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Report No. AS-137



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

# A NOTE ON INDIA'S CURRENT ECONOMIC SITUATION AND FOREIGN AID REQUIREMENTS

April 25, 1968

Asia Department

## EQUIVALENTS

| | | |
|---|---|---|
| 1 Indian Rupee | = | U.S. $0.13 |
| 1 U.S. Dollar | = | Rs. 7.5 1/ |
| 1 Lakh | = | 100 thousand |
| 1 crore | = | 10 million |

tons are metric tons

| | | |
|---|---|---|
| 1 quintal | = | 0.1 ton |

1/ Following devaluation on June 6, 1966. The previous exchange rate was Rs. 4.76 for one U.S. dollar

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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FROM: The Deputy Secretary

April 30, 1968



MEETING OF THE INDIA CONSORTIUM

Attached for use at the meeting of the India Consortium is a document entitled "A Note on India's Current Economic Situation and Foreign Aid Requirements" (AS-137) dated April 25, 1968, prepared by the Asia Department of the Bank. This report updates the last economic report distributed under IND 62-33 on October 13, 1967.

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This report was drafted by Mr. W. M. Gilmartin and the staff of the IBRD Resident Mission in New Delhi.

Introduction

1. This paper is a brief supplement to the most recent Bank report on the Indian economy 1/. Like that report, it reviews recent economic trends, and the progress made by India in selected fields - namely fiscal policy, food and agriculture, population control, and exports. It concludes with a discussion of the present and prospective balance of payments situation, and an estimate of aid requirements for the year that started on April 1, 1968. A more extensive analysis of economic programs and policies is planned for later this year, by which time the reformulation of the Fourth Five Year Plan should be further advanced.

2. Two successive years of drought invalidated the assumptions on which the Draft Outline of the Fourth Plan, intended to cover the period April 1966 to March 31, 1971, was based. 1967/68 and 1968/69 are being covered by annual plans only. This suspension of longer-run planning, combined with budgetary restraint, is keeping new project starts to a minimum during this period, and the emphasis is on completing old projects. Meanwhile, work has started on the new Fourth Plan, taking into account not only the setbacks of the past three years, but also the cautious expectation of a somewhat better future based on certain recent successes, notably on the agricultural front. The new Plan will incorporate the new strategies on which these successes are based.

3. India's development effort has encountered many obstacles over the past three years. It has required a major effort of economic management to maintain reasonable financial stability and to provide food and basic services, and there has been little opportunity to make major new commitments of resources to the development effort. Inevitably, India's shorter-run economic policies have thus had to be geared to ad hoc objectives. In 1965 it was however, recognized that it was necessary to depart from the policies that had been followed during the early 1960's, mainly because the growth of the economy did not appear to be responding to the increases in investment expenditure that had taken place during the Second and Third Plans.

4. Two major changes in development policy were subsequently implemented; the first of these was the adoption of a new agricultural strategy which implied a major improvement in the emphasis given to increasing foodgrain output, which had long been relatively neglected. The new agricultural strategy has been described at length in previous Bank reports, and the latest trends are mentioned below. The second major change was the adoption of various measures designed gradually to free the industrial sector in particular from some of the many administrative controls over trade, production and investment decisions, with a view to improving the efficiency of the allocation of foreign exchange and other resources, and achieving over the longer run an improved structure of the economy. The import liberalization policy was the main

1/ "Current Situation and Short-Term Prospects of the Indian Economy", distributed to the Consortium dated October 13, 1967 (AS-131a) and to the Board dated January 2, 1968 (AS-131b).

element of this change, and was introduced shortly after the related devaluation of June 1966. In addition to these two major changes in direction, the Government made a new start to its population control program, and there was recognition of the need to improve export performance.

5. Unfortunately, these new policy directions came at a time when the economy was seriously affected by two severe droughts in 1965/66 and 1966/67 - of a severity which statistically is only likely to occur once a century - and by hostilities with Pakistan. Moreover, the recent course of Indian politics has probably narrowed the limits within which new and controversial policies can be executed. The acute food shortage led to spiralling food prices and wages and forced the Government from 1966 sharply to curtail development expenditure in the interests of financial stability, and this in turn aggravated the recession in most industrial sectors. Thus, most of the usual statistical indicators of performance such as per capital income growth, or savings and investment, show stagnation or even downward trends over the past three years, although some more optimistic results are gradually emerging. In essence, there are grounds for hope that over, say, the next three to five years, agriculture will as a result of the new strategy emerge as a leading growth sector; in the industrial sector gradual increases in efficiency can be hoped for, as a result of the decontrol measure, although the burden of misdirected past investment will be a drag for many years. Progress towards decontrol is, however, endangered by the acute uncertainty over foreign exchange resources, which threatens to become a greater constraint as the recession recedes.

Recent Developments

6. There have been some encouraging developments since the last report. Firstly, the sequence of poor harvests has been broken and, given a favorable spring (rabi) harvest, a record foodgrain output of 97 million tons or more is likely to be realized. The easier foodgrain situation has already resulted in a fall in foodgrain prices of about 15% from October to early March and the general index of wholesale prices thus fell by about 10%. This is in contrast to the previous year when prices continued to rise over the same period. With the improved harvest, it is expected that estimates of real income for 1967/68 will show an increase of about 10% over the low level of 1966/67. This would imply an average growth trend in real income since 1960/61 of about 3.5% a year or just over 1% per capita.

7. It will, of course, take some time before the improved agricultural situation and more stable price level have an impact on industrial production. In 1967/68, industrial production probably rose only 1-2% over 1966/67 as against an average 7.5% a year from 1961-65. The depressed level of economic activity has been reflected in the fiscal outturn for the year, in that instead of the original hope for a balanced budget, there was a deficit of Rs. 300 crores. Plan outlays remained at much the same level in money terms during 1967/68 as the previous years at Rs. 2200-2250 crores, well below the original targets, and this has aggravated the acute problem of unutilized capacity in many sections of the engineering industry. The index of

industrial production for the capital goods industries shows a fall in 1967/68, a very slight one admittedly, but striking nevertheless in a field which has been the growth leader in industrial expansion. The most important decline has been in railway wagon production which has very important linkage effects on subsidiary industries, and in addition is concentrated in West Bengal where political unrest has aggravated the recession. This resulted from the sharp cut in railway investment from a peak of Rs. 314 crores in 1964/65 to Rs. 199 crores in 1966/67 and Rs. 182 crores in 1967/68, due to the much slower than expected growth of freight traffic during the past two years.

8. The most serious decline during the past year was in the consumer goods sector where production fell by about 6-7%, mainly under the impact of the setback caused to food processing industries by the fall in supplies due to the previous two years' poor harvests. Cotton textile production also continued to experience difficulties. In other consumer industries, such as bicycles, passenger cars, radio receivers, clocks, etc., demand and production continued to grow rapidly. Intermediate goods had a particularly good year, with agro-oriented industries leading the way. The picture is therefore by no means a uniform one and it must be stressed that what has occurred to overall industrial production has been a decline in its rate of growth, not a fall in its absolute level. The regional concentration of the engineering industries in Calcutta, and the textile industry in, for example, Bombay and Ahmedabad, has tended to dramatize the problem.

9. The index of industrial production is not, however, a complete picture of the industrial situation. There is evidence of a general unwillingness of wholesale and retail trade to keep stocks, and this has led to some increase in the already large inventories of finished goods held by manufacturers, thus imposing a severe financial strain on them. In addition, industry also had to meet the rising cost-of-living (dearness) allowances, the steep post-devaluation rise in import costs, and the dearth of agricultural raw material inputs. Because of the recession, excess capacity, and the increase in domestic competition due to the liberalization of production imports, few of these cost increases were reflected in industrial prices, which remained generally stable. As a consequence, 1967 profits declined steeply from the fairly high levels attained before mid-1966.

10. The improved harvest has changed the situation in many respects. Above all it has given the Government room to maneuver and allowed rather more conscious measures of re-stimulation than previously. The planned budget deficit in 1968/69 of about Rs. 290 crores appears justifiable in these circumstances. New taxation has been light and some significant cuts have also been made in an attempt to revive the capital market and promote exports. Plan expenditure has, however, only been marginally increased. As part of the package of measures for revival, the bank rate has been lowered from 6% to 5% (the first reduction in the rate since Independence). The problem of underutilized capacity in the capital goods sector is likely to remain, however, since the public sector will not be placing substantial new orders for the products of these industries in 1968/69.

11. Broadly, with the very favorable harvests, the outlook for 1968/69 is for a moderate recovery. Government measures should contribute to this recovery, not because of an increase in the level of demand, but rather because of a favorable psychological impact which should improve the atmosphere for private investment. These measures will be aided by the likely recovery of the consumer goods sector and the sustained progress in intermediate goods. There is no reason to differ from the official forecast of a limited recovery inindustrial production to the extent of a 5 or 6% increase over last year. A poor June/September monsoon this year would, of course, interrupt this moderate recovery. But even with a second year of good harvests the rate of recovery may still have to be curtailed by the balance of payments situation. This may be a very real prospect as is indicated below in the discussion of the external payments situation and foreign aid requirements. Before coming to this, however, the budget and general fiscal problems are discussed, followed by agriculture with some observations on the progress of the program to improve food output, and brief notes on family planning and exports.

The Fiscal Situation

12. Given the two bad harvests of 1965/66 and 1966/67, fiscal performance over the past two years has not been seriously inadequate, although there are a number of worrying trends which reappeared in the 1968/69 budget and are likely to persist. Basically, the problem revolves around the need to increase the level of public savings so as to be able to finance a larger, and growing, public investment program. At present, the current surplus finances less than 5% of capital disbursements, substantial deficit financing is utilized, yet public investment remains stagnant or perhaps is declining slightly in real terms. Since public investment accounts for around two-thirds of total investment, it is very unlikely that private investment will boom significantly unless there is a stimulating rise on the part of the public sector.

13. In 1967/68 it soon became apparent that the Budget estimate assumed a far greater degree of general economic recovery than in fact occured; accordingly, tax revenues recorded their lowest increase for nine years at only 2 1/2%, with large shortfalls from expectations in customs and excise receipts. Current expenditures, on the other hand, rose by 9 1/2% over 1966/67, partly reflecting increases in cost-of-living allowances, but nevertheless continuing the rapid rise of recent years, with the inevitable result of a sharp drop in the current surplus. Capital disbursements were about 5% below the level of the previous year, despite the final outcome of a Rs. 300 crore deficit as against the balanced budget originally proposed. In the event, however, this volume of expansionary finance did not prove inflationary, as overall prices after the first quarter of 1967/68 stopped rising and indeed declined as the bumper food crop began to reach the markets towards the end of 1967.

Table 1.

Central Government Budget Summary
(Rs. Crores)

| | 1966/67 Accounts | 1967/68 Budget | 1967/68 Revised Est. | 1968/69 Budget |
|---|---|---|---|---|
| Gross tax revenues | 2,306 | 2,521 | 2,361 | 2,516 |
| Non tax revenues | 513 | 547 | 572 | 609 |
| Total revenues | 2,819 | 3,068 | 2,933 | 3,125 |
| Less States' share | 372 | 388 | 416 | 432 |
| Net revenues | 2,447 | 2,680 | 2,517 | 2,693 |
| Less expenditure | 2,219 | 2,376 | 2,430 | 2,563 |
| Current account surplus | 228 | 304 | 87 | 130 |
| Capital receipts | 2,174 | 2,167 | 2,172 | 2,096 |
| Total | 2,402 | 2,471 | 2,259 | 2,226 |
| Less capital disbursements | 2,699 | 2,471 | 2,560 | 2,517 |
| Deficit | 295 | - | 300 | 290 |

14. The budget for 1968/69 estimates that tax revenues at present rates will rise by Rs. 100 crores or about 4 1/2%, assuming a 5 to 6% expansion in industrial activity. Actual revenues may be Rs. 30 to Rs. 50 crores above the budget estimates. New taxes should yield a further Rs. 66 crores, of which Rs. 56 crores will result from selective increases of excise and customs duties. Income tax inthe highest brackets has been stepped up. The proposed increase in postal rates and railway tariffs should yield an additional Rs. 25 crores and Rs. 28 crores, respectively, constituting an addition to budgetary sources through the cut in advances to these entities. The reduction of the surtax on company profits from 35% to 25%, and the discontinuance of the "divided tax" on excess distributions, will reduce revenues by Rs. 4 crores. These measures, linked with the important psychological step of the reduction of the bank rate from 6% to 5%, should go some way towards the Finance Minister's stated aim of reviving the capital market. In the month following the budget, the share market responded by rising about 10%. Current expenditures are budgeted to rise by 5 1/2%, one of the lowest increases in recent years, but the budgeted overall improvement in the current surplus from Rs. 87 crores to Rs. 131 crores is marginal, and the surplus will cover only about 5% of expected capital disbursements.

15. Although overall capital disbursements are estimated to fall, the budget provision for development activity, under so-called "Plan" expenditure shows a very modest increase of Rs. 50 crores. This is hardly a significant departure from the previous two years of more or less constant expenditure on development. However, this year there is also an additional provision of Rs. 140 crores for the first 3 million tons of a 6 to 7 million ton buffer stock of foodgrains which the Government has decided to accumulate over the

next two years or so. This food buffer stock can certainly be given high rank among development priorities as a means of reducing the unsettling effects of uncertain harvests on development finance. After taking the expenditure on the buffer stock into account, this year's budget makes a significant additional financial provision for development.

16. This 1968/69 result is to be accomplished with the assistance of deficit financing amounting to about Rs. 290 crores, which is equivalent to about 5% of total money supply. It is very unlikely that this level of deficitspending will cause more than a small rise in prices; indeed the experience to date suggests that no significant rise in prices is to be expected as long as food supplies remain ample. In these circumstances, and given the need for an appropriate stimulus to consumer goods industries, Rs. 290 crores of deficit financing appears justifiable.

17. Looking ahead to the prospects for development finance for the new Five Year Plan, in the first place it must be noted that this year, because of the swing from a low to a high level of food supplies, there is scope for non-inflationary financing from Reserve Bank credit which is not likely to be repeated. In the second place, the increase in domestic agricultural production has an adverse fiscal implication, because declining dependence on US PL 480 food imports will mean a consequent decline in the budget resources that these imports generate from the present level of Rs. 200 crores or about 4% of total budget resources.

18. Perhaps the most discouraging aspect of the fiscal problem is that there are serious obstacles in the way of mobilizing the additional resources that might be expected to be available with the growth of the economy. The first of these obstacles arises from the fact that agricultural expansion is of such importance in current economic growth and, for a variety of political and administrative reasons, it seems impossible to increase agricultural taxation in the short run on a scale anywhere near commensurate with the gains in agricultural income. A possible loss of state revenues through repeal of land taxes, which was a campaign slogan and a matter of concernat the time of the 1966 elections, has not materialized. Yet, levies on agriculture as such remain a very small part of revenue. Such taxation of agriculture is a State subject and is part of a second broad revenue problem, namely, the inadequacy of the efforts being made by the States to raise additional resources. There is clearly a need to revise the present system which permits the States to finance some of their deficits through Reserve Bank overdrafts which are almost automatically cleared by the Centre at year's end. One of the reasons for convening the Finance Commission in 1968/69, ahead of its usual five-year interval, is to consider what can be done about this problem of State overdrafts, along with other aspects of the financial relationships between the Central and State Governments. The Commission will have a difficult assignment. A third obstacle to revenue growth stems from the poor financial position and low saving capability of the Government industrial enterprises and utilities which have absorbed such a large part of development expenditure in recent years.

19. In these fiscal circumstances, it will be a formidable task to devise a Fourth Five Year Plan which can keep within realistic bounds of domestic resource availability and still provide the significant expansion in economic development financing that satisfactory growth will require.

Food and Agriculture

20. Agriculture continues to be the most encouraging part of the Indian economic scene. Poor agricultural data make it difficult to have a precise idea of the progress so far, but there is no doubting the wisdom and foresight of the new agricultural strategy, has restored to agriculture the status and priority which long-term growth demands. Perhaps the most valuable gain of the program is that it has developed a farmer-based momentum of its own. So far, success does not seem to hinge on such traditional prescriptions for less developed agricultural economies as expanded extension services, a thriving cooperative movement, or improved tenancy arrangements.

21. As explained in past Bank reports, a substantial production breakthrough has been made possible by the advent of high-yielding varieties of rice, wheat, corn, jowar (sorghum) and bajra (millet), in combination with fertilizer and other requirements on areas with adequate water. However, sustained progress requires increased development effort in the field of irrigation and the maintenance of high relative agricultural prices to provide farmers with the incentive to adopt the new technology. Sufficient foreign exchange to purchase the required quantities of fertilizer, equipment and other physical inputs must also be provided.

22. Favorable weather conditions, the progress of the HYVP program and higher foodgrain prices have contributed to the record harvest achieved in 1967/68. The size of the foodgrain harvest is officially forecast to be 95 million tons, which is about 7% above the level reached in 1964/65. However, it is quite probable that in fact the crop will be in the order of 97 or 98 million tons. If so, although good weather was an important factor, much of the credit for the record crop goes to the new agricultural strategy.

23. The most impressive gains have been from wheat in Punjab, Haryana, Uttar Pradesh and Rajasthan. In combination with other inputs, new varieties are yielding two or three times as much as traditional "improved" varieties, and have been fairly resistant to disease and pests. There are now variety adaptations which are better suited to consumer tastes than was at first the case, and some require shorter growing periods which open up multiple cropping possibilities. Good data are lacking on the acreage planted to these so-called dwarf varieties of wheat. For the rabi season of this year some informed private assessments put the acreage at just over four million, others run higher and the current official estimate is about 5.5 million, which is about half the irrigated wheat acreage. In addition, there are probably one or two million acres planted to an improved local variety.

24. Progress with the new varieties of other crops is more mixed. The high-yielding rice varieties were planted this year on four or five million acres, i.e., over 15% of the irrigated paddy land. Yields in farm conditions can also run two or three times the local varieties, but they have

been adversely affected to a greater extent than wheat by disease and insect attack. These risks of disease and insects are highest during the main rice growing autumn (kharif) season with its high moisture conditions; they are less in the rabi season. It is not yet clear how generally and how seriously the farmers are concerned by these risks, and whether, therefore, further expansion of the program may be inhibited. There are cases where, because of unsatisfactory experience, farmers have preferred to stay with familiar domestic varieties rather than risk the high-yielding seed imports from Taiwan and the Philippines. But there is little data on the extent of such cases. Use of the imported varieties has also been somewhat inhibited by the shape of the grains and their cooking characteristics which differ from Indian consumer tastes. For these reasons, the adoption of the imported rice varieties may not accelerate as fast as wheat, until research on local adaptation of the high-yielding varieties now underway provides new strains free of the shortcomings of their predecessors. Nevertheless, despite these problems there has been a very large expansion in the use of high yielding rice varieties. Statistics are not very certain, but the Government estimates that the acreage of these varieties planted during the last kharif acreage was only about 15% below the target of the agricultural program (about four million acres).

25. It should be noted that in addition to the adoption of the imported high-yielding varieties, there are other cases of notable gains in rice production resulting from higher price incentives, greater fertilizer availability and better practices in raising the output from domestic varieties. There have also been significant improvements in domestic varieties in the direction of shorter growing periods and consequent expansion of multiple cropping.

26. In the high-yielding varieties program for maize, sorghum and millet, many of the problems associated with supplies of the hybrid seed which were noted in the last report still exist. The high-yielding hybrid varieties may have covered three or four million acres in 1967/68 but this is only 4 or 5% of the area in these crops. Measures are being taken to improve supplies in the form of large scale seed production projects and by next year there could be enough certified hybrid seed to double or triple this coverage. However, the genetic base for the program (with the exception of maize) continues to be narrow and requires a more intensive and better coordinated research effort. Even within the present genetic base, there is a problem of poor seed quality, as well as susceptibility to pests. The seed situation should be improved by newly enacted legislation which, when implemented, will facilitate the production and hybridization of seed stocks and their distribution. Policies are also being framed which, if adopted, should encourage the development of a sound private seed industry.

27. There is no advantage, and in fact several disadvantages, in using high-yielding seed if fertilizer is not also available. This is because with low fertilizer input, improved traditional varieties have comparable yields, take less care and water, bring a better unit price and produce more fodder. Hence, the importance of fertilizer supplies which (in the case of nitrogen) have doubled in the last two years and are expected on the basis of production and import plans to increase by another 40% this year. Phosphate and potash

supplies are rising similarly. And there have been notable improvements in timeliness and regional availabilities, although the necessary steps to liberalize fertilizer distribution arrangements have been lagging in some States. Part of the arrivals in 1966/67 and for the kharif season of 1967/68 were late (following late procurement, the Suez crisis and port congestion problems) but by the rabi season of 1967/68 supplies were adequate and timely. There is a comfortable carryover and substantial orders already placed to provide for the kharif season in 1968/69. There is the problem that domestic fertilizer production has so far developed slowly and imported requirements are likely this year to be a million tons or more of nitrogen alone. This aggravated a serious foreign exchange situation and will continue to do so for the next few years, but the longer term outlook for the domestic fertilizer industry now looks much better than as described in the Bank's last economic report. This is discussed below.

28. Water is just as critical an input as fertilizer, and in its conception the high-yielding varieties program is concentrated in areas of assured water supply. Actually, however, much of the irrigation (small tanks, shallow wells, minor diversion) provides better control and distribution of the annual rainfall, rather than storage to ensure adequate irrigation in periods of drought. And where there is storage, as in many of the medium and larger projects, major emphasis has been placed in the past on wide coverage for protection in drought periods of as large an area as possible, rather than concentrating on improving water supplies in a way to maximize production. Furthermore, in periods of satisfactory rainfall it is difficult to confine the program to preconceived areas. It is encouraging that demand for these supplies has caught on among farmers in many other areas as well. Hence, it is most important for the program's future, especially its success in years of less abundant rainfall, that irrigation facilities be expanded.

29. Toward this end, there has been a remarkable expansion of private investment in minor irrigation activities. Pumpset connections have nearly doubled in the last three years from about 400,000 to about 790,000 - of which about 130,000 are for tubewells irrigating 15-20 acres each, 13,000 for deep tubewells irrigating of 150-250 acres each, and the remainder for smaller wells serving 3-7 acres each and for lift irrigation. Meanwhile there is a waiting list for new connections of about 250,000. It is estimated that if the transmission and connection capacity of the State Electricity Boards were sufficiently expanded the current connection rate would be 180,000 per year. The power transmission facilities, credit availability, groundwater surveys, and other arrangements to supply and service this large private demand for minor irrigation development are of key importance in the further evolution of the agricultural program. A large unused potential for additional irrigation also lies in the major and medium sized projects which are the result of past investments. There are officially estimated to be nearly 45 million actually or potentially irrigable acres (gross) from major and medium sized projects initiated since 1951. Of these, only about 18 million are now actually served by completed irrigation works. Completion of works for a larger area of the potential is held up partly by financial limitation, especially in the case of major projects. But there

are also difficult problems of planning and coordination within the command area of irrigation projects between the numerous public and private agencies called upon to provide credit and other supporting services. Technical difficulties in the soil and water management field are also obstacles to the fuller utilization of these water potentials. Pilot projects have been initiated to resolve some of these difficulties in several areas and more are being considered. Construction of water courses and land development have also been speeded up in the last two years. As a result, utilization of the water potential on additional acreage has probably increased by two million acres a year in 1966/67 and 1967/68 compared with about a million a year during the Third Plan. This is reassuring but still leaves a very large unused irrigation potential and with it reason for some concern that water availability and water control may impose unnecessarily early constraints in agricultural expansion.

30. There is a further need as the program develops to build a stronger and more diversified farm credit structure. The Government has recognized that cooperative credit institutions in many areas do not have the viability and flexibility required to handle a sharply increased demand for production credit. Meanwhile new patterns of input distribution are emerging in which private dealers are becoming increasingly active. Therefore, new credit arrangements are needed to cater to these new distribution channels and their short-term credit requirements. The new technology is also creating additional demand for medium and long-term credit for mechanization, minor irrigation and land development. The Land Mortgage Banks have been able to meet part of the substantial expansion in this demand but only in a few states; the commercial banks are just beginning to operate in this field. For the present, credit does not appear to be a serious bottleneck, but it is bound to become one unless the institutional framework is improved and expanded to meet the rising needs of the sector.

31. With the expectation of a bumper rabi crop, coming in the wake of a good kharif harvest, foodgrain prices have begun to fall. The wholesale cereal price index declined 11% from October 1967 to February 1968 (as compared with a 17% rise for the corresponding period last year). The extent of the fall was limited by the January 1, 1968, upward revision in the issue prices for foodgrains distributed through ration shops and fair price shops. The issue price for coarse rice went up from Rs. 80 to Rs. 96 a quintal while with the complete elimination of the subsidy for imported wheat, the issue price for red wheat went up from Rs. 55 to Rs. 67 a quintal. Grain prices have declined more rapidly in some deficit areas (such as Bihar and Orissa) than in surplus areas so that inter-state price differentials, which have been the result of state-bound food zones and the prohibition non-official inter-state grain movements, have narrowed. However, inter-state price differences still remain substantial. For example, the price of coarse rice in Orissa is Rs. 15-20 per quintal below the Bihar price, as compared to a differential of Rs. 65-85 at the same time last year. Similarly, the Uttar Pradesh - Punjab wheat price differential has shrunk to Rs. 10-12, compared to Rs. 20-35 last year.

32. Price policy during 1968 aims at a balance between conflicting objectives. There is the need to bring food prices down from the high peak they reached in many places during the last two drought years. On the other hand, it is recognized that a foodgrains price slump below incentive levels must be avoided to maintain the momentum of the agricultural programs. The resolution of these objectives is by allowing peak prices to fall, but setting fairly high Government procurement prices at which the Government stands ready to purchase any amount (thus making the procurement price a guaranteed floor price). The procurement price announced for common white wheat for rabi 1968 (Rs. 76 a quintal) compares with pre-harvest (February) prices around Rs. 76-80 per quintal in such surplus States as Punjab and Haryana and around Rs. 105-115 in Uttar Pradesh which is marginally deficit. The main test of policy is likely to occur in the Punjab during April-June where Government procurement capability will be taxed by the heavy market arrivals expected from the unusually large wheat crop. The enlargement of the wheat zone from a single state pattern to a zone which includes Punjab, Haryana, Himachal Pradesh, Jammu and Kashmir and Delhi, as announced in late March, should help to maintain the support price line. However, there is likely to be a severe strain on storage capabilities in that zone, and for this reason a crash program of storage construction has been initiated in the Punjab. Looking beyond this year's crop there is need to shift the focus of Government storage investment from the ports to the interior, but the size of regional storage requirements will be considerably affected by policies regarding foodgrain movement.

33. A total relaxation of restrictions on inter-state foodgrain trade, coinciding with the bumper crop, would have considerably facilitated fulfillment of the Government's incentive price policy. In addition, such a course would have eliminated the wasteful price disparities (over and above transport costs) which persist between food surplus and food deficit states. On the other hand, the bumper rabi crop presents an opportunity for the Government to gain a stronger position on the foodgrains market through expanded procurement and build-up of a buffer stock. The procurement of kharif foodgrains for 1967/68 is unlikely to yield more than 3.5-4.0 million tons as against a target of 7.5 million tons. By bottling up wheat supplies in the enlarged Northern Zone the Government hopes to facilitate the procurement of 1.5-2.0 million tons of rabi foodgrains as against an original target of 1 million tons. The resulting impact on farmers' incentives will largely depend on Government performance in supporting the price. A fresh opportunity to abandon all restrictions in private inter-state movements will arise before the end of the year, if the next monsoon is favorable and if, as expected, a substantial accumulation of grain in the buffer stock is achieved.

34. Because of the need to replenish farmers' and traders' stocks, following two successive drought years, by perhaps four million tons, a foodgrains crop of even 97 million tons, unless supplemented by imports, would mean a per capita availability of only about 155 Kg. This would only be marginally higher than the availability (taking account of probable drawing down on stocks) during the past two years of acute scarcity. This would mean

continued pressures on food prices. Foodgrains imports are therefore likely to be needed this year - quite apart from the three million ton requirements arising from the Government's stocking policy. This is the basis for the official estimate of this calendar year's import needs at 7.5 million tons.

35. With the introduction of the new agricultural strategy, the growth in production of fertilizer has been exceeded by the growth in consumption, and imports have increased sharply. Imports will cost about $250-300 million in 1968/69 and probably will continue to rise until the early 1970's. A great many technical and operational problems have been encountered in the effective use of existing and new manufacturing capacity. This, plus the fact that the construction of new plants take about three years at best, has resulted in a slower buildup of capacity than expected and required. Furthermore, because of raw material shortages there are limited possibilities for foreign exchange saving on phosphatic fertilizers and none on potash. Still, the accomplishments thus far should not be minimized. Regarding nitrogen, 300,000 tons of new capacity was brought into production this year and over a million tons is now under construction. By 1970, total capacity will be about two million tons up from about 460,000 tons in 1966. This sharp increase will not be sufficient however to reduce import requirements in the face of the expected rise in consumption. The prospects for the years following 1970/71 now appear to be more favorable because of the number of projects than can be expected to be undertaken over the next few years. Projects with a total capacity of over 2,500,000 tons of nitrogen consisting of 11 new plants and four major expansions of existing plants are at present in various stages of preparation. It is not possible to predict how rapidly these projects will be taken up. Some are sure to be started before the end of 1968 and some of the rest are likely starters in 1969. Two-thirds of this capacity is in the private sector (mostly with foreign collaboration) and decisions to invest may be expected to be sensitive to market prospects, Government policies, and to possible changes in the situation of the foreign collaborators themselves.

36. The situation with respect to phosphate is similar except that since the basic materials must be imported the growth of domestic capacity for converting these materials into phosphatic fertilizer cannot result in any very substantial saving in foreign exchange. Only development of domestic sources of phosphate rock and/or sulphur would change this, and the first is apparently a long way off. In the case of sulphur, projects are under way to recover sulphur from pyrites and copper ore. These would seem attractive at the present prices for copper. Potash is a straight import requirement and a growing one with no prospect for substitution.

Population Control

37. In our last report, we noted that the "dynamism, dedication and overall competence of the administrative services dealing with family planning at the Center were encouraging." While there is no reason to revise this statement, it is now clearer than ever that the present program is having only a limited impact. Because of the age-composition of the population, and

because of better welfare conditions, the natural population growth rate is still tending to rise, and it is evident that a marked slow-down of the growth of India's population cannot be expected in the near future.

38. The program in the recent past has shown both progress and disappointment. There was further progress in the sterilization program, with a total of more than one and a half million sterilizations completed during the calendar year 1967. However, the IUCD program continued to suffer from serious difficulties and, contrary to the forecasts reported in the last Bank report, the total number of insertions in 1967 fell sharply to only about 670,000 or much less than the 900,000 achieved in 1966. In the Government's present thinking, the target birth rate of 25 per 1,000 in 1975 would require about 10 million IUCD insertions and well over 10 million sterilizations in the 1966/67 - 1970/71 period. While it may still be possible to achieve the target for sterilizations, the IUCD target seems by now well beyond the bounds of possibility, although only two years ago the Government and its foreign advisors were thinking in terms of 29 million IUCD insertions during the five-year period.

39. The previous report noted the imaginative program for distributing other types of contraceptives; this is going forward and it has now received financial help through bilateral channels; it should be possible to utilize efficiently increased help of this type. Given the diversity of social and cultural conditions in India, it would appear desirable to continue to use every possible technique and approach to accelerate the population control program.

40. The Government is aware of the magnitude of the problems faced, and has requested the United Nations to mount a mission covering all relevant fields, to re-evaluate and advise on the improvement of the whole population control effort. This mission is expected to carry out its field work during the last quarter of 1968. The absence of adequate demographic data and of motivational research make it difficult at present, however, to make meaningful statements about India's population control program.

## Exports

41. Export performance continues to be inadequate. Exports in 1967/68 were above the previous year's much reduced level, but they did not reach the level of 1965/66. In fact, at about $1,630 million they were still slightly below the level reached in 1963/64. Export policy underwent no basic change, though it was modified several times. Financial incentives to export were improved by the enhancement of subsidies in September, 1967 and again in March, 1968. This last enhancement - which, however, is to be available only to exporters recording at least a 10% increase in the value of their exports in 1968/69 - was from 5 to 10% of export value for most commodities, thus increasing the median rate of cash subsidy from 15 to 20%, and bringing the top rate to 30% of export value. The top rate is granted notably to some machine tools, bicycles and some steel items; other steel items get 27.5%. The

Government also decided to grant a 5% cash subsidy to cotton textile exports, to supplement the assistance already provided by the Indian Cotton Mills Federation which is financed through levies on raw cotton imports.

42. A widespread revision of export duties took place on February 6, 1968; its main features were a slight downward revision of the duty on tea, a more drastic reduction of the duty on most jute goods (with the important exception of carpet backing), the reduction of the duty on coir, and the elimination of the duty on coir goods and most hides and skins, with the exception of snake skins on which the export duty was raised from 10 to 25%. Measures were also taken to improve credit facilities. Already in August 1967, the Industrial Development Bank was entitled to extend credit to a capital goods exporter for 7 years, and in exceptional cases up to 10 years. Measures were also taken to ensure the availability of short-term export credit at rates not higher than 6%; a subsidy is provided by the current budget to ensure that such credits are nevertheless reasonably remunerative to the commercial banks. The current budget also provides that 133% of marketing expenses abroad can be counted as current costs for tax purposes. To have a marked impact, this measure would have to be accompanied by a relaxation of exchange controls on marketing expenses abroad, and some steps along this line have just been taken. They include exchange availability for business travel abroad and other foreign export development expenses of recognized export houses. Perhaps more significant in the long run is a similar provision for including in costs for tax purposes 120% of the expenditures incurred by industries in developing their agricultural raw material supplies.

43. As a result of these measures, by and large the effective export rate is more favorable than it was in early 1966 for most goods. In other words, export sales are more attractive than they used to be, at least when compared with domestic sales since pre-June 1966, taking into account the loss of pre-devaluation incentives, devaluation itself, and new post-devaluation incentives. Nevertheless, exporting in many key sectors is still not attractive although in other sectors the above measures have given some stimulus to an export effort which has been lagging for several years. A further stimulus is being given by the relative stagnation of the domestic market, although in some of the new and dynamic export lines, notably steel and engineering goods, exports may well fall again when internal demand picks up and the domestic market regains its profitability.

44. The existence of widespread underutilization of capacity - the utilization of which is not prevented by shortages of imported inputs - has led to an increase in internal competition. All imports competing with domestic production are still strictly banned, however. Thus, although some rationalization of the structure of production and foreign trade may well be taking place, this process cannot yet be expected to produce anything like international efficiency standards so long as protection from foreign competition remains absolute.

45. As far as the longer run is concerned, there is as yet no sign of meaningful export orientation of production and investment decisions needed to give Indian exports the desired sustained rapid growth. Basically, the

present policy framework encourages producers to look to export markets as a kind of second-best outlet when capacity is in excess to domestic demand. The accomplishments of current policy in fostering investment designed for export still appear to be quite small. There now appears to be widespread recognition of the importance of the need to earn foreign exchange, but the urgency of this need has not yet been fully translated in action; and there is yet no effective mechanism for expediting or facilitating export-oriented administrative decisions.

Payments Trends and Prospects

46. The basis of the estimates of India's balance of payments and aid requirements presented below differs to some extent from that in the last Bank report. There, the trade estimates were based on exchange control data. Those data, however, issue after a much longer delay than the customs data; they also involve some uncertainty about the treatment of cases where imports and the related payments occur at different times. In particular, part of debt service on account of supplier credits is included with the import data. In this paper, the trade estimates are based instead on customs statistics, and the debt service figures include provision for the service of foreign supplier credits. Other items are intended to be consistent with their equivalents in the published adjusted balance of payments presentations of the Ministry of Finance. This change in the statistical base does not necessarily imply an increase in the accuracy of the payments projection and aid requirements estimate, because other statistical difficulties stemming from delays and inadequacies of data are as great as ever. It is, therefore, most encouraging to note that the Government of India is taking steps to improve its balance of payments information.

47. We continue to estimate new aid requirements by firstly assessing the unfilled balance of payments gap, and then considering the implications for the pipeline of aid commitments. It should also be noted that the estimates for 1968/69 must, of course, make assumptions about the course of the economy and the export and import policies that will be followed. It is assumed here that there will be a moderate recovery with another satisfactory harvest, that industrial production will rise by 5 or 6% over 1967/68, that the liberal policy for maintenance imports will be continued, and that with this policy and the rising fertilizer import requirements, the increase in maintenance imports (excluding grain) will be slightly more than proportional to the rise in industrial production, as was the case in the last year.

(a) 1966/67 and 1967/68

48. India's payments position has been precarious for several years, and continued to be so in 1966/67, even though imports fell substantially. In particular, non-food imports fell below \$2 billion to \$1,897 million for the first time in more than five years. However, this was almost offset by a \$130 million fall in exports and a \$136 million rise in food imports, and the trade deficit remained at about \$1.15 billion. Furthermore, disbursements

TABLE 2

Balance of Payments Summary
(US$ Million)

| | 1966/67 | 1967/68 | 1968/69 |
|---|---|---|---|
| Imports | 2,710 | 2,760 | 2,817 |
| of which foodgrains | 813 | 710 | 517 |
| Others | 1,897 | 2,050 | 2,300 |
| Exports | 1,558 | 1,630 | 1,730 |
| Trade Balance | -1,152 | -1,130 | -1,087 |
| Debt Service | -423 3/ | -444 | -520 |
| Other invisibles and capital | -27 | -19 | -70 |
| Overall deficit | -1,602 | -1,593 | -1,677 |
| Financed by: | | | |
| PL 480 (gross) and other food aid | 573 | 549 | 400 |
| Project aid disbursements | 494 | 325 | 425 1/ |
| Non-project aid disbursements | 417 | 724 | 250 1/ |
| IBRD Special Deposit | - | 45 | - |
| Net IMF | 130 | 32 | -48 |
| Change in Reserves (- indicates increase) | -12 | -82 | - |
| Balance 2/ | | | 650 2/ |

1/ Out of commitments made before April 1, 1968.

2/ Represents a total expected resources shortfall to be made up by disbursement of aid yet to be committed.

3/ Before taking account of debt service cancellations and rescheduling of about $10 million included in non-project aid disbursements.

For details and source see Annex Table II.

both of PL 480 aid and of other aid had fallen. Debt service continued to rise, and amounted to about 35% of the trade gap. Other invisibles still included about $40 million capital inflow in the first two months of the year under the NDR scheme.[1] Net use of reserves (including drawings on the IMF), at $118 million, was the highest since 1961/62.

49. In 1967/68 [2] non-food imports are estimated to have risen only moderately, reflecting continued stagnation of the economy, despite the liberalized import policy and also the increased priority given to the availability of agricultural inputs, particularly fertilizer. Somewhat lower food imports partly reflect the improvement in crops. Exports appear to have recouped part of their immediate post-devaluation losses, although they still remained below the level first reached in 1963/64. The trade deficit is likely to have fallen marginally. Furthermore, aid disbursement rose to a record level. As shown in Table 3, Page 18 , this was due mainly to the relatively fast disbursement of non-project aid committed in late 1966 and in 1967; there was little disbursement of aid committed in the course of the fiscal year, mainly because the value of agreements signed in 1967/68 was much less than the year before. The pipeline of non-project aid firmly committed and available for further disbursement was drawn down to about $400 million by March 31, 1968.

50. As against a decrease in net reserves of $118 million in 1966/67, the overall movement in net reserves was about nil in 1967/68,* the $82 million rise in gross reserves being offset by the sum of a $32 million increase in net drawings outstanding with the Fund, and the $45 million special deposit of the IBRD. This result is only moderately favorable; moreover, much of the recent increase in reserves to $716 million on April 12 may be due to speculative leads in export receipts and lags in recent import payments. *1967/68

(b) <u>1968/69 Forecast</u>

51. In 1968/69, the balance of payments situation will again be subject to very severe strain. Food imports will remain high in view of the need to rebuild depleted inventories, and to increase buffer stocks. The Government estimates 1968/69 foodgrain imports at $517 million. Non-food imports will also need to grow, both on account of projects and of the requirements of industry and agriculture for production material. Demand for fertilizer continues to rise faster than domestic production and imports could reach $250-300 million. Industrial materials - mainly machinery components and

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1/ National Defence Repatriation Scheme permitted capital repatriation at an effective exchange rate in practice equal to the free market rate.

2/ 1967/68 Balance of Payments estimates are based on incomplete data on some flows and no data at all on other flows. By the time the Consortium meets, more complete data may have become available, and it may be possible to present revised balance of payments estimates for 1967/68 at that time.

TABLE 3

Summary of Disbursements, Commitments and Pipeline of Non-Project Aid
(US $ Million)

| | 1966/67 | 1967/68 Preliminary actual | 1967/68 As in last report | 1968/69 Present forecast | 1968/69 As in last report |
|---|---|---|---|---|---|
| Pipeline of committed, undisbursed non-project aid at beginning of year | 347 | 830 | 785 | 401 | 785 |
| Commitments made during fiscal year | 900 | 295 | 750 | 1,275 1/ | 820 |
| Available aid | 1,247 | 1,125 | 1,535 | 1,676 | 1,605 |
| Less: | | | | | |
| Disbursements during fiscal year | 417 | 724 2/ | 750 2/ | 900 3/ | 820 3/ |
| of which, disbursements of aid committed before beginning of fiscal year | 252 | 637 | 500 | 250 | 635 |
| disbursement of aid committed during fiscal year | 165 | 87 | 250 | 650 1/ | 185 |
| Equals: | | | | | |
| Pipeline of committed, undisbursed non-project aid remaining at end of fiscal year | 830 | 401 | 785 | 776 4/ | 785 |

1/ Required minimum: includes aid pledged but not committed in 1967/68. See text.

2/ The availability of PL 480 and other food aid in 1967/68 was probably about $40 million larger than estimated in our last report.

3/ The availability of PL 480 and other food aid is likely to be about $50 million lower in 1968/69 than forecast in our last report.

4/ Assumed minimum.

Source: See Annex Table III

non-ferrous metals - are also likely to be imported in larger quantities. Overall, with some optimism about the pace of industrial revival, one may forecast a rise of about $250 million in non-food imports, of which about $150 million would be on account of non-project imports. Exports can be expected to rise further, although it is as yet difficult to forecast the precise level they will achieve. A rise of about 6%, bringing them to a level of about $1,730 million, appears possible. The deterioration of invisible accounts is likely to continue, mainly on account of a further rise in debt service charges, which will amount to more than $500 million, more than 30% of exports. Debt relief or rescheduling (accounted for here in the aid estimate) should, however, reduce this service burden by about $100 million. The trade estimates above are, as usual, subject to error, but seem to be a reasonable basis for balance of payments planning. Table 2 on Page 16 summarizes the position.

Aid Requirements

52. After taking into account other net invisibles and capital items, the overall deficit to be financed in 1968/69 appears likely to amount to about $1,677 million. Only a small part of the resources required to finance this gap are yet committed. Project aid disbursements are assumed to amount to $425 millions out of old commitments including commitments from non-Consortium countries; this may well prove to be an overestimate, as occurred last year, but any shortfall would be offset by a similar reduction in the level of imports. PL 480 and other food aid may amount to about $400 million. This leaves a gap of $850 million to be filled by non-project aid or other quick-disbursing assistance - assuming that India's reserves and net IMF position remain unchanged. India is, however, scheduled to make net payments to the IMF totalling about $48 million, so taking this into account the residual gap could be estimated at about $900 million. There is no room for reserve use in 1968/69 because of the further obligations due to the IMF in April 1969. Since the non-project aid pipeline at the beginning of 1968/69 had been reduced to about $400 million (see Table 3) only about $250 million is likely to be disbursed from the existing pipeline during the year. This leaves the remaining cash gap to be met from disbursements out of new commitments at $650 million.

(a) Non-Project Aid

53. Virtually all the above cash gap of $650 million will have to be met from non-project aid because only a small proportion of project-tied aid commitments could normally be disbursed within the year of commitment. It is, of course, not going to be possible to disburse fully in the course of the year the whole of the non-project aid committed in the course of that year, unless aid procedures are radically modified. In any case, it would be most desirable to rebuild an adequate aid pipeline in order to obviate the special difficulties of the need for very rapid disbursement when the pipeline is as short as it is now, and also to give Indian policy makers the minimum level of confidence required for the making of even short-term import policy. The desirable length of the pipeline depends to some extent on the nature of the aid. Given present procedures, it would seem desirable to maintain a non-project aid pipeline somewhere near one year's disbursement requirements; this would argue for rebuilding the non-project aid pipeline to $800-900 million.

54. Compared with the figure of $750 million recommended by the Bank to the November 1967 meeting of the Consortium, actual commitments last year were only $295 million. The disappointing record of new commitments last year resulted largely from delays in US aid commitments and in IDA replenishment. The delayed US commitment may well be made up early in India's 1968/69 fiscal year, during which additional new commitments are hoped for from all Consortium members including new US aid appropriations for 1968/69; it is also hoped that IDA will be able to resume operations in 1968/69 if the recent agreements for replenishment are confirmed and implemented by Part I countries. In these circumstances, it seems reasonable to repeat the recommendation of the last Bank report, namely, that non-project aid commitments for 1967/68 and 1968/69 together should total $1,570 million. Actual commitments in 1967/68 were only $295 million, so the further commitments needed in 1968/69 would be $1,275 million; however this figure includes (a) delayed 1967/68 commitments of which about $260 million is likely to be made up early in 1968/69 and (b) the balance of about $1 billion (inclusive of debt rescheduling of $100 million) which will be needed as additional new commitments to meet estimated disbursements in 1968/69 and to rebuild the non-project pipeline. If disbursements take place as estimated, this level of aid commitments would leave the pipeline at the end of 1968/69 at about $775 million. An end-of-the-year pipeline of this order would still be less than the annual rate of non-project aid disbursements.

(b) Project Aid

55. Having passed a peak of $700 million in 1964/65, project aid disbursements fell thereafter, and amounted to only about $325 million in 1967/68. Despite this slowdown, the pipeline of project aid available for disbursement was drawn down even further; in 1967/68, a total project aid commitments amounted to less than $100 million. In part, this situation is due to a relative change in the aid pattern from project to non-project financing; there is now some desire on the part of aid givers to increase the proportion of project-type lending. As noted above, however, new commitments of project aid would not contribute to solving the immediate disbursement problem. After a lag, disbursements would rise, but the project aid pipeline would have to remain relatively long because of the nature of the disbursement pattern. Given the need to maintain or even increase the level of annual disbursements, the resumption of project aid has to be gradual unless aid givers are prepared to underwrite a sharp temporary rise in the level of annual commitments.

56. In any case, if project lending is to mean the financing of imports of whole items of equipment from the creditor country, then India's need for such aid is and will remain relatively limited. India's industrial structure is such that it has the capacity to manufacture domestically much of the equipment it needs. This, however, in no way obviates the need for foreign aid to supplement domestic savings, which, given the country's extreme poverty, are necessarily low. It is essential for development aid to finance the import of items other than finished capital goods, for the production of

which India has no comparative advantage - such as some raw materials and sophisticated components - or for which it has not yet developed adequate capacity - such as fertilizer.

Conclusions: Aid Requirements and Policy Alternatives

57. The above estimate of aid requirements assumes that development and trade policies will not change substantially. As explained in past reports, shortly after the devaluation of the rupee in June 1966, India adopted a number of policies which were designed primarily to reduce the plethora of administrative controls which surrounded investment and foreign trade decisions, and which had led to serious distortions in the economy. The immediate objective was to increase economic efficiency by relying more heavily upon market allocations of resources - especially foreign exchange resources - and to this end priority industries, accounting for a very large proportion of industrial production, including virtually all producer goods industries, were granted import licences as and when needed, subject only to the assurance that the imported goods were not available domestically, and to source-wise allocations conditioned by the country-tying of certain aid funds. Bank reports, and the Consortium at various past meetings, have expressed their satisfaction with this import policy, which is an indispensable precondition to improving the efficiency and competitiveness of Indian industry. High priority has also been given to the import of agricultural inputs.

58. In both the industrial and agricultural sectors a considerable volume of import orders has already been placed for which payments will have to be made in the future. This presupposes confidence in the availability of foreign exchange resources for meeting future payments due on past and current import orders. India's own foreign exchange earnings, after taking care of invisiblepayments, notably debt service, finance less than half her import needs. Confidence in the availability of foreign exchange resources, therefore, to a large extent, means confidence in the availability of aid ready for disbursement, and this remains true whatever import policy is adopted.

59. Unfortunately, if the availability of sufficient aid does not appear ensured, there is little room for marginal readjustments in the short run. The present policy of relative budgetary restraint already takes into account the precariousness of the balance of payments situation. There is no import of consumption goods - other than foodgrains - which could be cutback through administrative means. Financial policies restrictive enough to achieve the necessary reduction in imports would create an excessively severe industrial depression. This would be an unattractive alternative. Therefore, short of a sharp increase in the price of all imports, an administrative cutback in permits to import production goods would be almost unavoidable. Given the existing structure of industry, this could only have the effect in the medium term of curtailing industrial development and aggravating the already serious problem of unutilized capacity. As a large

part of the current year's payments are on account of imports already authorized in the past, to obtain a given reduction of import payments in the short run, there would have to be disproportionately large reduction in the rate of new import authorizations. If the aid on which the present import policy is based fails to materialize shortly, the cutback of licensing would have to be very severe, probably involving, in the short run, a virtual stoppage of all licenses other than those covering food, fertilizer, and the import content of exports. Both in the short and medium run, this would deal a grave setback to industrial production and compromise attempts to rationalize and improve the competitiveness and efficiency of industry.

60. Taking 1967/68 and 1968/69 together, aid disbursement and commitment requirements are close to estimates made in earlier Bank reports. However, the current year's commitments should be in such form and volume as to allow swift disbursement of $650 million out of new commitments in 1968/69, as well as the rebuilding of an adequate aid pipeline. Thus, we have estimated the required level of new commitments of non-project aid (other than food) at $1,275 million. After deducting pledges for 1967/68 which are expected to become firm commitments imminently, the total requirement for new commitments is about $1,000 million. The impact of the debt relief action for 1968/69 by Consortium members would be to further reduce these totals by $100 million.

61. Looking further in the future, some relative increase in project-type aid should become possible, especially when an increase in the investment rate takes place. However, if the level of disbursements is to remain adequate during the period of change in proportions of project and non-project aid, the levels of commitment would have to rise considerably to allow an adequate aid pipelineto be rebuilt, and the change should be gradual. Given the pattern of India's import needs, substantial foreign finance for purposes other than the import of finished goods will in any case remain indispensable.

ANNEX I

CENTRAL GOVERNMENT BUDGET
(Rs. Crores)

| | 1963/4 | 1964/5 | 1965/6 | 1966/7 | 1967/8 (Revised estimate) | 1968/9 (Budget estimate) |
|---|---|---|---|---|---|---|
| Gross Tax Revenue | 1634 | 1821 | 2061 | 2306 | 2361 | 2516 |
| Less cost of collection | 24 | 26 | 30 | 32 | 36 | 40 |
| Less States' share | 264 | 262 | 280 | 372 | 416 | 432 |
| Net tax revenue retained | 1346 | 1532 | 1751 | 1902 | 1909 | 2044 |
| Contribution from Railways and P & T | 26 | 25 | 27 | 34 | 36 | 34 |
| Currency and Mint (Receipts less expenditure) | 41 | 39 | 46 | 48 | 55 | 62 |
| Interest receipts | 244 | 257 | 308 | 377 | 417 | 449 |
| Extraordinary receipts | 95 | 123 | 87 | 8 | 8 | 16 |
| Other revenue | 74 | 80 | 75 | 78 | 92 | 88 |
| A. TOTAL NET REVENUE | 1825 | 2057 | 2294 | 2447 | 2517 | 2693 |
| Interest on debt | 273 | 311 | 366 | 463 | 508 | 550 |
| Extraordinary items | 82 | 127 | 81 | 14 | 9 | 11 |
| Defence expenditure | 704 | 693 | 762 | 798 | 857 | 894 |
| Other expenditure | 578 | 651 | 765 | 944 | 1056 | 1108 |
| B. TOTAL EXPENDITURE | 1638 | 1783 | 1974 | 2219 | 2430 | 2563 |
| C. SURPLUS (A - B) | 188 | 274 | 320 | 228 | 87 | 130 |
| Capital Receipts | | | | | | |
| 1. Public debt | | | | | | |
| (i) Raised in India | 377 | 299 | 284 | 279 | 352 | 301 |
| (ii) Raised abroad | 318 | 398 | 482 | 516 | 765 | 844 |
| 2. PL 480 receipts | | | | | | |
| (i) PL 480 loans | 66 | 172 | 80 | 350 | 250 | 175 |
| (ii) PL 480 deposits (net) | 87 | - 2 | 133 | - 2 | 71 | 25 |

| | 1963/4 | 1964/5 | 1965/6 | 1966/7 | 1967/8 | 1968/9 |
|---|---|---|---|---|---|---|
| 3. Floating debt | 3 | 3 | 54 | 349 | - | 1 |
| 4. Repayment of loans by: | | | | | | |
| (i) State and Union Territory Governments | 179 | 216 | 276 | 281 | 385 | 425 |
| (ii) Others | 35 | 73 | 97 | 137 | 108 | 124 |
| 5. Small savings (net) | 127 | 127 | 151 | 118 | 110 | 120 |
| 6. State provident funds (net) | 50 | 49 | 55 | 48 | 73 | 34 |
| 7. Income tax annuity deposits (net) | - | - | 37 | 28 | 28 | - |
| 8. Other debt heads | 130 | 196 | 7 | 70 | 29 | 47 |
| D. TOTAL CAPITAL RECEIPTS | 1372 | 1531 | 1654 | 2174 | 2172 | 2096 |
| E. TOTAL FINANCING AVAILABLE (C + D) | 1560 | 1805 | 1974 | 2402 | 2259 | 2226 |
| Capital Disbursements | | | | | | |
| 1. Capital expenditures | | | | | | |
| (i) Defence | 112 | 113 | 123 | 111 | 113 | 121 |
| (ii) Railways | 261 | 275 | 245 | 161 | 150 | 143 |
| (iii) Posts & Telegraphs | 31 | 31 | 31 | 30 | 31 | 30 |
| (iv) Civil | 344 | 356 | 297 | 645 | 443 | 467 |
| 2. Loans and advances to: | | | | | | |
| (i) State & Union Territory Governments | 584 | 679 | 829 | 931 | 885 | 856 |
| (ii) Others | 157 | 250 | 371 | 476 | 493 | 461 |
| 3. Repayment of debt: | | | | | | |
| (i) India | 176 | 189 | 173 | 183 | 260 | 244 |
| (ii) Abroad | 64 | 84 | 81 | 162 | 185 | 195 |
| F. TOTAL DISBURSEMENTS | 1729 | 1977 | 2150 | 2699 | 2560 | 2517 |
| G. DEFICIT (F - E) | 169 | 172 | 176 | 295 | 300 | 290 |

ANNEX II

## INDIA'S BALANCE OF PAYMENTS
( $ Millions)

| | 1961/2 | 1962/3 | 1963/4 | 1964/5 | 1965/6 | 1966/7 | (Prelim) 1967/8 | (forecast) 1968/9 |
|---|---|---|---|---|---|---|---|---|
| 1. Imports 1/ | 2292 | 2376 | 2568 | 2833 | 2958 | 2710 | 2760 | 2820 |
| of which: Foodgrains | 246 | 303 | 378 | 592 | 677 | 813 | 710 | 517 |
| Others | 2046 | 2073 | 2190 | 2241 | 2281 | 1897 | 2050 | 2300 |
| 2. Exports 1/ | 1387 | 1439 | 1666 | 1714 | 1692 | 1558 | 1630 | 1730 |
| 3. Trade Balance 1/ | -905 | -937 | -902 | -1119 | -1266 | -1152 | -1130 | -1087 |
| 4. Non-Monetary Gold | - | - | - | +34 | - | - | - | - |
| 5. Debt Service Payments 2/ | -223 | -235 | -261 | -321 | -357 | -423 | -444 | -520 |
| 6. Other Invisibles (net) | +35 | +21 | +49 | -21 | +40 | -3 | -20 | -30 |
| 7. Other Capital (net) | +246 | +188 | -52 | -210 | -1 | -24 | +1 | -40 |
| 8. PL 480 Aid (Gross) | +185 | +258 | +389 | 458 | +502 | +480 | +489 | +400 |
| 9. Other Aid Disbursements | +526 | +675 | +850 | +1061 | +1121 | 1004 | +1109 | +675 |
| (a) Project | 262 | 383 | 548 | 701 | 684 | 494 | 325 | 425 * |
| (b) Non-Project | 257 | 292 | 301 | 352 | 421 | 417 | 724 | 250 * |
| (c) Wheat Grants and Special Food Aid | 7 | - | 1 | 8 | 16 | 93 | 60 | - |
| 10. IBRD Special Deposit | - | - | - | - | - | - | +45 | - |
| 11. Net IMF | +123 | +25 | -50 | - | +62 | +130 | +32 | -48 |
| 12. Reserves (-) indicates increase | +13 | +5 | -23 | +118 | -101 | -12 | -82 | 650 ** |

1/ Customs Data
2/ Includes service on all debt, including supplier credits.

* Out of commitments made before April 1, 1968.
** Represents a total expected resources shortfall to be made up by the disbursement of aid yet to be committed or a draw down of reserves.

Source: 1961/62 through 1967/68:- based on data supplied by Government of India.
1968/69: forecast by IBRD.

ANNEX III

NON-PROJECT AID COMMITMENTS AND DISBURSEMENTS
($ Million)

| | | Pipeline of committed undisbursed non-project aid at the beginning of fiscal year | Commitment made during fiscal year | Disbursements during fiscal year | of which: Disbursements of aid committed before beginning of fiscal year | of which: Disbursement of aid committed during fiscal year | Pipeline of committed undisbursed non-project aid remaining at end of fiscal year |
|---|---|---|---|---|---|---|---|
| 1966/67 | | | | | | | |
| 1. | Austria | 7 | 5 | 5 | 4 | 1 | 7 |
| 2. | Belgium | - | 1 | - | - | - | 1 |
| 3. | Canada | - | 38 | 19 | - | 19 | 19 |
| 4. | France | - | 17 | - | - | - | 17 |
| 5. | Germany | 24 | 63 | 24 | 21 | 3 | 63 |
| 6. | Italy | - | 34 | - | - | - | 34 |
| 7. | Japan | - | 44 | 2 | - | 2 | 42 |
| 8. | Netherlands | 11 | 11 | 9 | 9 | - | 13 |
| 9. | U. K. | 24 | 90 | 79 | 13 | 66 | 35 |
| 10. | U. S. A. | 196 | 382 | 170 | 122 | 48 | 408 |
| 11. | I. D. A. | 85 | 215 | 109 | 83 | 26 | 191 |
| | TOTAL: | 347 | 900 1/ | 417 | 252 | 165 | 830 |
| 1967/68 | | | | | | | |
| 1. | Austria | 7 | 5 | 7 | 6 | 1 | 5 |
| 2. | Belgium | 1 | 3 | 1 | 1 | - | 3 |
| 3. | Canada | 19 | 29 | 15 | 8 | 7 | 33 |
| 4. | France | 17 | - | 10 | 10 | - | 7 |
| 5. | Germany | 63 | 63 | 65 | 47 | 18 | 61 |
| 6. | Italy | 34 | - | 3 | 3 | - | 31 |
| 7. | Japan | 42 | 52 | 50 | 35 | 15 | 44 |
| 8. | Netherlands | 13 | 11 | 10 | 9 | 1 | 14 |
| 9. | U. K. | 35 | 82 | 61 | 16 | 45 | 56 |
| 10. | U. S. A. | 408 | 50 | 322 | 322 | - | 136 |
| 11. | I. D. A. | 191 | - | 180 | 180 | - | 11 |
| | TOTAL: | 830 | 295 2/ | 724 | 637 | 87 | 401 |

1/ Includes under commitments and disbursements:
(a) Debt cancellation C. $8.70 million from Canada and Debt Rescheduling of US$2.50 million from Japan.
(b) Includes (i) approximately $20 million from Italy; (ii) $15 million from West Germany; and (iii) $3.8 million from Netherlands being part of $900 million pledge of non-project aid for 1966/67 though this assistance, strictly speaking, was of project-type aid.

2/ (a) Includes under commitments and disbursements approximately US$1 million debt cancellation from Canada and US$6 million debt rescheduling from Japan.
(b) Includes $20 million of project-type assistance from West Germany which was counted against their non-project aid from 1967/68.

SOURCE: Based on data supplied by the Government of India.

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IND 68-18

FROM: The Secretary

July 31, 1968

MEETING OF INDIA CONSORTIUM

Attached is the Chairman's Report of Proceedings of the meeting of the India Consortium held in Washington, D.C., on May 23 and 24, 1968.

Distribution:

Executive Directors for:

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Development Assistance Committee OECD
President, Asian Development Bank

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REPORT OF PROCEEDINGS

MEETING OF INDIA CONSORTIUM

WASHINGTON, D.C. - MAY 23 AND 24, 1968

Prepared by the Chairman

1. A meeting of the consortium of countries and institutions interested in development assistance to India met in Washington, D.C., on May 23 and 24, 1968, under the Chairmanship of the World Bank. The meeting was attended by representatives of the Governments of Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, the Netherlands, the United Kingdom and the United States. An observer was present from the Government of Sweden, as were observers from the International Monetary Fund and the OECD. A delegation from the Government of India took part in the meeting. The final list of delegates is attached as Annex I.

2. The Report of Proceedings covers, by topic, the various matters that were raised both in the general sessions and in the Heads of Delegations meetings, and does not necessarily follow the chronological sequence of discussion. The economic situation and aid requirements are reviewed first; this is followed by a report of the discussion on aid requirements for 1968/69, both non-project and project; the report concludes with a review of debt relief and the terms of aid. Attached as Annex II is the statement by Dr. I. G. Patel on "Recent Economic Developments and Prospects for 1968/69". A list of documents distributed for or at the meeting is attached as Annex III; a summary of non-project and project aid announcements for 1968/69 as Annex IV; and a summary statement on the status of debt relief exercise is attached as Annex V. The press release is attached as Annex VI.

## The Economic Situation

3. The Chairman, opening the discussion, noted that India's balance of payments situation was still grim, for the reasons indicated in the Bank's "Note on India's Current Economic Situation and Foreign Aid Requirements", (distributed to Consortium members as IND 68-11). He noted that after ten years the main difference in the Consortium compared with 1958 was the uncertainty about the availability of foreign aid. This greater uncertainty adds to the difficulties the Government of India faces, when formulating and carrying out its policies. The new policies adopted in the last two years appear gradually to be proving their worth, and it is to be hoped that there will be no retreat either in agriculture or in import policies, as a result of the uncertainties surrounding the foreign exchange situation. The Chairman noted that aid requirements, and import policies, should be looked at in this light.

4. The Chairman called upon Dr. I.G. Patel to make a statement, which followed the lines of the text attached as Annex II; he also reviewed various aspects of the terms of aid and the utilization of suppliers' credits which are reported below in Paragraphs 14 and 18.

5. Agriculture. In the discussion that followed, all delegations welcomed the substantial progress being made in agriculture. The representative of the United States noted in particular the progress being made in agricultural research, pricing policy and agricultural credit, and also noted steps being taken towards better utilization of irrigation water. He, and also the representative of Canada, hoped for better progress in the establishment of new fertilizer plants. Several delegations, including France and the United Kingdom, urged that further progress be made in dismantling food zones and moving towards a free market in agricultural products. The representatives of Germany and Japan hoped that the momentum of agricultural progress would be maintained; Dr. Patel expressed confidence that progress would be sustained in all aspects of agriculture but observed that each technical breakthrough would have to be followed by another. On the question of food zones, he thought that as food shortages disappeared, there was bound to be progress in dismantling food zones, but the speed at which this could be done had to be considered partly in terms of practical politics. On fertilizer production, Dr. Patel noted that India already had 2.2 million tons of capacity either working or under construction; but while pushing ahead as fast as possible with other project proposals, the Government felt that hard bargaining was still necessary to work out satisfactory arrangements in each case.

6. Exports. In contrast with the progress in agriculture, all members of the Consortium expressed serious concern over the poor record of exports. All members expressed the hope that more aggressive export policies would be followed. The representative of France questioned whether financial incentives were sufficient to encourage either the private or the public sector to increase exports, and wondered why devaluation had apparently not removed the obstacle of inadequate financial incentives. The United States and the Netherlands stressed that they felt that long-term economic development, and the liberalized import policy, must be supported not only by foreign aid but also by an effective export development policy. Germany noted that they had sent a team of experts to India to advise on promoting engineering exports. Dr. Patel, replying, acknowledged that there had been inadequate growth in export earnings, but said he was encouraged by the recent growth in exports of engineering goods and iron and steel. He also noted that the two years of drought had adversely affected the supply of agricultural raw materials, thus limiting production of products accounting for about half of all exports; he noted that the supply of such raw materials was not expected to increase in response to devaluation. Also, prior to devaluation some goods were exported only

because of artificial incentives and not because of any comparative advantage. He felt that such exports were not in India's long-run interest and therefore should not again be promoted. Earlier this year the Government had set up working groups to review the whole range of export incentives and on the basis of reports from these groups had already taken decisions in a number of fields with the intention of giving a more stable and effective framework of incentives for exporters.

7. Import Policy. Regarding import policy, Canada noted India's courage in continuing the import liberalization policy, despite aid uncertainties, and noted with some optimism the general re-orientation of several Indian policies over the last two or three years. The United States also was glad to note the Government's dedication to maintaining import liberalization, and to the incentive and administrative benefits that came out of it. Several other delegations, including the United Kingdom, hoped that this import policy could be continued and even broadened to eliminate some of the remaining rigidities. Dr. Patel agreed, but stressed that this would have to depend upon the volume and certainty of aid. He stressed that there had been further administrative simplification and the "banned list" was no longer absolute.

8. Resource Mobilization. Most of the delegations shared the concern expressed in the Bank's report on the problem of mobilizing more resources for development, particularly from State sources. The United States noted with regret that there had been some further rise in the defense budget, and hoped that fiscal restraint, especially on defense expenditure, would be practiced in the future. Dr. Patel agreed that it would not be easy to formulate a satisfactory Fourth Plan within the limitations of available resources but stressed that resource mobilization had improved substantially over the last 15 years.

9. Family Planning. On the question of family planning, several members of the Consortium noted the mixed record of progress and disappointments, and hoped that the future would bring better results. The Chairman said that, given the concern of the Consortium on this subject last November, he was happy to report that the United Nations, in response to an invitation from India and encouragement by the Bank, was planning to send a mission to India in September or October this year to review the family planning program. He suggested that the Consortium might defer discussion of the family planning program until after the United Nations report was available.

Aid Requirements

10. The Chairman called upon Mr. Gilmartin to make a statement. Mr. Gilmartin reviewed the forecasts for 1968/69 contained in the World Bank memorandum. He noted that since that report was written additional

commitments for fiscal year 1967/68 totalling about $250 million had been made by the USA and France, and thus the pipeline problem was smaller than had earlier been indicated. Also, these new aid commitments would reduce the estimated cash gap from $650 million to around $450-$500 million. Even if $200 million of the remaining gap could be met from disbursements from a proposed new IDA credit and from debt rescheduling, a cash gap of $250-$300 million would remain to be met from other new non-project pledges. In commitment terms, after including an allowance for rebuilding the pipeline, new agreements are needed this year totalling about $1 billion (compared with $1,275 million indicated in the report). He went on to say that any such aid assessment involved formidable statistical uncertainties: It could be that the actual 1967/68 import figure would turn out to be a little lower than assumed in the Bank's calculations; furthermore, it is not entirely clear whether the pickup of import demand will be as large as indicated. Thus, the Bank's estimate may slightly overstate the level of disbursements required this year, but on the other hand, the estimate allows for only a rather austere replenishment of the pipeline.

11. During the discussion on the Bank's estimate of aid requirements, most delegations expressed full agreement with the Bank's assessment of aid needs. Mr. Cargill asked members of the Consortium to indicate the level of aid they had in mind for 1968/69, starting with non-project aid. A summary of aid announced by members is attached as Annex IV. During the discussion, Austria made the point that since $3.5 million had been committed but not so far utilized by India, Austria felt that the question of further non-project aid commitments, over and above debt relief, would not arise until India placed orders against a larger share of aid already available. Canada likewise pointed out that as of two months ago commitments of development loans were about $81 million, yet expenditures were only $9.3 million. The Canadian delegate also noted a significant further improvement in Canada's aid terms to India, first because grants to India would increase from C$2 million to C$6 million, and second because debt rescheduling (which is discussed below) would be over and above last year's aid level. Dr. Patel noted that India and Canada were jointly making additional efforts to speed up utilization of Canadian aid. Denmark reported that it had now committed five loans to India totalling $18 million, of which the last two, for 1968/69, totalled $9.4 million. France noted that the total of new commitments was likely to be as high as the $30 million for 1967/68. The representatives of Italy and Belgium were not in a position to make statements because in each country new Governments were still in the process of being formed. Japan noted that interest rates for 1967/68 had been reduced to 5.5% from 5.75%, and the repayment period had been extended from 15 to 18 years. This year, for which new non-project aid, including debt relief, would total $45 million, an attempt would be made to reduce the interest rate further. The Netherlands noted that their general purpose aid would increase from $7.2 to $9.2 million

and debt relief would be additional to that. Moreover, the Government would consider further improvements in the terms of development aid if a majority of other Consortium members were also prepared to do so. He also reported that guaranteed suppliers' credits of up to $1.9 million would be available in 1968/69 if India requested them, but noted that the Netherlands' Government did not regard such suppliers' credits as development aid. The United Kingdom said that it was becoming very difficult to give so high a proportion of aid in quick disbursing, general purpose form, including substantial sums in the form of debt relief; this year's aid would thus reflect a reversion towards the pattern of aid in earlier years, but, on the other hand, the total amount would increase temporarily this year from 32 million to 35 million pounds. About two-thirds of the total would still consist of non-project aid, and the United Kingdom hoped that other Consortium members would give at least this proportion of their aid in non-project form. The United States had agreed to $295 million of non-project aid for fiscal year 1967/68, plus $65 million in project aid, and $302 million in PL 480 commodities, but was not in a position to announce aid proposals for 1968/69 yet.

Project Aid

12. Indications of new project aid are shown in Annex IV. It was unfortunate, the Chairman observed, that project aid, which was essential for India's investment program, had virtually disappeared because of the priority given to non-project aid since 1966. He said that the IBRD was prepared to make new loans for projects in the private sector, such that annual disbursements on these and other Bank loans would roughly equal principal repayments on past loans. A loan for a fertilizer plant is a possibility this year. Regarding IDA, no uncommitted funds now remained; for planning purposes, however, a replenishment of $1.2 billion had been assumed, of which India would receive not less than 40% which was a smaller share than in the past. IDA had prepared a further industrial imports credit, which would be referred to Executive Directors for consideration in June with the recommendation that, if approved, it would become effective only after IDA replenishment. To prevent any substantial interruption in support for India's liberalization program, the staff would recommend to the Executive Directors that whenever the credit became effective India be reimbursed for foreign exchange expenditures already incurred.

13. Dr. Patel drew attention to his Government's memorandum on project aid needs. He also suggested that perhaps projects or components of projects could be financed through competitive bidding amongst donor countries, each of whom would indicate, in advance, willingness to make finance available on appropriate terms. Canada and Denmark noted that this formula would work only if detailed procedures could be agreed in advance; the Chairman said the Bank had had some experience of this, and he could discuss this idea further with the Government of India.

Debt Relief and Terms of Aid

14. Dr. Patel, in his opening statement, stressed that India regarded debt relief as an essential ingredient in development aid, made necessary partly by the need to make debt payments in free foreign exchange, while receiving mainly tied aid. The Chairman noted that all members of the Consortium (based on a long-standing request from the Government of India) had agreed to take concerted action to grant debt relief totalling $100 million for the Indian fiscal year 1968/69. During the Heads of Delegations meeting as well as in the general discussion, members of the Consortium indicated or affirmed the debt relief offers they had made for 1968/69, as listed in Annex V. Some are subject to governmental or parliamentary approval, and the Chairman urged that any remaining formalities be completed as soon as possible. Although debt relief was initially contemplated as a three-year action, most offers at the meeting were for one year only. Some lenders expressed dissatisfaction with debt relief terms being offered by other lenders; disappointment was also expressed at India's position on reducing the debt burden by, for example, rescheduling non-Consortium debt and by limiting the amount of new suppliers' credits. Several Consortium members indicated that later this year they would have to reconsider the amount and terms of any future debt relief, i.e., for 1969/70 and 1970/71, in the light of these factors.

15. On the question of debt relief terms, delegates from Canada, Germany, the United Kingdom and the United States in particular expressed very great regret that the action proposed by Italy and Japan fell so far short of the Guindey recommendations. The United Kingdom particularly disagreed with the principle that a country need not offer better terms than the most backward terms being offered. The representative of Italy noted that the terms offered were the best ever granted to anyone and no better terms can be offered this year. Several members of the Consortium said that they would feel obliged to reconsider the amount and terms of their participating in 1969/70 or 1970/71 unless the terms offered by Italy and Japan improved. The Chairman said that he thought the offers for 1968/69 should be accepted; he agreed that during the year he would take up the question of improving the terms offered by Italy in particular.

16. Canada inquired whether in fact the debt relief exercise implied a hardening of terms of aid. This he felt might be the case, particularly where debt relief was not additional to the normal aid level. If it were regarded as new aid and part of the current pledge, the terms insofar as maturities were concerned were less favorable than in the past. The Chairman, and Mr. Goodman, pointed out that one principal advantage of debt relief was that it offered free foreign exchange and that in this sense the provision of debt relief thus represented a step forward even if it did not add to the total pledge. The United States pointed out, and the Chairman agreed, that

certainly the Consortium would not discourage debt relief as an addition to the "normal" or previous level of aid, but it was made clear from the start that any debt relief action taken by members of the Consortium would be counted towards each country's total aid. The debt relief exercise also represented a step in the direction of harmonization of terms of aid.

17. On the question of India's policy regarding non-Consortium debt, the representative from the United Kingdom said he felt that it would be appropriate for India to negotiate with non-Consortium creditors for a relaxation of their debt service burden. Dr. Patel said that India had already taken the matter up with the countries concerned in Eastern Europe, but so far the latter had argued that the problem did not arise because India was not facing difficulties in balancing her bilateral trade accounts with these countries. The United States delegate expressed dissatisfaction with this view, saying that the participation of the United States was on the basis that there would be an effort to obtain a comparable adjustment from non-Consortium countries. He hoped the Government of India would try further for such relief, and said it would become increasingly difficult for the United States to continue debt relief unless parallel action was taken by non-Consortium countries. Dr. Patel replied that he would be happy to discuss, with anyone concerned about this problem, their specific suggestions for further action by the Government of India in these circumstances.

18. Regarding suppliers' credits and the terms of aid, Dr. Patel emphasized the dilemma which he faced, when having to finance particular projects if aid on appropriate terms was not available. In such circumstances, and the various fertilizer projects are a case in point, the Government is faced with the dilemma of deciding whether to go ahead with certain priority projects using available suppliers' credits or to postpone these projects indefinitely. He hoped that this kind of difficult choice could be avoided by the resumption within the Consortium of project aid on appropriate terms. He said that from 1958 onwards, despite the scarcity of concessional aid, India had exercised the maximum possible restraint in incurring suppliers' credits and that to date they represented only 6 to 7% of total debt. The United Kingdom nevertheless hoped that the Government of India would use the utmost restraint in incurring further commercial credits and inquired whether the Government would contemplate setting up some upper limit. Dr. Patel said that this would impose a very difficult choice because often the projects involved had the highest priority. He stressed that the Government of India was already exercising great restraint and hoped that a solution could be found through increasing project aid on good terms.

19. Mr. Cargill said that from the discussion on debt relief it was clear that the Bank will have to take a new look at the entire debt situation, including the questions raised about external debt on non-concessional terms, and about non-Consortium debt. This will serve to bring up to date the information needed to form judgements about future Consortium aid and other points raised at the meeting.

Conclusion

20. In conclusion, the Chairman noted the concern of Consortium members on the various points summarized above, and went on to stress that the running down of the aid pipeline posed a serious situation for India. Last year, the recession and consequent cut in the demand for imports, together with the drawing down of the pipeline, provided escape routes which enabled the Government to continue the policies adopted in 1966. However, neither of these possibilities is likely to be open this year. If the present aid uncertainties-including the uncertainty over IDA - cannot be overcome, then in the opinion of the Bank India might have no choice but to reverse these policies, such as import liberalization and high priority for agriculture, which to some extent depended on the availability of adequate aid. Such a reversal, the Chairman said, would be unfortunate at a time when new policy directions, adopted in 1965 and 1966, were beginning to show benefits. The Chairman said he would keep the matter under review and would, if appropriate, schedule another meeting in the Fall to consider the situation.

Asia Department
July 31, 1968

MEETING OF INDIA CONSORTIUM

May 23-24, 1968

LIST OF DELEGATES

| | | |
|---|---|---|
| BANK | Mr. I. P. M. Cargill | Chairman |
| | Mr. Raymond J. Goodman | |
| | Mr. William M. Gilmartin | |
| | Mr. Gregory B. Votaw | |
| | Mr. E. Bevan Waide | |
| | | |
| | Mr. Michael L. Hoffman | |
| | Mr. Anwar Ahmad | |
| AUSTRIA | Mr. Othmar Haushofer | Head of Delegation |
| BELGIUM | Mr. H. Biron | Head of Delegation |
| | Mr. Willy Stoop | |
| CANADA | Mr. L. Denis Hudon | Head of Delegation |
| | Mr. R. W. McLaren | |
| | Mr. L. H. Brown | |
| | Mr. H. V. Kroeker | |
| | Mr. P. Reid | |
| DENMARK | Mr. H. E. Kastoft | Head of Delegation |
| FRANCE | Mr. Jacques Hirsch-Girin | Head of Delegation |
| | Mr. Jean Malaplate | |
| | Mr. Georges Beisson | |
| GERMANY | Mr. Erich Elson | Head of Delegation |
| | Mr. Ernst vom Hofe | |
| | Mr. Walter Ritter | |
| | Mr. Wolfgang Seeliger | |
| | Mr. Karl Heinz Penning | |
| | Mr. Georg Schneider | |
| | Mr. Ingo von Ruckteschell | |
| | Mr. Werner Handke | |
| ITALY | Mr. Ugo Morabito | Head of Delegation |
| | Mr. Felice Gianani | |
| | Dr. Nardo Oliveti | |

| | | |
|---|---|---|
| JAPAN | Mr. Takeo Arita | Head of Delegation |
| | Mr. Tarao Maeda | |
| | Mr. Genji Takeya | |
| | Mr. Y. Nagatomi | |
| | Mr. C. Nomura | |
| NETHERLANDS | Mr. J. Grooters | Head of Delegation |
| UNITED KINGDOM | Mr. R. H. Belcher | Head of Delegation |
| | Mr. R. E. Radford | |
| | Mr. Martin Brown | |
| | Mr. D. F. Stone | |
| | Mr. A. A. Duff | |
| UNITED STATES | Mr. Maurice J. Williams | Head of Delegation |
| | Mr. C. Herbert Rees | |
| | Mr. Clarence S. Gulick | |
| | Mr. Robert Muscat | |
| | Miss Mary Olmsted | |
| | Mr. Samuel Costanzo | |
| | Mr. Albert Cizauskas | |
| | Mr. Martin Abel | |
| INTERNATIONAL MONETARY FUND | Mr. W. John R. Woodley | Head of Delegation |
| | Mr. Prabhakar Narvekar | |
| | Mr. Erik Elmholt | |

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| | | |
|---|---|---|
| SWEDEN | Mr. Goran Bundy | Observer |
| | Mr. K. G. Engstrom | |
| OECD | Mr. Edgar Kröller | Observer |

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| | | |
|---|---|---|
| INDIA | Dr. I. G. Patel | Head of Delegation |
| | Mr. S. Jagannathan | |
| | Mr. C. S. Swaminathan | |
| | Mr. S. Guhan | |

Secretary's Department
May 24, 1968

# "RECENT ECONOMIC DEVELOPMENTS AND PROSPECTS FOR 1968-69"

## STATEMENT BY DR. I. G. PATEL, SPECIAL SECRETARY GOVERNMENT OF INDIA

1. May I say at the outset how happy I am to have this opportunity once again of participating in the deliberations of the India Consortium? I would also like to express my appreciation and gratitude for the excellent and judicious account of our current economic problems and prospects which has been given in the Bank Report. Any deficiencies in what I have to say, therefore, should be amply compensated by what you have already read.

### I. Resume of Conditions in 1967-68

2. The India Consortium is meeting on this occasion against the background of promise and hope. The two years of a critical food situation are happily behind us; and it is possible now to return to the primary concern which brings us together - the concern for the development of the Indian economy in an orderly and viable fashion.

3. After a substantial decline in 1965-66 and only a moderate recovery in 1966-67, real national product increased by 10 to 11 percent in 1967-68. Agricultural production has registered an increase of 20 percent. Total foodgrain production in the season now ending may well exceed 95 million tonnes which is still the official estimate. Corresponding gains have been made in the production of raw jute, raw cotton and oilseeds; and even sugar tastes sweeter this year by virtue of its free availability. Weather conditions in the 1967-68 season were on the whole normal. But they were not as good as in 1964-65 when a production of 89 million tonnes of foodgrains was achieved. The level of production reached in 1967-68, therefore, reflects in a significant measure the cumulative effects of the agricultural transformation which has been under way for some years now - effects which could not be seen in the intervening years of drought.

4. Wholesale prices which had risen by 35 percent over the preceding two years, are now at the same level at which they stood 12 months ago. Export earnings during 1967-68 should be 5 percent higher than the year before. Utilization of non-project assistance gathered momentum reflecting much freer availability of inputs both for agriculture and industry. Another heartening development was the successful beginning with debt relief - an outcome for which a special word of gratitude would be in order to you, Mr. Chairman, to Mr. Woods and to Mr. Guindey.

5. Economic conditions at the beginning of the current fiscal year were thus appreciably better than what we have known for quite some time. But they were not yet ripe for any decisive increase in the tempo of

investment. Despite the substantial increase in food production, the underlying food supply situation cannot be regarded as wholly comfortable. A good part of the increased production will necessarily be required for replenishing the pipeline of stocks, both public and private. To some extent, increase in food production would automatically lead to higher consumption. The result is that our requirements of food during the current year will still have to be met by substantial imports of the order of 7.5 million tonnes.

6. While prices on the whole have receded to the level of a year ago, they are still higher than what they were at the same time last year for some important commodities like rice and raw cotton. The damage done by the two droughts to the fiscal system will also take time before it is fully repaired. The actual Budgetary deficit at the Centre for 1967-68 has turned out to be significantly smaller than what we had estimated at the end of February when the Budget for the current year was presented - Rs. 218 crores as against Rs. 300 crores then estimated. Even so, the fact remains that we were not beginning the current fiscal year on an even keel.

7. The tempo of industrial activity remained subdued throughout 1967-68; and this was reflected in the demand for imports for the maintenance of the economy. Industrial production, which had increased steadily at the rate of 8 percent per annum in the early '60s, increased only 2.6 percent in 1966 and 1.5 percent in 1967. The increase in exports during 1967-68, while welcome, was not enough to restore earnings to the level already reached before devaluation and the droughts. In framing budgetary and other economic policies for the current year, we had also to reckon with uncertainty regarding foreign aid. Non-project assistance on the scale endorsed by the Consortium would have given us sufficient assurance for meeting the maintenance requirements of the economy. But important parts of the non-project assistance for 1967-68 remained uncommitted even at the end of the fiscal year. Quite apart from this, the level and pattern of aid were not quite commensurate with our needs as can be seen from the fact that our foreign exchange reserves would have actually declined by $53 million in 1967-68 but for the compensatory drawing of $90 million from the I.M.F. in December 1967 and the special deposit of $45 million by the World Bank.

## II. Policies for 1968-69

8. Against this background, we had to resolve a number of difficult questions in formulating budgetary and general economic policies for the current year. How were the respective claims of stability and industrial revival to be reconciled? To what extent should the policy of liberalisation of imports be continued in order to maintain and accelerate industrial activity as well as agricultural progress despite uncertainties regarding aid? If the fiscal system needed strengthening at a time when the economy was obviously in need of an improved climate for investment, how exactly were these two objectives to be achieved?

9. As practical people engaged in the making of economic policy, the distinguished representatives assembled here will not be surprised if I say that we decided to reconcile these different and even conflicting objectives by attempting to advance moderately in all desirable directions. Thus, while the Budget for the current year limits public sector developmental outlay to more or less the same level as in the preceding year, we have attempted to stimulate production and investment in industry by a number of fiscal reliefs, liberalisation of credit policies, extension of hire-purchase facilities, removal of controls on prices and a greater degree of freedom in diversification of production. While outlays of a strictly developmental nature have been held to previous levels, a sizeable provision of Rs. 140 crores has been made for building up a buffer stock of foodgrains as a pre-condition for preserving stability. Within the limits set by resources, plan outlays on agriculture, family planning and continuing schemes have been set at levels which are adequate to maintain the tempo of development already underway.

10. To a certain extent, the fiscal position is sought to be strengthened by increasing railway rates, postal charges and by selective increase in excise duties adding up to a total resource mobilisation of Rs. 119 crores. At the same time, the desire for stability has not been allowed to obsess us to the point of denying much needed tax concessions in regard to direct taxes or to the point of raising indirect taxes to a level and in a manner which would have upset the climate for stability of prices or for industrial recovery. Instead, reliance has been placed in the field of direct taxation on a number of measures to reduce tax evasion and improve tax collection. The Budgetary position is also sought to be improved by a variety of measures to stimulate savings - including some imaginative ones like a Public Provident Fund for doctors, actresses and the like who are now given an attractive alternative to tax evasion for preserving a part of their bloom so to speak for more nostalgic days.

11. It is a moot point whether the overall deficit of Rs. 290 crores anticipated in the Central Budget for the current year should be looked upon as a reflationary measure to stimulate demand or merely a measure to prevent any choking off of revival. Equally, it is a moot point whether the Budget deficit will, in fact, tend to increase prices or whether it will merely prevent an undue decline in agricultural prices. On matters like this, no categorical judgement is possible in advance and one has to be prepared to take appropriate measures in the light of circumstances as they unfold. At the present stage, however, it would seem that in the context of the increase in the production of basic consumer goods, the Budget deficit is more likely to sustain agricultural prices at reasonable levels and to permit the forces of revival to take their course than to give any marked positive stimulus either to prices or to the forces of revival.

12. In regard to the current rabi crop which has exceeded our expectations, there has been some anxiety whether there would be an excessive decline in prices in view of inadequate transport and warehousing facilities. We are making all possible arrangements and are reasonably confident of making the newly announced support prices effective - support prices, which I might add, are now the same as procurement prices. Although procurement

in the kharif season was less than planned, this would be partly offset by higher procurement of the rabi crop and greater resort by the consumer to the free market. With procurement of 6.5 million tonnes of internal grain and imports of 7.5 million tonnes, we should be able to meet the requirements of public distribution and to build a buffer stock of 3 million tonnes. In short, there is every likelihood of our maintaining food supplies at adequate levels as also of preventing any undue increase in prices unless monsoon conditions in the coming season are particularly unfavorable.

## III. Exports

13. In regard to exports, bearing in mind the importance of timely action to seize all possible opportunities, we have taken a number of policy decisions in recent months. In January and February this year, the entire framework of export policies was reviewed and decisions were taken expeditiously to implement the findings. Quite apart from adjustments in duties and subsidies, these measures cover a wide range including fiscal incentives for promotional work, more flexible release of foreign exchange, simplification of administrative procedures, access to more favorable sources of import supply to producers with good export performance and cheaper export credits. In undertaking a comprehensive review of export promotion measures, our objective was to create a climate in which export effort could be directed towards increasing the competitive position of our products without generating expectations of further fiscal and other concessions.

14. Perhaps the most important development in the field of exports is the priority sought to be given in creating new capacity to activities which can reasonably lead to larger export earnings. It is perhaps correct to say - with some degree of exaggeration no doubt - that for some time, our approach to exports was more in terms of pushing out a part of domestic supplies into foreign markets rather than that of increasing capacity in those industries which would naturally be able to compete in foreign markets. This dynamic aspect of the problem is now being kept in the forefront and export capacity is being licensed with much greater ease and flexibility than before. Quite apart from obvious areas such as the development of iron ore, mining or fishing, there are possibilities involving only relatively small investments which can result in much greater export earnings. Improved processes for oil extraction, for example, could increase our earnings from oil cakes substantially.

15. In the related field of invisibles, a Hotel Development Fund has been set up to increase facilities for tourists. We are also endeavouring, even in the face of occasional discouragement from our friends, to retain and to extend the important gains that we have made in the field of invisible earnings through air transport and shipping.

16. For the current year, the Bank Report assumes, and we endorse the assumption, that export earnings could reasonably be expected to register an increase of 6 percent over the previous year. We expect a significant increase in the exports of iron and steel, a large variety of capital equipment,

including railway equipment, transmission equipment and the like. The engineering goods as a whole should register an increase in exports of the order of one-third to one-half on top of a similar increase in 1967-68. Similarly, in response to the increase in agricultural production, exports of oil cakes, raw cotton, etc., should show some improvement. Other items where we are expecting a sizeable increase in export earnings are marine products, leather products and iron ore. On the other hand, despite the reduction in export duties - and some people might argue that because of this reduction - unit prices for our jute goods exports have declined and it would be difficult to maintain the earnings of the previous year. In the case of tea, a significant increase in exports had taken place during 1967-68 as a result of higher domestic production at a time when production in competing countries was not so good as also as a result of the advantage gained over competitors through devaluation. Currently, except in the case of superior varieties, our tea exports are facing increasing difficulties. Against this background of a probable decline in the export of tea and jute goods which account for a sizeable part of our export earnings, an increase of 6 percent in total export earnings would represent a substantial effort and achievement in the field of newer or non-traditional exports. Indeed, with prospects of recovery in internal demand, the efforts to maintain and increase exports of the newer manufactures will have to be all the greater.

## IV. Industrial Revival

17. Coming to industries, the stimulus to industrial revival, against the background of policies I have outlined, must come essentially from factors other than an increase in public investment, i.e., from growth in consumer demand as a result of higher agricultural production, increase in private investment in response to better sentiment and freer availability of credit from growth in export demand and, to some extent, a larger proportion of domestic orders being met by domestic production as distinguished from imports. Within the more or less stationary public plan outlays, there has been a somewhat higher provision for continuing industrial projects such as Bokaro and a few fertiliser plants as also for advance ordering in the case of railway wagons. This should also help in reviving activity in some of the particularly depressed sectors of industry.

18. The greater availability of agricultural raw materials and the increase in rural consumer demand should lead to higher production in industries like cotton textiles, vegetable oils, bicycles, sewing machines, radio receivers and the like. The production of vegetable oils, radios, sewing machines etc., has in fact registered a significant increase. There has also been a significant increase in the production of yarn and the off-take of cloth has revived somewhat. But production of mill-made cloth has not yet shown a similar change. The recent decision to reduce substantially the area of price control over mill-made cloth and to increase prices for the varieties still controlled should, however, help in reviving production.

19. Among major producer or intermediate goods, some increase in production of items like cement, paper, and steel can be confidently expected - either because new capacity is coming into being or because, as in the case of steel, a sizeable increase in exports is likely. Production of jute goods, where external demand is the more relevant factor, has not witnessed any significant revival.

20. In the case of agricultural inputs such as fertilisers and pesticides as also agricultural implements, growth in production has been highly satisfactory even in recent years and this should continue. This is also generally true of chemical industries as a group.

21. In respect of industries producing finished capital goods, the signs of revival are unmistakable in the case of transport equipment including railway wagons where the industry is also likely to benefit from substantial orders abroad. The revival in the road transport industry, which is reflected in the offtake of diesel and other petroleum products, has been assisted by the newly strengthened high-purchase facilities. Power equipment industry in general has received substantial orders in keeping with the shift from imports to domestic production. Already, producers of boilers and transmission equipment, are showing some anxiety about adequacy of supplies of raw materials and components in order to meet the orders at hand and those likely to be received in the near future. Plants making machinery for the cement industry and the mining industry are also receiving orders to a satisfactory extent. In industries producing capital goods for the basic consumer goods industries such as textiles, sugar and paper, where import-substitution has been achieved for quite some time, it would take some more time before there are definite signs of revival. Recovery in internal demand in these fields requires an actual increase in investment demand; but financial and other difficulties involved in a major expansion and reorganisation of these industries are yet to be tackled satisfactorily. In the case of paper, the recent decision to remove controls over prices might help the revival of investment sentiment. The cotton textile industry, which is facing more formidable problems of modernisation and rationalisation, requires attention on many fronts; and this is being attended to. In the meantime, efforts of the textile machinery industry to increase capacity utilization by exports have received only modest success in view of their inability to match the credit terms of competitors.

22. To sum up, while the industrial scene would continue to present a mixed picture, there is every possibility of industrial production increasing by 5 to 6 percent this year, as was envisaged at the Budget time. This would be all the more so if the prospects of the next monsoon are favorable. Good prospects will remove such inhibitions as there might be in the rural areas to step up consumption in response to the rise in their incomes so far. It would also improve the chances of a substantial increase in the production of industries like sugar where the bulk of the crop will come in the latter part of the fiscal year. All in all, conditions are ripe for an early return to the very encouraging momentum of industrial growth witnessed during the 'fifties and the early 'sixties. Despite the uncertainties inherent in the situation, the Government of India is pursuing an active policy of assisting

the forces of revival - by appropriate credit policies, by maintaining the liberal import policies, by active export promotion and by reducing the area of control, wherever possible. But if the process of recovery is not to be retarded, and indeed brought to a sudden halt, we will need timely and adequate non-project assistance from the countries and institutions represented in this forum.

## V. Non-Project Assistance

23. I have already mentioned that at the beginning of the current fiscal year when we normally announce our import policy for the year as a whole, we were confronted with considerable uncertainty in this regard. Both in respect of IDA and the U.S. non-project assistance, the logic of liberal import policy on a continuing basis, i.e., on the basis of renewing a license before it is fully used up, had necessitated substantial licensing in advance of actual loan commitment. In such a situation, any hiatus in the process of loan commitment would naturally put a considerable strain on our reserves. In the case of U.S. assistance, there was the further factor, namely, the difficulty of making adequate arrangements for the supply of fertilisers for the next rabi season in the absence of a timely loan commitment. We had, therefore, seriously to consider whether we should continue the liberal import policy. On balance, keeping in mind the need for industrial revival and having faith in the goodwill of our friends, we decided to take a calculated risk and continued the liberal import policy. In the case of the United States, the signing of the loan agreement a few days ago for $225 million has relieved us of such anxiety as we had. It is our earnest hope that the uncertainty about the IDA non-project assistance for 1967-68 will also be resolved soon and in a manner which takes account of the commitments we have entered into in prusuance of a policy which has received every encouragement in this forum.

24. In the case of other donor countries, the non-project assistance for 1967-68 has already been substantially utilized or allocated. It is our earnest hope that non-project assistance for the current year will be translated into loan agreements soon with a provision for covering such licenses as we have had to issue to maintain continuity of policy after exhausting the allocations under earlier credits.

25. On the quantum of additional non-project assistance required to be committed during the current year, I have very little to add to what is contained in the Bank Report. If I may recapitulate briefly and in the light of some later developments, our requirements for non-project assistance for 1967-68 and 1968-69 together were assessed last November at $1,570 million. Loan agreements for $535 million have been signed so far, leaving a balance of $1,035 million. If allowance is made for debt refinancing of the order of $100 million during 1968-69, there would remain $935 million to be provided by way of IDA commitment for 1967-68 and the new pledge by the Consortium, including IDA, for 1968-69.

26. Mr. Chairman, may I draw your attention in this connection to the emphasis in the Bank Report on the importance of building up the pipeline of non-project commitments which has been seriously depleted over the last year? In their calculations, the authors of the Bank Report do not consider it feasible to provide for such replenishment on the scale that they consider necessary. In other words, even with new commitments on the scale recommended by the Bank Report, the non-project assistance in the pipeline at any given time during the year will not be sufficient to give us the kind of confidence needed to continue with our import policy. I would, therefore, urge that in planning and pledging non-Consortium assistance to India this year, the broad guidelines laid down in the Bank Report are adhered to.

27. On the quality of non-project assistance, I may perhaps be permitted to make a point or two. I have already referred to the need in a continuing import programme to licence requirements before the actual signing of loan agreements. This is all the more so when so many loan agreements are signed towards the end of the year - and even after the end of the year. It has often been urged in this forum that orders placed and payments made from the beginning of the year, in our case, 1st April, should be eligible for finance against Consortium aid for the year in question. But in actual practice, this is not often agreed to. And I cannot urge too strongly the need for a more flexible attitude to this question of what has unfortunately come to be called retroactivity. Somehow, to be retroactive sounds retrograde; but what we are dealing with here is compensation for time lost - time lost in meeting legislative and other requirements. Retroactivity, in other words, is nothing more than a recognition of the universal necessity of reconciling orderliness in execution with legislative discontinuity of the kind with which all of us are all too familiar.

28. There has been improvement in the terms of non-project assistance from a number of countries; and I should not fail to record our appreciation of this fact. But there is still scope for further improvement of terms in the case of some Consortium members; and I hope that we shall return to this topic later when we discuss the question of debt relief.

29. As regards eligibility of items that can be financed under non-project assistance, there has been considerable progress towards greater flexibility in the light of our needs; and I will not quote notable examples in this regard lest I should be guilty of making invidious comparisons. But there seems at times a tendency to restrict eligibility on grounds of securing additionality in orders in general or for particular products. It is not my purpose to suggest that aid or its eligibility should be governed exclusively by the needs of the recipient without regard to the needs and situation of particular countries. But I hope I would not be misunderstood if I refer to one or two aspects of this complex question. First of all, if country-tied aid is to be further tied to specific purchases in specific amounts - or, as it sometimes happens, to the non-purchase of certain commodities - the real value of aid gets further reduced. Again, if tied aid is to be further sliced up in specific bits, it makes the whole jig-saw puzzle of using diverse sources of finance almost impossible to solve in keeping with the policy of liberal imports. What is more, the presumption that we will be able to

purchase certain imports any way so that they should be made ineligible for aid finance assumes that, at present, we have some surplus capacity to import on our own which we are keeping unutilized. I am afraid this is hardly the case as is evident from the fact that but for the drawing on IMF and the IBRD deposits, we would have lost reserves last year - as we have indeed done for some years now. Our reserves are hardly sufficient to finance three-months' imports; and we have already drawn heavily on our second line of reserves, viz., the International Monetary Fund. The only consequence of reducing the area of aid eligibility would be a diversion of imports to other aid sources or, more probably, a decline in our much needed imports with all its consequences on the prospects for growth. Similarly, the only consequence of tying aid to specific uses in specific amounts would be a corresponding demand from competing donors and an over-provisioning for some of our requirements when others, equally urgent, cannot be adequately provided for. It is our earnest hope, therefore, that in respect of use of non-project assistance, we should continue to move in the Consortium towards the goal of greatest flexibility - the goal, in other words, of mitigating the costliness of country-tied aid by the freedom to buy the commodities of the choice of the recipient.

30. On a more general plane, within the Consortium, it is now generally recognized that at our particular stage of development, we need non-project assistance and that it has as much of a developmental role, if not more, as project assistance may have in other countries. But the feeling somehow persists that there is something abnormal about non-project assistance; and one gets the impression that the assessment of the Bank and the Consortium sometimes does not get reflected in actual loan negotiations. I can only repeat what has often been said that, in our case, the shift from project to non-project assistance is not a salvage operation in the context of the food shortage of the last two years. The fact that we need non-project assistance more than project assistance is in reality a reflection of the significant progress that we have made towards self-reliance by the diversification of our industrial structure.

31. This is not to say that India is no longer in need of project assistance. We need assistance for vital programmes and projects in addition to non-project assistance of the order indicated earlier in order to resume decisively the momentum of growth. A separate memorandum on this subject has already been circulated; and I will have more to say on this subject at a later stage in our deliberations.

## VI. Conditions for Growth

32. So much for the short-term problems and prospects of the Indian economy. I would like to say a few words now on some of the important aspects of our economic situation and policies which have a bearing on the long-term prospects for growth of the Indian economy.

(a) Agriculture

33. First and foremost, there is the question of the possibility of sustaining a satisfactory rate of growth in agriculture. Much has been said on this subject in this forum; and the Bank Report gives a lucid account of what is happening in this field and what remains to be done. The two most heartening features about Indian agriculture in recent years are: the response of the farmers to better methods of cultivation, including willingness to work and invest in support of the new methods; and secondly, the remarkable success achieved by our agricultural scientists in tackling the concrete technical problems of the new agricultural strategy - problems of developing seeds to suit local conditions and tastes, problems of dealing with the special dangers of pests under Indian conditions and so on.

34. During the current year, the target of bringing 15 million acres of land with assured water supply under new hybrid varieties of seeds has been met - with some shortfall in the kharif season being compensated by greater success in the rabi season. In the 1968-69 season, we propose to bring 21 million acres under this programme so that there is every likelihood of our reaching the target of bringing 32.5 million acres of land under this programme by 1970-71. The allied programme under which food production is sought to be increased over another 30 million acres by other methods, notably by reducing the duration of the crop so as to facilitate multiple cropping, has also been making satisfactory progress. Arrangements for seed multiplication and distribution have been strengthened and are being decentralised.

35. On the progress of fertiliser production in India, the IFC report, which has been circulated to the Consortium, gives a clear and self-contained account. Our own targets as well as estimates of the dates of commissioning and the expected production from new plants are somewhat more hopeful than the estimates in this report. Even according to the picture presented in this report. Even according to the picture presented in this document, you will find that there have been significant additions to capacity in the last two years and that the existing capacity of about 0.9 million tons of N will more than double to reach 1.9 million tons of N by 1970-71. The capacity will go up further to 2.4 million tons by 1971-72. A further capacity amounting to 2.2 million tons is involved in other plants, predominantly in the private sector, which are now at various stages of consideration. A substantial proportion of this capacity, namely 1.3 million tons, is already covered by licences or letters of intent.

36. With the increase in internal production during the current year, the zonal restrictions on food movements have already been liberalized to some extent; and there has been a tendency not only for procurement prices and market prices to come more into line with each other but also for prices in different States to come closer together.

37. A number of lacunae are being filled in the sphere of credit for agriculture. The commercial banks are being encouraged to provide credit for agriculture by greater support to land-mortgage banks and the like and even by direct assistance to farmers in selected areas. In keeping with the

large amounts of fertilisers which will be distributed through private channels, we are considering a proposal to set up a separate agency for the financing of private stocks of fertilisers with wholesalers and retailers. Similarly, legislation for setting up agricultural credit corporations in the States where the cooperative movement has not progressed satisfactorily has already been introduced. The recently set up National Credit Council has also examined a number of imaginative propositions for involving the organised credit institutions in the task of carrying forward the agricultural revolution, such as the provision of bank credit for expediting the extension of transmission lines to the rural areas so as to enable a large number of tube-wells to be energised.

38. We are also giving urgent attention to the problem of systematic exploration and exploitation of our underground water resources which appear to be substantial. Tube-well development, medium and major irrigation facilities and efforts to secure fuller use of irrigation works already completed will also receive increasing emphasis.

39. The droughts of recent years have naturally focussed attention in agriculture on food production. But higher productivity in the cultivation of commercial crops, such as cotton, sugar, raw jute and oil seeds, is equally important both from the point of view of raising living standards and achieving self-reliance. The success in developing new breeds in these fields so far has not been spectacular. But we are giving urgent attention to this matter and have introduced, to give one example, some fiscal incentives in the Budget this year to organised industry to promote a greater interest on their part in improving the productivity of cultivation in respect of their agricultural requirements. Arrangements for price support and buffer stocks already exist for some of these products and the extension of these arrangements to other commercial crops is being considered.

40. Altogether, a significant acceleration in the rate of growth of agriculture seems well under way. Even in the past, large parts of India such as the Punjab, Gujarat and Madras have achieved a compound rate of growth in agriculture of 4 to 5 percent per annum. With the encouraging transformation now taking place in many parts of the country, it is not unreasonable to expect a similar rate of growth in agriculture for the country as a whole over the coming years. It is this, more than anything else, which gives us confidence in planning for a rate of growth for the economy as a whole of 5 to 6 percent per annum over the Fourth Plan period which is now to begin next April.

## (b) Family Planning

41. On family planning, the organisational structure for taking decisions at the Centre and for actual promotional work in the districts has been rationalised. In 1967, as many as 1.8 million sterilisation operations were made - a number almost equal to the sterilisations during the preceding ten years bringing the total so far to more than 4 million.

Similarly, the demand for condoms is increasing to such an extent that substantial arrangements for import had to be made and we are now contemplating a sizeable increase in domestic production to meet our needs.

42. In cooperation with some of the major private producers of articles of mass consumption with considerable retail outlets and with the support of all available advertising talent, we propose to launch a large nation-wide programme for distribution of condoms next October - a programme for which there is no parallel either in scale or in the range of organisational capability it seeks to bring together. The IUCD programme received a slight setback last year in view of increasing evidence of lack of tolerance which has been variously explained. We are now endeavouring to hasten slowly in this field, bearing in mind the need to avoid jeopardizing the acceptability of this device which represents a major technical breakthrough in family planning. Some surveys made of late show that in the regions selected for analysis, there is distinct evidence of a decline in birth rates. In a matter like this, it is difficult to say how soon and how fast things will begin to snow-ball. But the programme has been accepted with full understanding of its significance and we are determined to carry it forward as rapidly as our resources of trained man-power permit.

## (c) Exports

43. Recent trends in exports and the policy measures adopted to stimulate a steady increase in export earnings have been discussed earlier. Unlike in agriculture and family planning, it is not possible to claim that there are already decisive indications of a major breakthrough in exports. Nevertheless, the recent success that we have achieved in winning important export orders abroad gives us hope that India's place in world markets, which lies in sustained effort over a wide range of products, is capable of registering a sharp advance from time to time on one front or the other.

44. I should also add in this connection that while India is making a serious attempt to export its newer products including iron and steel and capital equipment and while these attempts have met with significant success, there is an inherent limitation on our ability to compete with suppliers from more affluent countries. I am referring to the fact that we cannot in the nature of things compete in respect of credit terms and rates of interest. We have lost a number of contracts where we were fully competitive and even more than competitive simply because of our inability to match credit terms. To a small extent, we are endeavouring to supply our equipment on deferred payment terms. But that does not produce export earnings in the short run; and in any case, we can engage in this kind of competition only to a limited extent. This is a problem which is bound to gather increasing significance; and I am sure that those interested in India's progress towards self-reliance will wish to consider how this particular disability could be reduced, if not altogether eliminated. The New Delhi session of UNCTAD has recommended that a study should be made of a mechanism for refinancing by international financial institutions of commercial credit extended by developing countries. And we hope this commendation will be given urgent consideration.

(d) Domestic Savings

45. In the context of prospects for long-term growth, the possibility of raising domestic savings has once again assumed critical importance. Needless to say, the efforts to promote savings in a poor country must be continued and sustained over several decades; and our experience during the last fifteen years shows that India has not been lacking in determination or ingenuity to devise measures for this purpose. What gives the problem of savings a new dimension in India at the present juncture, however, are three somewhat unrelated factors. First, the relative shift in incomes towards the rural areas; second, the changing relationship between the Central Government and the State Governments; and third, the need to realise surpluses from the heavy investments already made in public sector enterprises.

46. It will take too much of your time if I were to comment in detail on all these aspects of the problem. But if I may make only a few general remarks, I would say that I am not at all pessimistic about the problem of making the rural community save adequately for future growth. Contrary to the prejudices of the city people, rural communities in India are even today more thrift-minded than their urban counterparts. What is required is an approach to the problem of resource mobilisation which appeals to the motivation in the countryside and takes account of their special needs. Already, there are signs that, given the right approach, rural savings are neither shy nor insi nificant. Two of our fertiliser plants - the Gujarat Fertiliser Plant at Baroda and the ICI plant at Kanpur - have collected a substantial amount of capital from the neighbouring farmers by underlining the importance of the ready availability of a vital farm input. The Unit Trust has had good response to its explorations in areas of new prosperity in the countryside. Some State Governments are already extending electricity connections to rural areas on condition that a part of the finance required is put up by the communities concerned - and this principle is capable of extension. The rural community has not been wanting in desire to invest a part of their earnings for putting up tube-wells and the like. There are signs also that rural consumption is taking a big jump, so to speak, from traditional locally produced articles to sophisticated articles like transistors, scooters and synthetic fabrics; and this modernity is a great asset for the tax gatherer. The problem of rural savings, in short, is well within our ability to tackle.

47. In regard to Centre-State relationship also, recent experience should not cloud our judgement too much. In a federal society, a certain degree of tug-of-war between the Centre and the States is inevitable. But the Centre does wield important fiscal instruments and this, combined with the urgent and insistent demand of the rural people for improvement of their economic lot, is bound to bring sooner rather than later a greater sense of responsibility on the part of all those who have to seek rural votes.

48. Some of the problems of the public sector undertakings such as those arising from over-capitalisation will take time before they fall into perspective. But the problems of management, of giving a greater sense of

responsibility to the man on the spot, of inculcating greater sense of financial discipline by insistence on returns and economy and the like, have received a great deal of attention recently, primarily as a result of the very valuable work done by the Administrative Reforms Commission. The decisions taken recently on these recommendations should go some way in making past investments pay at least modestly towards future progress.

### (e) Initiative and Enterprise

49. Finally, the process of introducing a greater degree of flexibility and freedom in management decisions is being continued forward. Price control over a number of commodities has been removed, liberal import policy has been continued and the rigours of industrial licensing have been further modified. The tax system is being rationalised so that its impact is felt in a more direct, if not in a less heavy, manner on enterprises. I would also mention in this connection the growing trend towards professional management in industry and trade as distinct from hereditary management - a trend which makes investment decisions less subjective and therefore more in line with the dictates of competition.

## VII. Summing Up

50. Mr. Chairman and distinguished delegates, I have already taken a great deal of your time. May I, therefore, sum up in a few words? During the current year, the Indian economy should be well able to look after itself without any sense of crisis if non-project aid commitments on the scale indicated in the Bank Report are forthcoming, both in time and in keeping with the requirements of a continuing and liberal import policy. The chances of preserving stability of prices and of maintaining orderly distribution of essential consumer goods such as foodgrains are reasonably good, subject of course to the condition that the next monsoon would be normal. There are already signs of an industrial revival andindustrial production should increase by 5 to 6 percent this year. With the basic changes that are taking place in agriculture, another normal monsoon should make it possible to accelerate the momentum of industrial growth more decisively next year. In the nature of things, there would obviously be limits beyond which the tempo of investment cannot be accelerated in the near future. The observance of proper priorities in new investments, getting the maximum benefit from investments already made and providing the maximum scope for innovation, initiative and enterprise all-round will, therefore, remain important desiderata in future Indian growth. Underlying the scale of new investment activity and the efficient use of all investments, both past and future, are of course the twin problems of savings and exports which will also tax the ingenuity of our people to the utmost. The process of recovery and resumption of growth, which is under way, will also require timely and adequate assistance, both project and non-project. The new technical frontiers which

have been opened in respect of agriculture and the growing awareness of our own problems, however, should help generate a rate of growth over the next few years which, if not spectacular, should at any rate imply a considerable improvement over our experience so far.

Delivered during the morning session of the
India Consortium Meeting, May 23, 1968

DOCUMENTS DISTRIBUTED IN CONNECTION THE MEETING OF THE INDIA CONSORTIUM, MAY 23-24, 1968

1. FROM THE BANK

(a) "A Note on India's Current Economic Situation and Foreign Aid Requirements", April 25 - distributed as IND 68-11.

(b) "Report on the Fertilizer Industry of India", May 6 - distributed as IND 68-13.

(c) Final "Report of Proceedings" of the March 4 and 5, 1968, meeting of India Consortium - distributed May 16 as IND 68-14.

(d) "Quarterly Report on the Utilization of Aid" - distributed May 22 as IND 68-17.

2. FROM THE GOVERNMENT OF INDIA

(a) "Food Policy for 1968" - distributed May 17 as IND 68-15.

(b) "Collection and Tabulation of Trade and Payments Information" - distributed May 17 as IND 68-15.

(c) "Requirements of Project Aid", May 1968 - distributed by the Government of India to Consortium members' Embassies in New Delhi, and to delegations at the Consortium meeting.

Asia Department

## NON-PROJECT AND PROJECT AID ANNOUNCED FOR 1968/69 - SUMMARY
(US $ Million Equivalent)

### (i) NON-PROJECT AID (OTHER THAN DEBT RELIEF)

| | | REMARKS |
|---|---|---|
| AUSTRIA | - | (See debt relief statement, Annex V). |
| BELGIUM | - | Decision awaits formation of new Government. |
| CANADA | 35.2 | Not yet confirmed by Cabinet. |
| DENMARK | 9.4 | |
| FRANCE | 15.0 | Indicative only; it is understood that this sum is usuable pari passu with the equivalent project aid. |
| GERMANY | 17.5 | |
| ITALY | - | Decision awaits formation of new Government. |
| JAPAN | 28.2 | |
| NETHERLANDS | 9.2 | |
| UNITED KINGDOM | 38.0 | Two-thirds of total pledge, less debt relief element. |
| UNITED STATES | - | |
| | 152.5 | |
| IDA | - | |
| TOTAL | 152.5 | (plus debt relief, see Annex V) |

Asia Department

## (ii) PROJECT AID

| | | REMARKS |
|---|---|---|
| AUSTRIA | - | |
| BELGIUM | - | |
| CANADA | 4.45 | Grant of $5.55 million less $1.10 million earmarked for three years' debt relief. $11.6 million ECIC credit was committed earlier for an on-going project. Offers not yet confirmed by Cabinet. |
| DENMARK | - | |
| FRANCE | 15.00 | Indicative only; see remarks under non-project aid. |
| GERMANY | 17.50 | Project aid $10 million, aid to development banks $7.5 million. |
| ITALY | - | Decision awaits formation of new Government. |
| JAPAN | - | |
| NETHERLANDS | - | |
| UNITED KINGDOM | 28.00 (approx.) | One-third of total pledge. |
| UNITED STATES | - | |
| TOTAL | 64.95 | |

Asia Department

## STATUS OF DEBT RELIEF OFFERS 1/ FOR 1968/69, AS OF MAY 24, 1968
(US $ Million Equivalent)

| | AMOUNT | TERMS |
|---|---|---|
| AUSTRIA 2/ | 1.4 | 0.5 grant (by reduction of interest)<br>0.9 2/ 20 years maturity, including 7 years grace, at 3% |
| BELGIUM | 0.9 3/ | 25 years maturity, including 7 years grace, at 3% |
| CANADA | 1.2 | 0.37 grant (at one-third of total grant of $1.10 million)<br>0.83 postponement for 10 years at 6% |
| FRANCE | 5.0 | 12 years, including 3 years grace, with interest at 3-1/2% |
| GERMANY | 27.5 | 4.9 grant (by reduction of interest)<br>8.0 25 years maturity, including 7 years grace, at 3%<br>14.6 10 years maturity, including 3 years grace, at 3% |
| ITALY | 5.5 | 12 years maturity, including 3 years grace, at 4% |
| JAPAN | 16.8 | 12 years maturity, including 3 years grace, at 4% |
| NETHERLANDS | 0.6 | grant (by reduction of interest) |
| UNITED KINGDOM | 18.0 | 25 years maturity, including 7 years grace, zero interest |
| UNITED STATES | 8.7 | postponement for 10 years, zero interest |
| IBRD | 15.0 | postponement for 10 years, with interest at the rate specified in applicable loan agreements |
| TOTAL | 100.6 | |

1/ Subject to Governmental approval in some cases.
2/ Of which, $0.44 million, being a principal repayment falling due on July 1, 1968, was pledged during 1967/68.
3/ Actually $933,333 or one-third of $2.8 million offered for three years.

Asia Department

PRESS RELEASE

The India Consortium met in Washington, D.C. on May 23 and 24 to review recent developments in the Indian economy, and to consider India's external aid needs for the fiscal year which began on April 1, 1968. The meeting, held under the chairmanship of the World Bank, was attended by representatives of the Governments of Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, the Netherlands, the United Kingdom and the United States. Observers were sent by the International Monetary Fund, the Organization for Economic Cooperation and Development, and the Government of Sweden. The delegation from the Government of India was led by Dr. I. G. Patel, Special Secretary to the Government of India in the Ministry of Finance.

All members of the Consortium welcomed the excellent agricultural performance achieved in the previous year. Much credit for the all-time record output of over 95 million tons of foodgrains is due to the sound policies and management of the new government programs, to which farmers were responding well. There is every expectation that this new momentum in foodgrain output will be continued. The revival of the growth of the economy after two drought years is now spreading to other sectors; members of the Consortium welcomed the report of Dr. Patel on measures being taken to further increase exports, especially of non-traditional items, and to mobilize more resources for investment.

The members of the Consortium agreed with the Bank's assessment that India needed substantial and swift commitment, and disbursement of non-project aid if current development policies, and the recovery from the recession, were to be sustained. It was accepted that India needs non-project aid in the order of $1,000 million from Consortium members including IDA. Members agreed, subject to Parliamentary approval in some cases to provide $100 million of this sum in the form of debt relief and to consider favorably a similar amount of debt relief for the following two years. Some members indicated the contribution they would be able to make to the remaining $900 million; others expect to be able to do so later in the year.

It was also agreed that as new investments rise, new project aid commitments would be necessary. Consortium members agreed to consider sympathetically India's request for new project aid of about $450 million, of which almost half would be for fertilizer plants and other agricultural projects.

Issued by IBRD 1 p.m. May 24, 1968.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

R RB



CONFIDENTIAL

IND 68-14

May 16, 1968

FROM: The Secretary

MEETING OF INDIA CONSORTIUM

Attached is the Chairman's Report of Proceedings of the meeting of the India Consortium held in Paris on March 4 and 5, 1968. Additional copies will be available to delegations attending the forthcoming consortium meeting in Washington next week.

Distribution:

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MEETING OF THE INDIA CONSORTIUM
REPORT OF PROCEEDINGS

Prepared by the Chairman

1. A meeting of the India consortium was held in Paris, March 4 and 5, 1968. The principal topic on the agenda was Mr. G. Guindey's Report on India's long-term debt servicing problem (distributed to members on January 24, 1968, as IND 68-4). A list of delegates previously distributed as IND 68-7 is attached as Annex I.

Opening Session, 11:00 A.M. Monday, March 4

2. The Chairman, Mr. I.P.M. Cargill, opened the meeting with a brief review of the past year's actions with respect to seeking an agreement to relieve part of India's external debt service burden. At a meeting of the Heads of Delegations in Paris, September 7 and 8, 1968, members had agreed, with some reservations on the part of Italy and Japan, to proceed with detailed discussions using as a basis for these discussions the suggestions outlined in the Bank's staff working paper dated July 13, 1967. Mr. Guillaume Guindey, a special consultant to the Bank, had spent the months of October, November and December discussing technical and legal possibilities of relief with each member country in its capital, and with the Bank in Washington. In January Mr. Guindey had submitted a report with recommendations for an agreed consortium debt relief action; it was the purpose of the present meeting to discuss those recommendations and reach a decision if possible. The Chairman hoped that each Head of Delegation would be able to make an affirmative statement. For its part, the Bank was in a position to participate, providing there was no substantial shortfall on the part of other members from Mr. Guindey's suggestions. Mr. Cargill asked Mr. Guindey if he would like to make a statement before members gave their reactions to his recommendations.

3. Mr. Guindey said that he hoped members would be able to set aside questions of principle, on which many had strong and sometimes conflicting opinions, and instead address themselves to practicalities, in an attempt to see what each could do in a common effort to help India. He hoped that each representative would report candidly what his country was prepared to do, rather than reserving his position, waiting to see what the others do, it being understood that each member's action would be conditional upon satisfactory action by the others. It was also essential that everyone be willing to compromise; Mr. Guindey noted that he would not be unhappy if the compromise rejected some facets of his own suggestions, as the best solution would be one to which all would agree; the most important task was to reach an agreed solution, not to stick to any particular principle, proposal or formula.

4. The Chairman next asked members for their comments on Mr. Guindey's recommendations, which are summarized below. In the course of their remarks, many speakers congratulated Mr. Guindey on the quality of his report and thanked him and his associates from the Bank for their efforts.

5. Dr. Musyl of Austria, reported that his country was willing to contribute \$2.83 million, composed of \$1.5 million in the form of a grant (by reducing the interest rates on existing credits from 5.5 to 3 percent) and \$1.33 million in the form of rescheduling (at 5-1/2 percent interest with a maturity period of 15 years, including 5 years of grace).

6. Mr. Vanormelingen representing Belgium, reported that the Belgian administration would recommend to the new government that Belgium participate in the consortium exercise to the extent recommended in the Guindey report. Any debt relief would fall within the total of Belgium's aid to India, which had been doubled within the last Indian fiscal year, and action would have to be taken formally on an annual basis, for legal reasons.

7. Mr. Drake, the head of Canada's delegation, reminded members of the previous statements of his country about the great importance attached to consortium debt relief action. Canada was willing to accept Mr. Guindey's recommendations as long as they were part of an agreed action by all members; it was most important that debt relief be in a form which released free foreign exchange and be on favorable terms. Canada would contribute the full share of \$2.5 million recommended by Mr. Guindey in the form of postponement for a period of ten years of certain payments due at an interest rate of 6 percent. The amount rescheduled would be outside of and additional to the normal Canadian aid program. In order to compensate for the interest charged and to make the contribution meet the minimum quality recommended, Canada would give an additional \$1.1 million in the form of a grant of freely usable foreign exchange. The result of this method of calculating the Canadian participation would be more favorable to India than would be the case with the formula suggested in the Guindey report since it would provide India with an amount of \$3.6 million in free foreign exchange.

8. Mr. Moreau, of the French delegation, said that although France was able to agree with much of the report, it wished to enter certain reservations. It was the opinion of the French officials that all of India's creditors, including non-consortium countries, should participate equally in debt relief. The proposed formula of burden sharing was discriminatory, since it did not ask all creditors to relieve the same proportion of their debt service claims. France did not accept the principle that harmonization of aid, especially past aid, should be achieved through debt relief. Nevertheless, France was willing to be as pragmatic as possible in participating in debt relief. As the Bank had recommended relief of about 25 percent of India's service payments for the next three years, France would reschedule about 25 percent of the payments it expected to receive, or \$14 million. The terms would be the same as for the recent rescheduling for Indonesia. Interest at a rate between 3 and 4 percent (but as close to 3 percent as possible), would be calculated but postponed during the grace period of four years; principal and interest postponed from the grace period would be repaid on an ascending scale over eight years.

9. The Head of Germany's delegation, Mr. Elson, emphasized the importance his country placed upon making debt relief a multilateral action. Although Germany had expressed its preference for a proportional burden sharing, it was willing in the interests of an international agreement to adopt the amount suggested by Mr. Guindey. For budgetary reasons only the

first year's contribution of $27.3 million for 1968/69 could be announced at this time, but Germany wanted other consortium members to know that the Federal Republic contemplated continuation of its participation in each of the following two years. Germany's contribution would fall within the total of its aid to India. Mr. Elson stated that although Germany supports the idea of harmonization of terms of aid and is of the opinion that the debt situation is a consequence of inadequate terms of past aid and would therefore participate fully in a consortium agreement, it could not accept in principle the concepts implied in a formula to determine the quality of member's contributions.

10. The representative of Italy, Mr. Trotta, said that his country would prefer to give new assistance to India rather than to grant debt relief; nevertheless, it would participate in a consortium agreement, although such participation would be purely voluntary, as the consortium should not impose obligations upon its members. Italy also could not accept the principle of harmonization, but proposed to participate in proportion to anticipated debt payments from India, according to the formula proposed by France. For Italy this would result in an amount of relief of about $3 million a year. Italy's contribution would, like France's, be on substantially the same terms as for the last Indonesian rescheduling.

11. Mr. Komura of Japan stated that his country could not agree to several principles involved in Mr. Guindey's recommendations. The formula for sharing the burden of debt relief attempted to adjust the terms of past aid, whereas Japan felt any burden sharing should reflect the differences in aid-giving capacity of each country; similarly the present capacity to aid should be reflected in the terms of any debt relief granted. The Government of Japan felt that it should be up to each member to contribute as much as possible on the softest terms possible, but that contributions should be for one year only and reviewed annually. Japan also felt that India should be called upon to do more in the way of self-help, particularly by expanding her exports and by more careful planning to restrict imports to a proper level determined by exports and the amount of aid received. Within the limits of these reservations, Japan was willing to grant debt relief to India which would be in the form of rescheduling with an interest rate; at the moment the Japanese delegation could not give an idea of the exact amount or terms of Japan's first year of rescheduling due to budgetary discussions which were presently under way in Japan.

12. The spokesman for the Netherlands, Mr. Boomstra, noted that his country felt that the proposed solution dealt only marginally with the real problem of India's debt service, because India's capacity to service external debt was really zero and not 20 percent of export earnings. Although this belief indicated that much work remained to be done on the problem, the Netherlands was nevertheless willing to go along with the recommendations of the Guindey report. The Netherlands would make its contribution entirely in the form of a grant of $1.75 million, which was a slight shortfall from the figure recommended by Mr. Guindey but which Mr. Boomstra hoped the consortium would find acceptable because of the qualitative advantages of grant "terms".

13. Mr. Belcher of the United Kingdom urged members not to misinterpret the fact that India was not really in a position of default; the most important implication of that fact was that the consortium was not faced with a conventional debt relief problem. An agreed debt relief action, while both necessary and urgent, should be regarded as part of an attempt to improve terms of aid. The United Kingdom would participate to the full extent recommended by Mr. Guindey by granting refinancing loans at zero interest, with maturity of 25 years including 7 years of grace, providing of course that all other members of the consortium indicated similarly appropriate actions.

14. The representative of the United States, Mr. Rees, observed that there were three ways in which members seemed to find the proposed solution unsatisfactory: some felt that the proposal was too limited in scope; some felt that the element of harmonization of aid implied in recommending a minimum quality of contribution was inappropriate for a debt relief exercise; and some members felt that it was also inappropriate to place a greater burden of relief on creditors whose aid had been on the hardest terms in the past. The United States wished to reiterate its position that some harmonization of terms was necessary. At the same time, Mr. Rees sympathized with several points made by other delegates; it was important to have some measure to judge the quality of contribution, although no specific formula need be rigidly applied; the German proposal to take definite action for one year while expressing an intent to act in the future could help many members over a legal barrier; and the United States joined Canada in hoping that as much relief as possible would be additional to other new aid.

15. The Chairman announced that the Bank, because it could not reschedule without interest, intended to make an additional contribution, as suggested by Mr. Guindey, which would place its total participation in the range of between $10 and $15 million annually.

Second Session, Monday, March 4, 1968, 3:00 P.M.

16. The Chairman opened the second session by responding to some of the remarks made in the morning. In response to queries about data in Mr. Guindey's report and the Bank paper, Mr. Cargill noted that the debt service figures used to calculate the proposed amount of debt relief for the consortium did not contain figures owed to the "rupee area" or any other non-consortium debtors. Although the Bank's total figure was higher than one given recently by the International Monetary Fund, the Chairman was convinced the Bank figure was more correct and was if anything an understimate of the true figure. The Chairman expected India to make a statement, at the next full meeting of the consortium in May, dealing with action to secure parallel relief from the non-consortium creditors and with action to take precautions in the future management of its external debt. The Bank's tentative view was that such precautions should be in the form of a limitation on debt incurred on hard terms, self-imposed and self-policed by India.

17. The Chairman stressed that the sort of debt relief agreement proposed by the Bank and Mr. Guindey was entirely different from other, previous debt rescheduling exercises, including the Indonesian case. The point to be made in the case of India was that the terms upon which necessary aid had been granted in the past were too hard. Indian debt relief had to be seen in the context of improving the terms of future aid, and if it involved recognition of the fact that some mistakes had been made in the past, then there should be no embarrassment in recognizing such errors and acting to correct them. As to the particular burden sharing formula of Mr. Guindey's report, Mr. Cargill thought it was an admirable compromise between the extremes posed in the Bank paper; further, it was necessary to have some means of assessing the quality of contributions in order to satisfy members, who would otherwise be unable to act, that all members had acted in a manner which was roughly within some agreed limits.

18. Referring to the actions indicated by members during the morning, the Chairman expressed his disappointment and his doubt that agreement could be reached unless, in the first instance, there were further movements towards achieving the goal of $300 million of relief for the three years of the proposed consortium action. The spokesmen for the United States and the United Kingdom supported this position.

19. After some discussion of the derivation of the figure of $20.2 million proposed by Mr. Guindey for Italy's share in a common action, Mr. Trotta indicated that his country could not accept such a high amount because it implied acceptance of the principle of retroactive harmonization of aid terms, and because it represented a higher proportion of anticipated debt service payments from India than was true in the case of any other consortium creditor. Italy was anxious to do its part, was willing to take a positive attitude and discuss further the amount of its contribution, and therefore requested that other members take into account its special position with regard to the very high percentage of debt service it was asked to forego.

20. Mr. Elson stated that Germany, although sharing the anxiety of others that a basis for agreement had not yet been reached, hoped that all members would continue to seek ways to reach a multilateral understanding. Germany had moved toward significantly softer terms of aid in recent years, and hoped that others would, in the same spirit, continue the discussions until an agreement satisfactory to all could be reached.

21. Mr. Moreau said that France agreed with the sentiment, advanced by his German colleague, that both because of the importance of debt relief to India and because of the great efforts already made by some members, the consortium should continue to discuss the matter until a solution was found which would permit agreement on action if not on principles. For its part, France would make an effort to reach the figure proposed by Mr. Guindey, which was only slightly higher than the proposed figure Mr. Moreau had given in the morning session.

22. The delegate of Canada, Mr. Drake, while expressing the hope that more significant progress be made, joined the French and German spokesmen in urging the consortium not to contemplate failure in this effort to aid India.

23. The Chairman, in response, noted that the positions so far stated by Austria, Germany, France, and the Netherlands all in their own way represented very considerable advances over positions held as recently as September, and commended the efforts of the many country officials who had been responsible for such progress.

24. The Belgian Head of Delegation, Mr. Vanormelingen, indicated that it was the intention of the Belgian administration to recommend that rescheduling be on terms of 3 percent interest and 25 years of maturity including 7 years of grace, which represented a further softening of Belgium's terms of aid to India.

25. After the Chairman noted that while it might be possible after further discussions to make a feasible proposal for a proper share for Italy, the problem posed by Japan's inability to discuss an amount and terms for its participation appeared to be more difficult. Accordingly, he proposed to adjourn for further talks with those two delegations and to reconvene the meeting the following morning, to which the members agreed.

Third Session, Tuesday, March 5, 1968, 10:30 A.M.

26. The Chairman asked members to elaborate upon the terms of their proposed debt relief actions or to report, if possible, any progress in improving their proposals.

27. Mr. Rees of the United States said that the United States proposed, for each year of a consortium action, to postpone for ten years without interest an amount of payments in accordance with Mr. Guindey's suggestions.

28. For the United Kingdom, Mr. Belcher said relief would be in the form of interest free refinancing loans of 25 years maturity including 7 years of grace (as stated in paragraph 12 above).

29. Mr. Boomstra of the Netherlands repeated the amount and terms of his country's proposal as reported on Monday. (See paragraph 11 above.)

30. The Japanese representative, Mr. Komura, could give no further indication of the nature and extent of intended relief.

31. Mr. Trotta, repeated that Italy, subject to an agreement in the amount of its participation, would reschedule at substantially the same terms as it had for Indonesia, making every effort to grant the softest possible terms.

32. Mr. Elson announced the following composition of Germany's first year contribution of $27.5 million: $14.6 million postponement of amortization payments at 3 percent interest with 10 years maturity including 3 years of grace; $8 million in an untied, freely usable balance of payments credit at 3 percent interest with 25 years maturity including 7 years of grace; and $4.9 million grant in the form of temporary reduction of the interest rate on existing credits from about 5.50 or 5.75 percent to 3 percent. Dr. Elson hoped other members would recognize the high quality of this offer, and pointed out that it represented what Germany liked to call a "unilateral harmonization" of its terms of aid. He went on to say that Germany hoped all members would realize that supplier credits were a normal means of business between private parties in different countries, but he also recognized that after proper study it might be proper for both borrowing and lending countries to impose voluntary restrictions on the total amount of such credits. Germany hoped that in the future studies could also show how the consortium, and the Bank as its Chairman, could be even more effective as an instrument for helping a developing country such as India to take full advantage of aid resources.

33. The representatives of France (see paragraphs 7 and 20), Canada (paragraph 6), Belgium (paragraphs 5 and 23) and Austria (paragraph 4) repeated the details of their proposed contributions.

34. The Chairman thanked members for their cooperation, especially Dr. Elson for his thoughtful comments. He felt that it might indeed be time to have a thoughtful review of India's economic achievements and problems, but he noted that just such a review had been undertaken on a massive basis by the Bank economic mission in 1964/65, which Mr. Bernard Bell had headed. While it would be inappropriate to repeat such an effort so soon, it was certainly in order to review progress made on points covered by that mission, and he welcomed comments by members on the subject.

35. The Chairman referred to a form of temporary debt relief, which the Bank had arranged with India during the period when detailed discussions were taking place within the consortium and with Mr. Guindey. As was known to members, the Bank, while awaiting a comprehensive longer-term rearrangement of debt, had placed on temporary special deposit in the Reserve Bank of India amounts equivalent to principal repayments to the Bank by India during the current Indian fiscal year. Although the amounts were scheduled to be withdrawn on March 31, the Bank was aware that to remove the entire deposit at once would be anomalous in the context of a consortium debt relief action. The Chairman assured members that efforts would be made to arrange some more appropriate solution.

36. Returning to the problems encountered in reaching an agreement on relief within the consortium, the Chairman suggested a method of continuing the effort to reach an acceptable solution. He asked France to reconsider the possibility of making an additional contribution to compensate for interest charged, as the Bank was willing to do. The two principal points outstanding, however, were the questions of whether or

not Japan and Italy would be able to make contributions to the exercise which would be adequate to enable other members to proceed with formal implementation of their proposals. The Chairman asked that he be given responsibility to engage in further discussions with the Governments of Italy and Japan in hopes of reaching a reasonable accommodation. If he was able to reach a position which he could recommend for acceptance by other members, he would so notify the consortium and try to establish an agreement on debt relief without having another meeting. Members agreed that the Chairman should proceed on that basis.

Asia Department

May 15, 1968

MEETING OF THE INDIA CONSORTIUM
Paris, March 4-5, 1968

LIST OF DELEGATES

| | | |
|---|---|---|
| BANK | Mr. I. P. M. Cargill<br>Mr. Michael L. Hoffman<br>Mr. Raymond J. Goodman<br>Mr. Benjamin B. King<br>Mr. Gregory B. Votaw<br>Mr. David A. Dunn | Chairman |
| AUSTRIA | Dr. Erich Musyl | Head of Delegation |
| BELGIUM | Mr. Jan Vanormelingen<br>Mr. Hynderick de Theulegoet | Head of Delegation |
| CANADA | Mr. E. G. Drake<br>Mr. Allan J. Barry<br>Mr. R. W. McLaren<br>Mr. L. A. H. Smith | Head of Delegation |
| FRANCE | Mr. Jacques-Paul Moreau<br>Mr. Jacques Hirsch-Girin<br>Mr. Georges Lapeyre<br>Mr. Paul Rouhier | Head of Delegation |
| GERMANY | Mr. Erich Elson<br>Mr. G. Graf von Westphalen<br>Mr. Georg Schneider | Head of Delegation |
| ITALY | Mr. G. Trotta<br>Mr. R. P. Picci<br>Mr. R. Polacsek | Head of Delegation |
| JAPAN | Mr. K. Komura<br>Mr. T. Chino<br>Mr. T. Shindo | Head of Delegation |
| NETHERLANDS | Mr. S. Boomstra<br>Mr. W. A. Winckel | Head of Delegation |
| UNITED KINGDOM | Mr. R. H. Belcher<br>Mr. J. C. Edwards | Head of Delegation |

| | | |
|---|---|---|
| UNITED STATES | Mr. C. Herbert Rees | Head of Delegation |
| | Miss Mary S. Olmsted | |
| | Mr. Michael F. Cross | |
| | Dr. E. C. Fei | |
| INTERNATIONAL MONETARY FUND | Mr. D. S. Savkar | Head of Delegation |
| | Mr. Alexander Mountford | |

* * * * * *

OBSERVER

O.E.C.D. (D.A.C.) Mr. Jack Stone

European Office (Paris)
March 4, 1968

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Bell



CONFIDENTIAL

IND 68-15

May 17, 1968

FROM: The Secretary

MEETING OF INDIA CONSORTIUM

The Government of India prepared the attached documents for the information of consortium members and has requested that the Bank distribute them before the meeting next week.

The documents are entitled:

"Food Policy for 1968" - (Attachment A)
"Collection and Tabulation of Trade and Payments Information" - (Attachment B)

Additional copies will be available in Washington for delegations attending the meeting May 23 and 24.

Distribution:

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| | |
|---|---|
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Development Assistance Committee, OECD
President, Asian Development Bank

Attachment A

CONFIDENTIAL



## FOOD POLICY FOR 1968

### Production in 1967/68

1. The production of foodgrains in the country during the current year is expected to be at least 95 million tonnes, which will exceed last year's production level by 20 million tonnes and will also be 6 million tonnes higher than the previous record level of 89 million tonnes in 1964/65. The substantial increase in the foodgrains production during 1967/68 has been the result, to an appreciable extent, of the implementation of the measures taken by the Government during recent years under the "new strategy for agricultural development".

### Availability for Human Consumption

2. The considerably higher production during 1967/68 compared to the previous two years is not adequate to meet domestic consumption. The quantity available for human consumption out of the total production of 95 million tonnes would be about 83 million tonnes after deducting about 12 million tonnes for seed, feed and wastage (at the rate of about 12.5 percent normally used for these purposes). During the past two successive droughts and consequent very low production, stocks with the trade and with the farmers were drawn down very heavily. A considerable proportion of the production of 1967/68 would, therefore, inevitably go to the rebuilding of these stocks, which could be more reasonably considered as pipeline supplies rather than as a reserve stock. The trend of market arrivals out of the 1967/68 kharif cereals during the first half of the marketing season confirms that part of the additional production is being retained by the cultivators for building up inventories which had got exhausted during the period of drought. It has also been observed that producers, especially those in the states affected by drought in the last two years, are holding back some of their stocks as a stand-by in case the next monsoon fails. This is one of the factors which has affected market arrivals and procurement. The increase in production of important kharif coarse cereals, viz., jowar and bajra during 1967/68, has not been reflected in market arrivals which so far in the selected markets have been lower than last year. In the case of rice also, though market arrivals in the current season so far have been higher than those in the previous season, they have been lower in comparison with 1964/65 when the production of rice was as good as in the current season.

3. Considering the trend of market arrivals, it may be safe to assume on a conservative basis that about 3 to 4 million tonnes out of the production of 95 million tonnes would go towards the rebuilding of pipeline stocks. The net quantities available for current consumption would, therefore, be 79 to 80 million tonnes and not 83 million tonnes.

Requirements for Human Consumption

4. The average per capita availability of foodgrains during 1961-63 which is considered to be a near normal period, was 16 oz. per day or 165 kg. per year. For a population of 524 million estimated for 1968, the consumption requirements at the above rate of per capita availability would work out to 86.5 million tonnes. Thus, the net gap between availability (of 79.5 million tonnes) and requirements would be about 7 million tonnes. During the past two years of low domestic production people, both in the rural and urban areas, have suffered badly by having had to be satisfied with considerably lower levels of consumption. In a good crop year, such as 1967/68, and also because of the improvement in the purchasing power of the people during the last five years, consumption is bound to rise closer to the norm, so that overall demand in 1968 is unlikely to be lower than in 1961-63.

5. The importance of building up a buffer stock, which is the core of a National Food Policy, deserves to be strongly emphasised. Buffer stocks are meant (i) to meet emergencies such as national calamities, strikes, etc., and (ii) to curb any tendency toward an abnormal increase in open market prices in local areas, particularly the deficit ones. Without such a stock, it would not be possible to sustain any rational food policy in respect of either distribution, prices, internal procurement or zonal restrictions.

6. Buffer stocks cannot be separated from the pipeline or working stocks and kept sealed away, since their continuous turnover is necessary. Buffer stocks may, therefore, be defined as total stocks of cereals under Government control at any point of time minus the pipeline or working stocks. During 1968, the monthly requirements of cereals for the public distribution system will vary from 800 to 950 thousand tonnes. It would, therefore, be reasonable to consider about one million tonnes out of the total stocks under Government control as pipeline or working stocks. Thus, the buffer stocks at any time could be assessed as a total quantity under Government control minus one million tonnes.

7. It is proposed to build up a buffer stock of 3 million tonnes by the end of the procurement year 1967/68 ending 31st October, 1968. This means that on the 31st October, the total stock under the control of the Central and State Governments together is expected to be 4 million tonnes comprising 1 million tonnes as pipeline or working stocks and 3 million tonnes as buffer stocks.

8. It is recognised that moderate increases from time to time in open market prices, as a result of changes in zonal arrangements and temporary fluctuations in price levels would not necessitate releases from buffer stocks. In order that buffer stocks are not released for current consumption or are released only under difficult price situations, the issue of stocks from the buffer would be made subject to decisions by Government taken at the highest appropriate level. Even now, certain quantities are being set apart as buffer stocks out of the imports already arranged and procurement. It is expected that by the end of April 1968, the buffer stock will have reached about 2.2 million tonnes.

Storage

9. The total storage capacity, both owned and hired, available with the various public agencies, excluding the cooperatives, is about 7.2 million tonnes. This includes the space with the Food Department, Food Corporation of India, Central Warehousing Corporation, State Warehousing Corporations and the State Governments. It is not possible, however, to utilize all this space for operational reasons, since a number of parties are involved and because the small sized godowns with the State Warehousing Corporations and the State Governments would not be fit to hold buffer stocks. Accordingly, the storing of 4 million tonnes of buffer stock, including the pipeline stocks, is proposed to be managed in the following manner:-

(a) The godowns with the Food Department, Food Corporation of India and 75 percent capacity with the Central Warehousing Corporation will provide about 3.7 million tonnes capacity.

(b) The buffer stock will also include the reserve stocks with the States. Therefore, even after leaving aside the small godowns meant primarily for distribution purposes, about 50 percent of their total capacity of about 2.5 million tonnes will be available. Thus, this source will provide about 1.25 million tonnes of storage capacity.

(c) Work on the godowns under construction is being expedited. This is specially so in regard to the 75,000 tonnes capacity godowns taken up in the Punjab and Haryana to meet the requirements of rabi procurement. Thus, out of a total of 419,000 tonnes capacity godown under construction, about 185,000 tonnes is expected to be available by the end of June or middle of July.

10. Thus, even on this basis, the total available storage for the buffer stock will be about 5 million tonnes. Instructions for hiring of additional godowns have also been issued for local needs in areas where there is a deficiency and about 500,000 tonnes capacity may be hired so as to provide an operational cushion. With this 5.5 million tonnes capacity, it is hoped that there will be no serious problem of storage during the current year.

Procurement

11. The Agricultural Prices Commission recommended the target for procurement of 7 million tonnes from the kharif crop and 1 million tonnes from the rabi crop during 1967/68 season. Till about the end of March, 1968, a quantity of 2.4 million tonnes of rice and 0.54 million tonnes of other kharif grains were procured.

12. When the recommendations of the Agricultural Prices Commission were discussed by the Chief Ministers in September 1967, it was felt that the targets fixed by the Commission for the kharif procurement were very high.

However, it was decided that these targets should be left unaltered, so that each state may have a fairly high target to aim at. Thus even from the beginning, there was no expectation that these targets would in actual practice be realized. The factors that contributed towards the slow procurement are (i) deficient rainfall during October 1967, leading to damage to crop in certain areas; (ii) continued and unseasonal rains in December 1967 and January 1968, which affected standing crops particularly jowar in Madhya Pradesh and Maharashtra and also delayed threshing operations of paddy in Madhya Pradesh and (iii) disturbed conditions in some states like West Bengal. Another factor which is noticeable this year is that the release of the crop by the producer has been much more gradual than it was in the past. Obviously, having been hit by the unprecedented two successive droughts, the producer is playing safe and is waiting to see how the next monsoon would be before he releases further quantities of grain. It is likely therefore that this year, if the next monsoon starts normally, the procurement may continue over a longer period and that the pace may also pick up slightly. According to present indications the total kharif procurement during the year may be between 4 and 4.5 million tonnes.

13. However, a part of the shortfall in the kharif procurement is likely to be made up by rabi procurement. The wheat crop in the main producing areas in the country has been spectacular this year and it is expected that, against the target of 1 million tonnes originally indicated by the Agricultural Prices Commission, procurement may be 2 million tonnes. Thus, procurement of the kharif and rabi cereals together may ultimately work out to 6 to 6.5 million tonnes, as against the original target of 8 million tonnes. Considering the fact that this is the first good year after two successive years of drought, the performance of this magnitude cannot be considered unsatisfactory.

Procurement Prices

14. The general view has been that during the last two years, i.e., 1966 and 1967, prices of foodgrains in all the states were at levels remunerative to the cultivators. Further, procurement prices at which Government has been making purchases have been raised considerably from time to time, so as to make them attractive to the producers and realistic in relation to the prevailing market prices. In the case of rice, the procurement prices of different grades in different areas were increased by 3 to 21 percent in 1965/66 as compared to 1964/65 and further by 2 to 30 percent in 1966/67. During the 1967/68 also, despite the increase in production, in view of the paramount need to give as much incentive as possible to the producers, procurement prices have not been allowed to go below last year's level. In fact, in most cases they have been fixed at levels higher than last year by about Rs. 10.00 per quintal. In the case of wheat, purchase prices were increased by 3 to 6 percent during 1966/67 and by 30 to 60 percent during 1967/68. In 1968/69, procurement prices are being generally retained at last year's level. Larger purchases by the Government at enhanced prices have lent strength to the market, particularly in the surplus states.

Distribution Requirements

15. The building up of a buffer stock in the context of a production level which is not fully adequate even to meet current consumption requirements implies continuance of restrictions on consumption. While statutory rationing of foodgrains has recently been withdrawn from certain areas, there are still about 31 million people in different states being served under this system. In addition to this, another 145 million people are covered under informal rationing. Further the Government has to meet certain fixed commitments such as those of roller flour mills, defence services, etc. Thus, there will be a considerable public distribution requirement. In view of the much better production and availability, it is estimated that public distribution during 1968 (more accurately, from November 1967 to October 1968) could be limited to about 10.5 million tonnes as against 13.2 million tonnes in 1967 and 14.1 million tonnes in 1966. However, weather conditions during May-July 1968 will be crucial for determining the prospects of 1968/69 kharif foodgrains in the country and will largely determine the level of distribution by the Government in the remaining months of the year. In case the next kharif crop does not turn out to be as good as during the current year and prices show an upward trend, the distribution of foodgrains on Government account may be even higher than estimated above.

Import Requirements

16. In addition to the requirements of 10.5 million tonnes for public distribution, it has been stated that another 3 million tonnes will be required for building up a buffer stock. The total Governmental requirements thus work out to 13.5 million tonnes. Internal procurement is expected to be of the order of 6 million tonnes. Therefore, the import requirement during 1968 is estimated at 7.5 million tonnes, comprising 7.1 million tonnes of wheat and milo and 0.4 million tonnes of rice. Out of this, 3.0 million tonnes of wheat and 0.5 million tonnes of milo are to be shipped by June 1968 under the P.L. 480 Agreement concluded with U.S.A. in December, 1967. Our food aid from other countries is expected to be of the order of one million tonnes and the commercial purchases 800,000 tonnes, leaving a balance of 2.2 million tonnes, the arrangements for the import of which are to be made. It may be mentioned that even with these imports, the per capita availability would work out to 160 kg. which is less than 165 kg. in 1961-63. This is because, out of an import of 7.5 million tonnes, the buffer stock will take up 3 million tonnes leaving 4.5 million tonnes for human consumption against the requirements of 7 million tonnes indicated in paragraph 4.

Zonal Restrictions

17. Inter-State restrictions on movement of foodgrains on private account were imposed to facilitate procurement and to promote a more rational and equitable distribution of available supplies. Zonal restrictions do not imply a ban on the movement of foodgrains from the surplus to the deficit states. All that they mean is that the transfer is effected on a regulated basis by a public agency rather than in an unregulated manner by the trade.

The experience of the last 25 years has clearly demonstrated that in a condition of shortage, the distribution of foodgrains cannot be left to the market mechanism. It is obvious, for instance, that if there were no zonal restrictions during the last two drought years, the food situation would have gone out of control.

?

18. In view of the bumper production of foodgrains, some relaxations in the zonal restrictions have been made. A bigger northern zone comprising surplus states of Punjab and Haryana and the deficit areas of Himachal Pradesh, Jammu and Kashmir and Delhi, has been constituted. Movement of all foodgrains within this zone is now free. Movement of gram and barley has been made free throughout the country. Movement restrictions in respect of maize, bajra and jowar have also been lifted from the producing states of Punjab, Haryana and Rajasthan.

19. Several factors have to be taken into consideration in deciding on further relaxations. Free movement of foodgrains all over the country demands that there should be sustained increase in production, and Government should have adequate buffer stocks on which it can operate in the event of any emergency, including undue rise in prices in any part of the country because of crop failure or some other unforeseen circumstances. Even though foodgrains production in the current year is much better than in the last two years, the price position does not justify the removal of zonal restrictions in respect of all the grains throughout the country. The All-India index number of wholesale prices of rice as also of all cereals taken together in the current marketing season has been above last year's high level.

20. In resorting to a total relaxation on movement restrictions there is a risk that in surplus states prices may rise to such levels as may cause distress to vulnerable sections and thereby call for larger distr bution by the Government. In the case of kharif crops much of the produce has already been marketed. If the zonal restrictions are removed at this stage, procurement is likely to be affected adversely and at the same time requirements of public distribution, and hence imports, will not diminish. The supplies will flow to the pockets of high purchasing power like the bigger cities, and consumers in areas of low purchasing power will not be able to get the grains at suitable prices. This may necessitate the opening of fair price shops not only in deficit states but also in surplus states. The proper time for considering the question of relaxation of zonal restrictions in regard to rice would be only when (i) some prospects of the next paddy crop become available; (ii) prices come down to a more reasonable level and (iii) an adequate buffer stock has been built.

<u>Summary</u>

21. (a) Production of foodgrains in the country during 1967/68 is expected to be at least 95 million tonnes out of which 79.5 million tonnes would be available for human consumption.

(b) The requirements for human consumption during 1968 on the basis of per capita availability in 1961-63 would be 86.5 million tonnes.

(c) It is proposed to build up a buffer stock of 3 million tonnes by the end of 1968. By 30th April, 1968, this stock is expected to be of the order of 2.2 million tonnes.

(d) The quantity needed for the public distribution system during 1968 is estimated at 10.5 million tonnes.

(e) Government procurement out of the internal production is expected to be of the order of 6 million tonnes.

(f) Import requirements are estimated at 7.5 million tonnes to cover the gap between the requirements of the public distribution system plus those for building up a buffer stock and the availability from internal procurement. Even with these imports, per capita availability will be less than in 1961-63.

(g) Out of the estimated import requirements of 7.5 million tonnes, about 4 million tonnes of foodgrains are to be shipped by the end of June, 1968, including 3.5 million tonnes under the P.L. 480 Agreement concluded in December 1967. Other food aid is expected to be of the order of 1 million tonnes and commercial purchases 800,000 tonnes, leaving a balance of 2.2 million tonnes for which import arrangements are still to be made.

Department of Economic Affairs
Ministry of Finance
Government of India
May 1968

## INDIA - FORECAST OUTLINE OF OVERALL FOOD SITUATION IN 1968

(million metric tons)

| | | |
|---|---|---|
| Domestic supply available for consumption | | 79.5 |
| Domestic production | 95.0 | |
| Less: | | |
| Seed, feed and wastage | 12.0 | |
| Net increase in cultivators' inventory | 3.5 | |
| Total demand | | 87.0 |
| Consumption 1/ | 84.0 | |
| Government buffer stock | 3.0 | |
| Deficit | | 7.5 |
| Planned imports | | 7.5 |

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1/ Consumption requirement at about 160 Kg. for a population of 524 million. The average 1961-1963 consumption level per capita was 165 Kg.

Source: Government of India, May 1968.

ANNEX II

## INDIA - FORECAST OUTLINE OF GOVERNMENT FOOD OPERATIONS IN 1968

(million metric tons)

| | |
|---|---|
| Procurement, total | 13.5 |
| Internal, subtotal 1/ | 6.0 |
| Kharif | 4.0 |
| Rabi | 2.0 |
| External, subtotal | 7.5 |
| PL - 480 already agreed | 3.5 |
| Other aid in sight | 1.0 |
| Commercial purchase | 0.8 |
| Undecided | 2.2 |
| Requirement, total | 13.5 |
| Public distribution | 10.5 |
| Buffer stock increase | 3.0 |

1/ Original target was 8 million tons, 7 million kharif and 1 million rabi. Kharif procurement as of March 1968 was 2.9 million tons.

Source: Government of India, May 1968.

Attachment B

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COLLECTION AND TABULATION OF TRADE AND PAYMENTS INFORMATION

1. A number of steps have been taken by the Government of India recently to improve the collection and tabulation of data required for the assessment of trends in the economy, in particular the trends in balance of payments. The statistics of balance of payments are collected at present by the Reserve Bank from the commercial banks who are authorized to deal in foreign exchange. In so far as exports and imports are concerned there is also a separate series available based on returns received from the Customs organization about the shipments and arrival of goods. The data on import licenses issued by the licensing authorities are compiled periodically and so are data relating to the allocations and releases of foreign exchange for import of goods. The major gaps and defects in the statistics can be identified as follows:

a) While figures of exports and imports based on Customs returns are available with a time lag of two months, the balance of payments statistics which used to be published with a time-lag of about six months are now published with a somewhat longer time lag.

b) There is an absence of systematic statistics showing the progress of arrivals and payments against each type of import license issued.

c) No systematic statistics are available showing arrivals and payments in respect of imports by the method of financing, namely, aid, free foreign exchange, rupee payment, etc.

d) On the basis of present returns submitted by the authorized dealers in foreign exchange to the Reserve Bank, it is not possible to match payments for imports with arrivals of goods.

2. Arrangements are being made to expedite the tabulation of balance of payment statistics which would be helped by the recent installation of a computer in the Reserve Bank. To some extent the delay is on account of the delay in the submission of returns by the banks themselves. Thought is being given to the possibility of simplifying the form of returns so as to ensure expeditious collection.

3. A working group has been set up to go into the other three problems mentioned above, and it is proposed to streamline the procedure for coding import licenses and for recording statistics of arrivals in such a way that the classification of imports by the category of license is possible. The limited purpose of the exercise is to ensure that the Directorate of Commercial Intelligence and Statistics (DGCIS) gets a record of the import license number along with the record of the quantity and value of imports from the Customs authorities. It would then be possible to tabulate statistics of arrival by the method of financing. It will also be necessary

to match the arrival statistics with the figures of import licenses issued by the licensing authorities, which are compiled in Delhi. But once the code number is reported to the DGCIS with each arrival, such matching would become possible, although there are many organizational problems which still have to be solved.

4. The above procedure aims at a classification of import arrivals in terms of free foreign exchange imports, imports financed by various types of aid, imports from the rupee-payment area, etc. This classification could also be made by broad commodity groups. A similar exercise about import payments is also being attempted. A difficulty here is that insofar as payments for imports are made by the Government of the aid-giving country directly to the supplier, a major source of information to the Government of India is the returns supplied by the various aid agencies. This problem is being further investigated.

5. On the question of matching the data of arrivals of imports and payments for imports, it is proposed to examine the feasibility of prescribing a return for the authorized dealers of foreign exchange which would require them to submit the date of arrival, to the extent known, of the imports also. This problem is closely connected with that of suppliers' credits, since in respect of such credits down-payments for imports are often made in advance of the arrival of goods. A separate section below deals with the steps taken to organize information on suppliers' credits.

6. Advance information about likely future import payments can be secured through data on orders for imports and data on foreign exchange releases, import licenses, etc. Recently, a system has been worked out under which copies of all recommendations for issue of licenses for raw materials, components and spare parts made by the Directorate General of Technical Development are forwarded to the Ministry of Industrial Development. Tabulation of this information provides advance information on ordering of imports by the industrial sector. Ordering for fertilizer is readily determined, as this is entirely by the Government. The Reserve Bank is also taking steps to tabulate information about letters of credit opened against licenses, and this will provide advance information regarding the likely level of future imports.

7. On the side of exports there are still differences between statistics of shipments and receipts, but by and large figures of shipments are reasonably good and are also obtained with not-too-long a time-lag. It is for this reason that recent efforts have concentrated at improving import statistics.

Suppliers' credits

8. Information on debt repayment liabilities has been organized for several years in the Department of Economic Affairs. However, there was a weak link which pertained to information regarding deferred payment arrangements and suppliers' credits. Even though the exchange control regulations, which have been in force for nearly 20 years now, require specific authority from the Department of Economic Affairs and/or the Reserve Bank of India

before suppliers' credits and deferred payment arrangements are entered into, the data had not been centralized. The arrangements, once approved by the competent authorities, were registered with the commercial banks (authorized dealers of foreign exchange), and remittances were permitted in accordance with the approved contracts. While there was a fairly good idea of the value of approvals given by the Department of Economic Affairs, there was no central compilation of the extent to which (i) contracts had actually materialized or (ii) imports had taken place or (iii) payments were outstanding under existing contracts.

9. This defect has now been rectified. A cell has been set up in the Department of Economic Affairs where all relevant information regarding suppliers credits and deferred payment arrangements is centrally collected and maintained. As regards contracts which were in force on April 1, 1967, information was collected from each of the banks dealing in foreign exchange (authorized dealers), and the information, to the extent necessary, was also supplemented by directly addressing the importers. This covered all importers whether in the private or the public sector, whether payments were being done through banking channels or through government funds. Information regarding the outstanding payments due under each contract, as of April 1, 1967, was collected, as also the period during which further installments were to be paid and the interest involved. These have been compiled. For keeping track of further liabilities arising from imports after April 1, 1967, against earlier or fresh approvals, a continuing system of reporting from authorized dealers, with such cross-checks as are necessary with the list of approvals given or being given by the Department of Economic Affairs, has been instituted.

Department of Economic Affairs
Ministry of Finance
Government of India
May, 1968

FORM NO. 75
(2-60)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

INTERNATIONAL DEVELOPMENT
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REMARKS

From 1065

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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IND 68-11/1

FROM: The Deputy Secretary

May 1, 1968



MEETING OF THE INDIA CONSORTIUM

Corrigendum

The "Note on India's Current Economic Situation and Foreign Aid Requirements" distributed on April 30 as IND 68-10 should be renumbered IND 68-11.

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

68-11 amended

RESTRICTED

IND 68-11/2

FROM: The Deputy Secretary

May 3, 1968



MEETING OF THE INDIA CONSORTIUM

Corrigendum

In the document "A Note on India's Foreign Aid Requirements" (IND 68-11, April 30, 1968), please change the figures on p. 17, paragraph 50, line 2 from "1968/69" to "1967/68".

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IND 68-6

FROM: The Deputy Secretary

February 8, 1968

MEETING OF HEADS OF DELEGATIONS OF THE INDIA CONSORTIUM

Attached is a note on the Administrative Arrangements for the Meeting of Heads of Delegations of the India Consortium to be held in Paris on Monday and Tuesday, March 4 and 5, 1968.

Please send the names of the delegates to the meeting to the Secretary of the Bank in Washington by Friday, February 16, 1968.

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President, Asian Development Bank

# MEETING OF HEADS OF DELEGATIONS OF THE INDIA CONSORTIUM

## Monday and Tuesday, March 4 and 5, 1968

## ADMINISTRATIVE ARRANGEMENTS

### LOCATION

1. The meeting will be held in Room IX, Unesco Building, Place de Fontenoy, Paris 7, France, starting at 11:00 a.m. on Monday, March 4.

### GENERAL INFORMATION

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

### CHAIRMAN'S RECEPTION

3. A reception will be given by the Chairman at the Hotel Crillon, Place de la Concorde, on Wednesday, March 6, at 6:30 p.m., to which all members of delegations are invited. Invitations will be distributed in Paris.

### SIMULTANEOUS INTERPRETATION

4. Simultaneous interpretation - English/French, French/English - will be in operation during the meeting sessions. To assist the interpreters, delegates are requested to hand copies of prepared statements to the Bank's staff in advance of presentation.

### SPECIAL MEETING ROOM

5. A room will be available for use by individual delegations, upon request to the Reception Desk.

### RESTAURANT FACILITIES

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

DOCUMENTS

7. A limited number of copies of Mr. Guindey's Report distributed under IND 68-4 on January 24, 1968, to India Consortium members, will be available at the Reception Desk and, prior to the meeting, at the Bank's Paris Office.

Secretary's Department
February 8, 1968

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT



CONFIDENTIAL

IND 67-11

FROM: The Secretary

March 13, 1967

INDIA CONSORTIUM

Corrigendum

On page 71, paragraph 144, line 5 of Volume I - The Main Report, of the "Indian Economic Policy and the Fourth Five Year Plan" (AS-122a) distributed under IND 67-10 on March 9, 1967, please change the word "unfortunately" to read "importantly".

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IND 67-10

FROM: The Secretary

March 9, 1967

INDIA CONSORTIUM

Attached is a Bank report entitled "Indian Economic Policy and the Fourth Five-Year Plan" (AS-122a), dated March 7, 1967. This report is in four volumes, as follows:

Volume I - The Main Report

Volume II - Agricultural Policy in India

Volume III - Statistical Appendix

Volume IV - Family Planning

This report is distributed for use in connection with the meeting of the India Consortium which will be held in Room IX, Unesco Building, Place de Fontenoy, Paris, France on April 4 and 5, 1967.

It would be appreciated if the names of members of your delegation were sent to the Secretary of the Bank in Washington by March 20, 1967.

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|---|---|
| Chandra Kumar | Sep 4, 2013 |