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McNamara Papers

Contacts
India (1968, Nov.)

Meeting with Deputy Prime Minister Morarji Desai, Dr. I.G. Patel, L.K. Jha, Governor Reserve Bank of India, in New Delhi, November 17, 1968

There has been stagnation on the industrial side for two years.

Agricultural growth on the whole this year is only slightly above population growth. Some favorable signs: Agriculture outlook is encouraging; Wheat is particularly good; Rice growth is less satisfactory.

Without a four-year plan now for lack of resources. The problem is both domestic and foreign resources. Agriculture is a sacred cow in taxation: increment of production, in effect, not being taxed -- a state prerogative.

Price rise was 15% per year -- has leveled off this year.

There is a question between the Finance Minister and Planning Commission on how far they can go in mobilizing domestic resources and how much price inflation control can be tolerated.

The problems are in: export sluggishness; industrial stagnation; family planning; slow fertilizer expansion. Agriculture paradox 1967-68 on trend of 1964-65 despite new seed and additional inputs: may possibly be explained by false statistics.

Irrigated acreage approximately 10% of total. Very high priority should be put on water studies of the delta area (several million acres). Many projects are started and not completed: $1.5 billion spent on projects requiring $1.7 billion to complete.

Hard to set priorities because of separation of irrigation and agriculture. Rice varieties which are imported are not well adapted to most local areas but expect to have by 1970 and then irrigation problem will be felt.

Some institutional limitations: credit; Exports: devaluation of 1966 offset by imposition of heavy export tax and removal of subsidies. It India wants exports to grow by 7% to 8% per year(?) it must rely on industrial exports,and to do this, it must reduce attraction of domestic market which is excessively protected. The Bank believes industrial exports need 30-40% incentives.

Desai: Life expectancy in 1932 was 32; it is 52 today. By 1976 or 1978, he believes population can be brought from 2.5 to 1.5%. Had 10% literacy in 1936 and 20% today. He maintains agriculture is taxed at satisfactory levels; farmers pay land revenue, service charges; sales tax, etc. In the famine of 1943, tens of thousands died in Calcutta alone; in the agriculture crisis of 1966 and 1967 there was no famine. Wants Bank lending for public sector -- for fertilizer, etc. They will be agriculturally self-sufficient in two years. They are irrigated to approximately 22% and want to go to 50%. The 4th Plan will be in effect; for two years for lack of funds, but for next three years investment should advance. They will need $1 billion a year for some years.

Now exports are looking up (10% for the year 1969). Wants domestic protection of 27-1/2% on production for Bank projects.

Jha: Public facilities have 5000 too many people; government departments 35-40% too many people.

Files December 3, 1968

William M. Gilmartin

Mr. McNamara's meeting with Mr. Morarji Desai, the Deputy Prime Minister and Minister of Finance, Sunday, November 17, 1968

Present were:

Government of India

Mr. Morarji Desai
Mr. L.K. Jha, Governor, Reserve Bank of India
Mr. I.G. Patel, Special Secretary, Ministry of Finance

World Bank

Mr. Robert S. McNamara
Mr. I.P.M. Cargill
Mr. Gregory B. Votaw
Mr. William M. Gilmartin

Mr. Desai emphasized at some length the economic progress that India has made since the early 1950s. He noted the increase in life expectancy from 32 to 52 years of age, the large increase in foodgrain production from about 53 million tons to 95 million last year, the rise in school attendance and in literacy, and the improvement in per capita food and cloth consumption and generally in the standard of living of the mass of the population. He noted the elimination of periodic famine and pointed out that these improvements reflect not only larger production but also better income distribution. He said that on the basis of observation and memory he believes that economic progress since Independence has been considerably greater than actually recorded in the statistics.

He recognized that with all these gains India is still faced with great and serious difficulties. One is the rapid growth of population. He said that personally he does not approve of artificial contraception, but he nevertheless recognizes that a decline in population growth is essential and that family planning to this end must be accepted and heartily supported in the interest of India's future welfare. He noted the effectiveness of the Government's family planning program, and believes the program can bring about a reduction in the rate of population growth to 1.5 or 1.6 percent per year (at present about 2.5 percent) by the latter 1970s.

He noted other difficulties in the field of production, especially industrial production, because of inexperience and other factors making for high costs in India - especially the political and social pressures for labour legislation comparable to that of advanced countries and for employment of excessive numbers of workers because of high unemployment and underemployment. Despite these obstacles, he said that industrial efficiency is improving and mentioned in this connection the record of increasing productivity of Hindustan Machine Tools.

He further emphasized India's great financial burdens including the heavy demands on public finance, and India's very large foreign debt. He said possibilities for greater resource mobilization are limited because taxation is already heavy, although he noted that the burden of corporate tax rates is often exaggerated because there are very liberal offsets to the high rates in the case of an expanding company. In agriculture, he said it was difficult to raise taxation because the size of the vast majority of farm holdings is so small and most farm incomes are so low. Nevertheless increases in agricultural taxation are being levied through higher irrigation rates and indirect taxes on products sold to farmers. As for the foreign debt, despite the burden of debt service, Mr. Desai emphasized Indian recognition of this as a first claim on resources with no question whatever of Indian determination to meet its foreign obligations in full.

As for the future, Mr. Desai felt that because of financial limitations it is difficult to foresee a marked upsurge in development for perhaps another two years. Nevertheless, he noted that there is now a revival in industrial production and very encouraging gains are being made in exports. He felt that India could be helped through a difficult period with World Bank support. He referred to the long and friendly relations of the Government with the World Bank and emphasized India's continuing need for World Bank understanding, not only of the country's difficulties but also its accomplishments and potentialities.

He urged a sympathetic view of World Bank loans to public sector enterprises, emphasizing especially the heavy financial requirements of the fertilizer program and noting that the financial problem was just as great whether plants were public or private. In reply, Mr. McNamara explained that there is no World Bank objection to financing public sector enterprises, including fertilizer plants, provided they meet Bank project standards and there is assurance of efficient operation.

Mr. Desai also referred to World Bank policy to require international competitive bidding for supplies financed by the Bank. He noted India's recent gains in import substitution and the large domestic capability now for producing capital goods. However, at the present Indian stage of industrialization domestic capital goods costs are high and it is difficult to compete internationally. Therefore, some preferential treatment for Indian suppliers is needed in competition with foreign suppliers, and Mr. Desai said he would consider a preference of 27½ percent for Indian goods over and above the CIF price of foreign goods as a fair arrangement. He said he recognized that this should be only a temporary arrangement while Indian industry was developing toward a stage of greater efficiency.

WMG:bw

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Meeting with M.S. Swaminathan, Indian Agricultural Research Institute, New Delhi, November 18, 1968

Swaminathan is extraordinarily articulate, intelligent and competent. His advice would be invaluable to the Indonesians on organization as well as technology of research.

IARI's research is based on:

1. Small plots of Indian agriculture
2. Labor "surpluses"
3. Soil analysis to establish fertilizer requirements

Desai's resistance is in relation to time, and, therefore, must have continuing replacement of varieties plus diversity.

There is a negative correlation between yielding ability and resistance to adverse factors.

IARI has emphasized "maximum productivity per day" utilizing crop rotation and minimization of crop period: four crops per year in certain multiple rotation plans. Can obtain 15,000 net profit per hectare from average farmer.

Demonstration program, initiated by IARI, based on new variety, improved practice and a below-average farmer.

IARI's main requirements: total research effort must be stepped up substantially; new seeds and approaches bring new problems; nutrients in the soil are rapidly used up; pests and diseases rapidly adapt to new varieties; extensioning effort is too small to match magnitude of the problem and interest of the farmer.

IARI's annual budget, including regional stations, is $2-1/2 million; ideal requirement: $4 million per year for five years (including $2 million of foreign exchange). [Could the World Bank organize and finance a similar Institute for Indonesia?]

Dr. B. P. Pal, Director General, ICAR: an extraordinarily able agriculture scientist and research adviser; magnificent ability to organize transition of science to production, then applies it.

He concluded that new varieties, new methods and new cropping patterns can increase the yield 2 to 3 times on irrigated lands, possibly including some supplementary irrigation but excluding effect of basic irrigation.

20% of the cultivated area under irrigation but efficiency of irrigation is very low; introduction of new technology requires further change (45% of total area is cultivated -- the highest in the world.)

Robert S. McNamara

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Meeting with B. Sivaraman, Indian Agricultural Research Institute, in New Delhi, November 19, 1968

Sivaraman is intelligent and well informed, and is the highest senior civil servant in Agriculture.

330 million acres are under cultivation (max. of 20 million acres could be added).

1. 100 million have rainfall over 45 inches.

2. 120 million have rainfall of 30-45 inches.

3. 110 have rainfall less than 30 inches.
   330

Should be able to support one paddy crop; but all paddies are long term; they are trying to reduce from 160/180 to 120/130.

In the rich crop zone (cotton, ground millet, etc.) - 30 to 45 inches of rain is enough for one crop.

Part of it, 20 inches and over, can be used but requires irrigation: had 20 million acres irrigated in 1966 and by 1973 they hope to add 10 million more, and that "should be satisfactory."

They had previously concentrated on surface irrigation (40% less water from canal head to field) but are now moving to tap good water in the whole of the northern belt. These are State programs.

They are experimenting with sprinkler irrigation when water unavailability is low. The cost is 600 rupees per acre.

There is a big change in the farmer's willingness to invest in tube-wells; as much as 3000 rupees per acre, although in most cases 500 rupees is the cost.

In the 4th Plan they will put $300 million per year from banking and government systems, plus $100 million from private savings, in private irrigation.

The World Bank will be asked to loan to the Agricultural Bank to meet $300 million per year requirement.

A supporting program is rural electrification: $350 million for five years.

Farmers: Yield in the past 3-4 years increased 2- to 4-fold in wheat and rice. Credit availability is a limiting factor in applying the new technology.

Vice Chancellor Rao - an informed, articulate, able administrator of an agriculture university (advised by Univ. of Illinois), growing in the pattern of the University of California at Paris. His institution is a center of adaptive research; maximization of productivity through optimum time of planting, fertilizer application, irrigation, cropping mix, etc., and extension services.

Robert S. McNamara

Files December 17, 1968

R. Picciotto

<u>Notes on a meeting about agricultural research convened on November 18, 1968 on the occasion of Mr. McNamara's visit to India.</u>

1. The meeting was held in a conference room of Rashtrapati Bhawan in New Delhi. Present at the meeting were:

Mr. B. Sivaraman,	Secretary of Agriculture Government of India
Mr. B.P. Pal,	Director General, Indian Council of Agricultural Research
Dr. J.S. Kanwar,	Deputy Director General, Indian Council of Agricultural Research
Mr. K.P.A. Menon,	Secretary, Indian Council of Agricultural Research
Mr. M.S. Swaminathan,	Director, Indian Agricultural Research Institute

2. At Mr. McNamara's request, Mr. M.S. Swaminathan gave the background of the recent foodgrains research breakthrough. In the fifties, a large scale fertilizer trial program (20,000 observation plots) was undertaken. Indian soils were known to be deficient in N and P_2O_5. However, the trials revealed that fertilizer applications in excess of 20 lbs per acre were generally not profitable with the grain varieties traditionally available to Indian cultivators. For this reason, the research focus was shifted to the development of new fertilizer responsive cereal varieties. While the so-called "improved" varieties, largely based on local materials, proved only marginally superior to the traditional varieties, a genetic breakthrough occurred when nationwide breeding programs making use of foreign materials began to throw up new "high-yielding" varieties.

3. In the case of paddy, high yields and substantially increased capacity to absorb fertilizers proved possible when the morphology of the "Indica" paddy plant was modified through crossing with dwarf Taiwan material. There was not yet the combination of high fertilizer responsiveness with such rice grain qualities as low milling breakage, minimum grain "stickiness" and short duration growing periods. Progress was being made, however, towards the combination of these charactertistics. A new breakthrough was imminent.

4. In the case of wheat, the breakthrough came in 1965 when Mexican dwarf material was introduced in India. It was subsequently crossed with Indian parent material to produce new varieties with the amber color and the unleavened bread-making characteristics preferred by Indian consumers. In the coarse grains field, African material was introduced under Rockefeller-sponsored sorghum and millet research programs. The resulting hybrid

varieties have proven more resistant to drought than traditional varieties.

5. Mr. Swaminathan stressed that major credit for success of these breeding programs went to international technical cooperation (through FAO, USDA, Rockefeller and Ford). He also stressed that the new varieties have thrown up many urgent research problems in various fields including water control, plant protection, cultural practices, mechanization, etc. Much remained to be done by IARI (for the most advanced aspects of agricultural research) as well as by State universities and research agencies (coordinated by ICAR) for better adaptation of new varieties and practices to local conditions.

6. After congratulating Mr. Swaminathan for his exposition, Mr. McNamara inquired into the costs of the research program. Mr. Swaminathan said that IARI's annual budget was about Rs.18 million and that it might be stepped up to Rs.28 million during the Fourth Plan. Mr. McNamara observed that the high priority of agricultural research was evident given high payoffs already flowing from past research investment.

7. Mr. J.S. Kanwar then proceeded to describe ICAR's research effort in such fields as water management, fodder resources, livestock breeding and farm mechanization. He lacked the lucidity and enthusiasm of the preceding speaker as there were few dramatic research results to report in these fields. When Mr. Votaw inquired about the status of research in commercial crops, Mr. Sivaraman said that these and other interesting questions would be discussed in the plane to Purnea. On this note of expectation, Mr. McNamara concluded the meeting by thanking the participants.

RP/mm.

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Meeting with P.R. Nayak, Secretary, Ministry of Petroleum and Chemicals, in New Delhi, November 18, 1968

1.	900,000 tons of capacity (600,000 tons of production) in operation today	- 12 plants
2.	1,270,000 tons of capacity under construction	- 9 new plants under construction
3.	1,500,000 tons of capacity - 9 new projects approved by the government	- 1 expansion - 8 new plants
4.	1,700,000 tons of capacity under consideration	- 8 new plants (including Tata, Burma and Shell, +4-5 in public sector +2-3 uncertain
	5,300,000 Total	37
	3,700,000 Estimated Production by 1973/74 a/	29 plants

5. 8 plants will cost $800 million, including $250 million in foreign exchange. About 60% has to come in public sector and balance could come in private sector, but later projects will require substantial financing from domestic and/or foreign government or international agency financing. [What should be the World Bank program?] Government supplies rupee requirements for private project (even at ratios of 5/1) and this is arousing increasing opposition. [The World Bank must obtain from the Government their plan for constructing, managing, and operating efficiently 29 plants by 1973.] (Patel says Japanese are better operators than the U.S. Shouldn't the Bank discuss with them their views in regard to the 29-plant program?)

Robert S. McNamara

a/ Assumes that approximately 50% of the plants in 3 and 4 are built and all plants operate at realistic (75+%) of rated capacity.

Files November 19, 1968

Kenneth A. Bohr

Meeting on Fertiliser and Oil
November 18, 1968 12:00 noon

Those present were: Indian Government

Mr. P.R. Nayak, Secretary, Petroleum & Chemicals
Mr. V.N. Kasturirangan, Chief Project Officer, /Ministry of Petroleum & Chemicals
Mr. B. Sivaraman, Secretary of Agriculture
Mr. K.B. Rao, Adviser (Industry & Mining) Planning /Commission
Dr. I.G. Patel, Special Secretary, Ministry of Finance
Mr. R.R. Iyer, Economic Affairs, Ministry of Finance

World Bank

Messrs. McNamara, Cargill, Votaw, Gilmartin and Bohr

Program of Investment and Production

1. Mr. Nayak described how the government expected the Indian requirements of fertiliser to be met over the next five years. Nitrogen requirements, he said, were expected to grow from 1,700,000 tons of nitrogen in 1969-70 to 3,750,000 tons in 1973-74. Through 1971-72 imports of 800,000 to 1 million tons per year would be needed but they should start to decline in 1972-73 and by 1973-74 he expected that all the nitrogen required would be produced in India. The basis of this expectation was as follows:

(i) Present capacity is about 900,000 tons of nitrogen in 10 major plants and several small ones. 9 projects are now under construction, including 3 expansions, with a total capacity of 1,270,000 tons. These projects will be coming into production over the next two years giving a total capacity of 2,200,000 tons in 16 major plants and several small ones by 1970-71.

(ii) In addition to projects under way there are a number of projects in various stages of preparation. One group of 9 projects, including two expansions, consists of those already approved by the government. The total capacity involved is 1,500,000 tons. 7 of these are in the private sector. The government realises that all of these may not materialise. As has been the case several times in the recent past the entrepreneurs, both foreign and Indian may decide not to undertake what they have proposed.

(iii) The second category includes 8 projects under consideration but not yet approved. The total capacity is 1,700,000 tons 60% of which is expected to be in the public sector.

(iv) From the total of these two groups of projects, 15 new plants and 2 expansions, it is expected that sufficient new capacity will be constructed to enable production to reach 3,700,000 tons by 1973-74. At that time the total number of major plants in operation will be 29 or 30.

Finance

2. Dr. Patel pointed out that financing the fertiliser program was a major problem. A large amount of foreign exchange was required; $250 million was needed for the Fourth Plan program. The terms on which they had been able to obtain it thus far had been difficult with the exception of the finance provided by U.S. AID for the Trombay plant. Much had been financed on a deferred payment basis. Financing for the cooperative plant at Kandla was to be from the Bank of America under the U.S. guarantee program. The interest was expected to be 7%, and amortization over 15 years. In addition to finding the foreign exchange the government under its policy also had to find rupee finance even in the case of private sector plants. The fact that a project was in the private sector did not necessarily mean that much private finance was provided. The Kotah project of Delhi Cloth Mills was cited as the exception which needed no assistance from public financial institutions.

Management

3. Mr. McNamara asked how they expected to deal with the problem of management in this large program. It seemed to him that the burden on technical expertise would be tremendous.

4. In reply, Mr. Nayak said they were approaching the management problem in several ways:

(i) They were retaining experts who had helped build a plant to assist for a time in its operation. The example was the Gorakhpur plant recently completed by the Fertiliser Corporation of India. The equipment and technical collaboration had been Japanese. A number of the collaborator's staff would remain for some time at the plant.

(ii) They had increased the tempo of training which included sending more senior staff abroad.

(iii) They had entered into a management agreement with Fertiliser Cooperative International in the case of the cooperative plant to be built at Kandla. There was a similar arrangement in the case of the Madras plant in the public sector. In this case the foreign collaborators were managing the project.

(iv) Finally, Mr. Nayak pointed out that in the case of the projects with foreign collaboration management assistance from the foreign parties was expected.

5. Dr. Patel argued that foreign management was not necessarily an answer. It was expensive and not always effective. He also said that Japanese technical assistance had the best record in the fertiliser field in India but they were limited in the use of Japanese equipment and technical help by the amount of Japanese credits of international credits available. He suggested that the Bank itself should hire a corps of 100 fertiliser experts to assist in programs such as India was undertaking.

6. Mr. McNamara said he might give such a proposal consideration if he thought it might help. He wanted to make clear that by management he meant the total problem involved in getting plants to operate at capacity. This included both administrative and technical aspects. Furthermore this was not an ideological matter at all. He was concerned with the efficiency of the operation and not the source of finance. If the Bank were to help finance this program it would have to be assured of efficient management. Considering the difficulties now experienced in operating 12 plants he saw little chance that India would be able to operate 29 plants at 75% capacity by 1973.

Petroleum

7. Mr. Nayak reviewed the overall situation. Petroleum consumption is now about 15 million tons of crude of which 9 million tons is imported. In addition about ½ million tons of refined products is imported. The development of domestic oil resources has been recent. Up to about 5 years ago production had not exceeded ½ million tons. Present production was about 6 million tons and the expansion of fields now under development is expected to bring production up to 10 million tons. In addition 2-3 million tons is expected to result from new explorations. However, at the same time because requirements will be increasing to 20-21 million tons in the next few years and to 30 million tons by 1975 imports will increase.

8. The situation would be substantially altered if a large discovery of oil were made in the promising area offshore in the Gulf of Cambay. At the present time a number of offers for assistance in exploring this area are being considered. These include collaboration from U.S. and German firms, contract drilling from a U.S. firm and the sale of equipment with assistance in operation from a Japanese firm. Some of these offers

have been made very recently and Mr. Nayak mentioned in particular that the Japanese type of offer in which India operated the equipment with foreign assistance had not been fully analysed. A choice was expected to be made among the alternatives within the next few weeks he said.

KAB:yd

12

Meeting with Ambassador J. Kenneth Galbraith, in New Delhi, November 18, 1968

Land reform with small plots, as in Japan, is the proper step for labor surplus society: sops up labor, holds people out of cities, provides motivation for efficiency.

ICAR controls all agriculture research in the country; headed by Dr. Pal. The IARI is the major research institute in the field.

Robert S. McNamara

13

Meeting with Dr. D.R. Gadgil, Deputy Chairman, and other members of the Planning Commission, in New Delhi, November 18, 1968

In 1956 emphasis was on infrastructure: power and transportation; education, health and research; and development of metallurgical industry. With hindsight, it appears the correct strategy. It is clear, however, that there were management deficiencies and a failure to step up domestic savings rate which forced fall-back on foreign aid.

By 1963 it was clear that economy was developing but it could not meet the stress of wars and droughts.

What has happened is that the dependence on foreign aid rose to 35-40%.

By the beginning of 1967 the situation looked bleak, but by mid-1967 it was clear that investments made earlier in agriculture research and extension was beginning to yield results.

But in 1966-67 they had a period of industrial stagnation.

With a buildup in industry capacity and domestic political insistence on using domestic capacity, it was increasingly difficult to find projects for project aid.

The 4th five-year plan is based on a strategy based on these circumstances:

- taking advantage of agriculture breakthrough with minor irrigation, fertilizer, credit, rural electrification;
- completing, on the industrial side, a number of half-completed projects and going on to the next state: chemicals, fertilizer, oil exploration, newsprint and wood pulp.

To support this, a very large domestic effort is necessary and must reduce dependence on foreign aid -- whereas during the past 3 years, aid was 35-40%. During the 5-year period, it should be reduced to 12-15%; this does not affect the gross foreign aid. They are broadly thinking of $1 billion per year gross, for 5 years. In the first instance they will cut out food aid which amounts to 1/3 of aid.

By the end of the 5th Plan period, they would expect to be on a net aid repayment basis.

This means they must give emphasis to exports: iron ore, etc. Plan on a 7% per annum increase; plan also to restrict imports by expanding domestic production while maintaining liberalized industry import policy.

This policy requires some assurance of annual aid receipts during the next 5-year period.

In case of the World Bank:
1. Need financing for public-owned projects
2. Limitation on "world-tendering" for the project as a whole, including indigenous consulting and design services.

Plan does not have an integrated national water policy.

Two panels, plus a section of the Planning Commission, are working on approaches to a national plan and policy -- "a great deal of work is going on under the direction of the State governments and under the Ford Foundation.

Their irrigational policy is "independently conceived" and is not tied to fertilizer use or timing of extension of optimum cropping patterns.

External aid priorities:

1. In 3 years time, use of fertilizer may be limited by availability, and, therefore, it is given first priority for investment.

2. Second priority requirement is for non-project aid.

3. Industrial investment: petro-chemical; wood pulp.

4. Port development.

5. Financing of local currency component of metropolitan projects (water supply, for example). Calcutta would be very high in their total investment plan.

4th year plan growth rates: agriculture, 5%; industry 10%; overall 5.5% to 6%; exports 7%.

"Growth with stability" is the objective of the plan; this year they are setting aside $210 million for food-grain buffer stocks.

They do not yet have a powerful instrument for taxing agriculture; believe that because the Center's assistance is fixed for 5 years at the beginning, this places pressure on the States to develop new agriculture taxes to allow expansion of their own investment plans.

Last year the National Development Council withdrew a large amount of agriculture subsidies.

Rural credit institutions can be expanded to sop up incremental savings with "visible" use of savings, e.g., sugar mill, fertilizer plant, etc., and in addition, new institutions, e.g., introduction of rural branches of private commercial banks are being encouraged.

Robert S. McNamara

Files

November 25, 1968

Jean Baneth

Meeting at the Planning Commission
November 18, 1968 - 4.15 P.M.

Present were:

Planning Commission

Prof. D.R. Gadgil, Deputy Chairman, Planning Commission
Mr. R. Venkataraman, Member, Planning Commission
Mr. Pitambar Pant, Member, Planning Commission
Mr. B. Venkatappiah, Member, Planning Commission
Mr. Nag Chaudhuri, Member, Planning Commission
Mr. B.D. Pande, Secretary, Planning Commission
Dr. I.G. Patel
Mr. S. Jagannathan

World Bank

Mr. Robert S. McNamara
Mr. I.P.M. Cargill
Mr. William M. Gilmartin
Mr. Gregory B. Votaw
Mr. William Clark
Mr. Rainer B. Steckhan
Mr. Jean Baneth

1. The meeting opened with a statement by Prof. Gadgil. He said that the early strategy of Indian Planning, which had emphasised the creation of basic and industrial infrastructure, was fundamentally correct. The one major failure was the inadequate rise in savings; this forced undue dependance on foreign aid. Also, in the years following 1964, it appeared that the economy was fragile, and unable to cope with the crisis arising from two wars and a succession of bad droughts. At present, industrial production was stagnating, and investment had fallen; yet despite this fall, about 35 per cent of total Plan outlay in the past three years was financed by foreign aid. However, good signs were appearing now. The agricultural revolution was successful, and thanks to it a general upturn was in preparation. Moreover, thanks in part to the liberalisation of imports, the events of the past few years also showed that the structure of Indian industry was more diversified and broader than had been thought.

2. The IVth Plan strategy is going to be based on the recognition of these facts. It will take advantage of the agricultural breakthrough and emphasise it by providing for minor irrigation, fertiliser, credit, rural electrification, etc. Outside agriculture, the main aim is to complete unfinished projects and to provide for some small new projects to correct imbalances in the industrial structure. Capacity for producing consumer

goods and capital goods needed by consumer goods industries is already well developed; major insistence will be on fertiliser production, oil exploration, petrochemicals, some special metallurgy, etc. About half the value of new projects will be for fertiliser production. Despite this, in 1973/74, India would still import about 2 to 300000 tons of finished fertiliser. A very large financing effort is necessary and planned; it is planned to reduce the share of foreign financing from 35 per cent to 12 - 15 per cent of plan expenditure, and thus reduce net foreign aid by about half by the end of the Plan period. Because of the mounting debt service, gross foreign aid will fall less steeply. The Planning Commission is thinking of an average of about $1 billion gross aid per year during the Plan period. They hope that by the end of the following plan period, net repayment may start.

3. A great export effort is also needed. The Planning Commission is thinking of about 7 per cent annual growth to be achieved by widening the commodity base of exports. This projection is supported by the events of the last six to eight months, when iron and steel, engineering, iron ore and similar goods have been doing very well. If this target is achieved, and if the volume of imports is kept down by import substitution and continued restrictions on consumer goods imports, then the balance of payments problem may be solved. Incidentally, continuation of the present liberal policy towards production goods imports is essential in the Planning Commission's view, and in this context, the assurance of aid availability would be most welcome. In particular, it would be desirable for the IBRD to extend a non-project loan as interim relief, awaiting IDA replenishment. This is not too urgent, because imports are now sluggish, but they are bound to rise when the recession ends.

4. Speaking of the World Bank's role, Prof. Gadgil said that in the past, the IBRD lent to the public sector for basic infrastructure only, but not for industry. The phase of basic infrastructure construction is now over. As India has a mixed economy, it would be desirable for her that the Bank should re-think this position. Another important point was that India has developed industrial capacity in many fields, and wants to use it to produce the capital goods needed for investment projects. The world tendering policies of IBRD are an obstacle to the use of this indigenous capacity; Prof. Gadgil thought it desirable to restrict tendering to domestic producers when there is sufficient capacity in India. Similarly, India has good capability in the fields of consultancy and design and desired the IBRD to rely on Indian services in this field.

5. Mr. McNamara thanked Mr. Gadgil for his illuminating introduction. Answering the last points first, he noted that the Bank has no preference for either the public or private sector industry, ideologically speaking. The only requirements were that Bank projects should respond to priority needs, and that they should be well managed. Decisions on lending would be made on these bases only. As for the question of world-wide tendering, this was indeed a well established policy of the World Bank group and one he would be reluctant to move away from. However, the Bank does apply preferences to local procurement in certain cases. The Bank has given much thought to the particular problem of India. He invited Mr. Cargill to comment on this.

6. Mr. Cargill explained that the Bank was now in the process of formulating its position, which was likely to be that Indian bidders for Bank projects should

have an advantage of 27.5 per cent (the present basic tariff), or the actual customs duty on the particular item, whichever is lower. In addition, the Bank would have no objection to letting the Government grant to Indian bidders the benefits of its export incentives. Mr. McNamara noted, therefore, that the Bank was able to meet both of Prof. Gadgil's points, but that it emphasised the need for efficiency on the projects. Prof. Gadgil agreed that there is need for greater efficiency than in the past, especially in the public sector, where managers were coming from the Administration and have not yet always shed the bureaucratic mentality.

7. Mr. McNamara asked whether an overall water use and development plan had been prepared withinthe framework of the IVth Plan. Prof. Gadgil answered that water comes under several headings in the Plan, mainly that of large scale irrigation and small scale irrigation; the latter is the responsibility of the Department of Agriculture. In addition to direct public investment, much reliance will be placed on tubewells and other irrigation works built by the cultivators. The Plan will contain an allocation for agricultural credit; about 3/4 of the cost of the farmers' irrigation expenditures are to be financed by credit. Great insistence is also laid on improving scientific water management which is just in its early stages. This includes all aspects of water use methods. Mr. McNamara wanted to know whether total water plans were prepared for specific areas, taking into account all crop needs, new seeds, cropping patterns, water resources, etc. He was told that, as a basis for such planning ofoptimal water use, an econometric study of the uses of water resources of the Bhakra-Nangal Dam is now conducted under Mr. Pitambar Pant's supervision. There are also two panels advising the Planning Commission, one studying the water and other resources needs connected with the new technology, the other the water resources available in the country. The studies of these panels are taken into account for the formation of the Annual Plan. The detailed local work is under the State Government, each of which has a Water Cell. Water management experts have also been stationed near various irrigation projects, for instance the Tungabhadra project in Mysore, to study the local problems. Generally, it is proposed to emphasise the project approach to each irrigation proposal and study the project's overall needs and implications both from the engineering and agricultural points of view.

8. Mr. McNamara noted that only 20 per cent of the cultivated area was said to be irrigated. He asked whether the Plan fixed specific targets for the extension of the irrigated area. Prof. Gadgil answered that targets were being fixed, but only in terms of new areas to be irrigated, and not in percentage terms. Each major irrigation work included in the Plan has specific area targets. Mr. McNamara then asked whether the fertilizer consumption target for the end of the Plan period was associated with irrigation targets. It did not seem to him that the fertilizer consumption target was aiming at optimum fertilizer use over the whole irrigated area. He was answered that the target was not aiming at the optimum but rather projecting the likely demand. He then asked whether this did not imply that there is some misallocation of investment; in a sense, there seems to have been a substitution of irrigation investment for investment in educating farmers to use more fertilizer. He added, however, that he realised that the learning curve of farmers may depend on time; thus irrigation may have to precede higher fertilizer use by some interval. Prof. Gadgil said that the irrigation policy was independent from the fertilizer policy (Mr. McNamara interposed that that is precisely what he had been afraid of). Irrigation policy has its roots well in the past, when it was partly

aiming at giving farmers some security and also at promoting the spread of better cultural practices. In the past, irrigation had not been tied up with fertilizer. Now, of course, there is an effort at educating farmers to use fertilizer; nevertheless, it was impossible to wait for fertilizer demand and other modern practices to catch up with irrigation facilities.

9. Mr. McNamara asked what was the proper allocation of the limited foreign resources, in particular those of the Bank. Prof. Gadgil said that the first priority was fertilizer production. High among the other priorities came non-project aid. Without it there would be a slide back in import policy. Mr. McNamara asked what specifically would be the demand against the assumed one billion dollar annual gross aid requirement mentioned in the opening statement. Prof. Gadgil noted that some of this aid has already been committed to on-going projects. For new projects, apart from fertilizer, aid would be needed for petrochemicals, for wood pulp, paper and newsprint, and for port development, important for exports. Mr. McNamara asked whether metropolitan problems and their solution had a high priority with regard to foreign aid allocations. Prof. Gadgil replied that 10 per cent of plan resources transferred by the Center to the States are reserved for the solution of "special problems", including metropolitan problems. However, while these problems were serious, the requirement for foreign exchange was relatively small and therefore of low priority for the allocation of foreign aid. However, Dr. I.G. Patel noted that if the Bank could undertake the financing of urban water supply schemes, including a part of domestic procurement, this would contribute to the solution of metropolitan problems and at the same time constitute a substitute for non-project aid.

10. Mr. Cargill wanted to comment on Prof. Gadgil's statement about the use of consultants. In about 80 per cent of cases, consultants for Bank projects are actually employed by the borrower. Then, the selection is the borrower's responsibility; the Bank only insists that the consultant be qualified. It is not true that the World Bank does not want to employ local, in this case Indian, consultants. In a few cases, the Bank employs consultants directly. The consultant is then selected on the basis of lists kept in the Bank's files. We are trying to keep these lists up to date and include all qualified consultants. However, if it is felt that qualified Indian consultants have been ommitted, the Indian Executive Director should submit their names. If qualified, they will certainly be put on the list.

11. Mr. Cargill also asked what the target growth rate of the Plan was. Prof. Gadgil replied that the overall growth rate planned is about 5.5 to 6 per cent, composed mainly of a planned growth rate of 5 per cent for agriculture and 8 to 10 per cent for the modern sector of industry. An export growth rate of 7 per cent was also required. The Draft Plan, setting out these figures, will probably be published by the end of January. It was strongly intended that growth should take place with price stability. This would be possible if agricultural production grows as planned.

12. Answering a question about resources by Mr. Votaw, Prof. Gadgil noted that the tapping of rural resources was very important. It was true that there was considerable pressure on State Governments not to tax agriculture; on the other hand, now that it was clear that central contribution to the States was fixed from the outset, there was also pressure on the States to raise resources in order to have a larger plan. Prof. Gadgil was quite

hopeful that in the end such additional resources will be raised. For instance, the States have already accepted in principle to supress all subsidies on agricultural inputs. Mr. I.G. Patel noted that there was room for taxing some agricultural inputs but this would necessarily result in less than economically optimal use of these inputs.

13. Mr. McNamara again thanked Prof. Gadgil for an interesting meeting.

14

Meeting with Dr. S. Chandrasekhar, Minister of Family Planning, and Govind Narain, Secretary, Family Planning Division, in New Delhi, November 18, 1968

Chandrasekhar - In the past three years 50% of the world's sterilizations and loop insertions have occurred in India.

Narain - Population planning in India has support of all parties -- political parties from the extreme left to the Association of Manufacturers support the program.

Optimum contraceptives not available.

In the next five years infant mortality may drop from 98 to 70 per 1000. A major problem is to communicate with 100 million couples in the reproductive age.

Disincentives - a state prerogative -- different states are introducing; recently introduced; tentative judgment is favorable. [Problem of penalizing the child.]

Public attitude has completely changed in 20 years; no longer thought of as a foundation of immorality, destroyer of family, etc.

They have done 4.5 million(?) steralizations and has prevented 10 million births. There have been 2.4 million loops with three births saved per loop; the"failure" of the loop campaign is the result of a lack of women doctors to give pre- and post-insertion examinations.

They are working on legalization of termination of pregnancy pill. This would not only reduce the birth rate but also the death rate: 4,000,000 illegal abortions done in India per year -- they hope to use the Moscow pump.

The most effective non-clinical approach would be to raise the marriage age: they hope to obtain legal approval of this. If all girls married at 20 or above, it would cut births in 20 years by 1/5th.

The number of school years completed correlates with the rate of births; it would also affect the rate of change of income; urbanization; change in religious attitude putting a premium on a son; change in predictability of survivability of children to provide old age protection.

Today social science methodology (antho., etc.) if mobilized in research would permit acceleration of the rate of decrease in birth rates.

Robert S. McNamara

4

Files November 25, 1968

Jean Baneth

Meeting at the Ministry of Health
and Family Planning. November 18, 1968 - 6.30 P.M.

Present were:

Ministry of Health, Family Planning and Urban Development

Mr. Satya Narayan Sinha, Minister
Dr. S. Chandrasekhar, Minister of State
Col. D. Bhatia, Commissioner, Family Planning
Mr. B.S. Murthy, Deputy Minister
Mr. Govind Narain, Secretary
Mr. K.N. Srivastava, Joint Secretary

World Bank

Mr. Robert S. McNamara
Mr. William M. Gilmartin
Mr. Gregory B. Votaw
Mr. William Clarke
Mr. Rainer Steckhan
Mr. Jean Baneth

1. Mr. Narayan Sinha made a brief introductory statement. The Family Planning program in India had received its real impetus in 1965, and since then expenditures on the program have increased steeply. Achievements are commensurate; more than 4 million sterilisations and more than 2.5 million loop insertions have been made. This represents 50 per cent of the world total for such operations. Much earnest effort has been put into the program, which is a wholly voluntary one but is supported by all major organisations and political parties.

2. Mr. McNamara asked whether it was true that though the Indian population control program was earnest, and perhaps more advanced than any other such program in the world, it was unlikely to substantially reduce population growth in the short run, say, within five or even ten years. Dr. Chandrasekhar replied by underlining the advanced and dynamic nature of the program. However, there were of course many problems, due to the vastness of the country which has more than 550,000 villages, 16 States and more than 15 major languages, etc. Because of this, though there was much progress, and the program faced no organized opposition, no real communications breakthrough had been achieved yet. Furthermore, the ideal contraceptive has not yet been found.

3. Dr. Chandrasekhar added that though there were some shortage in fields such as communication and transport equipment, the financial resources required for the program were, by and large, available. However, the success of the program could not be measured directly in terms of a falling growth rate of population, for the death rate was also falling. For instance, infant mortality fell in the recent decade from 210 to 98 per thousand. In the next ten years, it is thought that it will fall further, to perhaps 70 per thousand.

4. Mr. McNamara then asked whether any attempt has been made to create disincentives to new births. It was explained that several States have created disincentives, notably by allowing maternity leave to their own non-factory employees only up to three children, and by restricting various Government favours and services to families which after a certain date, will have no child beyond the third. The Center had set up a Small Family Norm Committee, which has recommended that disincentives, etc to families with less than four children, at least should take the form of limiting certain privileges, such as maternity leave, tax concessions for non-factory employees of Government. The Central Government has not yet implemented any such scheme. Dr. I.G. Patel drew attention to the need to avoid the antagonism which would go with disincentives; opposition which these would create would spread over the whole Family Planning Program.

5. Dr. Chandrasekhar spoke briefly of the demographic impact of the present program. He explained that each sterilisation operation is thought to prevent about three further children. One could cautiously estimate that operations already performed would permit the avoidance of at least 10 million births over the lifetime of the patients. Taking account of the IUCD and other programs too, more than 1.5 million births have already been prevented.

6. The difficulties of the IUCD program are particularly due to the lack of lady doctors for careful pre-insertion checks and later follow up. However, tests are being done with other IUCD models. India has already produced an improved version of the loop, which avoids the danger of uterine perforations and the Government is optimistic about overcoming the difficulties in the way of this program. However, the ideal contraceptive, suitable for spacing children, which should produce no unpleasant reactions and which should require only a single motivation, has not yet been found. Incidentally, it was possible to re-canalise men at any time after sterilisation; several such operations have already been carried out successfully. Mr. Murthy noted that research was also going on to produce a pill based on indigenous systems of medicine: Ayurveda, Unani and Siddhartha. This was promising; many practitioners of indigenous medicine claimed to have very effective oral contraceptives.

7. Dr. Chandrasekhar also noted that, due to the help of his senior colleague, a Bill on the medical termination of pregnancies will be introduced shortly into Parliament. Existing legislation permits termination for therapeutic reasons only. The new Bill would allow termination in several other cases, including excessive fertility. The Government is not aiming at birth prevention by this measure, but rather at eliminating the enormous number of illegal abortions, at present estimated at three to four million a year, of which a substantial number are fatal. In carrying out medical terminations, the Government program would rely heavily on the suction pump developed in the Soviet Union which in the early months of pregnancy is a practically instantaneous and easy method.

8. Dr. Chandrasekhar then spoke of the age of marriage. Raising it from thirteen, still the common age for girls in North India, to about 20, would reduce the birth rate substantially. However, at present even the current legislation, fixing the age of consent for girls at 15, cannot be enforced. Mr. Sinha said that according to many people, if in Europe 18 is the suitable age for marriage, in the hot climate of India, girls would mature much earlier. Dr. Chandrasekhar noted that this was without any medical foundation. He referred to the still widespread desire to have sons, both for economic reasons, for subsisting in old age and because of the persistent religious superstition. Mr. Narayan Sinha explained that a son was needed to officiate at each funeral, and the common word for son, Puthrie, means "the one who saves you from going to hell".

9. Mr. McNamara asked whether there was any correlation between birth rate levels and levels of income, education or other factors: in particular if there was a correlation between the birth rate and the rate of change of income. Dr. Chandrasekhar replied that correlation was found between age of marriage, education and the income level of the family of the girl, but this correlation showed up mostly at levels much above the average. However, he noted the interesting fact that while in the early stages of the program, it was thought that there is no significant difference between urban and rural behaviour in this respect, i.e. it was thought that the urban society is mostly a prolongation of rural society, it was now found that after a while a different and more favorable reaction does develop in urban areas. This would indicate some correlation between change in income and attitudes to birth control. In rural areas, many people still think of a son not so much as an additional mouth to feed, as an additional pair of hands to work in the fields.

10. Dr. Chandrasekhar thought that lack of resources was mainly a problem only for long range planning of studies, basic demography, research, etc. However, Mr. Govind Narain added that even in the operational field, transport and mass communication equipment were often lacking, and perhaps even more could have been distributed if funds had been available.

11. Mr. McNamara concluded the meetings by expressing his thanks for the frank and helpful exposition of Indian programs and problems in this vital field.

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Meeting with Douglas Ensminger, Ford Foundation, in New Delhi, November 18, 1968

1. Credit will be as limiting a factor in agriculture production increase as fertilizer.

2. Political - They are moving from one party to a more advanced system. They are moving from single to multiple personality government. The leftist groups are weaker today than before. The evolution is not to extreme leftist but toward polarization to right and left of center. There is emerging a new political elite at the District level: the efficient authoritors. We have had to be patient while the country paid off its debt to those who brought it independence; their mentality was not attuned to development. The small enterprises and private entrepreneurs have mushroomed and they will join the efficient farmers as political powers. People who immediately get concerned over public vs. private are wrong. Her government's future will depend on what happens in the by-election (e.g., Upper Pradesh and Bengal) and on whether Chavan and Desai can form an alliance to overthrow her. Opposition parties have yet to form a positive platform: they are just against the Congress Party.

3. The country would be better off with a plan it could achieve. Except for the 1st Plan, they have had tremendous shortfalls which obscure their achievements. What this country needs now is more self-confidence in itself.

4. One of the things ahead of real concern is the Center/State relationship problem -- the last election weakened the Center; it is in the interests of the country to have a strong Center government.

5. This country is not oriented toward action; they will make decisions but not assign responsibility for action.

Robert S. McNamara

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Meeting with William M. Gilmartin, World Bank office, in New Delhi, November 18, 1968

Important problems:

1. Irrigation and water control as a limiting factor on agriculture increase. They must integrate irrigation planning and agriculture production plan. Engineering approaches to irrigation spread all over the country without adequate financing and without establishment of priorities related to the agriculture plan. The Irrigation Minister approaches the problem from a political point of view without relating to the agriculture plan and agriculture priority. Engineering is probably planning on too little water: more water is required for new technology and multiple (as opposed to single) cropping. (Our January mission will work on the water problem.) [Emphasize to Patel the importance we attach to this.)

2. Credit problem: Should place more emphasis on credit for agriculture production; rural crops spotty in effectiveness; Center has correctly introduced multiplicity of agencies but State performance spotty.

3. Pricing: Marketing zones exist and translate into price changes which impede production of rice; in several States price is far below outer price or other domestic prices.

4. Exports: The rupee is very much over-valued (on the import side, they tried to correct it by across-the-board tariff). They are beginning to recognize it by introducing subsidy but are correcting by variable as opposed to constant subsidy. Results: distorts allocation of investment and fails to take advantage of comparative advantage; there has been an improvement but not enough.

The Indian policy has fluctuated between "nothing can be done", and, therefore, do nothing, or an optimism that nothing needs to be done. Support optimistic view but much needs to be done to realize the opportunity.

Robert S. McNamara

19

Files December 12, 1968

William M. Gilmartin

Meeting of Mr. McNamara with group of Industrialists,
New Delhi, November 19, 1968

Present were:

Industrialists

Rai Bahadur G.M. Modi, President of the Federation of Indian Chambers of Commerce and Industry and Chairman of Modi Industries
Mr. Ramnath A. Podar, Vice President of the Federation of Indian Chambers of Commerce and Industry
Mr. L.N. Birla, Director, Birla Gwalior Private Limited and Birla Brothers Private Limited
Mr. Bharat Ram, Chairman, Delhi Cloth Mills (textiles, chemicals, other industries) and Chairman, Indian Airlines Corporation
Mr. S.S. Kanoria, Director, Kanoria Company Limited, New Gujerat Cotton Mills, Shanker Sugar Mills, etc.
Mr. H.P. Nanda, President, Escorts Limited (tractors and machinery)
Mr. G.L. Bansal, Secretary General, Federation of Indian Chambers of Commerce and Industry
Mr. P. Chentsal Rao, Secretary, Federation of Indian Chambers of Commerce and Industry
Mr. D.N. Pai Panandikar, Senior Assistant Secretary, Federation of Indian Chambers of Commerce and Industry.

World Bank

Mr. Robert S. McNamara
Mr. Gregory B. Votaw
Mr. William M. Gilmartin

The meeting opened with a prepared statement by Mr. Modi, President, Federation of Indian Chambers of Commerce and Industry, which emphasised the expectations of further rapid growth in Indian agriculture and industry, the large resources that will be required including foreign exchange resources, and the consequent continued need for substantial help to India from abroad. On Mr. Modi's point about foreign exchange support from abroad, Mr. McNamara asked whether at the present time there are significant foreign exchange constraints limiting industrial output. In reply, there were some differences of opinion although the concensus seemed to be that foreign exchange is generally adequate at the present time but only because of the industrial recession. A few branches of industry were said, however, to be adversely affected in their scale of operations by inadequate foreign exchange for current output. Tractors were cited as a particular case of this because the supply of tractors cannot keep up with present demand due to shortages and delays in the availability of imported components necessary to increase tractor production.

Further concerning the foreign exchange problem, Mr. McNamara asked about the prospects for an increase in exports. There was agreement that prospects are favourable and that the annual 7 percent rate of increase proposed by the Planning Commission as a basis for Fourth Plan calculations now seems to be quite possible. The main thrust of this increase is expected to come from engineering goods (i.e. metal manufactures), exports of which have increased considerably this year and there is a large potential for further increases. It was said that one obstacle to more rapid expansion of engineering goods exports is the lack of export credit. In this connection, a program for IBRD refinancing of Indian export credits was suggested. It was reported that a number of export orders have been lost, only because India is not able to give credit terms as favourable as some other competing countries. Examples of such lost orders were cited in commercial vehicles, railway rolling stock and transmission towers. Another export handicap was said to be in the Indian ports where inadequate and obsolete installations, combined with inefficient management, make for long turnaround time in the handling of ships and consequent high costs.

Development of a strong export sector was said to depend on recovery from the recession and the achievement of a strong and healthy domestic market for manufactured goods. The reasoning here seemed to be that given a satisfactory and profitable domestic market, industry would be in a better financial position to live with marginal pricing policies and narrow or missing profit margins characteristic of the export field. It was pointed out from the Bank side, however, that there is the contrary point of view that once domestic marketing possibilities are expanding and profitable, industry may lose interest in the less profitable and more difficult and more competitive export business. Given the possibility for fairly high utilisation of capacity for profitable domestic business it was said to be difficult to see where the incentive would come for a strong export push.

There were different reactions to this, and to the question of differences in profitability of export and domestic sales. The picture that seemed to be indicated is that in present recession conditions and taking account of the present export subsidies, there are many industrial fields in which the profit situation is not very different as between domestic sales and exports. However, it was conceded that there are also many industrial lines where the returns on local business are better than on foreign business, even at present, and that these differences would be likely to increase with substantial recovery of the domestic industrial market. Nevertheless there was a concensus that export business would continue to expand even with industrial recovery and a more favourable profit situation on domestic sales. The principal reasons for this view seemed to be the heavy pressures by the Government for exports, including the linking of exchange availability for particular companies to the exports of those companies. Industry was also said to have learned the lesson from the recession that it is unwise to keep all the sales eggs in the domestic market basket.

There was some further discussion about the outlook for recovery from the industrial recession. It was said that prospects are generally looking up and that on the basis of domestic conditions alone it would be possible to foresee a rapid rise in industrial production. Business expectations remain, nevertheless, uncertain because of foreign aid uncertainties and the consequent possibility that before recovery could get very far it would run up against foreign exchange shortages, even though local conditions were favourable. Emphasis was placed on the need for larger exchange availabilities than at present for "maintenance imports", that is, raw materials and components, and balancing equipment.

Mr. McNamara then asked the views of the industrialists about the relative efficiency of public and private enterprise. In reply it was said that there has been a great change in recent times in Government attitudes on this matter, As a result there is now much greater government concern over the efficiency of public enterprise and a much more cooperative government attitude in enlisting assistance from the private sector to run public enterprise (e.g. persuading Bharat Ram of the privately owned Delhi Cloth Mills to run Indian Airlines) and toward providing greater scope for industrial expansion in the private sector. It was said that the government is very much aware of past mistakes in establishing and operating public industries and was definitely attempting to avoid a repetition of such mistakes. Consequently there is no longer much dogmatism in the government approach to industrial expansion and a number of joint seminars and other examples of public-private consultation were mentioned in connection with problems of industrial operation and industrial expansion. It was said that the private sector would be further strengthened by more joint ventures with foreign companies. It would help to increase such ventures if the industrial countries would provide double taxation relief for their nationals investing abroad. Double taxation was said to be an important obstacle to greater foreign interest in joint ventures in India.

WMG:bw

20

Meeting with Dr. Triguna Sen, Minister of Education, in New Delhi, November 19, 1968

First priority in the educational sector of the 4th Plan is to achieve universal education; this requires emphasis on teacher training.

They have started an adult literacy program pilot project: 40 lessons over 3 months for functional agricultural literacy; approximately 25 rupees per adult.

They need to apply this program to 100,000,000 people.

They propose to "vocationalize" grades 8 thru 10.

Robert S. McNamara

5

OFFICE MEMORANDUM

TO: Files **DATE:** November 21, 1968

FROM: Basil G. Kavalsky

SUBJECT: Note on Mr McNamara's meeting with the Minister for Education, Dr Triguna Sen, at 5.45 p.m. Tuesday, November 19, 1968, Shastri Bhavan, New Delhi

Present were:

Government of India

Dr Triguna Sen, Minister
Professor Sher Singh, Deputy Minister
Mr Bhagwat Jha Azad, Minister of State
Mr G.K. Chandiramani, Secretary
Dr Atma Ram, Director General, CSIR
Dr D.S. Kothari, Chairman, University Grants Commission
Professor M.V. Mathur, Director UNESCO Centre for Educational Training
Mr J.P. Naik, Educational Adviser for Primary Education
Mr G.V. Ramakrishna, Deputy Secretary, Ministry of Finance

World Bank

Mr Robert S. McNamara
Mr Gregory B. Votaw
Mr William M. Gilmartin
Mr Rainer B. Steckhan
Mr Basil G. Kavalsky

After an exchange of greetings, Mr McNamara stated that he appreciated both the importance of education in a country such as India and the difficult problems which this field presented. He recognised that an institution such as the Bank could only play a very small role and the purpose of his visit was to acquaint himself with the present situation and how it was expected to take shape over the next Plan period. At this point, Dr Sen presented him with a folder containing some of the important statistical information about Indian education. He noted that literacy, at 32 per cent was still very low and that the achievement of the constitutional commitment to provide free and compulsory primary school education still lay in the future. He saw the main priorities as, firstly, teacher training to raise standards and extend education further and, secondly, the need to 'vocationalise' secondary education. This last raised the question from Mr McNamara as to what precisely the concept meant. As Dr Sen explained it, it appeared to be related toward changing the general attitude of the student towards work and gearing his education to the manual activities that most students would undertake in later life, particularly in agriculture. It did not mean providing the student with an occupational skill. In response to a question from Mr McNamara, Dr Sen replied that this program did appear to have the desired effect though at present it is only being carried out on a selective basis. Extending it to the whole secondary school population would cost an estimated Rs 50 crores, most of the money being spent on equipment.

Mr McNamara's next question was whether it was expected that growth rates during the Fourth Plan would be better than in the past. Dr Sen answered that the average growth in enrollments was expected to be slightly higher though there would of course be wide variations between States, with those with heavier enrollments having a slower growth rate. Looking through the statistical data which the Ministry had provided, it was noted that enrollment of girls still lagged badly behind. Mr McNamara asked about the proportion of women teachers (30 per cent). At this point Dr Sen reiterated that the Plan would give priority to making primary education universally available though not as yet compulsory. Following up on this, Mr Gilmartin asked about the problem of wastage; the fact that many children who enter primary schools leave before they can acquire a sufficient grounding and subsequently revert to illiteracy. He questioned the emphasis on expansion rather than what might be termed consolidation through reducing the wastage. Dr Sen stated that the problem was being tackled and it was hoped to minimise it in the future. The importance of literacy to the development effort was being recognised in the 'functional literacy' program. In response to a series of questions from Mr McNamara about this program, it was explained that pilot projects are being undertaken with the assistance of UNESCO and that the results so far have been promising. The farmer is given 40 to 50 days of teaching spread over a three-month period, to help him to recognise and prepare farm plans. The program is limited by shortages of teachers and funds. The cost per adult was Rs 25 and presuming that its eventual coverage was 100 million farmers the total cost would be Rs 250 crores. Mr McNamara pointed out that in the context of total education expenditure and suitably phased out, this was not an inconceivable expenditure, given the possibility of high returns.

The last question Mr McNamara touched on was that of India's 'educated unemployed' problem. The figure of 35,000 unemployed engineers was cited. Dr Sen argued that this was the result of a shortfall in economic growth and that a resumption of growth would absorb much of it. Of all university graduates only 4 - 5 per cent were registered as unemployed though the figure cannot be treated too seriously. In any case this did not take into account the very high rate of under- or mis-employment. In conclusion Mr McNamara thanked Dr Sen for a useful and informative discussion.

cc: Mr Gilmartin

BGK/dp

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(6)

Files November 25, 1968

Kenneth A. Bohr

Kosi Project, Purnea Bihar
Meeting with Project Administration and other State Officials
November 20th - 11:00 a.m.

Present:-	Bihar Government	- see attachment
	Central Government	- Mr. Sivaraman, Secretary, Dept.of Agriculture
	World Bank	- Messrs. McNamara, Votaw, Gilmartin, Clark, Steckhan and Bohr

1. Mr. McNamara asked how the extension work to assist the farmers to take advantage of the new crop varieties and practices was organised. Mr. Chakarvarty, the Kosi Area Development Commissioner, showed Mr. McNamara an organisation chart and said that each block consisted of about 60,000 acres and 10,000 farms. There were 24 village level workers per block and together they were able to assist about 2000 farmers in drawing up farm plans - about 100 per village level worker. The farmers who wanted this assistance were generally those with 5-10 acres. These were more progressive than either the very small farmers or the very large ones. The distribution of farms by size was roughly as follows:

25% of farms less than 2½ acres per farm
20% between 2½ and 5 acres
45% between 5 and 25 acres
10% over 25 acres

2. Mr. McNamara then asked how credit was made available to farmers. He was told that cooperatives could loan a member up to Rs.2000 per crop. These were short term loans repayable at harvest. It was possible to borrow up to Rs.6000 a year with three crops but only Rs.2000 was supposed to be outstanding at any one time. There are about 20 cooperative societies in a block. They were operating in 80% of the villages and 62% of the farmers were members. Some short term credit was also available from the State of Agriculture Department for farmers not members of cooperatives.

3. In addition to short term loans the Land Development Bank, recently set up in the State, provided 7 year loans. This bank obtained its funds from the Reserve Bank, the State and its own resources. Debentures issued to finance specified approved area programs were given special support; 90% were purchased by the Agricultural Refinance Corporation and 10% by the State. The operations of the bank were assisted by the great increase in land values that resulted from the installation of tubewells. In assessing the value of land to be used with the pumpset as security for a tubewell loan the estimated value after the installation of the well was used. The Bank would lend for 80% of the cost of the well. The total cost for an average well was about Rs.9000.

In addition the farmer had to advance Rs.2000 for the necessary power connection.

4. The State Bank was also starting to lend to farmers in the area. A scheme had only just started in two districts to lend to farmers with 25 acres or more. One office had been set up and 300 applications had been received. Mr. McNamara asked how many farmers in Bihar had over 25 acres. The answer was that of the 4 million, 10% or 400,000 had farms of 25 acres or more. The State Bank scheme aimed to reach 1000 farmers. The Bank was aiming at the market outside the cooperatives; the approach was experimental.

5. Mr. McNamara asked what help was available for the small farmer. He was told there was a scheme for the joint purchase of a tubewell by several farmers. It was considered that a tubewell required 15 acres to be a profitable investment, although there were exceptions. To date, the joint purchase scheme had not had much success.

6. Mr. McNamara asked about the future plans for development of the area. He was told that financial requirements for the next five years amounted to Rs.125 crores. This figure included Rs.50 crores to finance fertiliser purchases and other short term items as well as finance for new investment in the area. There were 800,000 farmers in the project area.

7. Mr. McNamara asked for some indices of change to show what had happened in this area since the project. In addition to the figures on production in the printed material provided by the Ministry of Agriculture, it was mentioned that 4 years ago land cost Rs.200 per acre. This same land today with irrigation was valued at Rs.4000 an acre and they expected the value would increase to about Rs.8000 per acre. Very little land was changing hands. It was also stated, in response to a question, that the small farmers, those with less than 2½acres, had not participated in the general growth of output and improvement of yields.

8. Mr. McNamara asked what happened to the increment of income indicated by these changes. (He had been told earlier at one of the farms visited that income per acre had increased 10 times since before irrigation 5 years ago). He was told that none went into taxes since land revenue was fixed at Rs.6 per acre. Also that there had been a sharp increase in the purchase of life insurance and in small savings. There was a proposal of the State Bank to set up one man branches to collect savings. The Bank did not have any experience in this sort of operation and did not seem clear on how to go about it or whether it was worthwhile.

9. Considering the change that was taking place with the introduction of mechanisation Mr. McNamara asked how these changes would effect labour requirements in 10 years time. Mr. Sivaraman answered that some studies they had made indicated labour demand would be increased by the type of mechanisation contemplated. This was because mechanisation made three crops

possible and there was much that could not be mechanised and this increased the requirements for labour on the whole.

Attachment:

KAB:yd

Bihar Government

Mr. S.A.F. Abbas - Chief Administrator, River Valley Projects

Mr. S.K. Chakarvarty - Development Commissioner, Kosi Area

Mr. R. Dutta - Chief Engineer, Kosi Project

Mr. B.N. Ojha - Engineer Member and Chief Engineer, Bihar State /Electricity Board

Mr. R.D. Pande - Secretary, Department of Cooperation and Sugarcane

Mr. M.S. Rao - Adviser to the Governor

Mr. S.P. Srivastava - Managing Director, Bihar State Cooperative /Land Mortgage Bank

Mr. R.K. Srivastava - Managing Director, Bihar State Co-operative Bank

Mr. H.N. Thakur - Agricultural Production Commissioner

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Files November 27, 1968

Kenneth A. Bohr

Meeting with Calcutta Metropolitan Planning Organisation (CMPO) and Development Commission West Bengal

November 20th, 1968 4:30 p.m.

Present:

Calcutta Group

Mr. A. Niyogi - Commissioner, Development & Planning (T&CP) Department, West Bengal
Mr. M.G. Kutty - Director, Regional Planning, (CMPO)
Mr. R. Gupta - Chairman, Calcutta Metropolitan Water & Sanitation Authority
Mr. C. Rosser - Chief Consultant, Ford Foundation
Mr. Govinda Dey - Mayor, City of Calcutta

and others (see complete list attached)

World Bank

Messrs. McNamara, Votaw, Gilmartin, Clark, Steckhan and Bohr

1. The meeting was opened by Mr. Niyogi, Commissioner, Development and Planning who spoke of the importance of Calcutta and therefore of its problems, and of the efforts to deal with these problems from the planning side.

2. The city was of vital economic importance to the whole eastern region of India: it was of importance for defence because of its location and it was of political importance because of the nature of the disturbances within and threats from without. Its urban growth was bound to continue because there was surplus population in the adjacent rural areas even now - and this growth would only compound its present difficulties.

3. Ford Foundation had given valuable help in the organisation of the CMPO and in the development of plans for the metropolitan region. WHO had helped in the formulation of a water supply and drainage scheme. The plans were drawn up; the problem was to execute them.

4. To meet this problem the CMPO was changing from a purely planning body to a planning and executing agency. The aim was for government departments to have their investment plans approved by the CMPO. It was not made clear how much success had been achieved along these lines in view of two great problems: resources and organisation.

5. All municipalities were running deficits. It was possible they could be made viable as far as providing municipal services was concerned.

but they would not be able to raise capital. The State Government was a possible but reluctant source; the Central Government has given some indication that something special for this particular area might be done.

6. At present they did not have the organisational capability to execute the work that had to be done. There was a multiplicity of agencies. A main recommendation of the CMPO was to centralise services - a transport authority, a water authority etc. A Water and Sewerage Authority had been set up in 1966 but was not yet operating.

7. Mr. Niyogi singled out for special mention the legal difficulties encountered in acquiring land for public use. This was a very legal minded area. It was necessary to find legal remedies for the obstruction of public works by land owners and, perhaps more fundamentally, a way to convince people of the benefits that would accrue.

8. The important categories of the CMPO plan were:

a. Water supply, drainage and sewerage

b. Road traffic and transport

c. Slum clearance and rehabilitation of slum dwellers

d. Land development in the Central Metropolitan District (CMD) for better use

e. Development of areas outside the CMD to relieve some of the pressure of population growth in the CMD

The Commissioner felt that execution of these plans would help to counter the frustration which fed the widespread unrest in the city today.

9. The Director, Regional Planning, CMPO, Mr. M.G. Kutty then gave an explanation of the plan itself with the assistance of charts and graphs. The points discussed and the substance of the discussion were as follows:

Population

10. The present population of 7 million in the Metropolitan area is expected to grow to 12 million in the next twenty years as the result of both natural increase and immigration. Because of the high rate of immigration with a high proportion of men in search of jobs there were twice as many men as women in the city. This in itself created special problems.

The Port

11. Mr. McNamara enquired about the state of the port. He understood that it handled 40 per cent of the country's exports and 25 per cent of its imports. It was pointed out that traffic had been stagnating for the last few years while costs had been increasing. These were the operating costs of the port itself (in current prices). In addition, the average turn around time for ships was 17 days. (For further details of the difficulties of the port see notes on meeting with Port Commissioners, November 21 - 3:30 p.m.)

Pressure on Utilities

12. Charts were displayed to show the decrease in available water per capita since 1931, the growth of Howrah bridge traffic and suburban traffic faster than population, and the very inadequate rate of construction of housing units in relation to the population growth.

Housing

13. The housing problem was particularly acute. It was estimated that 100,000 sleep on the streets. Not all of these were technically homeless; perhaps 20-30,000 were. It was common practice for 20-30 people to rent one room for an address for mail and ration card and then sleep in the street. It was estimated that half the city's population lives in 1 room accommodation of about 100 square feet with an average of 4.5 people per room - communal water and latrines.

14. It was pointed out by Mr. Rosser that because of the acute housing shortage there was no program of slum clearance as such. While there was a need for 40,000 new units a year (the city grew by 200,000 a year) only 10,000 units were being built. The aim, therefore, was to make the slums a little more tolerable and to construct public housing in new areas where the city can best grow. In addition there was a program to develop new technology for construction of housing. Without a cheaper way to build housing no large program seemed possible.

15. The prospects of success in developing cheaper constructions were not yet clear. It involved developing a better technique, reducing costs and selling a new technology to the building industry. In pursuing the goal of better housing for Calcutta Mr. Rosser pointed out that the standards must be realistic. There was a Government policy from Nehru's time favouring only two-room houses - or in effect no slum clearance unless substantial houses were built. It seemed more realistic to construct housing closer to what people had and put emphasis on increasing the number of units and improving sanitary facilities.

Transport

16. Some of the transport problems of Calcutta arise from the fact that it is built on an island in a swamp. Land is precious and only 6 per cent of the open space is given to roads - much less than in Bombay and Delhi. Under such conditions - expensive roads on expensive land - the efficiency of traffic movement is most important. Along with the proposal for public transport it is proposed to build two new bridges across the Hooghly - one in the city and one north of it.

Plan for next five years

17. The CMPO had much less emphasis on control of land use than usual with city plans. It was much more of an investment plan. For the next five years the emphasis was on investment rather than policies. Mr. Rosser said that the plan documents produced were needed to establish the credentials of the CMPO; the real job was to put the plans into action.

18. The plan requirements were Rs.79 crores divided as follows: Water supply and drainage, 49 percent. Traffic and transport 43 percent, and housing 8 percent. The foreign exchange cost was about 2 percent. This does not include any large expenditure on the port. In the opinion of CMPO it required Rs.15 crores per year to stabilise the situation; recent expenditure had been about Rs.5 crores per year.

19. Mr. McNamara said it appeared to him that the situation had deteriorated, no steps had been taken to establish the organisation needed to deal with it and there was no prospect for money. It was indeed a fine plan but it remained a shell. He noted that a Central Water and Sewerage Authority had been set up two years ago but still was not in operation. He did not see any prospects for accomplishment under such conditions.

20. In "answer" to this last point it was explained that the Authority required increased water charges to obtain funds to operate and the General Council set up over the Authority and including representatives from all the municipalities involved opposed the necessary increases.

21. Mr. Rosser noted that the will to develop was weak but business had a large stake in this problem and he did not think it was hopeless. Mr. McNamara said he also did not think it was hopeless or else he would not have been there.

22. The Mayor pointed out that the tax payers are carrying the burden of many who do not pay and that it is very hard to raise money without some assurance that something will be done.

23. Mr. McNamara thanked all who had come and contributed to the meeting. He told them they had to do something - humanity was being destroyed.

KAB:yd

Mr. R. Gupta - Chairman, Calcutta Metropolitan Water & Sanitation Authority

Mr. B.P. Sen Gupta - Finance Director, Calcutta Metropolitan Water & Sanitation /Authority

Mr. S. Chatterjee - Chief Engineer, Calcutta Metropolitan Planning Organisation, /Development & Planning (T&CP) Deptt:

Mr. K.C. Sivaramakrishnan - Director, Asansol Planning Organisation and Chief /Executive Officer, Durgapur Development Auth:

Mr. G.K. Chowdhury - Senior Land Planner, CMPO

Mr. S.K. Roy - Chief Traffic Engineer, Calcutta Metropolitan Planning Organisation

Mr. C. Rosser - Chief Consultant, Ford Foundation Advisory Planning Group

Mr. A. Niyogi - Commissioner, Development and Planning (T&CP) Dept. Govt: /of West Bengal

Mr. M.G. Kutty - Director, Regional Planning, Calcutta Metropolitan /Planning Organisation

Mr. J. Madhab - Capital Budget Specialist, Calcutta Metropolitan Planning /Organisation.

23

Meeting with S.K. Roy, Home Secretary and former Commissioner of Town and Country Planning (former head of CMPO), in Calcutta, November 20, 1968

Mr. Roy is highly intelligent, well informed, and articulate.

He said the basic plan remains where it was when he left 1-1/2 years ago and he is concerned as to why nothing gets done. The answer is that Calcutta itself; there is no will to act.

The biggest stumbling block is not finance, it is organizational deficiency. There is no proper organization for the execution of the Plan. In the 3rd Plan, 200 million rupees were available but they would spend only 90 million rupees because of organizational limitations.

Action steps:

a. It might be wise to set up in the State Government a separate Ministry for Calcutta or possibly for urban areas.

b. Reorganize metropolitan sewer and water authority to permit it to function. Its governing board is a bedlam now and never decides anything. If it has funds, it still wouldn't act.

c. Immediate organization of metropolitan boards for transportation, slum improvement, etc.

d. Once they have obtained funds for development, they should take up selective programs of popular appeal: the first should be for slum improvement; it would have the widest impact. The second priority should go to water and sewage. Next should be traffic and transportation; even without building bridges and highways, they could start on low-cost improvement program.

It will be difficult to raise local resources in the initial stages of the program. They will never catch up with the problems of Calcutta if they allow it to grow uninhibited: they must divert expansion to other areas by developing other metropolitan areas.

Robert S. McNamara

24

Meeting with Mr. M. V. Basu, Chief Secretary in West Bengal, in Calcutta, November 21, 1968

The development plan for the State excludes Calcutta which they hope to support from other sources (584 crores for State vs. 82 crores for Calcutta).

Family planning: Bengal population at present is 43 million, increasing 2.9% per annum. The birth rate is 41/1000; death rate is 11/1000 and will drop to 8.5/1000 in 1971. In 1967 they shifted their program from temporary to permanent methods of population control. If they can control births of over 3 children per family they could reduce births by 1/3. They are not promoting the reversibility of sterilization.

Food, agriculture and irrigation: Food production rose 2% per annum vs. an increase of 3.5%: as a result, prices rose. But the 1968 food crop is large and prices fell. People switching from rice to wheat. Supplies of proteins are inadequate (because of partitioning(?)) in relation to the demand; in cereals, should be self-sufficient by 1969.

In 1968 they had only 9% of rice in high-yielding varieties. The main barrier to more rapid shift is water limitation: only 20% of lands are irrigated. Aim is to expand irrigation by tube-well program. Irrigation also is required as drought insurance. In the past, tube wells financed by 80% loans from the State; if future cooperatives and commercial banks will come in, the 4th Plan will provide for 50,000 more financed from all sources, and could easily use an additional 50,000.

Of 16 million acres in Bengal, 14 million are cultivated, of which 3.7 are irrigated. The 50,000 wells will add 250,000 acres. Further desirable irrigation is limited by lack of funds.

Two month ago northern Bengal was devastated by floods caused by lack of funds for flood contro. In three days they had 35 inches of rain, slides caused a lake which burst with devastating effect. There were 2700 deaths; 60,000 cattle were lost. The flood control project would cost $500 million, with $40 million in the first phase over first six years.

There is a shortage of credit for optimum use of new technology (exclusive of requirements for irrigation). They can meet only 20% of the requirement.

There is lack of storage capacity at all levels; substantial losses result due to pests resulting from lack of storage at the farm level.

Robert S. McNamara

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November 26, 1968

Kenneth A. Bohr

Meeting with Chief Secretary, West Bengal and other State Officials
November 21, 1968 10:45 a.m.

Present:

Govt: of West Bengal	Mr. M.M. Basu - Chief Secretary
	or Ram's Mr. S.B. Roy - Commissioner for Home Affairs and Secretary Home Department
	Mr. B.C. Ganguli - Development & Planning Commissioner
	Mr. H.C. Datta - Jt.Development & Planning Commissioner
Govt: of India	Mr. Govind Narain - Secretary, Health, Family Planning and Urban Development
World Bank	Messrs. McNamara, Votaw, Gilmartin, Clark, Steckhan and Bohr

1. The Chief Secretary, Mr. M.M. Basu spoke of the difficulties of finding resources for the State's five year investment program of Rs.584 crores. (The program did not include funds for Calcutta) Part of the funds were to come from the State and part from the Centre. The outlook for the State's contribution was not bright. Revenue was not sufficient to balance current (non-plan) expenditures and additional expenditures for dearness allowances for State employees and for maintenance which was badly needed, were expected to total Rs.29 crores over this period while on the basis of the recent report of the Finance Commission, the Centre would provide only Rs.12 crores.

2. The first problem was to balance current revenue and expenditure and the main question was how to raise the necessary additional revenue. He thought a sales tax was the most feasible possibility.

3. To increase their difficulties, the recent floods in North Bengal had not only stopped tax collections but had probably made it necessary to remit taxes already paid by those in the affected areas. Flood damage had been estimated at Rs.40 crores; their budget for flood relief was 3-4 crores.

4. Mr. McNamara asked whether the increased income in agriculture would give an increased tax yield. In the discussion that followed some expressed doubt as to whether there would be much increase in agricultural income because of rising costs. Others thought that if an increase did occur most of it would go into increased food consumption by small farmers and little would be "available", but it was finally conceded that there probably would be an increase in income that might be used outside the sector.

5. Mr. McNamara then asked how much of any increment would be captured given the existing tax structure. The answer was very little if any. The land tax was fixed and the tax on agricultural income was very nominal and difficult to collect and, as a matter of policy, there was no sales tax on rice or other food products. Most of the revenue from agriculture came from the tea estates.

6. Mr. McNamara said that it seemed to him that the situation was roughly as follows: agricultural income would rise; there were no real plans to tap this increment of income, and at the same time there were great needs for additional resources to finance the development plan. He asked whether other States were able to collect more of the increment of agricultural income than West Bengal. The opinion was expressed that all were in the same boat and no State did particularly well in this respect. It was also noted that the cost of tax collection from small farmers was extremely high.

7. The needs of Calcutta were not included in the plans for West Bengal. The government had decided to treat Calcutta separately in the hope that it could receive some priority in itself. As far as the State plan was concerned, Rs.484 crores was consistent with past expenditures during the Third Plan. Considering price rises since then, nothing less than 500 crores would represent much of an increase. The revenue budget, i.e.the non-plan expenditures, was 240 crores.

8. The discussion returned to the problem of raising revenue and it was pointed out that a possible source of additional revenue, a tax on paddy, had been excluded as a matter of State policy for many years. Mr. McNamara asked whether it would be possible to tax agricultural inputs - specifically why not tax fertiliser? the answer given was that it would be inconsistent to go from a situation where fertiliser was subsidised, as was the case until recently, to one where it was taxed - even when it was in short supply as he was told was the case at present!

9. Mr. McNamara said that it seemed to him that with new developments new problems arose. Agricultural income was rising. Traditionally it was not taxed but conditions had changed and a new look was needed. It seemed to him the State Government would have to find some way to tax the increased agricultural income.

KAB:yd

25

Meeting with Port Commissioners, Calcutta, November 21, 1968

There are three problems: decline in traffic, setting of river with high maintenance costs (costs have risen 10 times), and weak financial position.

Farraka barrage is planned to save the Port of Calcutta and they have started Haldia, a new port for bulk traffic, 65 miles down river.

They cannot now operate the port for approximately 1/2 of the days of the year.

After Farraka barrage they"will have an optimum port for general cargo." Tonnage estimates: 1967 - 9 million and 1975 - 8 million; Haldia, 1975-13 million.

Robert S. McNamara

26

Meeting with Mr. Govind Narain, Secretary, Family Planning Division, in Calcutta, November 21, 1968

Able, energetic, intelligent, articulate administrator. 15-20% of loop users have bleeding, back ache, etc. They are carrying on research to reduce ill effects: in the long run, use of the loop should expand greatly. Sterilizations had rapid rise to last year -- 1.8 million. In 1967, in 17 randomly selected cities, 95% knew of family planning; 65% accepted, and 35% practiced. In rural areas, 65%; 35%; 15%. There is a deliberately based program on a voluntary program to avoid religion and political opposition. This has been the foundation of their success. The compensation they use is to remove a disincentive and will be gradually reduced. They are not wedded to any particular method: cafeteria approach. Condom campaign within three years will protect ten million people with 700 million condoms. There is a ten-year prospective plan to lead the 100 million reproductive couples. Practitioners, in the next five years, hope to capture 45 million. By the end of ten years, they hope to reduce the birth rate from 42/1000 to 22/1000. The death rate will decline from 16 to 11. Current year budget is 370 million rupees and 4th Plan 5 billion rupees with foreign assistance component of 1.2 billion [should not the Bank participate?]. Mobility of the staff must be increased as rapidly as possible: need 6000 vehicles in 4th Plan which aid is financing.

On the social front, they are proposing a law to raise the age of marriage for girls from 15 to 18. Also, they propose to loosen abortion law.

They have asked the UN to send an evaluation team in January, 1969.

The Government has procured from religious leaders research and quotes from their texts in support of family planning and then disseminated it. They have developed a list of 2.5 million opinion leaders to receive their mailings.

Robert S. McNamara

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Files November 28, 1968

Kenneth A. Bohr

Meeting on Family Planning, West Bengal

November 21st, 1968 11:15 a.m.

Present:

West Bengal	Mr.S.R. Das - Secretary, Department of Health Dr. K.C. Sarbadhikari - Director of Health Service Lt. Gen. A.K. Dev - Additional Director of Health Services Dr. Kirk T. Mosley - Ford Foundation Consultant
Govt: of India	Mr. Govind Narain - Secretary Health, Family Planning and Urban Development
World Bank	Messrs. McNamara, Votaw, Gilmartin, Clark, Steckhan and Bohr

1. The presentation of the State program for Family Planning was made by Mr. S.R. Das, Secretary, Department of Health. He pointed out that in 1951 the population of West Bengal was 24 million. By 1961 it had reached 34 million and in 1968 it was estimated to be 43 million. The present annual rate of population growth in the State was 2.8%, higher than the all India average. In his presentation he referred to charts and tables in the booklet on family planning prepared for the meeting and noted in particular that last year the emphasis had shifted to sterilization and that there had been some difficulties with the IUCD program.

2. Mr. McNamara commented that no country had gained such public acceptance for family planning and that this was the essential first step to any successful program. He had been impressed with the efforts taken in this program but he realised the problem was an extremely difficult one. He then asked whether a shift to sterilization was a temporary or a permanent change in the program.

3. Mr. Narain answered that it did not represent a shift in policy; it was an important part of their overall program. The attempt was to promote the use of various devices during the early years of the family and then emphasise sterilization after, say, three children had been born. He pointed out that if they could control birth after three children it would be possible to cut the rate of population growth by 1/3rd. Sterilization also had a particular merit by committing a family to the program and thus help spread the gospel and male sterilization was reversible. He also noted that the sterilization program was most successful in rural areas.

4. Mr. McNamara enquired about the compensation given for sterilization. Family planning, it was explained was a State subject. The Centre formulated

general plans for the program and the State acted within guidelines set by the Centre. Pay was given as compensation for legitimate costs, such as transport to a clinic for sterilization. It was considered that health education and training were more important than compensation and would grow in relative importance. Disincentives, such as not allowing a third child free tuition or free medical care were extremely difficult at the existing level of living. Some tea gardens did have schemes for discouraging large families but not the State.

5. Mr. McNamara asked about the experience they had in the influence of other factors on reducing the birth rate. It was noted that education helped but it was more expensive to provide than the services of family planning. Some figures were given on the number of teachers and schools required to remove illiteracy in the State. Mr. McNamara noted that population problems still existed in some countries with high levels of education.

KAB:yd

27

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Files November 28, 1968

Kenneth A. Bohr

Meeting on Agriculture, Irrigation and Food, West Bengal

November 21st, 1968 11:45 a.m.

Present:

Agriculture	Mr. B.R. Gupta - Food Commissioner & Secretary, /Food and Supplies Department
	Mr. K.D. Gupta - Economic and Statistical Adviser, /Food and Supplies Department
	Mr. A.K. Majumdar - Secretary, Irrigation & Waterways Dept. /and also Secretary, Cooperation Dept.
Govt:of India	Mr.Govind Narain - Secretary, Health, Family Planning and /Urban Development
World Bank	Messrs. McNamara, Votaw, Gilmartin, Clark, Steckhan and Bohr

1. Mr. McNamara asked when the State might be self sufficient in food. Mr. Gupta answered that it might be self-sufficient in cereals by 1970 or 1972 but it would continue to be deficient in proteins. Fish, meat and eggs used to be received from what is now East Pakistan and they continued to depend on other States for these as well as pulses.

2. Mr. McNamara asked what percentage of the rice sown was of a high yielding variety. He was told that 9% of total was the target for 1968-69. The main difficulty to more rapid expansion was the lack of water during the summer months. It had been estimated on the basis of a geological survey that it would be possible to put down 100,000 shallow tubewells. The State program for the Fourth Plan was 50,000 shallow tubewells and 1000 deep tubewells. The deep tubewells were in particular areas where shallow drilling would not be sufficient. By deep they meant 1000 ft. or more. The shallow tubewells would receive State loans through block development officers for 80% of their costs. The Coops were also now giving some credit for tubewells.

3. The discussion turned to the problems of irrigation and Mr. Majumdar said that of the 3 major irrigation projects in the State, two, Damodar and Mayurakshi had been completed but Kangsabati which had been under construction for 12 years was not complete and would not be completed within the Fourth Plan because of financial limitations. It now irrigated 125,000 acres; on completion it was expected to irrigate 950,000 acres. Of the 14 million acres of farm land in the State, 3.7 million

were irrigated, of which 1.6 million were irrigated by the government. The program of 50,000 tubewells for the Fourth Plan would make possible the irrigation of 250,000 additional acres. The acres per tubewell was low because the crop was paddy and required heavy watering.

4. Mr. Majumdar next referred to the reclamation of the Sunderban areas along the coast. There were 8000 sq. miles of this coastal area, 5000 had gone to Pakistan, 3000 remained in West Bengal. There were 2,200 miles of earthen embankment in West Bengal protecting the reclaimed part of this area from the sea. In 1959 a large reclamation project had been designed with the help of Dutch consultants. Its total cost would be Rs.200 crores. The first phase, costing 19 crores, would reclaim 125,000 acres. The report for this phase was now complete.

5. Not much had been done on the flood control in the State as a whole. The Damodar Valley development had controlled floods in that area but in North Bengal very little had been done. The recent devasting floods in that area were particularly bad because land slides in the mountains had dammed up the Testa river and these gave way suddenly. There had been 2700 deaths and it was estimated that 60,000 cattle were lost. There was a project for the Testa valley estimated to cost Rs.340 crores. The first phase, with a cost of 26 crores would take six years.

6. Mr. McNamara then asked what the most immediate problems in agriculture were. One answer was that credit was a major bottleneck. The Coops were unable to meet the needs of all farmers. However an opinion was also expressed that credit was only required for one crop of high yielding varieties. The returns were sufficient to obviate the need for further credit. The physical problem of lack of storage at farm level to prevent substantial loss due to pests and also at the trade level was also mentioned as an immediate problem.

7. Mr. McNamara then asked about manpower requirements in agriculture. He understood there was a surplus of manpower now. Would it increase or remain stable? It was pointed out the area of agricultural land per capita in West Bengal was about 1/3 acre, which did not allow for much absorption of labour. It was expected that the surplus would increase.

8. Mr. McNamara said it seemed to him that with the change in agricultural technology a sequence of events would take place. First would come the introduction of mechanisation which would lead to the forming of larger plots and lower requirements for manpower. At this point if the family planning program did not have some impact, there would be a substantial surplus rural population moving to the cities. He then asked whether there was any chance to tap the increase in rural income. The reply was that it could be done but that it was a political question. Mr. Votaw asked whether it would be possible for farmers to pay more for fertiliser and water and Dr. Patel suggested a higher rate of interest. It was pointed out that the last three ministries in West Bengal were unable to set a tubewell rate for water. It was finally done by the Governor under president's rule.

KAB:yd

28

Files November 27, 1968

Kenneth A. Bohr

Meeting with Port Commissioner, Calcutta

November 21st, 1968 3:30 p.m.

Present:

Port Commission	Mr. B.B. Ghosh - Chairman, Port Commission /Calcutta, and other Commissioners
Govt: of India	Dr. I.G. Patel
World Bank	Messrs. McNamara, Votaw, Gilmartin, Clark, Steckhan and Bohr

1. Mr. McNamara said he understood their port was dying. He wanted to know what they were doing about it. The Chairman, Mr. B.B. Ghosh proceeded to describe the problems of the port and the proposals to deal with them.

2. He mentioned three main problems: the lack of traffic growth, the difficulties of maintaining the river, and the general financial difficulties of the port.

(a) Traffic through the port had been substantially reduced at the time of partition due to the loss of part of its hinterland. Prior to that time an extensive inland transport network through what is now East Pakistan fed into the port. Also, in recent years coal traffic had declined and the port had had no part of the growing iron ore traffic nor of the oil traffic in both cases largely because of the limited depth of the river.

(b) The port was responsible for 200 miles of river. The physical effort of maintaining the river had increased with time. This had been a very heavy burden to the port and the Commissioners had requested the government to relieve them of the entire responsibility for this maintenance.

(c) Largely because of the increasing costs of maintaining the river, the overall cost of maintenance of the port which had been Rs.7-7½ million in 1957 was over Rs.70 million in 1967.

3. There were three proposals which should ease the situation. The first was to relieve the port of full responsibility for dredging the entire

200 miles of the river. The recent Bhattacharya report made by the former governor of the Reserve Bank had suggested the port be relieved of 80% of the dredging cost but that the 12 miles directly in front of the city remain the responsibility of the port to maintain. The Commissioners considered that even this was more than they should have to carry.

4. The second proposal was the development of a deep water port at Haldia 50 miles down the river midway between Calcutta and the sea. This new port would handle the deep draft vessels for the Calcutta area. This project was under construction.

5. The third proposal was the construction of the Farakka barrage to divert water from the Ganges into the Hooghly and help flush the silt from the river. Mr. S.K. Bhattacharya, the Port's hydraulic engineer, pointed out that in 1936 there were 100 days flow of water to the sea. The flow is now much less and the river is completely dried in its upper regions for a good part of the year. For this reason the silt deposited during the monsoon flow is not flushed. For most part of the year the river is subject principally to tidal effects and continuous dredging is required to maintain the draft of 26 ft. With the completion of the barrage, which is now under way, only 20% of the present dredging activity would be required. Whereas in 1961 the 26ft. depth was not obtainable at any time during the year, this depth is now maintained for 70 days with the help of dredging. When the barrage is completed, it is expected that this depth will be maintained for 200 days and later increased to 300 days.

6. Although the Commissioners believed the engineering problems of the port could be solved; the resource problem was another matter.

7. Mr. McNamara asked what percentage of general cargo could be handled in the port with a 26ft. draft considering the economic size of ships today. The answer given was that all the general cargo but food shipments. Bulk grain carriers required more draft. It was also pointed out that with the barrage the minimum 26ft. depth would be exceeded for part of the year.

8. Mr. McNamara asked about the expected growth of traffic for the port. He was told that several studies had been made. In 1964-65 traffic was 11 million tons through Calcutta. At the present time it is about 9 million tons. The projection for 1975 is 21 million tons for the both Calcutta and Haldia combined, 8 being handled by Calcutta and 13 by Haldia.

9. Mr. McNamara asked where they are dumping the material dredged from the river bottom. He was told it was put back into the river because there was no place beside the river that was not heavily inhabited. Some time back the Salt Lake was filled but there was no further area available to take the fill this time.

KAB:yd

29

Meeting with faculty leaders from the Calcutta Institute of Management, Calcutta, November 21, 1968 (list filed Foreign Contacts Book)

Technologists instead of marketers have dominated Indian business and this limits exports, e.g., machine tools and tea. A Mercedes, extra duty, is cheaper to produce in India than in the FRG, showing that with efficient management, India can be cost competitive.

They are producing only 650 graduates per year of business administration schools, plus 5000 accountants, etc., vs. 15,000 annual requirement. Costs, with efficient management, could perhaps be reduced 30%.

1st Professor of Economics: First priority in Calcutta should be to make it "commutable."

2nd Professor of Economics: Business and public in Calcutta have become cynical; the World Bank could pick up a project, do it, and show that something can be done.

Robert S. McNamara

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X

Files November 28, 1968

Kenneth A. Bohr

Meeting with the Indian Institute of Management

November 21st, 1968 4:30 p.m.

Present:

Indian Institute of Management	Dr. Krishna Mohan - Director Mr. G.P. Chattopadhyay - Chairman, Post Graduate Program and Provost Mr. A.K. Sen - Managing Director, Indian Oxygen Limited Dr. Ram S. Tarneja - Director of Personnel, Sahu Jain Group of Industries Mr. A.K. Dutta - student I.I.M. Mr. L. Biswas - student I.I.M. Mr. L.L. Jayaraman - student I.I.M.
World Bank	Messrs. McNamara, Votaw, Clark, Steckhan and Bohr

1. Dr. Krishna Mohan, Director of the Institute spoke first of the role of his institute. It had been assisted by Ford Foundation and the Sloan School of Management at M.I.T. and was started in 1964. Its role was to train young managers, train managers already experienced, and perform research for industry. In his view, management had not been sufficiently emphasised in Indian development. Engineers were produced, the plant was there, but management was slighted. In fact, he thought the current recession was partly caused by management failure.

2. Mr. McNamara asked what evidence he had for that statement. He then described several management problems which did not, however, seem particularly related to the recession. The first concerned the lack of adequate marketing arrangements in the fertiliser industry. This was a problem and a management failure. The second was in the field of family planning. According to his analysis efforts should be focused on the age group 15-19 rather than the whole range. The third example was exports - he thought the effort for machine tool exports was dominated by technologists who were not sufficiently aware of design factors and the marketing effort required. Tea was another example. He thought the marketing of branded tea would be superior to the present auction system and complained that the tea planter was only a planter and did not have necessary imagination for efficient marketing.

3. Dr. Mohan next talked about the general management problem. It was estimated that there were 108,000 managers in India. For the Fourth Plan 20,000 new managers would be required. 5,000 might be trainees and 15,000 promoted to the job. At the sametime, the total output of school

trained managers was about 660 per year - this he compared with the 5000 required. The 660 consisted of about 80 each from the Calcutta Institute of Management and the Institute of Management at Ahmedabad and 500 from various universities. In addition he pointed out that the capacity for on the job training was about 5000. A reflection of this shortage was the pressure put on schools like his to run courses and supply students for industry. For example, Hindustal Steel had offered to finance any student through the Institute with the provision he would work for them for 5 years. There were also many requests for consultant work.

4. Mr. Sen returned to the question of management failures. In his view, the lack of cost control techniques was an important factor effecting industrial problems in India. He thought costs might be reduced by up to 30% by more efficient management.

5. Mr. Tarneja suggested that wages should be related to performance and productivity instead of time and dearness allowances as they were now. He also raised the problem faced by simple industrial houses when they entered more complex industries, as for example, from textiles to fertiliser and chemicals. This created management problems which could be quite severe. There were difficulties in introducing professional management enterprises in both private and public sectors. In the private sector there was the owner type problem where professional management was lacking. The corresponding public sector problem was the secretariat type problem - management by secretaries where again professional management was difficult to introduce. Dr. Mohan pointed out at this juncture that he was a marketing specialist, Mr. Sen a cost accountant and Mr. Tarneja a personnel man if that had not already been evident.

6. One of the students then asken Mr. McNamara what he thought might be common about the student unrest found in many countries of the world today. Here in India he said the prospects were so poor the unrest was understandable. Mr. McNamara corrected him - the prospects only seemed poor he said, it is how the people thought about them and not how they actually were. In America, students also feel that prospects are poor although this is nonsense in relation to the prospects their fathers and grandfathers faced. Mr. McNamara said he did not really know much about the student problems in America except what he learned from his own teen age children. He then told a brief story to illustrate. His daughter came home very late one evening on a trip from college. She told him she had been riding 72 hours in a bus because she had stopped off in Montgomery Alabama to take part in a civil rights march with Martin Luther King. He was quite surprised, for as he told her, he too had been involved in the same march; he had recently given orders to the National Guard to protect the marchers!

7. In his view there were four reasons for the student unrest in the States: The first was involvement in certain issues of the day such as the civil rights, the second was the lack of student participation in the running of universities, a position which had some merit, the third was a feeling that university training was not oriented to the realities of life, and the fourth was the desire of a small group to destroy the existing institutions. He said the greatest unrest seemed to be in the best schools;

the brightest students seemed to be most effected. The only common element he could see among the difficulties in various countries was the speed of communications which linked protest to protest and act to protest.

8. One of the students said that the problem in their schools was that they did not get a sympathetic hearing. As a result they found the only way to get any notice or get anything improved was to create a disturbance. Mr. McNamara asked if they believed that violence was necessary for change. They disclaimed this, but he pointed out it was inherent in their logic that if they did not get a hearing they created a disturbance.

9. Another student asked Mr. McNamara how the bank allocated its resources. He replied that as far as the bank money was concerned as long as he assumed as he did that the bank could borrow as much as it needed there was no allocation problem. With IDA, the problem was quite different because he did not know what he had to allocate. In a matter of weeks he hoped the situation would be clearer. A student then asked how he would allocate between a project in India with one return and a project in Africa with a higher return. Mr. McNamara said he realised his answer did not go to the heart of the problem but he could say that India would get 40% of the IDA money in any event. What the bank was concerned about was the long run development of the country and how best to bring this about.

10. Mr. McNamara noted that education in general was an important field and he thought that return on education would be especially high. In response to the comments that some firms did not realise the importance of management methods and techniques, he pointed out that the same had been true very recently in the U.S.A. When he came to Ford Motor Company there were no management trained people and that was after World War II. Finally he said he thought Dr. Mohan was selling the family planning program short. The program was better than he thought it was. The great first step of social acceptance had been made. Without that nothing could be accomplished in this field.

KAB:yd

30

Files November 29, 1968

Kenneth A. Bohr

Meeting with selected group of business and academic people

November 21st, 1968 5:30 p.m.

Present:

Businessmen:	Mr. A.K. Basak - Managing Director, Indian Cables Mr. A.N. Haksar - Dy. Chairman, Imperial Tobacco, India Mr. D.J.D. Sussex - Managing Director, General Electric Co. Dr.Mrs. Lakshmi Mohan - Prof. of Marketing Research, I.I.M. Mr. Thomas Mathew - Managing Director, Fastener Division, /Guest,Keen Williams Ltd. Prof. Ambika Ghosh - Professor, Applied Economics, /Jodarpur University Inder Malhotra - Assistant Editor, Statesman Prof. Amlan Dutt - Head of Dept. of Economics, Calcutta Mr. B.B. Ghosh - Acting Editor, Capital
Govt: of India	Dr. I.G. Patel
World Bank	Messrs. McNamara, Votaw, Gilmartin, Clark, Steckhan and Bohr

1. Mr. McNamara said he was here to learn about their problems, The bank played a small role but it tried to be helpful. He wanted to hear their views on the problems of India and particularly those of West Bengal and Calcutta.

2. Mr. Sussex spoke first. He was concerned that the tariff on components was frequently higher than the tariff on finished goods which made it particularly difficult for local producers to compete with foreign producers. He also thought it preferable if the banned list could be replaced by tariffs. Mr. McNamara said the bank was willing to accept a modest form of infant industry protection in bidding on the equipment for projects it financed.

3. Mr. Mathew asked how the bank might help India increase exports to other developing countries and went on to describe the difficulty Indians had competing with Japanese exporters because the Japanese had the support of a good export credit system. Mr. McNamara said that seemed to be a problem of the Indian banking system not something for the World Bank.

4. Dr. Lakshmi Mohan asked Mr. McNamara where he thought it was best to concentrate exports - nearby markets or large far away markets such as the United States. She spoke with particular reference to machine tool exports. Mr. McNamara said there was no doubt in his mind; he would concentrate on the larger market seeking to get a small part of it and he would go hard and spend money to get established in that market. Someone remarked that they were not permitted to use foreign exchange to build up

the market. Mr. McNamara pointed out the amount of foreign exchange was not large.

5. Mr. Basak of Indian Gables said that the electrical cable producers had formed a consortium and had just won a contract in Kuwait. This had been difficult and they had to realise far less than full costs in order to get the contract; it was made possible by the various subsidies given. Furthermore, the economics of the operation depended on being able to sell the import entitlement given, which was possible only as long as they could get the copper required for manufacture without using it, and make a profit on it. They needed a premium of 50% on the entitlement. A critical factor in this business was the price of copper and India paid more for its copper than its chief competitors, Italy, U.K. and Japan.

6. Mr. McNamara pointed out that the Indians do have a great asset in the size of their internal market. He believed that economies of scale in manufacturing were not continuous; above a certain size there were no advantages to an increase in the size. He also pointed out that economies of scale may not always be as important in international markets as other factors. Many exporters sell at less than full cost and it was very important, for example, to have advantages in purchasing raw materials.

7. Mr. Basak suggested that there might be merit in a system of home order priority for exporters providing they met the lowest price. This referred to bidding for public sector projects.

8. One participant thought the uncertainty of growth inhibited business management in India. Mr. McNamara pointed out that the trend was generally favourable; the internal market was bound to grow very large. He could not see how temporary uncertainties could have an inhibiting effect. Dr. Patel pointed out that dependency on public investment gave a particular element of uncertainty. Mr. McNamara said he had been very impressed reading that South Korea was exporting 9 times what India exported and also under conditions of considerable uncertainty. This came about, he thought, from intense concentration on productivity.

9. Turning to the problems of the Calcutta area, one of the participants suggested the main problem was the attitude of mind - there was no sense of urgency. The image of the CMPO was not as impressive as it once was. It had only produced blueprints. Mr. Sussex referred to the inefficiency of the Calcutta government. One of the companys he was associated with had not paid taxes for the simple reason the government seemed unable to send it a bill. Mr. McNamara said there was a great deal Calcutta would have to do for itself. It needed resources and it needed an organisation to carry through the work.

10. Professor Dutta made a suggestion. He thought it more important to make it possible to commute to and from Calcutta than to make Calcutta itself more liveable. The World Bank could help do this because it invested in transport. A circular railway, and possibly an underground were suggested. Transport investment plus investment in counter points of attraction was required. Another suggestion was that World Bank money which had been primarily to help build infrastructure in the past should now shift to the export sector. It was important that not only banking assistance, but also

that the government's priorities should shift towards exports.

11. Professor Ghosh said a major problem of the city was that there was much talk and no action until no one believed that anything would be done. For the last 5 years there had been talk of a particular drainage project in the area where he lived but nothing had been done. He thought the main need was one successful project as a demonstration. As a further example of public apathy an account was given of difficulties in removing squatters from the hospital grounds.

12. Mr. Malhotra explained that he was from Delhi and that as an outsider it seemed to him the people of Calcutta were rather too inclined to whine. Delhi also had had an immigrant problem, it had spent a lot and had done something about it.

KAB:yd

31

Meeting with Madras business leaders, November 22, 1968 (list filed Foreign Contacts book)

They are presently in a recession; external trade is not expanding and internal market is stagnant due to drought, etc.

They would like the Bank to work to reduce tariffs on industrial exports to developed countries. And also preference in World Bank procurement for projects in other LDCs.

Eastern European countries are more willing to supply credit for imports of agriculture equipment and raw materials.

There was a plan for "import credit" assistance for raw materials for small business. Tube-well installations are limited by power drills; require assistance to import more.

They need more seed production facilities and foreign exchange to finance them.

They must modernize the irrigation system, designed 1200 years ago, and would require $30 million for this.

The national highway system is below optimum efficiency because of gaps in bridges or bridges with heavy-weight capacity.

Industry is planning a cooperative automotive research institution and needs technical assistance and some funds.

Electrical transmission shortages exist.

Madras may face the problem of Calcutta in 10 years because of the slum problem.

Robert S. McNamara

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Files

December 9, 1968

William M. Gilmartin

Meeting of Mr. McNamara with Private Business Group in Madras, November 22, 1968

Those present were:

Government of India

Mr. I.G. Patel
Mr. S. Jagannathan

Private Business Group

Mr. T.S. Srinivasan, Chairman or Managing Director of several companies producing automobile components
Mr. K.S. Ramaswamy, General Manager, Ashok Leyland Limited (commercial vehicles and trucks)
Mr. A. Sivasailam, Chairman or General Manager of several companies producing automobile and farm equipment and various other products
Mr. R. Venkatasami Naidu, Director of Madras Aluminium Company and Textile mills
Mr. R.V. Ramani, Chemicals and Fertilisers Limited, and Chairman, Chemical Export Promotion Council
Mr. K. Eswaran, Chairman or Director of several companies producing machinery and electrical equipment
Mr. V.S.T. Mudaliar, President, Madras Board of the Reserve Bank of India, Director, commercial and manufacturing companies
Mr. G. Kasturi, Editor of 'The Hindu'
Mr. M.A. Chidambaram, Former Mayor of Madras Corporation, ex-Chairman of South India Chamber of Commerce
Mr. A.N. Srinivasan, President of Madras State Industrial Estates Association and Small Industries Management Association.

World Bank

Mr. Robert S. McNamara
Mr. Gregory B. Votaw
Mr. William M. Gilmartin

The meeting opened with a brief description of the present state of industrial activity in Madras by Mr. Venkatasami Naidu. He said that Madras has been for some time and continues to be in an industrial recession. He attributed this primarily to dependence of Madras industry on government orders and the fact that government purchases have lagged for the past three years. He said there has been some industrial improvement in recent months but the extent of the improvement was small and not likely to go much further without an upswing in government investment activity. In answer to

Mr. McNamara's query about the effect of increased agricultural income he said this was having some favourable effects in certain fields, especially consumer goods and agricultural capital goods. However, for the engineering industries generally the beneficial effects were small.

He and other members of the group then went on to indicate ways in which the World Bank could be helpful to Indian industry. These included:

1. Efforts by the Bank to influence industrial countries to increase purchases from India and reduce barriers in their countries to Indian imports. Mr. McNamara said the Bank would do whatever it could along these lines but he did not think this was an area in which the Bank could be very effective.

2. Influencing the aid givers to shift their aid programs increasingly from bilateral to multilateral bases. Mr. McNamara commented that he thought some such a shift would take place but not in any spectacular way.

3. Giving greater preferences for India and other developing countries in bidding for contracts on Bank projects financed in India and in other countries as well.

4. Shifting in the general pattern of IBRD lending away from mainly public projects toward various other kinds of financing, such as provision of hire-purchase credit and more assistance to small scale industries (which are growing rapidly and now constitute 30 to 35 percent of industrial production). It was urged that IDA industrial import credits be extended to the small scale industrial sector.

5. Greater assistance for agriculture, especially in the Madras area, to increase the availability of power drills, processing units for high yielding variety seeds and modernisation of the canal system in the Tanjore district where an ancient irrigation system requires rehabilitation and improvement of drainage.

Also concerning IBRD policies, a critical view was expressed about insistence on higher returns for the State Electricity Board of Madras. It was said that 25 percent of the power capacity of Madras is for agriculture which has to be supplied at low rates. If, despite this, the State Electricity Board is to achieve the higher rates of return required by the Bank it will be necessary to make up for the low agricultural rates by unusually high power rates for non-agricultural consumers. In reply, Mr. McNamara said he did not see that there was necessarily a case for subsidised power rates for agriculture, especially in view of the very substantial improvements taking place in agricultural production and agricultural income. He said he felt that in general it was a poor policy to invest in facilities which could not produce a satisfactory return. Members of the group admitted that some kinds of power investment in agriculture produced very high returns, for example, tubewells. They felt, however, that for agriculture as a whole the stage of development had not yet been reached where agriculture could do without subsidised power.

The discussion then turned to the automobile industry, led by Mr. Ramaswamy of Ashok Leyland. He described the substantial progress made in increasing the indigenous content of automobile production which is now about 90 percent. He noted, however, that the remaining 10 percent of imports is very crucial, for example, in special steels, and therefore there was continued need for IDA industrial imports credits for the industry. He also mentioned a number of other financial requirements of the road transport industry, including construction of bridges and elimination of other gaps in the National Highway system, a road strengthening program to allow for increases in the present load limits of 10 tons on most roads, and support for an industry-wide cooperative research organization in the automotive and related industries which requires substantial amounts of both equipment and technical assistance.

Mr. McNamara asked whether or not credit availability was a problem and whether it might become a serious bottleneck in any substantial increase in manufacturing. There appeared to be a concensus that credit as such was not a problem at the present time although some flet that additional foreign exchange credits are needed to help in easing foreign exchange restrictions. There was a division on the credit situation in an industrial revival, some feeling that it was unlikely to become a constraint and others believing that any substantial expansion would run into a credit shortage.

The problem of Calcutta and what to do about it was also raised by Mr. McNamara. There seemed general agreement that industrial disbursal, accompanied by some absolute reduction in the central city population of Calcutta, was essential for any improvement. It was noted that similar urban problems, including the growth of slums, are developing in Madras also. Again it was felt that subsidised disbursal of industrial activity provided the only hopeful way of dealing with the problem.

WMG:bw

32

Meeting with C.M. Annadurai, Chief Minister of Madras, and his Cabinet, November 22, 1968

The Madras Government is working on shorter duration crops: cut 160 days to 115; they are using 90% of surface water, all of cultivatable land; therefore, they are working on massive program of tube-wells. Two problems on tube-wells: where and how many to sink; how to obtain enough drilling rigs.

The main problem of agriculture is giving the farmer the inputs he requires at the proper time: e.g., water for the 15 days in relation to the monsoon which permits him to raise an extra crop; credit; seeds; storage, etc.

The next plan will contain provision for drainage and water management (land leveling; straightening, etc.).

They are beginning to work on conversion to fruit and vegetables for domestic and foreign markets. These are capital intensive and require special marketing techniques.

Today 95% of ages 6-11 are in school.

The State has a free lunch program (25% of children) to raise attendance; free uniforms; local initiatives to build and better the schools.

Family planning: Madras initiated the sterilization program 10 years ago: World 10 million; India 5 million; Madras 750,000 and the rate is 19.5 per 1000. The growth rate of Madras population is 1.8 %, the lowest in the country.

Robert S. McNamara

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Files December 9, 1968

William M. Gilmartin

Meeting of Mr. McNamara with State Government Officials, Madras, November 22, 1968

Present were:

Government of India

Mr. I.G. Patel
Mr. S. Jagannathan

Government of Madras State

Chief Secretary
Planning Adviser
Secretary of Education
Secretary of Health and Family Planning
Secretary of Industries, Labour and Housing
Secretary of Finance
Secretary of Agriculture
Secretary of Food
Additional Secretary, Industries, Labour and Housing
Chief Education Adviser
Director of Industries and Commerce
Director of Agriculture
Director of Health, & Family Planning

World Bank

Mr. Robert S. McNamara
Mr. Gregory B. Votaw
Mr. Rainer B. Steckhan
Mr. William M. Gilmartin

Most of the meeting was devoted to an explanation of agricultural problems and objectives in Madras. It was explained that 40 percent of the income of the State is from agriculture, and that Madras is on the border line of self sufficiency in foodgrains with some surplus in good years and small deficits in poor years. It is, however, very deficient in proteins and other protective foods. Rice is by far the most important crop, with most of the commercial rice supplies coming from the Tanjore District.

Madras is still very much affected by the vagaries of weather. About 40 percent of the cultivated area is irrigated, but of this only about a third is fairly independent of monsoon variations.

Rapid progress is being made in agricultural technology and as a result cereal production has increased from about 5.5 million tons in 1965 to 6.3

million this year. A further increase to 8 million tons is expected by 1973. The main factors for improvement are new varieties, fertilizer and water control. The main new rice variety, ADT 27, gives not only higher yields but has a shorter growing season (130 days instead of the former 160 days) and this permits a large increase in double cropping. The more precise timing requirements for double cropping means, however, that the required farm inputs must be available on time and it also necessitates more irrigation and better water control.

Toward the latter objective there is a high priority emphasis on tubewells and other wells. There are already large groundwater resources in Madras although an immediate survey of the nature of these resources is needed. A State-UNDP survey is in progress but on a very limited and quite inadequate scale. The proposed targets for the Fourth Plan are an additional 70,000 open wells, 10,000 private tubewells, and another 10,000 "filter points" which are larger public tubewells.

An immediate problem of well construction is a shortage of power drilling rigs and other equipment. Rigs are required which can drill 100 feet per day and there are very few of these. The other and larger problem of well development is finance. It is hoped to expand considerably the resources for wells on the basis of sales of Land Development Corporation debentures to the Government (hope for Rs.17 crores of such sales during Fourth Plan) plus additional financial support through the Agricultural Refinance Corporation and private commercial banks. In reply to a question from Mr. McNamara, it was also noted that about 30 percent of the well financing can be expected from farmers themselves as a result of increased yields.

In addition to rice and other cereals, there was reported a very large potential in Madras for increased fruit and vegetable productions, partly for consumption within the urban centers of the State and partly for export to other States.

Mr. McNamara asked the employment effects of increased agricultural production, and the concensus was that the newer technology and higher yields were not likely to create substantial additional employment opportunities. There was no clear answer to what might be done about the large rise in the additions of redundant rural workers to the non-agricultural labour supply.

The priority of the Madras Government on family planning was also emphasized. It was noted that population growth per year was only 1.12 percent during 1951-1961 but that since then the death rate had dropped from 24 to 15 per thousand and the annual rate of population growth had gone up to 1.8 percent. While pushing a variety of family planning methods, the main emphasis in Madras has been on sterilization. Madras was one of the first to make substantial headway in this and now has had about 750,000 sterilizations out of a total of 5 million in India. They said the India figure of 5 million was about half the total for the world.

There was a brief discussion of the education program in which the main emphasis is on raising the 35 percent literacy rate to a higher level. One emphasis is on maintaining more regular and more extended school attendance, and school lunch programs, with assistance from CARE, have been particularly effective to this end. Functional literacy programs are also being started with the hope of considerable expansion among adults.

WMG:bw

34

Meeting with C. Subramanian, former Food and Agriculture Minister, in Madras, November 23, 1968

Subramanian is a wise and courageous person. He is the architect of the new agriculture strategy.

There has been no survey of water resources and requirements; balance of surface and sub-surface. Mineral resources also need a survey. They also need an intensive soil survey for intensive agriculture.

It would be of great advantage if new, more accurate forecast of weather were possible, e.g., start of monsoon long in advance -- requires international action.

Must repeat Mexican wheat and Philippine rice research on a more intensified regional basis with pooling of scarce scientists.

They require a national agriculture plan based on soil and water survey to balance fertilizer, cropping pattern and water investment. Then require marketing and storage survey as the full 5% increase in a year or two would require marketing.

Political problems of today are all due to economic failure. They must not take economic moves which cannot be sustained, e.g., devaluation which was not followed up.

Industrial program requires a new push. Most important step is to get most out of existing plant instead of urgency about monopoly, etc. Management is still primitive. Banks, providing they have the expertise with them, could be the instrument for this. The Syndicate Bank (7th largest) has done this in a small way. Regional Management Schools immersed in the day-to-day problems of industry in their region could help.

Congress Party will be lost unless places of responsibility are given to the younger people and move out those who believe a jail record during freedom movement entitles them to a dominant role.

Robert S. McNamara

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Form No. 57A INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION 35

OFFICE MEMORANDUM

TO: Files DATE: November 27, 1968

FROM: Basil G. Kavalsky

SUBJECT: Mr McNamara's meeting with members of the Maharashtra Government and Bombay Municipal Corporation at the Reserve Bank, Bombay, 10.00 a.m. November 23, 1968

Present were:

World Bank

Mr Robert S. McNamara
Mr Gregory B. Votaw
Mr William M. Gilmartin
Mr Basil G. Kavalsky

Government of India

Dr I.G. Patel, Special Secretary, Ministry of Finance
Mr S. Jagannathan, Executive Director, IBRD
Mr L.K. Jha, Governor, Reserve Bank of India

Urban Development Planning Group

Mr P.G. Kher, Minister for Urban Development, Government of Maharashtra
Mr Y.J. Mohite, Minister for Housing, Government of Maharashtra
Mr L.G. Rajwade, Secretary, Home Department, Government of Maharashtra and Chairman, Metropolitan Regional Planning Board
Mr R.G. Salvi, Secretary, Urban Development, Public Health and Housing Department, Government of Maharashtra
Mr J.H. Patwardhan, Municipal Commissioner, Bombay

Mr McNamara welcomed those present and expressed his interest in urban problems and the State and local authorities' plans with regard to those of Bombay. Mr Kher said that a Regional Planning Board had been formed which was drawing up a zoning plan in collaboration with a group of experts. The Plan would be finished in six to eight months and there is legislative authority to set up a Development Board to carry it out. The Plan would cover six satellite towns, five in Bombay and one in Poona with a total population of 3.5 million people. Mr McNamara asked where the money for implementation would come from. Mr Mohite explained that the Maharashtra State Industrial Development Corporation was specifically promoting industries in the earmarked areas. As far as the development of the areas was concerned, the cost was Rs 350 crores which would be financed through a Rs 35 crore revolving fund. This would enable the development authority to buy and develop areas to be re-sold later.

Mr McNamara pointed out that this was a slightly different issue from that of how to deal with the slum areas in Bombay itself. For this, said Mr Kher, there were two authorities, the Maharashtra Housing Board and the Municipal Development Corporation. Out of a population of 5 million in the city, one million were residing in huts. At an average of a house to five people, roughly 200,000 houses are required at a total cost of Rs 200 crores. In addition, there is the problem of dilapidated houses which collapse during the monsoon. Eight thousand buildings have to be pulled down and the inhabitants housed. Mr Mohite said that the funds would have to be provided by the State Government or the Corporation, if possible through a loan. Mr McNamara said that loans had to be repaid and it was not quite clear how this could be done since rents would presumably be subsidized. He suggested that slum clearance bonds be sold. Mr Gilmartin asked if any less expensive approaches such as slum improvement rather than slum clearance had been considered. Mr Kher explained that the huts in these areas were so close together that clearance was indeed implicit in improvement - it cost Rs 1 lakh per acre for basic ground improvements even without housing and this still required removing some families. Mr McNamara agreed with Mr Kher that clearance was the answer. Mr Votaw asked what the plan allocation for housing was. Mr Mohite replied that Rs 4 - 6 crores had been allocated as against about Rs 3 crores in the Third Plan. Mr McNamara asked whether bonds could be sold to provide funds for the housing authorities but was informed that these were unlikely to prove attractive to the Banks. Dr Patel asked what disincentives could be provided to migration into Bombay. At present there are none, but the State Government is contemplating legislation in this regard.

Mr McNamara then raised the subject of transport. Mr Kher said that the firm of Wilbur Smith and Associates had submitted a Rs 96 crore scheme involving freeways etc. to be implemented over a 15-year period. The cost at present was probably in the region of Rs 120 crores. In the Fourth Five-Year Plan Rs 18 crores had been set aside for this purpose. Mass transportation problems were very serious for Bombay, despite the fleet of 1200 buses and urban trains. One possibility was an underground railway but this would cost Rs 200 crores, though this could begin with a Rs 50 - 60 crore first phase. Mr Kher provided Mr McNamara with a map of the Bombay region in which he explained that a key aspect of development was the southern part of the region, separated from the city by Thana Creek. A Rs 60-crore project of which Rs 20 crores was for a bridge across the Creek would enable this region to be developed. Meanwhile a smaller link further away will make a start in this direction. The metropolitan area is 1500 square miles A four-lane expressway from Bombay to Poona is contemplated which would reduce the distance by 30 - 40 miles, at a cost of Rs 12 crores. Also under consideration is a third railway link - the present two link Poona and Nasik. Mr McNamara summarised the problems - Bombay is a saturated city which will expand still further. Dr Patel pointed out that the major problems were slum clearance and the city's internal transportation system. Mr McNamara said that the Bank wished to play a part in urban development, but that status symbols such as subways had to be separated out from economic activities. He did not wish to engage in a discussion of the water supply problem which was highly technical and was at present under the active consideration of the Bank. In conclusion he thanked those present for their participation in what had proved to be a most interesting meeting.

cc: Mr Gilmartin

BGK/dp

36

Meeting with the Board Members of the Industrial Credit and Investment Corporation of India, Bombay, November 23, 1968 (list filed in Foreign Contacts book)

By April they may exhaust World Bank funds and request more.

Over the next five years they propose to expand operations by 50% over the past five years.

They would like to lay out with the Bank a plan for four-fold expansion of the auto industry from 100,000 to 500,000 at a cost of $700 million.

Electric power shortage exists all over the country, caused by foreign exchange shortage.

Industry needs a dependable source of foreign exchange for imports.

Robert S. McNamara

OFFICE MEMORANDUM

TO: Files

DATE: November 27, 1968

FROM: Basil G. Kavalsky

SUBJECT: Mr McNamara's meeting with representatives of ICICI and leading members of the Bombay Industrial and Commercial Sector, at the Reserve Bank, Bombay, 11.15 a.m. November 23, 1968

Present were:

World Bank

Mr Robert S. McNamara
Mr Gregory B. Votaw
Mr William M. Gilmartin
Mr Basil G. Kavalsky

Government of India

Dr I.G. Patel, Special Secretary, Ministry of Finance
Mr S. Jagannathan, Executive Director, IBRD
Mr L.K. Jha, Governor, Reserve Bank of India

Board Members of the ICICI (details attached)

Mr G.L. Mehta, Chairman
Mr H.T. Parekh, Deputy Chairman and Managing Director
Mr Kasturbhai Lalbhai
Mr D.M. Khatau
Mr Bhaskar Mitter
Sir A. Ramaswami Mudaliar
Mr A.A. Norrie
Mr N.A. Palkhivala
Mr S.S. Shiralkar
Mr John O. Sims
Mr N.M. Wagle

Mr McNamara asked about ICICI's program for future lending. Mr G.L. Mehta, by way of introduction, stated that the annual rate of investment in Indian industry had increased from $ 100 million in the early 50's to $ 1100 million at present. There had been a slow-down over the past two years, but in recent months a noticeable upsurge had taken place with the emphasis on agriculture-oriented production and exports. ICICI's lending is broadly related to government policy through the licensing procedure. The organisation has so far provided $ 300 million of which $ 165 million was lent by the IBRD through its 7 lines of credit. He emphasised that ICICI had lent to 200 new companies and in 80 cases to new entrepreneurs. Another of the organisation's objectives was to develop the capital market. For the future he foresaw considerable development in such fields as petrochemicals, electronics, tyres, oil exploration, automobiles, electricity generation and distribution etc. He thought that the present credit will be exhausted by March or April of next year. Total operations were expected to increase by 50 per cent in the next five years over the level of the past five.

After Mr Mehta's introduction, Mr McNamara asked for details of the 50 per cent increase. Mr Parekh replied that in the past five years, lending had averaged $ 30 million a year and that this was expected to rise to $ 45 million. Mr McNamara asked how this had been divided geographically in the past. Mr Parekh stated that 25 per cent had gone to Maharashtra, 15 per cent to Gujarat, and 10 per cent each to Bengal and Madras. Mr Mehta emphasised that the Corporation was going out of its way to encourage applications from other areas. Mr McNamara asked if there was anything further that the Bank could do which it was not doing at present. Mr Parekh suggested that the automobile industry was one possibility since the scope for expansion was so tremendous. Mr Mehta said that the Bank could help most by speedy agreement to the next loan application. Mr McNamara suggested that ICICI make an early approach to the Bank. Mr Parekh explained that the problem here was that of disbursement. Although much of the Bank loan was committed disbursement was very slow due to problems like the difficulty of obtaining rupee resources, problems of land acquisition and the slowness of government approval for foreign collaborations. In reply to a question from Mr McNamara he stated that the Corporation did undertake commitments in advance of receiving a Bank loan.

The remainder of the meeting was taken up with statements by some of the industrialists present on which they thought to be major areas where the Bank could assist. Sir Ramaswamy Mudaliar mentioned the lack of resources of State Governments which were otherwise eager to buy Ashok Leyland buses. Mr Lalbhai mentioned the need for financing of electrical generation and distribution. Mr McNamara explained that the Bank would concentrate on transmission since other agencies were more easily seduced by the greater sex appeal of power generation projects. Mr Wagle argued that there was a need for a specialist agency to promote exports. Mr McNamara thanked those present for their participation.

att.

cc: Mr Gilmartin

BGK/dp

Mr G.L. Mehta, Chairman, ICICI. Also, Chairman, Indian Investment Centre. Formerly Indian Ambassador to the USA.

Mr H.T. Parekh, Deputy Chairman and Managing Director, ICICI.

Mr Kasturbhai Lalbhai, Industrialist connected with textile, chemicals (collaboration with ICI) and dyes.

Mr D.M. Khatau, Industrialist connected with textile, shipping and cement (ACC - the largest cement producer in India).

Mr Bhaskar Mitter, Chairman of Andrew Yule and Company Limited, connected with jute, coal industries etc.

Sir A. Ramaswami Mudaliar, Industrialist connected with shipping and engineering (automobiles, cycles etc.) industries. Former member of the Viceroy's Executive Council: has led the Indian delegation to the U.N. in the past.

Mr A.A. Norrie, Chief Manager in India of the Chartered Bank, Calcutta.

Mr N.A. Palkhivala, Lawyer (corporate and tax law), Director of a number of concerns in the Tata Group and of the Reserve Bank of India.

Mr S.S. Shiralkar, Additional Secretary, Government of India, Ministry of Finance.

Mr John O. Sims, Manager of Bank of America, Bombay

Mr N.M. Wagle, Managing Director of Greaves Cotton and Co. Limited, which has a number of associate and subsidiary companies manufacturing electrical machinery products. Chairman, Associated Chamber of Commerce.

37

Meeting with Bankers and Economists, Bombay, November 23, 1968 (list filed in Foreign Contacts book)

The irrigated area is now only 22%; they need assistance to expand further.

A major limiting factor is rural electrification: only 70 villages of 500,000 electrified: finance is the limiting factor. This is said to be a limiting factor in expansion of tube-wells.

There are three imperatives: rural electrification; road transportation; storage capacity.

All agreed everything should be done to increase taxation although it will be politically difficult.

Robert S. McNamara

OFFICE MEMORANDUM

TO: Files DATE: November 26, 1968

FROM: Basil G. Kavalsky

SUBJECT: Mr McNamara's meeting with a group of Economists and Bankers at the Reserve Bank, Bombay, 11.45 a.m., November 23, 1968

Present were:

World Bank

Mr Robert S. McNamara
Mr Gregory B. Votaw
Mr William M. Gilmartin
Mr Basil G. Kavalsky

Government of India

Dr I.G. Patel, Special Secretary, Ministry of Finance
Mr S. Jagannathan, Executive Director, IBRD
Mr L.K. Jha

Bankers and Economists (details attached)

Mr C.H. Bhabha
Mr P.N. Damry
Prof. M.L. Dantwala
Mr V.T. Dehejia
Mr R.K. Hazari
Dr F.A. Mehta

Mr McNamara emphasised at the outset that he was essentially interested in the question of what problems lay ahead. One basic element in the picture was that agricultural growth was practically inevitable given the kind of returns available. Mr Bhabha pointed out that while the strides were great, agriculture still remained the area where most needed to be done. Irrigated area was only 22 per cent, fertiliser consumption, while it had risen by 100 per cent in four years, was still but a fraction of the requirement, rural electrification had reached only 60 - 70,000 out of a total of 575,000 villages. Mr McNamara asked where the bottleneck was in rural electrification. Professor Dantwala replied that it was in the lack of electrical connections. Mr McNamara mentioned that in previous discussions he had been told that there was a shortage of drilling rigs and pumps. He agreed with Mr Bhabha that the answer lay in both these areas. Professor Dantwala stated that it was very uneconomical for the State Electricity Boards to undertake rural electrification programs. Loans were given to them by the commercial banks for this purpose, but it was on the guarantee of the State Government, not because of the financial returns of the projects. This was clearly a case where external economies were important. Mr Hazari referred to the high transmission losses; there was scope for reduction of costs.

The discussion then turned to the financing of development. Dr Mehta suggested that the three priorities were road transport, rural electrification and storage facilities and that a start should be made on tapping the resources of the agricultural sector for this purpose. Mr Hazari said that it would be necessary to tax inputs since any form of income tax would be politically impossible. Mr McNamara noted that he had been incorrectly associated in the press with this suggestion but that his real interest was simply in general terms as to what would be done with the increased farm income - how would it be tapped or spent. Dr Mehta said that in the long run tax measures would have to be undertaken but that in the short run there was scope for increasing deficit financing from the current 5 per cent of the money supply to about 8 per cent. A bold program of productive investment combined with delicensing would make all the difference. A chorus of disagreement greeted this proposal. Mr Dehejia thought that it was constitutionally possible for agricultural income to be taxed by the Centre. Professor Dantwala stated that one approach was lower agricultural prices which would raise urban incomes and thus tax revenues. The argument about price incentives had been over-stated by foreign economists; ample investment was taking place on the part of bigger farmers who were getting the advantages of the higher prices. There was scope for a reduction in procurement prices. Dr Mehta pointed out that all these suggestions were for two or three years time, even if implemented immediately their short-run resource element was limited. What would be done in the coming year? Dr Patel argued that an increase in input prices would be politically easier than reducing procurement prices.

Mr McNamara introduced a new topic at this stage. What, he asked, would be the manpower effect of the agricultural revolution. Mr Bhabha felt that there would be a reduction in manpower needs which would have to be absorbed by small-scale and village industries, retail trade, marketing etc. Mr McNamara presented for the meeting's examination the proposition that with 70 per cent of the population in the rural areas and 20 per cent growth at least over the next ten years, it was inconceivable that the urban sector could absorb this increase; result - chaos. Professor Dantwala said that the danger was indeed very great since by his calculation there would be no decrease in the rural population in absolute terms for the next fifty years. Mr Hazari said that the solution lay in a big expansion of investment including public investment. He also suggested that technologies had to be carefully chosen. One of the weaknesses of Bengal was that of industries such as engineering had little value-added and were highly material intensive. There was a need to develop more value-added industries such as chemicals. In conclusion, Mr McNamara asked whether the difference he had observed between Bombay and Calcutta was one of time or kind. Those present revealed themselves to be staunch Bombay-wallahs and on that light-hearted note Mr McNamara thanked them for a lively and enlightening meeting.

att.

cc: Mr Gilmartin

BGK/dp

Mr C.H. Bhabha, Banker and industrialist, Vice-Chairman, Central Bank of India Limited. Director of engineering, power and chemical companies.

Mr P.N. Damry, Chairman, Agricultural Refinance Corporation. Deputy Governor in charge of agricultural credit in the Reserve Bank of India.

Professor M.L. Dantwala, Head of the Department of Economics, Bombay University. Agricultural Economist. Former Chairman, Agricultural Prices Commission. Director, Bank of India Limited.

Mr V.T. Dehejia, Chairman, State Bank of India. Formerly, Secretary in the Ministry of Finance, Government of India.

Mr R.K. Hazari, Editor of Economic and Political Weekly. Formerly Professor of Industrial Economics in Bombay University. Has published work on the structure of the corporate private sector. Was recently commissioned by the Government of India to report on the Industrial Licensing Policy.

Dr F.A. Mehta, Economic Adviser to Tata Industries. Has contributed articles in technical journals on international economics and development economics. Associated with Study Group on Wage Policy appointed by the National Commission on Labour.

38

Meeting with Industrialists, Bombay, November 23, 1968 (list filed in Foreign Contacts book)

They suggested a preference under World Bank loans to LDCs for LDC-manufactured equipment. Parekh believes by the end of the century they will need to produce 10 million tons of nitrogen (including 1 million for export) vs. 500,000 produced today. They should earmark foreign exchange for this purpose.

They would like to substitute native for imported cotton; they have a plan to expand from 6 million to 8 million bales. They need foreign exchange to produce in-puts for expansion. They are wasting 2/3 of existing cottonseed oil.

Road transport is a limiting factor and must be expanded.

Do not foreclose LDC from competing for business under a World Bank loan and "conditional" finance in another LDC.

Textile industry requires $750 million for investment in the next five years. [There appears to be a world of opportunity in industry for ICICI financing.]

Robert S. McNamara

FORM NO. 57A INTERNATIONAL DEVELC NT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION 38

OFFICE MEMORANDUM

TO: Files

DATE: November 25, 1968

FROM: Basil G. Kavalsky BGK

SUBJECT: Mr McNamara's meeting with a group of Industrialists at the Reserve Bank, Bombay, 12.15 a.m., November 23, 1968

Present were:

World Bank

Mr Robert S. McNamara
Mr Gregory B. Votaw
Mr William H. Gilmartin
Mr Basil G. Kavalsky

Government of India

Dr I.G. Patel, Special Secretary, Ministry of Finance
Mr S. Jagannathan, Executive Director, IBRD
Mr L.K. Jha, Governor, Reserve Bank of India

Industrialists (details attached)

Mr S.L. Kirloskar
Mr P. Bhogilal
Dr M.D. Parekh
Mr V.G. Rajadhyaksha
Mr R.G. Saraiya
Mr P.R. Kamani
Mr N.M. Bhandari

Mr McNamara welcomed the group of industrialists and explained that he was particularly interested in what role they thought the Bank could play in contributing to India's industrial growth. Governor Jha added that the gentlemen present were representative of many sectors of industry and would be able to give Mr McNamara information on the export effort in particular. The first to speak was Mr Kirloskar who pointed out that while the term 'underdeveloped' was generally used to describe India it was by no means true of the industrial sector which relative to most under-developed countries was broad-based and advanced. He mentioned the particular problems of exports and some ways in which the Bank might help. Firstly, there was the problem of travel abroad for export promotion. India spent $ 15 million on business travel as against, for example, $ 40 million for religious travel. More foreign exchange should be reserved for export development through business travel abroad. Another foreign exchange requirement was in the promotion of new export articles especially where some part of the article needed to be imported. He gave the example of a case where in order to export an engine he might need to buy a generator abroad and sell the whole as a single item. One way in which developing countries' exports could be promoted was to provide a preference for their exports in contracts for Bank-financed projects. He pointed out that India's labour intensive technology was often exceptionally well-adapted to the needs of developing countries. Turning from exports to import substitution he stated that the process had been going on for twenty years. Tied credits did a great deal of damage and these should be available only for goods which were not produced locally. In conclusion, he referred to the problems of inflation and the need to arrest it.

The next speaker, Dr Parekh, mentioned the priority of agricultural production and the role of the fertiliser industry. Foreign exchange should be provided on an assured basis for Nitrogen imports. Mr McNamara stated that the Bank fully intended to be active in the field of fertilisers. Dr Parekh stated that the import bill of Rs 472 crores for plant and machinery could be considerably reduced by more indigenous procurement. He suggested a lowering of iron and steel excise duties and a raising of import duties in order to give the local producer a greater advantage. A final major sphere where import substitution could take place was with respect to cotton imports. Greater efforts had to be made to increase cotton production. This theme was continued by the next speaker, Mr Saraiya, who mentioned the need for helicopters for use in spraying the cotton crop and a more general all-out effort to persuade farmers to use pesticides. He also mentioned the need for road transport development and transport improvements in general. Heavy freight charges particularly at secondary ports such as Kandla due to slow turn-around time of ships was a severe handicap to exports.

Mr Kamani brought up the subject of joint Bank-bilateral project financing in which the tied element in the bilateral loans made it difficult to compete effectively. He also supported the idea of some preference being given to developing countries on bidding for contracts for Bank projects. Mr Bhogilal mentioned the need for Rs 500 crores for the rehabilitation of the textile industry and felt that the Bank might play some role here. Mr Rajadhyaksha referred to India's change-over from an exporter of 300,000 tons of oils and fats to 200,000 tons of imports. Superior oils which might be exported were being used locally for purposes for which cheaper substitutes existed. In order to exploit these substitutes there was a need to improve cotton-seed crushing facilities; develop the manufacture of synthetic detergents; grow additional oils (only 7 per cent of land under oilseed is irrigated); develop palm oil production, possibly in the Andaman island; and perhaps the US would change its stand and allow soyabean oil to be imported under PL 480, and groundnut oil exported since their uses were essentially different. The last speaker Mr Bhandari, referred to the problem that the credit terms available for imports were more attractive than those which could be obtained for local goods. Mr McNamara then thanked the speakers for a most informative presentation.

cc: Mr Gilmartin

Encl.

BGK/dp

Mr N.M. Bhandari, Joint Secretary and Financial Controller, West Coast Paper Mills. Fellow of the Institute of Chartered Accountants.

Mr Pratap Bhogilal, a prominent industrialist closely associated with the cotton textile industry. Also, Director of a number of engineering and chemical manufacturing companies. President of the Indian Merchants Chamber for 1968.

Mr S.L. Kirloskar, a leading industrialist from Poona. Kirloskars' are major manufacturers of oil engines, air compressors, etc.

Dr M.D. Parekh, General Manager (Technical), National Rayon Corporation. A chemical engineer by training. Studied and has taught at the Massachusetts Institute of Technology. Connected with the Development Councils for Heavy Chemicals, Inorganic Chemicals and Fertilisers, Machine Building.

Mr V.G. Rajadhyaksha, Chairman, Hindustan Lever - the Indian subsidiary of Unilever - since July 1968. Previously Technical Director and Vice-Chairman. Connected with Development Councils dealing with Oils, Detergents and Paints; Organic Chemical Industries and Food Processing Industries.

Mr R.G. Saraiya - Highly respected member of the Bombay business community. (Main interest cotton) Active in cooperative banking. Chairman, State Transport Corporation. Director of the Reserve Bank of India.

Mr P.R. Kamani, Director of Kamani Group of Companies. Kamanis are active in the export field, especially of engineering goods.

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Meeting with L. K. Jha, Governor of the Reserve Bank of India, in Bombay, November 23, 1968

The benefits of development have been uneven: working classes have advanced substantially but unemployed have not participated. Indira Gandhi is not as left as her public statements indicate. The emergence of the right-wing Hindu Party has greatly worried her because it has the foundation of traditionalism; therefore, she appears to lean to the left as a counter-weight. Any new development creates so many jealousies and disappointments it overrides the benefits and leads to "indecision."

The States and the Central Planning Commission, etc., are not seeing eye-to-eye on the problem of mal-distribution of benefits of development; thereby, sowing the seeds of immense political turmoil.

The Indian Government lost her nerve, contributed to in part by the conflict over devaluation; further accentuated by LBJ's failure to fulfill his implied promise that if she went ahead with devaluation he would support it; instead, he forced bargaining on every shipload.

What are the new fields of investment: needs identification in political, economic and sociological sense. Could not IFC and possibly a development bank be equipped to do this? He suggested a World Bank team on opportunities for small industry; would be politically inspiring and really helpful.

Robert S. McNamara

40

Meeting with Urban Development Planning Group, Bombay, November 23, 1968
(list filed in Foreign Contacts book)

They have a regional approach: established regional areas (1500 square miles for Bombay) by legislative action.

They are planning to set up satellite towns as industrial centers. They will require $500 million and plan on setting up a $50 million revolving fund with funds from either the State Government or the World Bank.

Slum problem: One million of five million people are residing in huts. They require 200,000 new houses at $300 million, plus substantial rehabilitation.

The 4th Plan provides no real solution to the slum problem which will probably worsen during the period of the Plan.

They require a mass transportation system over 50 kms: cost, $300 million.

They need an alternative port at $60 million plus $30 million for a bridge to link the port, and a satellite area to Bombay. In addition, they require or are building three other bridges to facilitate development in the Metro-Bombay Region.

Water supply: They need a financing decision promptly.

Robert S. McNamara