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AGENCY FOR
INTERNATIONAL
DEVELOPMENT

COUNTRY FIELD SUBMISSION

FY 1971

INDIA

DEPARTMENT
OF
STATE

JULY 1969

BEST AVAILABLE

[redacted]

EMBASSY OF THE
UNITED STATES OF AMERICA
New Delhi, India

July 7, 1969

The Honorable John A. Hannah
Administrator
Agency for International Development
Washington, D. C.

Dear John:

I forward herewith the India Country Field Submission for FY 1971.

As you know, I have just arrived at post and have not yet had time to become fully familiar with the ongoing AID/India program or with all of the issues and estimates underlying the proposals the attached document makes for the future. However, I have made an initial study of the document itself; I find it persuasively reasoned and argued; and I find, moreover, that my Embassy staff approves it. Accordingly, I am transmitting the Submission at once in order not to delay your program review cycle in Washington, and I commend it to your careful consideration.

Meanwhile, I am commencing my own continuing review of the program with the USAID staff, and over the coming months this may yield additional recommendations from time to time. In particular, we expect to review thoroughly the longer-run trends that should guide our technical assistance activities; and also to canvass systematically what the proposed Overseas Private Investment Corporation and the Government of India together can do to raise the constructive contribution of American private investment to Indian development.

Very sincerely yours,

Kenneth B. Keating

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COUNTRY FIELD SUBMISSION

FOR

INDIA

FY 1971

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Group 4
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Declassified 12 years from date of origin

July 1969

COUNTRY FIELD SUBMISSION

FISCAL YEAR 1971

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SUMMARY AND RECOMMENDATIONS

For the past two years we have based our analysis of India's potential for growth on the premise that the major structural obstacle to faster growth -- inability to raise food production -- need no longer be a brake on progress. The new varieties in hand and in sight, plus related technology, have made feasible a 5 percent growth rate for food production which would permit overall growth of 7 or 8 percent without a food bottleneck. This tremendously important change has been further confirmed in the past year. The analysis in this document and these recommendations point out what needs to be done to exploit this opportunity and how best the U.S. can use its resources and influence to support the most rapid feasible progress by India towards fast, self-sustaining growth.

A. Aid Level

Our conviction is that we and the other countries of the Aid-India Consortium should support Indian programs and policies to achieve at least the 5.5 plus percent growth target of the Fourth Five-Year Plan. In fact, if it were practical politics at all, we believe it would be well worthwhile to make the a[redacted] necessary to raise

[redacted]

growth towards 7 percent which may be near the physical limit of India's ability to install increased capacity and use it effectively. Growth at 7 percent would make possible a major direct attack on unemployment and the condition of the poorest social groups.

The analysis of the inflow of foreign resources needed over time to support such rates of growth cannot be precise and certain. We believe on balance, however, that our estimates are, if anything, conservative; they accord well with the independent estimates of the IBRD staff.

The net foreign resource inflow needed to support the Plan growth target and to accelerate to the 7 percent rate is shown in the following table:

Growth	($ Millions)					
Target	1969/70	1970/71	1971/72	1972/73	1973/74	1978/79
5.5%	814	622	648	571	564	-483
7 %	814	700	982	1,312	1,647	-213

The aid commitment pattern over time must be compatible with the foregoing resource flows and it should also take into account the need to support appropriate GOI actions.

Our analysis, confirmed by recent experience, shows that there is no simple direct relationship between aid commitments and growth in a single year. Changes in the policies and programs of the GOI are

the main factors which will change growth rates and the utilization of foreign resources. Their impact on imports comes with a lag and is spread over a period of years. Aid commitments in one year also result in an inflow of foreign resources lagged at least one to three years depending on type of aid. Changes in government programs and policies must, therefore, take account of aid commitments for several years past, current aid commitments and, most important of all, expectations of future aid.

The danger that the GOI may miss its opportunity to launch even a 5.5 percent growth pattern is very real and should strongly influence our aid commitment pattern, particularly over the next two or three years. The Plan estimates are over-optimistic -- probably in terms of the results to be attained by the plans and programs scheduled and almost certainly in terms of the foreign resources needed if the planned programs are to be executed. Yet political and bureaucratic skepticism about aid prospects and pressure for self-reliance are so strong that it will be very difficult for the GOI to expand its programs or plan on more aid. Prudence requires the GOI to have more reserves and aid pipeline in hand before taking expansive measures than would be the case if it

were possible to give reliable assurances several years ahead of aid to be provided.

It is probably not feasible currently to adopt a public posture that India needs more aid than it says it does or to assure India reliably that more will be available over the next several years. In these circumstances, the U.S. and the Consortium should:

a. Strongly endorse the objectives of the Fourth Plan and emphasize our readiness to provide such outside resources as are needed to supplement self-help efforts and achieve its objectives.

b. Commit sufficient aid during 1969/70 and 70/71 to make possible resource flows which meet fully our estimates of requirements for 5.5 percent growth.

c. Press for specific program changes needed to speed growth -- e.g. liberalization measures, more and better irrigation, more fertilizer production, more effective population control,

rural works, urban development, etc.

d. Encourage and assist efforts by the GOI to develop more realistic estimates of investment and foreign resource needs.

Total Consortium non-project aid commitments (including debt relief) needed to implement this strategy would be approximately $700 million each in 1969/70 and 1970/71.

Commitments at this rate would result in some buildup of pipeline (less than $50 million) this year. This buildup would be needed to make feasible the resource inflow which we believe is required for subsequent years and would also provide tangible evidence to the GOI of the realistic prospects for support for an adequate program. These levels can be defended on the basis of our estimates and the IBRD analysis for the Consortium. The GOI has endorsed the IBRD estimates for 1969/70. The Plan generally contemplates higher aid in the early years and does not explicitly indicate annual needs.

If, as we now believe, the present program of the GOI is not sufficient to sustain a 5.5 percent growth rate the Consortium could press with increasing vigor for needed policies and programs. With adequate

reserves and aid pipeline, no traumatic crisis would ensue when and if the GOI found that its outside resource needs were greater than estimated in the Plan. On the other hand, if contrary to expectations fast growth were achieved without need for more aid than the Plan estimates, commitments could drop sharply in 1971/72 and the pipeline be permitted to run down.

If in the wake of the Pearson Commission it appears feasible to take a more encouraging stance, then we should endeavor to achieve Consortium consensus for an IBRD-led series of studies and discussions to determine what would be needed to support a higher growth rate. The Consortium should arrive at a firm understanding on the program to be undertaken by the GOI, and what the Consortium members will contribute to its support. Non-project Consortium aid commitments would have to be stepped up sharply in 1970/71 and even more in 71/72, when they might total about $1.2 billion. Increased project aid would also be needed. Particularly in view of the inability of the Consortium (mainly the U.S.) to follow through on the aid needs following the Bell Mission studies of 1964/66, a substantial change in the aid climate would be necessary before any such effort would be at all credible to the Indians.

The U.S. should expect to provide about 40 percent of the Consortium

non-food aid. We should not tie ourselves to a specific proportion and might find it desirable to up our share moderately, depending on circumstances. The Consortium should also encourage India to exploit non-Consortium aid sources, but again should not adopt a rigid posture in which others, e.g. the Soviet Union, could in effect call the tune on Consortium aid.

On this basis the sharing of gross aid commitments related to the 5.5 percent growth rate would be as follows:

	1969/70	1970/71
	($ Millions)	
Non-Consortium	100	100
Consortium:	1,030	1,060
(of which U.S.)	(445)	(440)
(AID)	(385)	(385)
(Ex-Im)	(60)	(55)

At the same time we should continue to press for better aid terms and more equitable net aid distribution, mainly through a new debt relief exercise, review of aid terms in the Consortium, and general pressure for better terms in DAC and other fora.

Ensuring adequate IBRD/IDA participation should be a subject for special U.S. attention. We should endeavor to increase recognition of the importance of such aid by our Congress and public as well as by

[redacted]

other IBRD Board members.

Washington agencies should consider how best to encourage countries which do not appear to be doing their share to increase aid and improve their terms. The case of Germany is especially important; in the light of its relatively large export surplus to India and strong balance of payments, it appears that it might appropriately increase its Indian program.

To meet India's real needs a large portion of the aid it receives must be usable for financing commodity imports. This need can be met in various ways; by debt relief, by commodity financing, and by foreign exchange financing of the local costs of projects. The U.S. should take a strong lead within the IDA Board to reverse the latter's decision to drop non-project aid.

For our own part we should endeavor to keep some flexibility and in any case should plan on providing the bulk of our assistance in the form of production loans. We should also seek to identify priority projects appropriate for U.S. financing, particularly if non-project funds are adequate to cover effective use of available economic capacity.

[redacted]

[redacted]

B. Policy Emphasis and Technical Assistance

The critical areas of Indian performance upon which we should be concentrating and where we should be focussing technical assistance if needed, include agricultural production, industrial efficiency, foreign exchange earnings, slowed population growth, and scientific and technical education. In addition, we should be studying problems of mobilization and allocation of domestic resources for development; the political/social problems associated with technological change in agriculture; and the needs for urban and area planning and environmental development.

1. Agricultural success continues to be the linchpin of India's development. We should continue to give high priority to technical assistance in this field over quite a broad spectrum. Overall policy issues are currently not acute. Water development and efficient use is probably the most important area for increased attention, together with increased efforts to refine objectives and develop appropriate policies for adjustment to long-run demand and technological prospects. We should continue to encourage and support increased economic production of fertilizer in both the public and private sectors.

[redacted]

2. Next in importance is to persuade the GOI to step up the tempo of development activity to take advantage of the opportunity for faster growth which agriculture provides. The main obstacle is GOI fear of inflation and skepticism about the availability of adequate aid. A firm increase in commitments will be needed to convince the GOI that it can responsibly embark on policies and programs dependent on increased aid.

3. Since 1965 at least, we have attached high priority to policies and programs promoting cost reduction and efficiency, industrial growth in fields in which India can be competitive, and fuller utilization of industrial capacity. Industrial efficiency is very important to healthy growth of exports and no less so to the long-run growth of real income and productivity. Our main focus has been support for liberalization of import and investment controls to give greater play to the market. We should continue to support relaxation of the controls and improvements of the incentives which condition industrial growth. We are also preparing to provide technical assistance to improve industrial management in both public and private sectors and considering whether more effective means can be devised to bring the latest science and technology

to bear on India's industrial problems. Our education program should continue to be heavily concentrated on broader and better scientific and technical training and research and thus tie in directly with industrial development.

4. Rapid and lasting export expansion remains critical to provide the foreign exchange flexibility for efficient growth and eventually to eliminate the need for aid when Indian savings are raised sufficiently. We should continue to press for more economic and consistent incentives for exports, better integrated into total industrial policy. We should continue to provide technical assistance to identify export opportunities and develop plans to exploit them. We should encourage and be prepared to assist programs and projects which promise to make possible quick, substantial increases in exports, such as port and transportation improvements and exploitation of economic raw materials. At least from a monitoring and advisory viewpoint we should focus much more pointedly on India's tourist potential, and consider what we can appropriately contribute to improved tourism development. Lastly, we should examine, within the context of our trade policy for less developed countries, the possibility of preferences and incentives for Indian exports to the U.S.

5. In family planning we should continue to provide all assistance for which a need can be established. We should progressively refine our assessment of the GOI program and priority areas needing improvement. We should increase coordination with other sources of assistance. We should encourage improvement and acceleration of the GOI program through providing needed resources, analysis and persuasion, technical assistance when feasible, and dramatic high-lighting of the problem. We should encourage practical linking of family planning and other health services, particularly mother and child health programs (MCH) in rural areas. We should also encourage full exploitation of the contribution which nutrition programs can make to family planning. The U.S. Government should push harder for an effective, directed research program in the U.S. on contraceptive technology, support an international program to coordinate and supplement national efforts, and support hopeful research projects in India and other LDCs.

C. Improving Quality of Aid

We applaud the Policy Determination on Additionality and particularly the intent which it evidences to improve our assistance to the private sector and generally make our aid more effective. There is an accretion of procedures and limitations which have [redacted] accumulated over

the years and which combine to limit the usefulness of our commodity aid. Each of these requirements is based historically on substantial problems and pressures. However, their negative impact in reducing the effectiveness of our aid is great and Washington should seriously consider whether U.S. objectives on balance would be advanced by their elimination or amelioration. Our main suggestions are:

1. Eliminate the waiting period required by present "small business" procedures which often causes serious problems for private industries using AID loan funds.

2. Quickly implement the Policy Determination on "Additionality" by eliminating as many as possible of the restrictions on eligibility; they complicate India's foreign exchange allocation problems disproportionately and reduce the attractiveness and ease of maintenance of U.S. equipment. The net effect on the U.S. balance of payments is marginal in the short-run and may be negative over a somewhat longer period. The

Indian aid program is already 100 percent additional.

3. Reduction of the new, high minimum transaction size requirements which limit severely the range of private industrial companies which can use AID funds.

4. Retain eligibility for government-owned companies to utilize aid on the same basis as private companies. Elimination would fly in the face of our effort to encourage the GOI to treat them like private companies and could actually result in their being favored by receiving free exchange.

5. Grant finance the difference between the U.S. flag and foreign flag cost of shipping fertilizer and other bulk commodities. Under the 50-50 shipping legislation the GOI is now borrowing dollars to finance shipping at rates three times or more the rates charged by non-U.S. carriers.

Elimination of aid-tying should continue to be our ultimate target. We doubt, however, that now is the time to revise this policy.

PART I

INDIAN DEVELOPMENT AND NEED FOR RESOURCES

The USAID program in India must be sensibly related to the mainstream of development effort independently conceived by the Government of India. This calls for a clear understanding of the objectives of U.S. aid to India. It requires a careful analysis of the development policies of the GOI and an appraisal of the chances for success of the development program. Finally, this analysis must examine the resource requirements, both domestic and external, and the prospects of meeting such requirements.

A. Objectives of U.S. Aid for India

In the language of our most recent Country Policy Appraisal:

> "The principal goal of American policy, in fulfillment of our own national interests, is the preservation of united, democratic and economically viable India, whose outlook and aspirations would be compatible with our own, which would be capable of resisting external aggression and internal subversion, and which would be a stabilizing force not only in the Indian subcontinent, but also in a wider Asian context."

We have other objectives which can and should be taken into account and served in planning our aid program for India: India is an important trading partner; it can exert considerable helpful influence among the LDCs and otherwise; it can provide competent manpower for international activities of all sorts -- including peacekeeping -- when LDC participation is helpful; etc. But these secondary objectives are of minor importance and very largely dependent upon success in achieving the primary one -- the strength, stability, and viability of democratic India.

Our economic aid program is and should be primarily designed to support economic progress. India must secure some degree of economic progress if it is to play the role we want it to. Within a considerable range it is more likely to -- and likely to do so better -- the more successful its economic program is.

Economic progress will not assure orderly, constructive political evolution. We are convinced, however, that appreciable economic progress and tangible improvements in welfare will significantly condition the character of the political arena, increasing the appeal of constitutional, pragmatic, evolutionary approaches and reducing that of violent, disruptive, revolutionary efforts.

More specifically, the breakthrough in agriculture means that it is now feasible for the Indian economy to grow at 5.5 percent per year or more. Such growth, if achieved, would raise per capita incomes by 3 percent a year in contrast to the meager one percent achieved to date since independence. Sustained over several years such progress could make a tremendous difference in the political and economic prospects for India. For the first time it could provide to a major portion of the Indian masses tangible satisfaction of the expectations hitherto so largely disappointed, particularly if some of this progress is consciously directed -- as it can be -- to improve employment and services for the very poor.

Such progress would not only improve the political climate. It would also facilitate all the major efforts needed to sustain future progress. It would ease the raising of public revenue and private savings to finance future development. It would increase receptivity to and ability to use effectively family limitation techniques. It would improve the environment for policies which would promote efficiency in industry and stimulate healthy growth of exports. It would hasten the day when India could finance its own further development and become independent of extraordinary outside assistance. Given this potential

we should encourage and provide adequate assistance to Indian programs which will:

1. Realize the potential for 5 percent per year growth in agricultural output -- everything else hinges on this.
2. Step up total growth to 5.5 percent per year -- the target set in the Fourth Five-Year Plan.
3. Stem as rapidly as feasible the growth of population.
4. Establish a solidly based growth of foreign exchange earnings of 6 percent or better per year.[1/]
5. Ensure that the fruits of progress are equitably distributed and that some tangible benefits are received by the most depressed groups -- e.g., the rural poor.

1/ Our export estimates through 1973/74 represent an annual increase of about 7 percent from 1967/68, or 6 percent from the 1968/69 figures.

B. India's Development Program

This section examines the record of growth and structural change in the Indian economy since independence, the current economic outlook and the principal features of the Fourth Five-Year Plan.

1. Progress and Problems under the Five-Year Plans

Although India's economic planning has not achieved complete success, the physical accomplishments since the First Five-Year Plan was launched in 1950/51 are impressive. Net national product has more than doubled, but with the continued rapid increase in population per capita income has advanced very slowly. The physical and economic bases on which the economy must be built today are nevertheless quite different from those of 20 years ago.

The overwhelming fact of India's economic history of the past 20 years has been the increase in population, from 358 million in 1950 to 514 million in 1967, an annual increase of 2.2 percent. This has absorbed much of the 3.8 percent annual increase in real national income and held per capita income to an annual rate of growth of 1.6 percent. Pressure of population on the land has grown to unprecedented proportions and has intensified the overcrowding of India's major cities.

The sluggish growth of aggregate national income is primarily

a reflection of the slow growth of agriculture over the period. In the 16 years prior to 1967/68, gross value of agricultural output in constant prices increased by only 2.5 percent per year. Value added in mining and large-scale manufacturing has, on the other hand, pushed ahead at an average rate of 6.3 percent per year. With construction and power also increasing more rapidly than agriculture, there has resulted a decline in agriculture's share of domestic product at constant prices over the two decades.

Poor and underdeveloped, India is also big. The industrial base built up in the last decades has attained an absolute size which makes it significant by international standards. Indian industry in 1965, measured by value added in manufacturing, was approximately the size of the two small Western European industrial countries, Belgium and the Netherlands, and almost double that of Yugoslavia and South Africa.

Large-scale industry in India has increased faster than small-scale industry while, within large-scale manufacturing the agri-based industries have grown at about the same rate as agriculture. Metals, equipment and chemicals, under the forced draft of import substitution, have expanded rapidly. Indeed, the most significant development of the past decade has been the establishment of a range of industrial activity wide enough to permit production -- in

many cases at a high cost -- of all but the most sophisticated industrial products. The physical, if not the economic, possibilities of import substitution are now practically unlimited in the sense that Indian industry is able to manufacture almost any given object at some price. An important consequence has been a proliferation of high cost import substitution industries behind a protective wall of import and industrial licensing restrictions.

By the mid-sixties it was becoming increasingly clear that the solution of three critical problems could make possible a quiet but crucial acceleration in India's progress.

The first essential was an acceleration of growth of food and agricultural production. Without such an acceleration attempts to raise per capita income rapidly would run immediately into a need for massive food imports and chronic dependence on outside aid for mere subsistence.

The second was to rationalize industrial policy toward greater emphasis on efficiency and concentration on intensive development of those sectors in which India's resources and domestic and export markets enable it to produce most advantageously.

Finally, it was evident that the rapid and accelerating growth of population would eventually have to be stemmed to make realistic any long-run prospect of satisfactory progress in raising living standards.

In 1965 and 1966 a series of new policies and programs were developed and adopted which were designed to attack these three problem areas. A new agricultural strategy was vigorously undertaken, based on new varieties, increased use of fertilizer and other inputs in a package of improved practices, and incentive pricing. Industrial policies were adopted featuring exchange rate devaluation, liberalized imports, incentives to exporters, and progressive investment liberalization. These were intended to permit and provide strong market incentives for full use of economic capacity, guidance of investment to the most productive sectors, greater efficiency and rapid growth of exports. The perfunctory family planning program was dramatically stepped up and invigorated with major reliance on the loop and sterilization. Thus, by the mid-sixties India, despite the somewhat languid pace of development in the past, was ready to make more rapid progress.

2. Economic Outlook

Unfortunately, external events were not to permit the quick realization of the benefits of policy changes of the mid-sixties. Indian economic progress, already considerably disrupted by the struggle with Pakistan in 1965, was severely set back by unprecedented drought in 1965/66 and 1966/67. Agricultural output dropped, prices rose, demand for industrial products sagged, revenue and private savings lagged,

and public and private investment declined.

These setbacks were temporary. In 1967/68 agricultural production increased by 23 percent while industrial production remained virtually unchanged. The following year agriculture suffered a slight setback from the record level of 1967/68 but industrial production rose by about 7 percent, a result of increased consumer demand, increased availabilities of agricultural raw materials and the delayed effect of the liberalization measures taken in 1966.

These developments resulted in increases in national income of 9 percent in 1967/68 and 3 percent in 1968/69. The increased availability of foodgrains checked inflationary pressures of the previous three years; wholesale prices fell by 1.9 percent and consumer prices by 2.8 percent in 1968/69. The economy is now generally buoyant -- except for capital goods where demand is starting to pick up but large amounts of capacity remain unutilized. Even here, however, conditions appear favorable for faster growth in 1969/70. Whether rapid growth does in fact come about and whether it is sustained depends on two crucial factors: agricultural production and investment.

Agriculture has now become the most promising sector of the Indian economy, largely the result of the new strategy adopted in 1965/66. The GOI, recognizing that a more rapid agricultural growth

is necessary if the development process is to be sustained, has given highest priority to this sector in the revised Fourth Plan. A new technology has been introduced which is capable of dramatically increasing the rate of growth of agricultural production. And there is increasing evidence that the Indian farmer is willing and has the necessary skills to adopt the inputs and practices which make up the new technology.

On the basis of the likely availabilities of agricultural inputs and observed responses of production to these inputs agricultural production can grow at about 5 percent per year. This is to be compared with a long-term growth rate of about 2.5 percent prior to 1967/68. Thus far adoption of the new technology has been strongest in wheat-growing areas but there are good prospects that a breakthrough in rice will occur in the next few years. Although non-foodgrains have not yet benefited from the new technology to any great extent, production of these commodities has historically grown at about 4 percent a year. It seems reasonable to conclude that agriculture has in fact shifted to a 5 percent long-term growth rate. Agricultural production in 1969/70 should increase 8 percent over the previous year when rainfall was subnormal, and a normal 5 percent in 1970/71.

In an economy such as India's, the level of agricultural

production has wide-ranging effects throughout the other sectors. Prosperity in the rural areas creates a demand for new construction and other forms of fixed capital formation in the agricultural sector. With about 45 percent of national income deriving from agriculture and allied activities, any increase in production in this sector will affect consumer demand. This happened in 1968/69 when production of consumer goods increased by about 8.5 percent to lead the industrial recovery. Rapid growth in agricultural production combined with a booming consumer goods sector operating at close to full capacity in many lines and continued expansion in the traditionally strong intermediate goods industries should lead to a pronounced increase in private investment in 1969/70 and 1970/71. In the public sector, Plan investment in 1969/70 is budgeted to increase by about 8 percent over 1968/69 estimated expenditures. This adds up to a major increase in investment over the low levels of the last two years and should bring some relief to the depressed capital goods sector.

The combined Center and State deficit will probably be on the order of Rs. 400 to 450 crores, which is substantially higher than last year's combined deficit, but in view of the likely increases in production should not be very inflationary. If the economy performs as expected, investment demand should increase at a faster rate in 1970/71

than in 1969/70. Incomes and savings will have increased sufficiently to provide confidence and the supply of funds to private investors and the public sector should be augmented by growing sales, profits and tax receipts.

The main restraints likely to impede accelerated progress this year and next are cautious fiscal and import policies. Despite last year's improvement in India's foreign exchange position, the GOI, especially the Ministry of Finance, remains cautious. The reasons are not difficult to identify. The Ministry of Finance wants to avoid at all costs unleashing an expansion which would result in renewed inflation and an exchange crisis. It has a pessimistic assessment of foreign aid prospects, mainly as a result of the disappointing commitments in the past two years. To encourage the GOI to employ bolder fiscal and exchange policies should be a principal objective of foreign aid policy on the part of the Consortium. The most effective measure to this end would, of course, be the assurance of a sustained inflow of external resources.

3. The Fourth Five-Year Plan

The delayed launching of the Fourth Plan now comes at a propitious time. Prospects for agriculture are good as the new agricultural strategy has already succeeded in major expansion of foodgrains

output. With much underutilization of capacity elsewhere in the economy and a stable price level, the opportunity is clearly present for increasing the rate of economic growth through a stimulation of internal demand.

The tone of the Fourth Plan[1/] is, for the most part, realistic and pragmatic. Present members of the Planning Commission are less bound by ideology than their predecessors, and they take a more balanced view of the public sector's role in the economy than did their predecessors. A clear indication of this is the significant shift in economic policy to a greater reliance on the private sector. This is reflected in Table 1 by the reduced share of the public sector, both in total Plan outlay and in total investment in the Fourth Plan compared with earlier Plans. There are, to be sure, a number of serious difficulties with the Plan, but the immediate approach to economic development outlined in the Fourth Plan document is a reasonable one. Of the difficulties, the insufficient foreign aid requirement built into the Fourth Plan resource framework is by all odds the most serious. It is discussed in some length in Section C below.

The series of natural, international and economic disasters that disrupted the Indian economy in the mid-sixties led to a postponement of the expansion of public sector investment activity, the prime

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1/ "Fourth Plan" as used herein refers to the "Fourth Five-Year Plan 1969-'74; Draft," Planning Commission, March 1969.

TABLE 1

PLANNING ASSUMPTIONS IN SUCCESSIVE INDIAN PLANS

	II Plan (1956/57-1960/61)	III Plan (1961/62-1965/66	IV Plan Draft Outline (1966/67-1970/71)	Draft IV Plan (1969/70-1973/74)
		(Ratios)		
National income a/ annual growth rate	0.045	0.057	0.060	0.055
Implicit incremental:				
Capital/output ratio b/	2.3	2.2	2.9	2.3
Output/capital ratio c/	0.44	0.45	0.34	0.44
Marginal savings ratio d/	0.207	0.212	0.240	0.248
Public sector share of:				
Plan outlay	0.667	0.647	0.674	0.590
Total investment	0.613	0.606	0.637	0.551
		($ Millions)		
Gross foreign aid requirements	1,890	6,720	8,380	5,360

a/ National income = net national product at factor cost.
b/ Net investment/increase in national income, with one year lag.
c/ Increase in national income/net investment, with one year lag.
d/ Increase in net domestic saving/increase in national income.

mover of the officially planned growth process. During the two drought years any attempt to devote increased resources to investment would have intensified inflationary pressures and placed impossible strains on the already weakened economy. A Fourth Plan Draft Outline for 1966/67 - 1970/71, published in August 1966, was therefore ignored and three Annual Plans for the years 1966/67 - 1968/69 maintained a level of public sector investment outlay below that of the last year of the Third Plan instead of increasing it at the 8-10 percent annual rate built into the Five-Year Plans.

The growth targets of Indian planning have remained pretty much the same from one Plan to the next. This can be seen by comparing the Fourth Plan with the planning assumptions (not the actual results) of the Second and Third Plans and of the Fourth Plan Draft Outline of 1966. This comparison is presented in Table 1.

The target growth rate for national income was about 5.5 percent annually in the Third Plan and 6 percent in the Fourth Plan Draft Outline; it is again about 5.5 percent in the Fourth Plan. This time, however, the hope for achieving this target rate is fairly solidly based on Indian agriculture's recent successes in increasing foodgrains production.

Among sectors there has been some shift in growth targets,

with the rate for agriculture being stepped up, that for industry somewhat dampened. These rates can be noted in Table 2.

Savings targets (as distinguished from savings performance) have been stepped up from the planned 20-21 percent marginal savings rate of the Second and Third Plans to 25 percent for the new Plan (22 percent if the comparison is made with net domestic product-NDP-at market prices). In the Third Plan, the net domestic savings rate was to rise from 8.5 percent in 1960/61 to 11.5 percent in 1965/66. In the Fourth Plan net domestic saving starts at 8 percent in 1967/68 and rises to a target rate of 12.6 percent of national income in 1973/74.

The incremental capital/output ratio projected in the Fourth Plan, defined as the ratio of the increase in national income at factor cost to total investment, is 2.3, compared with 2.2 in the Third Plan. Defining the incremental capital/output ratio as the ratio of the increase in NDP at market prices to total investment, the Fourth Plan shows an incremental capital/output ratio of 2.1. The resource pattern to which the Fourth Plan savings and investment figures correspond is presented in Table 2 of Annex D.

One of the most significant changes from one Plan to the next is in the projected level of external aid. These shifts can be shown in the following gross aid projections:

TABLE 2

SECTORAL GROWTH TARGETS IN SUCCESSIVE INDIAN PLANS
(Percent)

Sector	II Plan (1956/57-1960/61) Base: 55/56	III Plan (1961/62-1965/66) Base: 60/61	IV Plan Draft Outline (1966/67-1970/71) Base: 64/65	Draft IV Plan (1969/70 - 1973/74) Base: 67/68	Draft IV Plan (1969/70 - 1973/74) Base: 68/69
Agriculture	3.4	4.1	3.6	4.0	4.9
Industry	7.8	9.9	10.0	8.3	8.7
Trade & Transport	2.9	5.9	6.4	7.4	7.8
Other Services	4.3	4.8	5.3	3.5	3.6
Net product at factor cost	4.5 a/	5.7 a/	6.0 b/	5.3 b/	5.9 b/

a/ Net national product.

b/ Net domestic product.

		$ Billion
Third Plan	1961/62 - 1965/66	6.7
Fourth Plan Draft Outline	1966/67 - 1970/71	8.4
Fourth Plan	1969/70 - 1973/74	5.4

These allocations are stated in terms of current dollars. Over a 13-year period the actual quantum of planned aid would decline even more sharply if allowance were made for change in world price levels. Our reconstruction of the Planning Commission's annual balance of payments projection corresponding to the planned gross aid level for 1969/70 - 1973/74 is presented in Table 4 of Annex D. The net aid requirement, which is taken at $1.8 billion for the 5-year period, declines from $0.5 billion in 1969/70 to $0.3 billion in 1973/74.

On balance, the Fourth Plan can be characterized as a reasonable plan for generation and disposition of resources. It schedules similar growth rates as past Plans but emphasis is shifted somewhat from the public to the private sector and there is a considerable shift of emphasis between industrial sectors. The most striking change is the reduction in the projected use of external resources.

C. Aid Requirements

The overall objectives of the Plan are reasonable in terms of India's needs and, as has been stressed in Section A, are worthy of U.S. support. Moreover, because of the sharply improved prospects

of agriculture, they are physically attainable. Whether the program outlined in the Fourth Plan will achieve them, however, seems dubious. In particular, it is not likely that the objectives can be achieved with the sharp cut in net aid projected.

Whether the Plan growth target can be achieved with the low aid indicated depends on the one hand on whether the development program outlined is large enough, and on the other hand on whether domestic savings and export earnings, together with the aid indicated, can be increased enough to finance the investment and import needs of the program. On both scores, particularly the latter, the Draft Plan stretches the limits of realism.

Mobilization of resources internally for Plan purposes has already run into trouble, particularly in the States, in the first year. Whether private savings can be stepped up and directed into productive investment on the scale planned is also quite dubious.

The Plan was prepared in an atmosphere of pessimism about probable aid availability as a result of the failure of the Consortium (particularly the U.S.) to achieve the commitment level expected during the past two years. The political atmosphere was also strongly tilted toward minimizing dependence on outside help as the Congress Party since the 1966 devaluation has felt vulnerable to the charge that

its reliance on aid has made it subservient to foreign dictation.

The Government, in endorsing the IBRD estimates of the requirements for Consortium aid, has tacitly agreed that at least for 1969/70 greater aid will be needed and has averred that greater aid could be well used if it were to be available.

It is important for India to achieve or exceed the growth called for by the Plan; in view of this we have attempted to estimate independently what sort of policies and programs would be necessary to achieve the broad income objectives of the Fourth Plan. We recommend an aid level and strategy to achieve those objectives. We also spell out and comment on the implications of alternative aid levels and related growth rates.

1. USAID Estimates Compared to Fourth Plan

Our most ambitious means of analyzing the relationships between aid, development expenditure and the growth of the Indian economy is an economic model[1/] which works out the interaction between these factors over time, based on past relationships and alternative assumptions about key variables. Annex E gives further information on how the model works and an array of results on differing assumptions.

1/ The DMS, or Dynamic Multisector Model, originally developed by Professor Alan Manne, which has been modified and utilized by the Mission over the past several years.

Using the model we have developed two sets of estimates for the next ten-year period, the results of which are summarized in Tables 3 and 4. These approach the problem from two standpoints: first, how much aid would be needed to make possible achievement of the output targets of the Plan, i.e. a 5.5 to 6 percent growth rate?; second, what rate of growth could be achieved with the amount of aid called for by the Plan?

Both calculations tell the same story from different points of view. To achieve the Plan objective of a 5.5 - 6 percent growth rate will take a higher level of investment than the Plan calls for and a larger net inflow of outside resources. Moreover, the need for aid is likely to rise over the Fourth Plan period as investment builds up to a level appropriate to sustain the growth rate. Only after the middle of the seventies will aid needs begin to decline. With the low and declining net aid level called for by the Fourth Plan, growth will probably not exceed 4.6 or 4.7 percent.

These results depend, of course, on the specific savings functions, output/capital relationships, and other relationships used in the calculations. In virtually every case, however, we have used values which closely approximate those explicit or implicit in the Plan or which we consider to be optimistic in the sense of minimizing aid needs.

TABLE 3

DMS MACROECONOMIC BALANCES AT 2-YEAR INTERVALS
1967/68 - 1978/79
AID LEVELS CONSISTENT WITH APPROXIMATE
PLANNING COMMISSION NDP GROWTH TARGETS

	1967/68	1969/70 a/	1971/72	1973/74	1975/76	1978/79
		(Rs. Crores at 1967/68 prices)				
Net domestic product at market prices	30,670	33,640	37,760	42,280	47,510	57,680
Consumption	28,280	30,800	33,870	37,360	41,320	48,840
Domestic Savings	2,390	2,840	3,890	4,920	6,190	8,840
Net Investment	3,250	3,360	4,570	5,740	6,870	9,360
Merchandise Trade Deficit	860	520	680	820	680	520
			($ Millions)			
Merchandise Trade Deficit	1,147	693	907	1,093	907	693
			(Percent Annual Growth Rates)			
NDP		4.7	5.9	5.8	6.0	6.7
Consumption		4.4	4.9	5.0	5.2	5.7
Net Investment		1.7	16.6	12.1	9.4	10.9
			(Ratios)			
Marginal Propensity to Save		0.152	0.255	0.228	0.243	0.261
Incremental Output-Capital Ratio		0.457	0.613	0.495	0.456	0.493
Incremental Capital-Output Ratio		2.19	1.63	2.02	2.19	2.03

a/ USAID preliminary estimates of 5/23/69.

TABLE 4

DMS MACROECONOMIC BALANCES AT 2-YEAR INTERVALS
1967/68 - 1978/79
NDP GROWTH CONSISTENT WITH PLANNING COMMISSION AID LEVELS

	1967/68	1969/70 a/	1971/72	1973/74	1975/76	1978/79
			(Rs. Crores at 1967/68 prices)			
Net domestic product at market prices	30,670	33,640	36,880	40,360	44,280	51,430
Consumption	28,280	30,800	33,270	36,050	39,120	44,590
Domestic savings	2,390	2,840	3,610	4,310	5,160	6,840
Net investment	3,250	3,360	3,790	4,440	5,210	6,740
Merchandise trade deficit	860	520	180	130	50	-100
			($ Millions)			
Merchandise trade deficit	1,147	693	240	173	67	-133
			(Percent Annual Growth Rates)			
NDP	4.7	4.7	4.6	4.7	5.1	
Consumption	4.4	3.9	4.1	4.2	4.5	
Net investment	1.7	6.2	8.2	8.3	9.0	
			(Ratios)			
Marginal propensity to save	0.152	0.238	0.201	0.217	0.235	
Incremental output-capital ratio	0.457	0.482	0.459	0.441	0.457	
Incremental capital-output ratio	2.19	2.07	2.18	2.27	2.19	

a/ USAID preliminary estimate of 5/23/69

2. Alternative Aid Levels

In developing our analysis of the probable results of alternative U.S. aid levels, we have prepared specific ad hoc projections. These are broadly compatible with the DMS model but the cases finally used were worked out within a simpler and more aggregative framework. This is more flexible and permits taking account of the latest actual data.[1/]

We have developed estimates for three cases selected to dramatize the real opportunities, dangers, and policy issues which confront the GOI, the Consortium, and the U.S. at this juncture.

The first case is one in which AID development lending would continue at the $385 million level; together with effective GOI performance this case might permit achievement of income growth of 5.5 percent, close to the Plan target. The second case is one in which we assume that sharply stepped-up aid would be available; this would permit a radical upward adjustment in the whole Indian development program and attainment of a 7 percent growth rate within a few years. Finally, we consider the implications of a case in which AID assistance slumps to $250 million for several years with a 4 percent rate

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1/ Use of the model requires use of a computer. The most readily usable computer is in Bombay and time is not always available. The revision of base data alone cannot be kept up-to-date enough for CFS type exercises, let alone consideration of desired policy related alternatives.

of growth. The full calculations are set forth in Annex A.

Case 1: AID assistance $385 million:

If AID can commit $385 million for India each year, we should and could reasonably hope to push hard to prevent erosion of other Consortium aid to India and for vigorous action by the GOI, including some further liberalization measures.

The GOI development program and objectives in this case would be on the same order and character as outlined in the Fourth Plan. Aid pipeline and/or reserves would rise in the first year (1970/71) and it would probably not be too difficult for the Finance Ministry to bring itself to loosen up on development spending sufficiently to support an adequate program.

We believe that a somewhat higher investment level than called for in the Plan would be needed and that this would be made possible by the higher aid level. A very strong internal savings mobilization effort would be required, but with the substantial improvement in living standards it might be feasible; the marginal savings ratio (savings out of net national product at market prices) would be about 20 percent, close to that called for in the Fourth Plan.

Given the aid level and success in sustaining a 6 percent rise in exports, the foreign exchange situation should permit some relaxation of India's import substitution-at-any-cost policies. In particular

we believe India should be able to liberalize imports for exporters, apply less draconian standards in administration of its banned list and capital goods import controls, and begin to replace administrative restrictions with tariffs in selected areas. Industrial efficiency and competitiveness might gradually improve.

This program would be a reasonable capitalization on the agricultural breakthrough. The per capita income increase of 3 percent per year would be felt quite generally. Organized industry would grow at about 8.5 percent per year. Net food imports could be phased after 1971/72 and demand for higher quality foods would rise materially, easing and phasing gradually the adjustments in agricultural output. While overall unemployment problems would probably not be eased very much, they would not sharply intensify and specific educated unemployed problems would be much less acute. Our specific estimates for this case, given in Table 5, show that net aid could be phased out by the late 1970s. The pattern of growth and aid use in this table is tailored to fairly level aid commitments through 1973/74. Comparison with various of our DMS runs (Annex E) suggests that a more gradual rise to a somewhat higher growth rate might be more efficient. Actually it would probably also be more likely politically and administratively, in which case the early buildup of pipeline might be somewhat higher than suggested. In

view of the need to reassure the GOI, particularly the Ministry of Finance, such a buildup is probably inevitable and essential if the program is actually to be carried out.

Case 2: Seven Percent Growth:

While Case 1 would to an important and vital extent capitalize on the opportunity presented by India's improved agricultural prospects, would constitute a dramatic improvement over previous history, and might strain the limits of U.S. assistance capacities in the present context, it falls well short of fully exploiting the potential or of dealing decisively with India's social/economic problems. If in a post-Pearson or post-Vietnam world, it becomes practical to think in terms of a substantially stepped-up program, we believe the additional potential in India should receive high priority. An overall 7 percent growth rate would be feasible, we believe, and would come near to exploiting the full development potential of 5 percent agricultural growth (see Table 6).

This case would require sharply rising net aid peaking in 1973/74 at about $1.6 billion and then dropping quite fast so that by 1978/79 no net aid would be needed. The aid commitment pattern should lead the utilization by at least a year. The sharing of the aid burden in this case would depend very much on the circumstances at

the time, especially whether an expanded IDA-type program were the favored channel for stepping up aid to the LDCs, as we suppose it might well be.

To effectuate such a program would require a major stepup and modification of GOI policies and programs. This would not be undertaken without very firm assurances that the needed resources were forthcoming. Whatever the form, a quite specific understanding would have to be worked out between India and the Consortium as to the programs and policies to be adopted and the aid forthcoming for at least several years to come. The exercise would have to be quite comparable to that of the 1964/65 Bell Mission and we can suggest no better way of doing it than through the IBRD staff.

Arriving at such an understanding could take time. In working out our estimates for this case, we have allowed for the effects of changed programs beginning late in 1970/71, which is the earliest that decisions based on such a process could produce results.

In this case, it would be possible to begin to carry out a massive rural and urban works program and to improve the coverage and quality of elementary education, as well as substantially to complete the liberalization of the import system and investment controls. The works programs and better education would improve the infrastructure for both agriculture and industry, significantly eat into the

unemployment problem, improve materially the quality of life of the lower income groups, and, among other specific contributions, provide the facilities for a stepped-up and more effective family planning program.

The liberalization of import and industrial controls would decisively reverse the trend toward high cost import substitution and encourage rapid development toward efficiency and specialization in industry in which India is competitive and can export with a minimum of special concessions.

The required increase in aid commitments would peak in 1971/72 or 1972/73. The 7 percent growth rate would be achieved in 1973/74. At that rate it might be possible to generate savings at a high rate of 25 percent of income gains, which would quite rapidly reduce aid needs thereafter and eliminate the need for net aid by 1980. All this would add up to a very exciting improvement of the economic/social and political climate.

Case 3: AID Assistance $250 Million:

This case represents real failure to take advantage of the agricultural breakthrough. We have projected our estimates on the assumption that the $250 million U.S. aid commitment continues for two years and that thereafter growth continues at the 4 percent

rate to which it has tended (see Table 7). And the aid provided would follow along as required to sustain that growth. Total net aid needed would decline gradually but continue into the late 1970s. Gross aid requirements by the late 1970s would remain about the same as in Case 2, substantially higher than in Case 1 and would be declining much more slowly.

In this case agricultural growth in the early years would continue at 5 percent but the rest of the economy would grow more slowly and quite soon the continued growth of agriculture would become infeasible. To conserve scarce foreign exchange the government would need to continue and perhaps even tighten its import controls. This tendency would be strongly reinforced by protective pressures from private industry, chronically depressed by low demand. Savings would be low as per capita income stayed low. It would be difficult to increase government revenue because of low income and increasing resistance to new taxation. To save precious exchange investment would continue to be directed to high cost import substitution, often in the public sector. As a result the real product of investment would probably be substantially less than in Cases 1 and 2. Very soon, perhaps by 1972, agricultural growth might encounter demand limits. Slow growth would hit hardest the poorer agricultural groups and general unemployment

problems would intensify. Some progress would continue, but only at about the rate attained during the 50s. That might be less acceptable now because of the changed political climate, the increased inequalities resulting from the half-established agricultural revolution, and the faster growth of population.

This case would involve worsening social conditions for large segments of the population. Conceivably at some point it could stimulate the GOI to greater efforts to accelerate progress. At best, however, it is hard to see how such efforts could succeed without substantial aid. Given India's very low income levels, federal structure, democratic institutions and social tensions, there is little prospect that India could greatly increase the amount squeezed out of internal resources for a more ambitious effort. At worst, social and political conditions might produce an upheaval which would set back progress drastically and which could require very expensive relief, rehabilitation, or even Congo/Vietnam-type endeavors.

Highlights

Comparison of these three cases highlights the dramatic difference that a moderate change in course can make over a period of years. The most significant differences are in the per capita incomes and in the pattern of aid needs.

The 5.5 percent growth case would produce annual increases in per capita income of almost 3 percent -- enough to be widely perceived and appreciated. It would raise per capita income to $105 equivalent by 1978/79, up more than 30 percent from the current level. The 7 percent case would raise per capita income by almost 4.5 percent per year and in ten years increase it by nearly half. The 4 percent case, on the other hand, would raise income at less than 1.5 percent per year. For many, such an increase would be imperceptible.

We do not claim absolute accuracy for such estimates. Nor can we guarantee that low growth would produce political disaster or high growth utopia. We are confident, however, that our estimates indicate accurately the character of real alternatives before us and orders of magnitude involved. We are also confident that the prospects for wholesome political evolution will be progressively improved if economic progress is accelerated.

The other striking conclusion is that it is quite reasonable to expect that the aid job can be substantially completed within a finite period. In each case, the need for net aid disappears within the decade. The choice is not between higher and lower aid needs stretching out indefinitely. It is between initial inputs needed to start a process which can be self-sustaining within a decade. The costs of helping India on to higher growth tracks are substantial, but finite. In our opinion the benefits are very great in relation to the costs.

TABLE 5

CASE 1

U. S. AID $385 MILLION: NDP GROWTH 5.5 PERCENT
($ Millions unless otherwise stated)

		Fourth Plan Period					
	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74	1978/79
NDP at market prices	42,053	44,813	47,140	49,567	52,293	55,167	72,100
Net investment	4,079	4,657	4,853	5,333	5,773	6,340	8,727
Net domestic saving	3,436	4,028	4,296	4,732	5,249	5,823	9,209
Population (Millions)	528	542	556	572	587	603	685
NDP per capita ($)	80	83	85	87	89	91	105
Net aid utilized	750	814	622	648	571	564	-483
Gross aid utilized	1,268	1,361	1,182	1,249	1,175	1,170	201
Gross Consortium aid commitment of which:	761	1,030	1,060	1,080	1,040	1,040	
Non-project and debt relief	(653)	(695)	(710)	(710)	(710) a/	(760) a/	

a/ Include disbursements for local costs from earlier IDA/IBRD project loans.

TABLE 6

CASE 2

NDP GROWTH 7 PERCENT

		Fourth Plan Period					
	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74	1978/79
NDP at market prices	42,053	44,813	47,280	50,120	53,373	57,107	80,093
Net investment	4,079	4,657	4,933	6,000	7,093	8,400	12,333
Net domestic saving	3,436	4,028	4,300	5,067	5,827	6,800	12,547
Population (Millions)	528	542	556	572	587	603	685
NDP per capita ($)	80	83	85	88	91	94	117
Net aid utilized	750	814	700	982	1,312	1,647	-213
Gross aid utilized	1,268	1,361	1,260	1,583	1,916	2,253	471
Gross Consortium aid commitment of which:	761	1,030	1,283	1,710	1,700	1,700	
Non-project and debt relief	(653)	(695)	(833)	(1,210)	(1,150)	(1,150)	

TABLE 7

CASE 3

U.S. AID $250 MILLION: NDP GROWTH 4 PERCENT

		Fourth Plan Period					
	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74	1978/79
NDP at market prices	42,053	44,813	47,140	49,260	51,473	53,533	65,127
Net investment	4,079	4,657	4,853	4,907	4,947	5,133	6,260
Net domestic saving	3,436	4,028	4,296	4,549	4,815	5,061	6,453
Population (Millions)	528	542	556	572	587	603	685
NDP per capita ($)	80	83	85	86	88	89	95
Net aid utilized	750	814	622	404	179	119	-193
Gross aid utilized	1,268	1,361	1,182	1,005	783	725	491
Gross Consortium aid commitment of which:	761	1,030	880	740	660	360	
Non-project and debt relief	(653)	(695)	(555)	(530)	(350) a/	(100) a/	

a/ Include disbursements for local costs from earlier IDA/IBRD project loans.

3. Balance of Payments Considerations

The Indian balance of payments has fallen into a low level equilibrium: low aid levels, low imports, and extensive import substitution. Exports lagged seriously until 1968/69, partly as a result of the drought, partly because of poor world market demand for traditional items, and partly due to ineffective government policies. As a result, foreign exchange earnings from exports actually fell in recent years. In 1968/69 a very substantial (over 12 percent) rise in export earnings has brought exports above the previous high of 1964/65 with a promise of continued growth in the future.

But in recent years debt burden has increased substantially and large IMF repayments have fallen due. With a limited amount of foreign aid, particularly non-project aid, the only way the GOI has been able to avoid serious foreign exchange shortages has been to cut back imports. The recession and the devaluation of 1966 both reduced import demand, so that despite foreign exchange shortages the system of liberalized imports for priority industries has been maintained. However, an important element in holding down import demand has been heavy emphasis on import substitution.

The balance of payments relationships of the recent past will have to change if India is to achieve substantially higher rates of growth. In our analysis of future import patterns we have tried to

concentrate on why imports are required rather than what imports will be required. This approach is worked out and explained in some detail in Annex C. What it means is that we have given relatively less emphasis to the commodity projections and commodity balances for the Fourth Plan period, and more attention to the overall resource needs of the economy.

In doing this we have examined past import trends and their relationship to Indian industrial growth. This examination has given us greater insight into the considerable extent of import substitution that has taken place. For future years we have tried to estimate import requirements taking into account the rate of import substitution. We also, however, examined the internal resource availabilities for investment in India to see if the resources necessary for continued high rates of import substitution are available.

What our analysis suggests is that for a 5.5 percent rate of growth India will continue to generate adequate domestic resources to permit almost the same rate of import substitution as in recent years. For a 7.0 percent rate of growth, however, a higher portion of investment would have to come from external resources because even with a very strong savings effort India would not have enough internal resources to maintain the same ratio between imports and domestic content

of investment.

Other important aspects of the balance of payments projections are that:

1) Food imports will decrease rapidly over the Fourth Plan period. At the 5.5 percent growth rate, PL-480 foodgrains aid will be phased out by 1971/72.

2) Debt payments will increase to a level about $100 million higher during the Fourth Plan period.

3) Export growth -- given continued GOI efforts -- will be at 6 to 7 percent a year.

Thus, the general pattern we see is a rising foreign exchange bill for imports and debt. This will be offset by a $600 million increase in exports over the period and a phaseout of IMF repayments. The composition of imports will be increasingly toward industrial support items with far less emphasis on food. With these forces at work and a favorable rate of economic growth, the foreign aid requirement will begin diminishing substantially by the end of the Fourth Plan period.

In developing these estimates we have maintained a high

growth rate for exports throughout -- 7 percent from a 1967/68 base or 6 percent from 1968/69, putting the entire burden of adjustment to changing growth and resource needs on imports. This procedure may be somewhat unrealistic.

In the short-run exports do compete for scarce resources with investment and consumption. Exports might be expected to suffer somewhat if domestic demand really began to rise sharply. There are strong policy reasons, however, to emphasize the importance of maintaining a high, steady export growth and also a more liberal import regime. These are dealt with below.

In the longer run, our fast growth cases would involve moving toward an industrial pattern and cost structure which would permit even faster export growth. By the mid-seventies, rising savings capacity should make it possible to reduce dependence on aid. To do so it will be necessary to accelerate import substitution or exports or both. Some additional economic import substitution opportunities will certainly emerge, but we are convinced that primary reliance should be placed on increased exports. Industrial development should be geared to that objective.

4. Interaction between Imports, Exports and Industrial Development.

The major mechanism for encouraging import substitution is the policy of permitting no imports at any price for items which are produced in India. This policy, combined with the price advantage for domestic items which devaluation provided, appears to have been responsible for the recent high rate of import substitution.

With the prospect of aid uncertain, the increase in debt payments assured, and stepped up economic activity hoped for, the GOI has added to its stress on import substitution a major drive to increase exports. Hence, the non-food foreign aid requirements are projected in the Fourth Five-Year Plan at about the current level, despite the rapid growth targetted. The Plan's aid levels seem optimistically low, as discussed above. In addition, the policies designed to increase import substitution and at the same time increase exports appear to be inconsistent with an acceptable growth rate. It is hardly surprising, however, that India's economic strategists have felt obliged to assume aid scarcity.

Perhaps more important than the Planning Commission's projections are the policies which the Ministry of Finance has established as a reaction to the realities of India's balance of payments.

The Ministry sees its goal as avoiding foreign exchange crisis and as minimizing the amount of political pressure and influence foreign lenders (including the International Monetary Fund) can exert over Indian economic policy.

A second goal to which the Ministry and the Government are fully committed is the 1966 liberalization of imports for priority industries. One aspect of a liberalized system, particularly in an economy as large and complex as India's, is that it is not easy to anticipate what import demand will be and thus what cushion of foreign exchange reserves will be required to maintain the system.

Other goals of the Ministry's policies are to maintain India's excellent record of paying foreign exchange debt and foreign private investment earnings where and when called for, and to reduce India's outstanding drawings from the IMF.

These goals have led to fiscal and foreign exchange policies that have proven unnecessarily conservative over the past two years. The factors which tended to produce this result are easy to see:

-- Import demand has been lower than either we or the GOI expected. Partially this may be due to a drawdown of the large inventories

which accumulated after the 1966 devaluation, but it is also a measure of the success of Indian import substitution efforts.

-- The aid picture has been perhaps somewhat better than were the pessimistic assumptions of the Ministry of Finance.

-- Export earnings have increased above the Ministry's expectations during the past year and have even exceeded by $55 million our frankly optimistic projection of a year ago.

With modest increases in reserves two years in a row and substantial repayments to the IMF, it is a fair question to ask whether India could not trim its policies more boldly. Would it not be possible to operate much more closely to the margin, and use the foreign exchange released by depleting first and second line reserves as a substitute for aid? Perhaps, but to operate on a narrow margin makes the threat of foreign exchange crisis nearer. To minimize this risk, it would be necessary to increase the use of controls and abandon the liberalized system. The Ministry of Finance has repeatedly said that by acting conservatively on foreign exchange the confidence of importers has remained high and thus the liberalized

system has continued to work. Once the liberalized system is compromised, a Ministry of Finance official has pointed out, it would be extremely difficult to build up the importers' confidence and to re-establish the system. Independent talks with business leaders confirm that there is widespread confidence in the continuation of the liberalized system and that this in part accounts for the willingness of businessmen to decrease their inventories of imported goods.

In our view, India needs more liberalization not less. It needs more imports not less. And it needs much more selective import substitution. India's foreign exchange policies have shown that it is possible to save foreign exchange. They have not shown it is possible to build an efficient competitive industry at the same time. Indiscriminate import substitution will multiply inefficient industrial units and cause a higher cost structure for industry. Aside from the problems this creates for continued long-run industrial growth, it makes exporting of industrial items increasingly difficult.

India needs a new set of high growth import policies to provide the resources necessary for development and to introduce economic forces which will encourage industrial efficiency.

As an optimistic hope, we would advocate what might be called "Strategy I":

a. Substitute tariffs for the banned list. This would have to be done progressively and experimentally starting with high tariffs and working them downward. As for commodity or industry coverage, debanning should be introduced either across-the-board (which would be unlikely) or by starting with processed materials and intermediate products and then moving on to finished products. Otherwise, those at the end of the production process would be faced with import competition while still being forced to buy from domestic suppliers enjoying absolute protection.

b. Increase the kinds of items imported under the liberalized list to include capital goods. Now only raw materials and spares are liberalized. Very large orders of capital goods (in effect, those for major projects) would probably have to continue to be licensed on an individual basis.

c. Provide tariff refunds to exporters. This is now done, but it is of limited use since so many inputs are on the banned list and must be bought from high cost domestic producers.

d. Expand the liberalized system of imports to cover more industries. This could be done by expanding the number of industries which are now defined as priority.

These policies would amount to a sweeping reform. They would seriously endanger many of India's industries that have grown up under the total protection afforded by the banned list. These reforms could be maintained only if there were substantial reserves of foreign exchange. It would be naive to believe that the Government is likely to accept them in the near future, both because of the tight foreign exchange prospects and the domestic political furor that would result. The time to push for this strategy will come when industry is booming, blunting domestic protectionist pressure, and GOI confidence has been restored that the Consortium can be counted on for the aid needed to underwrite such a move.

Strategy II -- less ambitious but well worth working for -- would be to concentrate on export industries. This strategy would free exporters from the banned list. Exporters would get automatic imports of any product they needed if domestic suppliers (1) could not supply quality needed; (2) were more than a stated percentage over world price; 2/ (3) could not supply the product within (for example) 30 days.

Strategy II also requires more foreign exchange although not as much as Strategy I. It would not do much to alter the basic inefficiency problems of Indian industry, but it would partially insulate exporters from them.

Strategy I requires substantial confidence in foreign exchange income. Because the aid donors are unable to commit funds for future years, and because recent experience suggests that tentative commitments are in fact not reliable, it is unlikely that the GOI will undertake wholesale policy changes that risk a large foreign exchange drain until it is abundantly clear export earnings plus foreign aid are in hand or reliably forthcoming to finance a large jump in imports.

2/ The amount of domestic price advantage to be given would vary by types of commodities. The point here is to permit manufacturers of export items to get good quality inputs at basically competitive prices. Free imports with no tariffs would in many cases induce manufacturers merely to assemble imported components.

To encourage the high growth foreign exchange policies of Strategy I, the U. S. and the Consortium would:

-- stress the need to build up foreign exchange earning capacity by encouraging exports;

-- increase foreign aid commitments to a level compatible with fast growth and import liberalization;

-- at the same time, press for import reforms beginning with those most directly promoting exports.

Strategy I would provide the mechanism through which foreign aid could meet the resource gap which our analysis defines as the major Fourth Five-Year Plan bottleneck. It also would provide the basis for a much sounder, i.e. more efficient development strategy for Indian industry. Finally, it would permit exports to compete in world markets with a minimum of special discriminatory concessions.

In the longer run this policy would encourage India to develop specialized export industries along the lines of comparative advantage, rather than developing industries for domestic demand with a small margin to be used for exports -- the usual pattern now.

Our realistic view of the Indian situation is that foreign aid cannot overnight alter the shape of Indian industries and the rate of Indian economic growth. Indian industry and Indian import policies have adjusted to foreign exchange shortages. They will have to adjust again to foreign exchange availabilities and this takes time. India is not likely to increase imports of industrial support items by 30 or 50 percent in a given year. But it can and must move to support higher levels of imports if minimum growth targets are to be met.

Adequate commitments of foreign aid today appear to be an essential ingredient for any hopeful strategy for inducing the policies which are necessary to achieve this result.

5. Domestic Resource Considerations

Foreign aid makes only a marginal, though vital, contribution to the resources available to India for development purposes. The great bulk of the resources for India's development is, and must be, raised domestically. Given the country's low income level in absolute and per capita terms, increases in domestic resources for development can be expected to come only out of increases in income; it is obvious that the faster aggregate income rises, the easier it will be to mobilize additional resources for further development.

Part of the reason that our estimate of India's aid requirement is higher than the Planning Commission's is that we make a somewhat less sanguine assessment than they do of the country's prospects for generating and mobilizing the savings to finance the investments necessary to achieve the Fourth Plan growth target. The Fourth Plan's target marginal saving ratio (defined as the ratio of the increment in domestic saving to the increment in net domestic product at market prices) from 1967/68 to 1973/74 is 21.9 percent, a rate only slightly higher than the 21.3 percent India actually achieved during the first four years of the Third Plan before the collapse of 1965/66, but considerably higher than for any more extended period. India's past experience with saving is, therefore, inconclusive for predicting the results for the coming years. Although the Fourth Plan assumptions as to marginal savings are, in the abstract, reasonable ones, as a practical matter the mobilization of increases in domestic resources in the forms of both public and private savings out of increased income levels presents some serious institutional and political difficulties.

The Plan calls for an increase in government savings (the sum of the current account budget surplus of government agencies and the operating surpluses of the public sector enterprises) from

0.8 percent of national income in 1967/68 to 3.8 percent in 1973/74. Significant increases in government savings require three major achievements: more effective taxation of groups currently receiving the major increases in income; a much better net earning record of the public enterprises than has hitherto been achieved; and great restraint in non-development expenditure. None of these is easy to bring about.

Agriculture is currently the dynamic sector of the private economy but direct taxation of agricultural incomes must be approved by the Parliaments of the States where landowning interests are powerful (even in Communist-run West Bengal) and reluctant to submit to taxation. The public sector enterprises operate under a whole series of institutional, political and economic handicaps: endemic overstaffing; for industrial enterprises, specific price ceilings in the interest of general price stability; for electricity boards and irrigation authorities, a tradition of subsidizing rural customers of power and water; for some units within heavy industry, the current (and perhaps temporary) fact that their capacity was designed for a much bigger aggregate investment effort than the economy is now able to finance. Public savings can be increased, but only if a determined political effort is made by the GOI and the State Governments.

The GOI's 1969/70 budget took a major political step toward effective taxation of the rising incomes of the agricultural sector by proposing the levy of a wealth tax on agricultural property, and a less radical but more substantial one by proposing two indirect taxes on the highly productive inputs to the "new" agriculture, a 10 percent tax on fertilizers and a 20 percent tax on power-driven pumps. Although the Government was obliged to retreat somewhat during the budget debates, under pressure from the landowning interests in Parliament, by dropping the proposed tax on pumps and increasing exemptions under the wealth tax, an important precedent has been set for increased taxation of agriculture by the Center. The State Governments have, on the other hand, been slow in responding to the increased requirements of the Fourth Plan; they have, instead, been bargaining with the Center for increased transfers. The State Governments may move forward more constructively, however, once the final decision on Center-State transfers is taken by the Finance Commission later this year.

Mobilization of the private savings, out of after-tax incomes, necessary to finance the Plan's levels of private investment presents its own set of difficulties, among them the reluctance of the GOI to see enterprises in the corporate sector make the profits out of which

corporate savings can be retained, and the fact that the other institutions for mobilizing rural savings have not so far shown themselves to be adequate to the task.

The cooperative banks have over the years been only moderately effective in attracting deposits for their short and medium-term credit activities, while the efforts of the Land Development Bank to sell rural debentures have so far borne little fruit. A further uncertainty is whether the current incentives to save out of increasing private incomes will not give way to increased incentives for conspicuous consumption. This is particularly relevant for agriculture where recent increases in income have to a large extent been ploughed back as investments in tubewells, pumpsets, agricultural machinery, and stocks of new inputs. However, the commercial banks are now being obliged by the GOI's policy of "social control of banking" to extend vastly greater amounts of credit to the rural sector. As the commercial banks penetrate the rural areas and set up new branches, they are likely to attract considerably greater amounts of deposits than are now flowing to the cooperative banks. Valuable side effects may, therefore, be to increase the incentive to save, to speed up the institutionalization of saving, and thereby to facilitate the mobilization of rural savings.

The most hopeful current indication with regard to domestic resource mobilization is that the Central tax effort in the first year of the Plan appears to be broadly compatible with reaching Draft Plan targets. Whether defense and other non-development expenditure is being appropriately restrained is less certain. So far, the State Governments do not seem to be making an adequate tax effort, though the situation will not be clear until later this year.

We are preparing a more detailed Annex, reviewing the prospects for meeting the Plan government and private savings levels and attempting to identify critical policy issues. Our present conclusion, however, is that the Plan sets very ambitious targets for both public and private savings. It is unlikely that they can be fully met even with very creditable self help efforts.

PART II

MAJOR U.S. PROGRAM ISSUES

The major issue for the USAID program in India clearly relates to the amount of external resources, chiefly in the form of non-project aid, to be made available to the Government of India. This issue has been discussed at some length in Part I.

In this Part II we present the major issues -- aside from the level of external resources needed -- which relate to U.S. policy governing the AID program in India. These issues are of major consequence to the FY-1971 program, both in terms of orientation and relative emphasis. They focus on:

- -- the respective roles of program and of project lending;
- -- the potential for private investment;
- -- the relative share that PL-480 lending is likely to assume;
- -- the relative roles of technical assistance and other forms of aid;
- -- the possibilities of improving the effectiveness

of U.S. aid by removing administrative restraints imposed by our own government; and finally,

-- four major fields of present and future concentration of USAID activity: agriculture, exports, family planning and employment.

A. Program and Project Lending

Projects have three major attractions: (1) they offer the chance to combine capital inputs with detailed technical and financial supervision; (2) they permit donors to examine feasibility questions and monitor the results; and (3) they have tangible appeal to the U.S. and Indian public. But in India, as infrastructure and major industry has developed, the need for imports of spare parts, components, and raw materials has increased. Small industrial units have also grown up with great potential for expansion. And Indian industry has developed the capacity through its capital goods and engineering industries to supply large parts of all but the most sophisticated projects. Relatively few of India's new projects will require a large proportion of foreign engineering and equipment.

Because of this maturity in industrial development, the largest requirement for Consortium capital assistance is now for program loans. These provide raw materials, components, and spares which maximize utilization of capacity in industry and provide fertilizer and other inputs for agriculture.

This does not mean that good projects can no longer form an important part of the aid program to India. The Mission continues to seek good opportunities for project loans. The best possibilities are in advanced technology areas, such as fertilizer plants, where India has not yet developed sufficient indigenous capacity for equipment manufacturing. The recent proposal to pull together small groups of capital goods for a number of private companies into a good-sized project loan for industry has recently been recommmended to Washington for financing. There should be similar opportunities in the future for effective use of U.S. funds.

The question of project vs. non-project assistance is complicated by Consortium aid financing. If other aid donors moved much more heavily toward non-project loans, obviously AID's emphasis could shift more towards projects. The opposite seems to be happening, however, IDA, a major contributor of non-project funds in the past, is now expected to shift emphasis to projects.

In view of these factors, our current estimate is that AID project loans are unlikely to exceed a total of about $50 million per year.

Another form of AID capital assistance is through Extended Risk Guarantees; AID has recently authorized ERG's for two fertilizer plants in India and is now evaluating a third. But the cost of capital through ERG assistance is high. Even without the additional charge for the guarantee, the interest rate for private loans is currently over 8 percent. Since India's debt burden is large, efforts to encourage ERGs place the U.S. in a difficult position. We argue on the one hand that the Consortium assistance should be on development terms, since anything less places too great a charge on India's future foreign exchange earnings and that India should reduce or eschew suppliers credits. At the same time, we urge the GOI to accept loans with ERGs from the U.S. at 8-1/2 to 10 percent. ERGs and private loans in general could be made much more useful if some way could be found to reduce the foreign exchange cost to the GOI of servicing the loans.

The logic which supports low cost program lending does not apply to U.S. assistance alone. It argues for a major effort to encourage other Consortium donors to:

(1) maximize their non-project assistance, and

(2) ease the terms and restrictions on their assistance.

We recommend in particular that the U.S. urge the Board of IDA to reverse its current trend toward project loans. We also recommend that AID continue its efforts to get Japan, France and Italy, to ease the terms of their loans. Such efforts could be more convincing if we eased some of the many restrictions now placed on our own loans, as outlined below.

B. The Role of Private Foreign Investment

American and other foreign private equity investment does not just provide capital, it provides advanced technology, management and operating skills as well. This is particularly important in such advanced technology areas as fertilizer production and some export industries. However, the amount of private foreign capital that India will receive is not likely to be great enough to substitute for other Consortium assistance. India needs a combination of private capital from abroad and intergovernmental development loans. The reasons that private capital cannot substitute completely for development loans are economic:

First, the cost of foreign equity investment is high. Private capital is available only at world market prices. U.S. firms expect

long-run returns of at least 12 to 15 percent.[1/] India can only afford foreign investment at such terms for highly productive projects. A project which will result in large net foreign exchange savings (through rational import substitution) or earnings (through exports), of course, can be attractive to India even if the returns to the investor are high.

Second, foreign equity investment almost always covers only the cost of equipment imported for the project. Since India can produce much of its own capital equipment, the proportion of any given industrial project which can be provided by foreign equity investment is declining. Private investment does not fund at all the commodities and components for which production loans are mainly used.

India seeks private investment in selected areas. There are encouraging signs of increasing realism about where foreign private investment is useful, viz., the recently approved American-Japanese collaboration for iron mining. This was the first approval for foreign investment in mining in several years. The GOI prides itself on its excellent record on permitting repatriation of profits and capital. However, excessive delays by the GOI in approving collaboration

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1/ Returns on equity investment in India tend to be quite high (for companies making a profit), since firms tend to be highly leveraged, with an average debt equity ratio of about 3 to 1. Reinvestment, though it defers the impact, does not reduce the cost of such money.

agreements act as a disincentive to potential investors.

Although the cost of private investment funds is high and India's debt burden is rapidly increasing, the Mission recommends that AID actively promote foreign private investment in those areas where American technology and management will provide a major boost to Indian economic development. Examples of this would be fertilizer production, major export industries, offshore petroleum exploration, and tourism.

A fuller discussion is included in Annex K. We are preparing a more extensive analysis of the possible role of private foreign investment in Indian development and of what can be done by the GOI and by the U.S. Government to increase its contribution to development.

C. PL-480 - A Declining Need

PL-480 food aid under Title I was critical during the drought years of 1965 and 1966. It continues to play an important role:

-- it fills India's decreasing food gap;

-- it builds up buffer stocks which permit the orderly marketing of foodgrains;

-- it generates rupee resources which can be channelled into investment.

A reduction in PL-480 below requirements would place pressure on supplies and would either induce inflation or force increased use of foreign exchange for food imports and reduce the amount of resources available for development. Thus, continued PL-480 imports are essential if other aid capital loans are to be effectively used to provide industrial support commodities. The reverse is not true, however: additional PL-480 cannot be an effective substitute for non-project or project funds. Excessive PL-480 imports would depress prices and discourage Indian agriculture.

D. Technical Assistance

There is no substitution possible between our $9-10 million technical assistance program and our $300-400 million capital assistance program. In fact, the two programs are complementary.

Our technical assistance program helps to provide the social infrastructure, institutions, and trained manpower needed to utilize more efficiently and more effectively capital inputs. This increases the ability of the economy to use effectively capital investment; thus, the initial effect is to increase capital requirements, rather than decrease them.

There will continue to be a substantial need for technical assistance programs in India. In some project areas (nutrition, export

promotion), our role has changed from the more traditional one of institution building and technical advice to one of supplying ideas, acting as a catalyst, and prodding the Government of India to take action. In other projects, such as Agriculture University Development, our role is more traditional: that of helping the Indians at the State level implement what is for them a new concept in higher education -- the land grant university. As the Indian economy develops, we anticipate the need for more sophisticated institutions and a higher quality of manpower. This, in turn, will require a change in the content and approaches of the technical assistance program.

The fundamental point to keep in mind is that technical assistance cannot usefully be discussed or considered in the abstract. Technical assistance in what specific area, for what particular purpose, in what concrete manner, toward what precise goal, are the questions that must be asked. Thus, it is possible, perhaps even likely, that there will be a declining scope for projectized technical assistance in the decade ahead. It is equally possible or likely that needs for new forms of technical assistance will emerge. For example, in those most advanced areas of Indian capability there will be a shifting need from the provision of technicians capable of teaching new methods to an exchange of generative ideas among professionals of equal or near-equal competence.

A particular field in which new approaches are relevant is in the transfer of science and technology, the need for which will remain substantial throughout the 1970s. An expanded effort could be made to build linkages between the American scientific and technological community and the rapidly growing one in India. We will be exploring different approaches to this problem. The effective approaches may require modification of detailed Project Agreements, PROPS, and the usual apparatus of AID technical assistance. Other areas will require similar fresh looks. There will, however, still be a continuing need for traditional project-type technical assistance, most particularly in the field of agriculture.

The USAID will be looking more intensively at this subject in the months ahead and hopes soon to have specific proposals to discuss with AID/W.

E. Improving the Quality of Program Loans

In the past several years the U.S. has taken a series of steps which have significantly reduced the efficiency of our program assistance, have reduced its usefulness to both Indian importers and U.S. suppliers, and have weakened our hand in negotiations with the GOI regarding import liberalization. Following are examples of these restrictions: elimination of a wide variety of spares from the list of commodities eligible for

financing; imposition of a $5,000 minimum on the size of transactions; elimination of barter transactions; a series of seemingly arbitrary Washington decisions that various commodities were ineligible for financing; imposition of a positive list of eligible commodities, rather than a negative list; and prior review of all transactions by AID/W.

Some of these restrictions came as a result of problems faced by the Vietnam Commodity Import Program, although India was not experiencing the problems that the restrictions were designed to prevent. Some came from pressures for additional U.S. commercial exports ("additionality"), although U.S. assistance to India has been more than 100 percent additional. Some came from a desire to reduce AID/W's accounting expenses or administrative burden.

Adding to the problem of effectively using program loan funds, are the labyrinthine complexities of AID's regulation 1 (which guides all non-project transactions) and of the seven digit Schedule B Commodity Code. As a result, the value of our program assistance has been materially eroded. Many Indian importers trade their AID import licenses for free exchange or IDA licenses with a face value only one-fourth as much. It should be emphasized that higher C&F prices from the U.S. account for only a part of this problem. Our restrictions and red tape have biased many U.S. suppliers against exporting

under AID financing -- and consequently toward quoting higher prices for such exports.

In sum, in terms of the U.S. Government's composite objectives the costs of AID's maze of controls, restrictions and regulations probably exceed the benefits they are intended to yield. Obviously also, our negotiating effectiveness in advocacy of the liberalization which we constantly urge the GOI to extend is diminished when we keep adding new controls and constraints of our own. The GOI officials whom we advise to resist political pressures and remove protection from domestic industry are the same ones who must implement the AID-imposed restrictions.

AID has recently taken a major step toward restoration of the efficiency of our assistance -- the first such step in several years -- with the Policy Determination on Additionality. We recognize that removal of all of the restrictions on our program loans -- which would improve the quality of our most important input to the Indian development process -- may not be feasible at this time. But following up the Policy Determination on Additionality with a reduction in other restrictions would have a big payoff: in increasing the efficiency of our aid, in assisting private sector Indian importers and U.S. suppliers, and in strengthening our hand in discussions with the GOI on reduction of their controls. We

believe the following steps toward reduction of restrictions are manageable and we recommend them:

1. Eliminate individual Small Business Notification for each transaction. Instead, issue general notices of commodities to be covered under each loan and of importers who have in the past utilized AID non-project loans. This would speed procurement by two months, thus making AID licenses more attractive by putting them on a par with licenses funded from other sources. It would reduce production lost while waiting for imported raw materials. It would also facilitate growth of the kind of supplier-importer relationships which are a necessity if AID assistance is to result in long-term hard-currency markets for U.S. products.

2. Reduce the minimum value of transactions from $5,000 to $500. Under the current $5,000 minimum, very little of our non-project loan funds go to Indian small business, in spite of the Agency's worldwide program objective of assisting

small business. Indian small business is hurt by this; while small business is eligible for free exchange licenses, they are granted after long delays and usually in an amount well below the firm's requirements. The current $5,000 minimum also forces distortions in the procurement patterns of large firms, since even emergency requirements cannot be shipped if they are less than $5,000. A $500 minimum would mean some increase in AID's administrative costs, but in view of the computerization of much of the transaction review process, the Mission believes that the program benefits would be far greater than the added administrative costs.

3. Move quickly to give effect to the Policy Determination on "Additionality" by removing the restrictions on the non-project eligibility list, in particular the restrictions on spare parts. Removal of additionality restrictions on existing non-project loans is justified by the high

development cost of such restrictions, which is discussed in detail in the Additionality section of Annex K.

4. Grant-finance the difference between the cost of chartering U.S.-flag vessels to carry fertilizer (and other bulk commodities) and the cost of chartering foreign-flag vessels, as is now done in the case of Title I commodities. Under the 50/50 shipment rule, the GOI now has to use the dollars they borrow from the U.S. to pay $40 to $55 per ton for U.S.-flag vessels compared to $13 to $16 for foreign-flag vessels. We recommend that AID ask for a separate budget item to grant-finance the estimated incremental cost of carrying bulk commodities on U.S.-flag vessels for all aid recipients. The Administration's proposed authorization legislation for 1969/70 contains a provision which would permit grant financing for this purpose.

F. Exports

Perhaps the most pressing economic issue facing India today is the interaction among export policies, import policies and industrial development strategy. Reasonably high aid levels play an important part in influencing these policies.

Today, India is following a policy of encouraging to the maximum the domestic production of items currently being imported. Broadly speaking, an import substitution policy makes sense for India; the country has the domestic raw materials, the labor, and many of the skills to produce efficiently a wide range of goods. And it has the market, existing as well as potential, to accommodate plants of efficient size in many lines.

But an import substitution strategy does not make sense if it favors domestic production over imports regardless of the shadow rate of exchange implied -- or if the very implementation of the strategy nurtures sloppiness, inefficiency, uneconomic scale and high costs in domestic production -- or if the enforcement of the import substitution strategy saps the prospects for export expansion. And unhappily, thanks to the present absolute ("banned list") form of protection used for effecting import substitution, the present policy has all of these shortcomings. They are entrenched not only by foreign-exchange shortages and

uncertainties, and by an emotional commitment to autarkic self-sufficiency; they are reinforced by politically potent protectionist pressures building up in Indian industry, both private and public.

The situation poses serious problems for exporters. They are forced to buy their supplies in India. These are often (not always) high in price and low in quality. Some exceptions to the banned list are permitted, but these are limited and ad hoc.

Exports in 1968/69 showed a gain of over 12 percent. Even so, they were just 5 percent above the 1964/65 high. What is significant is that half last year's growth came from new industrial exports. This represents a major advance in terms of breaking into new markets. These new exports are expected to provide the cutting edge of India's new 7 percent export growth effort. Yet it is these exporters who are most hampered by Buy-Indian policies.

At the moment, the combination of many factors -- among them subsidies, tax exemptions, special import licenses, low domestic demand -- have made it profitable for industries to export. But the future does not look favorable. The government incentives are cumbersome and complex. Continued forced import substitution is bound to increase costs. Therefore, the Mission recommends that the U.S. and the Consortium, to the extent they effectively can, continue to

encourage the GOI to

-- simplify and rationalize its export incentive system, and

-- exempt exporters from the banned list, permitting them to buy needed imported goods if domestic sources are substantially above world prices, too slow in delivery, or poor quality.

Some senior Indian officials already in principle favor such reforms. Their chance of making their views prevail over the forces of protectionism, chauvanism, and inertia will depend heavily on whether our support includes an increment of aid for backstopping the effort.

As part of our interest in exports, the Mission has a unique technical assistance effort which supports GOI efforts to discover new markets abroad and develop a rational foreign trade policy. The Mission expects to continue this effort with new emphasis on developing the administrative units in the GOI to continue this kind of activity.

G. Agriculture

The impressive performance of Indian agriculture during the past two years manifests a technological transformation that has been under way for some time. The so-called "New Agricultural Strategy", initiated in 1965, accelerated a trend to modernization and commercialization of agriculture.

The sharp upturn in foodgrain production was brought about by several factors: (1) a fortuitous breakthrough in plant breeding -- the dwarf wheat which has proved adaptable here and the development in India of high yield potential hybrids in maize, sorghum and millets; (2) bold decisions of the Ministry of Food and Agriculture to introduce these new varieties on a large scale; (3) recognition by GOI of the importance of price incentives in stimulating adoption of new technology -- a favorable price policy has been followed since 1965; and (4) commitment of GOI to make essential yield increasing inputs more readily available -- by encouraging investment in additional production capacity and, meanwhile, using scarce foreign exchange to import the deficit.

The Fourth Five-Year Plan sets a target growth rate of 5 percent for agriculture. This appears to be reasonable and achievable,

but to sustain this level of growth over a long period of time will require these reinforcing measures:

(1) Expansion in supply and marked improvements in the distribution of commercial inputs: fertilizers, seeds, plant protection materials, irrigation water and power and equipment;

(2) Expansion and strengthening of Indian institutions for agricultural research and extension to generate a continuing flow of high yielding, disease resistant varieties, and improved production practices adapted to Indian farms;

(3) Improvements in organization and functioning of the marketing and distribution system for agricultural products;

(4) Further strengthening of the institutions for training the large numbers of agricultural scientists, technicians and administrators required to staff properly the public and private agencies needed for providing essential agricultural services.

USAID is working in each of these areas:

-- Domestic supplies of inputs are being expanded by investment projects assisted by our loan program. Meanwhile we are financing additional imports of fertilizers and plant protection materials.

-- The Mission is assisting producers and distributors of fertilizer, seeds and pesticides to develop effective trade associations and is helping the private sector to engage more actively in promotion and distribution of inputs.

-- The Mission is helping eight states develop Agriculture Universities - which have a major research, as well as educational and extension function.

-- We are providing technical assistance to the Food Corporation of India, the principal agency for implementation of the GOI price support and food supply stabilization programs; and US-owned rupees are also being used in expanding modern storage facilities.

It is becoming increasingly evident that satisfactory agricultural development must encompass much more than simply increasing the supply of foodgrains. The new strategy has deliberately concentrated the inputs and development effort in the areas best endowed with agricultural resources -- the areas with assured water supply and high

yield potential. Political and social considerations require a broader based improvement in farm income. Moreover, the apparent success in yield improvement of foodgrains suggests the possibility of, and indeed the need for, adjustments in land use -- shifting some acreage from foodgrains to uses that will help meet requirements of more balanced nutrition or add to export earnings.

Programs for broadening participation in agricultural growth and improvement of the income distribution pattern will need to include:

(1) Improvements in credit institutions and procedures to make it possible for the small landowner and tenant farmer to invest in better technology;

(2) Better government arrangements for assessing the water development potential of currently unirrigated areas and for expanding of irrigated acreages;

(3) Agricultural research and extension programs focussing on better cropping patterns, moisture conservation practices, and crop production systems for rainfed lands.

Mission programs of the last few years have provided support for the new strategy, for rapid increases in foodgrain production. These programs have emphasized development of Indian institutions for research and extension to make them more responsive to the problems

emerging out of the rapid introduction of new technology. The accent in the future should be on strengthening the types of institutions that now have been started and on building their competence to cope with the broader issues, including problems of income distribution and improved nutrition.

H. Family Planning

The Indian family planning program continues to present a picture of large-scale activity with limited achievement and with much remaining to be done. In the past three years, the program's size -- in terms of budget and contraceptive acceptors -- has tripled. Yet large needs remain. For instance, 19,102 rural family planning subcenters were functioning by March 1969, but this is only 45 percent of the number required.

In recent months, performance has dipped. Sterilizations in 1968/69 were ten percent below the previous year; IUD insertions fell 35 percent. Performance in FY-1969/70 continues to slide.

The precise reasons for the decline are not known. The absence of valid measurement and appraisal system makes analysis difficult. Generally, however, the many maladies which afflict the program are well known and have been documented in the U.N. and other reports. Among the issues raised in these reports, the Mission believes there are three which require the priority attention of AID in FY 1970/71. These are:

1. Political Commitment

Sustained, high-level political concern provided much of the

impetus for the recent expansion of the family planning program. That concern manifested itself in increased budgets and urgings to the bureaucracy to improve its efforts as rapidly as possible. The Fourth Five-Year Plan projects rapidly rising expenditure for family planning. The 1969/70 budget is up 27 percent over 1968/69 expenditure. Our judgment is that this budget is ample, given the present capacities of the bureaucracy and program leadership.

Despite this, two remarks need to be made. Firstly, political support seems to be on the wane. Lip service is still paid to family planning's "high priority," but the sense of urgency conveyed by the political leadership to the program's administrators is declining. The continued push needed to achieve the Fourth Plan targets may not be provided. Secondly, however, even if all Fourth Plan targets are achieved, the GOI will still not have built a program with enough capacity for the size of the problem. The scope and scale of the program being mounted is acknowledged to be inadequate to meet the GOI's targets (reduction of the birth rate to 25/thousand) by the target date -- the late 1970s.

The first issue, then, is whether and, if so, how foreign assistance donors can push effectively for a new mobilization of political will.

2. Beyond Family Planning

A second issue is whether the traditional family planning approach -- making contraceptives widely available and mounting mass communication and education campaigns -- is sufficient or whether new steps -- beyond family planning -- are needed.

In recent months, attention has been focussed increasingly on the Indian preference for sons and the high infant death rates as key obstacles to acceptance of family planning. The thesis is that as long as many Indian children continue to die before age 5, parents will continue to bear large families in order to be reasonably certain that at least one son will survive. Evidence in support of this thesis is increasingly persuasive. It is suggested that maternal child health and nutrition and medical programs are needed to lower the infant death rate and simultaneously create a climate of concern which will make women more receptive to family planning.

If, as seems likely, private desires add up to a higher birth-rate than is compatible with the general welfare, incentive programs to bring them into harmony become very important. Until recently the GOI (for reasons often seeming largely emotional) has been unwilling

to consider incentives seriously. A number of Indian companies offer substantial cash incentives for sterilizations and the USAID has proposed programs to a tea estate owners' association and to the government under which families which limit their size successfully would receive a pension or bond due when they reach old age. Recently, the government has shown overt interest in testing such a scheme and in conducting a survey of the effectiveness of the existing company incentives.

3. U.S. Assistance

A third issue relates to the U.S. role in support of the GOI's program. India is capable of producing the staff, the facilities, the vehicles and the commodities required for their program. GOI officials consider that they are among the world's leaders in terms of experience. They possess detailed knowledge of their complex federal system, their political system and their culture. Their medical leaders regard themselves as pre-eminent in the operational aspects of family planning. At the political and higher administrative levels there appears to be low tolerance for consultant services. There is a reluctance to permit foreigners to work directly with State programs.

In this environment, technical assistance requires flexibility and imagination. Our best tack -- besides standing ready to provide any requested assistance whether formalized in projects or not -- is to continue research into problems and possible new courses of action and bring in periodically high level experts in the family planning field. This is to say that our most valuable inputs may be conceptual and that if we can convince the GOI that we have new and useful ideas to offer, we may open doors to more substantial forms of assistance.

Besides this, it continues to be USAID's view that a primary contribution which the U.S. can and must make to assist India is mobilizing an intensive effort to develop readily acceptable, reversible contraceptives. While technology improvement alone will not suffice, they hold out the possibility of extending family planning practice much more rapidly than at present.

U.S. STRATEGY: We propose a five-point strategy for FY-1970 and 1971:

(1) The U.S. should act to mobilize international support for the Indian family planning program and seek to create a climate of opinion which

will spur the Indian Government to broaden the dimensions and increase the scale and effectiveness of the program. Three cautionary caveats are attached to this recommendation: (a) It should not be done in a manner which fails to appreciate the magnitude of the GOI's effort to date; (b) It probably should not be a bilateral effort, but be channelled through such multi-lateral agencies as the IBRD; and (c) The case for an expanded effort has to be carefully prepared. If AID/W agrees to such a push, outside consultants may be needed to help the Mission document the case.

(2) Top priority should be assigned the development of acceptable, reversible contraceptives.

(3) Within the framework of the existing GOI program, the Mission should continue to seek every avenue to provide support. We should emphasize (a) improved evaluation; (b) training;

(c) wider and more effective use of mass communication; and (d) improved management.

(4) Outside the framework of the present program, the Mission should seek means to enlist its nutrition and Title II programs in an effort to assist the GOI build expanded MCH, nutrition, and medical programs aimed at creating a better climate for acceptance of family planning and reducing infant death rates. Efforts should be made to find constructive ways to assist in expanding the rural health infrastructure.

(5) The Mission should continue to seek GOI agreement to test the effectiveness of economic incentives and support research into other factors affecting fertility.

(6) We should seek to build a corps of senior advisors able to assist with analysis of the broader dimensions of family planning and augment their talents with high-level, expert consultants. The

aim of these steps is to improve our conceptual understanding of and contribution to the program.

I. Economic Growth, Employment and Poverty

The strongest driving force in Indian development today is the surge of production induced by the new agricultural strategy. But the Green Revolution cannot be taken for granted; it must be strongly supported by the maintenance of incentives, input supplies, applied research and technical assistance. The New Agriculture has already surpassed "critical mass" proportions: it has four powerful self-reinforcing mechanisms driving it -- the market, emulation of neighbors' success, technological momentum, and the new political awareness and effectiveness of a farm bloc. A strong continuing spread of the Green Revolution for some years is probable.

While most persons in the economy will benefit either directly through higher incomes or indirectly through lower food and raw material prices, the benefits of the Green Revolution will not be distributed evenly. There is already evidence that some groups are being left out:

- some small farmers who do not command sufficient resources to adopt the new technology;
- some dry land cultivators (especially those in low rainfall areas and with small holdings), because the new technology is focussed chiefly on irrigated areas;

-- some agricultural laborers because, while the new technology may increase the demand for labor immediately, in the long run the demand will not keep up with the rapidly expanding rural population.

In time, widening income differences could create social and political tensions which would blunt the edge of the Green Revolution.

Intelligent policy requires that the main thrust of agricultural expansion be kept going. This is important not just for the aggregative reason that it presently contains the dynamic force that constitutes the differences between, say, a 3-1/2 and a 5-1/2 percent GNP growth. It is equally important because the rural economy cannot withstand the employment effects of a sag in agricultural expansion once it has become geared to a higher, technologically-based rate of output. Thus, there must be sustained energizing of agriculture through new inputs, research, building of infrastructure such as roads and rural electrification, and extension of agricultural credit. There is also need for improving private distribution of agricultural products through introduction of better marketing practices, through greater emphasis on nutritionally better foods, through up-grading by food processing,

through expanded exports of high valued products. These measures are essential to support the mainstream of agricultural development.

Dry lands -- which still embrace most of Indian agriculture -- constitute a special problem. The first move should be to convert more dry land into irrigated areas, once again resuming consideration of major irrigation projects, in addition to a continuing emphasis on private irrigation. A second need is to focus agricultural research, extension work and credit on new dry-land varieties and new crops suitable to meet new domestic and export food and non-food demands. Alternatively, there should be vigorous exploitation of non-agricultural natural resources with the intention of development of other support for the rural economy. Certainly, too, the safety valve of interstate migration of labor should be left wide open. Finally, the dry lands problem should be understood as not just an agricultural problem, but as one demanding system analysis of all possible activities and deployments of resources, including depopulation of particular areas if necessary.

Helping the smaller farmers, including some on dry land, who are viable is another problem to be met. Special attention will be needed to get to them the new inputs (with some improvement in the traditional vehicles of extension and cooperatives) including credit, market

intelligence and better organizing of market facilities. There should be encouragement of such practices as custom farming, water selling and custom servicing of mechanization.

With regard to those most left out -- tenants, landless laborers, mini-farmers -- job mobility must be improved. The most important socio-political need of the rural disadvantaged is to broaden and strengthen the ladders permitting the climb out of inferior status. The shift in job status from one generation to another must be encouraged. Essentially, this is done by creating alternative employment. Intermediate technology, labor-intensive industries located in smaller towns in agriculturally progressive areas should be encouraged so that there will result labor/product and agricultural/non-agricultural interchange which has been so powerful in Western growth experience.

Two fundamental attacks on low-end poverty must ultimately be considered: a massive public building of infrastructure, and an equally massive strengthening of primary education.

Some programs to improve education and carry out various sorts of high employment projects are included in the Plan and will be carried out if adequate resources are available. To carry out a massive program which would really make a significant dent on unemployment, however, would require large additional expenditures. It is doubtful

that much increase could be accommodated within the Plan without displacing even more urgent programs. If the resource prospect should improve, e.g. if aid prospects improved sufficiently to permit the stepped-up program aimed at 7 percent growth, however, it should be possible to devote a large part of the additional development expenditure to such programs. AID should continue to develop its analysis and specific proposals and should press for GOI action along these lines to the extent that resource prospects permit us to do so responsibly.

PART III

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TABLE I

FY 1971 COUNTRY FIELD SUBMISSION - INDIA
BUDGET SUMMARY
(Obligations in $ Thousands)

Funding Category	FY 1968 Actual	FY 1969 Actual	FY 1970 C. P.	FY 1971 Level A	FY 1971 Level B	FY 1972 Level A	FY 1972 Level B
I. A. I. D. Appropriations							
Development Loans	287,700	194,000	385,000	385,000	250,000	405,000	250,000
Program Loans	248,000	194,000	335,000	385,000	250,000	385,000	250,000
Sector Loans	-	-	20,000	-	-	-	-
Project Loans	39,700	-	30,000	-	-	20,000	-
TC/DG	8,595	8,627	14,500		13,650		14,423
Ongoing	8,302	8,400	14,330 a/		13,007 a/		14,423 a/
New	293	227	170		643		-
SA	4,621	730	-				
TOTAL A. I. D.:	300,916	203,357	399,500	385,000	263,650	405,000	264,423
II. Other Official U.S. Aid							
PL 480 - Title I - L/C Sales	236,100	117,100	45,000	35,000 b/		12,000 b/	
(of which country uses)	(217,212)	(108,903)	(41,850)	(32,550)		(11,160)	
PL 480 - Title I - $ Repayable Sales c/	65,900	107,200	73,700	154,000		52,800	
PL 480 - Title II	111,140 d/	95,032 d/	94,431 d/	96,315 d/		100,388 d/	
MAP Grants	-	-	-	-		-	
Export-Import Bank	45,000	-	60,000	55,000		55,000	
TOTAL OTHER OFFICIAL AID:	458,140	319,332	273,131	340,315		220,188	

a/ Includes obligation for Family Welfare Planning which was previously financed from SA appropriations.
b/ 20% local currency repayable portion. c/ Includes ocean transportation cost. d/ Includes ocean freight and Section 204 funds.

TABLE III

FY 1971 COUNTRY FIELD SUBMISSION
INDIA

OFFICIAL CONSORTIUM CAPITAL FLOWS BY SOURCE 1/
(Disbursements in Millions of U.S. Dollars; Indian Fiscal Years)

	1968/69	1969/70	1970/71 Level A	1970/71 Level B	1971/72 Level A	1971/72 Level B
A.I.D. Loans						
Program						
From prior year authorizations	249	275	335	355	385	250
From current year authorizations	17	-	-	-	-	-
Sector						
From prior year authorizations	-	-	-	-	-	-
From current year authorizations	-	-	-	-	-	-
Project						
From prior year authorizations	52	30	35	35	40	40
From current year authorizations	-	-	-	-	-	-
Total A.I.D.	318	305	370	370	425	290
Ex-Im Bank	10	35 a/	35 a/	35 a/	45 a/	45 a/
International Lending Agencies	124	145	65		120	
Other Consortium 2/	424	454	449		502	
Total disbursements (all sources)	876	939	919		1,092	
Pipeline at end of year (all sources)	1,678	1,715	1,701		1,754	

1/ Excludes Eastern Europe and USSR. Excludes food transfers. Includes debt relief.

2/ Includes all debt relief, including World Bank and U.S.

a/ Includes aircraft.

TABLE IV

FY 1971 COUNTRY FIELD SUBMISSION

INDIA

Loans Proposed for Serious FY 1970 Consideration
(Authorizations in $ thousands)

Field of Activity (1)	Probable Loan Title (2)	Anticipated FY Quarter of Authorization (3)	Amount of Loan: Total (4)	Amount of Loan: Amount to Finance Foreign Exchange Costs: Commodities Equipment, Capital Project Services, Etc. (4a)	Amount of Loan: Amount to Finance Foreign Exchange Costs: Technical Assistance (4b)	Amount of Loan: Amount to Finance Local Costs (4c)
Non Project	Production Loan	2nd	308,000	--	--	--
Total - Level B minus 20 percent			308,000	--	--	--
Non Project	Production Loan	2nd	335,000	--	--	--
Sector	Capital Equipment	1st	20,000	20,000	--	--
Project	Coop-Fertilizer	1st	15,000	15,000	--	--
Project	Vizag-Port Development	4th	15,000	15,000	--	--
Total - Level B			385,000	50,000		

TABLE IV
ATTACHMENT A

Proposed Project Loan - India

Cooperative Fertilizer Plant. The loan will be used to finance part of the foreign exchange costs of a ammonia plant, a urea plant and a complex fertilizer plant. The project will produce at capacity, the nutrient equivalent of 260,000 MT/Y of Nitrogen and 130,000 MT/Y of P_2O_5 helping India meet its Fourth Five Year Plan target for indigenous fertilizer production and reducing dependence on imported fertilizer to sustain its breakthrough in agriculture.

This is a new loan.

The estimated foreign exchange cost of the project is $48 million of which this loan will provide $15 million. It will finance goods and services of U.S. source and origin. The additional foreign exchange cost will be met through a loan from the Bank of America covered by an Extended Risk Guarantee issued by AID.

No additional funding will be necessary in later years. Disbursements will be made over a three to four year period.

As noted above the Bank of America will be a lendor in this project backed by an Extended Risk Guarantee issued by AID.

Engineering and market studies are complete, a suitable site is available and raw materials supplies are assured. Shortly after financing is assured the project will be at a stage where contracts for construction can be let.

The project will enable Indian farmers to grow approximately 2.4 million additional tons of foodgrains and reduce significantly the foreign exchange cost of fertilizer.

AID places a high priority on import substitution in fertilizer products so that the "green revolution" will not suffer from lack of fertilizer due to foreign exchange shortages. We also give high priority to maximize private sector fertilizer production in order that India may benefit from private sector efficiency and to strengthen the role of private sector industry in India.

TABLE IV
ATTACHMENT B

Proposed Project Loan - India

Vizag Offshore Loading Facilities is a new proposed project loan. The loan will finance the construction of a modern offshore ore loading facility at Vishakhapatnam (Vizag) to mechanically load iron ore into ships of 100,000 to 150,000 tons DWT. Present harbor facilities at Vizag are limited to handling vessels of approximately 35 foot draft or of some 38,000 maximum dead weight tons. This increase in ship size will permit the cost of shipping ore to Japan to be cut from approximately $4.20 per ton in 35,000 ton ships to about $2.00 per ton. This substantial reduction in shipping cost should go far to make Indian ores competitive in a highly difficult sales environment.

This is a new loan although the two existing ore loading births at Vizag were also financed by USAID in 1958.

We understand that C. D. Howe, a reputable Canadian consulting group, has completed a feasibility study of the port project for the GOI, and the foreign exchange components of the project would amount to $15 million or slightly more and the rupee cost would approximate $30 million equivalent. If we had the Howe report, it should be possible to prepare a dollar project loan paper to cover this project which would increase India's potential iron ore export earnings by $56 million per year for $15 million of foreign exchange expended.

It is not known whether additional funding requirements will be required or desirable in future years.

It is possible that IBRD might be willing to finance this project. However, the number of potential projects for IBRD financing is greater than the resources they can be expected to provide.

As indicated above, a preliminary feasibility study has been completed by C. D. Howe and Co.

The project would increase Indian foreign exchange earnings from the export of iron ore by about $56 million per year. It would also improve India's competitive position as an iron ore supplier.

The project would support USAID's export promotion program by tying capital assistance to technical assistance.

TABLE IV

FY 1971 COUNTRY FIELD SUBMISSION

INDIA

Loans Proposed for Serious FY 1971 Consideration
(Authorizations in $ thousands)

Field of Activity (1)	Probable Loan Title (2)	Anticipated FY quarter of Authorization (3)	Amount of Loan: Total (4)	Amount of Loan: Amount to Finance Foreign Exchange Costs: Commodities Equipment, Capital Project Services, Etc. (4a)	Amount of Loan: Amount to Finance Foreign Exchange Costs: Technical Assistance (4b)	Amount of Loan: Amount to Finance Local Costs (4c)
Non Project	Production Loan	2nd	308,000	--	--	--
Total - Level B minus 20 percent			308,000	--	--	--
Non Project	Production Loan	2nd	385,000	--	--	--
Total - Level B			385,000			
Project	Hindustan Aluminum Corp.-Fertilizer Plant	1st	29,000	29,000	--	--

TABLE IV

Proposed Project Loan - India

Hindustan Aluminum Corporation is a proposed fertilizer project at Mirzapur.

The loan will be used to finance the foreign exchange costs of an ammonia plant (600 MT/D) and an urea plant (1000 MT/D). The project will produce at capacity, the nutrient equivalent of 160,000 MT/Y of nitrogen, helping India meet its Fourth Five Year Plan target of indigenous fertilizer production and reduce its dependence on imported fertilizer to sustain its breakthrough in agriculture.

This will be a new loan. Hindalco has, however, received three foreign exchange loans totaling $28 million from the Export-Import Bank and three local currency loans from USAID for its 60,000 MT/Y aluminum plant. The fertilizer project will be separate but will be within Hindalco's corporate shell.

The estimated foreign exchange cost of the project is $29 million. It will finance goods and services of U.S. source and origin. Depending on the financial resources of Hindalco, USAID may authorize a Cooley Loan (U.S. affiliate is Kaiser Aluminum Corporation). No additional funding will be necessary in later years. Disbursements, however, will be over a three to four year period.

Other lending institutions which might consider financing the project are the Export-Import Bank and the International Finance Corporation. Ex-Im lending will depend, in part, on whether it finances, and Hindalco proceeds, with a planned expansion of the aluminum plant.

Preliminary engineering and market studies are complete. Some additional studies need to be made on the availability of raw materials and utilities.

The project will enable India to grow approximately 1.6 million tons of foodgrain and reduce the foreign exchange cost of fertilizer.

The Mission gives a high priority to import substitution in fertilizer production so that the green revolution is not held back by India's shortage of foreign exchange. We also give high priority to maximizing private sector fertilizer production, in order to benefit from private sector efficiency and to strengthen the role of private sector industry in India.

TABLE V-a

FY 1971 COUNTRY FIELD SUBMISSION
INDIA
ESTIMATE OF LOCAL CURRENCY GENERATIONS
(in thousands of dollar equivalents)

Source of Generation	Carryover Balance from Prior Years	FY 1968 Actual	FY 1969 Estimate	FY 1970 Estimate	FY 1971 Estimate	FY 1972 Estimate
I. Country-Owned LC	31,430	31	36	75	26,316	-
a. Host Govt. Budgetary	a/ 31,385	-	-	-	26,316	-
Approp. - Trust Funds	b/ 45	7	-	-	-	-
	c/ -	24	36	75	-	-
b. PL 480 Title I, Dollar Repayable Sales Agreements	-	-	-	-	-	-
c. Others	-	-	-	-	-	-
II. U.S.-Owned LC	865,766	473,256	213,143	249,698	166,688	141,853
a. PL 480 Title I, LC Repayable Sales Agreements	469,226 d/	359,724	91,200	123,440	35,000	12,000
b. PL 480 Title I, Sec. 104 Repayments on LC Loans	107,588	43,784	52,076	61,115	68,823	74,239
c. DLF & AID dollar loans where repayments are made in LC	192,126	53,704	47,853	44,311	43,440	40,354
d. MSP Loans Repayable in LC			7,868	7,943	8,217	8,478

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ESTIMATE OF LOCAL CURRENCY GENERATIONS
(in thousands of dollar equivalents)

Source of Generation	Carryover Balance from Prior Years	FY 1968 Actual	FY 1969 Estimate	FY 1970 Estimate	FY 1971 Estimate	FY 1972 Estimate
II. U.S.-Owned LC (Contd.)						
e. Other - Interest on Deposits	90,533	15,972	14,144	12,887	11,206	6,781
- Misc. Recoveries	5,993	72	2	2	2	2
- Sec.402	300	-	-	-	-	-
TOTALS (I + II):	897,196	473,287	213,179	249,773	193,004	141,853

NOTE: All generations in rupees converted into dollar equivalents @ Rs 7.60 = $1.00.

a/ Regular Trust Fund.
b/ GOI Revolving Fund.
c/ GOI Advance for Operation Soft Rock.
d/ Based on Country-use obligations and US-use expenditures through 6/30/67.

7/7/1969

TABLE V-b

FY 1971 COUNTRY FIELD SUBMISSION - INDIA

ESTIMATE OF LOCAL CURRENCY USES

(in thousands of dollar equivalents)

Uses	FY 1968 Actual	FY 1969 Estimate	FY 1970 Estimate	FY 1971 Estimate	FY 1972 Estimate
I. Country-Owned LC	8,103	10,378	10,601	10,790	11,053
A. Country-Uses	8,103	10,378	10,601	10,790	11,053
- Military Support	-	-	-	-	-
- Agriculture and Natural Resources	2,460	3,654	3,789	3,816	3,921
- Industry & Mining	445	803	812	763	789
- Transportation	-	-	-	-	-
- Labor	75	35	39	39	39
- Health and Sanitation	86	302	316	290	290
- Population/FP	348	402	421	434	461
- Education	886	1,018	1,053	921	789
- Public Safety and Public Administration	71	76	66	263	395
- Community Dev., Soc. Welfare, Housing and UD	-	-	-	-	-
- Budget Support (if unspecified as to Sector)	-	-	-	-	-
- Other - General	3,732	4,088	4,105	4,263	4,369
B. U.S. Uses	-	-	-	-	-

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ESTIMATE OF LOCAL CURRENCY USES
(in thousands of dollar equivalents)

Uses	FY 1968 Actual	FY 1969 Estimate	FY 1970 Estimate	FY 1971 Estimate	FY 1972 Estimate
II. U.S.-Owned LC	388,231	364,693	291,227	126,447	146,184
A. Country Uses a/	347,698	312,495	238,596	73,816	93,553
- Military Support	-	-	-	-	-
- Agriculture & Natural Resources	172,392	160,016	112,499	24,342	56,579
- Industry and Mining	20,830	34,757	16,461	13,158	13,158
- Transportation	14,947	16,829	6,996	-	-
- Labor	19,932	12,789	4,372	-	-
- Health & Sanitation	46,803	31,778	14,424	-	-
- Population/FP	3,947	15,097	28,947	23,026	10,526
- Education	36,036	28,066	10,493	-	-
- Public Safety & Public Admn.	(8)	-	-	-	-
- Community Development	32,408	13,158	5,246	-	-
- Budget Support	-	-	38,355	13,158	13,158
- Other - General	4	7	205	132	132
- Emergency Relief	407	(2)	598	-	-
B. U.S.-Uses	40,533	52,198	52,631	52,631	52,631
- Administrative	4,456	3,765	3,816	3,816	3,816
- Special Programs	23,955	34,928	35,026	35,026	35,026
- Third Country Assistance	7,003	7,780	8,000	8,000	8,000
- Other -Accommodation Exchange and Conversions	5,119	5,725	5,790	5,790	5,790
TOTALS (I + II):	396,334	375,071	301,828	137,237	157,237

NOTE: "Point of Use" is Obligation, except for II. B which is based on expenditures.
All obligations/expenditures in rupees have been converted into dollar equivalents @ Rs 7.60 = $1.00.

a/ See attached.

a/ Includes obligations out of U.S.-Uses pursuant to BOB reallocations for the following special activities in each FY listed. Additional grants for such future activities are not known at this time, although substantial amounts may be needed for similar purposes.

	(in thousands of dollar equivalents)				
	FY 1968	FY 1969	FY 1970	FY 1971	FY 1972
Holy Family Hospital	796				
Christian Medical College	444				
Notre Dame Sisters	310				
Science Text Books Program	1,974				
St. John's Medical College		6,430			
Mercy Hospital		189			
Creighton-Freeman Hospital		421			
Miraj Medical Center		422			
Xavier Labour Relations Institute		526			
Grain Storage Construction		2,671			
Family Planning Vehicles		7,895	13,158	9,868	
Sewagram Medical College			2,631		
Society for Int'l Dev. Conference			38		
Rural Elec. Corporation			27,632	-	27,632
Fert. Credit & Guaranty Corp.			4,605	4,605	9,210
	3,524	18,554	48,064	14,473	36,842

TABLE V-c

FY 1971 COUNTRY FIELD SUBMISSION
INDIA
SUMMARY OF ESTIMATED GENERATIONS AND USES
(in thousands of dollar equivalents)

	FY 1968 Actual	FY 1969 Estimate	FY 1970 Estimate	FY 1971 Estimate	FY 1972 Estimate
Total Current Year Generations	473,287	213,179	249,773	193,004	141,853
+Carryover Balance from Prior Years	897,196	974,149	812,257	760,202	815,969
Sub-Total	1,370,483	1,187,328	1,062,030	953,206	957,822
- Total Current Year Uses	396,334	375,071	301,828	137,237	157,237
Estimated Balance	974,149	812,257	760,202	815,969	800,585

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TABLE VI

FY-1971 COUNTRY FIELD SUBMISSION

INDIA

[redacted]

1. Issue: Aid Level

Mission Recommendation:

Capital assistance of $385 million which, when combined with similar aid performances by other donors, would be sufficient to support a National Income growth rate of 5.5 percent a year. The U.S. should be prepared to cooperate in a more ambitious Consortium effort when conditions permit.

2. Issue: Program versus Project Lending

Mission Recommendation:

Since India has developed the capacity to produce a wide range of capital goods, capital assistance should be mainly in the form of program loans to finance im-

4. Issue: Quality of program loans. Restrictions and controls make U.S. assistance less valuable and more difficult for Indians to utilize and diminish our ability to encourage the GOI to reduce controls.

Mission Recommendation:

-- elimination of individual Small Business Notification for each transaction;

-- reduction of the minimum value of transactions from $5,000 to $500;

-- grant-financing of the difference between the cost of chartering U.S.-flag vessels to carry fertilizer (and other bulk commodities) and the cost of chartering foreign-flag vessels.

-- give quick effect to the Policy Determination on "Additionality."

5. Issue: Role of U.S. private investment in India

Mission Recommendation:
AID should consider means to reduce or offset the high foreign exchange cost of U.S. private investment in India.

6. Issue: U.S. Strategy vis-a-vis India's Family Planning Program

Mission Recommendation:
U.S. -- in concert with other AID donors and working through multilateral channels such as the IBRD -- should seek to create a climate of opinion which will lead the GOI to broaden the dimensions and increase the scale of its program.

U.S. should give top priority to development of acceptable, reversible contraceptives.

U.S. should continue to seek every avenue to provide support. U.S. should assist the GOI to build expanded MCH and nutrition programs aimed at creating a better climate for acceptance of family planning and reducing infant death rates.