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718/2/35

Mr McNamara's Notes on Visit to India
March 21 - 28, 1981

1. Rocky Stapleton stated that old political and social organizations (e.g. political parties) are coming unstuck and new leadership is now springing up to replace aging leaders. In that sense he believed the country is adrift. In contrast, B.K. Nehru and L.K. Jha said that in recent weeks Indira Ghandi has become a dynamic leader, firm in her attitudes towards labor and beginning to discipline her Cabinet.

2. During the past 30 years, India's economic growth has been constrained by two factors - slow growth of food production and limited availability of foreign exchange. It now appears that with continuing expansion of irrigated areas, a long-term agricultural growth rate of 4% per year can be achieved. The major constraint in the future, therefore, is likely to be a shortage of foreign exchange -- this puts a high premium on the expansion of exports.

3. Although the Sixth Plan calls for a 9% growth per annum in export volume, almost certainly such a rate will not be achieved. Both B.K. and L.K. pointed out that licensing restrictions and lack of labor discipline seriously limit realization of the export potential. Power shortages continue to restrict industrial production (the power generating system has been greatly politicized, with a reluctance to change tariffs, the tolerance of arrearages and excessive manning). There is the prospect of exporting food grains (perhaps 5 million tons in 1985). Manmohan Singh stated that he was pessimistic about the growth of other exports and said "the practice of control of everything case by case leads to a degree of centralization incompatible with rapid growth of exports".

4. Although one can be relatively optimistic about the potential growth of cereal grain production, the outlook for rainfed agriculture and those dependent on it (about 50% of the farming population) is not bright. The optimum technology has yet to be developed and the available technology has yet to be applied.

5. Recently announced results of the 1980 census (a population of 684 million, some 12 million higher than anticipated) indicate a surprisingly high growth rate of 2.24% for the decade of the 70s, approximately the same as that for the 60s. Both the government and the public have been shocked by the high figures (many believed growth rates at the end of the decade had dropped to 1.8% or less) and both B.K. and L.K. state there is today a much greater political awareness of the population problem, at least in private conversation. The Prime Minister is prepared to put more force behind the government's program but is quite unrealistic in believing that it can be based almost wholly on the use of sterilization. The program has been particularly ineffective in the rural areas (certainly that was true in Senapur where there were no contraceptive distribution facilities in a village of 3000). When I said to Indian officials, as I did in Pakistan, that compulsory measures were almost certain to be put in place in 20 years because of the likely failure of the voluntary program (I chose a distant horizon to make my point in order to minimize controversy), one of the State officials said "No, in five to seven years".

6. The caste system was introduced 2500 years ago on the basis of functional groupings. It has been maintained since, as a foundation of division of labor, power and privilege by an elaborate and rigid set of customs, privileges and relationships. Changes have occurred in the past 25 years since Dr. Singh published his definitive study of caste in Senepur. At first I thought the changes were fundamental, later they appeared to be more superficial. The basic relationship of purjin between the "lord" and "servant" had been almost feudal in character: the barber, betal-leaf dispenser, etc. provided services that were passed by heredity; in return the "lord" had an obligation to care and provide for the servants. Division of labor had been minute (e.g. Brahmins and Thakur farmers did not plow the land, this was done by the sub-castes). Marriage outside caste was forbidden; the touch of food and dishes by lower caste would defile them; water sources could not be shared by high and low castes; dietary laws were strictly followed (fish and eggs were not eaten by upper caste). Access to education was prohibited for all but scheduled castes. Some changes have taken place in almost all these customs: with a few exception, all castes engage in all work; there is some marriage outside of caste; few dietary restrictions remain; and there are few remaining barriers to education. The partial breakdown of caste restrictions was triggered by the attitudes created for the fight for independence, and fed later by the exposure of higher and higher percentages of the people to education. However, despite the gains in "mobility", social and economic constraints based on caste remain and are widespread (in particular, in the rural areas, intermarriage is rare and severely criticized). The District Collector in Senepur emphasized that, more and more, caste tensions are translating into political decisions.

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INDIA

Briefing Book for Mr. McNamara's Visit

March 21-28, 1981

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THE WORLD BANK

March 1981

Office of the President

TELEPHONE NUMBERS

Barletta	75901	703-534-7641
Baum	72747	301-229-3640
Benjenk	72466	202-338-9515
Chaufournier	74261	301-869-3550
Chenery	69001	202-338-4724
Gabriel	65831	202-232-2401
Golsong	61492	301-652-5866
Hopper	72395	202-387-5028
Husain	72283	202-320-3973
Paijmans	76428	301-530-1361
Qureshi	73665	301-299-9542
Rotberg	72213	301-593-4134
Stern	72004	202-234-7040
Thahane	72185	301-560-8991
Wapenhans	74285	301-469-8405
Weiner	74283	202-656-5675
Wuttke	60381	202-965-2300 Ext 1218
Clarke	61324	301-365-8731
Messerly	72248	301-320-3040
Pollan	61370	301-320-4817
Blanche		202-965-4518
Jeanette		703-536-5168
Muriel		202-337-3874
Lace Carter	61355	202-483-4812
McNamara		202-667-5550

INDIA:	Jean-David Roulet	Telex:	INTBAFRAD 953-313150
		Phone:	617-241 242 243 244
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PAKISTAN:	Wolfgang Siebeck	Telex:	INTBAFRAD 952-5827	Phone:	20280 20670 20779
		Home:	26885		

PARIS:	Rainer	Office:	011-331-720-1662
		Home:	227-3174

LONDON:	Phone	930-3886

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IPA Checklist for President's Travel

Data Supplied by S. Sankaran.

	President's Office or Region			IPA	
1. TRAVEL	Place	Arrival	Departure		
	India Pakistan	March 22	 April 1		
2. BETAGRAMS	Date	Number	Address	Dispatch Time	Responsible
	March 23 March 30	1 6	See separate memo by Mr. Fatoyimbo (attached)		Mr. Fatoyimbo
3. ARRIVAL/ DEPARTURE STATEMENTS	Yes/No	Occasion		Drafter	Cleared with
	Pakistan India	Arrival Departure		Joe Htun Sankaran	Region, J.Maddox Region, J.Maddox
4. PROFILE OF MEDIA	Yes/~~No~~	Country		Drafter	
		Pakistan India		A. Fatoyimbo S. Sankaran	
5. PRESS STATEMENTS	~~Yes~~/No	Occasion		Drafter	Cleared with
6. BRIEFS FOR PRESS CONFERENCES	~~Yes~~/No	Occasion		Drafter	Cleared with
7. ADVICE TO RESIDENT MISSIONS ON PRESS PROCEDURES	Yes/~~No~~			Provided by whom	
	Pakistan India			Joe Htun S. Sankaran	

cc: Mr. Benjenk
Mr. Lafourcade
Mr. Wiehen
Mrs. Hamilton
Mr. Merriam
Mr. Morris
Mr. Htun
Mr. Fatoyinbo

March 17, 1981

OFFICE MEMORANDUM

TO: Mr. H. Martin Koelle

DATE: March 13, 1981

FROM: A. Fatoyinbo

SUBJECT: Betagrams' Schedule for Mr. McNamara's Trip to India/Pakistan

Following discussions with Mr. Lafourcade, the agreed schedule for the Betagrams during the India and Pakistan trips is as follows:

Preparation	Hotel Destination	Reception
Monday, March 23 1/	Taj Mahal, New Delhi	Tuesday, March 24
Tuesday, March 24	Raj Bhavan, Lucknow	Wednesday, March 25
Wednesday, March 25	Swiss Cottages, Senapur (or) Taj Ganges, Varanasi 2/	Thursday, March 26
Thursday, March 26	Taj Ganges, Varanasi	Friday, March 27
Friday, March 27	Taj Mahal, New Delhi	Saturday, March 28
Monday, March 30 1/	Holiday Inn, Islamabad	Tuesday, March 31

Because of the 10-1/2 hour time difference - New Delhi and Islamabad are ahead of Washington time - the Betagrams will be prepared and transmitted late afternoon in Washington for reception by Messrs. McNamara and Benjenk at breakfast the next morning.

Mr. Descaire of the Cable Office has agreed to test the telex lines to all the hotels. He will report back to me as soon as possible; so that necessary changes, if any, in this schedule can be made before the President and Mr. Lafourcade leave Washington.

The Betagrams will be sent to "Lafourcade for McNamara copy Benjenk" and signed by Mr. Merriam.

1/ To include previous weekend news

2/ If Ganges "Swiss Cottages" has not telex facilities, will use Faj

cc: Messrs. Benjenk, Merriam, Morris, Lafourcade, Sankaran

(10)

Rh. Benjak
7/8/2/96

PROGRAMME FOR VISIT OF MR. ROBERT S. McNAMARA, PRESIDENT, WORLD BANK, IN U.P. FROM MARCH 24 TO 27, 1981.

Arrival Date	Arrival Hrs.	Details	Departure Date	Departure Hrs.
24.3.81	1730	Amausi Airport by IAF air craft.		
24.3.81	1750	Raj Bhavan, Lucknow		
24.3.81	1830	Council House.		
		Meeting with Chief Minister, Uttar Pradesh.		1930
24.3.81	1935	Raj Bhavan.		
		Call on Governor, U.P.		
		Dinner by Governor, U.P.	25.3.81	0800
25.3.81	0850	Village Parshiya. Visit tubewell constructed under World Bank assistance and meet farmers and farm labourers of village.		0950
25.3.81	0955	Village Asana. Talk to small and marginal farmers in unelectrified hamlet (Gadipurwa).		1020
25.3.81	1040	Village Itaunja. Visit village school and talk to people.		1100
25.3.81	1110	Village Palpur. Talk to villagers including progres ive farmers and Nayaya Panchyat members. Visit Gobar Gas Plant.		1200
25.3.81	1250	Raj Bhavan.		
		Lunch by Chief Minister, U.P.		1500
25.3.81	1520	Lucknow Airport. Departure for Varanasi by Special Air Craft.		-
25.3.81	1630	Varanasi Air Port.		
		Tea at Air Port.		1650 (By car)

Arrival Date	Arrival Hrs.	Details	Departure Date	Departure Hrs.
25.3.81	1740	Village Senapur. Meeting with villagers and night stay in Swiss Cottages.		
		On 26.3.81 from 0800 to 1100 meeting with village small and marginal farmers, landless labourers etc.	26.3.81	1100
26.3.81	1115	Village Auri. Meet villagers and visit Plantation under World Bank (Social Forestry) Project.		1145
26.3.81	1200	Village Senapur.		
		Lunch at village from 1230 to 1400 (at residence of Dr. Rudra Dutt Singh).		1500 (By car)
26.3.81	1510	Village Bajrangnagar. Meeting villagers.		1530
26.3.81	1550	Village Daipur. Meeting with villagers.		1620
26.3.81	1700	Varanasi Hotel.		1815
26.3.81	1830	Ghats. Cruise on river Ganga		1930
26.3.81	1945	Hotel Taj Ganges.		
		Dinner by Commissioner, Varanasi.	27.3.81	0730
27.3.81	0800	Varanasi Airport. Departure for Delhi by IAF Aircraft.		
27.3.81	0945	Delhi Airport.		

ACCOMMODATION ARRANGEMENTS AT LUCKNOW

Member of the Party	Details of Accommodation
1. Mr. Robert S. McNamara President, World Bank. 2. Mr. W. David Hopper, Vice-President 3. Mr. Muncir Benjenk Vice-President 4. P.A. to Mr. McNamara	: Stay at Raj Bhawan, Lucknow
1. Mr. J.D. Roulet Resident Representative World Bank 2. Mr. H.N. Ray Executive Director World Bank 3. Mr. R.P. Kapoor Joint Secretary Department of Economic Affairs	: Clark Avadh Hotel
1. Mr. Surendar Singh Union Protocol Officer	: Circuit House
2. IAF Aircraft crew	: Guest House

1

Arrangements for visit of Mr. Robert S. McNamara, President, World Bank, in U.P. from March 24 to March 27, 1971.

ACCOMMODATION

At Lucknow

President and two Vice-Presidents	: Raj Bhawan
Mr. J.D. Roulet Shri H.N. Ray P.A. to the President 2 officials of the GOI	: Hotel Clark Awadh
IAF Crew	: State Guest House

At Varanasi

President and party	: I.T.D.C. Hotel
IAF Crew	: Circuit House or Guest House.

At Senapur

Accommodation for the Party	: Swiss cottages

RECEPTION AND SEND-OFF

At Lucknow

By the Minister for Planning and Minister for Protocol, Govt. of U.P. The Commissioner of Lucknow Division/DIG Police (Lucknow Range) will also be present.

At Varanasi

By the Commissioner, Varanasi Division/ DIG Police (Varanasi Range).

TRANSPORT.

3 air-conditioned cars and 6 other cars.

SECURITY

1. Security will be provided by Govt. of U.P. throughout ~~in addition to GOI personnel~~.
2. Escort car will be present throughout the visit of President, World Bank.

7/8/2/31

March 23, 1981

Program of Visit

Your program has remained basically unchanged, but a few adjustments have been made as follows :-

(a) The lunch with Messrs L K Jha and B K Nehru (Monday, March 23) has been advanced to 12.30 (at Roulet's residence, 34 Friends Colony East);

(b) Mr I G Patel, Governor of the Reserve Bank, would very much like to see you. As his trip abroad has been postponed by one day, he is hoping to come to Delhi from Bombay with the evening flight, Monday, March 23. He has been invited to the Minister of Finance dinner and a separate meeting with you could be scheduled either before (if he arrives in time) or after the dinner;

(c) Planning Minister Tiwari is currently in Gauhati (Assam). The meeting originally scheduled with him at 4.15 pm, Monday 23rd, has been rescheduled for 10 am, Saturday, March 28.

(d) Mr R N Malhotra, Secretary, Department of Economic Affairs, would like to host a short (about 1 hour) reception for you at about 7 pm Friday, March 27, at which he intends to invite the Ambassadors of consortium and neighboring countries as well as the senior civil servants you will have met during your visit;

(e) As this will be your last official visit, both Government and the press would welcome your agreeing to hold a press conference, basically to cover major developments (in India and elsewhere) that have marked your tenure as President of the World Bank. This could take place either at the hotel (which Government would prefer as they have better facilities) or at the airport before your departure.

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March 22, 1981

Mr McNamara

As a complement to the briefing material you received before your departure from Washington, please find enclosed the following:

(a) Updating note re your program and list of officials who will attend the briefing session on Energy, Friday, 27th, at 3.30 pm;

(b) Marked-up cabinet list showing latest changes;

(c) Bio data of officials you are likely to meet in Delhi and/or U.P. ;

(d) List of invitees at Monday (23rd) dinner by Minister of Finance;

(e) Addendum to the note on recent political developments;

(f) Revised balance of payments table, as now included in the draft economic report and reflecting our latest discussions with government;

(g) Note on 'The Land Resource';

(h) Revised draft departure statement as received by telex from Washington on March 20.

Also enclosed is a copy of the final draft of the 1981 economic report (equivalent to the green version) which has been forwarded to Washington and which will be discussed in the next few weeks with a view to having it distributed in grey cover around April 10.

J.-D. Roulet

cc: Mr Benjenk
Mr Hopper
Mr Lafourcade

#18 2/27

MOST IMMEDIATE
BY SPL.MESSENGER

No.F.6(8)/80-FB.III
GOVERNMENT OF INDIA
Ministry of Finance
(Department of Economic Affairs)

NEW DELHI

March 19, 1981

OFFICE MEMORANDUM

SUBJECT: Briefing session on the overall energy situation with Mr. Robert S. McNamara, President of the World Bank, on March 27, 1981

In continuation of D.O. No. 6(8)/80-FB.III dated March 12, 1981, from the undersigned, it is to inform you that the session to brief Mr. Robert S. McNamara, President, World Bank, on "overall energy situation" will be held at 3.30 P.M. on March 27, 1981 in Room No. 129-B, 1st Floor, North Block.

You are requested to kindly participate in the discussions.

(S.C. JAIN)
DIRECTOR (FB)
TEL: 372154

1. Shri S.S. Puri, Secretary, Department of Agriculture, Krishi Bhawan, New Delhi.
2. Shri C.C. Patel, Secretary, Department of Irrigation, Shram Shakti Bhawan, New Delhi.
3. Shri D.V. Kapur, Secretary, Department of Power, Shram Shakti Bhawan, New Delhi.
4. Shri L. Kumar, Secretary, Department of Petroleum, Shastri Bhawan, New Delhi.
5. Shri R.P. Khosla, Additional Secretary, Department of Coal, Krishi Bhawan, New Delhi.
6. Shri R. Bhandari, Secretary, Ministry of External Affairs, South Block, New Delhi.
7. Prof. M.G.K. Menon, Secretary, Ministry of Science and Technology, Technology Bhawan, New Mehrauli Road, New Delhi.
8. Shri T.R. Satish Chandran, Adviser (Energy), Planning Commission, Yojana Bhawan, New Delhi.

Internal

+ Dr. RN Malhotra

SPA to SEA/PS to JS(FB)/PA to Dir (J).

Suggested List of Invitees for F.M.'s Dinner in honour of Mr. Robert S. McNamara President, World Bank at 8.00 PM on Monday, the 23rd March, 1981

Venue: Ashoka Hotel

HOST

1. Shri R. Venkataraman	Union Finance Minister
CHIEF GUEST	
2. Mr. Robert S. McNamara	President, World Bank
WORLD BANK	
3. Mr. W. David Hopper	Vice-President, South Asia Region
4. Mr. Munir Benjenk	Vice-President, External Relations
5. Mr. O. La Fourcade	Personal Assistant to the President
6. Mr. J.D. Roulet	Resident Representative
OTHER INVITEES	
7. Shri N.D. Tiwari	Minister of Planning
8. Shri C.M. Stephen	Minister of Communications
9. Rao Birendra Singh	Minister of Agriculture & Irrigation
10. Shri P.C. Sethi	Minister for Petroleum, Chemicals & Fertilizers
11. Shri Pranab Mukherjee	Minister of Commerce
12. Shri A.B.A. Ghani Khan Chaudhury	Minister of Energy
13. Shri P.V. Narasimha Rao	Minister of External Affairs
14. Shri Kedar Pande	Minister of Railways
15. Shri Bishma Narain Singh	Minister of Work & Housing
16. ~~Shri S.S. Sisodia~~	Minister of State for Finance
17. Dr. Charanjit Chanana	Minister of State for Industry
18. Shri Maganbhai Barot	Deputy Minister in the Ministry of Finance
19. Shri S.S. Grewal	Cabinet Secretary
19a) Dr. I.G. Patel.	Governor, Reserve Bank.

..2/-

20. Dr. Manmohan Singh	Member-Secretary, Planning Commission
21. Shri L.K. Jha	Chairman, Economic Policy Commission
22. Dr. M.S. Swaminathan	Member, Planning Commission
23. Shri Mohammed Fazal	Member, Planning Commission
24. Shri C.R. ~~Krishnaswamy~~ Rao Sahib	Secretary to the Prime Minister
25. Shri R.N. Malhotra	Secretary, Economic Affairs
26. Shri G. Ramachandran	Secretary, Finance
27. Shri R. Tirumalai	Member, Economic Policy Commission
28. Shri G.H. Hanumantha Rao	Member, Economic Policy Commission
29. Shri V.B. Eswaran	Secretary, Expenditure
30. Shri H.N. Ray	Executive Director(Bank)
31. Shri D.V. Kapur	Secretary, Power
32. Shri L. Kumar	Secretary,-Petroleum
33. Shri S.S. Puri,	Secretary, Agriculture
34. Shri C.C. Patel	Secretary, Irrigation
35. Shri R. Bhandari	Secretary I/C Economic Relations, External Affairs
36. Shri Arjun Sengupta	AS(Eco), Prime Minister's Secretariat
37. Shri R.D. Sethe	Foreign Secretary
38. Shri S.R. Sen	Former ED
39. Shri R.K. Kaul	AS(Banking)
40. Shri M.S. Gujral	Chairman, Railway Board
41. Shri S.K. Ghose	Chairman, P&T Board
42. Shri S.C. Varma	Secretary, Rural Reconstruction
43. Shri S.M. Ghosh	Secretary, Industrial Dev.
44. Shri P.K. Kaul	Secretary Commerce
45. Shri M.K. Mukherjee	Secretary Works & Housing
46. Shri K.V. Ramanathan	Secretary Fertilizers

...3/-

47. Prof. M.G.K. Memon — Secretary Science & Technology
48. Shri K.S. Rajan — Secretary Heavy Industry
49. Shri R.P. Kapoor — Joint Secretary, Economic Affairs
50. Shri S.C. Jain — Director, Economic Affairs.

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

THROUGH: Mr. Ernest Stern (SVPO)

FROM: Michael H. Wiehen, Acting VP, South Asia

DATE: March 19, 1981

SUBJECT: INDIA - Economic Administration Reforms Commission - Chaired by L. K. Jha

Before his departure Mr. Hopper asked that I bring you up-to-date on Mr. L. K. Jha's new assignment. On March 5th, the Government of India constituted an Economic Administration Reforms Commission with L. K. Jha as Chairman. Mr. Jha will have rank equivalent to the Deputy Chairman of the Planning Commission. Other members of the Commission will be C. M. Hanumantha Rao, an agricultural economist who was a member of the Seventh Finance Commission and is currently Director of the Institute of Economic Growth, Delhi University and R. Tirumalai, Secretary of Economic Coordination in the Cabinet Secretariat and seniormost IAS officer. The Commission will report to the Prime Minister and has been given a two-year term.

In general terms, the Commission will advise the Government on economic policies to improve resource mobilization and administrative efficiency. The government resolution establishing the Commission specified four matters to be taken up initially:

i) The rationalization and improvement of tax administration;

ii) The use of non-tax devices to increase domestic savings;

iii) The formulation of a rational approach to various proposals of the "New International Economic Order"; and,

iv) The examination of rent control laws in force in different states so as to develop a model law.

These rather disparate topics illustrate the wide-ranging potential represented by the Commission; but also its apparent dependence on the Government to identify the specific topics which will receive scrutiny. Press reports have quoted Mr. Jha to the effect that the Commission will have a rather limited role primarily focussed on procedures, and not on policy directions.

Mr. Jha has recently completed a book, Economic Strategy for the 1980s, which analyzes the sluggish growth of the Indian economy and makes a case for overhaul of economic management. Mr. Jha advocates greater reliance on positive encouragement than on restrictive measures. The book places great emphasis on building up the purchasing power of the poor while also stressing the production of mass consumption goods. It endorses "purposeful employment programs", particularly in backward rural areas.

RWGrawe:11

733

Mr. Robert S. McNamara March 13, 1981

Ernest Stern, SVP, Operations

Bank Lending for India

You will recall that some time ago we asked the Region to prepare a further analysis of the potential creditworthiness of India for Bank lending. Their paper is attached and a copy of it will be in the briefing book for your India trip. On the whole the paper presents a reasonable set of alternative scenarios. The discussion of the impact of a shift from IDA to Bank covered in Paragraphs 12 and 13 is of course not the question that is important and the minor impact of such a shift on the balance of payments is almost tautological.

Table 2 presents three alternative blends. The hard blend is clearly impractical in terms of the share of Bank lending to India. The intermediate blend poses more severe problems of Bank exposure than is shown since here, as in the other cases, the percentage of Bank commitment is based on scenario B of the Expansion of IBRD Lending paper. To the extent lending is below that level, India's share in total commitments will be higher than shown. More importantly, there are significant uncertainties in the projections and underlying assumptions. These cannot be resolved now, and I do not suggest the preparation of further alternative scenarios. Some of the major areas of concern are the following. Continued growth of exports in the assumed levels will require an increasingly sophisticated management of the external sector. While there are some changes in Indian policy in this area, exports are still far from a pervasive concern and the supporting policies and data flows are still far from adequate. Second, the projections are of course based on constant average weather conditions, but the Indian economy is subject to severe variations. These affect both agricultural output and such infrastructure as power. How the economy would react to significant variations remains to be seen. Third, the projections assume that concessional assistance from other sources will remain constant in real terms. This is probably optimistic as other sources of aid will have to deal with the same pressures as we, both in terms of claims from China and an increasingly adverse aid climate. Fourth, the costs of commercial capital may be understated.

What this suggests essentially is that we keep India's creditworthiness for Bank lending under careful annual review. During the IDA VI period, when India will still be receiving 40% of the negotiated total, the Bank lending volume ought not to exceed $500 million per annum. Beyond that, for planning purposes I believe it feasible to consider a Bank lending level of about $1.2 billion, rising to perhaps $1.5 billion by the end of IDA VII. Whether those magnitudes are appropriate will of course have to be subject to annual consideration.

You will undoubtedly be asked about future levels of support from the Bank to India. It seems to me desirable not to commit yourself to any specific numbers beyond the IDA VI period. As you know, we told Manmohan Singh some time ago that the annual lending availability would be about \$2 billion per year based on their 40% of \$12 billion, plus approximately \$400 million per year of Bank lending. The uncertainties associated with IDA VII and with Indian creditworthiness are adequate justification not to be excessively precise about financing in FY84 and FY85. At most, I suggest you say that we will make every effort to maintain this level of support in real terms in future years, but stress that our ability to provide Bank financing will depend on changes in India which will sustain a high level of export growth.

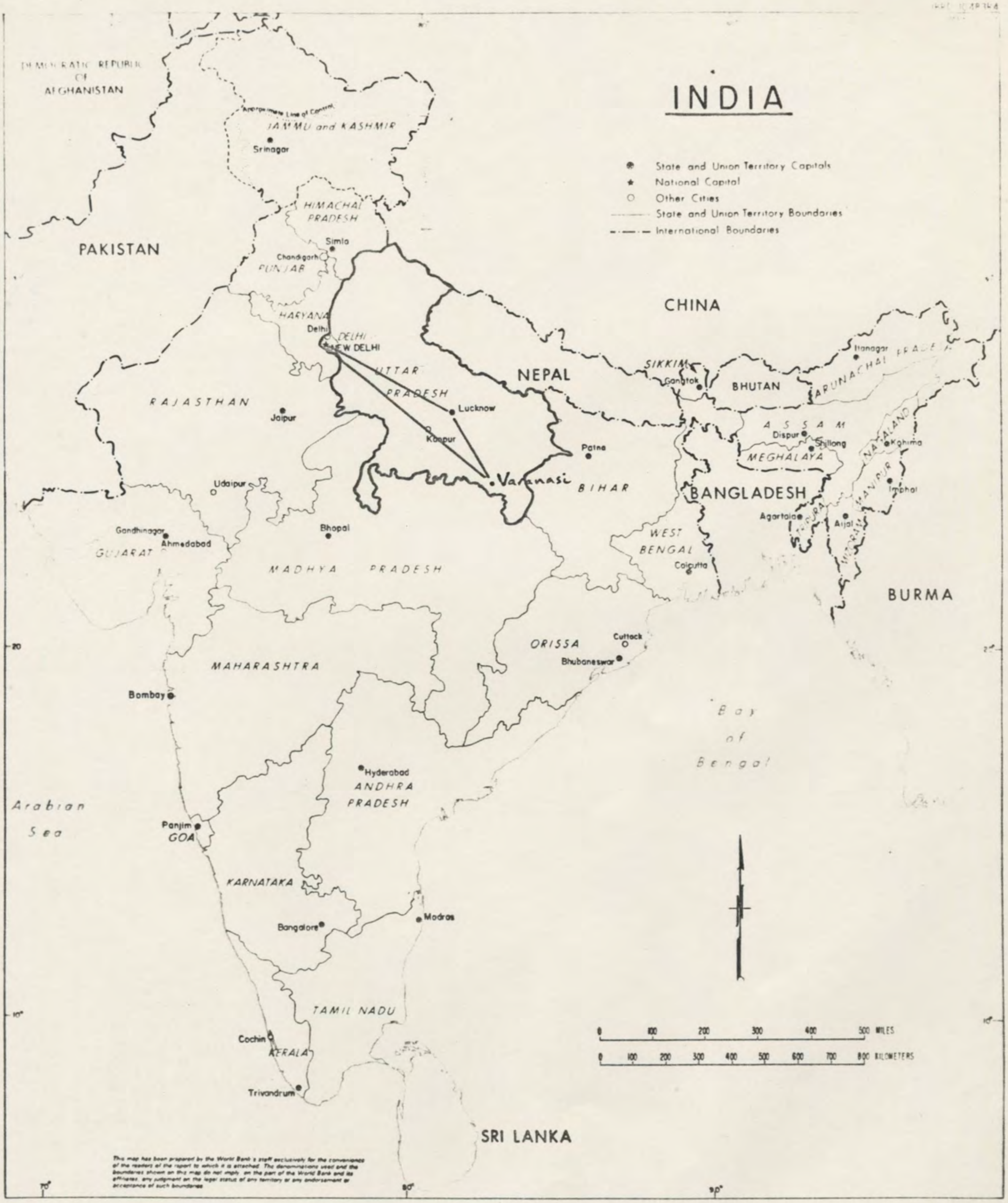
cc: Mr. Hopper
EStern/lms

A. Itinerary

7B/2/26

IBRD 14119
INDIA
UTTAR PRADESH SOCIAL FORESTRY PROJECT
FOREST COVER
District Boundaries
State Boundaries
International Boundaries
Project Area Boundary
Forested Areas
Rivers
HIMACHAL PRADESH
HARYANA
CHINA
NEPAL
RAJASTHAN
MADHYA PRADESH
BIHAR
UTTARKASHI
CHAMOLI
DEHRADUN
TEHRIGARWAL
PAURI
PITHORAGARH
ALMORA
SAHARANPUR
MUZAFFARNAGAR
BIJNOR
NAINITAL
MEERUT
DELHI
GHAZIABAD
MORADABAD
RAMPUR
PILIBHIT
BAREILLY
BULANDSHAHAR
BUDAUN
SHAHJAHANPUR
LAKHIMPURKHERI
MATHURA
ALIGARH
ETAH
BAHRAICH
HARDOI
SITAPUR
AGRA
MAINPURI
FARRUKHABAD
GONDA
LUCKNOW
BASTI
GORAKHPUR
ETAWAH
DEORIA
KANPUR
UNNAO
FAIZABAD
JALAUN
RAEBARELI
SULTANPUR
JHANSI
HAMIRPUR
FATEHPUR
PRATAPGARH
AZAMGARH
BALLIA
JAUNPUR
GAZIPUR
BANDA
ALLAHABAD
VARANASI
MIRZAPUR
LALITPUR
PARASAHIYA
ASANA
~~MOHNA~~
PALPUR
DETAILS PROVIDED BY NDO
SENAPUR
78°
80°
82°
84°
30°
28°
26°
24°
PAKISTAN
INDIA
BHUTAN
NEPAL
BURMA
BANGLADESH
SRI LANKA
N
0 20 40 60 80 100
MILES
0 40 80 120
KILOMETERS
This map has been prepared by the World Bank's staff exclusively for the convenience of the readers of the report to which it is attached. The denominations used and the boundaries shown on this map do not imply, on the part of the World Bank and its affiliates, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.
MARCH 1979

MAP OF STATE OF UP FOLLOWS.



SUGGESTED PROGRAM FOR MR. MCNAMARA'S VISIT TO INDIA (March 21 - March 27, 81)

Saturday, March 21

	-	Depart New York

Monday, March 23

Early a.m.	-	Arrive New Delhi
		Accommodation at Taj Mahal Hotel
Morning	-	Briefing by New Delhi Office Staff
13:15	-	Lunch (by Jean-David Roulet) with B.K. Nehru and L.K. Jha
15:00	-	Meeting with Finance Minister
16:15	-	Meeting with Planning Minister and Manmohan Singh
17:15	-	Meeting with Agriculture and Irrigation Minister
20:00	-	Dinner by Finance Minister

Tuesday, March 24

10:15	-	Meeting with Energy Minister
11:00	-	Meeting with Commerce Minister
11:45	-	Meeting with Minister of State for Industry
Lunch	-	Free
16:00	-	Depart for Lucknow by IAF chartered plane (TU 124)
16:55	-	Arrive Lucknow. Accommodation at Raj Bhavan
17:30	-	Meeting with Chief Minister of Uttar Pradesh
19:00	-	Call on Governor of Uttar Pradesh
20:15	-	Dinner by Governor of Uttar Pradesh

../2

Wednesday, March 25

08:00	-	Depart Raj Bhavan bv car
08:50	-	Arrive in village Parasahiya (about 50 kms from Lucknow) Talk to farmers, farm laborers in command area of tubewells constructed under the UP Public Tubewells Project
09:50	-	Depart village Parasahiya
09:55	-	Visit village Asana - an unelectrified hamlet of poorer and marginal farmers
10:30	-	Arrive village Mohna (having small shops, blacksmith, carpenter, school, etc.) and talk to villagers
11:05	-	Arrive village Palpur and talk to villagers including progressive farmers and Nyaya Panchayat members. Also see gobar gas plants
12:05	-	Leave village Palpur
12:50	-	Arrive Lucknow
13:15	-	Lunch by Chief Minister, UP
15:30	-	Leave Lucknow for Varanasi by IAF chartered plane (HS 748) (Avro)
16:30	-	Arrive Varanasi and leave by car for village Senapur (Tahsil Kerakat - District Jaunpur) about 51 kms drive
17:30	-	Arrive village Senapur
	-	Meetings with villagers
		Night stay at Senapur (in Swiss cottages)

Thursday, March 26

08:00	-	Meetings with villagers and landless laborers at Senapur and nearby villages
12:30	-	Lunch in village Senapur
15:00	-	Depart village Senapur (by road)
15:15	-	Visit village Hat (market) at Bajrangnagar
16:00	-	Visit village Dharsona to see handloom weavers
16:45	-	Arrive Varanasi
18:00	-	Cruise cum snack on Ganges
		Evening free
		Night stay at Varanasi

../3

Friday, March 27

08:00	-	Leave Varanasi by IAF chartered plane (HS 748)
09:15	-	Arrive Delhi
11:30	-	Briefing session on overall energy situation (by Secretaries)
Lunch	-	Free (perhaps PM)
16:00	-	Meeting with Petroleum, Chemicals and Fertilizers Minister
Dinner	-	Free

Saturday, March 28

11:00	-	Wrap up meeting with Finance Minister
Lunch	-	Free
15:15	-	Depart for Lahore by flight PK 681

B. Press Statement

C. Map & State
Dept. Notes

7 18/2/25

IBRD 10483R4

D. General Ref. Material

March 22, 1981
718/2/24

Recent Political Developments in India (Addendum)

Over the past year three kinds of political agitation have occurred which have raised fundamental social and political issue. Although these activities have as yet had little direct impact on the Government's authority -- Congress (I) administrations are firmly ensconsed at the Center and in most states -- the issues they have raised remain extremely contentious and unresolved.

The "Foreigners" Issue

Originating in Assam and spreading to some Northeastern states such as Manipur, Tripura, Mizoram, local populations (mostly students) have protested the presence on their territories of foreigners, mainly Bengalis from Bangladesh. They have demanded the expulsion of all foreigners who immigrated after 1951. The Government of India, claiming it has treaty obligations with Bangladesh to repatriate only those Bangladeshis who arrived after 1971, has said it cannot agree to this demand. 1/ The situation is deadlocked, with the agitators demonstrating a capacity to organize strikes and blockades of strategic installations quickly and effectively. Although the Assam pipeline has been reopened after closure of almost a year, it remains vulnerable in any future agitation. Thus far the Government has not used the army to strike-break or to intimidate the agitators but the use of force in the future cannot be ruled out.

Farmers' Agitation

Following agitations by farmers in seven Western and Southern states in late 1980 for 'remunerative' farmgate prices 2/ both the Center

1/ Although these movements have been dubbed by the Center as anti-national, and a possible prelude to secession by some N-E States, the continuing and unharassed presence of Punjabis, Marwaris and Biharis in the tea estates indicates it is primarily a problem relating to Bangladesh.

2/ To be indexed to rises in consumer prices rather than production costs.

and the farmer's organizations have been adopting a wait-and-see attitude. The Gujarat farmers' leader, Sharad Joshi, had promised to restart political agitation after talks in early January with the Minister of Agriculture had failed to produce a settlement of his demands. This has not yet happened though it appears Joshi and farmers leaders in other states do have the capacity to organize disruptive demonstrations. As a possible counter to such moves the Congress (I) and other parties have been organizing rallies of 'kisans' (small, surplus cultivators) in Delhi to try and attract the affiliations of this group of people to the party system. It remains unclear how the farmers demands will be handled.

Reservation

The latest agitation, which began in late January, was started by medical students in five colleges in Gujarat. They were protesting a long-standing arrangement whereby a certain percentage of class and faculty positions was reserved from Harijans and persons from other scheduled castes and tribes. The protests, led by upper caste Hindus acting through the Anti-Reservation Action Committee, quickly spread to other Government departments. Violence was severe particularly in the cities of Baroda and Ahmedabad, and is continuing. What is ominous about the movement is not merely that it is aimed at undermining well-established rights of minorities and underprivileged groups which have been guaranteed by successive parliaments. It is that the violence has been particularly severe in Gujarat where Harijans comprise only 7% of the population. If similar caste conflicts spread to other states where the lower castes are numerically stronger, the violence could become extremely severe and could pose a threat to the stability of the central Government.

Table 2.8

BALANCE OF PAYMENTS
(US$ million)

	Estimates		Projections			
	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85
Exports (f.o.b)	7,958	8,998	10,324	12,142	14,359	16,924
Imports (c.i.f.) of which	-11,249	-15,624	-16,477	-18,701	-22,196	-25,315
Edible Oils	(-867)	(-665)	(-813)	(-911)	(-991)	(-1,078)
Fertilizers	(-880)	(-1,337)	(-1,565)	(-1,803)	(-2,325)	(-2,951)
Iron & Steel	(-582)	(-659)	(-745)	(-898)	(-1,128)	(-1,460)
Non-Ferrous Metals	(-356)	(-567)	(-516)	(-569)	(-685)	(-809)
P.O.L.	(-3,977)	(-7,012)	(-6,740)	(-7,201)	(-9,230)	(-9,906)
Others	(-4,587)	(-5,384)	(-6,098)	(-7,319)	(-7,837)	(-9,111)
Trade Balance	-3,291	-6,626	-6,153	-6,559	-7,837	-8,391
Non-Factor Services						
Exports	2,332	2,838	3,264	3,809	4,466	5,213
Imports	-1,699	-2,375	-2,486	-2,805	-3,242	-3,658
Resource Balance	-2,658	-6,163	-5,375	-5,555	-6,613	-6,836
Investment Income	350	303	166	-18	-212	-517
Current Transfers	1,458	2,462	1,755	1,904	2,057	2,211
Current Account Balance	-850	-3,398	-3,454	-3,669	-4,768	-5,142
Concessional Aid (net) of which	1,147	1,413	1,718	1,849	1,914	2,055
Gross Disbursements	(1,564)	(1,876)	(2,257)	(2,473)	(2,574)	(2,676)
Repayments	(-417)	(-463)	(-539)	(-624)	(-660)	(-621)
Medium & Long-Term Borrowing (net) of which	68	269	1,736	1,820	2,854	3,675
Gross Disbursements	(327)	(513)	(1,916)	(1,995)	(3,069)	(4,133)
Repayments	(-259)	(-244)	(-180)	(-175)	(-215)	(-458)
IMF Credit (net)	-	1,035	-	-	-	-
Errors & Omissions and Capital n.e.i.	-145	133	-	-	-	-
Use of Reserves(- = increase)	-220	548	-	-	-	-588
Reserve Level (end of year)	7,204	6,656	6,656	6,656	6,656	7,244

Source: World Bank estimates and projections.

March 22, 1981

The Land Resource

Concerns about land has focused on three major problems.

1. The deterioration of the Himalayan ecosystem - causing siltation of dams and river beds, flush floods in the plains and deteriorating possibilities for subsistance in the mountains.

2. Soil erosion mainly on the Deccan plateau under rainfed farming conditions.

3. Waterlogging,alkalinity and salinity.

Himalayan Ecosystem

Demand for forest products and increasing population pressure in the mountains have caused denudation of forest coverage, over grazing and cultivation on steep slopes. Although there are no firm data on trends in floods and sediment load, it can be mentioned that on average during the period 1953-78, floods affected an area of 8.2 million hectares annually resulting in crop losses estimated at US$230 M. The area liable to floods is about 34 M ha but the maximum affected in any one year has been 18 M ha. The observed siltation of major reservoirs in the area has vastly exceeded the assumed rates, reducing the life of these reservoirs and their future command. The foothills are particularly susceptible to erosion and the Bank's first venture in this field supported Government of Punjab's efforts to reclaim and develop the catchment areas in these hills, as well as to provide engineering structures to utilize and safely channel the run off.

Preparation of a larger effort in UP and HP focusing exclusively on the upper catchment is underway (see attached project outline).

Soil Erosion

A technological package for development of the rainfed areas on the Deccan plateau now exists and is being promulgated under the extension projects. Reduced vegetative coverage, inappropriate land use and cultivation practices are causes for concern and it can be observed that upland soils are becoming more shallow and less productive and gullies and ravines more widespread. Further evidence of this process is the rapid siltation of tanks and reservoirs. A project to enhance agriculture productivity by measures and structures to improve vegetative coverage to retain soil and moisture in the fields and to control, store and recycle run off is being prepared (see attached project outline).

Waterlogging, alkalinity and salinity problems

Only a minor fraction (about 5%) of the 25 M hectares commanded by existing surface irrigation projects has reportedly acute waterlogging problems. Among these areas can be mentioned some on deep black soils in combination with fairly high rainfall (1000 mm). The Tawa project (supported by West Germany) in MP is an example of such a situation. Seepage and excessive land levelling has created a situation in which waterlogging and low utilisation of irrigation capacity pose serious problems. Rising water tables are reported in many areas.

Sea water ingression and rising water tables have caused problems of soil salinity and alkalinity. It is estimated that about 7 M ha is affected by these problems. Reclamation of saline lands requires a watershed approach with adequate provision of drainage and fresh water to remove salts from the root zone. In the plains of UP, Punjab and Haryana, 1.7 M ha* however suffers from alkalinity. These lands can be reclaimed without following a watershed approach. A technology relying on good quality groundwater, application of gypsum, green manuring and intensive irrigated cropping has been developed. Bank support for a large scale effort to reclaim alkaline soils has been under more or less intensive discussion since 1976. While there is no doubt about the efficacy of the package in question, doubts about the possibilities of achieving the level of management and high yields that are necessary to make this venture feasible have so far prevented us from entering this field.

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* Another 0.8 M ha suffers from salinity in these States.

Bengt A Nekby
February 11, 1981

Himalayan Watershed Rehabilitation and Development Project - at a glance

Problem/Objective

- Deterioration of the Himalayan ecosystem through worsening rainfall erosion caused by depletion of forest cover, over-grazing, bad land use and resulting in decreasing agricultural potential, siltation of resorvoirs and sharp peaks in run-off (floods).

- Objective is to check this development and improve agricultural productivity.

Project Area

- Outer Himalayas and foothills in UP and HP.

- As we are concerned with run-off a watershed is the natural planning entity.

- To allow effective local cooperation, participation in planning and implementation, a watershed size of 2000-5000 ha is suggested to form a subproject.

- A planning format for these subprojects has been developed.

- Subprojects are selected on basis of need for rehabilitation. Once selected the objective is widened to include improvement of agricultural productivity to gain local support. The watershed plan may be regarded as a package deal to be negotiated between the State Government and the people under which they abstain from certain destructive practices as beneficiaries from the development efforts.

Components

- Rehabilitation of reserved forest, plantation of fuelwood, fodder and timber for local use, re-establishment of vegetative coverage on grasslands.

- Terracing, bunding, check dams, gully plugging, farm ponds, etc.

- Upgrading of livestock.

- Minor irrigation.

- Strengthened support services and research.

Bank Support (FY 82 project)

- Line of credit approach in which each watershed is treated as a subproject to be reviewed on basis of agreed technical and economic criteria.
- Project cost not yet established as State budgetary resources and capacity to prepare and implement subprojects have yet to be assessed.

Organization

- GOI setting up of central body to appraise subprojects and supervise implementation.
- State level. Setting up of body for preparation, funding and monitoring subproject. Implementation of defined tasks would be done through subcontracting to line departments.
- Watershed. Setting up joint committee of local leaders, panchayat representatives and officials of implementing departments.

Some Issues

- Economic benefits may be low due to quantification as well as methodological problems. The loss of irreplacable resources (soil, dam sites, etc.) is not given much weight when benefits only occur in the distant future.
- Outmigration may be discouraged by economic development and growth in human and cattle population may tend to cancel initial improvements.
- The credit system in the hills is weak and reliance on credit may delay initial implementation of many items. The role of subsidies and procedures for cost recovery have to be further investigated.
- Recommended institutional and organizational arrangements are untested. Alternative solutions have not worked very well.

Bengt A Nekby
March 19, 1981

RAINFED FARMING PROJECT - at a glance

Objective

- The objective is to decrease the frequency of crop failures and enhance production and farm income in rainfed farming areas through measures to improve soil and water management. Such measures will include:

  (a) Retention of moisture in the area.

  (b) Reduction of erosion.

  (c) Improvement of drainage.

  The justification of this project must be based on what can be achieved through physical investments over and above normal T&V extension efforts.

Project Area

- Rainfed farming areas in MP, AP, Karnataka and Maharashtra. The project is aimed at areas with good agricultural potential (not drought prone areas).
- The management of moisture and run-off will require a hydrological unit and a watershed is the natural planning entity.
- To allow effective local cooperation and participation in planning and implementation, a watershed size of 2000-5000 ha is suggested to form a subproject.
- A planning format for these subprojects has been developed.
- Watersheds will be selected on basis of development potential and economic return.

Components

- Structures to control, store and recycle run-off.
- Restoration of tree and grass cover on private and public lands to improve the availability of fodder and firewood and diminish erosion and run-off.

- Land management techniques (including terracing, cultivation with new implements) to prevent sheet erosion and retain rainfall in the fields.
- Reorganization and suitable strengthening of soil conservation service.
- Structures to exploit groundwater resources (recharge improved through water retention measures).
- Research and technical monitoring of effects.
- Structures to remove excess water in areas of impeded drainage.

The introduction of these components have to be closely coordinated with extension efforts to improve the cropping mixtures/sequences; implements and cultural practices; varieties and fertilizer use etc., and with the work of the input supply, credit and marketing institutions.

Bank Support (FY 82 project)

- Line of credit approach in which each watershed is treated as a subproject to be reviewed on basis of agreed technical and economic criteria.
- Project cost not yet established as State budgetary resources and capacity to prepare and implement subproject has yet to be assessed.

Organization

- GOI setting up of central body to appraise subprojects and supervise implementation.
- State level. Setting up of body for preparation, funding and monitoring subproject. Implementation of defined tasks would be done through subcontracting to line departments.
- Watershed. Setting up joint committee of local leaders, panchayat representatives and officials of implementing departments.

Issues

- The viability of different components must be analyzed.
- An equitable distribution of benefits within the watershed must be attempted.
- Recommended institutional and organization arrangements are untested. Alternative solutions have not worked very well.
- The credit system in rainfed areas is relatively weak and clogged by defaulters. Reliance on credit particularly for communal structures will delay implementation (compare experience in CAD). The role of subsidies and procedures for cost recovery have to be further investigated.
- The integrated watershed concept has proved difficult to put into effect (DPAP).
- Maintenance of existing structures has been poor.

2

7/8/2/23

COUNTRY LENDING PROGRAM

SOUTH ASIA REGION
MONTHLY WORK SCHEDULE-FY82 OPERATIONS REPORT
BY COUNTRY

TABLE A-2
RUN 03/03/81

(AS OF 2/28/81)

COUNTRY / PROJECT	IBRD IN US$M	IDA IN US$M	DEPART APPRSL MISSN	RETURN APPRSL MISSN	ISSUES PAPER CIRC	DECSN PAPER CIRC	YELLOW COVER COMPL	DRAFT LC PKG TO DIRCTR	DOCS TO L.C.	BEGIN NEGO-TIA-TIONS	GRAY PKG TO DIR.	DOCS TO VPO	DOCS TO EDS	BOARD DATE
INDIA														
ARDC IV		330.0	04/10	05/11	05/22	06/12	09/30	10/21	10/28	11/02	11/20	11/25	12/03	12/22
MP MAJOR IRRIG		220.0	11/15C	12/31C	01/16C	02/18	04/30	05/31	06/04	06/30	07/10	07/13	07/16	08/04
PERIYAR VAGAI II		30.0	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS	06/00
DFC ICICI XIV	240.0		04/15	05/15	05/25	06/00	09/00	10/00	10/00	10/00	11/00	11/00	11/00	12/00
OIL EXPLORATION		150.0	06/01	06/13	06/26	07/15	07/31	08/27	09/01	09/14	10/12	10/19	10/22	11/10
INDUSTRY PETROCHEMIC		150.0	04/01	04/30	05/11	05/29	07/31	08/20	08/31	09/14	09/23	10/02	10/08	10/27
RAILWAY MODERNIZATIO		350.0	01/07C	02/23C	03/02	03/13	05/04	06/15	07/01	08/01	08/24	08/31	09/06	09/25
URBAN KANPUR		25.0	02/16C	03/07	03/16	03/30	05/01	05/22	06/04	06/15	07/06	07/14	07/23	08/11
WATER SUP GUJARAT		38.0	05/28	06/29	07/13	07/27	08/31	09/28	10/12	10/26	11/27	12/10	01/07	01/26
STATUS REGULAR	240.0	1293.0												
NO PROJECTS 9														
CHAMBAL RAJ. II		75.0	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS	06/00
SUBARNAREKHA (BIHAR)		125.0	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS	00/00
UP TUBEWELLS II		100.0	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS	06/00
W. BENGAL SOCIAL FOR		35.0	01/08C	02/13C	02/26	03/20	05/11	06/08	06/15	07/00	07/00	08/00	08/00	09/00
POWER TRANSMISSION V		150.0	01/00	02/00	02/00	03/00	03/00	04/00	04/00	04/00	05/00	05/00	06/00	06/00
RURAL ELEC III		150.0	09/00	10/00	10/00	11/00	01/00	02/00	03/00	03/00	04/00	04/00	04/00	05/00
UPPER INDRAVATI POWE	250.0		NS	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS	06/00
TAMIL NADU WATER		50.0	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS	00/00
STATUS STANDBY	250.0	685.0												
NO PROJECTS 8														
STRUCTURAL ADJUSTMEN	300.0		NS	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS	00/00
STATUS RESERVE	300.0													
NO PROJECTS 1														
INDIA	790.0	1978.0												
NO PROJECTS 18														

SOUTH ASIA REGION
MONTHLY WORK SCHEDULE-FY81 OPERATIONS REPORT
BY COUNTRY

(AS OF 2/28/81)

TABLE A-1
RUN 03/03/81

COUNTRY / PROJECT	IBRD IN US$M	IDA IN US$M	DEPART APPRSL MISSN	RETURN APPRSL MISSN	ISSUES PAPER CIRC	DECSN PAPER CIRC	YELLOW COVER COMPL	DRAFT LC PKG TO DIRCTR	DOCS TO L.C.	BEGIN NEGO-TIA-TIONS	GRAY PKG TO DIR.	DOCS TO VPO	DOCS TO EDS	BOARD DATE
INDIA														
CHAMBAL MP II		50.0	11/15C	12/19C	01/21C	02/13C	03/16	04/07	04/10	04/20	05/12	05/15	05/20	06/09
KANDI WATERSHED	30.0		05/01C	05/30C	06/09C	06/26C	08/16C	NS	09/27C	10/10C	06/23C	06/25C	06/30C	07/22C
KARNATAKA TANKS		54.0	08/08C	09/15C	09/22C	10/17C	12/15C	01/23C	01/26C	02/09C	02/20C	02/20C	03/02C	03/19
KERALA (KALLADA) IRR		126.0	09/20C	10/24C	12/01C	12/29C	03/06	03/15	03/20	04/07	04/30	05/04	05/06	05/26
MAHANADI BARRAGES		83.0	07/14C	07/24C	08/06C	08/19C	08/22C	09/26C	09/18C	10/16C	11/04C	11/05C	11/11C	12/02C
MAHARASHTRA AG EXTEN		23.0	09/17C	10/28C	10/29C	12/05C	01/23C	02/18C	02/20C	03/02	04/15	04/20	04/23	05/12
MP MED IRRIG		140.0	08/13C	09/17C	10/02C	10/27C	12/05C	NS	01/23C	02/02C	02/18C	02/19C	02/20C	03/10
TELECOMMUNICATIONS V		314.0	06/30C	08/08C	08/21C	09/10C	10/20C	01/23C	01/28C	02/09C	02/20C	02/20C	02/26C	03/17
BOMBAY HIGH II	400.0		06/15C	06/30C	07/21C	08/06C	08/20C	10/03C	10/10C	10/23C	11/11C	11/12C	11/18C	12/09C
HAZIRA FERTILIZER		400.0	10/15C	11/12C	11/26C	12/11C	02/15C	03/10C	03/18C	02/17C	03/04	03/09	03/12	03/31
KORBA THERMAL II		213.0	10/01C	11/05C	11/18C	12/30C	03/13	04/13	04/27	05/11	05/29	06/05	06/11	06/30
BIHAR RURAL ROADS		35.0	03/02C	03/31C	04/02C	04/25C	05/15C	06/24C	09/17C	09/26C	10/15C	10/20C	10/23C	11/11C
MADRAS URBAN II		42.0	10/08C	11/01C	12/03C	12/21C	03/10C	07/21C	07/28C	11/10C	11/21C	11/24C	11/25C	12/16C
ATUS REGULAR	430.0	1480.0												
NO PROJECTS 13														
MP AGRIC. EXTENSION		37.0	09/17C	10/28C	10/29C	12/05C	01/30C	03/02	03/05	03/16	04/17	04/24	04/30	05/19
NCDC II		125.0	09/25C	11/06C	11/17C	12/30C	01/21C	03/02	03/10	04/06	04/28	05/05	05/11	05/28
TAMIL NADU EXTENSION		28.0	09/17C	10/28C	10/29C	12/05C	01/21C	02/23C	02/26C	03/09	04/17	04/24	04/30	05/19
CEMENT INDUSTRY	220.0		10/01C	11/04C	11/13C	12/12C	02/23C	03/13	03/20	04/06	04/22	05/01	05/07	05/26
TAMIL NADU NEWSPRINT		100.0	10/29C	11/26C	12/01C	01/06C	12/24C	03/16	03/23	04/01	04/20	04/24	04/30	05/19
RAMAGUNDAM II		217.0	01/17C	02/24C	03/04	03/13	03/31	04/13	04/27	05/11	05/29	06/05	06/11	06/30
STATUS STANDBY	220.0	507.0												
NO PROJECTS 6														
INDIA	650.0	1987.0												
NO PROJECTS 19														

SOUTH ASIA REGION
FY81 - FY82 OPERATIONS PROGRAM
BY COUNTRY

TABLE A-3
RUN 03/03/81

(AS OF 2/28/81)

PRE-APPRAISAL WORK - INDIA

OPN PROG YEAR	PROJECT NAME	AMOUNT IN US$M	PROJECT BRIEF DATE	FIRST PREPN DATE	RECEIPT PREPN REPORT DATE	FIRST PRE-APPRSL DATE	APPRSL DEPART DATE	BOARD DATE	NEXT STEP
FY82									
FY82	ARDC IV	330.0	05/80C		09/80C		04/81	12/81	
FY82	PERIYAR VAGAI II	30.0						06/82	
FY82	DFC ICICI XIV	240.0					04/81	12/81	
FY82	OIL EXPLORATION	150.0	03/81			04/81	06/81	11/81	
FY82	INDUSTRY PETROCHEMIC	150.0	11/80	09/80C	09/80C	09/80C	04/81	10/81	
FY82	WATER SUP GUJARAT	38.0	10/80C	08/80C	02/81	02/81C	05/81	01/82	
FY83*	SUBARNAREKHA (BIHAR)	125.0			03/81			00/82	
FY83*	CHAMBAL RAJ. II	75.0						06/82	
FY83*	UP TUBEWELLS II	100.0						06/82	
FY83*	UPPER INDRAVATI POWE	250.0						06/82	
FY83*	RURAL ELEC III	150.0	01/81C	10/80C	02/81C	01/81C	09/81	05/82	
FY83*	POWER TRANSMISSION V	150.0	09/81	10/80C	09/80C		01/82	06/82	
FY83*	TAMIL NADU WATER	50.0	03/81	02/81C	03/81	05/81		00/82	
FY82R	STRUCTURAL ADJUSTMEN	300.0						00/82	

NOTE: PROJECTS WILL BE REMOVED FROM THIS SCHEDULE UPON DEPARTURE OF APPRAISAL MISSION.

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718/2/22

INDIA'S BALANCE OF PAYMENTS PROSPECTS --
RESOURCE REQUIREMENTS AND CREDITWORTHINESS

1. India's balance of payments outlook for the next several years is one of rising current account deficits. The expected further increases in petroleum prices account for much of the problem; petroleum imports in 1981/82 will already be equivalent to about 60% of merchandise exports. Imports of three other items essential to India's development -- fertilizer, iron and steel and edible oils -- are equivalent to another 30% of merchandise export earnings. The analysis of the recent economic mission suggests that, if India is to maintain a GDP growth rate of about 4.2% per annum in the first half of the 1980's, the volume of imports will have to grow at about the same rate. Given export prospects and the adverse trends in the terms of trade, this means that the current account balance of payments deficit is likely to rise from about $700 million in 1979/80 to about $5,200 millions in 1984/85 (the final year of the Sixth Plan).

2. Fortunately, India is entering this period in a relatively favorable financial situation. Foreign exchange reserves peaked in 1980 at $7.6 billion and are still over $7 billion; official gold reserves add an additional roughly $4 billion even when valued at recent lower prices ($470 per ounce). India's position to borrow on market terms is relatively favorable; the debt service ratio has fallen to 9% of export earnings (and even these service payments are mostly offset by interest earned on reserves). Although large in absolute amounts, India's expected current account balance of payments deficits are expected to stay below 2% of GDP during the first half of the 1980s.

3. Over the medium and longer term there are substantial opportunities for both important savings and export expansion. Although India seems likely to

remain dependent upon imports for much of its petroleum supplies, there are good prospects for reducing the growth of imports through increased domestic production of iron and steel and fertilizer and perhaps also edible oils. Progress in the agricultural sector is making possible substantial increases in agricultural exports. Over the longer run India is in a good position to expand exports of manufactured goods. However, neither the potential for efficient import substitution nor that for export expansion can be realized without major improvements in infrastructure and a sustained effort to develop and maintain appropriate institutions and policies. Most of the benefits of India's structural adjustment efforts will only be realized in the latter half of the decade.

4. This paper explores India's balance of payments prospects for the period through 1995. It examines the effect of three Bank Group lending programs (the present soft blend, an intermediate blend and a hard blend) on both net transfers and creditworthiness indicators and it looks at the consequences of variations from the base case assumptions regarding trends in exports and imports. While for the early 1980s the projections can be looked upon as forecasts, as the projection period is extended they are better seen as simulations of alternative policies and external circumstances. The improvements in the agricultural sector in recent years and the country's substantial industrial base add significantly to India's margin for maneuver in response to adverse external developments. Because international trade is small relative to the economy (e.g., exports this year will be about 7% of GDP), comparatively small switching from domestic to export markets has a large impact upon trade flows. The GDP growth rates used in these projections (4.2% rising to 5%) imply

Assumed FY84-86 Commitment Levels ($ millions)

	Soft Blend	Intermediate Blend	Hard Blend
Total Bank Group	8600	10320	13760
IDA (% share)	6880 (80%)	5160 (50%)	3440 (25%)
IBRD (% shsare)	1720 (20%)	5160 (50%)	10320 (75%)
Change from Soft Blend	-	+1720	+5160
IDA	-	-1720	-3440
IBRD	-	+3440	+8600
Substitution Ratio	-	2.0	2.5
India's Share of IDA	40%	30%	20%

substantial import volumes; however, in the event of serious payments difficulties India can cut back on imports with much less than proportional effects on levels of output and income. As a result of these factors India's capacity to adjust to a necessarily uncertain future, and hence its creditworthiness for borrowing on market terms, are considerably greater than suggested by its per capita income figures.

Alternative Lending Programs for the Bank Group

5. The balance of payments simulations analyze the consequences of three Bank Group lending programs. These are:

(a) A soft blend (the past policy) defined as an 80% IDA/20%IBRD mix with 40% of IDA available for India.

(b) An intermediate blend defined as a 50%/50% mix of Bank and IDA commitments with 30% of total

IDA resources going to India. Compared with (a), India would receive \$2 in IBRD commitments for each \$1 decline in IDA resources; thus the substitution ratio is 2.0.

(c) A hard blend defined as a 25% IDA/75% IBRD mix with 20% of total IDA resources available to India. In this case the substitution ratio rises to 2.5.

These various blends apply to the IDA VII replenishment period for which total availabilities are assumed to be \$17.2 billion (5% above IDA VI in real terms). Because the focus of this paper is upon India's creditworthiness for borrowing on market terms, the analysis is based on deliberately conservative assumptions regarding concessional aid. For the period beyond IDA VII it is assumed in all cases that IDA commitments for India would stay constant in real terms (while IBRD commitments would grow at 5% per annum in real terms). Commitments of other concessional flows are held constant in real terms at the estimated 1980/81 level. The varying gaps in different balance of payments projections are financed partly by changes in reserves (with gross reserves not allowed to fall below three months imports) but mostly by borrowing from financial markets at a floating interest rate 3.0 percentage points above the assumed rate of international inflation.

Trade and Resource Gaps

6. The base case projection for trends in trade and the terms of trade

can be summarized as follows:

Trade Coefficients and the Terms of Trade (Base Case)
(Trade including non-factor services)

	In 1979/80 Prices			In Current Prices			
	Imports /GDP	Exports /GDP	ResBal /GDP	Imports /GDP	Exports /GDP	ResBal /GDP	Terms of Trade
1979/80	9.5	7.7	-1.9	9.5	7.7	-1.9	100.0
1984/85	9.5	8.3	-1.2	10.6	7.9	-2.6	86.0
1989/90	9.6	9.7	.1	11.3	9.3	-2.0	81.9
1994/95	9.6	11.4	1.8	12.0	10.9	-1.1	76.9

India's resource balance was a modest -1.9% of GDP in 1979/80. Even though export expansion reduces this deficit to -1.2% of GDP in constant prices by 1984/85, the deficit will rise to -2.6% of GDP in current prices simply because of the deterioration in the terms of trade. By 1989/90 India would need to run a small surplus in 1979/80 prices in order to keep the resource balance to a manageable deficit of about -2.0% of GDP in current prices. A further reduction in the deficit (in current prices) is projected for the first half of the 1990s, although at this point balance of payments management would be sufficiently comfortable that India could opt for a lesser reduction in the inflow of external resources.

7. This base case scenario reflects the approach of the Sixth Plan in that the response to the trends in the international environment is basically to increase exports rather than restrict imports. Import elasticity stays close to unity throughout the projection period. In order to offset the deterioration in the terms of trade, export volumes will have to grow more rapidly than either output or imports.

8. To achieve these results the rates of growth in export volumes in the base case trade scenario are 6.7% until 1984/85, 7.7% in the following five-year period (the Seventh Plan) and 8.5% in the first half of the 1990s. Are these rates feasible? In the case of exports of manufactures, growth rates are projected to reach 8% in 1985, 9% in 1990 and 10% in 1995. For the early 1980s more modest growth rates are assumed; the average is slightly over 6%. As India actually achieved a volume growth rate of about 12% for exports of manufactures between 1970 and 1978, these projected rates do not seem unrealistic (given a reasonable policy environment, the strengthening of infrastructure and the projected import availabilities). Primary exports (agricultural goods plus mainly iron ore) are projected to grow (in volume terms) at nearly 8% per annum until 1984/85 and subsequently at a more modest 5.8% rate. The estimates for the initial five-year period reflect a detailed commodity-by-commodity analysis based on average weather conditions. The export volumes involved constitute very small proportions of projected output and should be readily manageable on the basis of anticipated demand patterns.

9. The sensitivity analysis uses growth rates for export and import volume which are roughly 0.5 percentage points above and below the assumed base

case rates for the years beginning in 1985/86. 1/ In the "smaller resource gap" alternative the margin between the export and import growth rates is increased by about 1.0 percentage point; in the "larger resource gap" alternative the differential is reduced by the same amount. Especially when price as well as volume fluctuations are taken into account, variations of such magnitudes from the base case growth rates of earnings from exports and payments for imports must be considered as well within the range of possibility. Should such variation take place in an adverse direction, and show signs of continuing, it should be relatively easy to bring about a correction. For example, even in the unlikely case of absolutely no possibility of increasing export earnings, a fall in the growth rate of import capacity by a full percentage point might be offset by slowing GDP growth from 4.5% to 4.0% and reducing import elasticity from 1.0 to .875.

1/ In the actual calculations for the larger resource gap alternative export earnings were assumed to be $.995^{(y)}$ times the base case value while import payments were assumed to be $1.005^{(y)}$ times the base case value where "y" is the number of years beginning with 1985/86. The converse was used for the smaller resource gap alternative. The changes in growth rates appear as 0.5 or 0.6 percentage points depending upon rounding. The period average rates are:

Volume growth rate for 5-year period ending with year shown		Smaller ResGap	Base Case ResGap	Larger ResGap
Exports	1984/85	6.7	6.7	6.7
	1989/90	8.2	7.7	7.2
	1994/95	9.1	8.5	8.0
Imports	1984/85	4.9	4.9	4.9
	1989/90	4.2	4.8	5.3
	1994/95	4.5	5.0	5.6

Results of the Simulations

10. Balance of payments projections using the three different aid blends and incorporating the three variations with respect to trade and the resource gap are summarized in Table 1. (See "Detailed Projections Accompanying 'India's Balance of Payments Prospects -- Resource Requirements and Creditworthiness'" for more complete information.) With respect to the different aid blends, the main conclusion is that the simulated switches from IDA to Bank financing with the assumed substitution ratios make only modest differences in India's balance of payments outcome. By contrast, a persisting change of 0.5 percentage points in the trade growth rates would have a large effect upon the outcome. The balance of payments is relatively insensitive to changes in the aid mix in comparison with the impact of what might first seem to be rather modest variations in the growth rates of exports and imports.

11. Under the base case trade assumptions, the Bank Group shift from a soft to an intermediate blend hardly changes the balance of payments deficit on current account. In both cases the maximum deficit would be 1.9% of GDP during 1984-88; the effect in the first half of the 1990s would be to increase the average deficit from 1.28% to 1.38% of GDP because of higher interest charges. The impact upon debt service ratios is minimal -- an increase of less than 0.5 percentage points in 1986-90 and only 1.2 percentage points in 1991-95. The maximum debt service ratio (DRS) increases from 15.7% to 16.7%, but it declines after 1992. Although the interest burden is higher with the intermediate blend, as a result of the substitution ratio of 2.0 the Bank Group's net transfer during the 1980s would be 8% greater with the intermediate than with the soft blend. The substitution ratio also helps hold down the DSR since the "loss"

Table 1: SUMMARY OF RESULTS OF BALANCE OF PAYMENTS SIMULATIONS WITH VARYING AID AND TRADE ASSUMPTIONS

	Base Case Trade			Intermediate Blend Aid	
	Soft Blend Aid	Intermediate Blend Aid	Hard Blend Aid	Larger Resource Gap	Smaller Resource Gap
1. Current Account Deficit (as % GDP)					
a. Maximum (year	1.9 (84-88)	1.9 (84-88)	2.0 (86-87)	2.7 (92-95	1.9 (1984)
b. Average 1981-85	1.54	1.54	1.54	1.56	1.52
c. Average 1986-90	1.84	1.86	1.92	2.34	1.42
d. Average 1991-95	1.28	1.38	1.46	2.68	.08
2. Debt Service Ratio (to G+NFS)					
a. Maximum (year)	15.7 (1991)	16.7 (91-92)	17.8 (92-93)	23.3 (1995)	13.6 (1990)
b. Average 1981-85	9.50	9.54	9.58	9.54	9.52
c. Average 1986-90	13.00	13.46	14.00	14.60	12.38
d. Average 1991-95	15.12	16.34	17.60	21.78	11.94
3. Net Interest Burden (as % GDP)					
a. Maximum (year)	.57 (93-94)	.66 (94-95)	.77 (1995)	1.11 (1995)	.44 (1990)
b. Average 1981-85	.01	.02	.02	.02	.02
c. Average 1986-90	.39	.42	.47	.48	.37
d. Average 1991-95	.56	.64	.73	.94	.35
4. Bank Group Net Transfer (as % GDP)					
a. Maximum (year)	.63 (1983)	.67 (1985)	.84 (1986)	.67 (1985)	.67 (1985)
b. Average 1981-85	.60	.62	.67	.62	.62
c. Average 1986-90	.52	.59	.74	.59	.59
d. Average 1991-95	.40	.39	.44	.39	.39
5. Bank Group Commitments (FY84-86)					
a. Total IDA Commitments (million $)	17200	17200	17200	17200	17200
b. India's Share of IDA (% Total)	40%	30%	20%	30%	30%
c. Substitution Ratio	-	2.0	2.5	2.0	2.0
d. IDA Commitments for India (million $)	6880	5160	3440	5160	5160
e. IBRD Commitments for India (million $)	1720	5160	10320	5160	5160
f. Total Commitments for India (million $)	8600	10320	13760	10320	10320

from the shift from IDA to IBRD is partly compensated by the lower level of borrowing from financial markets that is made possible by the higher net transfer from the Bank Group.

12. Nothing in the projections suggests that a shift from a soft to an intermediate blend (accompanied by a substitution ratio of 2.0) would create significant balance of payments and debt management problems for India. The hard blend variation (with a substitution ratio of 2.5) would result in somewhat greater changes, but they are still marginal rather than fundamental as far as India's balance of payments is concerned. Compared to the intermediate blend results, the deficit would peak at 2% of GDP instead of 1.9%; the DSR would peak at 17.8% instead of 16.7%. The increase in the net interest burden in the first half of the 1990s is less than 0.1% of GDP. The net transfer from the Bank Group would be substantially higher than in the other cases, even into the 1990s. (The impact upon the Bank's portfolio is discussed below.)

13. Although the precise results will vary depending upon the initial debt burden, the terms of subsequent borrowing and the growth rates of exports and imports, over a wide range of circumstances it appears that countries can for extended periods satisfactorily manage a current account balance of payments deficit in the neighborhood of 2.0% of GDP when this deficit is financed by borrowing upon market terms. With a higher deficit, the DSR soon begins to "explode". With a lower deficit a country is simply missing an opportunity to benefit from a higher level of resource availabilities. The projections that have been done suggest that this conclusion applies to India with an upward shift in the "safe" deficit in recognition of the level of concessional assistance. In the intermediate blend case the net transfer from concessional

assistance slowly declines from 0.6% to0.4% of GDP over the projection period; the addition to the "safe" deficit level would be somewhat less. In the base case trade scenario the current account deficit, regardless of the aid blend, does not exceed 2% of GDP and in fact falls substantially below it in the first half of the 1990s. A relatively small but persistent deterioration in the trade growth rates, such as that assumed in the "larger resource gap" alternative, however, is enough to produce current account deficits that by 1990 would fall outside the generally "safe" area. Thus the +0.5 and -0.5 percentage point changes in, respectively, the annual growth rates of imports and exports would be enough to increase the current account balance of payments deficit to 2.7% of GDP in 1991-95 (see Table 1). In this scenario the debt service ratio continues to rise throughout the projection period (albeit at a moderate rather than an explosive pace). With the same intermediate aid blend, the burden of interest payments on both exports and GDP would be over 50% higher by the mid-1990s. The "larger resource gap" scenario thus involves very substantial changes in the results and leads to deficit levels beyond those which India can prudently finance.

14. If the trade growth rates both changed by 0.5 percentage points in the opposite direction (the "smaller resource gap" scenario on Table 1), India would by 1994 become a capital exporter (in the sense of running a current account surplus rather than a deficit). Clearly this would be an unnecessarily restrictive policy. Assuming reasonably productive use is being made of the externally borrowed resources, it is desirable for India to be a capital importer at a level consistent with sustained creditworthiness. (While the sensitivity analysis for trade trends has been done only for the intermediate aid blend

Table 2: INDIA'S SHARE IN TOTAL IBRD COMMITMENTS, INTEREST INCOME AND LOANS DISBURSED AND OUTSTANDING UNDER ALTERNATIVE BANK GROUP LENDING PROGRAMS

(Millions of US$ at Current Prices)

	Bank (Scenario B)	Soft Blend Aid		Intermediate Blend Aid		Hard Blend Aid	
		India	% Bank	India	% Bank	India	% Bank
Commitments							
FY80	7644	430	5.6	430	5.6	430	5.6
FY81	8600	460	5.3	460	5.3	460	5.3
FY82	13000	890	6.8	890	6.8	890	6.8
FY83	15500	540	3.5	1620	10.5	3240	20.9
FY84	19000	570	3.0	1710	9.0	3420	18.0
FY85	21600	610	2.8	1830	8.5	3660	16.9
FY86	24700	679	2.7	2036	8.2	4074	16.5
FY87	26200	756	2.9	2267	8.7	4534	17.3
FY88	27800	841	3.0	2523	9.1	5046	18.2
FY89	29400	936	3.2	2808	9.6	5616	19.1
FY90	31200	1042	3.3	3126	10.0	6251	20.0
Interest							
FY80	1801	66	3.7	66	3.7	66	3.7
FY81	2107	75	3.6	75	3.6	75	3.6
FY82	2458	89	3.6	89	3.6	89	3.6
FY83	3024	114	3.8	114	3.8	114	3.8
FY84	3854	152	3.9	155	4.0	161	4.2
FY85	4891	197	4.0	225	4.6	267	5.5
FY86	6043	244	4.0	325	5.4	448	7.4
FY87	7383	291	3.9	449	6.1	688	9.3
FY88	8810	334	3.8	589	6.7	971	11.0
FY89	10335	377	3.6	736	7.1	1274	12.3
FY90	11912	421	3.5	892	7.5	1598	13.4
Disbursed & Outstanding							
FY80	26694	875	3.3	875	3.3	875	3.3
FY81	30179	1082	3.6	1082	3.6	1082	3.6
FY82	34981	1378	3.9	1378	3.9	1378	3.9
FY83	41431	1781	4.3	1814	4.4	1862	4.5
FY84	49775	2226	4.5	2487	5.0	2878	5.8
FY85	60037	2657	4.4	3419	5.7	4561	7.6
FY86	71802	3078	4.3	4569	6.4	6803	9.5
FY87	85029	3479	4.1	5897	6.9	9525	11.2
FY88	99752	3890	3.9	7354	7.4	12550	12.6
FY89	115342	4322	3.7	8940	7.8	15866	13.8
FY90	131373	4784	3.6	10671	8.1	19500	14.8

NOTES: "Scenario B" data from "An Examination of Possible Expansion of IBRD/IDA Lending over Levels Presently Planned for FY82-86 and Means of Financing Such Expansion", Dec. 18, 1980. (See Annex Table 2, page 1, for details.) This is the IBRD component of the constrained program (i.e., the program including $3.3 billion in lending shifted from IDA to IBRD terms). See pages 3, 18 and 23 of the projections prepared for this analysis for details on the Bank Group lending to India under soft, intermediate and hard blends.

case, the aid blend sensitivity projections show that the results are relatively insensitive to the range of assumptions about IDA and IBRD lending levels.)

India in the Bank's Portfolio

15. In addition to looking at the effects of varying the blend of IBRD and IDA commitments upon India's balance of payments, the sensitivity runs also looked at how these alternative Bank Group lending policies would affect the place of India in the Bank's portfolio. The results are summarized in the accompanying Table 2. The projections for total IBRD lending are those of "Scenario B" in last December's report to the Board on expanded Bank Group lending levels; this is the IBRD component of the constrained program (i.e., the Bank Group program in which the expanded Bank Group program is reduced by $1.5 billion over the FY82-86 period and $3.3 billion is shifted from IDA to Bank terms).

16. At present India accounts for slightly over 5% of IBRD commitments, although this percentage would fall if (a) IBRD commitments to India were strictly linked to IDA as in the soft blend variant and (b) Bank lending expanded at the rate proposed in Scenario B. In the intermediate blend case India's share of total IBRD commitments would be 9.2% in FY83-85 while in the hard blend case this share would be 18.4%. The variations in the shares in the subsequent years shown on Table 2 reflect the fact that IBRD commitments to India are assumed to grow at a constant rate of 5% in real terms following the VII Replenishment period compared to the varying growth rates of total IBRD commitments in Scenario B. For the FY86-90 period as a whole, however, the VII Replenishment period shares are maintained. The shares of India in the Bank's interest earnings and in disbursed and outstanding debt would still be below its

share in commitments in FY90, but these figures are obviously tending toward the 9.2% and 18.4% levels. (In the long run they would slightly exceed these levels if IBRD loans to India continued to have longer than average maturities.)

Board Conclusions

17. The balance of payments projections for India, including the sensitivity runs, support the following general conclusions:

(1) The Bank Group's choice between the "soft", "intermediate" and "hard" blend will make relatively little difference to India's balance of payments during the 1980s as long as the substitution ratio of Bank for IDA is such that the net transfer is at least sustained. It will, however, make a large difference to the size of India in the Bank's portfolio.

(2) The indicators of creditworthiness and satisfactory balance of payments management are extraordinarily sensitive to relatively minor changes in the trade growth rates. Significant problems in balance of payments management could be created by changes in the growth rates of exports and imports which are within the normal range of uncertainty. Fortunately such changes would also be within a range manageable by normal rather than heroic policy measures.

(3) Given the levels of aid on soft terms that can be

mobilized for India, concessional assistance cannot begin to substitute for the structural adjustment measures necessary to the desired trade outcome. Adjustment is inevitable, and the only questions relate to how it can be brought about in a way most consistent with other development objectives.

18. For a number of reasons -- sheer size, variety of resources, industrial base, importance of the agricultural sector -- the Indian economy is less sensitive to external developments than many other economies. In this sense the adjustment problem is in relative terms easier for India. Because of the country's size, however, the balance of payments flows involved are larger in absolute terms. The new investments, policy changes and institutional arrangements that are needed will take time to put in place. For this reason it is expected that the balance of payments situation will become worse over the next few years and will not really begin to turn around until the late 1980s. Given the favorable initial position in terms of reserves and debt structure, the progress that has been made in the agricultural sector, and the potential response to improved policies, India should be creditworthy for the very substantial increases in IBRD and other market terms borrowings that can be projected for the 1980s. Projections can never "prove" creditworthiness, but the analysis suggests that the policy changes needed to maintain reasonable external financial stability are well within what should be feasible with good (albeit not outstanding) economic management.

South Asia Region
March 6, 1981

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718/2/21

ECONOMIC REPORT

1. The 1981 Economic Report is now in draft form and being discussed with the GOI. A copy of the 1980 Report is attached, but to provide more up-to-date briefing material, extracts of the draft 1981 Report have been prepared and are attached as indicated below:

(i) Current Economic Developments ... Tab

(ii) Balance of Payments .... Tab E1

(iii) Energy .... Tab E2

(iv) Exports .... Tab E3

(v) Agriculture and Irrigation ...... Tab E4

(vi) Transport .... Tab E5

2. In addition, brief notes have been prepared on the following topics:

(i) Industry .... Tab E6

(ii) Forestry .... Tab E7

(iii) Family Planning .... Tab E8

3. The Sixth Five Year Plan (1980-85) was approved in late February, 1981. A brief note summarizing its major macro dimensions is at Tab E9. More sector-specific discussions of the Sixth Plan are to be found at the tabs indicated above.

5

1980 ANNUAL MEETING BRIEFING PAPER

INDIA

General Background

The Political Situation.

1. After a year of intense political activity, general elections were held in India on January 3 and 6, 1980. As a result of these elections, Mrs. Gandhi's Congress (I) party was returned to office, having won 351 of the 542 Lok Sabha (lower house) seats and 42.6% of the popular vote, more than the combined total of the Janata and Lok Dal parties. Mrs. Gandhi's dissolution in February of existing opposition governments in nine States led to elections in these States in May, in which the Congress (I) consolidated its hold on the country by garnering majorities in eight of the nine States and thus control of the Rajya Sabha (upper house) of the Parliament, elected indirectly through State legislatures.

2. The political uncertainty of the last year has inevitably affected Bank Group operations in India, as important State-level and Central Government administrative matters and investment decisions have been delayed and bureaucratic insecurity has abounded. Presentation of the 1980/81 budget was deferred until mid-June 1980 and the Government has announced that the draft Sixth Plan (1978-83) would be set aside and a new Plan for 1980-85 prepared by December/January of this year. While the release of the budget and the recent approval by the National Development Council of the Plan Framework Paper (see para 8 below) have provided some indications of the Government's intentions, and the installation of the new State Governments should remove an element of uncertainty, a sense of insecurity in both the economic and political spheres persists. Further changes in high level positions, including some at Cabinet level, are still expected. The civil and political unrest in the north-eastern States, particularly Assam (where the principal issue is the status of Bengali immigrants in Assam), continues, as does the associated oil blockade, which is reported to have cost the country 2.2 million tons in crude oil during the last six months. And finally, the recent death of Sanjay Gandhi has contributed to emerging infighting in the Congress (I) Party, particularly evident between old guard Congress politicians and Sanjay's supporters, who now find themselves leaderless.

The Economy.

3. The economic situation in India deteriorated sharply in 1979/80. Real GNP is estimated to have fallen to about 3% below the 1978/79 levels, as industrial output stagnated and agricultural production declined by an estimated 8.5%.

4. In agriculture, a delayed, deficient and erratic monsoon was primarily responsible for the 18% drop in kharif (summer) production and the 3.5-4% drop in rabi (winter) production. Despite the disappointing performance in 1979/80, the sizeable increases of recent years in irrigation

potential and use of agricultural inputs are credited with having significantly reduced potential output losses by improving utilization of what rain there was. Moreover, the large foodgrain stocks the Government had built up during the preceding years' record harvests were sufficient to substantially mitigate the impact of the drought on the welfare of the population while still leaving India with sufficient reserves to weather another year of equally bad or even worse rainfall. Fortunately, the 1980 monsoon thus far appears to have been very favorable, although flood damage in the eastern region has been reported.

5. Industrial production was severely constrained in 1979/80 by shortfalls in power generation as well as shortages of several key industrial inputs, such as coal, cement, steel, diesel fuel and transportation services. The impact of the drought on hydro-electric power generation, combined with additional demand for power to drive irrigation pumps, exacerbated an already tight power supply situation. While power generation increased by about 2% during 1979/80, demand is estimated to have risen 15-18%. Power shortages contributed to shortfalls in coal and steel production, as did labor unrest, particularly in the case of coal. Growth in demand for cement continued to outpace supply growth, largely due to the low level at which cement prices have been fixed.

6. The first months of 1980/81 have seen a continued, though marginal, decline in industrial output, particularly in steel, aluminum, cement, heavy vehicles, cotton, and sugar. Output of crude oil and petroleum products has also been constrained by the disruption of crude oil supplies from Assam. However, recent cement price increases have opened the way for substantial capacity expansion, which should come on-stream by 1982, and there is evidence of improvement in the power situation. The good monsoon has increased hydel reserves and reduced demand for power for irrigation pumping. Moreover, coal production has risen and the system of allocation and transport of coal for power stations has been improved.

7. The extended period of price stability India had enjoyed in the late 1970s ended in early 1979, when shortages of key commodities (e.g., sugar, edible oils) combined with adjustments to important administered prices, higher import prices and the tightening balance between aggregate demand and supply to drive up the wholesale price level. By January 1980, wholesale prices stood at 21% above the level of a year earlier. The rate of wholesale price increase has moderated somewhat since the beginning of this year, now standing at an annualized rate of approximately 15%. Government response to inflation has largely focussed on tightening credit and maintaining adequate supplies of basic commodities, through liberal imports where necessary. The newly released 1980/81 budget seeks to support this policy by reducing the projected Government deficit to roughly half that incurred in 1979/80. However, this deficit reduction is based partially on recent major (and entirely appropriate) increases in the administered prices of petroleum products, fertilizers, and transportation. These necessary domestic price adjustments, when combined with continued international price pressures (particularly for petroleum-based products), will undoubtedly preclude a return to the unusual price stability that India enjoyed from 1975-79.

8. 1979/80 also saw an erosion in India's balance of payments position. Export volume declined (with export value stagnant) as a result of the drought and domestic supply constraints, while the value of imports rose by 27%, largely due to the estimated 70% increase in the price of petroleum imports. Reserve growth tapered off sharply in 1979/80, and the first few months of 1980/81 have seen reserve drawdowns averaging US$100 million a month. Although reserves are still adequate to cover seven to eight months of imports, the dynamics of India's foreign account have clearly changed.

9. On August 31, the National Development Council (NDC) approved the Planning Commission's draft Framework Paper for the Sixth Plan (1980/81-84/85), consistent with the Government's schedule to present the Draft Plan itself to the NDC by January 1981. At the time of this writing not all the details are available but some broad parameters and policy indications have been reported. In real terms, public sector Plan outlay at Rs 90,000 crores in 1980/81 prices is not likely to be much higher than the now-discarded 1978-83 plan prepared by the previous government. Targeted growth rates, however, are higher at 5-5.3% for NDP, 10% for export volume, 8-9% for industry, and 4% for agriculture. Financing the Rs 90,000 crore public sector outlay is predicated on a major resource mobilization effort by both the Centre and the States. Among the objectives stressed in the framework document are export promotion (through fiscal and exchange rate measures), curbing the rise in POL imports (by conservation through higher domestic prices and by greater efforts at exploration and development of domestic oil and other energy sources), and import substitution. Removal of poverty remains a major objective.

Issues

Economic Policy.

10. You may want to impress on the Finance Minister the crucial importance we attach to progress on the economic policy issues reviewed below. The Plan Framework Paper and recent policy statement on industry ascribe priority to each of these areas, setting forth, for the most part, policy objectives we find appropriate. However, at least with respect to the first four issue areas cited, the task of developing specific strategies and programs consistent with these objectives remains largely undone. It would be appropriate to urge early identification and implementation of concrete measures to serve the Government's stated objectives in these crucial areas.

11. Exports. In view of India's deteriorating balance of payments position, concerted action on three fronts will be required to stave off a return to the growth-inhibiting import control policies of the early 1970s. First, India must develop a strong export strategy. The Government's 10% per annum export volume growth objective will require a vigorous, imaginative effort, particularly in the context of recent disappointing export performance. It is clear that the current trade and industrial policy regime does not provide adequate incentive for investment in export capacity. While, as mentioned above, the Plan Framework Paper stresses the importance of export promotion, identification of appropriate policies, which will provide incentives for export production while being manageable in terms

of fiscal policy and short-term foreign exchange requirements, has only just begun.

12. Energy. As a second thrust in meeting the emerging balance of payments strain, India must establish an energy program designed to substitute cheaper and more abundant energy sources (e.g., coal and hydel) and domestic oil for imported oil. Within the past year GOI has undertaken a review of energy policy and a comprehensive study of operational issues in the power sector. These efforts have led to the setting of entirely appropriate goals in terms of increased capacity utilization in the thermal power sector, accelerated coal and hydel development and oil exploration. Thus the stage is set for the implementation of vigorous energy development policies. Improvements in financial and operational performance in the power sector will be particularly crucial in relation to our own operations program, given the magnitude of our existing and planned involvement in this sector.

13. Import Substitution. Finally, the third element in terms of policy response to emerging external resource constraints is India's increasingly important objective of meeting domestically more of her basic requirements (e.g., edible oils, fertilizer, steel, and cement). This will require pricing and tax policies geared to greater internal cash generation for key industries, increased capacity utilization (notably in fertilizer, iron and steel), and improved input availability (particularly of coal and power) and management.

14. Industry. The re-emergence in India of bottlenecks in infrastructure and supply of several basic inputs (see para 5 above) highlights the importance of improved efficiency, plant modernization and expansion in these sectors. In addition, several adjustments must be made within the industrial sector over the next few years to accommodate India's current circumstances. First, the industrial sector must be encouraged to adjust itself to higher energy prices through appropriate domestic energy pricing policy. Second, as mentioned above, a substantial effort must be made to foster the growth of export and import-substituting industries. Third, many Indian industries are in need of modernization of their capital stock and technology, particularly in view of ever-rising energy costs. A recent policy statement delivered to the Parliament by the Minister of State for Industry lists as key objectives, inter alia, the revival of infrastructure, to be addressed on a "war-footing", improved capacity utilization, promotion of export-oriented and import substitution industries through establishment of new units and expansion of existing units, improved management in the public sector, "optimal utilization of energy", development of "modernization packages" for small and large industries, and increased research and development to up-date existing industrial technology. The initial rumblings, then, are good. However, specific policy proposals have not yet emerged.

15. Agriculture. The priorities for Government investment in agriculture remain the more efficient use of water through modernization of existing irrigation schemes and implementation of higher standards in new schemes, complemented by the continued improvement of input delivery systems providing credit, fertilizer, HYV seeds, pesticides, and extension. As pointed out above (para 4), State and Central Government efforts in these areas have already shown significant results. You might commend the Minister

on the Government's efforts in the agricultural sector and encourage continued emphasis on the identified priority areas.

16. Population. India's family planning performance data for 1978/79 and the first ten months of 1979/80 clearly indicate a come-back from the sharp decline observed in virtually all major contraceptive methods during 1977/78. Except for male sterilizations, the number of acceptors for all contraceptive methods surpassed the 1974/75 levels in 1978/79. So far, policy makers have not made major attempts to accelerate the male sterilization program. Instead, they have opted for policies that would yield relatively modest but sustainable results with increased emphasis on non-terminal methods. The organizational structure and service delivery capabilities of India's family planning program have improved substantially over the years. Today, the program includes virtually all the components of a successful family planning program in use anywhere in the world and long experience in motivational campaigns. With further emphasis, the program could cope with a larger clientele within a relatively short period. We continue to urge a strong emphasis on family planning, recognizing that, on the demand side, progress will to a large extent depend on improvements in income, education, health (especially maternal and child health), and employment opportunities in rural India.

Bank Group Assistance.

17. Magnitude of Bank Group Lending. In view of the emerging external resource constraints facing the Indian economy and the financing requirements indicated in the Sixth Plan Framework Paper, the delegation may ask about the likely impact of the entry of China on Bank Group lending to India, the prospects for increased IBRD borrowing, and the prospects for additional resources for structural adjustment lending to India. In the course of our recent CPP review, it was agreed that increased IBRD lending for India was warranted, although determination of the actual amount of IBRD lending for the coming years was deferred until the next Bank-wide lending review. With respect to lending for structural adjustment, the need for the Government to undertake policy reforms in the areas of industry, energy, and trade was stressed. However, given the broad policy changes that would have to accompany a structural adjustment loan, it appears unlikely that agreement on an adjustment program could be reached unless substantial amounts of additional Bank Group resources could be made available. Thus, while we will continue to explore potential structural adjustment strategies with the Government, we also intend to investigate alternative means of supporting proposed sector policy reforms -- in particular, through program components of project lending.

18. Government Decision-Making and Project Preparation. The total commitment of Bank Group resources to India in FY80 reached the record level of US$1,660 million -- US$1,535 million in IDA credits and US$125 million in Bank loans. Our plans for FY81 and FY82 call for further increases in the lending program for India. While we have quite a strong project pipeline for the coming two years, the uncertainties of the last year have slowed the processing of our FY81 and FY82 programs and have made an uncomfortable degree of bunching at the end of this fiscal year unavoidable. It would be appropriate to impress upon the delegation the fact that we

will have difficulty meeting our objectives in terms of total resource transfer to India in the absence of a concerted effort on the part of the Government to expedite decisions required for prompt processing of the lending program.

19. Disbursements. Total Bank/IDA disbursements to India during FY80 were US$729 million (US$561 million IDA; US$168 million Bank), an increase of approximately 36% over the previous year's total of US$538 million. The increase in the level of IDA disbursements was even more marked -- from about US$375 million in FY79 to US$561 million in FY80, an increase of nearly 50%. Moreover, the Ministry of Finance has indicated that it expects a further rise of approximately 30% in Bank/IDA disbursements in FY81, an increase which should be facilitated by procedural simplifications to which we and GOI have recently agreed. Much of the credit for the past year's improved performance goes to the Ministry itself (in particular, the Department of Economic Affairs), which has focussed considerable attention during the year on monitoring project implementation and on streamlining its procedures for preparing and processing withdrawal applications. You may wish to commend the Minister and the Secretary on the performance of their staff and urge them to continue their efforts.

20. Oil Exploration. On a specific matter which the delegation may raise, the Government of India has recently invited foreign participation in off-shore oil exploration and has asked the Bank for assistance in reviewing proposed contractual arrangements with foreign oil firms. This is a welcome development, as India's exploration program has up to now been much smaller than we feel is warranted. GOI has also indicated an interest in adding an oil exploration project to our pipeline. We have agreed to GOI's request that we provide technical assistance in the evaluation of collaborative arrangements with foreign firms. As for the possibility of a Bank-supported oil exploration project, we plan to discuss the Government's intentions and interests in this regard during the negotiations for the Second Bombay High Offshore Development Project, tentatively scheduled for mid-October. The possibility of obtaining commercial financing for the Oil and Natural Gas Corporation's development program will also be discussed.

Biographical Data

Mr. R. Venkataraman, Finance Minister, is 69 years old. A lawyer by training, Mr. Venkataraman was educated at Madras University (M.A., LL.B.). In the early years of his career, he practiced law before the Madras High Court and participated in the trade union movement, rising to the presidency of a number of Madras-based unions. A veteran Congress leader, Mr. Venkataraman has had a long political career. He was active in the Quit India Movement (and, as a result, detained from 1942-44), a member of the Provisional Parliament of 1950, and elected to the first Lok Sabha in 1952, where he remained a member until 1957. From 1957-67, he was Minister of Industry in the Madras State Government, while holding intermittently a number of additional portfolios, and from 1967-71 he was a Member of the Central Government's Planning Commission. In 1971, he became Managing Editor of the Labour Law Journal and since 1977 has served as a member of the Parliament representing Madras. During his career, in addition to taking a particular interest in labor and trade union affairs, Mr. Venkataraman has been active in a number of international organizations. In particular, he served as leader of India's delegation to the ILO in 1958, delegate to six sessions of the U.N. General Assembly between 1953 and 1961, and President of the General Assembly's Administration Tribunal from 1969-79.

Mr. R.N. Malhotra, Secretary, Ministry of Finance, Department of Economic Affairs, is 54 years old. Educated at the Punjab University and Lucknow University, Mr. Malhotra holds a B.Sc. in Physics and Mathematics as well as a Bachelor's Degree in Law (LL.B). In 1951, he joined the Indian Administrative Service and was assigned to the Madhya Pradesh cadre. Between 1951 and 1970, he held a variety of posts at the State level, concentrating in the areas of Public Finance and Banking. From 1970 to 1975, he served as Fiscal Adviser in the IMF, posted in Indonesia, Tanzania, and Washington. Since 1975, Mr. Malhotra has been in the Ministry of Finance's Department of Economic Affairs, first as Joint Secretary (Bank/Fund), then Additional Secretary, and, since Manmohan Singh's transfer to the Planning Commission in April, as Secretary.

The delegation will also include Dr. R.M. Honavar, Chief Economic Advisor, and Dr. M.D. Godbole, Joint Secretary (Bank/Fund), both of the Department of Economic Affairs, Ministry of Finance, and may include Mr. D. Das Gupta, Special Assistant to the Minister of Finance.

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7 18/2/19

RECENT POLITICAL DEVELOPMENTS

1. General Situation. Mrs. Gandhi's Government remains firmly in control at the Centre and in all States except West Bengal. By-elections for 15 State assemblies in late November saw a marginal accumulation of support for the Cong (I) (10 seats retained, three gained, two lost). The opposition remains fragmented.

2. Although there have been numerous expressions of a general malaise in the Government, it is difficult to see concrete effects of this. Indeed, a number of specific actions over the past year -- the management of the foodgrain shortfall, the difficult decisions to raise prices of POL, fertilizers and the issue price of selected cereals, and the preparation and approval of the Sixth Plan only slightly behind schedule -- would, if anything, point in the opposite direction. Nevertheless, over the past several months there has emerged among a cross section of Indian public and private leaders a mood of disappointment in the Government's performance and skepticism of its ability to act, which is in itself a matter of concern.

3. Considering the substantial power and authority commanded by Mrs. Gandhi, it was not surprising that two actions taken late in 1980 sparked off national debates about the threat to democracy and the political system in India. First a National Security Ordinance was promulgated which provided for preventive detention without trial for a period of up to one year for a broad spectrum of "anti-social" behavior. Second, Mrs. Gandhi opened a National Conference of Lawyers a call for a national debate on the institution of a presidential form of Government. Some commentators have expressed surprise at the continuing inclination of the Government to obtain more power rather than concentrating on using the substantial amounts it has more effectively. Mrs. Gandhi has recently backed off from suggestions that she wish to change the form of government.

4. Government Appointments. There remain unfilled cabinet vacancies (Defense, Industry, Works and Housing, Steel and Mines, Agriculture, Education, Labor). Changes in Secretarial appointments are frequent. Two recent Ministerial changes have been made: former Petroleum and Fertilizers Minister (Patil) was shifted to Shipping and Transport and replaced by P. C. Sethi; Railways Minister Tripathi resigned (after public criticism of railway performance by Mrs. Gandhi) and was replaced by K. Pande, formerly Minister for Irrigation.

5. In early March, an Economic Administration Reforms Panel was established to be headed by L. K. Jha, who would be given the same status as Deputy Chairman of the Planning Commission and report directly to Mrs. Gandhi. The panel is expected to deal with major economic policy issues and ensure more rapid implementation of Government decisions.

6. Assam. In January a Congress (I) Government under Mrs. Taimur was installed. Previously the Assam Ministry had been headed by various personal advisors to Mrs. Gandhi, seconded from the Central Secretariat.

While it was hoped in Assam that this change to "representative" Government indicated the prospect of a more conciliatory attitude by the Centre, it has brought no appreciable progress towards convening talks. Each side has preconditions for talks which are not acceptable to the other. The 'students' remain militant and capable of organizing spontaneous and successful bandhs. However, their position has been considerably undercut by the resumption of crude oil production and refining in early February.

7. Farmers' Agitation. In November a relatively unknown farmer in Pune, Sharad Joshi, organized local farmers (mainly surplus producing cultivators, it seems) to agitate for what they termed 'remunerative' farmgate prices. They asked that prices be indexed to movements in consumer prices rather than production costs. At the same time they demanded lower prices of inputs. The agitation spread to other States (Tamil Nadu, Gujarat, Bihar, U.P., Karnataka, A.P.) though there seemed to be no uniformity in the way demonstrations were organized. Mrs. Gandhi reacted sharply to anyone who tended to speak out for farmers' interests, publicly snubbing Maharashtra's Chief Minister Antulay and having a Minister of State in Karnataka sacked. She refused to see Joshi in Delhi; he was sent to talk instead with the Minister of Agriculture. Terming these talks 'fruitless', Joshi vowed to resume his demonstrations in late January, to culminate in a march to Delhi in mid-March. Despite the attempts made by some political parties (especially the Lok Dal and Forward Bloc in Bihar) to court the agitators, the farmers' agitations have tended to by-pass political parties. In late February Mrs. Gandhi herself staged a massive "kisan" (farmers) rally in Delhi. She spoke out forthrightly, making clear that concessions to sectional groups would not be considered if they were inimical to the larger economic interests of the country.

8. It is difficult to assess to what extent these agitations are representative of the farming community or only of a certain class of the wealthier farmer-politicians. Objectively their case for higher prices for sugarcane at least appears weak. There is a danger that by their influence on state governments, these farmers' groups could circumvent the efforts of the GOI to establish, through the Agricultural Prices Commission, a rational agricultural pricing policy.

INDIA

CURRENT ECONOMIC DEVELOPMENTS

1. The rebound of the Indian economy in 1980/81 from the disappointing performance of the previous year was slow in coming, despite a return to normal weather in 1980. Nevertheless, many economic indicators began improving in the last half of the fiscal year, with some indicators picking up sharply. After the falls in both agricultural and industrial production in 1979/80, many observers had expected a strong recovery in 1980/81, with foodgrain production exceeding the 1978/79 record of 132 million tons, an early easing of basic supply constraints, and industrial production growing by as much as 8%. In the event, foodgrain production will not exceed the 1978/79 level, although the crop will be a good one. Several supply constraints, particularly rail transport and electricity, persisted longer than had been expected, although there had been early improvement in some, such as coal production and port clearance. Industrial production rose by only 4% during 1980/81, although it is now rising at a faster rate, and growth in 1981/82 should be much stronger. Real GDP rose by about 8% during 1980/81.

2. Agriculture. Agricultural production rose by about 14% in 1980/81 after the 16% fall in 1979/80. The 1980 monsoon was one of India's best through August. The rains appeared on time and were well distributed. Unfortunately, the monsoon deteriorated sharply in September and some areas, particularly in the western part of India, experienced long breaks in the rain. This adversely affected all crops; but groundnut and cotton, which are both grown in Western India, were more affected than foodgrains. In broad terms the 1980 monsoon was a normal one, although worse than normal for a few crops. It was much better than 1979's but not nearly as favorable as 1978's. Table 1.1 presents estimates of the 1980/81 crop along with comparable estimates for the previous two years.

3. Fertilizer consumption grew only slowly for the second year in succession. In the three years 1976/77 through 1978/79, consumption grew by 17% to 27%. During 1979/80, consumption grew by only 2.7%, due to drought. During 1980/81, consumption grew by only about 5% despite better weather, because of a 38% price rise during the year and short supplies. Area under irrigation continues to rise at the accelerated rates of over two million hectares per annum, divided about equally between surface and groundwater development.

Table 1.1

AGRICULTURAL PRODUCTION, 1978/79 TO 1980/81

	1978/79 (Revised)	1979/80 (Final)	1980/81 (Provisional)	Percentage Change During 1979/80	1980/81
Foodgrains (million tons)	131.9	108.9	125-130	-17.4	15-19
Five Major Oilseeds (million tons)	9.6	8.1	8.4	-15.6	3.7
Cotton Lint (million bales)	1.4	1.3	1.3	-3.0	-
Sugarcane (million tons)	156.5	128.0	155.0	-18.0	21.0
Agricultural Production Index Triennium ending 1969/70 = 100	139.4	117.0	133.0	-16.0	14.0

Source: Ministry of Agriculture and World Bank estimates.

4. The final estimate of the 1979/80 foodgrain crop of 108.9 million tons was much lower than earlier estimates. This meant an unprecedented fall of 23 million tons from the previous year's record crop of 132 million tons. Even though some fall was to be expected as the trend level is below that record, the low production meant a large reduction in the domestic availability of foodgrain during 1980. This was managed in ways that successfully avoided much of the distress that has accompanied low harvests in the past. Government foodgrain stocks were 17.4 million tons at the start of 1980, and during 1980 public agencies procured 11 million tons through price support programs. Public distribution of grain through the Fair Price Shops was 13 to 14 million tons. The Government released another 2 million tons through Food for Work Program, which continued to be needed in 1980 to handle the effects of the 1979 drought on employment and income of agricultural laborers. Thus foodgrain stocks were drawn down by 5 million tons during 1980, and the stock level at the end of December was 12 million tons, 5.5 million tons of wheat and 6.5 million tons of rice. Although foodgrain prices did rise somewhat starting in June 1979, the rise in 1980 of 16.7% has been no higher than that of the total for all commodities.

5. Availability of sugar became strained during 1980, particularly in the last quarter. The very low level of sugarcane production during 1979/80 showed up during 1980 as a severe scarcity of sugar, despite

marginal imports. The proportion of the cane crop sold to the mills also fell because village and small scale processors were able to offer higher prices to the farmers since the prices of their products, unlike sugar, are not controlled.

6. Despite the low production of edible oils in 1979/80, per capita availability was maintained through 1980 at levels only slightly below the high levels of the past four years by continued imports of over 1 million tons of oil. Nevertheless, reports of yet another poor groundnut crop in 1980/81, speculation that the Government would limit imports for 1981 to at most 1 million tons of oil, and reports of an informal agreement between the Government of Gujarat and oil millers to restrict movement of groundnut oil out of Gujarat, caused prices to spurt at the very end of 1980.

7. The Government increased support and procurement prices for a variety of agricultural commodities as part of its pricing policy to encourage expanded production. In general, the procurement prices of foodgrains were raised more than the price of other agricultural commodities. The issue prices of rice and various coarse cereals distributed through the public Fair Price Shops were raised in November 1980 to offset the higher procurement prices. The prices of coarse cereals were raised 10% and rice 9% to 10%, depending on the variety. The levy price of sugar (the price paid to mills for the sugar levied by the Government) was raised 23% at the same time to compensate mills for the increased price of cane which mills are required to pay farmers.

8. Many analysts have argued that the procurement prices of rice and wheat, which become support prices in many markets at harvest time, are already high enough and think that the Government should raise the support prices of certain other commodities, particularly pulses and oilseeds, faster than those for rice and wheat. The fall in the foodgrain stocks during 1980, however, means the Government needs to boost procurement out of the larger 1980/81 foodgrain crop to replenish stocks. The latest rise in the procurement price for rice and the recommendation for the large increase in the procurement price for the 1981 wheat crop can be interpreted as needed to ensure ample procurement. As India expects to export a limited amount of cereals during the next four years, it will also be important to set procurement prices so that export of the cereals is possible at world market prices without a loss to the Government.

9. The procurement and support prices set by the Central Government sometimes are different from those established by State Governments. In the past States have occasionally set foodgrain procurement prices slightly higher than those adopted by the Centre. States sometimes stipulate state advised prices which sugar mills must pay to farmers for sugarcane and which are much higher than the statutory minimum prices fixed by the Central Government. During 1980/81, farmer agitation in

Maharashtra and elsewhere has led some State Governments to fix higher support or minimum market prices for sugarcane, cereals and, in Maharashtra, onions.

10. Industry. Industrial production deteriorated sharply in 1979/80, registering a decline of 1.4% after four years with an average rate of growth of almost 7%. In 1979/80 manufacturing industries declined by 2.1% while electricity generation increased by only 2.1%, and mining and quarrying was virtually stagnant. Shortages of power and essential commodities (coal, steel, cement), agricultural setbacks due to drought and labor unrest contributed to the deterioration in industrial production in 1979/80.

11. During 1980/81 public infrastructure and the supply of certain basic commodities continued to be a constraint to industrial production. Railway transport was perhaps the biggest bottleneck. Even though coal production did increase markedly early in the year, many users of coal complained of shortages as coal stocks rose at pitheads. For the year as a whole, coal production rose about 6% to reach 110-111 million tons. Power generation rose only by 7%. The production of steel continued to decline during 1980/81, as power and coal continued in short supply. Production of fertilizer rose only marginally as a rise of over 10% in the production of phosphatic fertilizer just barely offset a decline of about 1% in the much larger production of nitrogenous fertilizers. Nitrogenous fertilizer production was hurt by power shortages, by labor troubles, and particularly by feedstock supply problems that derived from the Assam situation 1/. The latter directly affected the production of crude oil, which declined 14%, and the production of refined petroleum products, which fell by 9%.

12. Several factors affecting industrial production improved in the second half of 1980/81. Power production rose sharply starting in November, and production of several important commodities, such as steel, cement and aluminum, rose as well. Rail transport also improved with the freight traffic in the last months of the year higher than average. Mandays lost in labor disputes were only one-quarter of the previous year's level.

1/ Political agitation in Assam resulted in an embargo in the movement of crude oil and oil productions out of Assam during virtually all of 1980. This meant two major refineries, Bungaigon in Assam and Barauni in Bihar, operated very little, resulting in severe shortages of naphtha feedstock as well as other petroleum products. Although no resolution of Assam's political crisis is yet apparent, full production of crude oil was resumed (under Indian army supervision) in February 1981.

13. Overall, the index of industrial production rose about 4% in 1980/81, as improved performance in the second half of the year offset the poor first half. See Table 1.2. In fact, the second half performance has established a rate of growth that, if continued, would indicate quite strongly industrial growth in 1981/82.

Table 1.2

INDEX OF INDUSTRIAL PRODUCTION, 1979/80 AND 1980/81

(1970 = 100)

	1979/80			1980/81		
	Apr-Sep	Oct-Mar	Year	Apr-Sep	Oct-Mar	Year (Provisional)
Mining and Quarrying	139.2 (5.9)	151.0 (-3.7)	145.1 (.7)	135.6 (-2.6)	158.1 (7.6)	149.0 (2.7)
Electricity	195.1 (7.1)	188.6 (-2.5)	191.8 (2.1)	192.5 (-1.3)	218.4 (15.8)	205.4 (7.1)
Manufacturing	140.2 (-1.7)	146.8 (-2.5)	143.5 (-2.1)	140.6 (.3)	157.6 (7.4)	149.1 (3.9)
General Index	145.2 (-)	151.0 (-2.7)	148.1 (-1.4)	144.9 (-.2)	163.3 (8.1)	154.1 (4.0)

Source: Bank staff estimates

Note: Figures in parenthesis are percentage change over the corresponding period of the previous year.

14. The Government introduced a variety of policy changes designed to improve the environment for industrial investment and production. Some of these were announced in the June budget speech of the Finance Minister, some in the July Industrial Policy Statement of 1980 and others in various notifications and announcements throughout the year. One of the most important changes was the significant increase in the categories of industrial firms allowed automatic expansions of 25% in five years without a new licence or other permission from the Government, subject to certain

conditions 1/. A virtually identical group of industries qualifying for automatic expansion was allowed to regularize existing capacity in excess of authorized capacity, subject to certain conditions 2/. In the budget speech, the Finance Minister announced modifications in the convertibility clause now included in loan agreements between public financial (term lending) institutions and industrial firms. This clause allows the Government (through the lending institutions) at its discretion to convert loans outstanding into equity. The changes are that now the clause will apply to loans exceeding Rs 10 million (US$1.25 million) rather than Rs 5 million, and the convertibility clause would not be exercised to raise the Government's holding of a firm's equity above 40% 3/. On December 3, 1980 the Government announced a partial relaxation of its industrial location policy, which had restricted the creation or expansion of industrial capacity within municipal limits. All of these changes were designed to improve industrial efficiency and make better use of existing industrial capacity.

15. The July 1980 Industrial Policy Statement states that "Government would sympathetically consider requests for setting up 100% export oriented units, requests for expansion of existing units exclusively for

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1/ The 1975 provision for automatic growth was applied to an initial list of 15 engineering industries producing mainly capital goods. The August 14, 1980 notification (following the July Industrial Policy Statement) added another 19 industries considered to be basic or strategic industries or involving high technology or having long-term export potential. These 19 industries produce mainly intermediate goods -- chemicals other than fertilizers, drugs, pulp and paper, automobile tires and tubes, glass, ceramics and cement, non-ferrous metals, fertilizers. The conditions are that the items produced should not be reserved for the small scale sector; expansions requiring imported capital equipment would attract an export obligation; and the firms should not be a dominant undertaking in the industry.

2/ The main conditions are: the item produced is not reserved for the small scale sector, the firm is not a unit controlled under the Foreign Exchange Regulations Act (FERA) or the Monopoly and Restrictive Trade Practices (MRTP) Acts and no additional machinery is installed.

3/ However, in the case of persistent default, mismanagement or continuous closure of a unit producing essential goods or services, the lending institutions, with the concurrence of the Government, can raise their equity through this clause to even more than 51%, if need be.

purposes of export and for allowing higher production for exploiting fully the emerging opportunities". By the end of November 1980, the Government had announced the approval by the Cabinet Committee on Exports of a scheme for providing special facilities to 100%-export-oriented units which includes the exemption of tariff duties on imported capital goods, raw materials and components; liberal imports of raw materials and components, and the non-enforcement of the condition under the Foreign Exchange Regulations (FER) Act that foreign shareholders must reduce their holdings to 40% or less of total share capital. The Monopolies and Restrictive Practices (MRTP) Act has also been amended to exclude exports for the purpose of determining the dominance of a unit under the MRTP Act.

16. The 1980/81 budget contained several tax measures favorably affecting profitability of industry, including a reduction from 20% to 10% of the surcharge on corporate income tax, an additional depreciation allowance and a reduction or elimination of excise duties on a wide variety of goods. To attract additional foreign financing for industry, the Government announced a liberalization of foreign private investment from individuals from OPEC countries, whereby investment would be allowed in certain firms up to 40% of total equity, even where no technology transfer or export obligations are involved 1/.

17. These policy changes are in the direction of liberalization and expansion and have been welcomed in most quarters. They should ameliorate restrictions that have accumulated under India's industrial control policy. Nevertheless, the basic features of the control policy remain in force, so that these changes do not significantly alter the conditions of industrial investment and production prevalent in India. The Government has said that further changes are possible but that it is waiting to see the response from these changes before introducing others.

18. Prices. The rate of inflation continued to accelerate through the first half of 1980/81 and began to decelerate thereafter. In the first half of the year wholesale prices showed the effects of the bad harvests in 1979/80, increased oil prices and, to a lesser extent, continued infrastructural bottlenecks and supply shortages. Rises in certain administered prices, particularly petroleum products and fertilizers, had a significant effect as well. In the last half of the year, prospects of a normal agricultural harvest and some easing of the infrastructural supply constraints ameliorated a bit the price rise, despite another rise

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1/ The investment can be in export-oriented companies or one of the 19 core industries. MRTP and FERA companies can also avail themselves of the investment, and joint ventures can raise loans abroad provided the terms are reasonable. Hotels and hospitals also qualify for this investment.

in the price of petroleum products. Nevertheless, the average rise over the year, 17% was about the same as in 1979/80. Consumer prices broadly reflected previous rises in wholesale prices but at the lower rate of about 12% in both 1979/80 and 1980/81.

19. Growth in the money supply was sufficient to accommodate these higher prices, although it was lower than in the recent past 1/. However, the main source of growth in the money supply during 1980/81, an increase in net bank credit to the public sector, may contain more inflationary potential than the higher rise in the period 1975/76 through 1978/79, when the main source of money growth was the rise in foreign exchange and grain reserves. In fact it is the drawdown of these reserves now that is dampening the growth of the money supply despite fairly heavy public sector borrowing.

20. During 1980/81, about half of the price rise was contributed by food items, mainly by very large rises in the prices of a few items in particularly short supply. Almost all of the rise contributed by food and agricultural items derived from shortages of sugar products, oilseeds and pulses. One-quarter of the price rise was contributed by rising energy prices, and almost all of this was due to POL prices. The remainder was fairly evenly spread among other manufacturers (see Table 1.3).

1/ National product fell about 5% in 1979/80 while the money supply (M3) rose 17%. National product rose 8% in 1980/81 while the money supply rose about 13% to 15%.

Table 1.3

CONTRIBUTIONS OF SELECTED COMMODITIES TO THE ANNUAL INCREMENT IN THE WHOLESALE PRICE INDEX a/

	Weight in the Index (percent)	1979/80 (percent)	1980/81 (Apr-Dec) (percent)
Food Items	47.3	41.1	52.4
of which:			
Cereals	(10.3)	(5.4)	(5.6)
Pulses	(2.8)	(-0.2)	(3.6)
Sugar, Khandsari & Gur	(7.2)	(19.2)	(29.7)
Edible Oils, Oilseeds & Oilcakes	(8.8)	(8.0)	(8.1)
Others	(17.8)	(8.7)	(5.4)
Non-Food Agricultural Items b/	6.4	4.5	1.2
Energy Prices c/	9.7	21.6	26.1
of which:			
Crude Oil, Natural Gas & POL Products	(5.5)	(17.0)	(22.7)
Others	36.6	32.8	20.3
of which:			
Fertilizers	(1.3)	(-0.3)	(2.1)
Total	100.0	100.0	100.0

a/ Based on percentage change in the average level of the index in the period indicated over the average level of the same period of the preceding year.

b/ Excludes oilseeds.

c/ Includes the entire minerals category, which includes a few items of non-energy minerals, which have a small combined weight.

Source: Office of the Economic Adviser, Ministry of Industry, Government of India.

21. The deficit in the 1980/81 Central budget was considerably higher than the Rs 14.5 billion (US$1.8 billion) anticipated at the time the budget was first presented to Parliament. The main reasons for the rise were larger transfers to the States for plan expenditures and greater

budget transfers to public sector undertakings reflecting their lower earnings, or larger losses than expected. Subsidies for food, fertilizers and export incentives remained large -- but they did not grow significantly because the Government raised food and fertilizer prices during the year. Tax revenue reached its expected level.

22. As noted above, net Bank credit to the public sector rose significantly and more accurately reflected the poor revenue performance of the public sector. Many of India's largest public sector organizations (including The Steel Authority of India, Coal India Limited, The Oil and Natural Gas Commission, Oil India Limited and Indian Railways), experienced disappointing revenue performance due to production at lower levels than expected. Although these organizations encountered special problems in 1980/81-- power, coal and rail transport shortages and political unrest -- their poor performance further accentuated the chronic problem of low public sector saving, despite heavy investment in the public sector. Public sector saving probably fell again in 1980/81, after falling from 4% to 3% of GDP in 1979/80.

23. The broad dimensions of the 1981/82 budget were given in the Finance Minister's budget speech to Parliament on February 28, 1981. The total 1981/82 budget is about Rs 249 billion (Rs 153 billion revenue expenditures and Rs 96 billion capital expenditures), about Rs 20.6 billion higher than the revised 1980/81 budget. Total receipts are estimated to be about Rs 233 billion (Rs 143 billion revenue and Rs 90 billion capital receipts), giving a projected deficit of about Rs 15-16 billion, compared with deficits of Rs 14 billion and Rs 20 billion in the original and revised 1980/81 budgets, respectively. The projected 1981/82 receipts include several measures to mobilize additional resources: additional tax revenues, arising mainly from a 5% increase in duties on imports other than edible oils, POL and fertilizer and excise duties on textiles, expected to net, after some reductions in income taxes, about Rs 2.7 billion; income from bearer bonds of about Rs 10 billion; and increases in telephone and railway rates resulting in about Rs 3.5 billion additional revenue.

24. Balance of Payments. India's balance of payments in 1980/81 turned out to be somewhat worse than projected a year ago. The main reason was the continuation throughout all of 1980 of the embargo on the movement of crude oil and petroleum products from Assam. This required the import of about 3.5 million tons of extra petroleum products at a cost of over US$1 billion. Fertilizer production fell due to lack of naphtha from the refineries in the eastern Region, and this also increased the import requirements. The import bill rose to almost US$15 billion. Exports grew in value terms as expected to just over US$9 billion, although the volume growth was only 4% to 5%, slightly lower than hoped. The resulting trade deficit of US$6 billion was higher than expected by about US$1.5 billion. India's increased trade deficit was financed with

modest increases in net invisibles and net aid flows and a very large increase -- from zero to US$1 billion -- in use of IMF facilities. India also drew down reserves by US$550 million to US$6.8 billion, less than six months of imports, the lowest level since the mid-1970s.

Table 1.4

BALANCE OF PAYMENTS ESTIMATES (US$ Million)

	1979/80	1980/81
Exports	7,958	9,050
Imports	-11,111	-15,000
Trade Balance	- 3,153	- 5,950
Net Invisibles	2,448	2,600
Current Account Balance	- 705	- 3,350
Net Aid	1,105	1,465
Use of IMF Credit	-	1,035
Capital n.e.i.	- 178	300
Change in Reserves (- equals increase)	- 222	550
End of Year Reserve Level	7,357	6,807

Balance of Payments Estimates
(US$ millions)

	Estimates		Projections
	1980/81	1981/82	1984/85
Merchandise Exports	9,050	10,300	16,200
Merchandise Imports	-15,000	-16,150	-25,600
Trade Balance	- 5,950	- 5,850	- 9,400
Net Invisibles	2,600	2,850	3,600
Current Account Balance	- 3,350	- 3,000	- 5,800
Net Aid	1,413	1,718	2,055
Other Borrowing (net)	317	612	4,910
Capital n.e.i.	100	-	-
IMF Credit	1,035	-	-
Change in Reserves (- equals increase)	485	529	- 1,169
End of Year Reserve Level	7,094	6,465	7,730
(Months of Import Coverage)	(5.3)	(4.4)	(3.2)

Source: World Bank estimates.

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Thal Fertilizer Project

1. The annexed Board statement by Mr. Hopper sets out the sequence of events which led to our refusal to declare this US$250 million loan effective on December 31, 1980. There was a mixed response to our action by the Indian press. Government reaction was expectedly tough. The Prime Minister, speaking to the press at Calcutta airport, alleged "interference" by the Bank in India's internal affairs, presumably referring to our refusal to accept the Danish firm Messrs. Haldor Topsoe, selected by GOI, as the ammonia plant engineering consultants. Mr. P.C. Sethi, the Minister of Petroleum and Chemicals, has been a more persistent and vociferous critic of the Bank's action. Mr. Sethi has visited Europe recently to try to raise the foreign funds now required to execute the project. Recent press reports of a statement he made in the Lok Sabha (February 12, 1981) indicate that Denmark (US$30 million), Japan (US$69.8 million), Italy (US$20 million) and the UK 1/ (US$67.5 million) are expected to help out with financing the project, and a French commitment is expected shortly. Costs have, however, increased due to the delay in placing foreign orders and the foreign exchange gap is now considerably higher than the US$250 million originally pledged by the Bank.

2. In the meanwhile, we have negotiated the Hazira Fertilizer Project, which was also held up pending appointment of ammonia plant engineering consultants. For this project, we have accepted GOI's selection of Messrs. M.W. Kellog (USA) as the ammonia plant engineering consultants because they have the required qualifications and experience to construct large plants of this size (-1,350 tpd). A US$400 million Credit for the Hazira project is due to be considered by the Board on March 31, 1981.

1/ It is not clear whether this amount excludes the US$45 million of British assistance committed to the Thal project at the time of negotiations.

STATEMENT BY MR. W. DAVID HOPPER TO THE WORLD BANK EXECUTIVE DIRECTORS, JANUARY 6, 1981

Mr. Chairman, in June 1979, this Board approved a Bank loan for India in the amount of $250 million that would support the construction of a very large fertilizer plant at Thal Vaishet, which is close to Bombay. The loan was presented to this Board with the effectiveness condition being the appointment of an ammonia plant engineering consultant, that is, a consultant to assist in the construction of the ammonia lines for this plant.

The first terminal date for effectiveness was November 20, 1979, and at the request of the Government of India, this was postponed, and it has been postponed seven times, to December 31, 1980.

The condition of effectiveness was that the ammonia contractor appointed by the Government would meet the satisfaction of the Bank. Prior to December the 31st just past, the Government of India had indicated to us the selection of a contractor for this purpose and, I will come to that in a moment, that did not meet the satisfaction of the Bank and, therefore, the loan was not made effective at the end of December, and the effectiveness date was not extended.

If I could, Mr. Chairman, I would like to go back a little bit on the history of this activity.

MR. McNAMARA: Surely.

MR. HOPPER: At the time of presentation of the loan to this Board, there had been agreement reached with the Government of India on the criteria and methods that would be used to judge the technical capabilities that the contractor would bring to the construction of two large ammonia lines and to the implementation capabilities for this purpose.

Now, it is customary in the Bank that when we have consultants that we are fairly lenient on the selection procedures of the consultants. But for very large plants of this kind, plants that are at the edge of technology, which are exceedingly large, the consultants carry with them basically the technology that they will supervise, and they carry with them a very deep responsibility to oversee, select and oversee, the contractors that will erect the plant. And, therefore, the bulk of the bids were by firms that combine consulting, engineering and contracting capabilities.

The Government of India had requested bids from six firms. C.F. Braun of the U.S., Kellogg of the United States, Humphreys and Glasgow of the U.K., Tecnimont of Italy, Haldor Topsoe from Denmark--and it was understood that Messrs. Topsoe would have a contractor and would specify that contractor when they submitted their bid, because they are not a contracting firm, and the others are contracting firms--and Toyo Engineering of Japan, were invited to bid.

Under the agreed criteria for judging the bids received, C.F. Braun of the United States was judged the firm that offered the best technology and the best implementation capability. Very close to Braun was Toyo of Japan and Kellogg of the United States.

There was a gulf between those and the three other bidders--Tecnimont of Italy, Topsoe with its presumed contractor, and Humphreys and Glasgow. Accordingly, and as agreed with the Bank and recommended by the technical committee in India that reviewed the bids, an offer was made to C.F. Braun of the United States by the Indian firm that would be responsible for building and operating the plant.

The contracts were initialled, and Bank concurrence for that initialling was given. The contracts were not ratified as required in India by the Government and, indeed, there was a change of Government and, accordingly, the effectiveness date was extended to permit whatever new Government might emerge from the January elections of 1980 to review the initialled contracts.

The new Government came to power and asked for a review of all the old Government's contracting activities. The firms were again contacted, and several firms indicated continued interest. Tecnimont did not. A new technical committee was established to review the contracts, and the new technical committee again recommended C.F. Braun as the firm to be chosen.

The results of that technical committee's recommendations were reviewed by a Cabinet Committee of Government and, in August, mid-August, the Cabinet Committee of Government recommended that the consultancy contract go to Haldor Topsoe of Denmark. We asked the Government of India for an opportunity to review the technical justification for that decision, both on the process offered and on the implementation arrangements of Messrs. Topsoe.

Mr. Chairman, we have had a good deal of contact with Messrs. Topsoe and Snam-Progetti in the past. Indeed, Snam-Progetti is the agreed contractor for the urea lines at the Thal Vaishet plant, and at the Hazira plant which is presently under appraisal by the Bank as a second very large fertilizer plant.

This consultancy contract was for the ammonia lines, and these would be very large ammonia lines, I stress again, at the limits of technology, and in the agreed criteria, experience in establishing and building that kind of plant was an important part of our assessment, although as one component of the assessment.

The Government of India was informed on October 29 that in the Bank's view, what had been submitted to us in September as the justification for the change in contractors was not satisfactory. The Government of India asked for an extension of the effectiveness date of the loan from October 31, to December 31, to permit additional submissions to be made. That request was acceded to, and the effectiveness date became December 31. In that period of time, the Bank's technical staff met both with Mr. Topsoe and with members of his staff, and reviewed the documents submitted to us by the Government of India, which gave the technical details of the plant and the justification for the Government's change of decision.

In assessing the technical details offered for the implementation capability that was available, it was decided by me that the risks inherent in accepting the Government of India's desire to change the contractor were greater than the risks that we outlined to this Board when we presented the project to you, and that they were greater than the risks that a prudent lender would encourage a borrower to undertake. We so informed the Government of India and indicated that we would be unwilling to extend further the effectiveness date beyond December 31.

That is the source of the stories in the "Post" and the New York "Times". I might say, Mr. Chairman, that at no time have I been approached either by the U.S. Government or by any other Government with regard to altering the decisions on this. Information has been sought from us, which we have provided. We have reviewed the circumstances of this with the Executive Directors concerned here, and I think that in assessing this, the assessment has been made entirely on the grounds of the offered technical process, its inherent costs, both at the construction and in the operating stages, and our best estimate of the implementation capabilities in terms of the risks involved.

MR. McNAMARA: Very good. Mr. Fuchs is here, gentlemen, if you you wish further information on the alternative processes, he would be very happy to give it to you.

Are there any other questions that any of you wish to raise? Is there any other business any Director wishes to raise?

(No response.)

MR. McNAMARA: If not, we'll adjourn.

(Whereupon, at 10:40 a.m., the proceedings were adjourned.)