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ISAD(G) Reference Code: WB IBRD/IDA 03 EXC-10-4549S

Series: Contacts - Member Countries files

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

Digitized: <June 28, 2013>

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McNamara Papers

Contacts
India (1973)

THE HERBERT H. LEAHY GROUP
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A1993-012 Other # 8

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Contacts with member countries: India - Correspondence 06

OFFICE MEMORANDUM

TO: FILES DATE: April 25, 1973

FROM: Jochen Kraske

SUBJECT: INDIA - Visit by Mr. M.A. Quraishi, Secretary for Cooperation,
Indian Ministry of Agriculture

Mr. Quraishi called on Mr. McNamara on April 16. Mr. Pande of the Executive Director's Office and Mr. Kraske were present at the meeting.

Mr. Quraishi was in town for the negotiations of the Uttar Pradesh and Madhya Pradesh agricultural credit projects. He said that negotiations of these two credits were substantially completed and expressed appreciation of IDA assistance for these proposed and other ongoing agricultural credit and market projects.

4/25
Mr. McNamara asked Mr. Quraishi about the prospects for the 1972/73 foodgrain crop. Mr. Quraishi explained that a substantial decline from last year's production of 104 million tons had at first been feared as a result of last year's drought; in the meantime, there were good prospects for the current rabi crop being substantially above last year's level so that the total foodgrain production might fall short by only 3 - 4 million tons. Mr. McNamara asked about the current position of foodgrain stocks and how long it would take to rebuild foodgrain stocks to a reasonable level. Mr. Quraishi said that the foodgrain stocks had been virtually depleted but given the good winter crop, especially of maize and sorghum, and assuming normal rainfall during the next monsoon season, it should be possible to rebuild the stocks to a level of 9 - 10 million tons within the next 12 months.

Mr. Quraishi referred briefly to the drought-prone areas program and the other social justice programs of the Indian Government administered by his department. In view of the interest Mr. McNamara had expressed in these programs, he gave Mr. McNamara several pamphlets describing the progress of these programs.

cc: Messrs. McNamara
Cargill
Diamond
Weiner
Picciotto

JKraske:ad

President has seen

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 25, 1973

FROM: Edward B. Cunningham (through Mr. Diamond)

SUBJECT: INDIA - Your Meeting with Mr. B. Sivaraman, Vice Chairman
National Commission on Agriculture and Member of
the Planning Commission

1. Mr. Sivaraman, with whom you are having lunch on June 30, was appointed in 1971 to be the Vice Chairman, and effective head, of the National Commission on Agriculture. He combines this position with that of Member of the Planning Commission responsible for agriculture and irrigation.
2. He has a worldwide reputation for agricultural administration earned especially while he was Secretary in the Ministry of Agriculture with Agricultural Minister Subramanian (1965-1968). He was closely involved in Bank activities in the field of agriculture and is given major credit for his initiatives and responsibilities in introducing into India high yielding wheat, rice and other varieties along with related technologies.
3. He retired from the Indian Civil Service in 1970. He was Cabinet Secretary (the highest position in the Civil Service) from 1969 to 1970. From 1967-1969, he was Secretary in the Ministry of Agriculture. Earlier in his career he served as Chief Secretary in Bihar and then Orissa.
4. We know of no specific operational problems which Mr. Sivaraman may wish to discuss. You may wish to ask him about the foodgrain situation in the current year and the work of the National Commission on Agriculture. A brief note on these two subjects is attached.

Attachment

cc: Messrs. J. B. Knapp
I. P. M. Cargill
W. Diamond
M. L. Weiner

WMClevenger/EBCunningham:rsr/ebc

President has seen

INDIA

Attachment to the Briefing Memo to
Mr. McNamara of June 25, 1973 for
the Visit of Mr. B. Sivaraman

Foodgrains

Total foodgrain production in the crop year 1972/73 is expected to have reached 95-97 million tons. This compares with about 100 million tons in 1971/72 and 108 million tons in 1970/71. This decline has been confined entirely to the summer (kharif) crop which dropped from 84 million tons in crop year 1970/71 to 70 million tons in crop year 1972/73. The 1972/73 (winter - rabi) wheat crop is estimated at 26 million tons, about the same level achieved in 1971/72, which is a disappointment after the crash measures which were taken to try to raise production to 30 million tons. In view of the overall shortage of foodgrains, imports of 2 million tons have already been delivered or arranged, and importation of another 2 million have been decided on and another 2 million is under consideration.

At the beginning of this year, the Government decided to nationalize the wholesale trade in foodgrains, and thereby to ensure procurement of wheat at the Government's fixed price. Scarcity has, of course, pushed prices up sharply (19 percent in March 1973 over March 1972) and has led to hoarding. As a result, only about 4 million tons of wheat from the 1972/73 crop have been procured compared with the target of 8 million tons. Thus, in addition to actual shortages, the Government faces serious distribution problems.

National Commission on Agriculture

The National Commission on Agriculture (NCA) has the widest possible terms of reference to survey the conditions, problems and potentials of Indian agriculture and to make recommendations by the end of 1973 for its advancement and modernization. The Commission's responsibilities specifically include crop production, land and water development, animal husbandry, fisheries and forestry, research, education and training, administration and institutions, as well as land reform. It has already completed 14 interim reports on priority subjects for use by the Planning Commission in the preparation of the Fifth Five-Year Plan. Sir John Crawford, who enjoys a special rapport of long standing with Mr. Sivaraman, is presently in India for preliminary discussions concurrent with those of the mission now in the field reviewing IDA agricultural programs. He plans to return in the autumn, when the Planning Commission/NCA studies have been completed for a comprehensive review of overall agricultural policy and program issues.

June 25, 1973

OFFICE MEMORANDUM

TO: FILES

DATE: March 26, 1973

FROM: Jochen Kraske *JK*SUBJECT: INDIA - Meeting between Mr. McNamara and Mr. Y.B. Chavan,
Minister of Finance

1. Mr. Chavan called on Mr. McNamara on March 23. The Minister was accompanied by Mr. Jagannathan, Governor of the Reserve Bank, Ambassador L.K. Jha, Mr. G.V. Ramakrishna, and Dr. S.R. Sen. Messrs. Knapp and Kraske were present at the meeting.
2. The Minister said that following the discussions he had had with Mr. McNamara at the Annual Meeting and with Mr. Knapp in Delhi, he had given attention to the problem of speeding up disbursements of IDA commitments. He thought these efforts had met with some success. Mr. McNamara agreed that IDA disbursements had recently shown improvement but urged that this matter be kept under close review. *2/27* Proof that India could effectively utilize available commitments was critical to India's receiving a large share of IDA funds and, in general, to future IDA replenishments.
3. Mr. McNamara then referred to the lending program pointing out how distressingly thin the program was for FY74 and FY75. If the FY73 lending target was met - and there were reasonable prospects for this - few projects would be transferred to FY74. The operations program for FY74 itself fell short of the lending target; considering the inevitable slippage, a shortfall in lending from the available commitment authority could only be avoided through serious and immediate efforts both by India and by the Bank at preparing additional project proposals. Mr. McNamara recalled that in the discussions preceding the third IDA replenishment, several donors had expressed scepticism about India's and the Bank's ability to commit as much as \$400-500 million annually. Furthermore, it was no secret that several donors would like to see a reduction in India's share of IDA funds. Mr. McNamara said he felt strongly that India deserved her present share of IDA funds and had the absorptive capacity to use it effectively. However, it would be very difficult to maintain this position if for lack of suitable projects India failed to take advantage of the commitment authority available at present. The Minister assured Mr. McNamara that he would see to it that the necessary efforts were being made to bring up additional projects. He indicated that the Government was considering several new areas in which Bank Group assistance would be important and helpful.
4. The Minister wondered whether the Bank would contemplate a change in the approach of its assistance by giving greater emphasis to program or program-type assistance. He specifically requested that the amount of this year's program credit be raised from \$75 to \$100 million. Mr. McNamara replied that program lending was still a difficult issue. The Bank was an institution set up to provide project assistance. While the need for program assistance was recognized in special circumstances, the proportion of assistance given in this form was strictly limited. Therefore, it was not conceivable that the

President has seen

Bank would provide program assistance to India to make up for the shortage of suitable projects. A more liberal approach to program assistance might well be possible, provided this form of assistance was justified and found to be of highest priority, if it could be demonstrated that the decision for additional program assistance was not dictated by the unavailability of suitable project proposals. Mr. McNamara said that he was reluctant to agree to an increase in the amount of this year's program credit as long as the operations program for India remained weak. He was aware, however, that last year's drought and the consequent need for large foodgrain imports had imposed a heavy additional burden on India's foreign exchange resources. He would bear this in mind when examining the case for this year's program credit within the next few weeks.

5. The Minister mentioned the Government's informal request for Bank Group financing of the Northwest refinery and associated pipeline which had been discussed with Messrs. Knapp, Cargill, Diamond and Fuchs in recent months. He understood that the Bank was reluctant to take up this proposal. Messrs. McNamara and Knapp confirmed that financing of such a project created difficulties for the Bank and particularly IDA. The Bank had not so far financed any refineries and only two or three pipeline projects in the last five years. The pipeline projects had come in for some criticism; it had been pointed out that funds for such projects were available on suitable terms from other sources. There was a widespread feeling that IDA should concentrate its efforts and resources on projects more specifically directed at overcoming the causes of poverty and lagging development. Mr. Knapp recalled the difficulties encountered with last year's shipping project which had been criticized on these grounds; several Executive Directors had then expressed the view that IDA had not been set up to finance what would appear to be essentially a commercial venture. Mr. McNamara felt that proceeding with the refinery and pipeline project, even if it was of high priority, could create problems for future IDA replenishments out of proportion to the advantage for India of receiving IDA funds for this project. It might not be in India's best interest to proceed with this project. However, Mr. McNamara agreed to examine this project further, if the Government still wished us to pursue it, but warned that if in the process of doing so it became clear that this project would create problems, we would not proceed further with it.

cc: Messrs. McNamara ✓
Knapp
Cargill
Diamond
Weiner

JKraske:ad

79.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 23, 1973

FROM: John E. Merriam

SUBJECT: Meeting with S. Sethuraman of the Press Trust of India

Mr. S. Sethuraman, special correspondent, Press Trust of India (PTI), New Delhi, is visiting the Bank this week at the invitation of the Information & Public Affairs Department. I understand you have agreed in principle with William to receive him for a brief interview, and time has been set aside on your calendar for Friday, July 27, at 5:30 p.m. I would recommend that you meet with him for 20-30 minutes. I think we should work on the basis of prepared questions presented to you in advance. I will accompany Mr. Sethuraman.

This morning I had an opportunity to talk to him. He is a serious and experienced journalist -- one of twelve senior correspondents of PTI. The Press Trust is particularly important to us because it reaches throughout India as a cooperative wire service to 350 newspaper subscribers and to all India Radio. Sethuraman foresees writing a series of articles on the World Bank, which should appear between now and the Annual Meeting.

Sethuraman has 28 years experience with PTI and has almost exclusively devoted his time to economic writing, except for being the correspondent covering the Indian parliament. He has recently done an excellent news story on your book "One Hundred Countries, Two Billion People", which got good play throughout India.

Your last meeting with Indian journalists in April 1970, got the Bank good exposure. Such a result at the end of your first five years is important, and, also, timely in view of the considerable concentration on non-Indian aspects of our work in the news output of the next few months.

JEM:rgw

B.
Note time +
give back to me.

wh 7/27

OK B.

Strong leadership 'must' for growth: McNamara

Washington Times - Delhi, 12/1/73

NEW DELHI, April 17 (PTI)—Mr Robert McNamara, president of the World Bank, has said that for development to succeed in any development time frame, there should be "strong political leadership backed by informed and articulate public support."

Political leaders and the public all over the world have to reflect more deeply on the problems faced by two billion people, "hundreds of millions of whom are literally struggling for survival," in 150 developing nations, he adds.

The principal themes on development policy which Mr McNamara has been highlighting over the last few years have been presented in a volume, "One hundred countries, two billion people" just published in New York.

Mr McNamara, who is now entering his second five-year term as president of the World Bank, says the book would encourage "a new approach to the development problems of the world" and says "the character of international life in the next century—

for rich and poor nations alike—will depend largely on the success of the development effort."

Mr McNamara says "the success of this effort should be measured not by overall economic statistics, which sometimes "obscure the essence of the problem," but "by what it does "to enhance the lives of individual human beings."

The World Bank president has placed issues for consideration by both the richer and developing nations.

He says that with a "massive shortfall in aid", affluent nations should demand the discriminatory barriers to trade that prevent the poor nations from increasing their exports. The developing nations must be given a fair chance to earn the foreign exchange necessary to manage their mounting debt burdens and to finance their agricultural and industrial development.

Mr McNamara says that the rich nations are only being asked to share "a tiny percentage of their continuously increasing wealth."

The fundamental question the developed nations must ask themselves, Mr McNamara says, is which is more important in their national interest—to funnel the total future increment in national income into an endlessly expanding consumer economy (even all its by products of waste and pollution) or to dedicate a modest share of that increase to improving the fundamental quality of life in the developing world.

He says the critical issue within the developing world is not simply the rate of growth but "the nature of growth." In these countries' pursuit of "rapid economic advance, the needs of 30 per cent of their population are being largely left behind. "The task, then, for these governments is to reorient their development policies in order to attack directly the personal poverty of this huge and most deprived segment of their people. This, the governments can do without abandoning their goals of vigorous over-all economic growth."

But Mr McNamara adds, "they must be prepared to give greater priority to establishing growth targets in terms of essential human needs—in terms of nutrition, housing, health, literacy and employment—even if it be at the cost of some reduction in the rate of advance in certain narrow and highly privileged sectors whose benefits accrue only to the few."

The World Bank president emphasises the paramount importance of bounding population growth. This he says, would require "decades of effort. In the meantime, new strategies should be developed to restrict directly the population and unemployment that would otherwise inexorably occur."

Mr McNamara adds that the "major programme of greatly expanded assistance to developing countries launched by the World Bank in 1961 had helped to counter the "discouraged trends" in aid in the late sixties and to set in motion "shifts in strategy to meet the evolving character of development itself."

Growing nations need strong leaders

Financial Express
18/4/23

—McNamara

NEW DELHI, April 17. (PTI) — Mr. Robert McNamara, President of the World Bank, has said that for development to succeed in any acceptable time frame, there should be "strong political leadership backed by informed and articulate public support."

"Political leaders and the public all over the world have to reflect more deeply on the problems faced by two billion people, hundreds of millions of whom are literally struggling for survival," in 100 developing nations, he adds.

The principal themes on development policy which Mr. McNamara has been highlighting over the last few years have been presented in a volume, "One Hundred Countries, Two Billion People," just published in New York.

Mr. McNamara, who is now entering his second five-year term as President of the World Bank, hopes that the book will encourage world-wide discussion on the profound problems of development and says: "The character of international life in the next century—for rich and poor nations alike—will depend largely on the success of the development effort."

Mr. McNamara says that the success of this effort should be measured not by overall economic statistics, which sometimes

"obscure the essence of the problem," but by what it does "to enhance the lives of individual human beings."

The World Bank President has posed issues for consideration by both the richer and the developing nations.

He says that with a "massive shortfall to aid" affluent nations should dismantle the discriminatory barriers to trade that prevent the poor nations from increasing their exports. The developing nations must be given a fair chance to earn the foreign exchange necessary to manage their mounting debt burdens and to finance their agricultural and industrial expansion.

While urging action to increase aid and thereby reduce the shortfall, Mr. McNamara points out that the richer nations are only being asked to share "a tiny percentage of their continually increasing wealth."

The fundamental question the developed nations must ask themselves, Mr. McNamara says, is "which is ultimately more in their national interest — to funnel the total future increment in national income into an endlessly spiraling consumer economy (with all its by-products of waste and pollution) or to dedicate a modest share of that increase to improving the fundamental quality of life in the developing world?"

Mr. McNamara says that the critical issue within the developing economies is not simply the rate of growth but "the nature of growth." In these countries' pursuit of economic advance, the poorest 40 per cent of their populations are being largely left behind.

"The task then for these Governments is to reorient their development policies in order to attack directly the personal poverty of the huge and most deprived segment of their people. This the governments can do without abandoning their goals of vigorous overall economic growth."

But Mr. McNamara adds that they must be prepared to give greater priority to establishing growth targets in terms of essential human needs — in terms of nutrition, housing, health, literacy and employment — even if it be at the cost of some reduction in the pace of advance in certain narrow and highly privileged sectors whose benefits accrue only to a few.

The World Bank President emphasises the paramount importance of bringing population growth into "reasonable equilibrium with economic growth. This he notes, will require decades of effort. In the meantime new strategies should be fashioned to combat directly the malnutrition and unemployment that will otherwise inevitably occur.

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OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara DATE: July 27, 1973

FROM: Jochen Kraske (Through Mr. William Diamond)

SUBJECT: Meeting with Mr. Y.B. Chavan, Minister of Finance of India

1. Mr. Chavan, who is here for the meeting of the Committee of 20, has an appointment with you on Monday, July 30, at 6 p.m.
2. Mr. Chavan (60 years old) was educated in Indian colleges, from which he holds a law degree. He participated in the independence movement from the early 1930s; and, after serving as Chief Minister of Bombay (1956-60) and of Maharashtra (1960-62), he came to the Central Government as Minister of Defense, a position he held until 1966. He was in charge of Home Affairs from 1966-70, when he took over the Finance portfolio from Morarji Desai following the split in the Congress Party.
3. Mr. Chavan is no longer the powerful figure he was earlier; his strong base in Maharashtra assures him a seat in the Cabinet, but he is not among those who are close to Mrs. Gandhi. This is largely because Mrs. Gandhi was never sure of his loyalty to her during the Congress Party split, and also because at one time he was being seriously considered as a successor to Mr. Shastri. Even so, he has been relatively successful in his present capacity in introducing fiscal measures urgently required to raise internal resources for the Plan, the refugees, and the situation arising out of the 1971 war with Pakistan.

Principal Subjects for Discussion

4. International Competitive Bidding for Civil Works. As you know, our lending program in India has long been bedevilled by this problem. The unwillingness of the Government to submit civil works contracts to ICB without a preference to domestic bidders and our unwillingness to agree to any preference at all, has kept us out of priority sectors in India (irrigation, highways) and has had a serious effect on project preparation and on the prospects of IDA lending to India. We have taken a very large step towards resolution of this problem: You have submitted to the Executive Directors a memorandum on "Promotion of Domestic Construction Industries in Developing Countries", which will be considered by the Board on August 7. It proposes a 7.5 percent preference for domestic contractors in bid evaluation, a substantial concession. Although the Indian Government should find this acceptable, we do not yet know its reaction, if the Executive Directors approve the new policy.
5. Mr. Chavan should be aware of the policy paper. You might wish to inform him of the significance of our concession and get his reaction.
6. Long-Term Aid Requirements. We have under way a study of India's longer-term aid requirements, including debt relief, for consideration at next year's Consortium meeting. The study will be based on the Fifth Five-Year Plan which is now scheduled to come out in draft at the end of September. A principal

President has seen

difficulty in this study may be to reconcile a realistic assessment of aid requirements with the Government's stated objective of recuding net foreign assistance to zero by the end of the Plan period in 1978/79. Although the objective is couched in conditional terms (sustained and high growth rate of exports, rapid expansion of output of major import substituting industries and redistribution of consumption in favor of low-income groups), the Government is firmly committed to this objective and the Fifth Five-Year Plan is expected to uphold further this commitment. This not only raises the possibility of major disagreement between the Government and ourselves in assessing development prospects for the next five years; it also has implications for our efforts at mobilizing external assistance for India.

✓ visit
- commit
with
5th Plan

7. At the Consortium meeting in June, several members questioned the realism of the zero net aid objective and expressed concern about the impact this may have on their governments' ability to mobilize assistance for India. While they commended India for striving towards self-sufficiency, India's premature commitment to the target could trigger self-fulfilling reactions which might be difficult to reverse if imbalances and shortfalls eventually occurred and required a higher level of aid. The implications of the zero net aid objective are obviously not limited to bilateral assistance; they also affect the scope of the Bank Group program and future IDA replenishments. Current projections show that disbursements of Bank loans and IDA credits would reach about \$620 million in 1979, that is over 80 percent of India's total debt service in that year, of about \$750 million. It is difficult to believe that disbursements of bilateral aid from Consortium and non-Consortium countries would decline to \$130 million in 1979, unless new aid commitments are substantially reduced below the present level. Quite apart from this, it is hard to believe that IDA's contributors would approve of a program of lending to India which would have the effect of off-setting the net transfer by India to her creditors. In other words, replenishment itself or India's share of IDA's resources might be endangered if the Government sticks to the zero net aid target.

8. We are not sure that the Government fully appreciates these implications of the zero net aid target. You might wish to use the occasion of your meeting to bring them home to Mr. Chavan.

9. In this connection, pledges made at the June meeting of the Consortium totalled \$1136 million, very close to our recommendation (\$1200 million). This is especially noteworthy as it does not, apart from \$30 million of debt relief, include any pledge by the US. Included in the pledges is approximately \$170 million of debt relief, to be provided within the framework worked out last year. However, agreement on debt relief could not be finalized. The principal hang-up concerns India's debt-aid relations with non-Consortium countries, in particular the USSR and Eastern Europe, with which aid flows are negative. Understandably, Consortium members do not wish to provide debt relief while debt service to east bloc countries continues in full, albeit in barter form. Consortium members insist that India seek to arrange "comparable relief" from her rupee bloc partners. The Government is aware of the Consortium's concern and is presumably discussing the matter with the Russians and others. Meanwhile, we are trying to work out a statement on the subject which will satisfy both India and the Consortium, so that the debt relief arrangements for this year can be finalized.

Progress of Our Lending Program in India

10. Project Preparation. India's IDA allocation for FY74 is around \$400 million. The Operations Program currently includes 13 projects for a total of \$484 million. Although five projects (for which we still await presentation) and the industrial imports credit will not be ready for Board consideration until May or June, prospects for meeting the lending target are satisfactory. Indeed, as we receive project submissions over the next two months and are able to firm up the program, we shall try to arrange to shift about \$50 million projects from IDA to the Bank (e.g. Trombay fertilizer for \$30 million).

11. The Government seems to be seized with the urgency of speeding up and streamlining the project preparation process. The FY75 program now includes 17 projects for total lending of \$795 million, including \$60 million by the Bank. The quality and timeliness of project preparation by agencies of the Central and State Governments, especially in the field of agriculture, has been a matter of concern to us. One of the problems in the past has been the lack of a clear focus of responsibility for this work. To deal with this, we have suggested that project preparation working groups be set up for all projects identified for Bank Group financing.

12. Disbursements. IDA disbursements in FY73 totalled \$230 million, compared with \$92 million in FY72; total Bank Group disbursements in FY73 were \$276 million, close to the forecast of \$282 million prepared at the beginning of February. The level of IDA disbursements last year was thus comparable with the level of IDA commitments reached in FY71. Our current forecast for disbursements in FY74 for \$433 million, of which \$401 million from IDA, would be roughly in line with the level of commitments in FY72.

13. Agricultural Credit. Disbursement of \$65 million for acquisition of tractors under six credits is still delayed over procurement problems. We are prepared to ask Board approval of an amendment to the six contracts in order to permit IDA to finance domestic tractors as well as imported contractors, if the Government agrees to certain conditions involving chiefly simplified procurement procedures and relaxed controls on tractor production and distribution. Although we had reason to believe these would be readily accepted, we have so far had no response.

14. Agro-Aviation Project. This \$6 million credit has been on the books since January 1971. As a result first of Government hesitancy in importing the aircraft to be financed by the credit and then of the Government's wish to change their specifications in a manner which we consider unjustified, we are on the verge of arranging for cancellation.

cc: Messrs. Knapp
Cargill
Weiner

JKraske:WDiamond:ad

MEMORANDUM FOR THE RECORD

Visit of Mr. Swaminathan, Director-General of the Indian Council of Agricultural Research, August 2, 1973

Mr. Swaminathan, who was here for the meeting of CGIAR, reported that the discussions had proceeded well on the formation of a rice association in West Africa and the Middle East center. In response to Mr. McNamara's questions, he said that the cattle center in East Africa was well underway. He also mentioned that the Hyderabad Center for Research on Rainfed Agriculture was being set up and Mr. Cummings was doing a good job.

Mr. McNamara asked what increases in yields he would expect on dryland and the response was that, for an example, sorghum could increase from a current yield of 300-400 kilograms per hectare to 1500 kilograms per hectare. The main input needed was fertilizer.

Fertilizer plans in India had not been accurate and there was current shortage in production and difficulty in finding imports in the short run. Mr. McNamara mentioned that he had discussed and seen this problem on his first visit as President of the Bank.

A second major problem Mr. Swaminathan mentioned was the lack of technically and socially trained extension agents. The social education would be needed in order to organize farmers for collective efforts in agricultural activities, such as pest control and tubewell irrigation. The education program for farmers should include technical literacy, and he was proposing a network of technical schools.

AL
August 3, 1973

President has seen

OFFICE MEMORANDUM

TO: FILES DATE: August 16, 1973

FROM: Jochen Kraske

SUBJECT: INDIA - Mr. McNamara's Meeting with Mr. M.G. Kaul,
Secretary, Ministry of Finance

1. Mr. M.G. Kaul called on Mr. McNamara on August 14, 1973. Mr. Kaul was accompanied by Ambassador T.K. Kaul, Mr. G.V. Ramakrishna, and Dr. S.R. Sen. I was present at the meeting.

ICB for Civil Works

2. Mr. McNamara referred to the recent discussion by the Executive Directors of the proposal for a 7.5 percent preference for domestic contractors. The meeting had confirmed that this issue was divisive and, although a formal vote had not been taken, there was no majority in support of the proposal. It was clear from the discussion that a level of preference of 7.5 percent represented the maximum which had any chance of being adopted and that a 15 percent preference was out of the question. Mr. McNamara asked whether Mr. Kaul thought that the Government of India would be prepared to accept international competitive bidding for civil works contracts with a 7.5 percent preference for Indian contractors. Mr. Kaul explained that the Cabinet had so far insisted on a 15 percent preference; however, he felt that the Cabinet could be persuaded to revise its earlier stand and to be satisfied with a 7.5 percent preference in the light of the outcome of the Board discussion. He undertook to explore the views of his Government on his return to India at the end of the week and to inform the Bank by August 27 whether or not a 7.5 percent preference would be an acceptable solution.

3. Mr. McNamara said that he was in the process of devising a modified proposal for a 7.5 percent preference to be applied selectively in some of the developing countries. He explained that it was essential to arrive at a solution which would find unanimous or near-unanimous support and to prevent this issue from becoming a matter of confrontation of interests between Part I and Part II countries. Modification of the proposal accordingly would have to take into account the significance of a preference for the different developing countries as well as the particular interest of the developed countries' construction industry in certain areas, such as Latin America. Mr. McNamara emphasized that it was important that this issue be substantially resolved before the Annual Meetings; for this reason, it was necessary to have the Government of India's prompt reaction to the 7.5 percent level of preference. Mr. McNamara asked Mr. Kaul whether he had any thoughts on how the preference proposal might be modified. Mr. Kaul felt not sufficiently familiar with the implications of this proposal for the various Bank member countries to make any useful suggestions. He mentioned that he had raised this issue with Mr. Whitlam, the Australian Prime Minister, at the Commonwealth Conference in Ottawa, and that Mr. Whitlam had assured him of Australia's favorable consideration. He was planning to raise the issue also with the British authorities on his way back to India.

Operations Program

4. Mr. McNamara commented briefly on the status of the operations program for FY74 and FY75. He was satisfied that the program for FY74 had been strengthened and expressed his appreciation of Mr. Kaul's efforts in this respect. Mr. McNamara went on to say that maintaining India's share of the available IDA resources was a matter of serious concern to him. The large amounts of IDA assistance committed to India tended to attract criticism because people tended to overlook the large size of India and India's population and the fact that India's IDA allocation on a per capita basis was among the lowest. To convince IDA contributors of India's need for assistance, it was very important to build up and maintain an ample pipeline of projects for financing.

Zero Net Aid Objective

5. In this context, Mr. McNamara referred to the Government's objective of reducing net foreign aid to zero by 1979. He commended the Government for emphasizing self-reliance as a means of stimulating domestic resource mobilization. However, it was dangerous and counter-productive to emphasize this objective as a declared goal of Government policy vis à vis the donors of foreign aid. It was unrealistic to expect that India could be able to continue her development efforts at a reasonable pace without a positive transfer of foreign aid by the end of the Fifth Five-Year Plan. This was especially obvious if one took a look at the prospective expenditures on oil imports in that year. Mr. Kaul agreed with the points made by Mr. McNamara; both he and Ambassador Kaul indicated that they would try through contacts with the foreign press to put the Government's zero net aid objective into the proper perspective. Mr. Kaul agreed in particular with the comment made by Mr. McNamara on the rapidly rising expenditures on oil imports. He suggested that this was a problem common to all non-oil producing developing countries which deserved the Bank's attention. He suggested that the Bank might try to persuade the oil-producing countries to alleviate the burden on the developing countries by persuading oil producers to charge lower prices or to sell oil on concessionary financial terms. Mr. McNamara doubted that the Bank could accomplish anything in this respect. Oil prices reflected the current and prospective relationship between supply and demand; as long as demand kept increasing at a very high rate, prices were bound to go up. He thought it was rather important for the developing countries to limit the growth of demand in a prudent and rational manner and to restrict, for example, the use of private automobiles. This would have the further benefit of reducing urban investment needs. As to the funds accumulated by the oil-producing countries, he had been raising large and increasing amounts in these countries for the Bank's program so that there was already some flow of funds from the oil-producing back to the developing countries.

6. In response to a question by Mr. Kaul, Mr. McNamara commented briefly on the current status of the fourth IDA replenishment. Mr. Kaul referred briefly to his discussions with various Consortium members on the question of debt relief for 1973/74 and mentioned that the issue of the treatment of India's non-Consortium debt in the Record of Understanding was still unresolved. Mr. McNamara suggested that this matter be taken up with the Asia Region.

cc: Messrs. McNamara
Knapp
Cargill
Diamond
Weiner

JKraske:ad

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara DATE: August 9, 1973

FROM: Jochen Kraske (through Mr. M.L. Weiner) *MLW*

SUBJECT: INDIA - Meeting with Mr. M.G. Kaul, Secretary, Ministry of Finance

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1. Mr. Kaul, who is in Washington on his way back from the Commonwealth Prime Ministers' Conference in Ottawa, has an appointment with you on Tuesday, August 14, at 6:30 p.m.

8/10

2. Mr. Kaul, who is 52 years old, joined the Indian Civil Service in 1944, the last year of the ICS. He served in the West Bengal and U.P. State Governments before moving to the Central Government in the 1960s as Joint Secretary in the Ministry of External Affairs and later in the Prime Minister's Secretariat. In 1965, he became Minister (Economic) in the Embassy here in Washington. He returned to Delhi in 1969 to become Joint Secretary in the Ministry of Foreign Trade. In 1970, Mr. Kaul became Additional Secretary in the Ministry of Finance and last December succeeded I.G. Patel as Secretary, Department of Economic Affairs. Although not as bright and brilliant as his predecessor, he might well be more effective in dealing with other Government departments and bilateral donors because of his less abrasive and more conciliatory attitude.

Subjects for Discussion

3. International Competitive Bidding for Civil Works. The discussion of the proposals contained in the paper "Promotion of Domestic Construction Industries in the Developing Countries" confirmed that there is a serious division of opinion on the question of preference for domestic contractors in bid evaluation. It became quite clear that a preference of 7.5 percent is as high as any developed country is prepared to concede. Further consideration of the proposals has been postponed until mid-October in the hope that an acceptable compromise can be worked out in the meantime. This will be difficult and it is quite conceivable that the necessary support for a modified preference proposal cannot be found at the present time. The Secretary may have suggestions as to how the impasse between the Government of India and the Bank could be overcome in the event that there is not sufficient support for a preference. In particular, the Secretary may be able to indicate whether in those circumstances the Government would be prepared to reconsider the Bank's original proposal for shadow pricing of labor as an interim solution to permit the processing of high priority irrigation and highway projects. ✓

4. Long-term Aid Requirements. You may wish to reiterate your concern, expressed recently to the Finance Minister, over the Government's insistence on reducing net foreign assistance to zero by the end of the Fifth Plan in 1978/79. The zero net aid objective has implications for the scope of the Bank Group program and the level of future IDA replenishments. Current projections show that disbursement of Bank loans and IDA credits would reach about \$620 million ✓

in 1979, that is over 80 percent of India's \$750 million total debt service in that year. It is difficult to believe that disbursements of bilateral aid from consortium and non-consortium countries would decline to \$130 million in 1979, unless new aid commitments are substantially reduced below the present level. Quite apart, it is hard to believe that IDA's contributors would approve of a program of lending to India which would have the ostensible effect of offsetting the net transfer by India to her creditors.

5. 1973/74 Debt Relief. Agreement on approximately \$170 million of debt relief to be provided by the Consortium for the current fiscal year has not yet been finalized. The remaining difficulty concerns India's debt-aid relations with non-consortium countries, in particular the USSR and Eastern Europe. Understandably, Consortium members do not wish to provide debt relief while debt service to east bloc countries continues in full, albeit in barter form. Consortium members insist that India seek to arrange "comparable relief" from her rupee bloc partners. A statement on this subject satisfactory to both India and Consortium members has still to be worked out; we hope to discuss and settle this matter during Mr. Kaul's visit.

6. FY74 IDA Allocation. India's IDA allocation for FY74 is around \$400 million. Mr. Kaul may ask why the amount is so much smaller than in FY73 (\$494 million). Disproportionately high commitments of IDA funds during the first two years of the third replenishment period are responsible for the reduction in the amount of IDA commitments during the current fiscal year. Assuming IDA commitments in the order of \$400 million in the current fiscal year, India's percentage share of IDA over the entire third replenishment period would be in the order of 38 to 39 percent.

7. Program Lending. The amount of program lending for the current fiscal year is at present set at \$75 million. Mr. Kaul may ask why the amount is reduced as against last year's Industrial Imports credit of \$100 million. We are striving to maintain a reasonable proportion between total lending and program lending to India in any one fiscal year. We will examine India's specific need for industrial imports assistance in the course of the appraisal of the next credit and might be prepared then to consider a higher amount of program lending if this can be justified, bearing in mind India's needs but also such factors as the strength of our program for project assistance in India.

8. Agricultural Credit. Disbursement of about \$65 million for purchase of tractors under six different credits is still delayed over procurement problems. We are prepared to ask Board approval of an amendment to the six credit agreements so that IDA may finance domestic tractors as well as imported tractors, provided the Government agrees to certain conditions involving simplified procurement procedures and some movement towards relaxing Government controls over domestic tractor production and distribution. We had reason to believe that these conditions would be readily accepted by the Government; however, we have not so far had a response and expect that Mr. Kaul may now bring the answer.

9. Agro-Aviation Project. This \$6 million credit has been on the books since January 1971. The Government at first hesitated to import the aircraft, later the Government proposed a change in the specifications and procurement arrangements which we consider, after repeated examination, unjustifiable. Unless the Government is prepared to proceed with the procurement in the manner originally agreed, we see no solution other than to cancel the credit. We hope to discuss and settle this matter during Mr. Kaul's visit.

cc: Messrs. Knapp
Cargill (o/r)
Diamond (o/r)

JKraske:ad

83

OFFICE MEMORANDUM

TO: FILES

DATE: September 1, 1973

FROM: Jochen Kraske *JK*SUBJECT: INDIA - Visit by Mr. Ranjit Gupta, Inspector General of Police,
West Bengal

1. Mr. Ranjit Gupta, the head of the Police Administration in West Bengal, called on Mr. McNamara on August 29. I was present at the meeting.
2. Mr. Gupta expressed his appreciation of Mr. McNamara's personal interest in Calcutta's development and of the recently approved credit for urban development in Calcutta. The CMDA needed assistance and the IDA credit was encouraging to institutions and people concerned with the rehabilitation of Calcutta. Mr. Gupta went on to say that serious problems remained to be tackled in West Bengal, especially in the rural areas. Incentives for farmers to invest, increase production and stay on in the rural areas were insufficient. Consequently, there was a continuing migration of people from the rural areas into Calcutta. Mr. Gupta **thought** that investments in drainage improvements were especially needed and would go a long way in many areas of the State boosting agricultural production.
3. In response to a question by Mr. McNamara, Mr. Gupta said that the general political situation in Calcutta and West Bengal was considerably improved over what it had been several years ago, especially at the time of Mr. McNamara's visit to Calcutta in 1968. Problems with political ideologues and antisocial elements persisted but were no longer unmanageable. Mr. Gupta mentioned the programs which he had initiated to deal with this problem. The Naxalite movement had substantially fizzled out although Mr. Gupta expressed concern that this **movement** could receive renewed support from across India's borders with Bangladesh and Nepal.
4. Mr. McNamara enquired about the current food situation and Mr. Gupta replied that present indications were for a good monsoon and accordingly a normal or better than normal kharif crop. In this context, Mr. Gupta wondered whether the accumulation and carrying of large foodgrain stocks would be a reasonable policy for countries like India. Considering the substantial costs of carrying huge inventories, would it not be more economic to accumulate adequate foreign exchange reserves and to import foodgrains whenever crop failures required supplementary supplies? Mr. McNamara thought it would be alright to follow such a policy as long as droughts and resulting crop failures were confined to comparatively small regions. However, such a policy was obviously doomed, if, as last year, droughts affected foodgrain supplies on a global scale so that imports were just not available or available only at exorbitant prices. Mr. McNamara mentioned that he planned to discuss the problem of grain storage and foodgrain stock operations in his Annual Meeting address and that he would advocate greater emphasis on this area in the Bank's lending program.

cc: Messrs. McNamara, Knapp, Cargill, Diamond, Weiner

JKraske:ad

President has seen

OFFICE MEMORANDUM

DATE: August 28, 1973

TO: Mr. Robert S. McNamara
THROUGH: Mr. William Diamond
FROM: Jochen KraskeSUBJECT: INDIA - Visit by Mr. Ranjit Gupta, Inspector General of Police in West Bengal

1. Mr. Gupta has an appointment to see you on August 29, at 6.30 p.m. We do not know what leads Mr. Gupta to visit the United States, nor do we know of any particular subject he would want to discuss with you. You have met Mr. Gupta in the course of your last visit to India, when Dr. Sen introduced him to you.
2. Mr. Gupta, 53 years old, has been in the police service ever since he joined the Government in 1942. He served in various capacities in the Central Government and the West Bengal Government, dealing with law enforcement and criminal investigation. Before moving to his present position, Mr. Gupta was the Commissioner of Police of Calcutta City. As Inspector General of Police, he is the chief of the police administration for the State of West Bengal.
3. We understand that Mr. Gupta is particularly knowledgeable of the problems affecting the development of Calcutta. He should be aware of the IDA project in support of the investment program which is being carried out by the Calcutta Metropolitan Development Authority (CMDA). Our US\$35 million credit assists in financing 44 individual schemes covering water supply, sewerage and drainage, roads and traffic improvements, garbage disposal, environmental hygiene, and housing and urban development. We were encouraged to proceed with this project by CMDA's impressive performance to date and by the sense of purpose and the political stability which now seem to prevail in West Bengal and hold out hope for success of what must be regarded as an ambitious development effort by any standards. We would be willing to provide further assistance to Calcutta once this first project is nearing completion. In the meantime, we would look for strengthening of the institutions concerned with development in Calcutta. This includes the CMDA and state and municipal organizations concerned with the execution of individual project schemes. This would also include a greater and better organized effort at mobilizing in Calcutta a larger share of the resources needed for investments. Mr. Gupta may be in a position to comment on the prospects for institutional reform and greater institutional and financial efficiency; particularly he may be able to comment on the status of proposals for a far-ranging re-organization of local government, including the financial administration within the Calcutta Metropolitan District. This proposal, put forward by the State Planning Board, places the major responsibility for the development and operation of metropolitan services on a single Metropolitan Government with a second tier of local government comprising 23 newly created boroughs which would replace the present multitude of municipalities.

cc: Mr. Knapp
Mr. Cargill

JKraske:ad

I have asked Mr. Kraske to attend the meeting.
WJ

OFFICE MEMORANDUM

TO: FILES

DATE: September 25, 1973

FROM: William Diamond *W*

SUBJECT: Annual Meetings 1973
India Meeting at 4 p.m., Monday, September 24, 1973

1. Mr. McNamara met the Indian delegation at 4 p.m. Monday, September 24.
2. The Minister expressed interest in Mr. McNamara's speech in the morning. Mr. McNamara said he would like to comment on the seriousness of the IDA situation. Although he expected that agreement would be reached at the executive level, here in Nairobi during this week, it was highly unlikely that ratification by legislatures would be completed by the end of the fiscal year. Consequently, there was grave risk of an extensive wait. It was vital, he said, to concentrate the process to the greatest degree possible and to start an emergency program to advance funds for the period from July 1, 1974 until the legislative process is completed, whenever that may be. Mr. McNamara said he was calling the Minister's attention to this problem so that the Minister will be fully aware of its possible consequences and will take the occasion, if he sees fit, to express his views on the subject to other delegations.
3. Mr. McNamara then proceeded to call attention to an article which had appeared in the Indian Statesman and which seemed to imply that the Bank was frustrating India because of the Bank's wish to press unwelcome lending on India in order to achieve its own financial targets. Mr. McNamara pointed to this as an example of the kind of thing which makes life more difficult not only for India but for himself, in his efforts to mobilize resources for IDA and to maintain an important share of it for India.
4. The Minister referred to international competitive bidding, noting the Government's decision to accept a 7½ percent preference, a decision that had called for considerable effort with his Cabinet. Mr. McNamara acknowledged that the ball was now in the Bank's court and that he was prepared to go to the Board with a proposal on international competitive bidding for civil works. He was considering trying out with the key *) had been opposed to preference for civil works, a proposal setting forth specific eligibility requirements for the 7½ percent preference. In particular, that preference would be allowed in countries with an income below \$200. Such preference would be linked to a program to help local contractors in all developing countries. Mr. McNamara said he had already discussed the matter with some of the Board members who opposed the preference, but so far without effect. He was having studies made of two particular cases to show what effect the 7½ percent preference would have had on actual competitive bidding; he thought the evidence would show that the effect would be minimal.
5. The Minister then turned to the general situation in India, noting that the food outlook was pretty good. Although the estimates were still iffy, the Government was now forecasting an output of 100,000 tons of foodgrains. Mr. McNamara asked what would need to be imported until the

*/ members of the Board who

the rabi crop came in. The Minister did not answer specifically, but said that procurement had been stopped in any event because of high prices on the world market. Mr. McNamara asked what had been the effect of the procurement to date on foreign exchange reserves. Governor Jagannathan said that, thanks to good performance of commodity exports and invisibles, the exchange reserves had not dropped. However, it appeared that, when all grains purchased were paid for, reserves would fall by about \$200 million ~~from~~^{to} the level of \$700 million. There was some discussion of the effect of rising oil prices, especially in India, whose import requirements were enormous. Mr. Kaul looked for a silver lining, but Mr. Knapp and Mr. McNamara offered him none.

6. The Minister asked about Mr. McNamara's plans en route to and from Nepal in November. Mr. McNamara said he would let him know when he might pass through New Delhi.

cc: Mr. McNamara
Mr. Kraske

WDiamond:ad

Visit to India 11/3/73
Discussion with Prime Minister

- I. a) What are her views re sharing of and development of waters of the Eastern Rivers?
b) Does she wish technical assistance from Bank -- would talk to her experts a year from now.
- II. Will the 5th Plan move away from the concept of zero net aid? Soviets have gone to US for external aid; why shouldn't India use external public and private sources properly controlled? Domestic savings of 8-10% and investment of 9-11% far below development requirements.

	72/73	71/72	65/66
Net aid	\$215m	\$443	\$1,300
Gross " dis.	900m		1,600

A self-fulfilling policy.

- III. What possibilities does she see for greater state action on agrarian reform?

Re: III. PM said "we are inching along."

- II. PM recognizes value of multilateral aid and re bilateral indicated was wary because of strings, but I emphasized could not obtain her objective of "growth with social justice" without higher rates of investment and although domestic savings rates were low, in a democracy with low incomes per capita it was unlikely they would increase rapidly, and therefore zero net transfer would limit growth; furthermore, taxation of agricultural increment was highly desirable. She pointed to political problems of taxing agriculture.
- I. PM indicated interest but no specific request of Bank. She initiated statement that budget cuts did not indicate a loss of interest in population planning but rather a shift in emphasis to greater use of health facilities. She recently discovered a revered religious leader had spoken, several decades ago, of the necessity of reducing rate of population increase.

Questions:

1. Outlook for 73/74 harvest 110-115m vs 72/73 9.7m; 70/71 108 m - whole index + 20% vs last year.
2. Outlook for prices: currently high inflation - control of state deficits.
3. Is there labor unrest; political weakness of Congress Party in the states?
4. Other countries have made substantial economic progress; India has not; why not?
5. How will India pay for the \$500m of food imports: effect on foreign exchange reserves; imports and through them on industrial growth.
6. Outlook for population growth rate: '70, '75, '80, '90 - trends in new acceptors; budget 73/74 Rs 384m vs 72/73 act Rs 700m.
7. How will 5th Plan agricultural growth target of 4.8% (vs) be attained?
8. How will 5th Plan GNP growth of 5.5% (vs 5% of past 2 years) be achieved - 3 to 3 1/2% for long-term.
9. With debt service of \$726m (up from \$200m in mid-60's) what amount of external aid, domestic savings, and investment is required vs recent 8-10% savings and 9-11% investment?

Visit to India 11/3/73

Discussion with PMS

I) What are her views re sharing of + development of waters of the Eastern River

ii) Does she wish tech. assistance from IBK - would talk to her efforts - go from now -

ii) Will the 5th Plan move away from the concept of zero net aid.

Secrets have gone to US for external aid; why should India use external public + private sources but partly controlled.

Down says 7 8-102 + investment 7 9-112 for below development reqs.

Net aid 71/73 215m 71/72 443 2,966 1,300.

Grounds 900m 1,600.

a self-fulfilling policy

iii) What preconditions does she see for greater state action on agrarian reform.

Re: iii) DM said "we are walking along"

ii) possessing value of multi-lateral aid + re bid indicated was very because of strings, but I emphasized could not obtain her digest of "growth with social justice" is to keep rates of invest. + allow domestic savings rates as low, in a democracy with low reserves, it was unlikely they would engage rapidly + zero net transfer would limit growth;

Questions:

1. Outlook for 73/74 harvest 110-115m?

vs 71/73 97m 70/71 108m - 20% deficit + 20% surplus

2. Outlook for prices: can high inflation control state deficits?

3. Is there labor unrest, pol weakness of Cong. Party in the states

4. Other countries have made substantial econ. prog., India has not; why not.

5. How will India pay for the 500m of food imports: effect on food prices; imports + then then on econ. growth.

6. Outlook for pop growth rate: 70, 75, 80, 85 trends in new acceptors; budget 73/74 Rs 384m vs 71/73 act Rs 700m

7. How will 5th Plan agr growth target of 4.82 (or) be attained

8. How will 5th Plan GNP growth of 5.52 (or 5.2 91/100) be achieved

9. With debt service of 7.15m (up from 7.05m in mid-60s) what amt of external aid, down says, + invest.

is right investment 8-102 says + 9-112

Further more to future of agricultural investment was highly desirable - it had to be a public policy of saving +

to pay interest + invest but no specific request of IBK (over)

She invited statement that budget cuts did not indicate a loss of interest
in pop. phy but rather a shift in emphasis to greater use of health
facilities. She recently discovered a revered religious leader had spoken
several decades ago, of the necessity of reducing rate of M.D. care

