in 1968/69, as long as the full $750 million is committed this year.

114. As was suggested in Chapter IV, there remains in 1967/68 an urgent need for continued food aid, even if there is a good food crop, because if a food-deficit-induced recession is to be avoided in the future, a large official food buffer stock must be established. It is tentatively estimated in Chapter IV that food import requirements should be 5 or 6 million tons for consumption purposes and a million tons for official stockpiling. This would suggest minimum import requirements of about 6 million tons. It could well be more if harvests belie current optimism or if there were foreign aid and Indian capability for larger grain stockpiling. Hence, there is need for continuation of substantial food aid. The value of food imports, in the order of 6 million tons, is put at $550 million in the balance of payments estimates for 1968/69, and food aid at $400 million, leaving about $150 million to be financed from India's own resources. Considering the high priority of food imports, if food aid were to fall short of requirements, the shortfall should be covered by commercial purchases. This would mean of course that other non-project aid requirements would be increased including requirements of aid in a liquid form.

Table B

NON-PROJECT AID COMMITMENTS AND DISBURSEMENTS

(US $ Million)

Commitments		Disbursements in: 1966/67 Actual	1967/68 Est.	1968/69 Est.	1969/70 and beyond
(1) Old commitments	n.a.	279	50	nil	nil
(2) 1966/67 commitment	900	165	450	285	nil
(3) 1967/68 commitment (needed)	750	nil	250	350	150
(4) 1968/69 commitment (tentative requirement)	820	nil	nil	185	635
Total Disbursements		444	750	820	785

Table C

NON-PROJECT AID PIPELINE

OUTSTANDING COMMITMENTS AS OF APRIL 1

(US $ Million)

Balance of:	1967	1968	1969
(1) Old commitments	50	nil	nil
(2) 1966/67 commitment	735	285	nil
(3) 1967/68 commitment a/	-	500	150
(4) 1968/69 commitment b/	-	-	635
Pipeline as of April 1	785	785	785

a/ Assumed to be $700 million.
b/ Assumed to be $820 million.

Note: These tables are illustrative, and are based on two main assumptions. First, the pipeline is assumed to be maintained at the April 1, 1967 level of $785 million; second, disbursements from each tranche of commitments are assumed to follow a consistent pattern, with about half the disbursements taking place in the year after commitment, and all disbursements completed by the end of the third year. In 1967/68 disbursements in the year of commitment are presumed to be a little higher than average because some early, quick disbursing commitments were made. Evidence about the rate of utilization of licenses issued for aid-financed imports is however unnecessarily scanty, so the second assumption is subject to revision.

(ii) Project Aid

115. The amount of new project-tied aid India will need in the coming two years is difficult to estimate at present. For one thing, the exact sum likely to be disbursed out of old commitments is not known because this depends in part on the level and composition of next year's public sector investment expenditure. The position of non-consortium project-tied is particularly unclear and the existence of large unutilized balances as especially from the U.S.S.R. makes it difficult to estimate the amount available for project lending. Likewise there is no satisfactory basis at present for estimating total project aid disbursement required for 1968/69 but, to ensure that investment recovery is not restrained by a foreign exchange bottleneck, project aid disbursements should rise at least as fast as investment - say about 15% next year, giving an assumed total disbursement requirements of around $600 million compared with an estimated $520 million this year and $560 million last year.

116. Although a sizeable project aid pipeline exists, new commitments in the past two years, including non-consortium commitments, have been below disbursements, so the pipeline is clearly diminishing. Also, it does not appear that existing commitments alone can meet the disbursement requirement for 1968/69, so a significant increase in project lending will be needed. The Indian Government is understood to be preparing an estimate of its new project aid requirements as a basis for consideration of foreign commitments to project assistance at the November meeting of the Indian Consortium. No advance estimate of the latter can be made at present, in the absence of information about the types of project for which finance is sought, and thus the likely speed and pattern of disbursements.

(iii) Summary

117. In summary, it is clear that if non-project aid commitments this year fall below $750 million, then the aid pipeline would be diminished with the serious risk that as a consequence the import decontrol policy may have to be reversed because of rising import license obligations and use without sufficient assurance about future exchange availabilities. The IBRD relief for $50 million of debt repayments, together with debt rescheduling or relief promised by other consortium countries, plus some commodity aid disbursements from commitments already made or in immediate prospect (as of end-September 1967) may perhaps just suffice to meet India's immediate cash needs this year. However, unless consortium members make commitments this year, beyond this year's actual disbursement requirements, in a total amount as previously indicated of about $750 million, the aid availabilities for next year are likely to remain too uncertain for present policy requirements, and the non-project aid problems of adequate commitments and adequate disbursements next year will be aggravated. Regarding project-tied aid, there is a need to increase the volume of commitments because existing commitments will not suffice to enable public investment to resume an upward trend next year.

STATISTICAL APPENDIX

Table

TABLE I: National Income by Sector

(Rs. Billion; 1960/61 Prices)

Sector	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66 (estimates)	1966/67 (estimates)
Agriculture and allied sectors	68.9	69.0	67.6	69.7	74.6	63.9	65.3
Mining and manufacturing	26.0	27.2	28.3	30.1	31.9	33.4	99.5
Commerce, transport and communications	23.4	24.2	25.1	26.4	28.9	29.1	
Other services	23.6	25.2	27.2	29.3	32.0	34.1	
Net domestic product at factor cost	141.9	145.6	148.2	155.5	167.4	160.5	164.8
Net national income	141.4	144.9	147.4	154.6	166.3	159.3	163.6a/
Population (million) b/	434.6	445.3	456.1	467.1	478.3	490.1	502.2
Per capita income (Rs.) b/	326	326	323	331	348	325	326

a/ Rs. 229 billion (estimated) at current prices.
b/ Estimated population at mid-point of fiscal year.

Source: Planning Commission, Draft Outline, Fourth Five-Year Plan and Annual Plan, 1967/68.

TABLE II: Production of Principal Crops

Commodity	1950/51	1960/61	1962/63	1964/65	1965/66	1966/67
			(million tons) a/			
Foodgrains	50.8	82.0	78.4	89.0	72.3	78.0 c/
Cereals	42.4	69.3	67.0	76.6	62.3	66.7
Rice	20.6	34.6	31.9	39.0	30.6	30.9
Wheat	6.5	11.0	10.8	12.3	10.7	12.2 c/
Coarse grains	15.3	23.7	24.3	25.3	21.0	23.6
Pulses	8.4	12.7	11.4	12.4	10.0	11.3
			(thousand tons) a/			
Oilseeds	5,158	6,990	7,121	8,415	6,155	6,936 c/
Groundnuts	3,481	4,812	4,821	5,888	4,022	5,000 c/
Castor	103	115	109	102	108	71
Sesamum	445	318	464	493	407	425
Rape and mustard	762	1,347	1,294	1,466	1,268	1,040
Linseed	367	398	433	466	350	400
Sugarcane b/	5,705	11,141	9,544	12,031	11,830	10,500
Cotton	518	953	956	1,022	847	899
Jute	596	744	981	1,084	807	954
Mesta	n.a.	203	305	285	224	n.a.
Tobacco	261	307	366	370	315	366
Chillies (dry)	351	419	420	469	381	n.a.
Tea	275	321	347	367	365	376
Coffee	25	59	51	65	63	70
Rubber	14	25	32	44	49	50
Coconuts (mn. nuts)	3,582	4,639	5,017	4,806	n.a.	n.a.

a/ Tons refers to metric tons.
b/ Yield expressed in terms of gur.
c/ Mission estimates. These are higher than the Government's preliminary estimates which assume a wheat crop of only 10.8 million tons and a groundnuts crop of only 4.5 million tons.

TABLE III: Foodgrain Availability and Prices

	1956	...	1961	1962	1963	1964	1965	1966	1967	1968 (projected)
Gross production (million tons)	69.2		82.0	82.7	78.5	80.2	89.0	72.3	78 d/	95
Net production a/	60.5		71.8	72.4	68.6	70.2	77.9	63.3	66.6	83.1
Net imports	1.4		3.5	3.6	4.6	6.3	7.5	10.3	9.5	6.0
Change in official stock (increase -)	.6		.2	.4	0.0	1.2	-1.1	- .1	- .1	-2.0
Total availability b/	62.5		75.5	76.4	73.2	77.7	84.3	73.5	76.0	87.1
Population (millions)	398		443	454	464	476	487	499	511	523
Per capita grain availability (index)	100		109	107	100	104	110	94	95	105
Relative grain price c/	100		86	86	103	110	109	131	141 e/	(decline)
% change in foodgrain availability per capita			+ 9% f/	- 2%	- 7%	+ 4%	+ 6%	-15%	+ 1%	+10%
% change in relative grain price			-14% f/	.0	+20%	+ 7%	- 1%	+21%	+ 8%	(negative)

a/ Net of seed and wastage (12.5%).
b/ Economic Survey 1966/67, Table 1.5.
c/ The relative price is obtained by deflating the foodgrain price index by the index for manufactures. The price is that of the last week of March of the following year e.g. foodgrain availabilities in 1964 are related to prices in March 1965, etc.
d/ Official figure is 76 million, but the mission regards this as an underestimate.
e/ As of July 15, 1967.
f/ For 1961 the change is over 1956, otherwise over the preceding year.

Source: Economic Survey 1966/67, Table 1.5.

TABLE IV: High Yielding Variety Program

A. Year 1966/67

	Revised Target (000 acres)			Estimated Coverage (000 acres)			
	Kharif	Rabi	Total	Kharif	Rabi	Total	%
Paddy	1,540	1,230	2,770	1,258	960	2,218 1/	80
Wheat	-	1,590	1,590	-	1,350	1,350 1/	85
Maize	490	540	1,030	333	190	523	50
Jowar (Sorghum)	340	960	1,300	117	455	572	44
Bajra (Pearl Millet)	200	110	300	101	45	146	49
Total	2,650	4,430	6,990	1,809	3,000	4,809	69

B. Year 1967/68

	Target (000 acres)		
	Kharif	Rabi	Total
Paddy	4,136	2,022	6,158
Wheat	-	4,562	4,562
Maize	1,174	495	1,669
Jowar (Sorghum)	1,500	1,050	2,550
Bajra (Pearl Millet)	1,020 2/	100	1,120
Total	7,830	8,229	16,059

1/ Because open-pollinated varieties such as rice and wheat depend on individual farmers for reproduction and multiplication, the figures given involve a considerable amount of guesswork.

2/ This target seems too high given the levels of certified seed production of Jowar during 1966/67 estimated by NSC.

Source: Ministry of Food and Agriculture.

TABLE V: Fertilizer Distribution

	N	P_2O_5	K_2O	Total
	(000 tons nutrients)			
1965-66				
Production	233	117	-	350
Imports	323	21	94	438
Stock Increase (Decrease)	(27)	4	4	(19)
Distribution	583	134	90	807
1966-67 (est.)				
Production	308	132	-	440
Imports	617	141	120	878
Stock Increase (Decrease)	78	31	6	115
Distribution	847	242	114	1,203
1967-68 (proj.)				
Production	500	250	-	750
Imports	888	359	300	1,547 1/
Stock Increase (Decrease)	(38)	109	-	71
Distribution	1,350 2/	500	300	2,150

1/ Valued at US$280 million.
2/ Of this amount, 710,000 tons is estimated to have been available in time for the Kharif crop.

Source: Ministry of Finance.

TABLE VI: Tractors

	1965/66	1966/67	(Target) 1967/68
Crawler Tractors			
Foreign Exchange allocated for imports ($ million)	3.9	9.7	17.8
Wheel Tractors			
Production (000)	6.2	7.5	13.0
Imports (000)	1.9	6.5	10.0
	7.1	14.0	23.0
Foreign Exchange allocated for imports ($ million)	1.7	7.5	11.5
Power Tillers			
Imports (000)	0.9	1.1	1.4
Foreign Exchange allocated for imports ($ million)	1.0	1.2	1.4

Source: Ministry of Food and Agriculture.

TABLE VII: Minor Irrigation Development

	Status at End of Third Plan 1965/66	Estimated Construction during 1966/67	Target Construction for 1967/68
Nos. Wells (000)			
Boring of Dug Wells	135.0	70.0	90.0
Deepening of Dug Wells	70.0	50.0	55.0
Construction of Shallow Tubewells 1/ - Private	90.0	27.8	27.8
Construction of Deep Tubewells - State	11.9	0.9	1.0
Nos. Pumpsets (000)			
Electric	502.4	146.0	180.0
Diesel	535.2	70.0	85.0

1/ Including "filter points", a name for shallow tubewells sunk in sandy soils in Madras State.

Source: Ministry of Food and Agriculture.

TABLE VIII: Industrial Production
(Index numbers: 1956=100)

	Weight	1961	1962	1963	1964	1965	1966
Mining and quarrying	7.47	147	162	176	169	184	190
Food Manufacturing	13.99	129	127	123	136	144	148
Cigarettes	1.49	150	156	152	176	206	223
Cotton textiles	32.10	109	109	116	123	123	120
Woollen textiles	1.10	107	139	166	128	110	102
Synthetic fibres	2.94	145	154	170	211	218	213
Jute manufactures	5.62	90	110	117	121	126	105
Footwear (leather)	0.28	166	180	214	212	246	266
Wood and cork, except furniture	0.24	150	169	200	203	236	227
Paper and paper products	1.39	182	191	227	238	255	282
Leather and fur products	0.18	116	125	149	138	140	136
Rubber products	3.04	157	170	187	198	218	218
Chemicals and chemical products	3.56	171	184	204	224	235	245
Petroleum products	3.79	157	169	197	217	231	286
Non-metallic mineral products	2.47	181	220	205	216	233	230
Basic metals	9.25	211	255	293	290	299	316
Metal products	0.99	152	179	201	226	240	221
Machinery, except electrical machinery	1.10	269	293	367	411	490	531
Electrical machinery	2.41	183	211	239	282	313	342
Transport equipment	2.86	131	151	151	193	208	188
Electricity	3.68	199	223	298	297	327	355
All Industries	100	141	153	166	177	187	192
Selected Products							
Basic industrial chemicals	0.97	228	257	298	353	394	414
Fertilizers	0.60	178	196	228	251	258	288
Cement	1.24	165	172	187	194	211	221
Railway wagons	1.04	66	106	120	151	157	104
Automobiles	1.28	169	180	163	209	226	224

% Changes Over Preceding Year

	Weight	1961	1962	1963	1964	1965	1966
All manufactured goods	88.80	+ 7.9	+ 8.6	+ 7.7	+ 7.0	+ 5.0	+2.1
Consumer goods	51.90	+ 6.9	+ 1.3	+ 3.4	+ 8.3	+ 2.5	-0.7
Intermediate goods	17.82	+ 5.1	+10.8	+11.9	+ 7.0	+ 6.5	+4.6
Capital goods	19.08	+12.9	+18.8	+11.0	+ 6.3	+ 6.6	+3.5
of which							
a) non-electrical machinery (1.10)		+13.5	+ 9.1	+25.2	+12.0	+19.1	+8.4
b) electrical machinery (2.41)		+ 4.2	+15.2	+13.3	+18.1	+10.9	+8.5
c) transport equipment (2.86)		+ 9.5	+15.7	+ 0.1	+27.3	+ 7.9	-9.3
d) basic metals (9.25)		+15.1	+21.0	+14.7	- 0.8	+ 3.0	+5.7

Sources: Economic Survey 1966/67, Tables 1.8, 1.9.
RBI Bulletins.

TABLE IX: Wholesale Prices
(Index numbers: 1952/53=100)a/

	Weight	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67
Cereals	192	100	102	103	122	140	156	194
Pulses	43	92	91	99	133	152	155	234
Fruit and vegetables	23	109	131	133	166	156	169	204
Milk and ghee	84	118	119	126	132	150	163	199
Edible oils	47	164	150	140	163	185	266	314
Fish, eggs and meat	17	120	143	138	153	176	206	219
Sugar and gur	48	117	122	148	168	155	152	239
Other foods	50	169	158	170	176	172	214	223
Total Food	504	118	118	124	141	154	175	218
Liquor and tobacco	21	115	99	117	119	138	128	128
Industrial raw materials	155	158	135	135	146	163	210	236
Manufactures	290	129	126	130	133	141	157	168
Fuel, power, light, etc.	30	121	122	138	140	148	157	173
All Commodities	1,000	128	123	127	139	151	174	203

a/ Index relates to last week of year indicated.

Source: Office of the Economic Adviser to the Government of India.

TABLE X: Wholesale Prices of Selected Commodities
(Index number: 1952/53=100)

	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67
Rice	108	105	111	125	134	141	173
Wheat	90	91	90	99	130	138	158
Jowar	122	112	130	116	189	197	199
Gram	87	83	89	100	158	151	198
Milk	118	117	123	133	151	167	186
Gur	136	116	153	218	210	162	211
Tea	205	193	175	196	187	194	197
Spices	128	140	156	158	164	181	237
Cotton (raw)	112	109	113	119	126	129	139
Jute (raw)	210	178	147	148	164	219	266
Groundnuts	146	155	140	144	186	223	288
Cotton manufacturers	128	128	131	136	137	142	151
Jute manufacturers	131	122	111	100	114	146	152
Machinery	116	120	124	131	135	144	158

Source: Office of the Economic Adviser to the Government of India.

TABLE XI: Consolidated Budgets of the Center and State Governments*

(Rs. crores)

	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67 (R.E.)	1967/68 (B.E.)
Total expenditure	2,935	3,484	4,308	4,773	5,545	6,358	6,482
Nondevelopmental a/	1,063	1,317	1,735	1,765	2,137	2,769	2,693
Developmental, of which:	1,872	2,167	2,573	3,008	3,408	3,589	3,789
Education, science, health, and medicine b/	348	435	487	561			
Current revenue	2,035	2,433	3,050	3,327	3,749	4,141	4,714
Tax revenue, of which:	1,543	1,865	2,325	2,599	2,918	3,241	3,600
Income and corporate taxes	322	357	534	581	577	625	640
Sales taxes and excises	677	817	1,007	1,132	1,279	1,480	1,735
Customs duties	212	246	335	397	538	596	643
Land revenue	100	124	130	128			
Nontax revenue c/	492	568	725	728	831	900	1,114
Deficit	900	1,051	1,258	1,446	1,796	2,217	1,768
Financing:							
Capital receipts (net)	622	799	971	1,145	1,345	1,868	1,599
Internal	320	415	469	556	683	969	597
Market loans from nonbanking sources (net)	74	120	116	143	127	132	117
Small savings, prize bonds, premium price bonds and gold bonds (net)	91	84	138	129	138	128	128
Provident fund and compulsory deposits/income tax annuity deposits (net)	53	57	101	114	119	101	120
Miscellaneous capital receipts (net) d/	102	154	114	170	299	608 g/	232
External	302	384	502	589	662	899	1,002
Loans (net) excluding PL 480	196	240	308	348	402	474	670
Grants (excluding PL 480)	20	12	7	9	8 h/	97 h/	41 h/
PL 480 assistance e/	86	132	187	232	252	328	291
Overall deficit financed by banking system f/	278	252	287	301	451	313 i/	169

a/ Excludes transfers to Special Development Fund and other funds.
b/ Includes Plan expenditure of Railways and nondepartmental undertakings out of their own resources as well as loans by the Union and State governments to local bodies, nondepartmental commercial undertakings (including Electricity Boards) and other parties.
c/ Includes contribution of Railways, Posts and Telegraphs and other nondepartmental commercial undertakings for the Plan.
d/ Includes sale of Treasury bills to parties other than the banking system.
e/ Includes loans and grants from counterpart funds and net increase in the US.holdings of special securities. Excludes transfers of PL 480 funds from the State Bank of India which are taken as internal receipts under miscellaneous capital receipts.
f/ In Indian budgetary practice, a surplus or deficit is measured by the sum of changes in cash balances and sales of Treasury bills to the Reserve Bank, all borrowing from commercial banks and medium-term and long-term borrowing from the Reserve Bank being counted as receipts. For the purpose of this presentation, the overall deficit in 1967/68 is taken to be the budget estimate of the deficit in the usual budgetary sense plus an estimate of the probable increase in commercial bank claims on the Government, it being assumed that the Reserve Bank would not have to take up any portion of medium-term and long-term loans. For earlier years, the overall deficit is measured by the actual increase in the net claims of the banking system on the Government in all forms.
g/ Includes Rs.349 crores on account of securities issued to IMF, IBRD and IDA following devaluation.
h/ Includes special food gifts from Canada, USSR, and Australia.
i/ Based on the latest estimate of the overall deficit (as defined by the Government) of Rs.235 crores, compared with the earlier estimate of Rs.271 crores. Since no explanation is as yet available for the lower figure, the revenue and expenditure data relating to the earlier estimate are given; there is therefore a discrepancy of Rs.36 crores for 1966/67 between the current deficit and total financing.
* Includes Union Territories.

Source: Government of India, International Monetary Fund and Economic Survey.

TABLE XII: Current Budget of Central Government

(Rs. Crores)

	1955/56	1960/61	1962/63	1964/65	1965/66	1966/67 (R.E.)	1967/68 (B.E.)
Revenue, total	481	877	1,427	2,081	2,321	2,457	2,671
Tax revenue, subtotal	485	909	1,285	1,821	2,061	2,302	2,463
Share of States	(74)	(179)	(224)	(258)	(276)	(373)	(370)
Tax revenue retained by Centre	411	730	1,061	1,563	1,785	1,929	2,093d/
Non-tax revenue	70	147	366	518	536	528	578
Expenditure, total	441	826	1,314	1,807	2,001	2,282	2,438
Defence	172	248	425	693	762	827	845
Debt service a/	43	77	245	316	371	463	510
Grants in aid to States	36b/	49	198c/	273	329	408	456
Civil administration	34	59	75	82	95	123	124
Social and development services	82	236	186	200	215	236	291
Miscellaneous	74	157	185	243	229	225	212
Net surplus	40	51	113	274	320	175	233

a/ Whereas before 1962/63 debt service of the Central Government was recorded on a net basis, the disbursements and receipts on this account are now shown separately. This accounts for the rise in the figures from 1962/63 onwards. This change renders the figures for this and subsequent years non-comparable with previous years.

b/ Part of grants to States included in items "Civil Administration", "Social and Development Services" and "Miscellaneous".

c/ Includes non-statutory grants from 1961/62 onwards.

d/ Includes the effect of tax proposals; modifications in tax proposals subsequent to the budget have not been taken into account.

Source: Reserve Bank of India Report on Currency and Finance 1965/66.
Reserve Bank of India Bulletin - March, 1967.

TABLE XIII: Capital Budget of Central Government
(Rs. crores)

	1955/ 1956	1960/ 1961	1962/ 1963	1964/ 1965	1965/ 1966	1966/ 1967 (R.E.) c/	1967/ 1968 (B.E.)
Receipts, total a/	183	905	831	1,155	1,096	1,927	1,420
Disbursements, total	373	778	1,081	1,586	1,613	2,468	1,658
Developmental, subtotal	120	270	486	616	542	495	507
Railways	68	89	215	275	245	175	162
Post and telegraph	9	11	21	31	31	28	29
Civil works	25	39	48	80	72	59	50
Industrial development	11	91	171	195	150	181	201
Other	7	27	31	35	44	52	65
Non-developmental, subtotal	-9	136	110	308	191	888	425
Defence	18	33	49	113	122	115	124
State trading	-30	34	-22	41	-84	211	138
Other	3	69	83	154	153	562	163
Grants to states	16	13	16	23	42	44	27
Loans to states (net)	222	244	366	463	564	658	407
Other b/	24	128	103	176	274	383	292
Surplus (+) or deficit (-)	-190	+127	-250	-431	-517	-541	-238

a/ Some receipts have been netted out against disbursements; excludes receipts from Treasury Bills.

b/ Mainly various loans and advances.

c/ Much of the increase in receipts and disbursements in 1966/67 is due to two bookkeeping items: increased deposits in the Special Development Fund, which occur both as receipts and disbursements, and increased subscriptions and securities issued to the IMF, IBRD, etc. following devaluation.

Source: Reserve Bank of India Report on Currency and Finance 1965/66, Budget of the Central Government 1967/68, and Explanatory Memorandum on the Budget 1967/68.

TABLE XIV: Credit Extension to Central and State Governments
(Rs. crores)

	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67 d/
1. Increase in RBI's rupee securities (including Treasury Bills)	124	105	237	209	164	204	363
2. Loans and advances to State Government by RBI	17	42	-26	16	3	137	-140
3. Decline (+) in Central Government deposits with RBI	-13	5	15	-28	-7	40	-66
4. Decline (+) in State Government deposits with RBI	14	13	-16	15	-9	-1	-13
5. One rupee notes a/	5	5	5	5	5	-	-
Total deficit financing, according to GOI definition b/	147	170	215	217	156	380	144
6. Commercial Banks investment in Government securities (inc. Treas. Bills)	-154	43	-5	47	79	96	78
7. Increase (-) or decrease (+) of PL 480/665 deposits with State Bank c/	+121	+54	+67	+39	+62	+21	-
Total deficit financing, according to IBRD definition	114	267	277	303	296	497	222

a/ Notes printed by Government and sold to RBI.

b/ The IBRD (such as used in the IBRD 1960 report) and the Indian definitions differ with respect to the treatment of credit extended to the Government by the commercial banking system.

c/ These figures reflect, among other things, changes in PL 480 arrangements. PL 480 counterpart funds were previously deposited with the State Bank, which invested them mainly in Government securities. Since May 12, 1960, they are deposited directly with the RBI which invests them in non-negotiable Special Securities, The gradual transfer of past accumulations of PL 480 funds from the SBI to RBI leads to depletion of the State Bank's portfolio of Government securities. During 1964/65 and 1965/66 other U.S. funds were also transferred from the State Bank to the Reserve Bank.

d/ No adjustments have been made for effects of devaluation. This explains most of the discrepancy between the figure of Rs.222 crores for total deficit financing (IBRD definition) shown here and the figure of Rs.320 crores for credit to Government in Table XV.

Source: Reserve Bank of India

TABLE XV : Causes of Variations in Money Supply a/

(Rs. Crores: Expansionary effect +, Contractionary effect -)

	1951/ 1956	1956/ 1961	1961/ 1966	1962/ 1963	1963/ 1964	1964/ 1965	1965/ 1966	1966/ 1967
Total increase in money supply with public	+198	+706	+1660	+264	+442	+328	+449	+424
Rates of increase				8.7%	13.3%	8.7%	11.1%	9.6%
Credit extension to Government b/	+245	+1211	+1547	+277	+281	+287	+499	+320 e/
Rates of increase				10.6%	9.7%	9.0%	14.4%	10.8%
Credit extension to private sector c/	+240	+674	+1149	+217	+260	+247	+288	+457
Rates of increase				13.2%	8.7%	12.3%	12.8%	18.0%
Effect of changes in time liabilities of-banks b/	-136	-462	-699	-112	-82	-194	-208	-267
Effects of external transactions d/	-96	-674	-122	-27	+35	-28	-35	-22 e/
Other causes (residual item)	-55	-43	-215	-91	-52	+16	-95	-64

a/ Variations are as between the last Fridays of each fiscal year.

b/ Adjusted for the net changes in PL 480/665 deposits with the State Bank of India and also for the changes in other U.S. funds transferred from the State Bank to the Reserve Bank during 1964/65 and 1965/66; also inclusive of Government's currency liability to the public arising from issue of one rupee notes and small change.

c/ Excludes Reserve Bank credit to private sector.

d/ Equal to changes in (net) foreign assets of Reserve Bank.

e/ Adjusted for revaluation of Reserve Bank assets following devaluation.

Source: Reserve Bank of India and information received by Mission.

TABLE XVI: Balance of Payments

($ million)

		1950/1	1960/1	1962/3	1964/5	1965/6a/	1966/7b/
1.	Imports (c.i.f.)	1,366	2,271	2,254	2,862	2,803	2,892
	a. PL 480	nil	389	255	482	526	555
	b. Others	1,366	1,882	1,999	2.380	2,277	2,337
2.	Exports (f.o.b.)	1,358	-1,324	-1,433	2,380	1,642	1,558
3.	Trade Balance (2-1)	- 8	-947	-821	-1,176	-1,161	-1,334
4.	Other Transactions	48	- 52	-152	- 228	- 267	- 434
	a. Interest payments on debt	-	- 56	- 89	- 108	- 120	- 139
	b. Principal payments on debt	-7	- 71	- 99	- 140	- 150	- 181
	c. IMF repayments	-	- 22	-	- 100	- 75	- 57
	d. Other invisibles (net)	85	63	- 25	- 14	107c/	(
	e. Other capital movements (net)	-17	47	21	- 17	- 129	(-57
	f. Errors and omissions	-13	- 13	- 10	150	100	(
5.	Overall Deficit: financed by:	40	-999	-973	-1,404	-1,428	-1,768
6.	External Assistance	20	875	968	1,252	1,529	1,777
	a. Loans	16	416	641	626	817	(
	b. Grants	4	70	47	44	49	(1,035
	c. PL 480	-	389	255	482	526	555
	d. IMF drawings	-	-	25	100	137	187
7.	Changes in external assets (- increase)	-60	124	5	152	-101	- 9

a/ Preliminary.
b/ Estimate.
c/ Includes remittances under National Defense Remittance Scheme.

Source: Reserve Bank of India and Ministry of Finance.

TABLE XVII: Imports

($ million) a/

		1964/65	1965/66	1966/67
1.	Cereals	592.7	649.4	812.6
2.	Mineral fuels	144.3	143.6	87.5
3.	Raw cotton	122.0	97.1	79.8
4.	Raw jute	15.4	11.8	27.4
5.	Chemicals	71.4	75.2	72.4
6.	Fertilizers	60.8	81.7	126.7
7.	Paper and paper products	27.6	28.1	28.7
8.	Iron and steel	220.5	205.4	129.7
9.	Non-ferrous metals	122.9	144.2	113.9
10.	Metal manufactures	35.7	38.1	22.9
11.	Machinery	849.3	881.2	682.4
12.	Transport equipment	154.4	146.9	79.7
13.	Other	417.1	426.0	446.1
	TOTAL	2,834.1	2,928.7	2,709.8

a/ These figures are collected on a customs basis and are therefore not comparable with the payments data. A breakdown on the basis of payments for 1966/67 was not available at the time of preparation of the report.

Source: Economic Survey 1966/67 and Reserve Bank of India.

TABLE XVIII: Exports

Third Plan Actuals and Fourth Plan Targets

(US $ Million)

	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67	1970/71 Plan Target	1970/71 Mission Estimates	Increase 1965/66 - 1970/71 Plan Target	Increase 1965/66 - 1970/71 Mission Estimates	Rate of Growth 1965/66 - 1970/71 Plan Target %	Rate of Growth 1965/66 - 1970/71 Mission Estimates	Share in Total Exports 1965/66 %
Tea	257	271	259	262	241	215	344 f/	260	103	19	7.4	1.5	14.2
Jute goods	306	314	324	353	384	335	443	400	59	16	3.0	0.8	22.6
Vegetable oils	12	28	42	15	9	3	52	26	43	17	43.0	23.6	0.5
Pulses	n.a.	n.a.	n.a.	n.a.	3		22		19		55.0		0.2
Other fruits and vegetables	13	13	15	14	13	18	25		12		14.0		0.7
Raw cotton	30	26	26	22	20	23	30		10		8.5		1.2
Coffee	19	16	17	28	27	21	40		13		8.2		1.6
Oil cakes	36	65	74	84	73	67	113	113	40	40	9.2	9.2	4.3
Sugar	30	36	54	45	24	22	40		16		10.8		1.4
Unmanufactured tobacco	30	38	44	51	41	29	69	69	28	28	11.0	11.0	2.4
Pepper	17	14	12	14	23	17	24		-		-		1.4
Other spices	19	15	10	12	25	22	37		12		8.2		1.5
Cashew kernels	38	41	45	61	58	61	75	75	17	17	5.3	5.3	3.4
Marine products	8	8	12	14	14	23	50	60	36	36	29.0	29.0	0.8
Iron ore	74	74	76	78	88	94	161	145	73	57	12.8	10.5	5.2
Cotton fabrics	101	101	114	121	116	86	142		26		4.1		6.8
Art silk	n.a.	n.a.	n.a.	n.a.	10	4	21	10	11	-	16.0	-	0.6
Clothing	2	2	10	9	13 a/	n.a.	40		27		25.0		0.8
Footwear	5	6	8	9	11	12	29		18		21.0		0.6
Other leather	53	48	55	57	60	83	79		19		5.7		3.5
Engineering	14	17	31	30	42	31 c/	93		51		17.6		2.5
Iron and steel e/	20	5	8	22	26	34							1.5
Chemicals	8	8	8	14	25 b/	15 d/	46		21		13.0		1.5
All other	373	353	422	399	354	343	558		179		8.5		20.8
Total g/	1427	1499	1666	1714	1700	1558	2533		833		8.3		100.0

Note: The columns labeled mission estimates under the projections for 1970/71 do not represent forecasts of what is likely to happen but rather what could reasonably be achieved by the early 1970's, taking account of market prospects and possibilities for exportable supplies.

a/ Somewhat wider coverage than previous years. Export figure corresponding to previous coverage is $12 million.
b/ Wider coverage than previous years. Export figure corresponding to previous coverage is $19 million.
c/ Narrower coverage than previous year. Corresponding figure for previous year was $35 million.
d/ Presumably same coverage as in years 1961/2 to 1964/5.
e/ Including ferro manganese.
f/ Based on a Fourth Plan Volume target of 300,000 tons. This target has now been revised downward by the Indian Government to 240,000. A corresponding adjustment in the value target would put it at about $275 million.
g/ Figures are on a customs basis and thus differ slightly from those in Table XII which are on the basis of export receipts.

TABLE XIX: Gold and Foreign Exchange Reserves

(in $ million)

Last Friday		Reserve Bank of India a/	Government	Total Official	Change in official reserves over previous period	Commercial Banks
1951		1,887	56	1,943	-	30
1955		1,791	76	1,866	- 77	34
1956		1,360	75	1,435	-431	42
1960		566	104	670	-765	42
1961		763	102	665	- 5	41
1962		450	62	512	-153	50
1963		469	138	607	+ 95	47
1964	December	447	51	498	-109	63
1965	March	461	63	524	+ 26	51
	June	443	76	519	- 5	48
	September	458	48	506	- 13	42
	December	460	139	599	+ 93	45
1966	March	474	152	626	+ 27	55
	June	584	191	775	+149	65
	September	507	149	656	-119	70
	December	515	93	608	- 48	99
1967	March	556	82	638	+ 30	n.a.
	June	520	95	615	- 23	n.a.

a/ Includes $247 million in gold through 1964, $270 million in January 1965, $281 million thereafter through January 1966, and $243 million since then.

Source: International Financial Statistics.

TABLE XX: Foreign Exchange Licensing

($ Million)a/

	1964/65	1965/66	1966/67	1967/68 (projected)
1. Commercial and industrial including iron and steel	958	648	1,435	1,337
2. Petrol, oil and lubricants	199	171	161	164
3. Agricultural inputs	109	175	332	401
4. Other infrastructure	647	378	418	404
TOTAL	1,913	1,369	2,346	2,306

a/ Licenses issued by the Indian government to importers. The terms and conditions of licenses vary according to the purpose and nature of the import. All imports other than cereals and imports obtained under project aid agreements are covered by the licensing.

Source: Ministry of Finance.