

UNCLASSIFIED

# Country Development Strategy Statement

## FY 1986

## INDIA



## January 1984

Agency for International Development  
Washington, D.C. 20523

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### INTRODUCTION

This FY 1986 CDSS update has been prepared in accordance with the instructions contained in State 322808 for the three countries participating in the Asia Bureau Experiment. It departs slightly from the prescribed format in one respect: although an update of prior CDSS analyses is not required, Section I reports on a series of seminars held by USAID in November and December 1983 to review India's development progress, briefly assess the development challenges ahead, and establish several "lines of inquiry" leading up to the full CDSS required for the planning period beginning in FY 1987. Also, this update suggests two additional studies covering the mode in which AID should operate in India and the scope for revisions in procedures to permit the Agency to achieve its objectives more effectively in the face of severe limitations in financial and staff resources. This is based on the assumption that AID's operating mode must be adapted to various country situations, and that the way in which AID does business is an integral part of any strategy and strongly conditions the prospects of achieving its objectives. These are the same assumptions underlying both the Yeager Task Force report and the Asia Bureau Experiment. USAID puts forth this proposal as a field complement to these headquarters efforts.

The FY 1984 CBSS review called for three follow-up efforts by USAID: a Science and Technology strategy statement, a Women in Development strategy statement, and an assessment of alternative modes of project assistance. The Science and Technology assessment was carried out by the AID/W Research and Technology Development Team (R&TD) led by DAA/S&T John Eriksson in September-October 1983, and is reviewed in Section II.B.3 below. A WID strategy statement is being prepared by USAID and is discussed in Section II.B.6. The assessment of alternative approaches to assistance is encompassed in the proposal for a thorough review of AID operating mode and procedures in the context of the AID assistance strategy for India.

I. The Challenge Ahead: Preliminary Conclusions

A. Development and Poverty: Performance and Prospects

There is a vast body of analytical material available on various aspects of Indian development, including IMF and World Bank documents, central and state government studies, consultant reports, academic analyses, etc. USAID has reported on relevant portions of this body of analysis in prior CDSSs and in several USAID reports (particularly "Employment in India: An Overview with Special Emphasis on Off-Farm Employment" August 1981; "Agricultural Growth in India: Policies, Performance and Impact," May 1982; and the India Multi-year Population Strategy Statement, June 1982). In order to update its understanding of key issues in Indian development, USAID organized a series of in-house seminars, generally led by two to three Indian experts in each field. The topics covered a wide range of development issues.<sup>1/</sup> The papers and data sets presented at the seminars together with brief summaries of the proceedings are available from the India Desk.

The seminars confirmed many of the conclusions of earlier analyses. Throughout the post-Independence period, India has succeeded in preserving a broad consensus on the goals of rapid

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<sup>1/</sup> These were growth and poverty in Indian development, agricultural growth (overview), land and water development, irrigation institutions, coordination of non-water inputs in irrigated agricultural, groundwater development, rainfed agriculture, agroforestry, forestry policy, exploitation of common property resources, watershed management, industrial growth (overview), industrial research and development, capital markets development, small-scale enterprises, rural health services, biomedical research, and population and family planning.

GNP growth and employment expansion, reduction of inequalities, and self reliance, and has maintained stable democratic rule and conservative economic management. India now has many of the attributes of a middle-income country, particularly in terms of savings and investment rates, industrial output as a percentage of GNP and scientific and technical resources. Nevertheless, economic growth has averaged only 3.5 percent annually. The benefits of this growth have been largely offset by population growth, which is now about 2-2.2 percent annually, and adds 15 million Indians each year to the country's population of nearly 750 million as of mid-1984. Employment growth in the "modern" sector has been very slow, with the result that the structural shift of the labor force out of the agricultural sector (which still accounts for over two-thirds of total employment) has barely begun. Slow per capita GNP growth and low growth rates of employment growth have been reflected in the apparent failure of poverty to decline (in terms of the percentage of the population below the GOI consumption-based "poverty line" income of about \$100 per capita per year). Continued massive poverty and the consequent constraints on demand have reinforced the dampening effects of extensive administrative controls, power shortages and lagging technological innovation on industrial growth, which has slowed since the mid-1960s to an average of only 4 - 5 percent annually (as against the targetted industrial growth rate of 8-10 percent).

Growth in the agricultural sector (which still provides about 40 percent of India's GNP) has fared relatively better than industrial growth. The "green revolution" began in the mid-1960s with the introduction of high-yielding cereal varieties (HYVs) and the adoption of a "new agricultural strategy" based on favorable pricing policies for wheat and rice, expansion of irrigation facilities and rapid increases in fertilizer use. It succeeded in increasing the growth rate of yields for several crops, but only by enough to offset the decelerating trend in growth of area cultivated. Consequently, overall foodgrain and agricultural output growth remained slightly below 3 percent annually, as compared with the target growth rate of around 4 percent. Moreover, the gains of growth remained highly concentrated by crop and by region. Wheat has done spectacularly in areas with irrigation and good access to fertilizer (e.g., Punjab, Haryana, western Uttar Pradesh), and rice has done well in these areas and in several areas in southern India. Growth has lagged in eastern India despite potentially excellent land and water resources, and rainfed crops (particularly oilseeds, pulses, and cereals other than wheat and rice) have performed poorly throughout the country. Moreover, the seminars indicated that the deterioration in the natural resource base for agriculture appears to be accelerating as the pressure of people and animals on grazing lands, forests and watersheds increases. This is particularly serious for the smallest farmers and the landless, since their livelihood is often based very heavily on the use of the "common property resources" represented by grazing lands and forests.

Thus several basic features of India's development stand out:

- mass poverty is a determinant as well as a consequence of slow growth;
- agriculture is still the single most important sector in the economy and must provide much of the impetus for accelerated production and employment growth;
- despite the major progress represented by the "green revolution," agricultural growth has not accelerated over time, has been highly uneven and has not contributed adequately to poverty reduction on a national basis; and
- sustained improvements in standards of living for the poor majority will require a deceleration in population growth, more rapid and broadly-based agricultural and rural development, accelerated non-farm employment growth and a reversal in the current trend toward rapid natural resource degradation.

B. India and Development Assistance

External assistance accounted at one time for nearly half of India's development expenditures, but current annual commitments of about \$3.5 billion in concessional assistance are now equivalent to only about 10 percent of India's yearly development budget of approximately \$30 billion. While modest as a percentage of Plan expenditures, however, development assistance to India is still large in absolute terms and provides a critical margin of investment resources as well as a major foreign exchange input (equivalent to one-third of India's annual export earnings). For the World Bank, which accounts for two-thirds of total donor assistance, this implies a substantial degree of influence on development decisions, particularly in sub-sectors (such as

railways, power, irrigation or agricultural extension) where Bank-funded projects account for a significant percentage of new Government of India (GOI) or state government investment. Although even the larger bilateral donor programs are only in the \$100-200 million range annually, individual projects can be quite sizable and may be fairly influential in a particular sub-sector or state.

AID is in a somewhat unique position among donors operating in India. If mixed credits are excluded from the totals, AID is the largest of the bilateral donors. USAID is also the largest bilateral donor organization in New Delhi, and compares in size and technical expertise (U.S. and Indian) with the World Bank's New Delhi office. Like the World Bank, AID can combine capital assistance in substantial amounts with technical inputs in several sectors, but has an advantage over the Bank in terms of access to high-quality training and technical assistance in large amounts. Also, AID (to a greater degree than any donor except perhaps the U.K.) can build on relationships established over three decades of training and technical exchange in fields in which the U.S. continues to maintain preeminent technical capabilities.

The degree to which these somewhat unique attributes can be translated into a program with significant long-term development impact depends of course on many factors. Like other donors, AID must come to terms with India's vast size and great diversity, and with the related issue of India's genuinely federal political system (under which most sectors in which AID works are defined as "state

subjects" primarily under state jurisdiction). This is complicated by the fact that the GOI nevertheless views donor efforts as contributing to national objectives, primarily in terms of overall resource requirements. There are also some factors affecting AID's role which are specific to the U.S., such as the perceived negative position of the U.S. on multilateral financing and the sensitivities over past efforts to use "leverage." The interplay of all of these various factors requires that AID make a deliberate effort to fashion a role for itself which builds on its advantages while taking adequate account of the constraints associated with any U.S. effort in India.

## II. The Current Strategy and Beyond

### A. Current Strategy: Programs and Objectives

This section updates the approved USAID strategy in terms of AID sectors and relevant objectives in the Asia Regional Strategic Plan and Strategic Plan Management Guide. For this purpose USAID has retained the program categories used in previous CDSSs: Food Production and Rural Employment, Energy and Natural Resources Management, and Fertility and Mortality Reduction (see Table 1). The various PL 480 Title II programs are incorporated in these categories, as in the past. To accommodate projects which fall into more than one of these program categories, however, USAID has added a fourth category for Cross-Sectoral Programs (research, training, private sector development). The Housing Guarantee program is included as a separate category. The subsequent Section discusses the current strategy in terms of AID's main policy themes.

1. Food Production and Rural Employment

Past CDSS analyses have established the central role of technological innovation and irrigation in achieving the key long-term development objective of accelerated foodgrain production growth, which in India is targetted at 4 percent. Consequently USAID's agricultural and rural development activities are concentrated on achievement of the Asia Bureau's primary five-year strategic objectives of progress in agricultural research and education and in irrigation management programs. USAID's irrigation strategy was stated comprehensively in the FY 1985 CDSS and was approved subject to an in-depth strategy review scheduled for late CY 1984. In the meantime USAID is completing Project Papers for the projects for which PIDs have already been approved (see Table 2); as of mid-FY 1985 USAID's irrigation portfolio will consist of seven projects totalling \$325 million in AID inputs. In agricultural research, education and extension the \$20 million Agricultural Research project has been signed and two sub-projects (soybean utilization and postharvest technologies) have been designed; four more sub-projects (biological nitrogen fixation, agroforestry, livestock improvement, and energy in agriculture) are under discussion. The Research and Technology Development (R&TD) team recommended a program in agricultural research and education totalling an additional \$45 million for the period through FY 1988. This is reflected in USAID's plans for the CDSS period (see Table 1).

The Asia Regional Strategy for agriculture also includes policy analysis and rainfed resources management. USAID is not proposing any separate project activities for food policy or agricultural sector analysis, but policy analysis activities will be supported under several agricultural research sub-projects and under several irrigation projects. Regarding rainfed resources management, agroforestry and possibly several rainfed crops will be covered under the Agricultural Research project, while watershed management will be addressed through a proposed Hill Areas Land and Water Development II project (see Energy and Natural Resources Management below). Further project opportunities in rainfed agricultural development (in addition to oilseed development under the Title II CLUSA project) represent one of the principal possible directions of further strategy refinement. Regarding the secondary Agriculture and Rural Development objective of employment growth in non-farm private enterprises, USAID is still considering the potential role of non-farm enterprise activities in the India program. This is discussed further in Section II B.2 below.

## 2. Energy and Natural Resources Management

This program category covers the activities included under three sections in the Asia Regional Strategic Plan Management Guide: Energy, Environment and Natural Resources and Forestry. USAID is supporting alternative energy R&D under the FY 1978 Technologies for the Rural Poor project, the FY 1982 Alternative Energy Resources Development project, and potentially

the Agricultural Research project. USAID's present plans are to prepare an FY 1986 PID for a Research and Technology Development (R&TD) project which would include further alternative energy activities as one component; these amounts are shown separately in Table 1, but included with R&TD in Table 3. These activities may make a small but important contribution to the strategy objectives of more rapid growth of commercial energy supplies. The proposed FY 1986 R&TD project may also include an environmental research component.

USAID is planning to prepare an FY 1986 PID for a Hill Areas Land and Water Development II project which would provide a watershed management focus to complement the irrigation focus of the initial Himachal Pradesh Hill Areas Land and Water Development project. Based on this PID and the two studies discussed in Section IV.C. below, USAID is considering preparation of a brief watershed management strategy statement for inclusion in the FY 1987 CDSS.

AID is already heavily involved in forestry in India through the two social forestry projects (Madhya Pradesh and Maharashtra), the biomass production sub-project under the Alternative Energy Resources Development project, and the potential agroforestry sub-project under the Agricultural Research project. Over the past year, AID has participated in the forestry research, education, training and extension sub-sector review organized by the World Bank. USAID is currently working with the GOI as well as with the World Bank and other donors on the design of the programs

suggested by the review: Forestry Research, Education and Training and National Social Forestry. USAID is proceeding with preparation of the FY 1985 Forestry Research, Education and Training project on this basis and is also considering submitting an FY 1986 PID for a National Social Forestry shelf project. USAID's forestry program will make a major contribution to the Asia Bureau's strategy objectives of creating additional forest resources, improving the management and distribution fuelwood and developing a program of fuelwood species research.

### 3. Fertility and Mortality Reduction

USAID/India continues to define its strategic objectives in the health, population and nutrition sectors as reducing infant and young child mortality and reducing population growth rates. While both objectives are pursued to some degree along separate programmatic tracks, the correlations between increased infant and child survival rates, improved maternal health, and lower fertility are well-established.

In the area of mortality reduction, USAID's long-term objective is to assist India in achieving the target of 60 deaths per 1000 live births by 2000. Our involvement in the Integrated Rural Health and Population Project (IRHP) has enabled USAID to research and observe shortcomings in two key areas of the health delivery system: basic training of health workers, including health professionals (doctors and nurses), and information management to improve the analytical capacity of the health system to identify,

understand and monitor major health problems and the key interventions needed to deal with them. The training, management and communications needs assessments conducted under the IRHP, and the results of that project's mid-term evaluation, point out that lack of adequate data, and poor management of data concerning disease and mortality, coupled with inadequate monitoring of service performance, prevent the GOI from focussing resources on the areas which most influence infant and child mortality. These are: oral rehydration therapy for diarrheal disease; treatment of respiratory infections; nutrition rehabilitation through supplementary feeding; provision of iron and folic acid supplements to pregnant women; nutrition and health education and growth monitoring; and immunizations, specifically measles (for children) and tetanus toxoid (for pregnant women).

Interventions in these key areas will form the focus of our planning for an IRHP II project scheduled for FY 1986, and of our continued support of the Integrated Child Development Services (ICDS) project begun in FY 1983. Improved research capability, especially in operations research, improved data based management to provide relevant information to policy makers, and improvements in both basic and in-service training for physicians and paramedical workers will be priority emphases, as will a more community-based approach to implementation. This latter approach is vital to educate both the health cadre and the community as to what each can contribute to improved health care. Use of PVOs as training and

motivating agents is vital since the task is too broad and complex for the public sector alone. The Private Voluntary Organizations for Health (PVOH) project will be one channel to draw in private sector support, but others will be explored.

In the area of fertility reduction, USAID's long-term objective is to assist the GOI to attain a crude birth rate of 24/1000 and a growth rate of 1.4 percent by the year 2000. While these targets are ambitious, the greatest potential for achieving them lies in creating large-scale primary demand for oral contraceptives, specifically through USAID-assisted social marketing activities. Part of that demand may be generated through use of modern marketing techniques to promote sales of pills and condoms, as well as establish a link with private medical practitioners to promote these methods.

#### 4. Cross-Sectoral Programs

This programs category covers research, training and private sector development. The FY 1982 Development and Management Training project is still in its initial phase of implementation with management assessments of training needs underway in several ministries. USAID will consider a Phase II amendment for FY 1987 or FY 1988. Proposed research and private sector activities are discussed in Section II.B. below.

#### 5. Housing Guarantees

India's housing problems remain acute. An estimated 17 percent of the population is shelterless, and the overall housing deficit is now over 20 million units. The GOI has

relied heavily in its shelter policy on the private sector by assigning them nearly 90 percent of the total investment in housing. However, the GOI has done little in the past to encourage or facilitate private sector housing investment, and investment in housing has dropped from over one-third of the economy's total investment in the 1950s to only 7.5 percent at present. Reversing this trend will require greater efforts to mobilize capital and channel it into housing investment.

The area of intervention which provides AID with the greatest potential for long term impact is in the area of housing finance system development. The long term shelter sector goals are: (1) the development of a fully functioning and viable private sector housing finance network which mobilizes domestic savings and serves among others, lower income households; (2) to assist the GOI develop appropriate public sector strategies to fully implement a complete shelter delivery effort. The short term objective is to support the stable and balanced growth of the existing embryonic housing finance system in the private sector and to assist in the public sector conceptualization and development of an institutional framework which facilitates and encourages active private sector participation.

The strategy therefore is to assist both sectors in their current housing finance system design efforts: targetting Housing Guaranty (HG) resources to the private sector where it provides the greatest leverage, and using other available assistance mechanisms

to provide access to and opportunities for policy dialogue with significant actors in both sectors. Given the size of the sector and the resources available, AID's role will continue to be that of a catalyst.

Housing Guaranty and related technical assistance to the Housing Development and Finance Corporation (HDPC) will continue through 1986. Background work on a comprehensive strategy for continued catalytic intervention in the sector will be complete by FY 1986. During the planning period the HG mechanism supplemented by USAID resources will support (1) Housing Finance Institutional Development (such as mortgage insurance and secondary mortgage market facilities); (2) the development and testing of financial instruments geared toward mobilizing domestic saving and providing low income households with access to credit for their shelter needs; and (3) the development of public sector strategies which facilitate private sector development.

B. Current Strategy: Policy Themes and Objectives

1. Policy Reform

As discussed in the FY 1985 CDSS, AID can attempt to influence the policy environment at three levels: macroeconomic policy, sector economic policy and sector program policy. In India as elsewhere the IMF tends to have a comparative advantage in dealing at the macroeconomic level, the World Bank at the level of sector economic policy and AID at the sector program policy level. There is some limited scope for USAID to work at the first level,

particularly in the area of capital markets development. There is broader scope at the sector economic policy level. For example, studies and pilot activities on alternatives for irrigation water pricing are already planned, as is a study on health care demand and financing patterns, and the Family Planning Communications and Marketing project provides for work on the pricing and regulatory framework affecting access to contraceptive supplies.

USAID's primary emphasis, however, will be on further reform of key program policies and more effective policy implementation in the major subsectors, particularly irrigation, forestry and HPN. As indicated by the FY 1986 benchmarks set forth in Section IV.B., USAID expects to support positive policy changes in all of these areas. Over the longer term, USAID anticipates that the Research and Technology Development strategy will provide a framework for a constructive AID role in supporting further positive evolution in GOI policies affecting the generation and dissemination of technical innovations. The FY 1985 Research and Technology Development project with the GOI Department of Science and Technology (DST) will include studies on socio-economic issues in science and technology, and establishment of the proposed Science Advisory Panel and the addition of a resident USAID Science and Technology advisor will furnish opportunities to engage in intensive dialogue on S&T policy questions. Similarly the expanded activities in agricultural, forestry, and biomedical research will provide scope for a useful AID role in focussing attention on policy constraints to effective technology development and dissemination efforts in these subsectors.

## 2. Private Sector Growth

The Mission private sector strategy, as outlined in the FY 1985 CDSS, aims at expansion of the private sector into areas presently dominated by the public sector and reduction of the excessive controls and regulations that hinder private sector development. The starting point for the strategy is the existing project portfolio, which provides scope for an enhanced private sector role in irrigation, forestry, health, and family planning. Beyond the existing portfolio the Mission is pursuing several lines of inquiry that will address the strategy objectives directly. The first and main line of inquiry is the development of a non-farm enterprise program, predominantly in the private sector, concentrated on science and technology development; a second line is capital markets development; and third, policy oriented economic analysis. The FY 1987 CDSS will state this element of the private sector strategy in more detail and will spell out the associated resource requirements.

With respect to private non farm enterprise development, the Research and Technology Development Team report and subsequent USAID seminars have highlighted the issues of R&D capacity development and small enterprise technology innovation. India is among the top twelve R&D spenders in the world. In 1982-83 almost \$1 billion was spent on R&D, of which 85 percent was spent in the public sector and 15 percent in the private sector. This appears to be an area where potential exists for major expansion of

private sector activities with full government support. USAID has begun exploration of this area by commissioning a study on constraints to private sector R&D, and has drawn on Private Enterprise Bureau support to investigate with the GOI the possibility of establishing a mechanism that would bring together U.S. and Indian firms in joint R&D undertakings. Although no funds have been budgeted for this activity, a positive GOI response could lead to a proposal for an FY 1984 or FY 1985 project using some combination of rupees and bilateral or central Development Assistance funds.

Regarding innovation in small industry, small manufacturing enterprises can play an important role through product and process technology innovations that improve product quality and/or reduce costs including products in areas of concern to USAID, such as land levelling, irrigation pumping, seed production, and processing of food and forestry commodities. USAID over the next few months will explore feasibility of developing a small industries/technology innovation program. The program will be aimed at (a) upgrading technology and (b) accelerating and sustaining a flow of major innovations to small industries. As a first step in FY 1984 the Mission may support an experimental project aimed at increasing the flow of new product technologies from small and medium enterprises in the U.S. to counterpart firms in India. In addition, studies leading to possible program and project development will be undertaken during FY 1984.

Scope may also exist for assisting the growth of private sector financial institutions and new financial instruments on a selective basis. An outstanding example of assistance by AID to a private financial institution is the development of the Housing Development Finance Corporation (HDFC), assisted by Housing Guarantees. Expanding the scope of an HDFC into other areas such as leasing or financing of equipment for small and medium size construction firms (thereby diminish the role of public sector financial institutions); developing sources of venture capital in conjunction with the fund to develop Indo-U.S. R&D joint ventures; and strengthening primary and secondary capital issues markets are areas with enough potential to warrant further exploration. In the next few months, USAID will engage consultants knowledgeable in different aspects of capital markets in connection with activities already underway with HDFC and capital issues markets to determine the feasibility working in the area of private capital market development. USAID will also investigate ways in which AID might support policy-oriented economic analysis aimed at strengthening the current trends toward liberalization.

### 3. Research and Technology Development

As argued in the FY 1985 ABS, the approved country strategy for India may be seen as being organized around two complementary sub-strategies: science and technology and policy and institutional reorientation. The latter is the subject of the next section. The science and technology sub-strategy has recently been

elaborated in the report of the Research and Technology Development Team. The report argues for a major Research and Technology Development (R&TD) effort within the existing USAID program categories emphasizing agricultural, forestry and biomedical research, as well as a separate umbrella project with the GOI Department of Science and Technology (DST). In addition, the report recommends the addition of a Science and Technology advisor to the USAID staff together with the establishment of a Science and Technology Advisory Panel made up of eminent experts.

The amounts projected for various activities in Table 1 incorporate the funding recommendations of the R&TD report. Assuming AID/W approval of the report, USAID plans to proceed in early CY 1984 with the recruitment of an S&T advisor, the establishment of an S&T Advisory Panel, and design of an umbrella Research and Technology Development project for FY 1985 obligation. This effort will be closely coordinated with the Embassy Science Counsellor and with the activities of the Indo-U.S. Science and Technology Initiative (STI) and the Indo-U.S. Subcommissions for Agriculture and for Science and Technology.

#### 4. Institutional Development

The major investments in irrigation, forestry and HPN support USAID's policy and institutional reorientation sub-strategy. As noted in the FY 1985 CDSS, this sub-strategy comprises:

- institutionalization of a water management focus within the irrigation establishment
- an orientation toward village and farm forestry in the traditional forestry establishment
- an approach to primary health care based on the identification of key community health problems
- a family planning program which takes fuller advantage of the private marketing system to produce and distribute a wider, more effective range of contraceptives
- more targetted and cost-effective nutrition programs.

The means USAID is using in implementing this strategy are diagnostic studies, technical and managerial skills development, management information systems development, institutional networking and mobilization of private and community resources.

The program has progressed in all of these areas over the past year. In irrigation, the third major Diagnostic Analysis workshop was held, this time in the state of Madhya Pradesh. In health, several diagnostic studies were completed under the IRHP project, and their results were highlighted by the mid-project evaluation carried out in October/November. USAID began the implementation of two major training projects - Development and Management Training (DM&T), and Irrigation Management and Training (IM&T). USAID also began implementation of the Integrated Child Development Services (ICDS) project, which features establishment of a nutrition surveillance and management information system which may be replicated throughout the entire national ICDS program if successful. Institutional networking efforts under the IRHP were

successful at bringing new skills and perspectives to state health departments, and networking activities began under the IM&T project. Finally, USAID began implementation of the Family Planning Communications and Marketing project which emphasizes the mobilization of the skills and resources of private enterprise, and gained new insights into issues of farmer and villager participation through preparation of community management case studies in irrigation and social forestry. USAID is considering addition of a JCC Community Management advisor to provide a focus for further work on community management, which is at the heart of the policy and institutional reorientation sub-strategy.

5. PL 480 Integration

The value of food commodities brought to India under the PL 480 Title II program accounts for over half of the value of the Mission's total FY 1985 and FY 1986 program. These resources represent a significant contribution to the U.S. development presence and directly complement our dollar-supported strategy, especially in mortality reduction and increased food production. This section discusses USAID's approach to PL 480 integration. Budget issues are discussed in Section III.A. below.

USAID has been actively pursuing a strategy of PL 480 integration since the Development Assistance program in India resumed in 1978. In FY 1979, the Oilseed Growers' Cooperative Project (OGCP) began under AID's only (and to date largest) Title II monetization program. Thus far approximately \$110 million of

vegetable oil has been monetized to establish cooperative-managed oilseed processing plants which guarantee a market at a fair price to groundnut farmers, and support production research on farmer's fields. There is already evidence that in the state of Gujarat market price and groundnut production patterns have been significantly influenced by this program. An additional amount of up to \$42 million of oil is planned through FY 1986.

In FYs 1979-82 a series of analyses were initiated on the more traditional feeding portions of the Title II program (Maternal Child Health and School Feeding). These analyses contributed to the current emphasis on upgrading MCH and reducing support to school feeding, and were discussed extensively in the FY 1984 and FY 1985 CDSS documents. AID's first DA/Title II integration project was signed in FY 1983 with obligation of Integrated Child Development Services (ICDS) project. If successful, the improvements tested under this project may be replicated in the national ICDS program. Another program which the GOI is considering for possible national replication is the CARE Composite Program for Women and Pre-School Children in Kerala. In addition, CARE has targeted nearly 50% of the 5.3 million beneficiaries under its MCH Program for upgradation in FY 1984. CARE and the GOI plan to upgrade the entire MCH Program to the level of ICDS by FY 1986. This target relies heavily on host counterpart resources and those of multilateral organizations such as UNICEF used in combination with CARE's own resources. USAID has also queried AID/W on the possibility of Title II monetization within CARE-supported ICDS/MCH to support infrastructure and manpower development costs (e.g. training, staffing, etc.). Despite

unavailability of OPG resources, CRS is also upgrading its MCH program through the Targeted Maternal Child Health Program. This program began in 1983, and relies primarily on local contributions to finance training and ancillary services. Total upgrading of CRS MCH programs should be accomplished by FY 1987.

AID/W has endorsed the above Mission approach as outlined in previous CDSS and ABS documents. This endorsement included a phasedown of school feeding to 50 percent of the 1981 beneficiary level by FY 1986. A decision on the future of the program was to be taken following completion of the nationwide CARE school feeding evaluation. That evaluation, which will be issued in February 1984, will demonstrate positive impact of school feeding (SF) programs on primary school enrollment and retention rates. It will reveal this relationship to be particularly strong for girls, permitting the conclusion that school feeding can have a direct effect on female literacy and, indirectly, on fertility.

The Asia Bureau Strategic Plan Management Guide goes beyond previous guidance to the Mission and advises the Bureau's intent to phase-out of school feeding programs throughout Asia. However, recent cable guidance (State 025236) suggests the application of this intent to India is still under consideration and will be discussed at the CDSS review. Mindful of this, of the overall pressures on Title II budgets worldwide, and the importance of the Mission's growing involvement in Maternal and Child Health, the Mission proposes a gradual phase-over of SF resources to MCH

PROGRAMS (primarily upgraded MCH on the ICDS model or MCH that is about to be upgraded) beginning in FY 1987-1988. A phase-over rather than phase-out is vitally important to give the GOI an opportunity to absorb SF responsibility earlier than it had anticipated, while at the same time not having to meet the growing expensive ration requirements under the MCH program over the same period. The phaseover would consist of transfers to be negotiated between USAID, the cooperating sponsors and the GOI from SF programs to MCH programs, which could include monetization to support MCH program costs discussed earlier.

This approach has been discussed with CARE/India and CRS/India. They have indicated they cannot at present endorse this proposal, given their perception that the GOI gives high priority to School Feeding and AID/W had withheld judgement on the future of the program on the basis of highly positive results of the SF Evaluation discussed above. CARE also feels that the mortality and fertility effects of School feeding are demonstrable. Further discussions with the voluntary agencies and the GOI will take place after AID/W either endorses or suggests modifications to the Mission proposal. USAID recognizes the need to support the integrity of voluntary agency programs in deciding how to allocate overall Title II levels within the Agency's broad guidelines for use of P.L. 480 resources. Issues involving relative effectiveness of the two programs, management capacity of cooperating sponsors to absorb demands of a more sophisticated program, and the realities of working in individual states have also to be appreciated. Clearly, the decision on how those allocations will be made must involve

continuous, open dialogue between USAID and the cooperating sponsors, and must acknowledge the constraints both parties face. <sup>2/</sup>

Finally, supported by the results of a two-year evaluation effort, USAID will continue to support a constant level of Food for Work (FFW) activities as a way of creating rural employment (especially during periods of disaster or emergency), and assisting communities in creating durable, small-scale community assets for increased food production. That evaluation revealed that assets created had a beneficial impact on small and marginal farmer production, and that food commodities (and, hence, work) went primarily to landless laborers.

6. Women In Development

USAID is preparing a strategy statement on Women in Development emphasizing the creation of marketable skills that are directly useful in womens' daily lives. The strategy statement will be completed by mid-February for presentation at the India CDSS review. The strategy will rely heavily over the next few years on the DM&T project, which includes an informal 15 percent target for female participants. Implementation of the project will rely on the recommendations of the report of the International Center for Research on Women (ICRW), which recently reviewed womens' training

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<sup>2/</sup> USAID and Church World Services/Lutheran World Relief have held preliminary talks about the resumption of a Title II program under CWS/LWR. To date, no formal program proposal has been received.

opportunities in India. Within USIAD's existing portfolio, USAID's WID strategy will emphasize forestry and irrigation, both of which provide significant potential for improvements in female employment and incomes.

C. Toward a Refined Strategy

The current strategy furnishes an agenda which permits USAID to work in all of the subsectoral areas identified in the Asia Regional Strategic Plan and to pursue the Agency's policy themes aggressively across a wide front. It does not appear that any major adjustment in strategy is required to comply with Agency policy guidance or the Asia Bureau Strategic Plan. Nevertheless, the seminar series and the current program itself raise a number of issues which suggest further inquiry to assure that AID is taking full advantage of the opportunities to contribute to the long-term improvement in the lives of India's poor. Moreover, current program directions coupled with Agency budget and staffing trends make it imperative that AID carefully consider the consistency among its program objectives, mode of operation and procedures. The interrelationships among the program, "mode" and "procedure" issues also have important implications, of course, for any further modification in AID's assistance strategy in India. This section discusses some of the possible future modifications in assistance strategy at the program level while sectors II.D. and II.E. below discuss related strategy issues at the "mode" and "procedure" levels.

The Food Production and Rural Employment category (see Table 1) covers agricultural research and education, irrigation, Title II Food for Work and the Title II, CLUSA/NDDB oilseeds development program, although irrigation is by far the largest in terms of funding. The seminar series suggested that development of irrigated agriculture will continue to be central to India's efforts to accelerate agricultural growth. Moreover, there continues to be a strong case for sustained AID involvement in this area, as discussed in the FY 1985 CDSS. However, there are a number of issues which require further clarification and which have implications for future programs. These include equity problems (between regions, between farmers, between landowners and agricultural laborers), questions of the appropriate roles of different government departments (Irrigation vs. Agriculture) and on non-government entities in various types of irrigated agriculture and a whole range of technical issues (including the respective roles of surface and groundwater development). There is also the major question of the role of irrigation in accelerating agricultural development in the lagging areas of eastern India. The complexity of the issues, their location - specific character, and the scope of the related institutional development needs probably implies a fairly long-term involvement with particularly states or regions. The magnitude of India's irrigation development task also requires that AID's efforts be fairly carefully circumscribed to remain within the Agency's

resource limitations. The interplay among issues, opportunities and AID resource constraints and implications for strategy will be subject of the Irrigation Strategy Review scheduled for late CY 1984.

Food production and rural employment are of course much broader than irrigated agriculture, although both the production and employment gains of recent years have come disproportionately from irrigated agriculture (and particularly irrigated wheat and rice). This raises questions concerning the allocation of resources between irrigated and rainfed agriculture and between various regions and crops (wheat, rice, other cereals, pulses, oilseeds, etc.). The allocation of agricultural research resources is an especially crucial issue here, as is the problem of sustaining technological innovation in particular fields. The concentration of production and employment gains by region and by crop also raises the issue of the relationship between patterns of nutritional needs and patterns of food production, as well as the problem of rural employment generation of less-favored groups and regions. Thus another set of "lines of inquiry" for further strategy refinement would cover consumption-production links, rainfed crop development and related research issues on the problem of agricultural development in eastern India, and off-farm employment.

The Energy and Natural Resources category covers alternative energy and various aspects of natural resources management, particularly forestry and watershed management. Alternative energy is already adequately addressed in the current strategy. AID's

involvement in forestry and watershed management under the current strategy will intensify with the design of the FY 1985 Forestry Research, Education and Training and the FY 1986 Hill Areas Land and Water Development II projects. Although USAID has emphasized the energy or fuelwood aspects of forestry, forestry is obviously crucial to soil and water conservation, is an important component of rainfed agriculture, and is a major actual and potential source of incomes and employment for the rural poor. Thus involvement in forestry may lead in several other program directions in natural resource management, rainfed agriculture, and rural development.

In Fertility and Mortality Reduction USAID will complete the design of the Biomedical Support for Health Services project in FY 1984 or FY 1985, and will design the Phase II Integrated Rural Health and Population (IRHP) project for obligation in FY 1986. With these activities and the existing projects in population and nutrition, AID is able to work with the GOI and state governments on a wide range of issues affecting fertility and mortality reduction. Neither the current strategy nor USAID's seminar series have suggested any major "lines of inquiry" leading to further strategy refinement, although the USAID strategy will become further clarified as FY 1985 and FY 1986 design efforts move ahead. Similarly, training, research and private sector activities under the cross-sectoral programs category are being developed under the current strategy as discussed in Section II.B. above. It is not clear at this stage that further significant strategy refinement in

this program category will be necessary for the period beginning in FY 1987, although it will be necessary to determine by the time of the FY 1987 CDSS population whether significant nonfarm enterprises activities are feasible within USAID resource constraints.

D. AID as a Development Agency in India

AID's ability to achieve various objectives (and particularly the objectives associated with our main policy themes) is contingent upon the way the Agency does business, and in particular on the way AID field missions staff and organize themselves to deal with development issues. The nature and objectives of field missions will vary from country to country, although AID as an institution currently appears to spend relatively little effort in assessing the "fit" of USAID organization and staffing in various country situations. For example, AID may find that its effectiveness is enhanced by developing a larger set of relationships with the GOI which go well beyond the conventional project relationship. In the case of India, with its relatively well-established development institutions, impressive scientific and technical capacity and receptivity to new ideas and techniques, it is clearly important for AID to find ways to maximize the exchange of ideas and promote the widest possible interchange of planners, scientists, technicians and administrators. It may be in AID's interest to develop a network of intermediaries to accomplish this (PVOs, contractors, foundations, etc.) rather than assuming a total management role. This implies a more pluralistic management style

for the program and has implications for USAID's staffing and operating mode. It may indicate, for example, that USAID itself should attempt to act more as a foundation, reducing its direct involvement in certain areas and doing more to facilitate direct relationships between U.S. and Indian institutions.

One very attractive aspect of the Research and Technology Development strategy is that it provides the basis for a GOI perception of the AID role in India which places the Mission in the category of a major source of technology transfer rather than a minor source of resource transfers. This could act to neutralize some of the negative political associations which U.S. development assistance carries, could provide a focus for coordination of a range of USG efforts, and could become a platform for significant policy dialogue at the national level. Seen in this light, USAID could become an important center of expertise for the GOI and India in key sectors such as irrigation, forestry, family planning and health, drawing together USDH, JCC, FSNDH and contract staff to provide a critical mass of resident technical competence.

E. Implementation Issues

The scope for flexibility in adapting AID's operating mode to particular host-country circumstances is of course constrained by the procedures used in funding, contracting, etc. If a large percentage of USAID's limited staff time has to be devoted to dealing with complex procedural issues, there is obviously less time available for interaction on development questions, or for

devising innovative vehicles for collaboration. Thus, the Asia Bureau Experiment should cover issues of mode of operation and implementation procedures, both in the context of particular country situations and strategies and in terms of the impact that new ways of doing business in the field will have on AID/W support systems. Because the questions of "mode" arise most sharply in the case of the Research and Technology Development strategy, the R&TD Team report provides a logical starting point for assessment of these issues. However, the issue of implementation procedures affects the entire strategy and requires an in-depth review, as suggested in Section IV.C. below.

There are at least three issues at the implementation level which require careful scrutiny. First, it is generally acknowledged that AID could use its staff resources more effectively if financing could be linked more directly to development outcomes and tied less closely to inputs. Sector lending in the past was an attempt to move in this direction, as are some recent efforts in the Phillipines and Bangladesh. Second, the financing of all inputs under the same procedures creates major problems in providing technical assistance in India. Some other donors apparently separate out their technical assistance and training from their other financing and thereby avoid many of these problems. Third, AID is still very much bound to government-to-government implementation procedures, although many of the most important development opportunities are provided by non-government entities such as businesses, cooperatives and voluntary agencies.

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### III. Resources

#### A. Budget

##### 1. Program Funds

USAID's program will continue to emphasize Food Production and Rural Employment. During the period FY 1987-89, 60 percent of our program will be in this broad sector, much of it loan-financed. Irrigation activities will receive less emphasis, declining from 68 percent of the total USAID program in FY 1984 to 39 percent in the FY 1987-89 period. Slight percentage increases will occur in agricultural research and education and in the new rainfed agricultural development subsector.

Most of the resources shifted from irrigation will go to finance activities under the Energy and Natural Resources Management program category. This set of activities may encompass forestry, watershed management, and land use initiatives. This program category will account for 20 percent of the Mission's total portfolio by FY 1986 and 17 percent of the portfolio during the FY 1987-89 period.

There will be decline in the proportion of resources going to Fertility and Mortality Reduction from 22-24 percent during FY 1985-86 to 14 percent during the FY 1987-89 period. This decline reflects primarily the fact that we already have major on-going projects in family planning and nutrition and does not signify a reduction in priority.

By FY 1987-1989, approximately 9 percent of our program will be devoted to cross-sectoral activities devoted to training, research and technology development, and private enterprise promotion. As discussed in Section IV.D., these areas are relatively technical assistance intensive and pilot in nature and will command substantial grant resources for their funding.

The planning levels for PL 480 shown in Table I are the FY 1985 ABS AAPL figures, adjusted for commodity price increases reported in December 1983. Because vegetable oil is included in each of the Title II programs (and represents the total CLUSA program), the increase in planning levels reflect primarily the dramatic jump in oil prices, and to a lesser extent price increases for blended foods.

From FY 1984 - FY 1989, PL 480 resources are increasingly concentrated in MCH programs, especially upgraded programs. By FY 1989, MCH will comprise almost three-fourths of the Title II program in India, with school feeding reduced to 10 percent. This shift within the PL 480 program from school feeding to MCH reflects the Mission's proposal in Sec. II.B.5. and not a policy decision. Both Food for Work and Food for Cooperatives will reduce their demands on the overall budget by a modest margin.

The issue of whether and how fast school feeding phases down, and how those resources are allocated is overshadowed by the issue of overall levels. If there are significant cuts in Title II levels beginning in FY 1985, sharp choices will have to be made. For example, reducing the budget for FY 1985-1989 to the nominal AAPL levels in the FY 1985 ABS (assuming December 1983 prices) will likely require elimination of school feeding in FY 1985 and Food for Work in FY 1986. Even then, by FY 1988, assuming a 5 percent inflation rate and assuming all MCH programs have been upgraded by FY 1987, the budget will again begin to exceed those AAPL figures. Straightlining the budget at FY 1984 levels, of course, could be accomplished by reducing each program by a flat percentage or by eliminating virtually all Feeding Programs except MCH before FY 1988. Based on previous Mission analyses, either alternative would severely strain the GOI's ability to absorb food requirements of the terminated programs. Diversion of GOI resources in the short term would certainly come from their own MCH activities, slowing the pace of upgrading and indirectly affecting the budget resources which

support institutional and manpower improvement in the GOI upgraded MCH program. It would also seriously affect AID's leverage through the dollar-funded ICDS project to implement institutional change throughout the national nutrition system. Also, the Mission will lose credibility with the cooperating sponsors and the GOI in on-going discussions, over PL 480 integration issues.

2. Operating Expenses

The Mission's single most serious constraint to implementing the strategy is likely to be Operating Expense (O.E.) funds. Our ability to deliver resources and personnel on the program side is directly related to adequate O.E. funds to support costs for USDH and JCC personnel within the Mission. Our options to economize in the face of this increased demand are few. For example, we will try to phase out U.S. PSCs from the O.E. budget, placing all future U.S. PSCs under program funding. These personnel accounted for about 16.9 percent of our FY 1983 O.E. budget. However, we are projecting USDH workyear requirements on the basis of approved levels, with a modest increase in FSN staff. We cannot plan for a level of Mission expertise to develop and pursue an innovative technology intensive program unless O.E. funds follow allocated workyears. This means that even with economy measures, O.E. levels must be commensurate with staffing levels to provide the senior-level technicians, both U.S. and Indian, that we hope to attract to the program.

B. Staffing

USAID ability to support the proposed strategy will necessitate maintaining a level of 28 USDH and 7 JCC from FY 1986 onwards, and an increase in FNDH from 56 to 65 by FY 1989. These personnel projections are premised on the following principles:

- 1) Personnel requirements shall reflect operational, not technical assistance requirements. This is in line with USAID's intention to move legitimate program costs out of O.E. to program funding;
- 2) U.S. staff will combine technical and program management skills, and have interdisciplinary skills and interests. USAID will need to maximize use of USDH talent across several activities in a given sector, and, on occasion, cross-sectorally. Routine project management will have to be met increasingly through local Indian hire; and 3) USAID will seek U.S. staff who can add to the Mission's analytic and conceptual base, and provide a strong intellectual foundation for thinking about development problems.

Within this framework, we are in general agreement with the Bureau strategy on the need to augment our understaffed health office, to take no reductions in agriculture, and augment staff in the broad area of natural resources management. These assumptions are reflected in our workyears figures. However, USAID takes issue with the Bureau's personnel estimates in several key respects. First, because alternative energy activities will be absorbed under the broader rubric of research and technology development, it is important to recruit a senior research scientist with significant

experience in management of research. Second, additional support staff in the project development and, possibly legal disciplines may be needed to guide the Mission through the procedural thicket of putting in place the different mode of Mission operation contemplated in Section II.D., as well as work with technical offices to implement an expanding project portfolio. Finally, USAID intends to be responsive to the Bureau's interests in community management by having a resident professional to work with technical offices and planning offices to develop ways to translate community management rhetoric into field reality.

The implication here is that staffing constraints will force USAID to be more selective in recruiting new personnel and demand that they feel comfortable working on numerous activities and on a cross-sectoral basis. They will be one step removed from routine daily implementation but be expected to quickly identify problems across the board in their areas of expertise with the advice of FSN project officers. With the modest increase in FSN staff proposed, USAID should be able to meet its responsibilities for routine implementation monitoring.

TABLE 1: PROPOSED FUNDING AND STAFFING, FY 1984 - FY 1989

PROGRAM AREA	Planning Levels (\$ Million and Percent)							
	FY 1984		FY 1985		FY 1986		FY 1987-89	
	\$	%	\$	%	\$	%	\$	%
<u>Food Production and Rural Employment</u>								
Ag Research & Educ.	3.5	4%	5.0	6%	14.0	16%	51.0	18%
Irrigation Dev. <u>a/</u>	58.3	68%	56.9	66%	32.2	36%	110.0	39%
Rainfed Ag Dev.	-	-	-	-	-	-	10.0	3%
Food for Work, Title II <u>b/</u>	( 10.7)	10%	(10.2)	8%	( 10.8)	8%	( 35.6)	9%
Food for Coops., Title II <u>b/</u>	( 8.6)	8%	(15.6)	13%	( 15.7)	12%	( 31.2)	8%
<u>Energy &amp; Natural Resources Management</u>								
Alternative Energy <u>c/</u>	-	-	-	-	1.0	1%	8.0	3%
Natural Resources	-	-	3.0	3%	18.3	20%	40.0	14%
<u>Fertility &amp; Mortality Reduction</u>								
Biomedical Research	2.2	3%	5.6	6%	2.0	2%	8.0	3%
Health/FP Delivery	10.4	12%	13.5	16%	18.5	21%	21.0	7%
Nutrition Upgrading	9.0	10%	1.0	1%	2.0	2%	11.0	4%
Food for MCH, Title II <u>b/</u>	( 58.5)	56%	(73.1)	58%	( 81.1)	62%	(291.1)	71%
School Feeding, Title II <u>b/</u>	( 27.5)	26%	(26.4)	21%	( 23.0)	18%	( 53.6)	13%
<u>Cross-Sectoral Programs</u>								
Development Training	2.6	3%	-	-	-	-	8.0	3%
Priv. Enterprise Promotion <u>c/</u>	-	-	-	-	1.0	1%	5.0	2%
Research & Tech. Dev.	-	-	1.0	1%	1.0	1%	10.0	4%
<hr/>								
Total Development Assistance:	86.0	100%	86.0	100%	90.0	100%	282.0	100%
(Loan)	60.0	70%	59.4	69%	62.0	69%	205.8	73%
(Grant)	26.0	30%	26.6	31%	28.0	31%	76.2	27%
Total PL 480, Title II <u>b/</u>	(105.3)		(125.3)		(130.6)		(411.5)	
Housing Guarantees	20.0		-		20.0		20.0	
<hr/>								
<u>STAFFING (Workyears)</u>	<u>FY 1984</u>	<u>FY 1985</u>	<u>FY 1986</u>	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>		
USDH	26	26	28	28	28	28		
US-JCC	5	7	7	7	7	7		
FNDH	56	58	60	62	64	65		
IDI	-	2	2	2	2	2		

a/ Does not include the Hill Areas Land and Water Development - II project.  
b/ PL 480 Title II amounts are non-additive; percentages apply to Title II only.  
c/ Funded as a component of the Research and Technology Development project.

IV. Work Plan

A. PID and PP Preparation for FY 1986

USAID is currently completing Project Papers for the FY 1984 Hill Areas Land and Water Development and Maharashtra Minor Irrigation projects, and has initiated design of the FY 1984 Biomedical Support for Health Services project. Project Paper preparation will begin in early CY 1984 for two FY 1985 projects: Rajasthan Command Area Development (CAD) and Forestry Research, Education and Training. USAID proposes to prepare three FY 1986 PIDs: Hill Areas Land and Water Development II; Integrated Rural Health and Population II; and the Research and Technology Development (R&TD) umbrella project (for possible FY 1985 funding). In addition, USAID plans to submit a PID for the National Social Forestry Program as a shelf project and will submit a project narrative for an amendment to provide additional funding beginning in FY 1986 for the Agricultural Research project. The schedule for PP and PID development during FY 1984 and FY 1985 (excluding FY 1987 PIDs) is shown in the following table:

Energy and Natural Resources Management

- progress on Alternative Energy Resource Development sub-projects evaluated and implementation of follow-on activities initiated under Research and Technology Development project.
- existing Indian forestry research institutions collaborating more effectively in better coordinated research programs, partly as result of GOI/joint donor review and dialogue on forestry research, education and training issues
- initial implementation underway of AID-assisted Forestry Research Education and Training project
- preliminary research results generated from Biomass Production species trials
- agroforestry research sub-project in initial stages of implementation
- significant expansion of seedling distribution and self-sustaining, private tree nurseries at the village level
- state social forestry wings more adept at mobilizing village-level resources and management capabilities in support of tree planting programs on private and locally managed lands.

Fertility and Mortality Reduction

- obligation of new integrated rural health activity focussed on improving basic skills of field-based professional and paramedical personnel, particularly in specific disease areas (diarrhea/ORT, respiratory infections, and immunizations)
- re-establishment of communications task force for family planning to provide guidance for promoting small family norm in India and on training field workers for family planning extension activities
- support for a national conference on use of community and/or individual incentives as a means to increase acceptance of contraception, primarily in rural India, with publication of proceedings and development of sector paper to follow the conference

- field trials of rapid diagnostic techniques begun in certain geographic regions for specified diseases; training of state and regional epidemiology personnel and upgrading of lab facilities initiated
- contraceptive Marketing Organization (CMO) under Family Planning and Communications project actively marketing both condoms and oral contraceptives
- low birth weight research collaboration with ICMR continuing
- ICDS project coverage expand to two districts and 2000 villages; performance of training system for workers and child growth monitoring system evaluated
- develop plan with CARE and CRS to phase over Title II school feeding programs to indigenous resources
- plan developed for expansion of Title II MCH programs utilizing SF resources, including plans to monetize Title II to provide MCH staff and ancillary support costs.

Cross Sectoral Programs

- Research and Technology Development project approved and implementation of sub-activities under way.
- evaluate process for developing and implementing organizational training plans for redesign of Development and Management Training Project in FY 1987
- design efforts under way for FY 1987 private enterprise project.

C. Analyses for the FY 1987 CDSS

USAID plans to undertake four studies during CY 1984 to provide a basis for further strategy refinement and a full strategy restatement in the FY 1987 CDSS. The first two will pursue the lines of inquiry suggested by USAID's Fall 1983 seminar series, while the latter two will investigate some of the issues of "mode" and "procedure" discussed in sections I.B. and II.D. above.

At the program planning level, the Irrigation Strategy Review will assess issues related to surface irrigation development, but will also address the potential role of groundwater irrigation in the USAID strategy and the role of watershed management as it relates to various aspects of irrigation development. In addition, the strategy review will explore the potential long-term role for AID in supporting the further exploitation of water resources in eastern India, particularly in Uttar Pradesh and possibly Bihar. USAID will engage a consultant in early CY 1984 to prepare a scope of work for the review, which will take place in the Fall of 1984. The consultant will also analyze the need for special studies by Indian consultants prior to the arrival of the outside team (such as those prepared by consultants from the Indian Institute of Management/Ahmedabad for the Hill Areas Land and Water Development design). He would prepare scopes of work for these special studies if any are necessary.

The second study will review the existing literature on the relationships among food consumption, food production and rural employment in one particular state, emphasizing the role of rainfed crops (cereals, pulses, oilseeds), animal husbandry, forestry and the exploitation of uncultivated lands. Given AID's heavy involvement in Maharashtra (irrigation, social forestry, rural health, nutrition, Title II Food for Work), that state might be a logical choice. The study would be carried out by a team consisting of one U.S. and one Indian consultant beginning in early CY 1984.

In addition, USAID will draw upon the design of the FY 1985 Forestry Research, Education and Training project and the FY 1986 Hill Areas Land and Water Development II project in preparing a brief strategy statement on watershed management for the FY 1987 CDSS, and will explore initiatives AID might undertake to support accelerated rice production growth in eastern India.

At the "mode" level, USAID plans to request that a senior AID/W staff member work with the Mission in delineating feasible directions for evolution in the character of the USAID Mission, using the implications of the Research and Technology Development strategy as a starting point. This review would assess 1) qualitative changes in our assistance relationship with India, redefining the nature of bilateral and collaboration both inside and outside of conventional project modes; 2) implications for these changes in "style" for resource levels and mix (e.g., grant/loan) and staffing levels and composition; and 3) how to operationalize collaborative relationships with India outside of the traditional donor-recipient approach. Similarly, at the "procedural" level USAID plans to request that a consultant (preferably a retired senior AID official with extensive overseas experience) make a thorough review in India of AID and other donor procedures affecting what is financed and how it is financed, and make recommendations for feasible modifications in AID procedures which could enhance the efficiency of USAID's operations and, effectiveness in supporting AID's strategic objectives in India. The review must also alert the Mission and AID/W of implications for both

more and different types of support from AID/W to implement USAID objectives. This runs the gamut for necessary administrative delegations, to the ability of AID/W networks to deliver the personnel and other resources associated with a growing R&D program.

Both of these exercises could begin in early or mid-1984, and could culminate in a USAID retreat in November 1984 to permit inclusion of the results in the FY 1987 CDSS. This effort would complement the Asia Bureau Experiment, as noted above, and would have important implications for AID's long-term assistance strategy for India and other countries in both the middle-income and low-income categories.

D. The Grant Funding Issue

The Asia Bureau Strategy correctly points out that as programs move closer to an S&T focus, emphasizing institutional collaboration and development of research and development networks, higher grant levels and more manpower will be necessary. For the latter, some substitutability is possible using volags, contractors and the like. For the former, the options are less clear. Loan financing, in the case of India, is not practical for services and goods which are tied to sources AID controls, and where quality, appropriateness, and timely delivery cannot be guaranteed. For activities which have a proven track record, and where institutions and institutional linkages are more developed, the potential for loan financing increases. In higher risk areas of collaboration, however, the U.S. must be prepared to step out of its donor role and act as a

partner with India in assuming some of the risk for activities where the outcomes are uncertain. The use of grant funds demonstrates clearly AID's willingness to assume risk as an equal partner.

Obviously, there will be limits. Table I and III show the Mission's plan to reduce the grant ratio in the portfolio after FY 1986 from 31 percent to 25 percent by FY 1989 (27 percent average from FYs 1987-1989). New initiatives in S&T added to continuing commitments in research, forestry, irrigation, population and nutrition fully mortgage all grant funds through FY 1986. Beginning in FY 1987 India will be able to accommodate, in a modest way, more loan funds which should be available from Southeast Asia programs which are reducing size. However, USAID will also have to develop a new framework with the GOI for allocation of the grant resources which include some or all of the following principles:

(1) Increase loan financing for activities with proven track records and focus grant resources on higher risk ventures. Irrigation, social forestry, some cost categories under agriculture research and rural health and nutrition service delivery are areas which could absorb relatively large amounts of loan funding from FY 1987 and beyond. This would permit concentrating grant funds on the cross-sectoral programs in Table I and in specific S&T activities in biomedical research, agriculture research, dryland agriculture and, to a lesser degree, resources management (e.g., watershed development).

(2) More stringent criteria for use of grant. Alternatives are to use grant for off-shore procurement of services only, and then work to limit that procurement to areas where definite gaps in Indian expertise exist. Another approach is to limit grant to technical collaboration, training, and special research topics, and maximize Indian and Third Country procurement to stretch resources.

(3) Limit the tendency to design projects with both grant and loan components, and focus grant funds on basket TA and training projects which provide funds directly, or permit AID to provide the TA and training "in-kind". This may ultimately reduce pressure on the overall India grant budget by not permitting a sprinkling of grant across individual projects. Also, this might reduce procurement time lags which often occur when grants are tied to large loan projects. These lags boost costs considerably.

(4) Use of Title II monetization, either through voluntary agency programs in support of dollar-financed activities, or direct bilateral (Section 206) programs, to generate local currencies for local costs which may otherwise be dollar grant financed.

(5) Explore selective loan financing of technical assistance, training and commodities, particularly when in-country procurement is involved and in projects where there has been long-standing U.S.-GOI collaboration. This is seen as a remote option at this point, but should be viewed as a realistic alternative toward the end of the Plan period.

TABLE 3: GRANT AND LOAN COMPONENT BY PROJECT, FY 1984 - FY 1989  
(In Million Dollars)

Project Title	Project No.	L/G	Initial Obligation	Life of Project Cost	Total Through FY 1983	Estimated FY 1984	Proposed FY 1985	Planned FY 1986	Planned FY 1987	Planned FY 1988	Planned FY 1989
Agricultural Research	(0470)	(G)	FY 83	30.0	6.5	3.5	5.0	4.0	4.0	4.0	3.0
Agricultural Research	(0470)	(L)	FY 86	50.0	-	-	-	10.0	10.0	15.0	15.0
Rajasthan Medium Irrigation (CAD)	(0467)	(G)	FY 80	3.25	1.25	-	1.0	1.0	-	-	-
Rajasthan Medium Irrigation (CAD)	(0467)	(L)	FY 80	63.0	35.0	-	10.8	17.2	-	-	-
Madhya Pradesh Minor Irrigation	(0483)	(G)	FY 83	5.0	3.7	1.3	-	-	-	-	-
Madhya Pradesh Minor Irrigation	(0483)	(L)	FY 83	41.0	31.4	9.6	-	-	-	-	-
Irrigation Mgmt. & Training	(0484)	(G)	FY 83	41.0	3.0	5.0	8.5	8.0	8.0	7.5	-
Irrigation Mgmt. & Training	(0484)	(L)	FY 83	10.0	10.0	-	-	-	-	-	-
Hill Areas Land & Water Dev I	(0489)	(G)	FY 84	4.0	-	1.0	3.0	-	-	-	-
Hill Areas Land & Water Dev. - I	(0489)	(L)	FY 84	30.0	-	14.5	15.5	-	-	-	-
Maharashtra Minor Irrigation	(0490)	(G)	FY 84	4.0	-	1.0	1.0	2.0	-	-	-
Maharashtra Minor Irrigation	(0490)	(L)	FY 84	46.0	-	24.9	17.1	4.0	-	-	-
Forestry Research, Educ. & Trng.	(0488)	(G)	FY 85	8.0	-	-	3.0	3.0	2.0	-	-
Forestry Research, Educ. & Trng.	(0488)	(L)	FY 86	8.0	-	-	-	8.0	-	-	-
Hill Areas Land & Water Dev. - II	(0476)	(G)	FY 86	2.0	-	-	-	1.0	1.0	-	-
Hill Areas Land & Water Dev. - II	(0476)	(L)	FY 86	18.0	-	-	-	6.3	11.7	-	-
Biomedical Support for Health Serv.	(0492)	(G)	FY 84	5.3	-	2.2	1.1	2.0	-	-	-
Biomedical Support for Health Serv.	(0492)	(L)	FY 85	4.5	-	-	4.5	-	-	-	-
Family Planning Comm. & Marketing	(0485)	(G)	FY 83	13.0	6.6	4.4	2.0	-	-	-	-
Family Planning Comm. & Marketing	(0485)	(L)	FY 83	34.0	10.0	6.0	11.5	6.5	-	-	-
Integrated Rural Health & Pop.-II	(0476)	(G)	FY 86	10.0	-	-	-	2.0	4.0	4.0	-
Integrated Rural Health & Pop.-II	(0476)	(L)	FY 86	20.0	-	-	-	10.0	10.0	-	-
Integrated Child Dev. Services	(0476)	(G)	FY 84	8.0	-	3.95	1.0	2.0	1.05	-	-
Integrated Child Dev. Services	(0476)	(L)	FY 83	7.0	2.0	5.0	-	-	-	-	-
Development & Management Training	(0487)	(G)	FY 82	6.2	3.6	2.6	-	-	-	-	-
NCAER Rural Household Survey	(0486)	(G)	FY 81	0.55	0.5	0.05	-	-	-	-	-
Research and Technology Dev.	(0476)	(G)	FY 85	12.0	-	-	1.0	3.0	4.0	4.0	-
UNPROGRAMMED FOR NEW PROJECTS	(L)				-	-	-	-	33.6	53.5	57.0
UNPROGRAMMED FOR NEW PROJECTS	(G)				-	-	-	-	2.65	6.3	21.0
TOTAL DEVELOPMENT ASSISTANCE:					545.0*	86.0	86.0	90.0	92.0	92.0	59.0
Loans:					463.8	60.0	55.4	62.0	65.3	66.5	72.0
Grants:					81.2	26.0	25.5	28.0	26.7	25.5	24.0
* Total obligations FY 78 thru FY 83					15%	30%	31%	31%	29%	27%	25%

(Grants %)