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STRATEGY

DEVELOPMENT PROBLEMS, FIVE YEAR PROJECTIONS AND BANK/IDA STRATEGY

1. The June 20, 1968 paper is the most complete statement of development problems, projections and Bank/IDA strategy. Because of the uncertainty of IDA replenishment, the paper has not been discussed in detail with the Government of India; however, the trend of our thinking is well known to Government officials.

2. Most of the information contained in the paper is still up to date. However, the proposed Bank and IDA lending programs (Annexes I and III to the paper) have since then been modified as a result of the delay in IDA replenishment: Two agricultural projects (Tarai Seeds and Punjab/Haryana Drainage) have been shifted from IDA to the Bank, and the proposed lending for telecommunications may also be shifted. For more details on the 1968/69 and 1969/70 lending programs, please refer to "Bank/IDA Projects under Consideration".

3. If IDA replenishment is delayed further, the small amount of money available from the Bank for India during the next few years will make the choice of projects to be supported most difficult. The Government of India clearly gives the highest priority to the industrial imports projects, which disburse rapidly and therefore provide the most immediate support to India's foreign exchange position.

South Asia Department
November 5, 1968

CONFIDENTIAL

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INDIA

DEVELOPMENT PROBLEMS, FIVE-YEAR PROJECTIONS, AND BANK/IDA STRATEGY

June 20, 1968

Asia Department

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DEVELOPMENT PROBLEMS, FIVE-YEAR PROJECTIONS,

AND BANK/IDA STRATEGY

CONTENTS

INDIA

PART I - DEVELOPMENT PROBLEMS AND FIVE YEAR PROJECTIONS

A. INTRODUCTION

1. India's economic problems are both difficult and diverse, and in projecting the possible course of the economy over the next five years a large number of uncertainties have to be taken into account. Even when some of the problems are defined, the "best" policies to ameliorate them are often unclear; so, too, is the capacity of the Government to achieve a consensus and execute an agreed policy. On top of this, there are major gaps in current knowledge of the Indian economy. In what follows, therefore, considerable emphasis is placed on a description of events of the recent past, because these are the best guide to the kinds of problems that India now faces, and will continue to face, in the next five years and well beyond.

B. DEVELOPMENTS DURING THE FIRST THREE PLANS

2. India's record of economic progress over the 20 years since Independence has been disappointing, both when compared with India's needs, and with her potential. A modest investment level during the First Plan period1/ led to a growth of output per head of about 1.5% a year in the early 1950's. Thereafter, investment was accelerated, the rate more than doubling by the early 1960's to about 14% of GDP. Substantial and successful efforts were made to mobilize domestic resources for development, and the higher investment rate was in turn sustained by larger flows of imports and the large-scale aid effort from 1957 onward; yet the growth rate of GNP during the Second and Third Plan periods unfortunately showed no response. Agricultural output, which accounts for almost half of GNP, grew at only 3% a year from the start of the Second Plan to the present. In fact, the economy as a whole from 1960/61 to 1967/68 achieved a growth rate of only 3.5% a year, or about 1% per capita; only part of this disappointing progress can be attributed to the serious droughts of 1965/66 and 1966/67. On noting this unsatisfactory result, it could be pointed out that since Independence India's population has increased by 150 million, yet there has been a slight increase in per capita income.

3. Although overall growth since Independence has been slow, there have been some substantial achievements in a physical sense. The industrial sector has seen a marked relative shift towards metals, machinery and chemicals, and away from textiles and food processing. Steel and cement production

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1/ First Plan	April 1, 1951 - March 31, 1956
Second Plan	April 1, 1956 - March 31, 1961
Third Plan	April 1, 1961 - March 31, 1966
Fourth Plan (proposed)	April 1, 1969 - March 31, 1974

has tripled since 1950/51, coal production has more than doubled, and machinery output of all kinds has grown dramatically. These are important beginnings of a modern industrial structure which, together with the expanding supply of trained and educated manpower, provides a better base for economic progress than was the case 15 years ago. Technological and social change in the rural sectors has been much slower, with agricultural output barely exceeding population growth, but since the adoption in 1965 of a new strategy and scientific practices for agriculture, the prospects for future growth are better than the past record would imply.

4. India's basic strategy, until recently, consisted of an effort to change the structure of the economy by a great expansion and diversification of the capital base, with the greatest possible emphasis on heavy industry and related utilities. The need for corresponding increases in agricultural capacity was recognized, but in practice until the Third Plan there were few significant moves either towards a structural transformation or a significant change in technology, nor was there much investment except in irrigation. It was acknowledged that savings would have to be increased by Government tax measures, and this fitted in with a preference for an increasing direct Government role in production and other economic activity. Planning relied heavily on the derivation of output targets from projections of physical balances, on the Russian model, generally with relatively little regard for comparative cost or advantage, or comparative returns on investment. This meant that emphasis was placed on identifying import substitution possibilities on physical grounds rather than on comparative economic grounds, while export promotion was not an integral part of planning at all. In an extension to the private sector of the physical balances approach, the Government has tended, by administrative controls over industrial investment and imports, to minimize or eliminate competition "in the interests of conserving resources".

5. This strategy, with its emphasis on diverting resources to investment in import-substituting industries, and with its effort to capture the economies of scale which the large economy could offer, can be considered appropriate only, at least, in the broadest sense. Some would argue that it was wrong. The export sector was neglected and too little emphasis placed on agriculture. With the benefit of hindsight it is easy to see that it was also in the tactics that the planning effort went awry. In the rigid pursuit of the above objectives, regardless of cost, many poor investment decisions were made, particularly in the public sector. Excessive capacity was built at high cost in many industries. There were inefficiencies in the planning, design, construction and operation of the public sector enterprises which absorbed almost half the total investment resources. Some plants were also wrongly located because of political considerations. Comparable inefficiencies in the private sector were fostered and compounded by a plethora of Government controls over imports, investment, prices, etc., which helped to create and preserve an excessive protected and non-competitive industrial environment. The problem of underutilization of capacity was also aggravated by the serious foreign exchange constraints. In short, India's development effort exceeded the available administrative and managerial skills, and although there were large regional

differences, no overall improvement in the growth rate resulted from this effort of the late 1950's and early 1960's. The investment rate has subsequently been falling.

6. Another factor contributing to low productivity was distortion in the price structure. In transport, for example, unduly low railway rates for bulk commodities such as coal and iron ore led to excessive railway investment to handle the induced traffic, and contributed to inappropriate locations of major industrial plants. Until recently investment in road transport and coastal shipping suffered by contrast. Agricultural prices, depressed partly by food imports, were until recently inadequate to induce rapid increases in output. Similar inefficiencies have resulted from price distortions in power and public sector industries such as steel and cement. Over and above these, the prices of foreign exchange and also capital have long been too low, and this has led in turn to elaborate and inefficient administrative controls over allocations. India today thus suffers from the legacy of decisions made with very little regard to costs and prices; even where market prices have not been wholly rejected in favor of controls, inappropriate prices have often contributed to inefficient decisions.

C. CURRENT PROBLEMS AND POLICY TRENDS

7. During 1965/66 and 1966/67, India endured two severe droughts, and it required a major effort of economic management simply to distribute food supplies. In order to avoid excessive inflationary trends in food prices, public investment expenditures in particular had to be cut back and the recession accordingly spread widely through the economy. This was not completely without benefit, in that much industry was faced for the first time with a change from a sellers to a buyers market, and some new emphasis has been placed on competitive efficiency; a few firms have been stimulated to consider the export market.

8. The economy today is at a low ebb. After substantial increases in the 1950's, gross investment steadily declined from 14% of GDP in 1962/63 to around 10% today. Gross savings likewise declined from 12% to perhaps 8% over the same period, partly because public savings declined as current expenditures rose on, for example, defence. Gross aid disbursements, on the other hand, have risen even apart from emergency food aid. Exports in 1967/68 were still below the 1964/65 level. The growth of industrial output similarly has been slowing down since 1963 as demand slackened, and last year output actually fell. The original very optimistic Fourth Plan, which was scheduled to start on April 1, 1966, was eventually abandoned because of the recession, but is now being reformulated for the five-year period starting April 1, 1969. It will incorporate the new agricultural strategy, and the current policy trends which give some hope for better growth performance in the future. Developments and problems in economic policy are discussed next.

9. The droughts and the associated recession, and disappointment internally and amongst aid-givers over the poor growth performance, both contributed to the adoption of various changes in policy from 1965 onwards. Also, the somewhat greater autonomy of the state governments, which was enhanced by the emergence of non-Congress governments in a majority of the states, has tended to reduce the role of the Centre in economic management and policy decisions.

10. The first and main change was the introduction in 1965/66 of a new agricultural strategy with the strong support of Prime Minister Shastri; it continues to be the most encouraging part of the Indian economic scene, restoring to agriculture the status and priority which long-term growth demands. The introduction of new fertilizer-responsive food grain varieties has already contributed to a record foodgrain harvest of over 95 million tons in 1967/68. A start has also been made in building up food stocks. Success in the longer run, which could mean the achievement of self-sufficiency in food by the mid-1970's, will require continued emphasis on adaptive research, the continued maintenance of adequate prices, better distribution of scarce inputs, the provision of more agricultural credit, improvements in grain storage capacity, and measures to bring assured water supplies to more farmers. The last could be achieved partly by making better use of the large sunk investments in underutilized major irrigation projects, and partly by increased use of groundwater. Also, the plans for the indigenous production of fertilizer must be carried through expeditiously if potential foreign exchange savings are to be realized; meanwhile imports of fertilizer are essential and are expected to cost no less than $1,000 million over the next three years. The new foodgrain production technology is not dependent on large-scale operation. It therefore could help to improve the lot of the vast numbers of smallholders and landless farmers, provided that adequate institutions are set up and the necessary reform implemented. It will be essential to tackle this problem if the already appalling urban problems are not to be aggravated by rising migration from the rural areas.

11. The agricultural program is the only one to give fairly swift results, as was expected. The other new policy directions are in the field of pricing and administrative controls, where changes can become effective only over a period of time. The principal change was in the policies towards external trade. Devaluation (with strong urging from the Bank, IMF and the U.S.) took place in June 1966, and was accompanied by the more significant step of relaxing controls over imports for a wide range of industries; such imports account for about a quarter of all imports. These measures are still in force. The timing of devaluation, when inflation was rampant because of the drought, the recession was beginning to take effect, the Fourth Plan was being abandoned, and elections were imminent, proved unfortunate. So too was its extent, which was very small when countervailing adjustments in import and

export duties were taken into account. The potential psychological and competitive impacts were thus partly lost. The current uncertainty about aid flows from external lenders, whose continued support for the import decontrol policies had been assured at the time these measures were introduced, has put this liberalized import policy in jeopardy. If the present low rate of commitments, and the running down of the pipeline of aid prevail, India will have little choice but to abandon or modify some of these forward steps in trade policy. There is no chance now of the progressive further removal of trade restrictions that had been hoped for in 1966.

12. Export performance has so far also failed to improve after devaluation, thus further curtailing foreign exchange availabilities. Although there have been some policy and incentive improvements recently, and some marginal new exports, production for the domestic market still appears to be relatively more attractive for the vast majority of enterprises. There is as yet no sign of a meaningful export orientation of production and investment decisions, necessary to sustain export growth, mainly because official commitment to the goal of rising exports is still barely lukewarm, while private industry largely lacks confidence in its competitive ability abroad.

13. In the industrial field, the underutilization of capacity in many major plants especially in the public sector (with the notable exception of production for the agricultural sector) persists, stemming from depressed demand on the one hand, and premature, high-cost, investment on the other. There is little that can be done about this structural imbalance in the short run, and until investment demand picks up (which is likely to be a slow process as argued below) continued underutilization, with associated high costs, is inevitable. Production and investment in a number of industries has long been affected by price and investment controls, and the gradual movement towards at least some price decontrol as in steel, coal, paper, cement, etc., is a welcome one.

14. With public investment accounting for about 60% of total investment in recent years, the recovery of investment demand from its present low level becomes mainly a question of public finance, and the prospects here are not good. Public savings have declined recently, partly because of the successive consumption demands of increasing defence expenditure, drought relief, and rising cost-of-living allowances at a time when revenue growth has been slowing down because of the recession. At present, the current surplus covers only 5% of capital expenditures, and advantage has been taken of the sharp increase in food supplies to engage in substantial deficit financing. This level of deficit financing (Rs. 300 crores) would probably have inflationary consequences were it not for the unusual increase in food availabilities this year, and there will thus be less chance to run this large deficit in the future. Nor willssubstantial PL 480 sales proceeds be available in years to come. Moreover, taxation of the presently almost untaxed agriculture sector, with its promising growth potential, is a State subject, and little effort is being made by the States to raise additional resources. A third public finance

problem is the poor financial position of many Government enterprises and utilities. In these circumstances, it will not be easy to frame the Fourth Plan so as to provide the necessary stimulus to investment in the 1969/70 to 1973/74 period.

15. Family planning so far has had only a limited impact, although the Government has made substantial efforts to popularize birth control in the past three years. The sterilization program is making some headway but some other techniques are not being accepted as widely as was hoped; overall the program as at present constituted is unlikely to be able to prevent the population growth rate (now 2.5% p.a.) from increasing over the coming five years.

16. In summary, the Indian economy may hopefully be in the process of emerging from the vicious circle of declining investment, low productivity, low growth and declining savings that had been brought about by poor economic management, and the natural calamities of the recent past. However, the emergence, as outlined, is disappointingly slow. The main hopes are on the policy of giving new and high priority to agriculture as a leading growth sector. Also, by cautiously following policies of dismantling some administrative controls over investment, imports and prices, the Government is also moving away from the comprehensive physical planning approach in the direction of economic efficiency; some much needed improvements should result. Much more needs to be done to encourage exports. The next section looks at prospects for the future, in the light of the formidable set of problems that India has accumulated.

D. PROSPECTS AND PROJECTIONS

17. This last section puts forward one of several possible forecasts of the pattern of development in the Indian economy over the next five years. This variant is chosen to show the implications for the economy of net annual aid flows from all sources (excluding PL 480) during the 1968/69 - 1973/74 period about one-third larger than during the preceding six-year period. Including PL 480 (which is expected to decline sharply as local food production rises) net aid is here projected to decline very slightly over the same periods but gross aid, of course, keeps on rising because of the rising level of debt service. During the forthcoming six years, service payments on long-term debt before any rescheduling will absorb about 43% of projected gross (non-PL 480) aid compared with 35% in the recent past. In numerical terms, it is presumed that net non-PL 480 aid will average about $840 million compared with $625 million a year in the recent past. Given the present hesitancy over IDA replenishment, and the likely difficulty in substituting other aid flows for the PL 480 flows, even this may be an optimistic assumption.

18. There is no doubt that India could absorb more net aid than is projected here. 1/ This view of the future is designed, however, more to illustrate the performance that India could attain and the policies that would have to be followed, if aid flows are at the level mentioned above, which is regarded as the maximum foreseeable. Aid flows to India have long represented only a marginal (2-3%) addition to India's total resources, less than in most aid-receiving countries, and this experience is expected to continue. It is entirely possible that aid requirements will in fact begin to rise again from the early 1970's, if investment booms, but over the next three or four years success in the food production effort will enable PL 480 and other food aid to diminish sharply; the same should start to occur as fertilizer production rises, and aid correspondingly falls. Also, a reasonable rate of growth of output in these post-recession years should be obtainable without large new investments, because of the widespread underutilization of capacity that now exists, but eventual reversion to the higher investment rates of the early 1960's would then undoubtedly require additional external resources.

19. Lastly, it should be noted that this forecast is highly tentative for two main reasons; firstly, the Government is in the process of reformulating the Fourth Five-Year Plan, and might well choose different policy directions from those implicitly or explicitly assumed here. Secondly, there are some serious data and statistical difficulties which, coupled with the usual unpredictability of the monsoons, add a large element of uncertainty to the analysis - as the fate of the original Fourth Plan shows.

(a) <u>The Balance of Payments</u>

20. Turning first to exports, tea, ~~jute goods~~, iron ore and cotton textile exports are likely to increase in value by only 1% a year up to 1973/74 mainly because of the expected price declines in tea. This assumes that better port facilities will be available to facilitate the iron ore trade. Other exports consisting of a number of primary products - oil cakes, cashew nuts, tobacco, spices, etc., - and a small but growing trade in manufactured goods and engineering products, are projected to grow by around 7% giving an overall growth rate of 4.3%. This is much less than the Planning Commission postulated for the original Fourth Plan (8-10%), but a 4.3% growth would be quite an achievement over the next five years, representing as it does a tripling in the growth rate for minor and non-traditional products. This rate will only be realized if substantially greater priority is given to export promotion than is now the case.

1/ In fact the data to be found in the accompanying aggregate projections for selected countries, assume that Gross Public Capital inflow will average $1.8 billion, and net $1.3 billion. Private capital inflow is put at $0.1 billion. The comparable figures used here are $1.6 billion and $1.0 billion, with negligible net private capital inflow.

21. Regarding merchandise imports, if the hoped-for success on the agricultural front is achieved, and if natural disasters are avoided, then it should be possible sharply to curtail food imports (since food imports have always been a marginal addition to total supplies) and they are here projected to decline to $75 million a year from the 1967/68 level of $700 million. It should be noted that the sharpness of this fall is exaggerated because the 1965/66 - 1967/68 period included emergency drought relief imports, but nevertheless this would be a dramatic development. Likewise, if fertilizer production capacity expands as targetted, then in the early 1970's it should be possible at least to start reducing imports of fertilizer and related inputs. Project-tied imports are expected to grow at about the same rate as total investment in the 1967/68 - 1973/74 period. Demand for other "maintenance" imports is projected to grow by 6% a year, slightly less than the expected growth in manufacturing output because of the expectation of some further import substitution. This 6% growth is, however, significantly more than the projected growth of the economy as a whole (4.2%). The assumption is that present trade policies are continued. Overall import growth thus would be in the order of 1% a year, or 4.7% other than food.

22. The effect of these trends would be to reduce the deficit on merchandise transactions to about $750 million in 1973/74, the level that existed in the early 1960's, from $1,100 million in 1967/68. The heavy claims of debt servicing including short-term repayments of about $500 million to the IMF ($455 million) and the Bank ($45 million) and the expectation of continued deficits on invisible transactions, mean, however, that the overall deficit in the 1968/69 - 1973/74 period would be about 15% larger than the preceding six years. This is consistent with the assumption that gross aid flows including PL 480 would be at an annual average of $1.6 billion, up from $1.4 billion. The corresponding net aid inflow including PL 480 is slightly under $1 billion a year, or $840 million annually excluding PL 480 compared with $625 million a year in the 1962/63 through 1967/68 period.

(b) Output and Expenditure

23. Total output up to 1973/74 could probably grow at about 4.2% a year, given the agriculture and export prospects described earlier, within the above balance of payments framework. Agricultural output growth is expected to be at least 4% a year thus departing from the low long-run trend of about 3% which has prevailed for two decades. Manufacturing and construction activity should be stimulated both by the projected 7% growth in public investment expenditure and by consumer and export demand ~~(see Tables II(b), II(c))~~. It is assumed that private investment demand, after years of stagnation or decline, will increase sharply by around 10% a year. The consequent overall growth rate of GDP of 4.2% p.a. would be about 0.5% higher than the India economy has achieved so far, and this higher growth is a prerequisite to the raising of the additional domestic resources necessary to finance the necessary investment. It is likely that to achieve this growth a moderate increase in the investment

rate from the present low level of about 10% of GDP to 12% in 1973/74 would be required, with a slight shift towards private rather than public investment in the light of the public finance constraints (and simulated by the various de-control measures) discussed earlier.

24. Because the supply of savings in India, and especially public savings, is such a constraint, it is important to stress that the efficient use of investment funds is essential, if the rising trend in capital/output ratios is to be reversed. Whether in industry or in agriculture, high returns can probably be obtained from marginal additions to major projects, if the necessary, and often considerable, advance preparation is done. Because it is likely that the supply of well-prepared investment projects will be limited, the investment growth projected here is fairly low, reaching in 1973/74 a rate still well below that attained (with so little benefit) in the early 1960's. The ideal composition of a public sector investment program, to meet such criteria, is not at all clear at present because of the hiatus in Indian planning referred to earlier. It is probable, however, that the relative importance of agricultural investment should rise, at the expense of public sector industrial investment.

25. To finance the projected rise in investment would imply a need to raise gross savings from the very low current level of around 8% of GDP to about 10.4% in 1973/74. This would mean a marginal savings rate of around 20%, which will be hard, but not impossible, to attain. Such a savings effort has been achieved before, for shorter periods during the 1950's, but at such times agricultural growth was slower than is projected here. A substantial contribution could come from restraint in Government consumption expenditure such as defence, which is assumed here to grow less fast than GDP. However, since agriculture will account for about 45% of the increase in incomes over this period, and manufacturing industry 17%, the main savings potential is in these sectors. As long as strenuous efforts are made to improve efficiency and keep costs down, especially in public sector industries, the expected growth in industrial output should itself generate rising savings flows for investment finance, as indeed it should throughout the corporate sector. In agriculture, the good 1967/68 harvest has already demonstrably increased disposable incomes, but here the institutional arrangements for capturing savings are inadequate - notably an effective agricultural income tax is lacking. It is thus essential that action be taken to close this gap in the tax structure; the Government of India is well aware of this, but so far political considerations have prevented action; indeed the right measures to raise such new resources are far from agreed. If action is taken, and if savings rise as projected, private consumption would nevertheless still grow at 1% per capita per year in real terms - certainly this is not dramatic growth, but it is as high as that achieved over the past 20 years.

E. SUMMARY

26. The Indian economy is in a depressed state at present, with the exception of the agriculture sector, with low investment and low savings rates, yet a heavy, and recently increasing, dependence on external aid. The low productivity of much past investment curtails the ability of the economy to generate the resources necessary to give investment a boost, and it seems very unlikely that stimulation will come from an early increase in net aid flows. Heavy reliance is thus being placed on the new leading growth sector - agriculture - to provide the necessary stimulus, and if accompanied by similar good performance in the export sector it is conceivable that India will be able to achieve a more satisfactory growth rate, and a rising level of investment, possibly better than the rather dismal picture presented above. To do so, however, the policy measures or actions listed below will have to be followed through; plus, perhaps, others:

(a) The Government must determine to achieve export growth, and take the measures necessary to promote the growth of production for export in non-traditional sectors, with the objective of achieving at least 7-8% growth in these sectors, and at least 4-5% overall;

(b) Agricultural innovations must be adopted, and sufficient incentives maintained, to enable output to grow continuously by at least 4% a year. Paragraph 10 above summarizes the main policy needs. Buffer stocks of food must be created and maintained to help avoid disruptions to growth caused by monsoon failures. Further emphasis must be placed on assistance to smallholders and the landless;

(c) Fertilizer production should be stepped up as rapidly as possible;

(d) If investment rates are to be raised, particularly in the public sector, new efforts at resource mobilization must be made, particularly from the rural sector and the public enterprises; however, new or supplementary investment should be undertaken only if adequate planning has assured good returns.

(e) In order to improve efficiency, especially in the private sector, further dismantling of price and administrative controls over industrial activities, and over imports, is also necessary;

(f) However, in order to give the Government the assurance it needs, sufficient foreign aid must be committed, largely in non-project form, and far enough in advance. It appears that if the above conditions are met, an increase in the level of net, non-PL 480 aid to about $840 million a year is necessary to sustain a growth rate of GDP of about 4.2% p.a.;

(g) Since India will clearly require a substantial net flow of aid for at least another decade, debt on excessively hard terms should be incurred only in exceptional circumstances.

(h) Further attempts must be made to succeed in the field of population control.

PART II: BANK/IDA STRATEGY

A. Considerations Affecting Bank/IDA Operations

1. General Considerations

India, because of its size and political importance, holds a unique place in the entire international development effort, as well as in the operations of IBRD/IDA. These considerations warrant a continued effort by the Bank Group to assist in improving India's economic performance, even though disappointing progress has often to be endured. The sensitivity of other Bank member countries about the special measures which the Indian situation demands (e.g. debt relief, non-project lending, the consortium, etc.), coupled with India's own sensitivity about foreign assistance, combine to make the path of the Bank's efforts in India anything but smooth.

2. Indian policies

(a) IDA financing for India is rationed, and seems likely to continue to be rationed, more by the scarcity of IDA funds than by considerations of India's economic performance. If substantially more IDA funds were available, a point might soon be reached where it would be reasonable to expect significantly better performance from India as a condition of larger allocations. Even at present levels of lending, the Government of India understands that the Bank and other members of the consortium expect progress in several policy areas. Issues receiving emphasis are:

(i) export growth, including earnings from tourism; ✓
(ii) relaxation of administrative controls, especially on imports; ✓
(iii) population control; ✓
(iv) agricultural policies, including incentive pricing, buffer stocks, credit facilities and a wide range of investment programs; ✓
(v) expansion of fertilizer production facilities and improved distribution; ✓
(vi) external debt management; ✓
(vii) internal resource mobilization, including better returns from public enterprises; ✓
(viii) better statistical reporting and analysis.

(b) In addition to these issues, GOI's policies toward particular sectors (e.g. transport) will influence IDA's willingness to finance projects from funds earmarked for those sectors. (See B-4(g) and C-4 below.)

(c) In connection with this approach two general problems arise:

(i) Many policy areas in which IDA has a special interest are very broad, and they require continued, steady progress; it is difficult to define precise targets against which to measure performance. In the past penalties were seldom enforced for non-performance.

(ii) To some extent progress (especially in relaxation of controls) requires reasonable certainty about a continuing flow of appropriate types and amounts of aid. At the present time, there is great uncertainty about future flows of aid, which makes policy formation and proper resource allocation very difficult. Moreover, financing offered by various countries presents India with a jigsaw puzzle of special conditions which are difficult if not impossible to match against development needs.

3. Priorities in lending

(a) As a major strategy objective, a shift back to project-type lending by IDA is desirable. Increased project lending would enable IDA and India to work more closely to obtain a better return from public investment and would make more use than at present of the Bank Group's expertise in project analysis.

(b) Although project lending is to be resumed, industrial imports credits are still expected to account for nearly half ($750 million out of $1,600 million) of IDA lending during the five years 1968/9-1972/3. These credits disburse quickly against immediate balance of payments requirements. Because of the structure of the Indian economy, and the particularly low import requirements of projects, such credits may remain a regular feature of lending to India for several years to come.

(c) Although some project credits (notably in support of the Railways' investment program) also disburse quickly, most projects require a two-four year construction period plus at least a year or two of preparation before construction is in full swing. The program summarized in Annex I is designed to bring about a gradual increase in disbursements against IDA project commitments; such disbursements are expected to be only about $30 million in 1968/69 but would increase to an estimated $220 million in 1972/73 if the program goes forward as planned.

(d) Large IDA disbursements against local currency expenditures is necessary to provide substantial financing for investment projects in India, where the foreign currency element is usually small. Such financing also helps meet the Indian economy's general need for "free foreign exchange." However, among the problems to be solved before IDA can provide substantial financing of local currency expenditures is the "procurement issue"--discussed again in paragraph B-4 below.

(e) A sharp increase in lending to agriculture is proposed (i.e., $260 million in the next five years compared to about $55 million in the first years of IDA).

(f) Within the transport sector a shift from the railways and toward highways is proposed.

(g) To maintain its net investment at roughly the present level, Bank operations will be confined to:

(i) continued disbursement against existing commitments ($141 million undisbursed as of May 31, 1968);

(ii) debt relief through rescheduling of amortization payments ($60 million before March 31, 1971, and probably more later, subject to general action within the consoritum);

(iii) new loans for fertilizer factories (possibly including well-managed public-sector plants); and

(iv) new loans for other major projects of private investors, primarily through ICICI and also for iron and steel production.

(h) The Bank cannot function effectively in India, let alone act conscientiously as Chairman of the consortium, without greatly improved economic intelligence. Largely to provide this, the Bank expanded its New Delhi office about six months ago and has recommended that the Government undertake improvements in the provision of economic statistics as a matter of urgency.

4. Lending terms

(a) India could use much more financing on IDA terms than is likely to be available.

(b) Although India is not creditworthy by any normal test (debt service being well over 20 percent of export earnings, even after consortium debt relief action), the Bank proposes to continue to maintain its net investment at roughly the present level--around $500 million.

B. FIVE-YEAR LENDING PROGRAM

1. Annex I summarizes, by sector, proposed IDA lending for each year 1968/9 - 1972/3, and compares the five-year totals with IDA commitments to India in the previous seven years. Data on average annual disbursements from 1961 are also appended (Annex II).

2. Annex III summarizes the proposed new lending by IBRD.

3. The expected disbursements against the proposed program, compared to gross external capital requirements and total investment, are shown in Annex IV.

4. Comments:

(a) India's direct foreign exchange requirements for industrial imports and certain very large investment programs (e.g. Railways) are substantially larger than proposed financing from IDA for these purposes and will have to be met partly from bilateral aid sources as well as from India's export earnings.

(b) As far as other projects are concerned, IDA would generally aim to finance 50-60 percent of total investment cost, which in many cases would include substantial disbursements against expenditures in local currency.

(c) A major problem arises from India's unwillingness to agree to international competitive bidding in the procurement of equipment financed by IDA if such equipment can be manufactured in India. This attitude is strengthened by the IDA position of permitting domestic suppliers no more than a 15% preference compared to c.i.f. prices, when there is international competition which is less than the protection normally offered by Indian Customs duties. Probably the best course to follow is to take each case as it arises and gradually, through negotiation on individual cases, to evolve general criteria acceptable to both India and IDA.

(d) Project preparation by India is very weak; this seems to be particularly true of sectors such as agriculture/irrigation and highways but causes difficulty in all Bank/IDA lending. Over a period of years, the Bank Group has tightened its project standards; but India, having sought general program loans for several years now, is unfamiliar with, and has shown little inclination to learn about, the Bank's current standards. Within India procedures for analysis, preparation and implementation of projects are generally far less rigorous than the Bank's; therefore, submission of material is almost always woefully inadequate for our purposes although it can be improved with pressure (as illustrated in the case of the Haldia Port proposal). The urgency of improving project preparation (and execution) standards within India is one major reason for recommending that IDA's project lending to India be increased.

(e) To assist in the preparation of sound projects as well as to influence basic economic policies, it will almost certainly be necessary to increase substantially the amount of staff time devoted to preappraisal activities. More intensive supervision during implementation would also be advisable, even for industrial imports credits.

(f) On the Indian side, greater use of international consultants (including possibly FAO in agriculture) will be necessary. In the past, (with rare exceptions such as the Koynahydel project and the proposed Punjab agricultural studies) officials have been very reluctant to give adequate responsibility to such consultants, fearing that Indian competence will never grow to maturity under foreign management. This phobia handicaps efforts to improve project preparation (and supervision) and also hinders all types of technical assistance to India.

(g) In the transport sector there are a number of policies which inhibit efficient and properly balanced development. The GOI has been advised that progress, satisfactory to IDA, in correcting such difficulties would be a precondition of future financing for transport projects. (See especially the formal "Minutes of Discussion" during April 1966 in connection with negotiation of Credit No. 88-IN for the Ninth Railway Project, and subsequent progress reports.) To achieve greater efficiency in transport, there are many different factors to be dealt with, involving taxes, regulations and investment programs at local, state and union levels of government; it is therefore difficult to establish precise performance criteria, although all observers (including many GOI ministers and officials) agree that recent progress, if any, has been too slow.

(h) Other types of problems that cause major difficulties in India involve:

(i) absence of administrative arrangements to ensure meaningful autonomy to project authorities and to provide proper coordination and planning at the Center;

(ii) undefined and often conflicting responsibilities (e.g. between Center and States in agriculture or road transport, between public works and agricultural departments in irrigation);

(iii) inadequate financial management and accounting practices (cost accounts and meaningful management controls frequently totally absent);

(iv) inappropriate pricing policies, especially for public services on which returns are generally inadequate;

(v) construction contracting by "force account" work is preferred by officials although this does little to foster growth of a competitive contracting industry, which is still an early stage of development, especially where special skills such as highway construction and agricultural land-shaping are concerned; and

(vi) chronically delayed land acquisition.

C. ALTERNATIVE LENDING

1. If less IDA financing is available for India than the proposed program requires, cuts would be made in power, water supply and possibly ports (where specific projects are not yet clearly identified); if even larger cuts were necessary, they would be made in allocations for railways and industrial imports.

2. If more IDA financing is available for India than the proposed program requires, increases would be attempted in agriculture, water supply and possibly transport. Also, new fields - such as education, urban development and tourism - would be explored more intensively than in the past.

3. If general policy performance is inadequate, the entire program could be scaled down; especially sharp cuts would be expected in lending for industrial imports.

4. If sector policy is inadequate, which is most likely in transport, lending for this would be delayed - indefinitely, if improvements were not forthcoming, without the funds being transferred to another sector.

5. Adjustments must be made during the next few years to focus Bank/IDA operations more intensively on problems such as:

(a) Urbanization: to date the only activity in this area has been in connection with water supply and sewerage; projects for Calcutta, Bangalore and Bombay were developed by IDA but eventually deferred by GOI. Since 1960 the Bank has kept in touch with the metropolitan planning effort in Calcutta (financed partly by the Ford Foundation and UNDP), but no specific investment projects have emerged so far.

(b) Integrated watershed development: on the Eastern Rivers (Ganges and Brahmaputra) there are important international implications. On the Narmada, Cauvery or Krishna-Godavari there are interstate feuds. Nevertheless, watershed development would be attractive because the agricultural potential of many such areas is not yet fully exploited; moreover, some developed areas now require modernization. So far India has discouraged international interest in these possibilities.

D. OTHER ACTIVITIES AND ISSUES

1. Consortium

(a) The consortium, which came into being ten years ago to meet what was thought to be a short-run crisis, is now a seemingly permanent operation. The Bank as chairman provides leadership and secretarial services. In varying degrees the members rely on the Bank to provide them with basic economic data and an authoritative interpretation of developments in the Indian economy. Perhaps its chief advantage is that the regular meetings of the consortium provide deadlines by which the bureaucracies have to make decisions and, indeed, some of the smaller countries (e.g., the Netherlands), are increasingly making their aid available only through such arrangements that provide a background of international cooperation in the field of aid. There is no doubt that at present the members wish the Bank to continue to serve as chairman.

(b) There are, however, disadvantages. Over the years there has been an evolution in the nature of the consortium and much of the thinking of India and of the members of the consortium has not kept up with it. Ten years ago the support for aid to poor countries was widespread, and India seemed to provide an example of a poor country tackling its problems with energy and wisdom, thus justifying optimism that the aid given to it would produce rapid and visible results. Today aid programs are generally under attack, and the record in India has created great disenchantment amongst its friends.

(c) The optimism prevailing ten years ago was, of course, excessive, and in fairness it must be said that it was shared by the Bank. It was only when it became apparent that the Third Plan was going to fall far short of its objectives that any fresh thinking was done. This change in atmosphere led to the "Bell Mission" of 1964/65, and in 1966 to the devaluation and to other policy changes which in a halting way have been made over the last two or three years. The devaluation in particular was bitterly criticized by the New Delhi bureaucracy and subsequently by politicians, newspapers and the articulate public. The resulting hostility to the Bank (which was regarded as having forced devaluation on India) has made relations difficult, and the difficulties have been enhanced by the growing realization that the Bank has no means to ensure that aid will be forthcoming in anywhere near the amounts needed to support policies it has recommended.

(d) To make future consortium efforts more effective, changes such as the following are necessary:

(i) India will have to present its own case more convincingly and energetically than in the past.

(ii) Financing that is not on highly concessional terms (i.e. at least equal to some minimal standard) should no longer be counted as consortium aid and should be strictly limited by GOI.

(iii) Gross aid disbursements (net of PL-480) must rise substantially, and the increase will have to be widely shared among donor countries.

2. Karnali

(a) The Government of Nepal is keen to construct a huge hydroelectric project (1,800 MW in the first stage), for which India would be the main market. The project has been studied by consultants under a UNDP grant and is being reviewed by a second set of experts. Nepal has asked the Bank to arrange financing for the first $320 million stage of this Karnali River scheme.

(b) If India and Nepal reach agreement on marketing and other aspects of this proposal and jointly approach IBRD to assist in its financing, an effort would have to be made to appraise the scheme and to organize an international group to finance it.

3. Studies

(a) An appraisal of India's family planning program is being undertaken by the United Nations in close coordination with the Bank.

(b) Export performance is constantly under review. Special studies have recently been completed regarding jute and tea. Further studies are contemplated, including a review of the effectiveness of the Government's present incentive policies. In this work close contact is maintained with IMF and other interested agencies (e.g. US-AID).

(c) Other studies are contemplated, covering such fields as:

(i) taxation (with special emphasis on public savings from the agricultural sector);

(ii) the participation of small farmers and landless rural workers in agricultural development (including an analysis of the necessary institutional support for this group of agriculturalists);

(iii) urbanization trends and investment requirements; and

(iv) the efficiency of other public and private investment in industry.

Annex I

INDIA - PROPOSED IDA LENDING PROGRAM, 1968/69-72/73 a/
(US $ Million)

	Second Replenishment b/		Further Replenishment			Five Years	Previous Credits through
	1968/69	1969/70	1970/71	1971/72	1972/73	Total	May 31, 1968 c/
TOTAL	200	200	400	400	400	1,600	887.5
Industrial Imports (A)	100 b/	110	180	180	180	750	405.0 b/
Transportation, subtotal	45	30	100	55	80	310	273.3
Railways (A)	30	-	40	40	40	150	197.5
Highways (to be identified) (B)	-	30	30	15	30	105	59.5
Ports (Mormugao, fishing, etc.) (C)	15	-	30	-	10	55	16.3
Agriculture/Irrigation, subtotal	25	25	70	80	60	260	55.4
Punjab Drainage II (D)	10	-	-	-	-	10	10.0
Tarai Seeds/Development (D)	15	-	-	-	-	15	-
Other (to be identified) (B)	-	25	70	80	60	235	45.4
Public Utilities, subtotal	30	35	50	85	80	280	153.8
Telecommunications (A)	20 d/	35 d/	-	50	-	105	74.8
Water Supply (Bombay, etc.) (C)	10	-	30	-	35	75	-
Power (to be identified) (C)	-	-	20	35	45	100	79.0

a/ Based on assumptions in Mr. Knapp's memorandum of April 9 and final projections noted in May 9 revision.
b/ Not including proposed $125 million credit to be counted as 1967/68 lending but not yet finally approved.
c/ Net of cancellations. Source - Monthly Statement of Development Credits.
d/ The nature of the project makes it difficult to split financing into two tranches.

NOTE: Items marked (A), totalling $1,005 million, are ones to which India seems to give priority and for which India would probably prefer even larger sums from IDA. Judging from past experience, they would all disburse quite quickly and provide "balance of payments" (and budget) support with a minimum of specific project performance conditions.

(continued)

Items marked (B), totalling $340 million, are those to which IDA attaches special emphasis; it should be made clear to India that these funds will not be made available except for projects in the fields of road/bridge-building and agriculture (including irrigation, etc.). These credits are expected to disburse primarily against expenditures in local currency (civil works and possibly also locally purchased equipment).

Items marked (C), totalling $230 million, are categories in which projects have been difficult to identify and where India's procurement procedures are most difficult for IDA to accept.

Items marked (D), totalling $25 million, are projects that are already fairly clearly identified.

Asia Department

Annex II

AVERAGE BANK & IDA DISBURSEMENTS

(US $ MILLION)

	Up till 3/31/68	Average Yearly Disbursements (3/31/61 to 3/31/66) Bank	IDA	Total	Average Yearly Disbursements (3/31/66 to 3/31/68) Bank	IDA	Total
TOTAL	538.9	51.8	84.2	136.0	32.4	197.2	229.6
Transportation							
Railways	272.3	21.1	25.9	47.0	-	26.7	26.7
Highways a/	-	-	10.3	10.3 a/	-	3.9	3.9 a/
Ports	14.3	6.9	.7	7.6	4.8	3.2	8.0
Air India	5.6	-	-	-	-	-	-
Electric Power	70.0	4.0	6.9	10.9	11.0	9.6	20.6
Telecommunications b/	-	-	11.2	11.2 b/	-	9.5	9.5 b/
Water Supply	-	-	-	-	-	-	-
Agriculture	13.8	-	8.3	8.3	-	5.7	5.7
Industry							
Steel and Coal	154.1	7.1	-	7.1	4.1	-	4.1
Fertilizer	-	-	-	-	-	-	-
ICICI	8.8	12.8	-	12.8	12.4	-	12.4
Industrial Imports c/	-	-	21.0	21.0 c/	-	138.6	138.6 c/

a/ Highways disbursements were largely in the years 1962 through 1966, during which the annual average rate was about $11 million.

b/ Telecommunications disbursements were largely in the years 1964 through 1966, during which the annual average rate was about $21 million.

c/ Industrial imports disbursements were largely in the period January 1965 through April 1968, during which the annual average rate was about $120 million.

Asia Department, June 20, 1968

INDIA - TENTATIVE FORECAST OF BANK LOANS a/
(US$ million)

	Five Years, Total	1968/69	1969/70	1970/71	1971/72	1972/73
TOTAL	145 b/	-	25	80	-	40
Fertilizer Plants	60	-	25	20	-	15
Tata/Allied(Stage I)	25	-	25	-	-	-
Other	35	-	-	20	-	15
ICICI	50	-	-	25	-	25
Iron and steel c/	35	-	-	35	-	-

a/ Discussed in general terms with IFC and based on the assumption that such loans will be confined to projects for fertilizer manufacture, the private steel companies and ICICI (see the President's statement to Executive Directors, June 28, 1966, reproduced as SecM66-217).

b/ Disbursements are not expected to exceed India's repayments to the Bank in the period covered (even after allowing for disbursements on existing loans); the forecast is therefore consistent with the general policy of not increasing the Bank's "net exposure" in India.

c/ IFC has had an inquiry from the Marcona Corporation regarding a possible iron ore project in Mysore. The tentative cost is $70 million, almost $50 million of which would represent foreign exchange. Fifty-one percent of the proposed company would be owned by GOI and the balance divided between Marcona and three Japanese companies. If this project should develop, an IBRD loan of $30-$35 million might be justified in view of the substantial export earnings that are anticipated from the project.

For a number of years there have been discussions with the private steel companies, TISCO and IISCO, concerning the possibility of additional Bank assistance in financing their expansion programs; however, there is at present no justification for anticipating further loans to either company in the period covered.

Asia Department
June 20, 1968

INDIA

BANK/IDA DISBURSEMENTS, 1968/9-1972/3 COMPARED
TO GROSS EXTERNAL CAPITAL REQUIREMENTS AND TOTAL INVESTMENT

1. Gross Bank/IDA disbursements, 1968/9-1972/3

(a)	Economics Department estimate	$ 1,092 million
(b)	Asia Department estimate	1,782 million

2. External capital requirements, 1968/9-1972/3

(a)	Gross aid (including PL-480)	$ 8,058 million
(b)	Gross aid (excluding PL-480)	7,283 million
(c)	Net aid (including PL-480)	5,033 million
(d)	Net aid (excluding PL-480)	4,258 million
(e)	Total net external resources	4,540 million

3. Total investment (at Rs. 7.5 = $1), 1968/9-1972/3 — $15,000 million

4. Ratios

	Bank/IDA Disbursements, 1968/9-1972/3	
	1(a) - Low estimate	1(b) - High estimate
(a) As a percent of 2(a)	13.5	22.1
(b) As a percent of 2(b)	14.9	24.4
(c) As a percent of 2(e)	24.0	39.2
(d) As a percent of 3	7.3	11.9

Asia Department
June 20, 1968

Table I(a)

Balance of Payments
($ Million) 1/

	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69 (Prelim.)	1969/70	1970/71	1971/72	1972/73	1973/74
1. Exports	1,500	1,666	1,714	1,693	1,558	1,610	1,700	1,775	1,860	1,930	2,010	2,100
2. Imports	2,376	2,568	2,833	2,958	2,710	2,710	2,710	2,630	2,655	2,680	2,765	2,840
3. Net Goods 2/	-876	-909	-1,119	-1,265	-1,152	-1,100	-1,010	-855	-805	-750	-755	-740
4. Interest on Debt	135	140	161	184	232	236	320	355	398	445	477	510
5. Amortization	100	121	160	173	191	208	215	225	217	195	178	160
6. Total Debt Service 3/	-235	-261	-321	-357	-423	-444	-535	-580	-615	-640	-655	-670
7. IMF Repayments	0	-50	-100	-75	-58	-58	-48	-120	-195	-50	-40	0
8. Net Invisibles	+21	+49	-21	+40	-3	-20	-30	-40	-40	-50	-50	-50
9. Net Long-Term Private Capital	-10	+20	-10	-38	-27	-20	-20	-10	-10	0	0	0
10. Residual	+137	-72	-166	+35	+3	+16	-25	-30	-30	-30	-40	-40
11. Overall Deficit	-963	-1,216	-1,737	-1,660	-1,660	-1,626	-1,668	-1,635	-1,695	-1,520	-1,540	-1,500
Financed By:												
12. PL 480	258	389	458	502	480	489	375	175	100	75	50	50
13. Project Aid	383	548	701	684	494	300	375	425	450	475	500	500
14. Non-Project Aid 4/5/	292	302	360	437	510	784	918	1,035	1,145	970	990	950
15. IMF Drawings 6/	25	0	100	138	188	135	-	-	-	-	-	-
16. Reserve Use (Increase -)	+5	-23	+118	-101	-12	-82	-	-	-	-	-	-

1/ Using prevailing exchange rates.

2/ D.G.C.I.S. data.

3/ Includes repayment of IBRD special deposit 1968/69 through 1970/71. Division of total into interest and amortization is approximate.

4/ From 1968/69 onwards this is the residual aid requirement.

5/ Includes food aid other than PL 480.

6/ Includes IBRD special deposit of $45 million in 1967/68.

Table I(b)

Merchandise Exports
($ Million)

Past	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68 Provisional	Annual Growth Rates (%) 1962/63 to 1967/68
Tea	271	259	262	241	215	250	- 1.5
Jute	314	324	353	384	335	325	+ 0.7
Iron Ore	74	76	79	88	94	103	+ 6.8
Cotton Fabrics	101	114	121	116	86	91	- 2.0
Others	739	893	899	864	828	841	+ 2.5
Total	1,500	1,666	1,714	1,693	1,558	1,610	1.5

Projected	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74	Annual Growth Rates (%) 1968/69 to 1973/74
Tea	240	230	220	210	205	200	- 4.0
Jute	380	390	400	400	400	400	+ 1.0
Iron Ore	110	120	130	135	140	150	+ 6.0
Cotton Fabrics	100	105	110	115	120	125	+ 4.5
Others	870	930	1,000	1,070	1,150	1,225	+ 7.0
Total	1,700	1,775	1,860	1,930	2,010	2,100	4.3

Source: D.G.C.I.S., and own projections.

Table I(c)

Merchandise Imports
($ Million)

Past	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68 Provisional	Annual Growth Rates (%) 1962/63 to 1967/68
Foodgrains	303	378	592	677	813	700	+ 18.0
Fertilizer & Inputs	40	60	90	130	190	265	+ 46.0
Project Imports 1/	383	548	701	684	494	300	- 5.0
Maintenance Imports 2/	1,649	1,582	1,450	1,467	1,213	1,445	- 2.7
Total Imports (non-food)	2,375	2,568	2,833	2,958	2,710	2,710	+ 2.6 (- 0.5)

Projected	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74	Annual Growth Rates (%) 1968/69 to 1973/74
Foodgrains	500	250	150	100	75	75	- 30.0
Fertilizer & Inputs	300	325	325	275	250	200	- 8.5
Project Imports 1/	375	425	450	475	500	500	+ 5.9
Maintenance Imports 2/	1,535	1,630	1,730	1,830	1,940	2,065	+ 6.0
Total Imports (non-food)	2,710	2,630	2,655	2,680	2,765	2,840	+ 1.0 (+ 4.7)

1/ Corresponds to Table I(a), line 13.
2/ Includes minor capital goods not financed by project aid.

Source: D.G.C.I.S. and own projections.

Table I(d)

Flow of External Resources
($ Million)

	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74
1. Gross Aid (Table I(a) 12-14)	933	1,239	1,519	1,623	1,484	1,573	1,668	1,635	1,695	1,520	1,540	1,500
2. Gross Aid (Excluding PL 480)	675	850	1,061	1,121	1,004	1,084	1,293	1,460	1,595	1,445	1,490	1,450
3. Net Aid (Table I(a) 12-14 - 6)	698	978	1,198	1,266	1,061	1,129	1,133	1,055	1,080	880	885	830
4. Net Aid (Excluding PL 480)	440	589	740	764	581	640	758	880	980	805	835	780
5. Use of Reserves Including Net IMF (Table I(a) 15 + 16 + 7)	+30	-73	+118	-38	+118	-5	-48	-120	-195	-50	-40	0
6. Private Long-Term Capital	-10	+20	-10	-38	-27	-20	-20	-10	-10	0	0	0
7. Total Net External Resources (3 + 5 + 6)	718	925	1,306	1,190	1,152	1,104	1,065	925	875	830	845	830

SOURCE: Table I(a)

Table I(e)

Debt Service Assumptions
($ Million)

On:	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74
Existing Debt												
Long Term	235	261	321	357	423	358	422	455	453	469	463	455
(a) Interest	123	140	161	184	232	150	158	163	158	154	143	130
(b) Amortization	112	121	160	173	191	208	264	292	295	315	320	325
Suppliers' Credits	n.a.	n.a.	n.a.	n.a.	n.a.	86	79	70	68	60	52	45
(a) Interest 1/						29	26	23	23	20	17	15
(b) Amortization 1/						57	53	47	45	40	35	30
New Debt 2/	-	-	-	-	-	0	20	40	80	110	140	170
IBRD special deposit repayment	-	-	-	-	-	-	15	15	15	-	-	-
TOTAL	235	261	321	357	423	444	535	580	615	640	655	670
(a) Interest	123	140	161	184	232	236	320	355	398	445	477	510
(b) Amortization	112	121	160	173	191	208	215	225	217	195	178	160

1/ No breakdown is available; assumes one-third is interest and the balance amortization.

2/ Interest only, because of assumed 7-year grace period. Rough calculation assumes 3% interest on outstanding new debt.

NOTE: Long-term debt service payments between 1962/63 and 1966/67 may include some, but not all, of the payments made on suppliers' credits.

SOURCE: IBRD

Table II(a)

Gross Domestic Product by Sector of Origin, 1962/63 to 1967/68
(Rs crores, 1960-61 prices)

	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68 estimate	Growth Rates p.a. %
Agriculture, Forestry & Fishery	7,165	7,314	7,986	6,934	6,953	8,345	3.1
Mining	185	205	201	225	237	240	5.3
Manufacturing	2,396	2,603	2,798	2,822	2,877	2,800	3.2
Construction	689	762	789	780	790	770	2.2
Utilities	113	134	148	168	180	190	11.0
Transport & Communication	798	849	891	949	995	1,030	5.4
Other Services, etc.	3,301	3,484	3,665	3,736	3,849	3,925	3.5
Public Administration & Defence	673	777	852	974	1,079	1,150	11.2
GDP at factor cost	15,320	16,128	17,330	16,588	16,960	18,450	3.8

Source: Central Statistical Organization, Estimates of National Product 1960/61 to 1966/67.

Table III

Composition of Plan[1] Outlays by Centre, States and Union Territories (%)

	1962/63	1963/64	1964/65	1965/66	Provisional 1966/67	Provisional 1967/68	1968/69 through 1973/74 (indicative only)
Agriculture, Cooperatives and Community Development	12.5	12.2	12.9	13.1	15.6	16.8	20.0
Irrigation and Flood Control	8.3	7.1	7.4	7.0	6.5	6.5	8.0
Power	13.2	15.0	15.1	15.9	18.0	17.1	14.0
Industry / Mining	21.3	22.6	22.4	24.8	26.5	25.1	20.0
Railways	18.0	17.7	15.5	11.9)	19.5)	18.6	15.0
Other Transport and Communications	9.1	9.2	9.5	8.3)	)		8.0
Education	7.2	7.2	8.1	8.7	5.1	5.8	6.0
Health	4.7	3.7	3.8	4.1	4.1	5.0	4.0
Other Social Services, etc.	5.8	5.3	5.5	6.3	4.8	5.0	5.0
Total	100	100	100	100	100	100	100
(Rs crores)	1,386	1,709	2,031	2,377	2,221	2,246	(2,900)

1/ About 85% of Plan expenditures are capital expenditures, but there are other capital expenditures outside the Plan. No complete breakdown is available.

Source: Ministry of Finance, 1962/63 through 1966/67.

Table II(c)

Composition of Gross National Expenditure, 1962/63 to 1967/68
and Projection for 1968/69 and 1973/74
(Rs. Crores, Current Prices)

	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68	Projection 1968/69	Projection 1973/74 [7]	Projection Annual Growth Rate [7] 1968/69 to 1973/74
1. Private Consumption [2]	13,880	15,886	18,792	19,486	23,003	26,395	27,320	32,670	3.5
2. Public Consumption	1,480	1,920	2,060	2,380	2,550	2,600	2,750	3,200	3.2
3. Total Consumption [4]	15,360	17,806	20,852	21,866	25,553	28,995	30,070	35,870	3.5
4. Private Fixed Investment	1,300	1,255	1,400	1,275	1,250	1,200	1,275	2,100	10.3
5. Public Fixed Investment [3]	1,175	1,525	1,680	1,805	1,790	1,765	1,945	2,700	6.8
6. Total Investment	2,475	2,780	3,080	3,050	3,040	2,965	3,220	4,800	8.4
7. Change in Stocks [8]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
8. GNE	17,835	20,586	23,932	24,916	28,593	31,960	33,290	40,670	4.2
9. - Current Deficit [1] on Goods & Non-Factor Services	353	350	476	479	750	710	710	(600)	
10. GDP at Market Prices	17,482	20,236	23,456	24,437	27,843	31,250	32,580	40,070	4.2
11. 3 as % of GDP [4]	87.9	88.5	89.5	89.8	91.0	92.6	92.1	89.6	
12. 6 as % of GDP [4]	14.2	13.7	13.1	12.5	10.9	9.5 [6]	9.9 [6]	12.0	
13. Net Borrowing as % of GDP [4] [5]	2.0	2.2	2.6	2.3	2.2	2.1	2.0	(1.6)	
14. Savings (12-13) [4]	12.2	11.5	10.5	10.2	9.2	7.4 [6]	7.9 [6]	10.4	

1/ Taken from "Estimates of National Product, 1960-61 to 1966-67", Central Statistical Organization. These data differ, however, from the balance of payments table. 1966/67 onwards reflect devaluation.

2/ Residual.

3/ "Gross Capital Formation out of Budgetary Resources of Central Government", from "Economic Classification of the Central Government Budget" 1968/69. These series underestimate public investment, some of which is therefore included under private investment.

4/ These series are very approximate. No official data exist.

5/ Derived independently.

6/ These indices may be slight understatements.

7/ In 1968/69 prices.

8/ Notionally included in Items 4 and 5.

SOURCE: Mainly IBRD calculations

Table II(b)

Gross Domestic Product by Sector of Origin - 1962/63 to 1967/68; and Projection for 1968/69, 1971/72 and 1973/74
(Rs. Crores, Current Prices)

	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68 estimate	Projection 1/ 1968/69	1971/72	1973/74	% p.a.
Agriculture, Forestry & Fishery	7,696	9,019	10,767	10,473	12,318	15,150	15,750	17,405	18,630	3.4
Mining	191	221	224	257	275	300	315	350	380	4.0
Manufacturing	2,467	2,861	3,165	3,385	3,714	3,700	3,845	4,900	5,700	8.4
Construction	730	831	946	1,030	1,129	1,130	1,160	1,420	1,600	6.6
Utilities	111	136	157	176	197	210	230	300	350	8.9
Transport + Communication	873	948	1,032	1,143	1,256	1,300	1,375	1,515	1,600	3.2
Other Services, etc.	3,469	3,854	4,466	4,898	5,605	5,960	6,250	6,810	7,190	3.0
Public Administration & Defence	680	800	915	1,065	1,199	1,250	1,300	1,450	1,550	3.6
GDP at Factor Cost	16,257	18,670	21,672	22,427	25,693	29,000	30,225	34,150	37,000	4.3
+ Taxes - Subsidies	1,265	1,566	1,784	2,010	2,150	2,250	2,355	2,750	3,070	5.5
GDP at Market Prices	17,482	20,236	23,456	24,437	27,843	31,250	32,580	36,900	40,070	4.3
+ Net Factor Income from Abroad	-108	-116	-148	-164	-185	-210				
GNP at Market Prices	17,374	20,120	23,308	24,273	27,658	31,040				

1/ At 1968/69 prices.

2/ For historical growth rates see Table II(a).

SOURCE: Central Statistical Organization, Estimates of National Product 1960/61 to 1966/67, and own forecasts.

BANK/IDA PROJECTS
UNDER CONSIDERATION

BANK/IDA PROJECTS UNDER CONSIDERATION

A. Two projects are scheduled to be negotiated before the end of the year, provided agreement can be reached promptly on procurement policies.

(a) Tarai Seeds Project (developed by the Uttar Pradesh Agricultural University at Pantnagar, which you will visit) - $13.2 million Bank loan.

(b) Punjab and Haryana Drainage Project and Agricultural Study - $17.3 million Bank loan.

These projects are summarized in the attachments to this note.

B. The following projects are scheduled for consideration by the Executive Directors before June 30, 1969:

1. Fifth Industrial Imports Project - $125 million IDA credit. This proposal was considered by the Executive Directors on June 18, 1968. The majority indicated no objection in principle to the proposed credit, including reimbursement of foreign exchange payments by India since January 1, 1968. The proposal will be presented to Executive Directors when, as and if replenishment of IDA becomes effective; and a first tranche of $50 million will be recommended in December after the Executive Directors discuss the Canadian replenishment plan (November 19) and the Program Lending paper (December 3).

Final disbursement under the Fourth Industrial Imports Project was made in May 1968. The Government of India has since then continued to prepare withdrawal applications, which will be submitted to IDA when a Fifth Industrial Imports Credit has been signed. As of September 30, 1968, applications in the total amount of $66 million had been processed. This represents an overall monthly average of about $13 million. The average might have been slightly higher if the transmittal of documents within India had not been delayed by the postal strike in September.

2. Sixth Industrial Imports Project - $125 million credit. The amount was revised upward from $100 million shown in the Five-Year Forecast, assuming India's annual share of IDA commitments to be about 40 percent and that industrial imports lending would account for about one-half of IDA's 1968/69 lending to India.

The current Timetable forecasts consideration by the Executive Directors in late May 1969, but this is, of course, subject to IDA replenishment.

While the first two industrial imports credits were appraised quite intensively, the subsequent appraisals were kept to a minimum. This was partly because of an expansion of coverage from five to eighteen industrial sectors (the number of firms which were eligible to participate increasing from about 100 to well over 1,000) and partly because of Mr. Woods' decision in 1965 that appraisals should be simplified as much as possible. Judging from the points raised by some Executive Directors when the proposal for a fifth credit was considered by the Board on June 18, 1968, as well as on previous occasions, a more direct involvement in sector policies and a closer supervision of industrial development by the Bank/IDA would make it easier for several Executive Directors to vote for credits of this kind in future.

3. Third Telecommunications Project - up to $55 million. The first two telecommunications credits to India (1962: $42 million; 1964: $33 million) provided most of the foreign exchange for and helped finance the rehabilitation, modernization and expansion of India's telecommunications facilities through March 1967. The first credit financed mainly imports of capital equipment; the second, imports of raw materials and components required by four indigenous manufacturing units, which are owned and operated by Government.

The proposed third lending operation would help finance the current program and would be used both for direct imports of finished equipment and for imports of production goods required by the manufacturing units.

Provided questions concerning accounting practices can be resolved, the appraisal mission is expected to be in India in January 1969, and consideration by the Executive Directors has been forecast for June 1969.

4. Tenth Railways Project - $40 million. The Indian Railways have expressed interest in fresh financing of about US $40 million from the Bank Group. This would cover a portion of the foreign exchange costs of the Railways' investments up through March 1970, and also some imported spare parts. It is hoped to institute a management improvement program concurrently with the next operation. Favorable action on this request has been conditioned on appropriate Government action concerning overall transport policy. Assuming staff availability, appraisal will occur early next year. This project could be financed either by a Bank loan or an IDA credit.

C. The following projects are expected to come up during the Bank's fiscal year 1969/70 (all subject to IDA replenishment):

1. Mormugao Port Project - $15-20 million. The major purpose of this project is the modernization of harbor facilities for the export of iron ore. It has been under discussion between the Bank Group and the Government of India since 1964, but a formal application for financing was not received until early 1968. An appraisal mission is tentatively scheduled for February 1969 with submission to the Executive Directors in August 1969. However, before further work on this project can be done, agreement on the methods of procurement must be reached between the Government of India and the Bank.

2. Bombay Water Supply Project - $10 million. The Bank Group has considered various proposals for an expansion and improvement of the Bombay Region water supply system. To date it has not been possible to develop a

sound technical program and financial plan. Some of the problems that have come up are described in a note which is attached. Organizational and managerial aspects are expected to present additional problems.

It is presently intended to send a three man team to London in late November to attend discussions with representatives of (i) the Government of Maharashtra, (ii) the Bombay Municipal Corporation and (iii) consultants Binnie and Partners, who prepared a technical report on the choice of a new water source. At these discussions, agreement will be sought on the scope of any additional studies by consultants which must be completed before a viable project can be identified and appraised.

Our current forecast is that an appraisal mission could depart in April 1969 and that a lending proposal could be considered by the Executive Directors in December 1969. However, this forecast is subject to a timely completion of the additional studies and to an early resolution of organizational and management problems.

3. Second Highways Project - $30 million. The Government of India has expressed an interest for lending in this sector. The Bank plans to send an expert to India early next year to evaluate organization and management problems. Hopefully a new highway project will provide an opportunity to encourage organizational reforms and experimentation/demonstration of improved methods. Consideration by the Executive Directors is not expected to take place before April/June 1970.

D. To identify projects in the field of agricultural credit and irrigation, two missions are planned during the next three to four months; these could lead to preparation of projects suitable for financing in 1970.

TARAI

Extract from Green Cover Appraisal Report No. TO-689. Complete Appraisal Report included in Reference Materials.

INDIA

TARAI SEEDS PROJECT

SUMMARY

(i) The Government of India (GOI) has applied for a Bank loan to help finance a seeds development project in the Tarai area of Uttar Pradesh State (UP) in north India. The project was evolved following FAO/IBRD Cooperative Program Missions in 1966 and 1967 which prepared a proposal in conjunction with GOI. The project would involve some 400 farmers in the production of foodgrain crops for seed. The estimated cost of the project is US$22.4 million equivalent (Rs 168 million).

(ii) The objective of the project would be to increase agricultural production by expanding the availability of seeds of high yielding varieties of foodgrains in India as part of GOI's "new strategy" for agricultural development introduced in 1965, which seeks to promote rapid increases in the annual growth rate of food grain production. The project would, at full development after five years, service some seven million acres annually.

(iii) Under the project local adaptations of high yielding dwarf wheat varieties, new hybrids of maize, sorghum and pearl millet and high yielding rice varieties would be grown for seed. Seed production involves its own specialized technology in both production and processing which must be developed and perfected under Indian conditions if a reliable product is to be marketed for purchase by farmers. The project would seek to promote the development of some 46,000 acres from which, with double cropping and adequate fertilizers, about 46,000 tons of high quality seed would be produced, processed and sold each year at full development. On-farm development for seed production would entail provision of tubewell irrigation, land levelling, installation of underground water distribution systems in the fields and more intensive mechanization of farming operations. This development would be made possible by provision of credit to suitable farmers through the State Bank of India (SBI). Bank financing would include the provision of the foreign exchange required to meet fertilizer needs of seed crops. Seed produced from farmers' holdings would be processed in two plants to be built and operated by the Tarai Development Corporation (TDC) in the project area. TDC, a private company whose membership would include farmers, the National Seed Corporation (NSC), the Uttar Pradesh Agricultural University (UPAU) and commercial organizations, would also be responsible for marketing seed and for provision of other services to seed producers.

(iv) The project is technically and economically sound and is suitable for a Bank loan of US$13.2 million, for a term of 30 years with a grace period of 10 years and repayment over 20 years thereafter. The recipient of the loan would be GOI.

III. PROJECT AREA

A. Ecology, Communications and Power Supplies

3.01 The project area extends roughly 60 miles from east to west and some 12 miles from north to south in the Tarai belt of the State of Uttar Pradesh (UP) in north India (see Map). The Tarai constitutes a fertile belt of land sandwiched between the foothills of the Himalayas and the open plains of UP.

3.02 The hydrogeological features of the Tarai have been the subject of investigations by the Geological Survey of India (GSI) between 1959 and 1961 and by the Exploratory Tubewell Organization (ETO) of the Ministry of Agriculture from 1959 to 1962. These investigations indicate with reasonable certainty that ground water resources in the Tarai are adequate at least for the agricultural development proposed in the project. However, the most efficient way of future large scale exploitation of these resources for other areas in UP needs to be determined (see para. 4.05).

3.03 Rainfall records from the Uttar Pradesh Agricultural University (UPAU) at Pantnagar, in the project area, show a mean of about 60 inches per annum and a range between 35 and 75 inches. With a dry season normally extending from October to April, 60 percent of the rainfall is concentrated in the period from June through September. Other climatological data collected by UPAU and broadly applicable throughout the project area indicate its general suitability for the pattern of agricultural activity proposed.

3.04 Data on the soils of the area are limited to surveys carried out on some 1000 acres on the UPAU farm at Pantnagar (Annex 3). However, the suitability of the soils of the Tarai for the project activities proposed is clearly illustrated by the high yielding, good quality crops grown throughout the area both under irrigated and rainfed farming conditions.

Communications

3.05 The area is comparatively well served by road, rail and air links. Pantnagar has a small airport with regular twice weekly flights from Delhi. The project area has main railway lines running from north to south in its eastern and western regions. In addition, major and minor roads connect the various centers of population with the rest of UP.

Power Supplies

3.06 Although there is no overall shortage of power, existing transmission and distribution lines are barely adequate to meet present day electrical power needs in the Tarai area. The UP State electricity Board (SEB) is aware of the situation and has proposed plans acceptable to GOI and the Bank as part of the project, for extending its network of lines and substations to meet the estimated power requirements of the project (see para. 4.07).

B. Agriculture

3.07 The entrepreneurial capacity of Tarai farmers is outstanding. In two decades following allocation of land to them under Government settlement programs, by their own efforts and with their own resources, they have converted the area from dense secondary forest and high grass to thriving farms which compare favorably with similar enterprises in the developed countries. Prior to this settlement, the area was virtually uninhabited and, for this reason in contrast to much of India, there is no local reservoir of surplus labor available.

3.08 Most holdings range between 30 and 250 acres. A small number go down to 10 acres, and there are also several very large holdings including the UPAU farm of 10,000 acres. The UP Land Ceiling Law limits individual ownership to 80 acres of land, but family cooperatives and other arrangements result in the operation of many holdings above this limit.

3.09 Sugar cane is the major cash crop followed closely, and with rapidly rising importance, by wheat, rice and maize with legumes and mustard occupying important although minor acreages within the rotation. The changing cropping pattern is induced by declining sugar prices and the attractive returns from high yielding varieties of food grains.

3.10 Irrigation, mainly by tubewell, is becoming more popular and most farms have at least part of their area under irrigation. Mechanized cultivation is widespread but its development is limited by difficulties in obtaining spare parts and additional equipment.

C. Uttar Pradesh Agricultural University (UPAU)

3.11 Located at Pantnagar in the east of the project area (see map), established in 1960 and responsible for agricultural teaching, research and extension in the State, UPAU has rapidly achieved a position of some eminence throughout India and of great influence on farming in the Tarai. This has been achieved largely by its development and extension of improved cultural practices and the production of seed for HVP. The University has expanded its Seed Production Program to include Associated Growers, selected from farmers in the area, and the creation of a separate Seed Production Division but the rising demand for seed exceeds the organization and facilities of the division.

3.12 Processing facilities for certified seed, with a total capacity of 15,000 tons per annum, are located at Pantnagar and Kashipur (see map) and are controlled by UPAU. These facilities have been developed piecemeal and are not suitable for further expansion.

3.13 UPAU operates its own seed testing laboratory and certifies its seed in accordance with standards established by NSC. Since its inception in 1965, production of certified seed has risen from 455 tons to nearly 11,000 tons in 1967/68.

3.14 Most UPAU seed is supplied to the UP Government for distribution to farmers. Demands have also been met however from the Governments of Assam, Bengal, Bihar, Mysore and Rajasthan, and the University has established a network of registered dealers within UP who sell seed surplus to the requirements of the UP Government.

3.15 UPAU has developed, and is continuing to develop, a number of related ancilliary activities, notably its Land Development Division. This group is responsible for planning the full irrigation of the 10,000 acre

University farm with related land levelling and the perfection of these techniques for extension to farmers.

IV. THE PROJECT

A. Project Definition

4.01 The project is the development of part of the Tarai region of UP to increase the production of certified seed of wheat, rice, maize, jowar and bajra for use in GOI's High-Yielding Varieties Program (see para. 2.01) to some 46,000 tons per annum. It involves:

- on-farm development works on parts of about 400 farms (with a total acreage of some 80,000 acres);
- provision of farm machinery, fertilizer, and foundation seed to those farms;
- the execution of soil and topographic surveys;
- the preparation of farm plans;
- the extension of electric power distribution systems;
- the provision of seed processing facilities; and
- credit and technical assistance for the above purposes.

Processing and marketing of the seed produced would be carried out by the Tarai Development Corporation (TDC), a private company created for the purpose with a capital structure and management representing relevant private and public sector interests.

PUNJAB/HARYANA

Extract from Green Cover Appraisal Report No. TO-675. Complete Appraisal Report included in Reference Materials. 1/

INDIA

SECOND PUNJAB AND HARYANA FLOOD PROTECTION AND DRAINAGE PROJECT AND AGRICULTURAL STUDY

SUMMARY

i. The Government of India has requested an IDA credit to provide, (a) further assistance in the financing of the program of flood control and drainage partly financed in 1961-64 by Credit 15-IN, and (b) assistance in carrying out an agricultural study in the States of Punjab and Haryana. The works and the Study would be carried out concurrently during a three-year period.

ii. The proposed flood control and drainage works comprise the second stage of a three-stage program for relief of damage from monsoon flooding in an area of 22,000 square miles. (The first stage was partly financed under Credit 15-IN.) The Study would identify investment possibilities in the agricultural sector of the States of Punjab and Haryana (total area 36,000 square miles) and would prepare feasibility studies for those possibilities appearing to have the highest economic rate of return. The works and the Study would make a significant contribution to the development of the Punjab Plain, a region of high agricultural potential.

iii. The estimated cost of the project is Rs 229 million (US$30.5 million) of which Rs 183.6 million (US$24.5 million) would be for the flood control-drainage works and Rs 45.4 million (US$6.0 million) for the Study.
17.3 The project is suitable for an IDA credit of US$~~15.0~~ million (RS 112.0 mil-
60 lion), covering slightly over ~~50~~ percent of the cost of the flood control-drainage works and the entire foreign exchange cost of the Study (US$2.6 million). The direct foreign exchange component for imported items (mainly machinery and equipment) and for technical advisory services would amount to Rs 39.8 million (US$5.3 million). The Central Government would relend that part of the proceeds of the credit covering the flood control-drainage works to the States of Punjab and Haryana on terms similar to the remainder of the financing which would be provided through loans from the Centre. The Study would be financed entirely by the Central Government and no charges would be levied against the two States.

iv. There would be no direct Government revenues from the flood control-drainage works, but costs of operation and maintenance would be more than offset by savings both in flood relief expenditures and in remission of land taxes and water charges.

v. The Public Works Departments of Punjab and Haryana would construct and operate the flood control-drainage works, which form part of the Borrower's Fourth Five-Year (1969-74) Plan for the two States. Before division of the Old State of Punjab on November 1, 1966, these two Departments were one unit that successfully carried out the previous works included under Credit 15-IN. The mission judges that the two Departments are capable of executing and operating the proposed works effectively.

1/ Text under revision to reflect shift in financing from IDA to Bank and change in proposed amount of Bank financing.

vi. It was not found meaningful to consider the benefits resulting from the second stage flood control-drainange works in isolation. The economic justification of these works was therefore based on the entire program thus far sanctioned for construction, consisting of stages one and two. Benefits would consist of reductions of flood damage to existing crops, housing, and future crops. The quantifiable benefits give an internal rate of return estimated at 14 percent.

vii. The development of practically all available surface water sources, which is almost completed, will provide only a fraction of the water required to achieve the full agricultural potential of the Punjab Plain. Further development will mainly depend on the utilization of the vast aquifer that underlies the plain. Such development has already begun, largely through the installation of private tubewells, especially during the past two years; however, this development is not taking place on an orderly, scientific basis so as to assure sustained yields and optimum economy. Interrelated with the utilization of the aquifer are problems of waterlogging, salinity and surface drainage (beyond that provided by the works proposed for the present project) all of which have seriously interfered with agricultural production in the past two decades. These will have to be resolved before the full agricultural potential of the region can be realized. A three-year comprehensive study is, therefore, to be carried out as part of the project, with the objective of producing feasibility reports on high priority agricultural projects in selected parts of Punjab and Haryana. Satisfactory institutional arrangements have been made for implementing this Study, for which the United States Bureau of Reclamation would provide technical advisory services and other assistance.

vii. The project is technically sound, economically justified and is suitable for an IDA credit of US$~~15.0~~ 17.3 million provided satisfactory assurances can be obtained on items listed in para. 7.02.

BOMBAY WATER

WATER SUPPLY IN THE BOMBAY REGION

1. The problem of assuring sufficient water supply to the Bombay region over the next five or ten years with the limited investment funds available has various aspects:

(a) water demand forecasts have to be established;
(b) new water sources have to be developed;
(c) treatment facilities for existing and new sources have to be provided;
(d) transmission routes (and types of conveyance) must be determined;
(e) distribution systems have to be installed or expanded and the BMC distribution system in Bombay improved (i.e. to curb leakage); and
(f) adequate sewerage systems have to be provided.

To cope with these problems, organisational, managerial and financial difficulties have to be overcome. A coherent master plan for the development of an adequate regional water supply system should be prepared before any further investments are made.

2. Water demand projections are subject to various uncertainties. Available consumption statistics are unreliable since they are based on estimates rather than on actual metering and substantially understate the volume of water losses. a/ Supply is limited to a few hours per day and pressure is low during these hours; however, since consumers are using various means of storing water for use during periods of no supply, it is difficult to assess what percentage of the actual demand is not covered. Future demand growth is even more difficult to assess, particularly industrial demand in the outlying areas, due to lack of detailed planning or to the absence of an existing demand basis. In the view of the consultants (and of IDA), previous demand forecasts have been based on excessive (textbook) per capita demand figures, while at the same time the amount of water losses due to leakage and other causes was underestimated. Any improvement in the supply conditions after augmenting the available supply and returning to a 24-hour supply and to normal pressures would result not only in an increase of actual consumption but in a more than proportional increase of water losses due to leakage, unless strong measures are taken to reduce these losses.

3. According to the consultants' preliminary report (August 1967), the following demand projections would be an acceptable basis for future

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a/ losses due (i) to leakage from distribution trunk lines, secondary mains, house connections, customer facilities (e.g. overflowing roof-tanks), storage reservoirs, valves and other accessoirs and (ii) to wastage, such as running faucets, refilling of containers to replace unused water, etc.

planning (in million Imperial gallons per day):

	1971	1976	1981
Net Demand (excluding losses)	362	448	534
Greater Bombay	282	327	370
Outlying areas (including MIDC)	80	121	164
Losses (and as percent of gross demand)	185 (34%)	127 (22%)	94 (15%)
Greater Bombay	171 (38%)	106 (25%)	65 (15%)
Outlying areas	14 (15%)	21 (15%)	29 (15%)
Gross Demand (including losses)	547	575	628
Greater Bombay	453	433	435
Outlying areas	94	142	193

These projections assume that an energetic and effective program to reduce water losses to a more reasonable level of, say, 15 percent will be undertaken in Greater Bombay. On this basis, a substantial portion of the future increase of net demand could be offset by a reduction of losses, demonstrating clearly that such a program is just as important as the development of new water sources. To the extent that reduction of water losses is less than assumed above, additional schemes would have to be built which would only serve to compensate for such losses and would not result in additional sales. This explains IDA's strong objections to separating the distribution aspect from any new source development and to appraising "the Bhatsai scheme as a bulk-supply project on its own merits" as repeatedly requested by the GOM.

4. Differences in the assumptions about the available yield from the various existing and potential water sources have added to the uncertainty of future planning. At the outset it has to be determined whether the assumed yield should be assured for 10 out of 10 years (as GOM/BMC believe) or for 9 out of 10 years (as the consultants recommend in accordance with general international standards). The consultants estimated that from the two most important existing sources, the Tansa and Vaitarna schemes, both operated by the BMC with a present aggregate yield of about 200 mgd, about 50-60 additional mgd could be obtained at comparatively low cost by increasing the live storage and improving the carrying capacity of the transmission lines. Further possibilities for augmentation of the existing schemes are transfers of water from two adjacent rivers, the Pinjal and the Gargai, to the Tansa-Vaitarna systems. The Bhatsai and Barvi schemes were originally estimated by the Indian authorities to yield only 250 mgd and 100 mgd respectively, as compared with the consultants estimate of almost double these yields, namely 400 mgd and 200 mgd. The GOM engineers are now using 300 mgd and 130 mgd in their projections.

5. Construction of a major new scheme, the Upper Vaitarna project, was started in 1964. The headworks, including power generation facilities, are being executed by the GOM and the water transmission works, basically a

pipeline parallel to the existing Tansa-Vaitarna lines, by the BMC. There have been, and continue to be, numerous and prolonged delays, with implementation of the project far behind schedule. Completion, originally planned for 1968, is not expected before 1971/72. The yield of the Upper Vaitarna project, originally estimated to be about 120 mgd, could largely resolve the pressing water needs of the Bombay region. The short-term consequences of the delayed completion of these works are very serious. Most recently, further delays have been caused by BMC's lack of funds to continue with the project. According to a statement by BMC in January 1968, Rs. 150 million had been spent on Upper Vaitarna, but Rs. 320 million more were needed to complete the transmission works. These funds do not appear to be available.

6. It is IDA's position that regardless of any theoretical demand projection, which may call for immediate construction of future schemes, completion of Upper Vaitarna should be assured first, and all efforts should be concentrated on this task unless it can be demonstrated that it is more economical and feasible to put the Upper Vaitarna project temporarily on ice and to implement a new project instead (Barvi for example).

7. As to future planning, IDA's greatest concern is to assure a coherent long-range plan, embracing the entire Bombay region, regardless of present administrative boundaries, and including all aspects from the catchment of water to its distribution. The Bhatsai project, as originally presented to IDA by the GOM in 1966/67, satisfied neither of these two principles. IDA therefore recommended preparation of a comprehensive study by outside consultants. Terms of reference were agreed between the GOM and IDA, and consultants were selected by the GOM in early 1967. The consultants' preliminary report, submitted in the fall of 1967, underlined the importance of the water loss aspect and showed higher yield calculations. This, in the view of IDA, called for a review of the entire plan and a reassessment of the source selection, and particularly a detailed comparison between the Bhatsai and the Barvi schemes as to the first source to be implemented.

8. The "Interim Report" of the consultants, issued in February 1968, indicated that the Barvi scheme was economically competitive with a first stage of the Bhatsai scheme. While not evaluated in detail or quantified, one important additional advantage of the Barvi scheme which was identified is its potential to regulate the water flow in the Ulhas river, thus allowing a higher utilization of that river for water supply than at present. However, the GOM objected to considering the Barvi scheme as the preferred project, not only because it questioned the consultants' basic assumptions, but because it felt (i) that it was committed to the Bhatsai scheme and (ii) that the Barvi scheme was allocated to the MIDC and thus was not available for other users.

9. While the controversy of Bhatsai vs. Barvi was still going on, the MIDC decided to implement Barvi on a limited scale (50 mgd) for its own needs as a direct intake scheme rather than as a river regulating scheme.

This would seem to be the worst of all possible developments, since it will probably result in two new and expensive schemes (Bhatsai and Barvi) being implemented simultaneously for basically the same purpose while a third, Upper Vaitarna, is being indefinitely delayed by an extreme shortage of funds. This approach would further deprive the Bhatsai scheme of one of its main potential customers and thus seriously endanger its economic justification and financial viability. IDA has informed GOM on various occasions (e.g. letter of March 14, 1968 to Mr. Rajwade) that in its opinion the building of both schemes at the same time is quite unwarranted; that it is uneconomic to allocate water sources to particular customers and that the water needs of all customers in the Bombay region (including the MIDC) should be served by a fully integrated system. This remains the IDA position.

10. Transmission routes and types of conveyance are another subject of controversy between the consultants and GOM/BMC. The consultants have recommended - regardless of whether Bhatsai or Barvi is developed to supply water to Bombay - the use of a southern route. They have analyzed three different types of conveyance: a straight pipeline, a pipeline-cum-tunnel and a straight tunnel. The major advantages of a southern route would be: (i) the system would pass through or near the industrial consumption centers of Kalayan and Trans-Thana and surrounding residential areas and (ii) it would enter Bombay from a different direction than present supply lines which approach Bombay from the northeast through Thana; the latter not only makes distribution more difficult but also leaves the system more vulnerable to accidental or deliberate damage. GOM favor the existing northern route mainly because they feel that there are too many uncertainties regarding the geological conditions along the southern route and because of difficulties in acquiring land and obtaining rights-of-way in some of the built-up areas. However, the consultants have demonstrated that choosing the southern route instead of the northern route would result in great savings. This conclusion seems valid even if high compensation payments to land owners are made to speed up land acquisition. In any case, this alternative merits most serious consideration.

11. Making a choice between alternative sources and alternative types and routes of conveyance after due consideration and evaluation of numerous factors is an enormously complex matter, which in IDA's view would best be tackled with the assistance of consultants who can concentrate a much larger number of experts on such a job than the project authorities could possibly have available. IDA believes that Binnie & Partners (India) Ltd. have already performed a useful function and made some important contributions to the planning of new schemes and the improvement of the existing facilities. As a matter of fact, several of their recommendations so far accepted by the project authorities could result in savings far greater than the entire fee paid for the service of the consultants up to now.

12. Another important aspect is the integration of the various schemes into one regional water supply system and there are a number of alternatives for interconnecting the different components. In any case, physical integration would have many advantages both with respect to a staged construction of new facilities and to a coordinated operation of the schemes.

For example, one alternative to completing the original Upper Vaitarna scheme is to pump the Bhatsai water into a partly completed Upper Vaitarna line (lower section) and to install a separate Bhatsai line only upon completion of the Upper Vaitarna scheme.

13. The importance of the distribution aspect has been mentioned in connection with the problem of water losses. The distribution system in Bombay urgently needs repair and strengthening. A vigorous leakage-prevention campaign must be started immediately. Pilot investigations by the consultants have shown that the estimate of 38 percent water losses may still be too low; some areas, under 24-hour supply, have current losses much above 50 percent. In addition, the system will have to be extended to keep pace with the expected population increase in the Bombay metropolitan region.

14. One of the consultants' proposals is to divide the Bombay distribution system into two separate pressure zones. This would permit a substantial increase in the capacity of the transmission lines, because presently all the water is delivered at the city limits at a high level needed only for the supply to some isolated high-lying areas of the city.

15. Water treatment facilities are practically non-existent in Bombay. Plans by the BMC to construct treatment plants for Vaitarna and Upper Vaitarna were in an advanced stage, but have apparently been postponed.

16. The sewerage problem of Bombay and of the outlying communities must also be taken into consideration. Conditions are, to a degree varying between different areas, very deficient and improvements are urgently required. Because of the water shortage, the actual deficiencies are less apparent, but the projected increase in water supply would compound the present problems.

17. The financial problems of implementing any investment program for water supply and sewerage of the magnitude required for the Bombay region cannot and need not be enumerated in this note. However, the financial information presented to IDA so far is insufficient, and there is no evidence that the GOM/BMC projections on costs and revenues are realistic.

18. An adequate resolution of the organizational and managerial aspects of the regional water supply (and sewerage) problems is just as important as the development of a sound technical program and financial plan. It is difficult to foresee how the authorities now vested with the responsibility for providing water supply and sewerage services in the different areas of the Bombay region (GOM, BMC, MIDC) will be able to cope with the problems of implementing and operating an integrated regional system. Which new form of organization (or organizations) would be the most appropriate will largely depend on the extent of future physical integration of the systems and, thus, on the technical solution selected. The creation of a "Bhatsai authority", its functions being limited to the construction and operation

of the Bhatsai dam and transmission lines and to the bulk supply of Bhatsai water to the various final distributors, as proposed by GOM, would further complicate the organizational set-up and appears to be a step in the wrong direction.

MMWiehen/JKrombach/bj
July 9, 1968

ECONOMY

THE INDIAN ECONOMY

1. The Bank's most recent review of the Indian economy was released on April 25, 1968, for consideration at the Consortium meeting in May. This report (AS-137) is included in the Reference Materials, as is the report dated January 2, 1968 (AS-131b).

2. Attached hereto are several more recent memoranda on national expenditure, industrial prospects, imports and exports, along with various tables.

South Asia Department
November 5, 1968

Files August 30, 1968

W.M. Gilmartin

India : National Expenditure

In the course of preparation of the new Fourth Five Year Plan, the Planning Commission has made the attached estimates of national expenditure during the period 1960-61 to 1968-69 in both current and constant prices. The basic material for this came from the estimates of national product (revised series) for 1960-61 to 1966-67 made by the Central Statistical Organization and published in October 1967.

The Planning Commission has allocated the national product among heads of expenditure by:

1. Determining the outlays of the Central, State and local governments on consumption and investment on the basis of financial accounts, supplemented by central and state reports of purchasing operations classified by commodity.

2. Deriving private investment indirectly from estimates of domestic saving, the external deficit, and government investment. Government saving is based on central and state fiscal data. Private saving upto 1962-63 is from the estimates of the Reserve Bank (with all their limitations)1/ Savings in subsequent years is based on rather notional projections of the Reserve Bank of India estimates of household savings, taking account of the state of the economy - droughts, recessions, etc.; on projections of RBI corporate savings estimates based on trends in corporate sales, on RBI studies of ratios of profits to sales, and on an assumed constant ratio of retained earnings after taxes to profits; and on saving in the form of changes in commercially held agricultural stocks which are not within the coverage of household and corporate savings and which are estimated in accordance with movements of commercial bank advances.

3. Computing private consumption as the residual after government expenditure and private investment expenditure.

In the projection of corporate saving an allowance of 20 percent has been made for the decline in the ratio of profits to sales between 1963-64 and 1967-68. This may not be enough and may therefore overstate recent savings to some extent. As yet we do not have the separate saving series for government, corporate, household sectors and for

1/ "Estimates of Saving and Investment in the Indian Economy: 1950-51 to 1962-63" - Reserve Bank of India Bulletin, March 1965 agricultural stocks and are not in a position to comment on their reasonableness. It was indicated that an estimate of large agricultural stock accumulation in 1967-68 tended to offset declines in government and other private savings and investment.

A few other observations: the 1967-68 preliminary estimate probably has compensating underestimates of agriculture and overestimates of industry; and the 1968-69 figures are very tentative notions of the Planning Commission and are already evidently too high since they are based on a 5 percent increase in agriculture and a 9 percent increase in industry, neither of which is likely to be realized.

It should be remembered when investment is calculated from saving and the foreign deficit, or when saving is calculated from investment and the foreign deficit that account should be taken of the discontinuity created by the devaluation in 1966.

Attachment:

WMG:bw

Gross domestic expenditure and its disposition: India

(Rs.100 crores at 1960-61 prices)

	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68 Prelim.	1968-69 Prov.
1	2	3	4	5	6	7	8	9	10
1 Net domestic product at factor cost	135.3	141.3	144.4	152.2	163.6	155.9	159.1	174.0	184.6
2 Indirect taxes net of subsidies	9.5	11.3	11.6	12.2	14.1	14.2	14.4	14.7	15.4
3 Net domestic product at 1960-61 market prices (1+2)	144.8	152.6	156.0	164.4	177.7	170.1	173.5	188.7	200.0
4 Net factor income from abroad	(-) 0.7	(-) 1.0	(-) 1.1	(-) 1.2	(-) 1.4	(-) 1.5	(-) 2.0	(-) 2.2	(-) 2.3
5 Net national product at 1960-61 factor cost (1+4)	134.6	140.3	143.3	151.0	162.2	154.4	157.1	171.8	182.3
6 Depreciation	7.4	7.7	7.9	8.2	8.7	8.5	8.6	9.5	10.2
7 Gross national product at 1960-61 factor cost (5+6)	142.0	148.0	151.2	159.2	170.9	162.9	165.7	181.3	192.5
8 Gross national product at 1960-61 market prices (7+2)	151.5	159.3	162.8	171.4	185.0	177.1	180.1	196.0	207.9
9 Gross domestic product at 1960-61 market prices (8-4) or (3+6)	152.2	160.3	163.9	172.6	186.4	178.6	182.1	198.2	210.2
10 Imports of goods and services	11.4	10.7	11.5	12.1	13.1	13.0	13.3	12.3	12.3
11 Exports of goods and services	6.6	6.9	7.2	8.4	8.4	7.8	7.1	7.6	8.1
12 Total resources available (9+10-11)	157.0	164.1	168.2	176.3	191.1	183.8	188.3	202.9	214.4
13 Gross investment	23.4	24.0	26.3	28.4	31.6	32.4	30.1	32.0	34.9
14 Net investment	16.0	16.3	18.4	20.2	22.9	23.9	21.5	22.5	24.7
15 Public	7.9	9.2	10.8	12.9	14.8	15.4	13.9	13.0	14.1
16 Private	8.1	7.1	7.6	7.3	8.1	8.5	7.6	9.5	10.6
17 Depreciation	7.4	7.7	7.9	8.2	8.7	8.5	8.6	9.5	10.2
18 Consumption expenditure	133.6	140.1	141.9	147.9	159.5	151.4	158.2	170.9	179.5
19 Public	11.0	11.8	14.1	17.7	18.4	20.6	21.6	22.5	23.0
20 Private	122.6	128.3	127.8	130.2	141.1	130.8	136.6	148.4	156.5
21 Population (million)	435	445	456	467	478	490	502	514	527
22 Per Capita private consumption (Rs)	282	288	280	279	295	267	272	289	297

Gross domestic expenditure and its disposition: India

(Rs.100 crores)

	at current prices								
	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68 Prelim.	1968-69 Prov.
1	2	3	4	5	6	7	8	9	10
1 Net domestic product at factor cost	135.3	144.1	152.8	176.8	205.7	212.2	243.9	286.1	303.5
2 Indirect taxes net of subsidies	9.5	10.8	12.7	15.7	17.8	20.1	22.1	24.8	28.6
3 Net domestic product at current market prices (1+2)	144.8	154.9	165.5	192.5	223.5	232.3	266.0	310.9	332.1
4 Net factor income from abroad	(-) 0.7	(-) 1.0	(-) 1.1	(-) 1.2	(-) 1.5	(-) 1.6	(-) 2.3	(-) 2.5	(-) 2.6
5 Net national product at current factor cost (1+4)	134.6	143.1	151.7	175.6	204.2	210.6	241.6	283.6	300.9
6 Depreciation	7.4	8.1	9.3	9.9	11.0	12.0	13.3	15.7	16.7
7 Gross national product at current factor cost (5+6)	142.0	151.2	161.0	185.5	215.2	222.6	254.9	299.3	317.6
8 Gross national product at current market prices (7+2)	151.5	162.0	173.7	201.2	233.0	242.7	277.0	324.1	346.2
9 Gross domestic product at current market prices (8-4) or (3+6)	152.2	163.0	174.8	202.4	234.5	244.3	279.3	326.6	348.8
0 Imports of goods and services	11.4	10.9	11.3	12.2	13.5	14.1	20.8	19.7	19.7
1 Exports of goods and services	6.6	6.8	6.9	8.0	8.2	8.1	10.9	12.0	12.8
2 Total resources available (9+10-11)	157.0	167.1	179.2	206.6	239.8	250.3	289.2	334.3	355.7
3 Gross investment	23.4	25.1	29.1	32.4	37.3	41.7	43.0	48.2	52.5
4 Net investment	16.0	17.0	19.8	22.5	26.3	29.7	29.7	32.5	35.8
5 Public	7.9	9.6	11.7	14.4	17.0	19.1	19.2	18.9	20.5
6 vate	8.1	7.4	8.1	8.1	9.3	10.6	10.5	13.6	15.3
7 Depreciation	7.4	8.1	9.3	9.9	11.0	12.0	13.3	15.7	16.7
8 Consumption expenditure	133.6	142.0	150.1	174.2	202.5	208.6	246.2	286.1	303.2
9 Public	11.0	12.2	14.8	19.2	20.5	23.8	26.0	28.2	28.5
0 Private	122.6	129.8	135.3	155.0	182.0	184.8	220.2	257.9	274.7
Population (million)	435	445	456	467	478	490	502	514	527
Percapita private consumption (Rs.)	282	292	297	332	381	377	439	502	521

Files August 30, 1968

W.M. Gilmartin

India : Industrial Prospects

Indian industrial activity has at last started to pick up after the stagnation of the last three years. Preliminary indications for the first quarter of this Indian fiscal year (April-June) are an increase in industrial production by 5 or 6 percent over the same period of last year. The important textile industry, which earlier this year was surprisingly sluggish despite rising farm incomes, has sharply improved since May. It is likely that industry as a whole will make its necessary contribution to the official prediction of a 5 or 6 percent growth this year in real GNP. Whether agriculture will also is less certain at this point in this year's weather cycle because monsoon conditions, although good in most of Northern India, have so far not been good in important Central and Southern regions.

Stirrings in the Indian industrial sphere are not yet, however, of a kind to suggest an economic revival with much staying power. A solidly based and sustained industrial recovery will have to include rising investment in plant expansion and stepped-up activity in the capital goods industries - two sides of the same coin. Neither is happening over any broad industrial front. There is of course some capital expansion and consequently some moderate demand for industrial machinery and equipment. Most of this activity is in fertilizer, petroleum refining, steel (Bokaro) and non-ferrous metals. Otherwise, manufacturing plant expansion remains in low key and far short of taxing the present capacity of the industries producing capital goods.

Perhaps this is not too surprising in the early phase of an industrial recovery. Pick up in capital goods usually has to await the need for more finished goods capacity and the development of a pervasive view among industrialists that production requirements in the not too distant future will be considerably greater than existing industrial capacities.

These conditions for reinforcing the recovery process are not yet evident. They may appear later, but for a number of reasons this is not very likely. More likely is a rather spotty industrial recovery, concentrated largely in manufactures linked to agricultural inputs, to consumer goods, and to such lines of expansion in public investment as the Government can afford (which are likely to be rather limited). These will of course have some stimulating effect on capital goods industries. But they seem hardly enough to generate a strong and mutually reinforcing expansion of the heavy industrial sector. If this hypothesis of rather sluggish industrial prospects is correct (and it needs some further checking) it suggests, for a while anyway, an Indian development process without much steam behind it. It suggests that whereas industrial growth of 5 or 6 percent may be feasible, 9 or 10 percent is unlikely.

There are several reasons for this view, mostly based on the existence of major structural imbalances in the present Indian economy. 1/ In the first place, the moving force in India's industrial advance in recent times has been the large expansion of the heavy industrial base - steel and other metals, chemicals, heavy mechanical and electrical equipment and vehicles. These probably still account for only a quarter or so of total industrial output. But they have been the dynamic element on the industrial scene over the last decade in contrast to the much slower growth of the traditional industrial standbys like cotton textiles, jute products and, with some exceptions, food processing.

The pace of this buildup in the heavy industrial base now seems to have been overdone, under the stimulation of expansion of government plants and ambitious government targets set for expansion of private plants. Capacity in much of the steel industry and in other metals and capital goods is now far in excess of production. This has been partly attributable, of course, to the recession. But it is doubtful that the current recovery is of a kind which can be expected to tax industrial capacity. The moving forces behind the present recovery are largely rising demands for consumer goods and agricultural inputs, but there is lacking the additional forces of generally optimistic expectations of longer run economic growth on a scale to stimulate an early surge in industrial investment. There now seems little prospect that such expectations will materialize strongly enough to bring into use the capability that India has acquired in recent years in both the public and private sectors, to produce large, heavily capital intensive, long lead-time industrial plants. This is the kind of capability, the use of which goes with an economy where dynamic expectations of rapid future growth pervade the industrial community, where in consequence the investment urge is strong including investment in heavy long-lead projects, and where there is an adequate financial capability to sustain this investment activity on the basis of domestic savings and access to foreign resources.

The Indian economy at present hardly fits this description. In a sense it did during the early years of the present decade, but this was because of the steep Third Plan increase in government investment, including large outlays on government industry and the widespread belief that the expanded and increasing level of government industrial investment was here to stay. This encouraged substantial private investment, but much less than public. The private role was secondary, deriving much of its stimulation from the public industrial outlays and from faith in the future picture of sustained rapid economic growth exhibited in Government Plans.

Now this process has run down. Two successive harvest failures have been widely blamed. But with the benefit of hindsight and some long delayed statistics, the loss of momentum in the heavy metal and capital goods industries can now be seen to have preceded the adverse effects

1/ Disturbed labour and political conditions, especially in Bengal, are not taken into account here although they are, of course, a further adverse factor in the investment outlook.

attributable to the 1965 and 1966 droughts. It appears in fact that the whole expansion process never really attained a self-sustaining basis, except as sustained by rising government outlays. As the rise in these outlays slowed down and as they levelled off in real terms in about 1965 and subsequently declined, the whole industrial process followed suit.

A self-sustaining basis for industrial growth might have been achieved if the Third Plan expansion of industry had proved profitable enough to generate within industry a substantial part of the saving needed for further expansion. This was precluded however by the poor profit record of much of the government industry which made up the major part of the expansion. In the absence of self-generated industrial investment resources, the momentum might still have been sustained if general fiscal resources had been forthcoming for this purpose. But they were not. Military requirements went up after 1962, and later, from a fiscal standpoint, the droughts did aggravate the industrial slowdown by boosting relief expenditures and adversely affecting public finance in other ways. And there was little room for expanded deficit financing in the face of the food shortages, and a political atmosphere already charged over price increases. More recently, the fiscal situation has not improved very much inspite of good weather and sharp increases in agricultural output, because of the administrative difficulties, political immunities and other obstacles to taxation of additional agricultural income. More food may mean somewhat more room for deficit financing, but it also means less of the PL 480 resources which have been an important fiscal resource in recent years. One really looks in vain for fiscal resources as the basis for another marked and broadly based industrial expansion of a kind which would make substantial use of India's heavy industrial capability. This would require taxation in agriculture and over a broad range of consumption, plus economies in non-investment expenditure, adding up to a fiscal effort which is probably not politically feasible or administratively practicable. Nor for foreign exchange reasons subsequently discussed is it clearly desirable at present.

In short, one suspects that India has been equipping itself for a course of development which it now seems unlikely to follow. It is equipped for a development pattern involving public and private demand for a steady and substantial expansion of heavy industry and public and private saving (plus foreign capital) on a scale necessary to support the expansion. Instead, the active development forces at present are not in heavy industry but in agriculture, in the manufacture of agricultural inputs, and in the reviving consumer and other light industries. Current financial policies will probably continue to be consistent with this latter pattern in the permissive sense of allowing demand to develop in accordance with income trends - i.e. with a relative demand emphasis on consumer goods and agricultural investment goods - rather than attempting to capture by taxation any major part of the expansion in additional incomes in order to finance a return to the preoccupation with heavy industrialization.

Surplus capacities can of course be left idle as development proceeds along less heavily industrializing lines. The trouble with this, however, is it leaves the heavy industrial sector in bad financial shape and, therefore, not financially capable of generating its necessary contribution to the resources which are required for any substantial development pattern including the one indicated above. And this of course impedes recovery and development. The pace of the economy could be speeded up to the extent that industrial capacity built for one particular purpose can be adapted to other purposes. Much of this is already reported, but it is a difficult process involving considerable managerial ingenuity. Such redirection of industrial capabilities cannot be expected to proceed rapidly.

Now, all this leaves out a most important element in the whole Indian economic situation - foreign exchange. The point of the above discussion is to suggest the hypothesis of serious structural difficulties in the Indian situation which, for a time anyway, would be apt to slow down recovery and development even in the absence of severe foreign exchange constraints. The fact is, however, that there are such constraints, and they are severe indeed in present aid and export circumstances. It is therefore unlikely, and would hardly be the course of wisdom, that economic policy in the shortrun should focus on alleviating the structural difficulties described above, if any resulting increase in economic activity were to mean an intensified pressure against the foreign exchange constraint and an aggravation of all the problems of foreign exchange management. Furthermore, there is good reason to believe that industry is perfectly aware of the narrow limits which foreign exchange shortages set on economic expansion at the present time. This of course affects their expectations for future economic growth and in turn their own investment decisions.

In a sense then, barring strong speculative import demand, there is a kind of mechanism operating through both public policy and private decision for adaptation to the difficult foreign exchange situation and for avoidance of courses of action which are incompatible with foreign exchange availabilities. Marked export improvement would, of course, ease the situation not only in terms of more foreign exchange but also as an outlet for the excess industrial capacity otherwise likely to remain redundant. However, it seems unlikely that exports will provide any short term solution to India's insufficient exchange or its surplus industrial capabilities. But that is another story.

WMG:bw

TABLE I

INDEX OF INDUSTRIAL PRODUCTION (1960 = 100)

	1967	1968 (average of first four months)
ALL INDUSTRIES	151	159
Manufacturing	148	154
Beverages and Tobacco	149	154
Textiles	108	114
Cotton Textiles	105	113 any export measures?
Jute manufacturing	104	106
Paper and paper products	167	178
Rubber products	171	179
Chemicals and chemical products	172	177
Petroleum Products	234	255 (five months)
Iron and Steel	174	160
Cement	144	153 (five months)
Metal products (excluding machinery and transport equipment)	192	183 Down
Machinery (non-Electrical)	290	298
Electrical machinery	140	145
Electricity	231	256
Transport equipment	140	145

ALL INDUSTRIES

1960	-	100
1961	-	109
1962	-	120
1963	-	130
1964	-	141
1965	-	151
1966	-	152
1967	-	151

April 1967	-	147
December 67	-	149
January 68	-	157
February 68	-	168
March 68	-	155
April 68	-	157

TABLE II

INDEX NUMBERS OF WHOLESALE PRICES (1952-3 = 100)

	March 1966	March 1967	March 1968	July 1967	July 1968
All Food	175	218	227	255	235
Cereals	156	194	202	227	207
Pulses	155	234	223	297	191
Milk and ghee	163	199	220	233	238
Edible Oils	266	314	227	283	219
Sugar and Gur	152	239	354	372	383
Liquor and Tobacco	128	128	157	128	180
Fuel, Power etc.	160	173	187	177	192
Industrial Raw Materials	210	236	196	227	193
Fibres	190	192	185	173	204
Oil Seeds	264	315	225	313	214
Manufactures	157	168	163	165	165
Textiles	154	154	152	150	157
Chemicals	135	147	160	154	152
Machinery & Transport Equipment	139	154	157	155	158
ALL COMMODITIES	174	203	201	220	207

Files

August 27, 1968

Joan Baneth

IMPORTS

1. 1967/68

The overall figure of imports in 1967/68, as given by the Customs was $2626 million; of which $689 million were cereal imports. Non-food imports amounted to $1937 million equivalent. This figure reflects certain statistical inadequacies, notably in the field of fertilizer and petroleum imports, which we are not in a position to correct. Comparable figures for the previous two years are given below:-

	1965/66	1966/67	1967/68
Overall imports	2950	2764	2626
of which:			
foodgrains	675	866	689
others	2276	1898	1937

2. As compared to the previous year, the rise in non-food imports was about $100 million less than had been estimated in April. Imports of machinery (including components and parts) fell to $445 million, from $540 million in 1966/67 and $700 million in 1965/66. Imports of most industrial materials increased moderately, though they did not generally reach the 1965/66 level. Imports of fertilizers and chemicals (the latter category probably including a considerable quantity of fertilizers) continued to increase steeply.

3. The geographic origin of imports showed no major change. However, imports from the United States fell by less than 2 per cent (as against 5 per cent for total imports) and that country reinforced its lead over India's other suppliers, with about 40 per cent of India's imports originating there. Japanese exports were also maintained about stable, and Japan became India's fourth supplier, after the United States, United Kingdom and Germany, and before the USSR, which slipped from third to fourth place.

4. The brunt of the fall in Indian imports was borne by the Common Market countries (a fall of more than 20 per cent) and Eastern Europe; India's imports from that region fell by about 15 per cent, from $306 million to $270 million. India's trade with the region thus had a roughly 10 per cent surplus, which may give rise to problems in the future.

5. First quarter of 1968/69

Imports during the first quarter of 1968/69 at $680 million were running at approximately the same level as during the first quarter of the previous year. The breakdown of imports is not yet available; it may well be, however, that foodgrains imports were lower than last year and that non-food imports continued their moderate rise.

JB:mc

ARCHIVES DIVISION
Enclosed With Letter 272
From J. Gilbert to L. V. ...
Date Sept 2, 1968

Exports
Commodities
(Econ. ...)

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August 28, 1968

Jean Baneth

EXPORTS - Year ending March 31, 1968

1. Figures for the year ending March 31, 1968, are laid out on Table 1. The global value of exports during the previous year having been revised downwards by $15 million, total exports show an increase of 3.5 per cent. There was a further fall of the value of jute goods exports (a 2 per cent rise in volume failing to offset a substantial fall in unit price from the very high level of the previous years); this was more than offset by tea exports, the value of which almost reached their 1965/66 level (with prices somewhat lower and volume 3 per cent higher than in that year).

2. Four other important movements occurred. Tobacco exports, which fell from 56.6 thousand tons in 1965/66 to 37.4 thousand tons in 1966/67, rose to 55.4 thousand tons in 1967/68; the corresponding values were $41 million, $28 million and $45 million. Exports of iron and steel more than doubled, exceeding $70 million. Exports of engineering products also increased considerably. The best performing items seem to have been relatively simple goods, such as hand tools, electric wires, transmission towers and, in recent months, pipes and tubes.

3. Areawise, the major increases were in exports to Japan (up by a third, perhaps on account of pig iron shipments) to the Middle East and to Western Europe (U.K., too). Exports to Eastern Europe remained at $300 million equivalent, at a lower absolute value but with a higher relative share than in 1965/66. Exports to America fell for the third consecutive year, mainly because of lower jute goods exports to the U.S.A. The U.S.A. lost its position of largest client of India in favor of the U.K., while Japan replaced the USSR in third position.

4. First quarter of 1968/69

Exports in the three months April - June, 1968, amounted to $410 million. Much importance is attached by certain analysts (AID, notably) to the fact that this is almost 15 per cent above the corresponding period of 1967. In fact, there is no marked stability in the seasonal pattern of exports; furthermore, month to month fluctuations are relatively large, as can be expected where a single cargo of tea or cashew can amount to as much as 20 per cent of monthly exports.

5. The monthly average of exports is a more significant figure. This amounted to just about Rs 100 crores $133 million in 1967/68, and about $137 million in the first quarter of the current fiscal year.

6. 1968/69 forecast

Forecasting remains a mug's game. Nevertheless, one must attempt to correct our previous forecast on the basis of the newly available data.

7

As of now, some advance in primary agricultural exports remains likely, though tea exports are likely to fall both in volume and in price, and the likely rise in the price of jute goods may not be enough to offset some fall in the volume of exports.

7. On the industrial front, some further advance of iron and steel appears likely, though not more than last year in absolute value; exports of engineering goods may well expand by another 50 per cent, or $25 million. There is no sign of change in the field of cotton textiles and made-up garments.

8. Overall, our April forecast of $1730 million now appears somewhat over-optimistic, though it could still be achieved if either the agricultural situation evolved very favorably or substantial policy changes affecting textile exports were made in the near future. Somewhat below $1700 million now appears the most likely overall level of exports.

JB:mc

INDIAN EXPORTS
(US $ Million)

	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68
Tea	257	271	259	262	241	211	240
Jute goods	306	314	324	353	384	335	310
Vegetable oils	12	28	42	15	9	3	5
Pulses	n.a.	n.a.	n.a.	n.a.	3	5	1
Other fruits and vegetables	13	13	15	14	13	12	11
Raw cotton	30	26	26	22	20	23	20
Coffee	19	16	17	28	27	21	24
Oil cakes	36	65	74	84	73	67	61
Sugar	30	36	54	45	24	22	21
Unmanufactured tobacco	30	38	44	51	41	29	46
Pepper	17	14	12	14	23	17	17
Other spices	19	15	10	12	25	22	18
Cashew kernels	38	41	45	61	58	61	57
Marine products	8	8	12	14	14	23	24
Iron ore	74	74	76	78	88	94	99
Manganese ore	21	17	17	22	23	19	15
Mica	20	22	19	20	24	15	20
Cotton piecegoods	101	101	114	121	116	85	87
Cotton yarn					14	13	9
Art silk	n.a.	n.a.	n.a.	n.a.	10	4	2
Cotton apparel, hosiery and other manufacture	n.a.	n.a.	n.a.	n.a.	23	18	19
Footwear	5	6	8	9	11	12	12
Other leather	53	48	55	57	30	83	71
Engineering	14	17	31	30	35	31	43
Iron and steel	20	5	8	22	26	34	73
Chemicals	8	8	8	14	19	14	16
All others	296	316	396	366	284	235	273
Total	1427	1499	1666	1714	1688	1538	1594

CONSORTIUM

THE INDIA CONSORTIUM

1. The best summary of the history of the Consortium up to about two years ago is the attached paper "Background to the India Consortium", dated August 1966.

2. Since then the picture has been clouded by the collapse of the U.S. aid program and the unexpected delay in IDA replenishment. Discussions have focused mainly on non-project aid requirements (including debt relief), the failure of the Indian export performance and the growing concern about the family planning program.

3. For a more recent brief evaluation of the Consortium and its present role, please refer to the Five Year Projection and Strategy paper of last June (Tab: "Strategy"), Part II D 1, Pages 18-19.

4. On October 24, 1968, Votaw reviewed the prospects for Consortium aid and particularly the prospects for sufficient disbursements from this year's aid to cover the estimated "cash gap" in a memorandum to Cargill (copy attached).

5. Three aid flow tables, showing the value of (i) aid disbursements, (ii) aid agreements signed, and (iii) aid pledges respectively during the last few years, are also attached.

6. A copy of the Chairman's Report of Proceedings (IND 68-18, dated July 31, 1968) of last May's Consortium meeting is included in the Reference Materials.

South Asia Department
November 5, 1968

BACKGROUND TO THE INDIA CONSORTIUM

Origin, Purpose, and Composition

1. The consortium for India was started August 1958, midway through the country's Second Development Plan, when it was confronted with a major balance of payments crisis. The IBRD convened a meeting of the countries in which India had placed most of its orders for projects under the Second Plan. The original group, in addition to the IBRD, consisted of the United States, the United Kingdom, West Germany, Canada and Japan, with the International Monetary Fund as observer. The group was initially concerned with financial assistance for meeting India's immediate foreign exchange crisis. Its original title, "Meeting on India's Foreign Exchange Situation", was descriptive of the ad hoc nature of the group and its initial purpose. The official minutes begin to refer to meetings of the "consortium" only at the fourth meeting in June 1961.

2. From the third meeting in September 1960 to the twelfth meeting in April 1965 the consortium met more or less regularly to consider external financial assistance for India's Third Plan. As its purpose shifted from the provision of emergency aid for an immediate foreign exchange shortage to provision of continuing long-term aid to India's current development plan, its membership expanded. France, Austria, Italy, the Netherlands and Belgium, as well as IDA, became members.

3. India is not a member of the consortium but, upon invitation, sends representatives to meetings to make presentations concerning the Indian economy and Plan.

Operation

4. During 1960 India drew up its Third Plan (1961-66) on the explicit assumption that there would be a large amount of external aid available, i.e., 35-40% (exclusive of P.L. 480 transactions) of the foreign exchange needed for the Plan. In fact, the Third Plan contemplated twice as much aid as did the first two Plans combined. In 1960, too, at the instance of the then Senator Kennedy, the President of the IBRD requested three influential bankers from the U.S., U.K., and West Germany to visit India and Pakistan and submit a report to him, which could be used to rally public support in those three countries and elsewhere, for large-scale long-term external aid for the Indian and Pakistani development plans.

5. The bankers concluded that (a) India and Pakistan required and should be provided substantial public aid for a considerable period on easy terms to avoid reductions in consumption and to minimize the growing debt servicing burden; (b) the policy of aid-giving countries "with respect to the scale, form, and terms of assistance provided should be adequately coordinated" to avoid waste and friction; and (c) the two countries should be given reasonable advance assurances of external aid for the period of their respective plans.

6. At its fourth meeting, in April-May 1961, the consortium, reflecting this new emphasis, began to review the Third Plan's foreign exchange requirement and to consider what additional aid pledges would be necessary for the first two years of the Plan "in order both to provide immediate support for India's balance of payments and to enable India to proceed in an orderly manner with the placing of new overseas orders for the Third Plan." By June $2,225 million had been pledged by the consortium members for those two years. This massive pledging, largely at the initiative of the U.S., which offered $1,000 million conditioned on an IBRD/IDA pledge of $400 million and a matching of its own contribution by the other consortium members, transformed the ad hoc group with its emergency function into a quasi-permanent institution for channeling external support for the Indian development plan. The June meeting also recognized that the terms of assistance should be as liberal as possible to avoid an excessive foreign exchange burden.

7. The consortium normally had two meetings a year during the Third Plan period, in principle the first in Paris and the second in Washington. At the first of the annual meetings the state of the economy and the Plan were reviewed in the light of Bank economic reports, and more recently, country submissions; at the second, held shortly thereafter, pledges were obtained to meet the anticipated foreign exchange needs of the Plan for the year ahead. The World Bank undertook a review and assessment of the Indian Third Plan and, subject to certain specific qualifications, broadly "endorsed" the Plan and accepted an anticipated foreign exchange gap of $5.5 billion (exclusive of P.L. 480 transactions) as representing a reasonable minimum estimate of India's requirements for external assistance during the five-year period. In effect a consortium goal equal to about 80% of this requirement ($4.4 billion) appears to have evolved. Soviet bloc aid and private foreign investment were expected to supply the difference. A major Bank mission was sent to India while the Third Plan was being prepared and a strong program review team (the "Bell mission") was in India in 1964 reviewing the progress of the Plan as a preliminary to the Fourth Plan, an outline of which is now in preparation. Indian economic policies and performance are subject to continuing review by the Bank as a basis for the assessment and recommendation which the Bank presents to the consortium staff.

8. Consortium meetings are now the occasion for a detailed review of both Indian economic performance and the use of assistance committed by consortium members. The meetings are chaired by a senior official of the Bank, and the principal members are generally represented by ranking officials and experts from their respective capitals; the country's Executive Director is usually added to this delegation when the meetings are in Washington. In general, the consortium considers aid requirements for one year at a time, although pledges made in 1961 covered the first two years of the Third Plan. Aid is related to investment projects and programs for which orders need to be placed within the year, and also to the overall balance of payments prospects for the year in question.

9. The Indian presentation generally indicates the national or institutional sources which India expects to approach for assistance in the financing of particular projects and programs, and their representatives explain their Plan, policies and aid requirements to the meeting. The Bank does not explicitly endorse India's specific aid requests but does attempt to appraise their reasonableness.

10. The hostilities between India and Pakistan in 1965 interrupted the normal sequence of consortium meetings and also the flow of aid from some consortium countries. India's preparation of the Fourth Plan was delayed and by mid-1966 work was still proceeding on the Plan outline. During 1965-66 the Bank carried on a series of discussions with India on its economic policies and its needs for foreign assistance and there were some ad hoc meetings of consortium country representatives with the Bank from time to time. It is likely that regular meetings of the consortium will be resumed in the second half of 1966.

Achievements

11. Volume of Aid

Although a cause and effect relationship cannot be demonstrated, it seems reasonable to conclude from a review of the India consortium experience that the consortium made it possible to augment, and indeed provided the necessary mechanism for augmenting, the volume of external aid provided to meet India's unprecedented (for an underdeveloped country) and massive aid requirements. It seems clear that the consortium offered the U.S. a vehicle for use of the matching principle to induce greater contributions not only from the other consortium countries, but also from the Bank/IDA. Similarly, it has given the Bank a forum within which to press the major donors for greater contributions. In addition, the consortium has provided a framework in which smaller aid-giving countries could participate and through which they could associate their contributions with those of the principal donors.

12. Advance assurance of assistance

With virtually every major Western country, the Bank and IDA as members, the very existence of the consortium, with its implied overall commitment to the India Plan as well as its more explicit annual pledge of finance for the Plan, has provided advance assurance to India of a high level of foreign aid commitments on a continuing basis. At the same time it has provided a measure of assurance of foreign exchange availability to the Indian private sector and to Western suppliers seeking to do business with India.

13. Terms of repayment

During the life of the consortium there has been a significant softening of the terms of aid; that from the U.S. and IDA has been on especially soft terms. Within the framework of the consortium the U.S. and the Bank have exerted pressure on other aid-givers to liberalize their terms. Other consortium members have, in varying degrees, reduced their interest rates and lengthened maturities and grace periods. Nevertheless, a number of countries have continued to charge interest at about the commercial level of 5-6%.

14. Form of aid

About half of the consortium aid has been on a non-project basis, flowing to broad programs which in effect amount to commodity aid (including individual pieces of equipment, components, spare parts, etc.), or taking the form of direct commodity aid or balance of payments support. It is not clear to what extent this significant flow of non-project assistance is attributable to the consortium, in view of the U.S. willingness in any case to provide considerable assistance of this type. However, it seems a reasonable inference that the existence of the consortium and a consortium-"endorsed" Plan has made it somewhat easier for the U.S. and others to provide non-project aid.

Asia Department
IBRD
August 1966

Chron

Mr. I. P. M. Cargill October 24, 1968

Gregory B. Votaw

INDIA - Estimated Disbursement from 1968/9 Aid

1. Since we are moving into the second half of the Indian fiscal year, it may be useful to review the prospects for Consortium aid and particularly the prospects for sufficient disbursements from this year's aid to cover the estimated "cash gap."

2. When the Consortium met in May, we foresaw a "cash gap" of $450-500 million (paragraph 10, Chairman's Report of Proceedings, IND 68-18, July 31, 1968). In other words the Bank was recommending that Consortium members provide new aid for 1968/9 in amounts and in forms which would permit disbursement of $450-500 million by March 31, 1969. The meeting noted that perhaps $100 million could come from a fifth IDA industrial imports credit, another $100 million from debt relief (Annex V of the same Report) and a third $100 million, or perhaps slightly more, from the $150 million of other non-project aid already intimated (Annex IV) plus small amounts from Austria and others who were not yet in a position to state their plans publicly. All this implied an "uncovered" gap of over $200 million, which we tacitly hoped would be filled largely from U.S. sources.

3. Percent trade data suggest that 1968/9 exports will fall slightly short of the May estimate (down $30 million to $1,700 million), and that imports, especially non-food and non-project imports, will be rather more substantially ($200-250 million) below earlier estimates. On this basis the cash gap yawns slightly less ominously than last spring - a point which seems to be confirmed by the absence of any urgent pressure on reserves; but there is still a gap of $300-350 million, only $200 million of which is covered by debt relief and non-US-non-IDA contributions.

4. The pressure on reserves may not be more than a few months away. Imports which used to be reimbursed from the proceeds of IDA's industrial imports credits are continuing at a rate of about $15 million per month; these would be reimbursed from the proceeds of any fifth credit, as discussed by the Executive Directors in June, but such reimbursements ceased toward the end of May when the fourth credit was fully disbursed. By the end of the year payments of, say $100 million, which might have been reimbursed by a replenished IDA, will have been drawn from India's meager reserves. Present prospects for IDA offer no firm hope that this situation will be reversed before June 1969 and it could well be later.

5. Even if the Executive Directors were to agree to an IBRD loan for industrial imports - and as Mr. McNamara told the Deputy Prime Minister earlier this month, the prospects are dim since all Executive Directors, except those representing the United Kingdom and possibly

Canada, have opposed such lending by IBRD - it would not be until well into 1969 (because of policy discussions which have not started as yet) and would probably not be for an amount larger than $60-80 million (because of India's limited debt-servicing capacity).

6. All previous experience suggests that Indian businessmen are well informed about and quite sensitive to aid prospects. In conditions as uncertain as those at present there is a real danger that industrialists will begin to accelerate imports as a hedge against the reimposition of very strict controls (or even an import moratorium). Timely commitment of $175-200 million in US-AID funds would go a long way to discourage such pressures and would be particularly effective if administered in a way that allowed quick disbursement of at least half the amount (i.e. about $100 million early in 1969).

7. Points reviewed above reflect the sad plight of development finance in the present, hopefully temporary, circumstances. My calculations are clearly concerned with the possibility and timing of the foreign exchange crisis, which has admittedly seemed imminent for several years. One reason the crisis has been avoided so far, and may be avoided again, is the recession. The Consortium just has not been offering external resources in amounts sufficient to support a strong development effort. (This shortage of external finance serves to compound difficulties resulting from recent shortfalls in domestic savings.) Unless there is a major reorientation of Indian economic policy or alternatively a significant improvement in aid prospects, the Government of India seems unlikely to have budgetary and/or foreign exchange resources available to support a strong development program.

8. In short, the commitment of U.S. funds within the next month or two could be helpful and may be essential to discouraging an unproductive, speculative increase in imports. It might also give the D.P.M. significantly more confidence as he begins preparations for the 1969/70 budget. However, something much more substantial than what is now in prospect will be necessary before the Consortium effort can again reach a scale where it can be considered developmental. It is, of course, worth waiting out another year to see if prospects for large-scale development finance revive; but if new large sums are not available on highly concessional (i.e. IDA) terms a year from now, I do not see how the Consortium can continue - or at least how the Bank can remain as its Chariman.

cc: Messrs. King
M.C.Williams (AID)
New Delhi Office

GBVotaw/rwm

VALUE OF DISBURSEMENTS ON AID TO INDIA 1961/62 - 62/63
AND ANNUALLY THRU 1966/67
(Millions US$)

	1961/62 1962/63	1963/64	1964/65	1965/66	1966/67 a/
GRAND TOTAL	1188.0	850.0	1058.3	1110.7	720.8
TOTAL CONSORTIUM	1060.9	733.5	882.7	970.4	630.4
Austria	-	2.5	2.8	4.5	3.0
Belgium	-	-	2.5	7.8	1.2
Canada	31.5	19.3	38.2	49.4	9.3
France	-	-	27.3	15.8	9.9
Germany	196.0	61.0	110.4	95.5	37.5
Italy	.4	4.6	14.0	5.4	1.9
Japan	31.3	37.6	51.5	64.6	32.7
Netherlands	-	-	5.8	14.1	5.5
United Kingdom	111.0	73.2	84.2	91.1	68.4
United States b/	533.2	415.6	386.5	388.6	268.9
IBRD/IDA	157.5	119.7	159.6	233.6	192.1
TOTAL NON-CONSORTIUM	127.1	116.5	175.6	140.3	90.4
USSR/E. Europe	121.0	110.3	170.0	113.5	74.5
Other	6.1	6.2	5.6	26.8	15.9

a/ Consortium figures refer to aid granted since Third Five-Year Plan began. On a balance of payments basis, total project and non-project aid from all sources amounted to $912 million in 1966/67 and $1039 million in 1967/68.

b/ Excludes PL 480.

South Asia Department
November 5, 1968

VALUE OF AGREEMENTS SIGNED FOR AID TO INDIA 1961/62 - 1962/63
AND ANNUALLY THRU 1967/68

(Millions US$)

	1961/62-1962/63	1963/64	1964/65	1965/66	1966/67	1967/68
GRAND TOTAL	2154.6	989.5	1082.4	992.2	1349.6	n.a.
TOTAL CONSORTIUM	2100.9	969.7	746.2	941.9	882.6	424.3
Austria	5.0	3.8	4.0	5.0	4.7	5.0
Belgium	10.0	10.0	-	4.0	1.2	2.5
Canada	43.8	33.0	83.1	86.1	10.4	112.2
France	60.0	20.0	20.0	20.0	17.0	13.0
Germany	262.0	199.0	95.0	89.0	63.1	62.5
Italy	53.7	45.0	36.0	36.0	34.0	-
Japan	90.0	80.0	60.0	60.0	45.0	51.9
Netherlands	3.9	21.8	3.9	16.4	11.0	11.0
United Kingdom	265.0	85.1	84.0	74.9	86.4	79.2
United States a/	886.8	422.0	175.2	316.5	394.8	62.0
IBRD/IDA	419.5	50.0	185.0	234.0	215.0	25.0
TOTAL NON-CONSORTIUM	53.7	19.8	336.2	50.3	467.0	
USSR/E. Europe b/	33.4	4.2	319.3	8.8	458.0	n.a.
Other	20.3	15.6	16.9	41.5	9.0	n.a.

a/ Excluding PL 480.

b/ Refer to amounts authorized under the general frame agreements.

South Asia Department
November 5, 1968

PLEDGES ANNOUNCED FOR AID TO INDIA 1961/62-1962/63
AND ANNUALLY THRU 1968/69
(Millions US$)

	1961/62-1962/63	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69
GRAND TOTAL	2418.7	1071.8	1364.2	1077.3	1368.2	n.a.	n.a.
TOTAL CONSORTIUM	2365.0	1052.0	1028.0	1027.0	901.2	484.8	321.8
Austria	5.0	7.0	1.0	5.0	4.7	5.0	1.4
Belgium	10.0	10.0	-	4.0	1.2	2.5	0.9
Canada	62.0	30.5	41.0	41.0	38.7	97.0	77.7
France	60.0	20.0	20.0	20.0	17.0	30.0	35.0
Germany	364.0	99.5	95.0	86.0	63.0	62.5	62.5
Italy	53.0	45.0	36.0	36.0	34.0	-	5.5
Japan	110.0	65.0	60.0	60.0	45.0	52.0	45.0
Netherlands	11.0	11.0	11.0	11.0	11.1	10.5	9.8
United Kingdom	266.0	84.0	84.0	84.0	89.6	84.0	84.0
United States a/	480.0	435.0	435.0	435.0	382.0	116.3	-
IBRD/IDA	450.0	245.0	245.0	245.0	215.0	25.0	-
TOTAL NON-CONSORTIUM b/	53.7	19.8	336.2	50.3	467.0	n.a.	n.a.

a/ Excluding PL 480.

b/ Includes amounts pledged by Eastern European countries to cover more than one year; figures for non-Eastern Europe, non-consortium refer to agreements signed.

South Asia Department
November 5, 1968

PROCUREMENT

PROCUREMENT POLICY

1. The principal problem the Bank faces in the financing of projects in India is a disagreement with the Government about the procedures to be followed in the procurement of goods. The problem came to a head when Deputy Prime Minister Desai wrote to Mr. Woods on July 10 of last year, enclosing a position paper prepared by the Ministry of Finance. Basically, India's position is that articles which can be produced within India should be procured from domestic sources and not be subject to international competitive bidding. The Bank replied through a staff memorandum dated September 8, 1967. This memorandum summarized previous procurement practices for Bank Group projects in India, and indicated our willingness to continue to apply those practices. In addition, it indicated that the Bank might be willing to allow some items to be "reserved" to domestic Indian suppliers so long as this did not hinder the economic and efficient execution of the project.

2. This correspondence, and the problem in general, have been the subject of considerable discussion amongst the staff and in the Loan and Economic Committees. At a recent joint meeting of the Loan and Economic Committees to consider a report entitled "International Competitive Bidding and Preferences for Domestic Suppliers" from Mr. Bell's Working Party, it was agreed that the Bank should normally accord domestic suppliers a preference of 25 percent or the existing level of import duties, whichever was lower. Exceptions might be allowed if justified, and 27.5 percent was specifically mentioned as reasonable in the case of India. With this relaxation of the Bank's general guideline of preferences, it was agreed that the Bank should not generally allow "reserved" procurement, but that such procurement might be acceptable on exceptional occasions if such reservation was agreed in advance and was judged not to place an undue burden on the economic and efficient execution of the project.

3. During the discussions with the Indian delegation during the Annual Meeting, the Bank indicated its willingness to proceed under this framework, subject to approval by the Executive Directors. The Government of India continued to present its case for substantial reservation but indicated that the Bank's new position on preferences would make it much easier to accept international bidding. While there was no formal agreement, we understood that the Deputy Prime Minister would return to India to seek approval at the Cabinet level to proceed as the Bank proposed. We regard it as essential that at least an informal agreement along these lines be secured during your visit, since such agreement is essential to any future project lending in India, and in particular to the negotiation of two pending agriculture projects.

4. The following documents relating to this problem are included in the Reference Materials:

(a) The 1967 exchange of memoranda between the Deputy Prime Minister and the Bank staff.

(b) Memorandum from the Asia Department to the Loan Committee, October 11, 1967, commenting on the exchange.

(c) Minutes of the Loan Committee meeting of October 12, 1967, which discussed the Desai-Knapp correspondence and the Asia Department memorandum.

(d) The memorandum "International Competitive Bidding and Preferences for Domestic Suppliers", prepared by Mr. Bell's Working Party and dated September 23, 1968.

(e) The Annex on Procurement Policy attached to the Asia Department memorandum to the Loan Committee on the Tarai Seeds Project, dated September 24, 1968.

(f) The Minutes of a Special Loan Meeting on the Tarai Seeds Project, held on September 27, 1968.

(g) An undated memorandum from GOI on the Proposed Mormugao Port Project, which indicates how the GOI would apply its proposed position to a particular case.

South Asia Department
November 5, 1968

AGRICULTURE

BANK GROUP INVOLVEMENT IN INDIAN FERTILIZERS:
SUMMARY OF ACTIVITIES 1960 TO 1968

1. Before about 1960 there was very little activity by the Bank or IFC in relation to fertilizers in India. In fact, even as late as this, the Government of India was still talking about one fertilizer plant per State.

2. During 1960 the GOI approached the Bank with regard to the financing of a lignite briquetting plant which is part of the large industrial complex including the Neyveli Lignite fertilizer plant. The request was turned down.

3. Later in 1960 the Bank was approached with a view to assisting in the financing of the Gujarat State Fertilizer Company plant (51% private, 49% public). This request was also rejected, primarily on the grounds that bidding procedures were not acceptable.

4. Late in 1963 the Gujarat project was again raised, at which time the principal objections on the part of the Bank were public control and the lack of foreign technical collaboration.

5. Also during 1963 the Bank was approached by Allied Chemical concerning a small fertilizer plant based on coal in Khotagudam - a joint venture between Allied and local Indian partners. Allied delayed proceeding with the project, which remained under review by the Bank or IFC until 1967 when it was finally abandoned by Allied.

6. Late in 1964 the question of the Bank financing the import of fertilizers into India was raised. There were numerous exchanges on this subject through 1967 and the Bank took the stand that they would be prepared to consider the import of fertilizer for a 'seeding' programme associated with a new fertilizer plant. No such proposal has, however, been received by the Bank.

7. Between the latter half of 1964 and early 1965 there was an exchange of correspondence between the Bank and Bechtel concerning their study and scheme for a $500 million fertilizer complex for India. This was the project put together by General Clay. The scheme was linked with crude oil import arrangements and had a number of other features which caused the Bank to be unsympathetic to it. The GOI rejected it for basically the same reasons.

8. During 1965 (and later) the Bank and IFC were approached on a number of private sector fertilizer projects, of which the ICI project at Kanpur and the Birla/Armour project at Goa were the most important. The ICI project (Indian Explosives) was approved by our Board in April 1967. The Birla project was delayed by slow action on the part of Armour, caused, as we heard later, by the fact that they were negotiating to sell their fertilizer activities to US Steel. The project is now actively pushed by US Steel and there is a good likelihood that commitments will be made by April or May 1969.

9. Prior to 1965 one of the obstacles to private enterprise was the price fixing and distribution policy of the GOI. In December 1965 these regulations were relaxed and private sector plants were permitted to make their own distribution arrangements and set their own prices, subject to the Government having an option on 30% of output at a negotiated price.

10. In January 1966 Phillips Petroleum first approached the Bank Group to enquire about possible financial help for their proposed fertilizer plant at Haldia, near Calcutta. This project was later abandoned in 1968 because the GOI and Phillips could not agree on the proposed terms for the Phillips participation.

11. In February 1966 Mr. Woods conveyed to Mr. Subramian (Minister for Food and Agriculture) an aide memoire for the GOI outlining a programme which the Bank was prepared to support to develop the fertilizer industry, based on imported ammonia manufactured from low-cost natural gas in the Persian Gulf area. The GOI's initial reaction was unenthusiastic.

12. In June 1966 a high-level group of Government officials visited the US for several weeks, principally to meet with potential investors and technical partners, and also to meet various US Government Departments and the World Bank. The purpose of the mission was to stimulate private foreign investment in the Indian fertilizer industry. The delegation met with the Bank and IFC on June 30 and the discussion centred round the Government regulations concerning private investment in the fertilizer industry in India. The mission was quite unsuccessful in its efforts for a variety of reasons including its ineptness and the restrictive policy guidelines within which India sought to attract investment.

13. In July and August 1966 an IFC mission visited India with a view to clarifying the various Government regulations concerning the costs and availability of raw materials, and also distribution and prices of finished fertilizers. A primary concern of the mission, however, was also to evaluate the three specific proposals (ICI, Birla/Armour and Allied Chemical) which were under consideration at the time.

14. At the 1966 Annual Meeting the question of a consortium approach, utilizing imported ammonia, was again raised. On December 8 the Minister

of Finance wrote to Mr. Woods that the GOI would be prepared to explore the proposals and would be pleased to meet and have serious discussions with representatives of any such group which might be formed with the World Bank's encouragement. He quoted, however, the GOI's unfortunate experience with the group associated with the Bechtel study.

15. In April 1967 IFC was first approached concerning the Dharamsi Morarji project for the production of complex fertilizers from imported ammonia, the project being jointly sponsored by the Dharamsi Morarji Group in India and the Kuwait Fertilizer Company. This proposal is still before us, and in March 1968 the sponsors received GOI approval for the importation of ammonia. This project is currently being delayed because of a reported lack of agreement between the sponsors and the GOI on the conditions under which ammonia would be imported.

16. In May 1967 Mr. Woods visited India and again the fertilizer production programme was discussed, principally with the Ministers for Food and Agriculture and Petroleum and Chemicals. The main discussions were centred round the conditions under which private enterprise be permitted to participate in the fertilizer programme. The ill-conceived Bechtel study was again quoted by the Ministers as an unhappy precedent of private enterprise participation, and the question of importing ammonia was touched on at these meetings.

17. In June 1967 an IFC mission visited India to review the status and prospects of the fertilizer industry, and again in 1968 there were two IFC missions: the first in March to assess expected production and hence foreign exchange requirements for imports for the next three years, and the second in August to assess the anticipated gap in production and consumption, and hence to arrive at a rational programme construction for new fertilizer facilities.

JDD:lw
11.7.68

PROPOSED PLAN FOR A
FERTILIZER CORPORATION FOR INDIA

1. Facilities in India

Three plants to manufacture complex fertilizer would be based on the coast and would operate utilizing imported ammonia and imported phosphoric acid. One plant would be located inland and would produce ammonia from Indian naphtha and produce phosphoric acid from imported elemental phosphorus. The two products would then be combined to make complex fertilizer.

2. Facilities Outside India

Two ammonia plants would be located in the Persian Gulf and three phosphoric acid plants would be located in phosphate producing countries, such as Tunisia, Morocco or Jordan. There would also need to be ships for the transportation of ammonia, phosphoric acid and elemental phosphorus. (Facilities for the production of elemental phosphorus outside of India would also be required, but these are excluded from the concept of the overall company.)

3. Estimates of Cost of Investment Required

Plant and equipment costs for the facilities in India would cost in the neighborhood of \$140 million-\$150 million. The plant and equipment facilities (excluding ships) outside of India would cost in the neighborhood of \$135 million. The investment in ships would be in the neighborhood of \$70 million. Total plant and equipment cost is thus approximately \$350 million. In addition, substantial working capital would also have to be provided, at least \$50 million.

4. Concept of the Scheme

Establish a company (or call it an Authority) in which part of the equity would be owned by the Indian Government, by the governments of the other countries where the facilities are located (say, Kuwait, Saudi Arabia, Tunisia), and by a group of private oil and chemical companies. Presumably also IFC could be an equity investor in the company. Since a substantial part of the cost would be Indian rupee expenditure, say \$150 million, plus most of the working capital that is needed, the foreign exchange financing is reduced to a figure around \$200 million. It would be possible to put together a corporate structure which gave the Indian Government a significant equity stake in the venture--I am thinking of around 20%, the other governments together might have 20%, IFC would put in 10% and the private companies would be looked to for 50%. This requires a private foreign equity investment in the neighborhood of around $60 million, but I think it would be possible to set up a financial structure in which part of this came in the form of shareholders advances eligible for guarantees by governments of the countries where the private investors were located.

November 8, 1968

MMRosen:dbs

AGRICULTURE

1. Certain basic data on Indian agriculture, with emphasis on water management, are contained in the attached paper "Food Grain Production and Irrigation Development", which was prepared by the Agriculture Projects Department.

2. Also attached are three other papers on Indian agriculture which were prepared by various staff members in recent months in order to prepare for the very considerable expansion of lending (and improvement in project quality) which is foreseen in the Five Year Projections. The first of these papers (by Votaw and Picciotto, dated June 13, 1968) is oriented toward lending operations, the other two are part of the regular economic reporting from the Bank's New Delhi office.

South Asia Department
November 5, 1968

MISC.

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NEWS SERVICE

INFORMATION AND PUBLIC AFFAIRS DEPARTMENT

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- [ ] THE NEW YORK TIMES
- [ ] THE WALL STREET JOURNAL
- [ ] THE JOURNAL OF COMMERCE
- [ ] THE WASHINGTON POST
- [ ] THE CHRISTIAN SCIENCE MONITOR
- [ ] THE TIMES
- [ ] THE FINANCIAL TIMES
- [x] TIMES OF INDIA, Delhi

World Bank Chief to discuss aid and debt repayment issues

"The Times of India" News Service

NEW DELHI, October 24.

APART from the question of aid and debt repayments, which are bound to come up when the World Bank President, Mr. Robert McNamara, visits India around the middle of next month, the Union Government is likely to take the opportunity of erasing some of the erroneous impressions about this country prevalent among the higher echelons of the Bank officialdom.

Typical of this is the observations made by the former President, Mr. George Woods, who during his address to the UNCTAD session in February, referred to the "uncertainties that cloud the country's national life," where hope, according to him, "has almost dwindled to despondency."

On his attention being drawn to the unfairness of this kind of verdict, Mr. Woods willingly withdrew these remarks. But the impression brought back by Mr. Morarji Desai and his advisers from the Fund-Bank meetings is that the judgment lingers in the mind of the Bank officials. Part at least of the purpose of the new Bank President's visit is that he should be afforded an opportunity to study the situation at first hand and thus enable him to correct this picture.

Mr. McNamara's programme for the week-long stay in the country is in the process of being drawn up. Apart from meeting the Prime Minister, the Deputy Prime Minister and other economic Ministers and officials, he may also confer with people outside the Government. One of the places he is likely to visit is Kharagpur, where he was stationed for a while during World War II.

ECONOMIC ISSUES

As far as economic issues are concerned, though Mr. Desai's suggestion to activate the soft-loan agency IDA independently of the U.S. contribution did not make headway at the Fund-Bank meetings, the idea is not dead. The suggestion made by Mr. J. N. Mehta, Indian delegate in the U.N. General Assembly's Economic Committee, that part of the extra liquidity created by the special drawing rights schemes be diverted to replenish the IDA is continuation of the same basic approach.

The hurdles in the way of the idea being accepted are very great but so is the need of this country and others situated similarly. And if there is one person who can appreciate this and do something about it, it is Mr. McNamara.

The other important issue likely to be discussed with the Bank President is the question of debt relief over and above the $100 million agreed to at the last consortium meeting. Here again the donor countries are likely to react unfavourably on the ground that this is indistinguishable from aid and would entail complicated legislative and other adjustments but the effort is considered worthwhile.

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- [ ] THE WASHINGTON POST
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- [ ] THE TIMES
- [ ] THE FINANCIAL TIMES
- [x] PATRIOT, NEW DELHI

McNamara to meet key private groups

Our Special Correspondent

WORLD Bank president McNamara is coming to New Delhi on 17 November on an eight-day visit during which he will also visit Calcutta, Madras and Bombay.

The visit is part of a tour of this part of the world to study the economic conditions and the World Bank's operations in the region. He will visit Pakistan before coming here.

In Delhi besides meeting the President, the Prime Minister and the Deputy Prime Minister, Mr McNamara will meet several Ministers and the Deputy Chairman of the Planning Commission and also groups of private businessmen and their organizations.

BIAS

The latter discussions will obviously be more significant than his official talks not merely because of the new traditional interest of the World Bank in private enterprise but also because of the new orientation introduced by Mr McNamara under which the World Bank will lean more heavily on capital markets rather than on governmental subventions for its resources.

The bank's bias in favour of the private sector may therefore become more pronounced than hitherto.

While no significant new development in regard to official US and Western aid is expected for several months, the main interest in Mr McNamara's visit can only be the bank's assistance for some of the fertilizer projects in the private sector.

His predecessor, Mr Woods, had promised to help in this but nothing worthwhile has emerged.

The long-standing request of India for debt relief is bound to be discussed during Mr McNamara's visit, and so will be the effort being made by India to push its exports. The bank's known disfavour of rupee trade may be discussed in this context.