

INDIA  
Development Opportunity and Bilateral Assistance  
A Six Month Appreciation - January 1984

India itself stands as the greatest challenge to our understanding and perceptions. Behind the name stands a sub-continent, one-seventh of the world's population, states ( of which fall above the median population for all LDCs), an industrial and scientific power, epicentre of the green revolution, and a rural population of some million - a large proportion of whose health, nutritional, material and productive circumstances are inadequate by any standard but who define India's opportunity for economic growth.

More than one-third of the world's poor live in India, and more than 80% of the Indian poor belong to rural households of landless laborers and small farmers. About 50% of the rural population and 40% of the urban population subsist below the poverty line. The requirements and economic criticality of these people add up to an imperative for economic transformation that cannot be ignored, and which is a cause for grave concern on the part of those intimately concerned with India.

For nearly four decades now there has existed a national consensus on four development objectives: a high growth rate, national self-reliance, full employment and the reduction of economic inequities. The consensus has been affirmed most concretely in a series of six national plans that have spanned the years from 1951. And since the 1970s, there has been a broad consensus on the strategy for meeting these objectives - a strategy premised on a technologically dynamic agriculture. The major thesis of the strategy is conceptually simple: the combined dominance of agricultural commodities as wage goods and the large supply of labor available for mobilization make creation of a modern agriculture critical to economic growth and to the participation of the poor in that growth.

1. How has the strategy fared?

India now has to its credit such achievements as self-sufficiency in grain supply and a substantial substitution of domestic production for imports in basic sectors. On the whole, however, India remains what Raj Krishna has characterized a "case of stunted, suboptimal growth", burdened as it is with the world's largest single national mass of poverty and unemployment. Over the six plan periods, the Indian economy recorded an average annual growth rate of about 3.5% - below the 5% repeatedly targeted and significantly below that of most other nations in the world over the same period.

2. And agriculture?

Following the introduction of new seed-fertilizer technology in the mid-1960s, and the impressive growth in irrigated area during the 1970s,

wheat output grew impressively and characterized India as a major beneficiary of the green revolution. However, the impressive achievements of the green revolution did not significantly improve the overall long-run rate of growth of the agricultural sector, which has maintained a credible, albeit stubborn, 3% since independence. Moreover, the variations in the performance of different crops and regions constitute a significant disquieting feature of Indian agricultural growth in recent years. A slow-down in the growth rate of output has been shared by almost all crops except wheat. Among the cereals, the coarse grains, which are the main staples of the poor, have even lost area. In the north-west, the green revolution has encouraged a shift from pulses, which are an essential source of protein for the poor, to wheat, resulting in a significant drop in output and rise in price; and the Indo-Gangetic plains of eastern U.P., Bihar and Orissa show actual deceleration of agricultural growth.

### 3. The development paradigm

Mass poverty, agricultural stagnation and economic growth are inextricably related. Indeed, mass poverty in India is every bit as much a determinant of low growth as consequence. Analysis suggests disequilibrium among food production, distribution and consumption; and agricultural stagnation has had a depressant consequence for nutritional standards (in turn health status) and farmer income (in turn purchasing power). Purchasing power may be the most telling indicator. Consumer survey data show that the poor half of the Indian population accounts for only 20% of aggregate consumer expenditure. The nonpoor half controls the remaining 80%. The contrast is even more striking in food and clothing. The poor half spends more than two-thirds of its budget on food, yet its share in the total expenditure on food is only one-third of the total. In the case of clothing its share in the total expenditure is as low as 10%. With such a skewed distribution of purchasing power the emergence of food surpluses in the midst of mass malnutrition and of slow growth in the textile and certain other consumer industries is not surprising. Again, to quote Raj Krishna: "The simple truth is that the poor half of the Indian population has enormous unsatisfied needs but is hardly in the market".

Completing the paradigm is the persistence of a 2.2% population growth per-annum over the decade. Although India's rate may be modest in terms of other developing countries, the sheer numbers added each year (approximately 17 million this year) are serious; and the demographic implications portentous. Future prospects are even more grim. Medium term projections assume the achievement of a replacement level fertility only by the year 2020 which will result in a stationary population of some 1.8 billion in India in the 21st century.

### 4. If agriculture is at the center of the growth paradigm, what accounts for the current malaise?

### Irrigation

While there is agreement that per hectare yield increases of between 20% and 120% are possible under irrigated conditions, and while these represent increases in net incomes for small farmers, and while the potentials for additional yield increases under unirrigated conditions are low, and thus, while increased irrigation is central to realizing large productivity increases on small farms, there is still:

- a preoccupation with canal irrigation (as against groundwater or eastern waters and cross-sectorally with dryland and watershed investment) suggesting a serious investment issue;
- low efficiencies in water use and management, albeit with the potential for major improvement, defining then the principle technical issue;
- little understanding and recognition of, or political consensus on, the resolution of institutional issues beyond investment and technology; and
- the undeniable fact that agricultural cropping systems research and development still stand apart and distinct from irrigation systems research and development.

### Agriculture

The benefits from both investment and new technologies have been unevenly distributed; they have gone disproportionately to those in irrigated compared with unirrigated and semi-dry areas, to those in wheat compared to rice growing regions, to those with better access to credit, and new inputs, to owners compared to tenants, and to cultivators compared to the landless.

Indeed, this may be the central thesis - the real key to understanding the dynamics of the rural sector, mass poverty, agricultural stagnation, skewed consumption and wide spread malnutrition. The issue is coming center stage in India, to wit, Mrs. Gandhi's speaking at the Institute of Economic Growth on November 16, 1983 - "...however, higher yields are confined to some pockets. In other areas they continue low even though technology is available for raising them dramatically. In rice, the picture is worse. The North-West has forged ahead, but in the Eastern Region, where millions of small and marginal farmers work, productivity has been stagnating. The problem of poverty in all these areas is linked with low productivity...need a plan... a breakthrough in the production of rice and dryland agriculture... the transformation that is required is all pervasive."

Illustratively, about 70% of the net cropped area in India is now exclusively rainfed and is largely subsistence oriented. Nevertheless, by virtue of the colossal acreage involved, millions find their livelihoods in these lands which contribute 42% of the total foodgrain production of the country. Improvement in rainfed farming is obviously, therefore, of major importance both for increasing overall food supply to the nation, as well as the development paradigm.

#### Resource Management

B.B. Vohra captured the third element with the phrase "resource illiteracy", and Jeff Romm has characterized resource management as "an historical anachronism". Population and economic measures increasingly are forcing farmers to marginal lands for agricultural production, with obvious consequence for agricultural yields. At least two-thirds of India's total available area is suffering from serious degradation of one kind or another, and a third is lying almost completely unproductive. Category wise, at least 60% of arable lands and 70% of non agricultural lands are degraded and therefore producing at levels much below their potential. Such lands are also contributing to floods and the premature siltation of reservoirs; and they cause the loss to the sea of vast quantities of water, which (in one dramatic example) reduce the recharge available to the Gangetic plain.

Too few see the relationship between today and tomorrow; between the Gangetic plain and the watershed; between neglected resources and potential resources; between upstream utilization and downstream consequence; between common lands and the landless; among crops, trees, animals, grasslands, uncultivated lands, watersheds, fuel and energy, off farm employment, incomes and resource management.

#### Rural Mobilization

A fourth critical element, and of particular relevance to development agencies, has been the failure of government and development agencies alike to mobilize rural initiative or capitalize on agriculture's potential multiplier affect - a failure to adequately stimulate and promote community organization and participation, private rural enterprise, the cooperative sector and non governmental organizations which have shown such bright, but until now still circumscribed, potential - a tendency to replace rather than to support local private and public participation.

#### Technology Innovation

A fifth critical element is probably the failure of the scientific establishment to sustain technological innovation in the agricultural and rural sectors, while enormous investment and significant strides have been made in sustaining such innovation in the areas of space, nuclear energy and even defense manufacturing.

5. And the role of the development agencies and institutions in the resolution of the paradigm?

Any development strategy must take account of the development agent - in this case USAID - as a development institution in its particular setting, and the need to structure the institution to understand, to be understood and to influence. The factors which define the opportunity can be briefly, even if selectively here, summarized:

a) India is not the Philippines, Egypt, Nigeria or Brazil. Its population dwarfs that of all of Africa and Latin America combined. Its geography is sub-continental in aspect and exceeds the area of western Europe. It is also unique among developing countries in its genuinely decentralized or federal structure, with center-state economic relations critically important to its development. As the intermediary between the worlds of abstract planning and village reality, state governments are strategically placed in India to abet or retard development progress, and are as widely varying in political maturity or development philosophy, opportunity and practice as the nation states of any continent.

b) The mode of operation, patterns of interaction, rhetoric, attitudes and possibly even paternalism developed in the mid fifties, when U.S. development assistance was a major factor in Indian planning, still characterize the Agency in the mid eighties, when our assistance is significantly less critical and the maturity of India's public, professional, scientific and political institutions are now well established on the world stage.

There is also the incongruity of a Ministry of Finance at the center, concerned with resource mobilization and allocation, interacting with an Agency, defining its mandate today in terms of technology transfer and institutional development, in a situation where the states are charged with responsibility for, inter-alia, irrigation, agriculture, resource management, health, nutrition and family welfare.

And underlining these anomalies is U.S. international economic policy (of which bilateral assistance is inevitably a part) apparently at odds on a wide range of issues from North/South relations to Indian access to multilateral financial support.

c) Political relationships also define the range of possibility for understanding, cooperation and influence. While there does not appear to be significant opportunity in the areas of economic or political relations, defense or the more traditional forms of international interaction, the Embassy has fashioned a strategy to strengthen the overall relationship (intensifying the dialogue among high level policy makers with a view to increasing understanding about the reasoning for specific policy positions, and enhancing and expanding areas of cooperation and collaboration where mutual benefit can be achieved). Development and science stand out on the Embassy's agenda.

d) Finally, there are opportunities for non-project influence (i.e. dialogue). In India, there is a broad and intellectually exciting development community anxious and willing to exchange ideas, challenge policies and propose alternatives. The seminar series, which the Mission recently organized, reflects the respect which American development thought commands in India and suggests an opportunity for influence outside the more traditional project context. On the USAID staff there also is a range of technical virtuosity, perhaps unique among Agency Missions, which plays an important professional role in the development and elaboration of programs. USAID is itself a technical assistance institution, not just a financier of technical services on contract. And finally, there is a wide range of U.S. institutions and individuals which carry significant influence across the development agenda in India. To the extent USAID can foster a broader, more open and pluralistic relationship with these institutions and individuals, our mission is enhanced.

6. And what about the ways in which we do business?

We are, obviously, what we do. We can be project managers or development agents - probably not both with the constraints on our staffing, OE, and PD&S budget. If we are interested in development outcomes, we have to find a way to more closely associate our financing with those outcomes - not inputs. If we truly want to establish professional technology-based relationships in India, we need to find ways to foster and nurture opportunities. Funds obligation can be made to work for us rather than against us in this regard. If we truly have the option of playing an institutional role creatively closer to a foundation than development bank, then we have to move closer to a grants typology and away from our current project and contract mode. If we think that collaboration best characterizes the relationship we seek, we need to find ways to promote interactions that are premised on mutual respect and which are free of unnecessary bureaucratic intervention. We need to step back and permit breathing room in development relationships, and greater pluralism. USAID does not have to be at the center of each development interaction. And if we are not to be limited in our ability to forge a broad development relationship with India by pressures on our operating budgets and staff levels, we will have to find ways to "externalize" implementation.

7. What does all of this mean for our strategy?

a) The appreciation confirms the current program thrust in the areas of irrigation, agriculture, resource management and health, nutrition and family planning. It has also defined a tension between areas of inquiry and program opportunity (some would say between fancy and reality).

In irrigation, issues of conjunctive use, institutional reform and on-farm water management are current and important. Similarly in agriculture, issues of dryland production, groundwater development and non-farm enterprise have been identified; and in the natural resource

area, we have discussed common lands, the watershed, the Gangetic plain, eastern waters, energy and the environment. Each presents a compelling case and possible area for program elaboration. The tension, issue or option is whether to proceed in each or some of these new areas, or to stay essentially where we are (i.e. water use management, agricultural research and forestry), granting that each of the three themes suggest avenues to the lines of inquiry outlined above. This is a major issue for the FY 1987 CDSS.

b) The development opportunity, institutional/political landscape and procedural/management alternatives all suggest a characterization of the Agency and its mission in India in technology terms - using the proposed R&TD initiative, with its greater science orientation, as the centerpiece of the effort. This is not a suggestion that the entire program be devoted to research or the criteria associated with the proposed R&TD initiative, but rather that we let the initiative increasingly characterize the nature of the development relationship:

A technology orientation has implications beyond content - reaching to the way in which we do business. Scientific interaction offers an opportunity to explore collaborative (as distinguished from assistance) relationships, a grant mode, greater freedom of action on the part of participating development agents, externalized implementation and even alternative obligation principles. Indeed, there could be significance for the way in which we do business across the entire program.

c) A more careful understanding of, and distinction between, national and field operations and expectations is probably necessary. The diversity among countries, and more specifically among states within India, has not been an important factor in Agency program guidance. In a sense it is probably fair to suggest that if we knew as little about Kenya in Africa as we know about Maharashtra in India, it would be cause for grave concern among Agency administrators. Where we propose field operations (i.e. irrigation, agriculture, resource management or health, nutrition and family planning), we should probably engage ourselves more broadly with the relevant state and its planning, finance and policy agencies; and we should reject the simple conceptualization that an activity or project in Madhya Pradesh answers the question for Rajasthan. The proposed food strategy assessment in Maharashtra is an important starting point for consciousness raising in this regard.

On the national side, science and technology again may offer an opportunity for major contribution to the program writ large. India's national scientific institutional network suggests the avenue for national characterization, understanding and influence. Using the science networks, the Mission can draw experience and ideas from a broad range of states and of site specific activities to bring to bear on field programs; and similarly that same network can be the mechanism for dissemination of ideas and experiences from one state or site specific situation to the nation.

d) Irrigation is central to realizing the agricultural or development paradigm. "Staying with" irrigation probably means longer, at least, and an even greater financial commitment to the principal states (i.e. Maharashtra, Madhya Pradesh, Rajasthan and possibly Gujarat); but it should concurrently take us off the state-by-state elaboration of the program. On the other hand, the Mission needs to give more careful attention to the range of investment, technical, institutional or cross-sectoral issues it is willing or able to engage in each state. This latter issue is more critical to Mission strategy, organization and management than the so-called state-by-state issue. The scheduled sector evaluation, of course, is fundamentally important to the elaboration of the FY 1987 CDSS.

e) The earlier correction from resource transfer took the Mission out of agricultural production and groundwater - areas that the appreciation suggests are critical to the issue of rural stagnation. The period of reaction to the correction is over, and the development issues behind that policy shift should be open to inquiry. As noted above, however, there may be sound program management reasons for staying where we are (i.e. with agricultural research), granting again that research itself can be an avenue to the broader lines of inquiry outlined above.

Agricultural research stands out as a prominent program issue in other respects. It is the centerpiece of the R&TD strategy, a critical program vehicle for loan financing in the out-years, and it is the most pressing situation requiring breakthrough in implementation practice. Experience with the project over the next several months, and resolution of the program and management issues, will be important determinants of FY 1987 CDSS options.

f) The current link of natural resources (i.e. social forestry) with energy (i.e. fuelwood) is too narrow. The seminars developed questions related to the environment, dryland agriculture, common lands, uncultivated and grazing lands, the watershed, eastern waters, red and black soils, rural incomes and, of course, fuelwood, energy and the development paradigm itself. During the year, the Mission will examine the relationship of resource management to agricultural growth and the possible relationship to the further elaboration of the program.

Of course, as with agriculture, it may eventuate that it be best to "stay with" forestry, granting that it too suggests avenues to an already broad range of inquiry (e.g. watershed, common lands, agricultural production, rural incomes and energy).

A second issue, or opportunity, is raised by eastern waters. It is clear that the Gangetic plain and rice are fundamental to resolution of the development paradigm, and that development initiative in those areas will figure prominently in the seventh Five Year Plan. It is equally true that our agricultural research project suggests an opening to rice technology. But eastern waters could also dovetail well with the science initiative (lending focus) and resource management programs (suggesting

an organizing principle for a wide range of training, institutional development and technology transfer activities in an even wider range of substantive areas, including hydrological studies, agronomic research, watershed management, satellite and computer modelling technology, etc.). It could also be a visible platform for binational cooperation and collaboration on an issue of fundamental importance to India and the region. Further exploration of this opportunity is a priority item on the Mission's agenda as it looks to the FY 1987 CDSS.

g) The Mission will take the food stagnation issue beyond agricultural production and explore its relationship to distribution, consumption, nutrition, resource management, rural poverty, effective demand and the development paradigm. The most important implication of this initiative (and proposed study in Maharashtra) could be a movement towards substantive state wide programming by the Mission and could bring nutrition even more center stage in Mission thinking (with the potential for a much closer relationship between PL 480 and agricultural and resource programming).

h) The appreciation confirms the criticality of nutrition, population growth and associated health status issues and opportunities. While conceptualization of a second phase health initiative, design of the proposed bio-medical project and launching of new family planning and nutrition programs will preoccupy our technical staff during the FY 1987 CDSS planning cycle, there are no fundamental strategy issues obvious at this time.

i) The PL 480 program presents a mix of opportunity and problem. Recent initiatives with the NDDDB and CLUSA in support of oilseeds cooperatives, and with the Ministry of Social Affairs and CARE in support of the ICDS nutritional effort, are exciting and important. Budget cuts, rising commodity prices and increasing program costs, however, threaten these programs (and the equanimity of our voluntary agency partners). The FY 1986 budget cycle may force difficult decisions which will affect programs in this fiscal year and the strategy for the FY 1987 CDSS. Recent audits have surfaced serious administrative issues as well, and a major management initiative will be organized by the Mission during the year.

j) The Mission is currently engaged with two private sector initiatives (i.e. a modest capital markets activity, and a potentially important technology-based investment program). While non-farm enterprise, capital finance and industrial technology issues are fundamental to resolution of the development paradigm, the Mission is uncertain whether the current initiatives should represent the opening wedge of a new sectoral effort, or better free-standing targets of opportunity. This issue requires careful discussion with the Bureau and Embassy as we elaborate the FY 1987 CDSS. (See the discussion under paragraph a) above.)

k) The grant funding issue is exposed in the FY 1986 CDSS update. While levels are beyond Mission control, our ingenuity will be tested if the downward trend line in grant is continued. Obviously the grant/loan split will be an important determinant of options as we approach the FY 1987 CDSS.

l) On the institutional side, there are several concrete steps to be taken during the course of the next year (not the least of which should be the articulation of an institutional strategy in next years CDSS): actively implement the proposed R&TD strategy with an eye to management systems as well as substantive elaboration; organize the advisory board for the R&TD initiative and utilize it for the design of the proposed project with DST as well as more broadly in interaction with the government and scientific community; begin to develop a state oriented mode of operation in Madhya Pradesh and Maharashtra; fully explore the opportunities for developing a more binational character to the USAID; continue the seminar/foundation/inquiry approach for the FY 1987 CDSS exercise; and creatively seek to utilize a broader range of U.S. proxies for enhancing the development relationship (e.g. the U.S. scientific establishment, the Joint Business Council, BIFAD, Joint and Sub Commissions, etc.).

m) On the procedural side, explore seriously the impediments to performance-based or sectoral programming as an alternative to projects; explore alternative procedures for obligation of funds to enhance the effectiveness of our technical assistance and participant training resources; identify opportunities for "externalizing" implementation; and finally examine the organization and management of the Mission in terms of portfolio management, organization and utilization of technical staff (e.g. JCC and Indian national professionals), etc.

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