E. C. No. 498

ESTIMATES COMMITTEE
(1967-68)

ELEVENTH REPORT
(FOURTH LOK SABHA)

MINISTRY OF FINANCE
UTILISATION OF EXTERNAL ASSISTANCE

LOK SABHA SECRETARIAT
NEW DELHI
15R
August, 1967/Sravana, 1889 (Saka)
Price : Rs 3.15

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INTRODUCTION

I, the Chairman, Estimates Committee, having been authorised by the Committee to submit the Report on their behalf, present this Eleventh Report on the Ministry of Finance—Utilisation of External Assistance.

2. This subject was examined by the Estimates Committee (1966-67) and necessary information obtained and evidence taken by them. That Committee, however, could not finalise their Report due to the sudden dissolution of the Lok Sabha on the 3rd March, 1967. The Estimates Committee (1967-68) have perused the minutes of evidence and have come to their own conclusions which have been embodied in the Report.

3. The previous Committee (1966-67) took evidence of the representatives of Ministry of Finance (Department of Economic Affairs); the then Ministry of Iron and Steel; Ministry of Defence; Ministry of Food, Agriculture, Community Development and Cooperation (Department of Agriculture); Ministry of Petroleum and Chemicals (Department of Petroleum); the then Ministry of Supply, Technical Development and Materials Planning (Department of Supply and Technical Development); Ministry of Commerce; the then Ministry of Transport; the then Ministry of Mines and Metals; the then Ministry of Industry; Central Water and Power Commission; Planning Commission and Industrial Finance Corporation on the 4th, 5th, 7th, 8th and 10th November, 1966.

The Committee wish to express their thanks to the officers of these Ministries for placing before them the material and information which they wanted in connection with the examination of the subject and for giving evidence before the Committee.

4. They also wish to express their thanks to Shri Babubhai M. Chinai, M.P.; Shri J. R. D. Tata; Shri D. P. Mandelia, Special Adviser, Birla Group of Industries; Dr. B. N. Ganguli, the then Pro-Vice-Chancellor, University of Delhi; Shri B. R. Shenoy, Director, University School of Social Sciences, Gujarat University, Ahmedabad; Shri S. K. Basu, Director, Indian Institute of Social Welfare and Business Management, Calcutta and Shri R. B. Amin, the then President, Federation of Indian Chambers of Commerce and Industry, for giving evidence and making valuable suggestions to the Committee.

5. The Committee also wish to express their thanks to all the associations and individuals who furnished memoranda on the subject to the Committee.

6. The Report was considered and adopted by the Committee (1967-68) on the 19th, 20th and 21st July, 1967.

7. A statement showing the analysis of recommendations contained in the Report is also appended to the Report (Appendix VIII).

NEW DELHI-1,

August 7, 1967

Sravana 16, 1889 (*Saka*).

P. VENKATASUBBAIAH,

Chairman,

Estimates Committee.

I

OBJECTIVES AND NEEDS

A. Objectives

Introductory

1.1. The need for external assistance arises from the fact that for economic and industrial development, capital investment of a high order is required. The advanced countries meet the need for this capital investment and it is generally true to say that the richer the country the more it can give. The income in the less developed countries, being low, the bulk of it is spent on the struggle to exist, leaving little for capital investment. Besides, it is not only a problem of finding the money internally. Most of the capital goods, designing and technical know-how, required for industrialisation, have to be imported and therefore paid for in foreign exchange. As the exports (mostly of raw materials and agriculturally-based commodities) cannot pay for all these essential imports required for optimum utilisation of resources, external assistance is needed to bridge the gap.

1.2 Before independence, India's economy was largely static though, during the First and Second World Wars, it had known brief spurts of economic and industrial development. Domestic saving, as percentage of national income, was only about 5 per cent and this could hardly provide optimum investment necessary to bring Indian economy into the mainstream of modern life. India's sterling reserves ~~which totalled Rs. 1516 crores, on the eve of independence,~~ could not cope with the strain of heavy mports and the crisis in 'balance of payments' was reached within a decade of independence, thus bringing to the fore the problem of external assistance. Since then the bearing of external assistance on the size and contents of the Plan effort had been widely recognised.

1.3 It is important to remember that till the national goal of a self-generating and self-reliant economy is reached, external assistance is but a transient means of bridging the gap. It should never be forgotten that external assistance, being largely in the form of loans, has to be paid for and its magnitude and burden should be such that the economy of the country can bear.

Broad Economic Objectives

1.4 Having achieved independence after more than two centuries of foreign rule, the first task before the country was to harness and augment the resources for ameliorating the conditions of living of the people. This could be achieved best by channelising the national economic effort along desired lines.

1.5 The central objectives of planning in India, according to the First Plan, was "to initiate a process of development which will raise living standards and open out to the people new opportunities for a richer and more varied life." The Second Plan spelled out the objectives more concretely as under:

"(a) a sizeable increase in national income so as to raise the level of living in the country;

(b) rapid industrialisation with particular emphasis on the development of basic and heavy industries;

(c) a large expansion of employment opportunities; and

(d) reduction of inequalities in income and wealth and a more even distribution of economic power."

1.6 One of the main objectives of planning in India since the commencement of the Third Plan has been that India's economy must not only expand rapidly, but must, at the same time, become 'self-reliant' and 'self-generating'. The basic objectives enunciated in the Third Plan for the fifteen-year period were (i) to lay sound foundations for self-sustaining economic growth, (ii) to provide avenues and opportunities of employment to all those who seek it, (iii) to narrow down economic and social disparities and (iv) to ensure a minimum level of living to every family in the country.

1.7 The Fourth Five Year Plan (Draft Outline) reaffirms the objectives enunciated in the earlier Plans and lays increasing stress on the attainment of economic self-reliance. The principal objectives have been stated thus in the Plan (Draft Outline):

(i) "for ensuring the achievement of self-reliance as early as possible highest priority will be given to all such schemes of agricultural and industrial production as are designed to promote exports and replace imports;

(ii) for ensuring price stability, effective steps will be taken to check all inflationary factors and avoid deficit financing;

(iii) for enlarging the income of the rural population, as well as for augmenting the supplies of food articles and agricultural raw materials, all possible efforts will be made to maximise agricultural production;

(iv) for enabling this objective to be realised, production of such goods as fertilisers, insecticides agricultural implements, including pumps, diesel engines, tractors etc. will be given the highest priority in the programme for industrial development;

(v) for enlarging the supplies of essential mass consumption goods on which additional incomes will be spent, production of articles like textiles, sugar, drugs, kerosene, paper etc., will be stepped up;

(vi) for ensuring continued growth in the metals, machinery, chemicals, mining, power and transport industries, which are important for self-reliance, schemes in hand will be completed with the maximum possible expedition and such new schemes will be undertaken as are essential for keeping up the momentum of economic growth already built up and for meeting the basic needs of the country during the Fifth Plan period;

(vii) for limiting the growth of population and ensuring better standard of living for the people, all necessary resources will be provided to enable the family planning programme to be implemented on a massive and country-wide scale;

(viii) for the development of human resources, substantial additional facilities will be provided in the social services sector, especially for the rural areas, and these will be suitably reoriented in the direction of increasing productivity."

B. Need for External Assistance

Need for External Assistance

1.8 The internal financial resources available to a Government for development can broadly be of two kinds: (a) the savings it can make from its revenue receipts like tax receipts, after meeting its non-developmental expenditures and surpluses from State enterprises, and (b) the private savings it can draw upon through loans, small savings, deposits and funds and other miscellaneous channels.

Where these are not sufficient to meet the developmental expenditure, resources is often had to either deficit financing or external assistance ~~what is known as "deficit financing"~~.*

1.9 During the Second World War, India had accumulated sizeable foreign balances, commonly known as "Sterling Balances". At the beginning of the Second World War in September 1939, India's sterling balances amounted to Rs. 64 crores. By 5th April, 1946, these reached the peak of Rs. 1732 crores. Under the impact of trade transactions, however, these came down to Rs. 1516 crores on the eve of Independence. Agreement concluded with Britain on the 14th August, 1947 and in subsequent years, provided that the releases out of these accumulated balances were to be made for meeting the deficit in trade and other current transactions for each year/period. As a result, the depletion of balances was graduated. Nevertheless, by the year 1951-52 when the First Five Year Plan launched, these balances had dropped to Rs. 1029 crores. ([illegible] 1.2)

1.10 The First Five Year Plan envisaged a development programme of a large magnitude. Only a part of this pressure on the economy of the country could be met by withdrawals from these sterling balances. The gap was to be filled either by deficit financing through "created money" or by external assistance.

1.11 The First Plan spelled out the role of external assistance in relation to the Plan in the following words:

> "In the last analysis, the role of external assistance in relation to the Plan will be to supplement the real resources of the country with commodities for which additional demands will be generated in the process of development but the domestic supplies of which are limited. External assistance would help to avoid dislocations and to maintain a certain measure of stability in the economy. It follows that, for a balance of payments policy which is integrated with the overall requirements of planned development, it is necessary that external assistance is received in a form which allows flexibility in the use of the foreign exchange resources provided by it."

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*The term 'deficit financing' is used to denote the direct addition to gross national expenditure through budget deficits, whether the deficits are on revenue or on capital account. The essence of such a policy lies in Government spending in excess of the revenue it receives. The Government may cover the deficit either by running down its accumulated balances or by borrowing from the Central Bank of the country (Reserve Bank in the case of India) and thus "creating" money.

1.12 The need for external assistance was thus appreciated even at the earliest stage of economic planning in the country though, initially, it was envisaged only to help "avoid dislocations and to maintain a certain measures of stability in the economy." With the progressive increase in developmental outlays and accent on diversification of economic structure, the need for further external resources was felt. It came to be recognised that machinery, basic raw materials and other commodities necessary to build up the economy would have to be imported involving a large scale balance of payments deficit. This deficit had necessarily to be met from increased exports and aid from friendly countries and international institutions.

C. Plan Requirements for External Assistance

Requirements of External Assistance during First Plan

1.13 The First Five Year Plan provided an outlay in the public sector of the order of Rs. 2069 crores. After taking into account Rs. 156 crores worth of external assistance which was already available for the development programme, the Plan estimated a gap of Rs. 655 crores which, it stated, "will have to be found from further external resources that may be forthcoming or from internal taxation and borrowing as far as possible and by deficit financing". The actual total outlay (in the public as well as private sectors) was, however, Rs. 3760 crores, financed to the extent of Rs. 202 crores by external assistance constituting 5% of the actual total Plan outlay as follows:

Loans	126.42 crores
Grants	70.18 crores
PL 665 Imports . . .	5.07 crores
	Rs. 201.67 crores or 5% of the Plan outlay of Rs. 3760 crores.

Second Plan Requirements

1.14. The Second Five Year Plan envisaged a development programme in the public sector on a scale which was more than double of that carried through during the First Plan. The outlay provided for the public sector in the Second Plan was of the order of Rs. 4,800 crores. Analysing the resources for financing the foreign exchange requirements, the Plan estimated, over the five years, an aggregate deficit on current account of the order of Rs. 1100 crores. After allowing for a withdrawal from foreign exchange reserves of Rs. 200 crores and postulating a net inflow of Rs. 100 crores of foreign capital for the private sector, the Plan took a credit of Rs. 800 crores of external assistance for financing the requirements of public sector. An average of Rs. 160 crores per year of external assistance proposed in the scheme for financing the public sector outlay in the Second Plan thus envisaged a large increase in the inflow of assistance from abroad, comprising 16.7% of the plan outlay in the public sector of Rs. 4,800 crores.

1.15. In regard to the requirements of the public sector, there was then an estimated unutilised balance of Rs. 94 crores from past authorisation which could be used during the Second Plan and firm arrangements for finance had been entered into with U.S.S.R. and Britain which made available another Rs. 76 crores for the Plan. This made a total of Rs. 170 crores, leaving a balance of Rs. 630 crores for which arrangements were yet to be made. As against a net inflow into private sector of exchange resources of the value of Rs. 100 crores envisaged in the Plan, a sum of approximately Rs. 22 crores only was available as the undisbursed portion of World Bank loan to private sector. In regard to the balance, the Plan expectations were stated as follows:

> "Allowing for new loans by the International Bank and by the International Finance Corporation and taking into account the possibilities of an inflow of private foreign investment, it is not unreasonable to assume that, some repatriation of private capital notwithstanding, the net amount of foreign capital available to the private sector will come up to the level envisaged."

1.16. The actual total outlay (in public as well as private sectors) during the Second Plan period was, however, Rs. 7700 crores. Total external assistance utilised during the Second Plan period was Rs. 1435.40 crores constituting 19% of the actual total plan outlay as ~~follows~~:

Loans		Rs. 729.95 ~~crores~~
Grants		Rs. 160.64 ~~crores~~
		Rs. 890.59 ~~crores~~
Other Assistance :		
US PL 480	Rs. 515.50 crores	~~Rs. 544.81~~ crores
US PL 665	Rs. 26.80 crores	
Third Country Assistance	Rs. 2.51 crores	
TOTAL		Rs. 1435.40 crores or 19 % of the total Plan outlay of Rs. 7700 crores.

Third Plan Requirements

1.17. The programme of development in the public sector included in the Third Plan were estimated to involve an outlay of over Rs. 8,000 crores. The financial outlay for the public sector was however taken at Rs. 7,500 crores only.

1.18. The total foreign exchange requirements for the Third Plan were estimated at Rs. 5750 crores, only a part of which could be met by exports. Projecting the problem of securing external financial assistance for meeting the requirements of the magnitude envisaged in the Plan, the Third Plan stated:

> "A shortfall in internal resources can, to an extent, be met by letting the economy operate under some strain. Foreign exchange is, however, a specific resource which has either to be earned by larger exports or has to be secured through an inflow of external resources. There was little strain on India's balance of payments in the First Plan period, but foreign exchange reserves fell sharply by Rs. 481 crores in the first two years of the Second Plan. There has been a further drawing down of these reserves in the subsequent years, and the Third Plan commences with a level of reserves that cannot bear any significant further decline."

1.19. As foreign exchange reserves had already reached the lowest point, the Third Plan had perforce to bear heavily on external assistance to bridge the gap between the foreign exchange requirements and resources available. The total external assistance contemplated in the Plan amounted to Rs. 3200 crores including the estimated U.S. P.L. 480 assistance of Rs. 600 crores. As to the basis on which external assistance of such magnitude was envisaged, the Third Plan stated:

> "The Third Plan has been formulated on the basis that it would be advantageous from the point of view of the recipient country as well as the donor countries to plan for substantial amounts of external assistance for a relatively short period rather than to proceed in terms of varying and uncertain amounts of assistance over an indefinite period. Development effort in India over the Third and Fourth Plans has to concentrate on expansion of capital goods and machine building industries—together with corresponding development of mining, power and transport—on a scale that would enable the country to build up in this period sufficient capacity to produce domesti-

cally the bulk of the capital goods and machinery that it will require in subsequent periods for supporting high levels of investment. This is a priority that follows as much from the objective of maximising the rate of growth of the economy as from the need to attain a viable external accounts position within a foreseeable future. It is evident in this context that the foreign exchange requirements—and the requirements of external assistance—in the Third Plan will be substantial."

The carry-over of total assistance available from authorisations of the Second Plan was then estimated to be of the order of Rs. 365 crores. This, together with the fresh assistance already authorised or pledged for the Plan, gave the Plan a good start.

1.20. The total external assistance utilised during the Third Plan period was Rs. 2870 crores or 23% of the actual total Plan outlay as ~~follows:~~ would be seen from Table 4 [illegible]
utilisation of External Assistance. Table 4 [illegible]

(Rs. in crores)

Loans . . .		1909.33
Grants . . .		107.15
TOTAL . . .		2016.48
Other Assistance :		
P.L. 480	852.95	
Third Country Currency Assistance	0.27	853.22
GRAND TOTAL		2869.70 or 23% of the actual total Plan outlay of Rs. 12731 crores.

D. Fourth Plan Requirements and Expectations of Aid

Fourth Plan Requirements

1.21. The Fourth Plan has not been finalised as yet and as such the exact requirements of aid for the Fourth Plan period are not known. However, the document on the Fourth Plan presented to the National Development Council in October, 1964 had suggested that "the total outlay in the Fourth Plan has to be envisaged as ranging between Rs. 21,500 and Rs. 22,500 crores and outlay in the public sector as ranging between Rs. 14,500 and Rs. 15,500 crores." The document on "Resources, Outlays and Programmes" presented in September, 1965 indicated the total outlay of Rs. 21,480 crores. The

"Draft Outline" of the Fourth Plan published in August, 1966 has, however, proposed a total outlay of Rs. 23,750 crores (post-devaluation), consisting of Rs. 16,000 crores in the public sector and Rs. 7,750 crores in the private sector. The figures of outlays proposed in the 'Draft Outline' and the earlier figures are not strictly comparable on account of the devaluation of the rupee. The total external payments in respect of project and maintenance imports as also of external debt servicing charges is estimated by the 'Draft Outline' at Rs. 14,333 crores and the earnings from exports, invisible and other transactions at Rs. 8033 crores. Consequently the gap in external payments account required to be covered by foreign aid has been placed at Rs. 6300 crores. In addition, credit has been taken for Rs. 360 crores on account of sale of imports under PL 480 during the Plan period. Thus, for financing the outlay of Rs. 23,750 crores, the 'Draft Outline' has assumed external credit of Rs. 6,660 crores (including PL 480 assistance of Rs. 360 crores) constituting 28 per cent of the total plan outlay. The resources position has been indiated in the 'Draft Outline' as follows:

	(Rs. crores)
1. *External credits other than those under P.L. 480*	
(*a*) Gross external credits	6300
(b) *Less* loan repayments	1275
(c) *Less* direct inflow into private sector	685
(d) *Net budgetary receipts*	4340
2. *Accrual of budgetary resources from sale of PL 480 commodities*	360*
3. *Total accrual of budgetary resources from external credits* (1+2)	4700

Expectations of Aid for Fourth Plan

1.22 As regards the gap of Rs. 6300 crores to be covered by external aid, it is stated that "the question of consideration by the Aid India Consortium and other aid giving countries of the assistance for the Fourth Plan as such, has not arisen since the Plan itself is still under consideration". However, in respect of the first year of the Fourth Plan viz. 1966-67 the Aid India Consortium considered and recommended an amount of $ 901.2 million (about Rs. 675.9 crores) as assistance for non-project purposes. Of this amount agreements

*Rupee receipts corresponding to PL 480 imports of foodgrains and raw cotton are on the assumption that the food imports under PL 480 would amount to about 19 million tonnes, and those of raw cotton to 890,000 bales, during the Fourth Plan period. Further, it is assumed that, of the total foodgrain imports of 19 million tonnes, 17 million tonnes would be sold to public, while the balance of 2 million tonnes would be utilised for the building up of stock. The computations in the case of foodgrains are at issue prices, which involve considerable subsidization.

have so far been signed for an amount of $891.9 million (Rs. 668.92 crores) leaving a pledge of the order of $9.3 million (Rs. 6.98 crores) still to be translated into agreement by Canada.

1.23 Apart from the non-project assistance mentioned above, agreements have also been signed during 1966-67 for project aid amounting to $756.3 million (Rs. 567.21 crores), of which the Consortium countries account for $290.2 million (Rs. 217.65 crores) and among non-consortium countries the East European countries for $457.2 million (Rs. 342.88 crores) and the Western sources for $8.9 million (Rs. 6.68 crores). The details are given in the table below:

External Assistance received during 1966-67

	Pledge ($ mill.)	Amount of Agreement ($ mill.)	(Rs. crores)
Non-Project Aid			
Consortium countries	901·2	891·9	668·92
Project Aid . .			
Consortium Countries . .		290·2	217·65
Non-Consortium			
East European Countries		457·2	342·88
West European countries	..	8·9	6·68
TOTAL . . .	901·2	1,648·2	1,236·13

1.24 As for 1967-68, it is stated that "the Aid India Consortium met in Paris on April 4th, 5th and 6th, 1967 to consider India's requirements for that year. In reviewing India's overall aid requirements for the fiscal year April 1, 1967 to March 31, 1968, the Consortium was of the opinion that for planning purposes a target of approximately $ 1300 million (Rs. 975 crores) for new aid to be provided in non-project form was appropriate.

1.25 However this amount includes $ 190 million (Rs. 142·50 crores) of PL 480 food and $ 45 or 46 million (Rs. 33·75 or 34·50 crores) of Canadian food assistance. In addition it assumed that that about $ 25 million (Rs. 18·75 crores) of food assistance will be available from non-Consortium sources and that $ 120 million (Rs. 90 crores) will be the appropriate assistance for food assistance or food and agriculture oriented assistance from Consortium countries. Thus the non-project assistance from the Consortium countries is assumed at about the same level (*viz.* $ 900 million or Rs. 675 crores) as in 1966-67. Normally the food aid figures are shown separately from aid for other plan purposes."

1.26 It is further stated that "whereas this gives an indication of the order of magnitude of the pledges which the Consortium countries are expected to make for non-project assistance to India during the year 1967-68, actual pledges are expected to be made on a later occasion and actual commitments will be entered into after bilateral negotiations with the individual members of the Consortium."

1.27 To sum up, for external assistance utilised during the first three plans and as assumed in the Fourth Plan 'Draft Outline' excluding PL 480 assistance has been as under:

(Rs. crores).

	Foreign Assistance Utilised	Investment outlay	Total outlay	Col. 2 as % of Col. 3	Col. 2 as % of Col. 4
1	2	3	4	5	6
First Plan	197	3360	3760	6	5
Second Plan . . .	890*	6750	7700	13	12
Third Plan (estimated) .	2016	10400	12731	19	16
Fourth Plan (as assumed in the Draft Outline) . . .	6300**	135	23750	29**	26.5

*Besides, foreign exchange reserves of the country were drawn down by about Rs. 600 crores (*i.e.* 9 per cent of investment outlay) during Second Plan. Corresponding figures for the First Plan are Rs. 127 crores and 3.8 per cent.

**These figures are not strictly comparable to Rs. 2016 crores and 19 per cent for the Third Plan as these are in post-devaluation rupees.

II

MACHINERY AND PROCEDURE

A. Control over Aid Operations

Functions of Ministry of Finance

2.1 Overall control over aid operations is centralised in the Ministry of Finance and is exercised through the External Finance and Foreign Aid Division of the Department of Economic Affairs. In relation to foreign aid for economic development, the functions of the Department of Economic Affairs have been divided into (a) procurement of foreign assistance, and (b) its utilisation. An approach is made every year to the Aid India Consortium seeking assistance for programmes to be taken up in the following year. At consortium meetings member countries/institutions pledge the assistance after a review of the development of the Indian economy and the requirements of further assistance. After assistance has been pledged, bilateral negotiations are held with countries and agreements for aid are reached and entered into. The U.S.S.R. and other countries which are not members of the consortium, pledge assistance after bilateral discussions. The aid is either tied to projects or alternatively is available for non-project purposes. To ensure best utilisation of the united portion of external assistance, there is machinery of foreign exchange budgetary control and budgetary allocations and release (for public sector) are made to the indenting Ministries. In the case of tied assistance, although no formal budgetary allocations are made, the user Ministries are guided by the Department of Economic Affairs regarding the loans and conditions attaching thereto.

Assessment of Requirements

2.2 Regarding assessment of requirements of external assistance, Government have stated that "the question of raising of external resources through foreign loans or credits cannot be dissociated from the process of planning as it is in vogue in this country. The essence of the planning effort has been to recognise, as economically and otherwise necessary, the achievement of certain targets in the various fields of economic development like power generation, heavy machinery building capacity, industrial capacity, agricultural production, etc. The cost of achieving these targets is then reckoned sector-wise and, in the aggregate, forms the total size of the Plan. Against his cost, there is attempt to total up the indigenous resources available by way of taxation, internal borrowings, surpluses of public sector enterprises, etc. The balance is the expectation of foreign aid necessary to cover the gap in total resources. While this dimensional measurement of the foreign aid requirement is attempted on an over-all basis, there is also an effort to determine it by way of calculating the maintenance requirements, debt servicing and other invisble obligations and the project requirements and setting off against them the export and invisible receipts. Naturally, the reckoning of foreign aid on the aggregate basis as well as on this classification basis approximate to each other." At the time of oral evidence, however, the representative of the Ministry stated that "I do not think we arrive at the requirement of aid in a plan by estimating what are the investments required, what resources can be raised internally and then putting the balance as foreign aid. Foreign aid is arrived at in quite a different way. We have the investment requirements; we try to make an estimate of the balance of payments picture over the 5 year period taking into account the import requirements of the investment programme, the maintenance requirements of the economy, what we can export and so on; and then in our balance of payment estimate we come to a gap which we cannot meet and that we say is something which we ought to get by foreign aid if we can". Asked whether, looking to the enormous amount of foreign debt that India had to contract to see through the last three plans, the concept of planning should be changed from 'need-based' to 'resource-based', the representative of the Ministry stated that "undoubtedly the attempt in all plans is to make them resource-based but the needs being as great as they are, sometimes we probably stretch our expectations of resources in the light of our very compelling needs.... It is not a question of basing the plan on needs rather than resources. It is more a question whether we have miscalculated all our resources; but perhaps in estimating the resources we allow ourselves to be a little optimistic keeping in mind our needs."

2.3 Answering the question as to what factors are taken into account for assessing the actual requirements of foreign aid and determining the country's capacity to repay debt obligations, the Ministry have stated:

> "actual requirements of foreign aid and the determination of the country's capacity to repay debt obligations are taken into account not at the time each agreement is negotiated but at the time an overall view is taken of the size of the

external assistance necessary during the Five Year Plan as a whole and, more specifically, at the time of each Consortium meeting. However, at the time of each Consortium meeting, a listing is made of the requirements of various projects (both continuing and new) for which foreign exchange would be needed during the year in question, as well as of the non-project imports (both capital and maintenance) needed by the economy during the year. This listing is done by eliciting information from the various Ministries and departments of Government and by calibrating the reported requirements by a reference to the absorptive capacity, as well as precision of estimation displayed by these Ministries/Departments in the recent past. Naturally, this year-wise determination of requirements bears a relevance to the plan-wise total and is in general somewhere nearer to 1/5th of the latter for each year.

So far as the capacity to repay debt obligations is concerned, apart from the five year determination at the time of plan formulation, the debt obligations due in any forthcoming year are listed out to the consortium members and are taken into account as an item of first charge against our resources when the balance of payments exercise is compiled. In this sense, to the extent that debts servicing (principal as well as interest) forms a prior charge, it stands to follow that the residuary requirement of foreign exchange through foreign assistance indirectly covers this requirement."

2.4 The extent to which these presumptions have materialised during the Third Plan period is indicated by the fact that as against the requirements of Rs. 2,600 crores of external assistance envisaged in the Plan, the actual inflow was of the order of Rs. 2,006 crores only. Admitting that there have been difficulties in meeting repayment obligations. Government have stated that it has been so "because of the pattern in which foreign aid has been available as compared with our needs." According to them "debt servicing and other invisible accounts have to be discharged in free foreign exchange. If aid had been available readily to meet all or any of the purposes which tend to absorb free foreign exchange, then it would have been quite possible to divert that amount of free foreign exchange for debt servicing. Unfortunately, the pattern of flow of aid has not been such as can be substituted in entirety for the amount of free foreign exchange needed for debt servicing; and to this extent, servicing of debts had undoubtedly thrown a strain on the balance of payments of the country".

2.5 Asked whether there has been any reappraisal of the factors to guide the negotiations of future loans in the light of past experience, the Ministry have stated that:

> "The course of foreign aid so far has demonstrated the need to maintain and sustain our arguments for a larger proportion of foreign aid to be given in non-project form in as flexible a manner as possible. However, apart from the economic side, to the balance of payments considerations of many of the aiding nations, the degree to which non-project aid can be given in a truly flexible and versatile form is limited. The only answer can be to continuously seek to impress on the authorities of these countries the need to improve the terms of aid particularly non-project aid. Further, to the extent rescheduling is possible, it acts as a direct, immediate relief to the balance of payments position. This point has also been taken up with aiding countries".

2.6. The Committee note Government's statement that "the question of raising external resources through foreign loans or credits cannot be dissociated from the process of planning as it is in vogue in this country." The Committee feel that while in a developing country, needs naturally come to the fore, the problem of mobilising resources, the health of the economy, the absorptive capacity for external aid and deficit finnancing, the capacity for generation of resources to pay debts (particularly foreign debts) cannot be overstressed. It is pertinent to state that the term external assistance is too wide and covers loans as well as grants and it is, therefore, incumbent on Government to keep realistically in view the burden of servcing etxernal loans with particular reference to the gestation periods of the project and the nature and quantum of resources likely to be generated thereby to pay back the loans. The Committee need hardly emphasise that in the context of a heavy debt servicing obligation and the need for securing import of capital and maintenance goods at most competitive international rates, every effort should be made to secure as much of the loan on long term and non-project basis as possible. The Committee would like to sound a note of caution that they would not like the Government, in their anxiety to fill the gap in their resources to meet a

need based plan, to rush into loans for short-term periods on commercial rates which the present state of India's economy can hardly bear.

The Committee would also like Government to bear in mind the increased burden of servicing of foreign loans consequent on devaluation of the rupee while contracting fresh loans.

B. Consortium Aid

Role of World Bank in Aid Negotiations

2.7. Towards the middle of 1958, when India was faced with an acute shortage of foreign exchange, some of the friendly countries who were interested in the success of India's efforts for economic development, namely, Canada, Japan, U.K., U.S.A., West Germany and the World Bank came forward and formed what came to be known as the "Aid India Consortium". At the meeting of these countries held in August, 1958 and again in March, 1959, under the auspices of the International Bank of Reconstruction and Development (World Bank) the question of providing a sustained and assured flow of foreign aid for India's Second Five Year Plan was considered. The membership of the Consortium has increased over the years and now ~~it has as~~ many ~~as 12 members, namely, Austria,~~ Belgium, Canada, France, Germany, Italy, Netherlands, ~~Japan~~, Britain, United States and the two international ~~financial~~ institutions—International Bank of Reconstruction and Development and International Development Association. International Monetary Fund is an observer. The International Bank of Reconstruction and Development convenes meeting of the Consortium and consults the Government of India before fixing the dates of the meeting. The Aid India Consortium has been considering India's requirements of external assistance for the Five Year Plans in its periodical meetings since May-June, 1961.

2.8. The requirements of foreign exchange are presented to the Consortium through the World Bank in the form of a Memorandum. For the compilation of the Memorandum, Ministries|Departments are requested by the Ministry of Finance to send details of their requirements of foreign exchange—both for projects and non-project—in respect of the programmes under their administrative control. These requirements are discussed with the Ministries concerned, Planning Commission, Departments of Expenditure and Coordination of the Ministry of Finance at a series of meetings convened by the Department of Economic Affairs of the Ministry of Finance. The requirements of assistance thus worked out are formulated in the

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form of a Memorandum which includes information on important sectors of economy. The time between the submission of the Memorandum to the World Bank and the date of the Consortium meeting is utilised by member countries/institutions in studying the Memorandum. The following table shows the dates on which Memorandum was submitted to the World Bank and the dates of the meetings at which the same was considered by the Consortium since 1961-62:

Year	Date of supply of Memorandum	Date of meeting
1961-62 . . 1962-63 . .	15-4-1961	25-26 April, May 31, June 2, 1961.
1962-63 . .	December 1961, 27-1-1962, 28-4-1962, 3-5-1962	29-30 January 1962. 28-5-1962; 30-7-1962.
1963-64 . .	3-4-1963	4-5 June; 18th July 7th August, 1963.
1964-65 .	10-2-1964.	17-18 March, 1964; 28-5-1964
1965-66 .	15-2-1965	16—17 March, 1965; 21-4-1965.

2.9. Asked during evidence whether any Memorandum has been prepared setting out the requirements for the Fourth Five Year Plan for the consideration of the Consortium, the representative of the Ministry answering in the negative stated that "the only Memorandum is the Draft Outline of the Fourth Plan".

2.10. The Committee suggest that as soon as the "Outline of the Plan" is finalised, Government should carefully work out the magnitude of the foreign assistance required, the nature of assistance viz., grant or loan, project/non-project, the terms of assistance, long term or medium term etc. so that a fairly complete and comprehensive picture of requirements can be placed before International Bank of Reconstruction and Development, Aid India Consortium, Asian Development Bank etc. in order to raise the external resources on most favourable terms.

Periodicity of Consortium Meetings

2.11. The meetings of 'Aid India Consortium' are held annually at which member countries/institutions hold forth pledges of aid for the subsequent year. The representative of the Ministry was requested during evidence to state the considerations, economic or otherwise, on which pledges of aid are limited to a period of one year and whether the need for pledges of aid for a period longer than one year has been brought home to the Consortium countries/institutions. He stated:

> "Our objective is to persuade the other countries to give their pledges for more than one year at a time. The kind of confidence we need if we have a five year programme cannot be generated if the pledge is available only for year to year. There was response to this kind of appeal in the beginning of the Third Plan. We succeeded in having in the initial stages a 2 year pledge rather than one year pledge. Later on this practice was not continued. The reason is this. The Consortium gives a pledge which can only be conditional on their own legislatures allotting the money and placing it at the disposal of their Governments. Consortium also is represented by Government officials. They cannot commit their legislatures that they will give so much of money for so many years. It was experienced in the United States that they did not know what money the Congress would vote. The Congress votes money for one year like all other Parliaments. All Parliaments are somewhat jealous of their powers. They do not want to give up their powers. The legislative procedure is that the Parliaments and the legislatures in the country concerned voted money year to year. The executive cannot commit itself for money beyond this limit. This is the main reason....These countries have to make their own judgment. When we first began the Consortium in 1958 some general assurance that in the process of the Second Plan period they will help so much was forthcoming and in the beginning of Third Plan we had some general assurance about what we could get that kind of general assurance in future, we will be in a better position. But they would not like to commit themselves and their legislatures may not be always able to fulfil their promises. They may not like to give an assurance which they cannot fulfil later on and thus create ill-will for themselves instead of goodwill."

2.12. Asked whether uncertainties regarding the availability of aid by aid-giving countries on account of pledging of assistance on year-to-year basis had vitiated the implementation of the Third Plan, the representative of the Ministry stated during evidence that "no project is started until the foreign exchange is assured but the assurance of foreign exchange has taken longer than what was envisaged, particularly in the case of big projects like Bokaro and the fertiliser plants. At least in most of the projects in the other fields, they were essentially due to other reasons rather than the lack of foreign aid."

2.13. The Committee appreciate the legislative and other difficulties in pledging long term assistance by aid-giving countries. But they have no doubt that most of the developed countries which are giving aid to India, recognise that effective and purposeful utilisation of external assistance requires detailed advance planning and coordination. Moreover the availability of external resources to the country is assessed on a five-year basis and forms part of the resources for the Plan period. The Committee, therefore, feel that while there may be no firm commitment of external assistance for the plan period by the aid-giving countries, it may be suggested to them that it is desirable to have a broad indication of the availability of the external resources for the full plan period to enable the execution of schemes and projects expeditiously and effectively.

Time-lag between pledge of aid and conclusion of agreement:

2.14. After aid has been pledged at the Consortium meeting, the Government of India make proposals to each country or institution with regard to the specific purposes for which its assistance should be utilised. In some cases, loan agreements are concluded specifying the terms and conditions of lending and the broad purposes for which the money can be utilised. In certain other cases, such as with regard to assistance from the World Bank or loans to cover large project requirements from the U.S.A., there is no overall agreement. The lending authorities satisfy themselves in the first place regarding the broad economic soundness of the proposals put forward by the Indian Government and thereafter negotiate detailed loan agreements with the Indian project authorities concerned.

2.15. The delay in the translation of pledges into formal agreements is stated to have been due to one or more of the following reasons:

"(i) The pledges of aid at the Consortium meeting are subject to legislative action or authorisation by the lending countries/institutions.

(ii) Some lenders have their own detailed procedures for appraisal of projects proposed before loan agreements can be negotiated. Detailed project applications have to be filed. These applications are to be based on a lot of data and have to be supported by feasibility studies and project reports.

(iii) Some lenders have elaborate internal procedure for approval of loans.

(iv) Bilateral negotiations extend in certain cases over many months.

(v) There have been delays in the past in the conclusion of the loan agreements because the project for which the loan was sought was not ready in all respects for immediate implementation. The Committee on "Utilisation of External Assistance" under the Chairmanship of Dr. V. K. R. V. Rao had commented on this and had recommended that no project should be proposed for aid unless feasibility report had been completed. The Government have accepted this recommendation. A copy of Ministry of Finance Department of Coordination O.M. No. 3878/JS (AM) dated 7-10-65 addressed to all Ministries is at Appendix I".

2.16. The Ministry have further stated that a decision has since been taken to seek specific commitment of funds only in respect of projects which are sufficiently advanced to commit the funds pledged with the least possible delay. Other projects on which preparatory work has not yet been completed will form the subject matter of discussion with the agencies from whom aid might be available; but no actual commitment of funds will be sought until the preparatory work has been completed.

2.17. The Ministry was requested to furnish information on the time-lag between the pledges given at a meeting of the Consortium and the conclusion of individual agreements with the countries concerned. From the statement furnished by the Ministry, a few typical cases involving considerable time-lag were selected and the Ministry was requested to indicate step by step progress made (in chronological order accompanied by dates on which communications were exchanged) in reaching agreements with the countries/

institutions concerned. The information furnished by the Ministry has been analysed and the time taken at different stages of negotiations determined. The following case is cited as an illustration:

Source	Title	Date of pledge	Step by step progress in reaching agreement	
U.S. AID	Durgapur Thermal Power. Station II (VI Unit)	28-5-1964	3-10-1964	Loan application filed.
			8-12-1964	Draft Consultancy agreement filed.
			6-1-1965	AID asks for clarification.
			Feb-Apr.65	Prject replies to AID's queries
			22-7-1965	AID approves loan.
			10-9-1965	Pause in new aid commitments to India on account of Indo-Pak. hostilities.
			29-1-1966	Draft loan agreement received from AID.
			1-6-1966	Loan agreement signed on resumption of aid.

It would be seen that Government has been responsible for quite a substantial part of the time-lag.

2.18. The Committee note that in the case of credit for Durgapur Thermal Power Station II (VI Unit), Government have taken more than six months to file the loan application and the draft consultancy agreement with A.I.D. and more than three months to reply to A.I.D.'s queries. Even after the draft loan agreement was received from A.I.D., it took 4 months for the loan agreement to be signed.

2.19. The Committee urge that every endeavour should be made to reduce the delays occurring at the various stages of aid negotiations so as to keep the time lag between pledging of assistance and conclusion of agreement to the minimum necessary.

C. Bilateral Aid and Arrangements with East European Countries

~~*Arrangements with East European Countries*~~

~~2.20.~~ Many developing countries ~~are now taking~~ have taken recourse to bilateral trade and payments agreement to expand their trade. This instrument has been used particularly in their trade with the centrally planned economies. India's persistent balance of payments difficulties and her imminent need to expand exports have encouraged her to negotiate bilateral payments and trading agreement with Afro. Asian countries and centrally planned economies of Eastern Europe, the last being the most important group of countries, outside the Consortium, with whom India has trade relations of sizeable magnitude. The East European countries with whom India has entered into Trade and Rupee Payment Agreements are Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Rumania, U.S.S.R. and Yugoslavia. The agreement between India and these countries constitutes a single instrument consisting of trade and payments arrangements. Further many of the agreements also include matters regarding economic cooperation and technical assistance. The duration of these trade and payments agreements is three to five years.

2.21. All the agreements prior to 1959 had an important clause regarding payments. Payments relating to commercial and non-commercial transactions between India and other East European countries were to be effected in Indian Rupee or Pound Sterling. Since 1959, this position of converting, on demand, into sterling has been reverted. All payments for commercial and non-commercial transactions are now made in rupees. In addition to this, technical credit facilities are also accorded to facilitate smooth trade between the contracting parties.

2.22. These agreements have assumed importance because of growing trade with East European countries and the increase in the volume of assistance given by them to India for her development programmes ~~which was of the order of Rs. 245 crores during the Third Plan period~~.

Periodicity of aid agreements:

2.23. It is stated that in the case of East European countries, "the credit arrangements tend generally to be arranged from time to time with no specific periodicity but generally in time enough to take care of requirements from these countries. "Asked whether, in view of the growing trade with U.S.S.R. and East European countries and gradual increase in the quantum of aid from these countries, it would be advantageous to organise a Consortium of East European countries and arrange periodical meetings as in the case of 'Aid-India Consortium', the representative of the Ministry stated during evidence that:

> "Consortium approach is some thing which is practicable only (when), not merely that we desire it, but the other coun-

tries too disire it. In the case of western countries...... they found an institutional convenience. There is no such requirements on the (eastern) side.... We have now more or less a clear understanding with the Soviet Union of what we can expect in the next few years. Similarly (from) Czechoslovakia, we have two credits and also from other countries. From time to time, these are developing; but, still, they are not unsatisfactory."

2.24. Considering that external assistance from U.S.S.R. and other East European countries forms a significant percentage of the total external assistance to India, the Committee feel that it would be desirable if the aid from these countries is arranged on long term basis. To enable the aid from these countries to be mutually complementary, it would be advantageous if the quantum and the details of aid from these countries could be discussed and finalised well in advance of the implementation of Plan projects.

2.25. The Committee also feel that in view of India's growing maintenance requirements, efforts should be made to secure as much aid as possible from U.S.S.R. and other East European countries in non-project form. Wherever project aid has to be accepted, every effort should be made to ensure that machinery and equipment are drawn to the maximum extent possible, from indigenous sources, particularly from heavy complexes set up with aid from U.S.S.R. and East European countries.

D. Suggestion for routing all aid through World Bank

Suggestion of routing all aid Through World Bank

2.26. A suggestion has been made that in order to cut short procedural delays mainly due to requirement of legislative sanctions for the quantum of assistance available from each country, the aid resources might be pooled with the World Bank and all aid be routed through that international institution. The aided country would at the same time get the maximum value of the aid because of the World Bank condition of purchases under aid being made by inviting global tenders.

2.27. Asked whether Government have considered the advisability of urging the developed countries to channalise all aid through the World Bank so as to reduce procedural delays involved in bilateral agreements and to ensure that purchases are made on competitive basis through global tenders, the representative of the Ministry during evidence stated that "to have all aid channalised through the World Bank would make it more expeditious than through bilateral agreements." On the other hand, "according to him, the standards of scrutiny of individual projects by the World Bank are somewhat difficult and occasionally stiff......the World Bank is very hesitant to lend for an industry in the public sector—but many of the member countries do not have the same inhibitions." Admitting, however, that "there is advantage in getting aid from World Bank because it is usable throughout the World and we can make purchases wherever we like", he stated that:

> "We have been trying to speak on all forums, to the maximum extent that we could without giving offence to any bilateral country which gives us aid, that aid should be multilateralised. The reaction, of course, to this suggestion, made not only by us but by a number of other under-developed countries, has been that there has been increasing multi-lateralisation of aid in the sense that larger sums are being put at the disposal of the World Bank family of institutions. The birth of the International Development Association was a case in point. We actually read in the messages that United States leadership send to the Congress that they want to put in more multilaterally......"

2.28. Taking into account the heavy burden of debt servicing and the conditions of Indian economy, the Committee feel that what the country requires are loans on terms and conditions extended by I.D.A. The Committee have no doubt that Government would make every effort that as much of multilateral aid by international institutions as possible is given on terms and conditions analogous to those of I.D.A."*

E. Terms and Conditions of Aid

Differing terms for similar type of aid

2.29. The representative of the Ministry was asked during evidence whether Government had made a comparative study of the terms and conditions of aid given by members of the Consortium to the various developing countries and, if so, whether these terms and conditions were uniform or differed from country to country for similar types of loans. He stated that the Government "don't have a separate

*For terms and conditions of I.D.A. loans, please see para 4.44 of the Report.

study, but when we receive the papers from the World Bank and I.D.A. about the various loans given by them, we study them so as to find out whether there has been any change either in the terms or in the type of lending". He further stated that whatever the type of lending may be, the terms and conditions were the same for India as for other countries at any period of time. He, however, added that "the circumstances of the loan may differ from time to time. Generally, there is an awareness of the needs of developing countries, for instance, greater resort to programme approach, greater resort to commodity aid etc. The whole theology of development lending is improving".

Comparative study of terms and conditions.

2.30. Asked whether any systematic study had been made in regard to the various aid-giving countries on matters such as time-lag between pledge and conclusion of agreement and the reasons therefor, check list of formalities and conditions which were required to be fulfilled before loan agreements could be signed by that country, methods of appraisal of the projects by that country, the terms and conditions of loan agreements and other allied matters, the representative of the Ministry stated during evidence that—

> "If you ask us whether we have got a comprehensive note on all these items, I am afraid there is no such note available. But these factors are taken into account at the time of negotiations and in preparation for the negotiations".

2.31. He, however, agreed that "at any point of time it would be useful to do these studies, but with the limitation of time and staff that we have, it is extremely difficult...... for practical purposes we have this matter gone into as and when we get ready for negotiation". In regard to preparation of "check list" of formalities and conditions required by each country to be fulfilled, he stated that "we have put out to the Ministries the type of information required for project and programme presentations. What we find is, after we supply a certain amount of material, the aid giving institutions find any number of questions to ask in addition to whatever we send from the Finance Ministry".

2.32. The Committee recommend that a systematic study be made, country-wise, of the time-lag between pledge of assistance and conclusion of agreement and the reasons therefor, the formalities and conditions usually insisted upon by that country before entering into agreement with the recipient country, methods of appraisal of

the projects by that country, terms and conditions of loans and grants by that country and other allied matters, with a view to locate points at which delays occur and to take remedial measures.

2.33. The Committee also recommend that the aid-giving countries may be classified according to the sectors of economy that they could assist so that a country is approached for assistance only in fields in which it has specialised and has capital and knowhow to spare.

The Committee hope that it should be possible to conduct the studies recommended in this as well as in the preceding paragraph with the existing staff of the Ministry of Finance.

F. Allocation of aid as between Public/Private Sectors

Allocation of aid as between public/private sectors

2.34. Out of the total external assistance amounting to Rs. 3113.25 crores received upto the end of the Third Five Year Plan, the amount utilised by public and private sectors was as follows:

Loans	(Total Rs. 2775.28 crores). (Rupees crores).	Percentage
Public Sector.	1487.69	54
Private Sector	338.83	12
Mixed	757.95	27
Cash Credits/Refinance Credits	190.81	7
TOTAL	2775.28	100
Grants	(Total Rs. 337.97 crores)	
	(Rupees crores)	Percentage
Public Sector	295.78	88
Private Sector	42.19	12
TOTAL	337.97	100

Principles of allocation

2·35. It is stated that foreign exchange made available to the country through foreign loans is allocated to the beneficiaries in the private and public sectors to enable them to arrange for the import of goods and services which can be financed from the various loans provided the terms and conditions stipulated in the respective loan agreements are fulfilled. Asked what are the principles and considerations on which foreign exchange made available to the country is allocated to the beneficiaries in the public or private sectors, the Ministry have stated that:—

"External assistance follows the pattern and needs of development of the public and the private sectors as results from the respective Five Year Plans and the Industrial Policy of Government. Once, as a result thereof, an industrial activity is set up in either sector, no distinction is made on the basis of whether it is in the public or the private sector".

2·36. According to a leading industrialist, however—

"The distribution of external assistance between public and private sectors does not also appear to have been made on economic considerations. It has been estimated that of the total authorisation of loans and credits upto the end of the second year of the Third Plan only about 10 per cent have accrued to private sector for specific projects, although the total investment that would have been undertaken by the private sector in the first three Plans would exceed 45 per cent of the national investment. This justifies the remark made earlier that public sector projects contain a greater element of foreign exchange than is really necessary".

2·37. Suggesting that the distribution of foreign exchange between the two sectors must be realistic, an eminent economist has stated that:

"If the import of capital goods for the execution of the Plans depends on exports, and that very export, in turn, is produced in the private sector with the help of imported raw materials and technical know-how, it is not sensible to refuse to allocate a large volume of scarce foreign exchange to the private sector industries engaged in producing export goods. Similarly, when the private sector adds significantly to the economic growth of a country by manufacturing with imported raw materials and capital goods, it should naturally have a fair supply of foreign exchange; otherwise, the economic development itself of the country will be retarded. It is well to remember that a country cannot develop heavy industries with imported raw materials and capital goods, while neglecting the private sector export industries which earn foreign exchange and also the private sector industries manufacturing import substitutes which, again, reduce the foreign exchange requirements. Thus, the distribution of foreign exchange between private and public sectors should be made in such a way that the net effect will be a perceptible reduction in its deficit".

2·38. In the Memorandum submitted to the Committee, a leading public figure has observed that "there is not sufficient correlation between public sector projects and the requirements of foreign imports and foreign exchange", and has suggested that "the distribution of foreign exchange as between public and private sectors should be decided on principles which are applicable to both. They may be stated as follows:.

1. Sufficient foreign exchange should be provided for full working of all industries which have been permitted to be established.
2. For every industrial unit, a programme of import substitution should be formulated with a consequent reduction in the annual foreign exchange allotment".

2.39. The Committee note that there is wide disparity in allocation of external assistance as between the public and private sectors. They feel that the allocation of external assistance as between the two sectors should be on some well defined principles having regard to the importance and contribution to national economy of the industry.

G. Disbursement Procedure

Disbursement Procedure

2.40. Utilisation of foreign loans is effected by either of two methods—the letter of commitment procedure and reimbursement procedure.

Letter of Commitment Procedure

2.41. Under the Letter of Commitment procedure the lending country or institution gives an undertaking to a nominated bank that the amounts disbursed by the borrower through a letter of credit or otherwise will be reimbursed to that bank.

2.42. A variant of the "Letter of Commitment" procedure is the direct payment procedure. Under this an appropriate agency of the lending country or institution makes payments to the suppliers direct.

Reimbursement Procedure

2.43. Under this procedure payments to foreign suppliers are made through the normal banking channels. The import documents and prescribed certificates are received by the Ministry of Finance from the importers direct in some cases and through their bankers in other cases. Applications are preferred on the lending countries through our missions abroad, duly supported by the prescribed documents *viz.* invoice, bill of landing, certificate of manufacture or source and origin, payment receipt etc., for obtaining reimbursement of the foreign exchange expenditure already incurred.

2.44. The "Letter of Commitment" procedure or "Direct payment" method and the "Reimbursement" procedure described above apply to Government to Government credits. Some countries, however, make available what are known as suppliers' credits. Credits from France, Belgium, Italy, and a few credits from Japan and Germany fall under this category. Under this arrangement these countries guarantee, through appropriate insurance schemes, credit facilities being given by foreign suppliers to Indian importers on deferred payment terms.

2.45. Asked whether the procedure for disbursement of aid are laid after mutual consultation between the Government of India and the aid giving country or unilaterally by the aid giving country, Government has stated that "the specific procedures applicable to each loan or category of loans is determined in consultation with the Government of India." In answer to the question whether any study has been made of the various procedures with a view to locate the least cumber-some among them, however, it is stated that:

> "The procedures for drawal of the aid have been prescribed by the countries, keeping in view their statutory requirements etc. and are applicable to all the countries to whom aid is being extended by them. There is, therefore, no question of a study being made with a view to locating the least cumbersome among the procedures for being commended to the donor countries. Wherever some modifications are necessary to suit our requirements, they are suggested to the donor countries for consideration and approval".

2.46. The Committee recommend that a study be made of the various disbursement procedures in vogue in consultation with the representatives of the user parties in the public and private sectors with a view to evolve a procedure acceptable to the aid giving countries which is the least cumbersome and does not come in the way of speedy utilisation of external assistance.

III

MAGNITUDE AND CHARACTER

A. Magnitude of Aid

Quantum of Aid Received

3.1. According to the Brochure 'External Assistance—1965-66' the utilisation of external assistance upto the end of the Third Five Year Plan period (i.e. 31-3-66) has been as under:

(Rs. crores)

	Upto the end of First Plan	During Second Plan	During Third Plan	Total
Loans .	126·42	729·95	1909·33	2765·70
Grants .	70·18	160·64	107·15	337·97
Total loans and Grants: .	196·60	890·59	2016·48	3103·67
U.S. Public Laws assistance and Third Country Currency Assistance . .	5·07	544·81	853·22	1403·10
GRAND TOTAL . .	201·67	1435·40	2869·70	4506·77

3.2. According to another statement furnished by Government, the total assistance, received upto the end of the Third Five Year Plan period has been of the order of Rs. 4516:35 crores as under:

(Rs. crores).

A.	Loans and Credits repayable in Foreign Currency	2499·78*
B.	Loans and Credits repayable in Rupees . . .	275·50
	TOTAL Loans (A & B)	2775·28

*Out of the loans repayable in foreign currency, a portion valuing Rs. 315.74 crores, which represents credits from U.S.S.R. and other East European countries is 'generally repayable through export of goods'.

	(Rs. crores).
C. Grants (Excluding U.S. Public Laws Assistance and Third Country Currency Assistance)	337·97
Total Loans & Grants . .	3113·25*
D. U.S. Assistance under P.L. 480 and P.L. 665 and Third Country Currency Assistance.	1403·10
GRAND TOTAL	4516·35

The details are given in Appendix II.

3.3. The corresponding Plan-wise utilisation figures have been indicated as follows:—

(Rs. crores.)

	Excluding Public Laws Assistance and Third Country Currency Assistance	U.S. Public Laws Assistance and Third Country Currency Assistance	Total
Upto the end of the First Plan	197	5	202
During Second Plan . .	890	545	1435
During Third Plan . .	2026	853	2879
	3113	1403	4516

Loans and Grants

3.4. It would be seen from the above figures that of the total external assistance received upto the end of the Third Plan period, loans constituted 61 per cent, grants 7 per cent and U.S. assistance under P.L. 480, P.L. 665 and Third Country Currency Assistance 32 per cent. If, however, U.S. P.L. 480, P.L. 665 and Third Country Currency Assistance is excluded, loans account for 89 per cent of the total while the grants constitute 11 per cent.

"The difference of Rs. 9.58 croresin the figures of loans and grants as follows:

"The difference of Rs. 9.58 crores in the figures of loans and gradts as indicated in para 3.1 and 3.2 above is mainly because Japanese *ad hoc* credits amounting to Rs. 8.64 crores are not included in the figures in the former paragraph but are included in the latter."

3.5. The percentage of grant element in the external assistance has been declining from Plan to Plan as would be seen from the following table:

Percentage distribution of loans and grants during the Plan periods.

	First Plan	Second Plan	Third Plan
Loans	64	82	96
Grants	36	18	4
Total . .	100	100	100

3.6. In absolute terms also, the amount of grant which was Rs. 70.18 crores during the First Plan and increased to Rs. 160.64 crores in the Second Plan, came down to Rs. 107.15 crores during the Third Plan.

3.7. Out of the total loans (excluding U.S. Assistance under P.L. 480 and P.L. 665 and Third Country Currency Assistance) 90 per cent are repayable in foreign currency, while 10 per cent are repayable in Indian rupees. Of the loans repayable in foreign currency, credits from U.S.S.R. and other East European countries, which are "generally repayable through export of goods" constitute 11 per cent.

3.8. The Committee note that the total grant which was Rs. 70.18 crores during the First Plan and increased to Rs. 160.64 crores during the Second Plan, came down to Rs. 107.15 crores during the Third Plan. In terms of percentage of the total assistance, the decline has been very sharp. From 36% of the total assistance during the First Plan it declined to 18% during the Second Plan and to 5% only during the Third Plan period. Viewed in the context of the loans contracted which increased from Rs. 126.42 crores in the First Plan to Rs. 1909.33 crores during the Third Plan, the sharp decline in percentage and quantum of grants is disquieting. The Committee realise that terms of external assistance and in particular the quantum of grants therein depends solely on the attitudes of the aid-giving Governments, their global commitments and the conditions prevailing in those countries at particular times.

The matter however may be considered by the aid-giving countries from a broader angle particularly the needs of the developing countries, their foreign aid requirements and their capacity for repayment.

Some International Comparisons

3.9. A comparative description of development assistance received by India and that received by European countries and Japan in the post-war period is given below.

3.10. The aid given by the United States to West Germany in the post-war period formed a part of the European Recovery Programme (Marshal Plan), which was devised to promote the industrial and agricultural production of Europe. The total funds made available by the United States to the European countries under the Marshal Plan amounted to U.S. $ 12 millions (Rs. 5714 crores at pre-devaluation rate of exchange), of which over $ 9 billion (Rs. 4286 crores) or 77 per cent was in grants, over $ 1 billion (Rs. 476 crores) in loans and the balance (Rs. 952 crores) in other forms of aid. The aid funds were used predominantly for non-project imports so as to make full use of existing productive capacity; import of machinery and vehicles were only about one-sixth. In fact the U.S. aid was intended to 'provide a cure rather than a mere palliative'.*

3.11. The aid given by United States to Japan was initially limited to civilian relief programmes but was later extended to economic rehabilitation. Between 1945 and 1951 the United States gave Japan $2445 million (Rs. 1163.82 crores) as assistance. Of this, $2176 million (Rs. 1035.78 crores) or 89 per cent was given as grants in the form of grains, fertilisers, fuels etc. The balance of 269 million (Rs. 128.04 crores) was given as credit for purchase of raw cotton, surplus property etc.

3.12. On the basis of 1951 population figures, the *per capita* per annum aid given by the United States Government to selected Euro-

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*Georg Marshall quoted by H. J. P. Arnold in his book "Aid for Developing Countries", p. 29.

pean countries and Japan from 1st July, 1945 to 30th June, 1951 has been as under:

Net Foreign Aid (Excluding Mutual Defence Assistance) given by the United States Government to Selected European Countries and Japan from the 1st July 1945 to the 30th June 1951.

Recipient Country	*Per capita* annual average in U.S. Dollars		
	Net Grants	Net credits	Total
United Kingdom	5·44	14·69	20·13
France	8·28	8·01	16·29
Germany	11·13	0·23	11·36
Italy	6·60	1·21	7·81
Netherlands	10·35	6·12	16·47
Japan	4·29	0·02	4·31

(Sourse: United States Department of Commerce—Survey of Current Business—Supplement on Foreign Aid 1952).

Note: *per capita* receipts have been worked out on the basis of 1951 population.

3.13. As against the annual *per capita* per annum assistance as above made available to European countries and Japan by United States alone, the *per capita* per annum net inflow of external assistance from all sources (including U.S. Commodity Assistance) received by India over the period 1951—64 and on the basis of India's mid-1966 population has been just over one U.S. dollar as would be seen from the table below:

External Assistance (Gross) received by India

(Rs. crores)

	Grants	Loans & Credits	U.S. Commodity Assistance	Total
(i) Upto the end of the First Plan (from 1949-50 to 1955-56) . . .	70·18	126·42	5·07	201·67
(ii) During the Second Plan	160·64	735·20	544·81	1440·65

	Grants	Loans & Credits	U.S.Commodity Assistance	Total
(iii) During the Third Plan	107·15	1913·66	853·22	2874·03
(iv) Total aid from all Official Sources . .	337·97	2775·28	1403·10	4516·35
(v) *Per capita* (Gross) aid received (Rupees) (for 17 years from 1949-50 to 1965-66) on the basis of 1966 population .	6·79	55·73	28·17	90·69
(vi) *Per capita* (Gross) annual average in rupees (Line v divided by 17). .	0·40	3·28	1·65	5·33
(vii) *Per capita* (Gross) annual average in dollars* .	$0·08	$0·69	$0·35	$1·11

*At pre devaluatoin conversion rates

3.14. Government have stated that "International assistance at Government level for economic development of under-developed countries is a very recent phenomenon". As such, according to them, the aid received by India is "not to be compared with post-war aid for reconstruction which had big political over tones". The following table gives a comparative idea of the pattern of flow of aid to selected developing countries during recent times:

International Flow of Official Donations and Net Long-term Official capital to Selected Developing countries from 1951 *to* 1964 (*Annual Average*)

Country	*Per capita* Annual Average in the U. S. Dollars.		
	Official donations	Net long-term official capital.	Total
1	2	3	4
India .	0·15	0·71	0·86
Pakistan .	1·06	0·54	1·60
U. A. R.	0·09	2·22	2·31

1	2	3	4
Israel .	39·74	25·34	65·08
Ghana*	0·19	10·93	10·74
Republic of Korea	7·95	0·15	8·10
China (Taiwan) . .	5·57	1·14	6·71
Chile	1·05	3·21	4·26
Iran	1·36	0·81	2·17
Argentina .	0·01	1·38	1·39
Ceylon.	0·62	0·56	1·18
Brazil .	0·17	0·87	1·04
Philippines .	0·86	0·14	1·00
Ethiopia	0·31	0·16	0·47

*Annual average for 5 years from 1960 to 1964.

Source: United Nations: International Flow of Long-term capital and Official Donations 1951—59; 1960—62; 1961—65.

Note: *Per capita* receipts have been worked out on the basis of 1964 Population.

3.15. It will be seen that while the *per capita* annual average of the international flow of official donations and net long term official capital to Israel was 65.08, to Republic of Korea 8.10, to Chile 4.26, to U.A.R. 2.31 and to Pakistan 1.60 while it was only 0.86 in the case of India *i.e.* the second lowest. Compared to Pakistan's 1.60, India's share was about 54%.

3.16. Even compared to the *per capita* aid authorised by the World Bank and the International Development Association to other developing countries, India's share has been the lowest as is indicated by the following table:

Countries grouped by *per capita* national income	(In U.S. dollars) Annual *per capita* loans granted by the World Bank and IDA during 1964-65
Less than 100 *U.S. dollars:*	
India	0·47
Pakistan .	0·88
Thailand .	0·92
US Dollars 100 *to* 200:	
Honduras .	4·16
Iran	1·77
Peru . .	2·23
Philippines .	0·81
Paraguay . .	1·08
More than 200 *US Dollars*:	
M ılayasia	0·74
Mexico	0·78
Uruguay .	4·68
Venezuela	5·04

3.17. Government have stated that "There is a continuous search, as experience is gained by both the donors and the recipients, to improve the terms and conditions of aid. India's approach has been to mobilise opinion through international forums such as the U.N. and UNCTAD, to enlarge the overall volume of assistance from developed countries to developing countries as a whole and to improve the terms and conditions thereof. It is against this overall approach that India has been pressing at appropriate occasions like the Aid India Consortium meetings and bilateral aid negotiations, for improvements in aid to India. The acceptance of one per cent of national income as the norm to be obtained by developed countries as assistance to developing nations, the recent shift to non-project assistance both by aid giving countries and institutions like the International Development Association, the softening of interest and lenghening of repayment periods are all to some extent the result of these efforts".

3.18. While agreeing that the post-war aid received by countries covered by the Marshal Plan and Japan may have had "big political overtones" and as such could not be strictly comparable to international aid to developing countries on Government to Government basis which is of recent origin, the Committee find it disconcerting to note that the annual per capita aid received by India is about the lowest and almost half of what Pakistan has received during this period.

3.19. The Committee appreciate the efforts being made by Government to convincingly project the needs of the country at international forums and during bilateral negotiations. The Committee would like to refer in this connection to the Report of the Trade and Development Board appointed by U.N. Conference on Trade and Development recommending to the developed countries to provide for suitable increases in the net flow of their developmental assistance to under-developed countries so as to achieve as early as possible the target of one per cent of their national income. The Committee feel that every endeavour should be made through international forums to secure developmental aid from developed countries on the basis of the U.N. resolution so that the development targets envisaged can be achieved to alleviate the crushing burden of poverty and suffering of the masses.

B. Character of Aid

Tied and Untied Aid:

3.20. Loans and grants received from different countries may be 'tied' or 'untied'. Where loans or grants are 'tied', the purchases covered by such loans or grants have to be made from the aid giving country. The loans from the World Bank and the International Development Association are all 'untied' in the sense that purchases under the loans by these institutions can be made from sources of recipient country's choice. Loans or grants from individual countries are generally 'tied' to the aid giving country with the exception of a few of the U.S.A. (DLF) loans authorised during the Second Plan which were partly tied and partly untied and the U.S.A. (DLF) loan for Birsingpur Thermal Power Project (No. 191) during the Third Plan which was untied. The table below indicates the magnitude of 'tied' and 'untied' aid received by India (excl. U.S. commodity assistance)

Development Loan Fund (DLF)

during the last three plan periods:

Statement showing the break up of External Assistance (excl. U.S. Commodity Assistance into tied and untied.

Period	Total Assistance	Out of which (Rs. Crores)			
		Tied		Untied	
		Value	%	Value	%
(1)	(2)	(3)	(4)	(5)	(6)
Upto 1st Plan period:					
Authorised	365	308	84·4	57	15·6
Utilised	196	162	83·7	34	17·3
During Second Plan:					
Authorised	1420	1054	74·3	366	25·7
Utilised	891	592	66.8	299	33.2
During Third Plan:					
Authorised	2494	2067	82·9	427	17·1
Utilised	2026	1674	87.6	352	12.4
Total:					
Authorised	4279	3429	80	850	20
Utilised	3113	2428	78	685	22

3.21. It would be seen from the above table that there had been a decline in the percentage of 'untied' assistance to the total assistance utilised from 33.2 percent in the Second Plan to 12.4 percent in the Third Plan. Asked to state the reasons for this decline, the representative of the Ministry stated during evidence that one of the reasons was the change in the pattern of United States aid towards 1960-61 with the emergence of their own balance of payments difficulties. This was reflected in the proportion of untied assistance as U.S.A. had been the major lender. Another reason, according to him, was that "the number of Consortium Countries increased as between the Second Plan and Third Plan....and the scale of assistance from old members also increased." With the increase in overall assistance, "the untied portion *i.e.*, aid from the World Bank and the International Development Association shrank as a proportion to the total."

3.22. Asked whether any comparative study of tied and untied aid on the pace of devlopment of the country has been made, the Ministry have stated that no such study has been made. They have, however, drawn the attention of the Committee to the following extract on this subject from the 1965 review by the European Organisation for Economic Cooperation and Development entitled 'Development Assistance—Efforts and Policies'.

> The effects of tying both on recipient and donor countries depend on individual circumstances. When recipient countries receive assistance from a number of sources the choices available to the recipient expands. Similarly, the harmful effects of assistance tying are moderated when the share of tied assistance is small relative to the recipient's total flow of foreign exchange receipts. Nevertheless in many cases assistance tying reduces the freedom of recipients to choose the most appropriate quality at the lowest price; it may be harmful by causing delay in the execution of projects and by priorities of a development programme, since imports of a lower distorting the priority may have to be accepted because they can be readily supplied by the providing country; it may cause disruption and expense through the changeover to a less economic source of supply. In addition, it must be recognised that widespread assistance tying tends to distort optimum trade patterns and to influence countries in the direction of restrictive trade practices. These disadvantages may be particularly onerous for the small, supplier countries whose trade patterns are especially vulnerable to the disruption attendant on tying by others. Assistance tying may also increase the budgetary burden of the assistance provider, for instance if the provider has made himself responsible for the entire cost of the project, and requires it to be fulfilled in whole or in part at prices above those otherwise available. These considerations underscore the desirability of a common effort by the supplier countries to reduce progressively the scope of assistance tying with a view ultimately to removing procurement restrictions to the maximum extent possible. In the meantime, much can be and is being done to minimise the harmful effects while maintaining the basic intention to protect the balance of payments or to provide employment. It is important to ensure that purchases made with tied aid are nevertheless made on the best possible conditions, either by using procedures which allow free competition among domestic suppliers, by systematic checks on the price and quality of the goods supplied, or by

ensuring that the widest possible range of goods and services is made available under tied financial contributions. Sometimes waivers are granted when cost differentials are substantial. In other cases, alternative uses of assistance funds are developed. The reduction in importance of specific project financing has also opened the way for programmes to be worked out offering a wider range of goods and services. Finally, through technical assistance, much can be done to improve knowledge in the less-developed countries of different markets and improved procedures for actual procurement."

3.23. The following views of Mr. Robert E. Asher in his book 'Grants, loans and Local Currencies' have also attracted notice of the Committee:

"If all aid is tied, the Congress and the public can be reasonably sure that foreign aid programmes will not reduce our reserves. Moreover, the domestic interests that benefit from the policy will be more likely to support the aid programmes than if aid is untied. Conversely, exporters in other industrialised countries who gain from opportunities to earn united American dollars may, if these opportunities are denied them, exert pressure on their own Governments for larger (tied) programmes of foreign aid.

If all aid giving nations adhere to the practice of tying their bilateral aid, each will be deprived of the opportunity to earn funds from the expenditure of others, to the detriment of its most efficient producers. Thus, the tying process is likely either to raise the total cost of aid programmes over what they would be if purchases were made in the cheapest market, or to procure less aid for the same amount of money. In the receiving countries, tied aid inevitably complicates the business of matching requirements with availablilities. In the United States, tied aid is difficult to reconcile with our long standing policy of promoting competition in international markets."*

3.24. Asked what has been the experience of the Government in regard to the observation of the European Organisation for Economic Cooperation and Development that tied aid "may be harmful by causing delay in the execution of projects and by distorting the priorities of a development programme, since imports of a lower priority may

*Quoted by H. J. P. Arnold in his book "Aid for Developing Countries", pp. 37-38.

have to be accepted by the providing country", the Government have stated that:

"The distortions referred to in OECD could be much more in non-planned economies than in a planned economy like ours. In the Five Yesar Plans, scheme of development is laid down with investment targets for various sectors. In each sector of the economy, there are a number of schemes. For instance, in the area of power development, as part of the planning process, the power stations to be set up during that plan, whether they should be hydro, thermal or atomic, are considered and decided. Similarly in the field of industrial development, the expansion required in basic industries such as steel, cement, chemicals, etc. is decided and units within each of these are also examined. The Plans themselves make an assessment of the total foreign exchange required both for capital items and for maintenance. After making an estimate of the foreign exchange earnings of the country, an assessment is made about the extent of foreign aid that is needed. Foreign aid is sought to cover this gap.

The requirements of foreign exchange are also estimated annually for making commitments in each year. For this purpose the maintenance requirements for the year as also the requirements for capital items for starting projects in each year are estimated. Foreign aid is sought to meet these requirements, after taking into account the foreign exchange earnings expected and the amounts needed for meeting such obligatory payments as debt payments. In this context an ideal situation would be if aid, not tied to the donor country and not tied to a particular purupose, is available to the full extent needed. However, such a situation does not exist. The next best would be if aid which is tied to the donor country but not tied to any purpose is available. A large part of non-project maintenance assistance is available in this manner. Some part of the capital loans is also available in this way. In such a situation the distortions* that arise are on account of our having to buy certain items. not in the cheapest market, but in places where aid is available where the items may be somewhat more expensive. In such situations, to the extent possible, efforts are

*Michal Kidron in his book "Foreign Investment in India" has estimated that "India may normally be paying anything between 6 and 15 per cent, sometimes as much as 20—30 per cent, above ruling prices for aid supported imports". (p. 123).

made to buy those requirements in the countries where they are relatively competitive. However, with a given volume of requirements for various commodities and a given distribution of packages of currencies to buy the total commodities this adjustment cannot but leave unrectified some of the distortions of price present in this arrangement. However, as long as the total availability of funds is smaller than our total requirements it does not lead to a sitution of our having to import something of a lower priority because it can be provided readily by the supplier country.

In so far as the projects are concerned aid is sought after the projects are decided upon. It is possible that negotiations for aid may delay the commencing of the project or in particular cases it may turn out that the aid is not at all available and alternative arrangement have to be considered. In this process it might happen that schemes of higher order of priority might get delayed while those of relatively lower priority may go forward. Since foreign aid is not sought or obtained for schemes which are not included in the Plan, there is no possibility of a project or a development programme being taken up and in that sense priorities of development programme getting distorted, on account of lower priority imports having to be accepted only because they can be readily supplied by the providing country".

3.25. **The Committee view with concern that, at present, assistance of 'untied' nature is available only from the World Bank and the I.D.A. The advantages of 'untied' aid as against 'tied' aid need no emphasis. They hope that, while urging for a larger quantum of aid from these institutions, Government will not leave unavailed of any opportunity of making the aid giving countries aware of the importance of assistance of 'untied' nature at the developing stage of the country's economy.**

Project-tied and Non-Project Aid

3.26. Another important classification of foreign aid is (i) aid that is tied to a project undertaken by the recipient country and (ii) aid that is not so tied. Project-tied aid has to be used only for the project to which it has been tied by mutual agreement between the aid giving country and the recipient country. In regard to the use of aid for non-project nature, greater flexibility is available to the recipient country, though some of it may be earmarked for the import of specified commodities such as fertilisers.

3.27. The non-project assistance made available by friendly foreign countries consists of both loans and grants. The non-project loans broadly fall into two categories, *viz.* (i) those given as balance of payments assistance or for financing the repayments of earlier debts and (ii) those given for the purpose of import of raw materials, components, spares, etc. Coming under the former category are the loans received from West Germany in 1961-62 as balance of payments assistance and the loans received from the same country from 1961 onwards almost yearly for re-financing repayments of Rourkela Credit.

In respect of the other non-project loans, the items that qualify for import under the loans are determined with the donor countries.

3.28. The table below show the non-project element in the loan agreements signed during the Third Plan period. The non-project aid element in grants is also indicated separately in the table.

(Rs. crores)

Source of the External Assistance	Total amount of loans agreements and the non-project element.					
	1961—62	1962—63	1963—64	1964—65	1965—66	Total
1	2	3	4	5	6	7
LOANS						
1. *Austria*						
(i) Amount of loans	..	2·38	1·83	1·90	2·38	8·49
(ii) Non-Project allocation	..	2·38	1·83	1·90	1·90	8·01
(iii) Non-project aid as percentage of total loans		100%	100%	100%	80%	94 %
2. *Belgium*						
(i) Amount of loans	..	4·76	4·76	..	1·90	11·42
(ii) Non-project allocations	..	..	..	..	..	..
3. *Canada*						
(i) Amount of loans	..	..	7·35	23·62	..	30·97
(ii) Non-project allocations	..	..	..	..	..	..

1	2	3	4	5	6	7
. *Denmark*						
(i) Amount of loans .	..	..	1·03	1·38	..	2·41
(ii) Non-Project allocations .	..	..	..	..	..	..
5. *France*						
(i) Amount of loans . .	14·29	14·28	9·52	9·52	9·52	57·13
(ii) Non-project allocations. .	..	..	3·33	3·33	3·33	9·99
(iii) Non-project aid as percentage of total loans . . .	..	..	35%	35%	35%	17%
6. *Germany*						
(i) Amount of loans . .	59·52	66·07	94·99	45·22	42·32	308·12
(ii) Non-project allocations .	59·52	30·95	14·87	17·26	19·71	142·31
(iii) Non-project aid as percentage of total loans .	100%	47%	16%	31%	47%	46%
aly						
(i) Amount of loans .	21·43	4·18	21·43	17·14	17·14	81·32
(ii) Non-project alloacations .	..	..	4·76	..	11·43	16·19
(iii) Non-project aid as percentage of total loans . .			22%		67%	20%
Japan						
(i) Amount of loans . .	38·09	4·76	38·10	28.57	28.57	138·09
(ii) Non-project allocations .	27.86	..	12.86	11.90	13.33	65.95
(iii) Non-project aid as percentage of total loans . .	72%		34%	42%	47%	48%
. *Netherlands*						
(i) Amount of loans .	..	..	13·12	2·63	7·02	52·80
(ii) Non-project allocations	..	..	8·55	1·71	4·28	14·54
iii) Non-project aid as percentage of total loans . .		..	65%	65%	61%	64%
10. *Sweden*						
(i) Amount of loans .	..	..	..	2·18	..	2·18
(ii) Non-project allocations	..	..	..	..	..	..
11. *Switzerland*						
(i) Amount of loans	..	5·45	3·27	..	9·25	17·97
(ii) Non-project allocations	..	..	..	..	..	..

1	2	3	4	5	6	7
12. *United Kingdom*						
(i) Amount of loans . .	60·00	66·67	40·00	40·00	35·33	242·00
(ii) Non-Project allocations .	20·00	20·00	30·00	28·70	35·33	134·03
(iii) Non-project aid as percentage of total loans . .	33·%	30%	75%	72%	100%	55%
13. *U.S.A.*						
(i) Amount of loans . .	81·67	330·47	199·46	81·65	147·10	840·35
(ii) Non-project allocations .	9·52	221·43	107·14	35·71	114·29	488·09
(iii) Non--project aid as percentage of total loans . .	12%	67%	54%	44%	78%	58%
14. *I.B.R.D.*						
(i) Amount of loans . .	66·46	..	14·29	..	63.81	114·56
(ii) Non-project allocations .	..	..	..	..	..	..
15. *I.D.A.*						
(i) Amount of loans .	50·95	82·37	9·52	88·09	47·62	278·55
(ii) Non-project allocations .	..	..	..	42·86	47·62	90·48
(iii) Non-project aid as percentage of total loans . .			..	49%	100%	32%
16. *U.S.S.R.*						
(i) Amount of loans .	..	..	..	100·50	..	100·50
(ii) Non-project allocations	..	..	..	..	..	..
17. *Poland*						
(i) Amount of loans .	..	15·50	..	10.50	1·00	27·00
(ii) Non-project allocations	..	..	..	..	..	..
18. *Yugoslavia*						
(i) Amount of loans. . .	..	..	..	..	2·38	2·38
(ii) Non-project allocations .	..	..	..	..	..	..
19. *Czechoslavakia*						
(i) Amount of loans .	..	..	..	40 00	..	40.00
(ii) Non-project allocations	..	..	..	..	..	..
Grand Total						
(i) Amount of loans . .	392.41	596·89	458·70	492·90	415·34	2356·24
(ii) Non-project allocations : .	116.90	274·76	183.34	143.37	251.22	969.59
(iii) Non-project aid as percentage of total loans . .	30%	46%	40%	29%	60%	41%

1	2	3	4	5	6	7
Grants	**Grants Authorised**					
1. *U. S. A.*						
(i) Amount of grants . .	7·46	3·87	1.54	4·11	4·18	21·16
(ii) Non-project allocations .	..	..	..	..	..	..
2. *Canada*						
(i) Amount of grants . .	12.13	8·73	8·34	15·95	9·92	55.07
(ii) Non-project allocations .	7.73	4·45	5·35	10.08	9·24	36·85
(iii) Non-project aid as percentage of total grants . .	66%	51%	63%	63%	93%	67%
3. *Australia*						
(i) Amount of grants . .	1·49	0·74	0·97*	0·70	0·27	2·23
(ii) Non-project allocations .	..	..	..	..	..	..
4. *New Zealand*						
(i) Amount of grants . .	0.02	..	0·18	0·51	..	0·71
(ii) Non-project allocations .	..	..	..	..	..	..
5. *United Kingdom*						
(i) Amount of grants	0·05	0.05	0·54	..	..	0.64
(ii) Non-project allocations	..	..	..	..	..	..
6. *Norway*						
(i) Amount of grants . .	0·99	0·33	0·33	0·33	..	1·98
(ii) Non-project allocations .	..	..	..	..	..	..

*This is an adjustment figure. No firm allocations in respect of Australia.

Note:—The Canadian grants for wheat have been put under Non-project Aid.

3.29. It would be seen from the above table that, while in the case of loans, non-project element constituted nearly 41 per cent, in the case of grants, Canada was the only country which had agreed to a portion of its grant being given in non-project form. Grants by all other countries were project-tied.

3.30. The Committee note that while the U.S.S.R. and other East European countries and Canada have not given any non-project loans during the Third Plan period, the percentage of non-project aid to the total loans given by other major aid-giving countries have fluctuated widely from year to year. While West Germany gave 100 per cent loans as non-project in 1961-62, it came down to

16 per cent during 1963-64 and again rose to 47 per cent during 1965-66. Similarly non-project aid given by Japan as percentage to the total loans has come down from 72 per cent in 1961-62 to nil in 1962-63 and ultimately rose to 47 per cent in 1965-66. In the case of U.S.A. also, the percentage of non-project aid to the total loans was only 12 per cent during 1961-62 and since then has fluctuated between 44 per cent and 78 per cent. The Committee are, however glad to note that in the last year of Third Plan i.e. 1965-66, the percentage of non-project aid to the total loans has generally gone up in respect of most of the countries. This is a welcome sign and indicates recognition on the part of the aid-giving countries of the need for larger non-project aid to the country. The Committee hope that this trend will continue and the quantum of non-project aid would increase considerably during the coming years.

3.31. It is well known that large capacities created in a number of complex industries, with foreign assistance, require maintenance imports of considerable magnitude. It is, therefore, imperative that as much of non-project aid as possible should be procured in the interest of keeping these industries in production. This has also the merit from the point of view of aid giving countries of introducing their exports to a larger number of undertakings and thereby subserving their trade interest. The Committee have no doubt that Government would impress upon the aid-giving countries that it would be in mutual interest if the element of non-project aid in external assistance is increased.

Classification of Aid into Technical, Economic and Mixed

3.32. The external assistance could be further classified into Economic, Technical and Mixed. ~~In the book, "Foreign Aid and India's Economic Development", published~~ by the Institute of Economic Growth, it has ~~been stated that~~ 'economic aid' is intended to raise output by increasing the supply of capital in the recipient country while 'technical aid' is intended to raise output by changing the methods of production. Technical assistance involves not only transfer of technical services but also of technical know-how and the latter generally presupposes some transfer of equipment and materials. In certain cases, aid for a specific project combines 'economic' and technical assistance which cannot be separated. This ~~has been~~ classified as 'Mixed'.

3.33. The following table shows the percentages of aid authorised and utilised during each of the three Plan periods classified separately into Economic, Technical and Mixed:

(Percentage of total aid)

Period	Economic		Technical		Mixed	
	Authorised	Utilised	Authorised	Utilised	Authorised	Utilised
First Plan	79·5	95·1	2·5	3·8	18·0	1·1
Second Plan .	84·2	93·0	0·6	1·1	15·2	5·9
Third Plan	93·2	90·8	0·8	0·5	6·0	8·7

1. The percentages have been worked out taking into account both loans and grants including P.L. 480 and P.L. 665 commodity assistance but excluding technical assistance under the Colombo Plan as yearwise break-up is not available.
2. The percentage of authorisations has been calculated on the total aid authorised while the percentage of utilisation has been worked out on the total utilisation.

3.34. The trend disclosed by the above table indicates that out of the total aid authorised, the percentage of technical and mixed nature of aid has fallen from 20.5 per cent during the First Plan period to 6.8 per cent during the Third Plan period. Government was asked to state the reasons for this decline. They have furnished the following table showing the total amount of aid classified separately into Economic, Technical and Mixed during each of the three Plan period:

(Rs. crores)

Period	Economic		Technical		Mixed		Total	
	Authorised	Utilised	Authorised	Utilised	Authorised	Utilised	Authorised	Utilised
First Plan .	311·42	199·41	9·77	8·10	70·35	2·26	391·54	209·7
Second Plan	2147·24	1345·57	16·56	16·11	385·98	84·27	2549·78	1445·95
Third Plan .	2712·24	2604·35	24·15	15·54	174·03	247·78	2910·42	2867·67

3.35. On the basis of the above table, Government have stated that—

"Technical aid, in terms of amounts made available in each of the first three Plans, did not register a fall. On the other hand it rose from Rs. 9.77 crores to Rs. 16.56 crores between the First and the Second Plans. Similarly, it rose from Rs. 15.56 to Rs. 24.15 crores from the Second to the Third Plan. Thus, there was no fall in the amount of technical aid that India got as from one Plan to the other.

It is only as a proportion to the total aid received that there was a fall. This was because there was a precipitous rise in the total amount of aid received as between the three Plans. Thus, it would be true to say that the amount of technical aid received rose, but since the total amount of aid rose at a much higher rate, the percentage of technical aid to the total aid fell.

The reasons for this development can be attributed to the changing role of foreign aid between 1950-57 and from 1958 till now. Till about 1957 our reliance for the import of capital goods etc. was mainly on the very substantial amount of sterling reserves that we held and the aid that came in was only a small proportion of the total import bill. But with the onset of our foreign exchange shortage somewhere in 1957 as a result of the depletion of our sterling reserves, the total amount of economic assistance obtained from abroad increased rapidly. Further, the receipt in recent years of substantial amount of non-project assistance which carries with it very little technical aid has further raised the total proportion of pure economic aid as distinct from technical aid.

The category "mixed aid" is somewhat artificial. Even Economic aid *per se* carries with it a certain amount of payment for technical services. For instance, a credit from USSR which carries with it the responsibility for assistance to help in the preparation of the project report and in subsequent construction of capital plant may be categorised as "mixed aid". On the same token, where the Trombay Fertiliser Plant for instance ~~is~~ ordered abroad on a turn-key basis, it would be true to hold that the engineering services rendered by the foreign supplier, while being part of the contract, ~~is~~ still in the nature of technical assistance. It is in this sense a little difficult to isolate the element of technical aid which ~~we~~ received along with the designing of plant and fabrication and delivery of capital equipment.

3.36. The Committee find from the above that the mixed aid has increased from Rs. 2.26 crores in the First Plan to Rs. 247.78 crores in the Third Plan. While they appreciate that the categorisation of mixed aid is somewhat artificial, they nevertheless feel that careful watch should be kept by Government on the component of both technical and mixed aid to ensure that it is channelised into fields where Indian technical know-how is either not available or has not reached the requisite stage of development.

IV

UTILISATION

A. General

Extent of Utilisation

4.1. By the end of the Third Five Year Plan, external assistance authorised totalled Rs. 5878 crores, out of which Rs. 4516 crores or 77 per cent was utilised. The position regarding utilisation of external assistance upto the end of the Third Five Year Plan (*i.e.* 31st March, 1966) is as follows:

(Rs. in crores)

	Authorisation	Utilisation	Percentage of utilisation
A. Loans and credits repayable in foreign currency	3583.69	2499.78	70
B. Loans and credits repayable in Indian rupees	294.61	275.50	94
Total Loans: . .	3878.30	2775.28	72
C. Grants (excluding those under US Public Laws)	401.30	337.97	83
D. U.S. assistance under Public Laws	1598.28	1403.10	88
Total External Assistance:	5877.88	4516.35	77

4.2. It would be seen from the above table that of the loans and credits received upto the end of March, 1966, only 72 per cent were utilised. The Plan-wise authorisation and utilisation of loans was as follows:

(Rs. in crores)

	Authorisation	Utilisation
First Plan	227	126
Second Plan	1295	730
Third Plan	2356	1919
TOTAL :	3878	2775

4.3. Asked to state the reasons for slow utilisation of external assistance authorised, Government have stated that there has been "consistent improvement in the pace of utilisation during each of the successive plan periods". They have cited in support of their view the results obtained by two methods of measuring the percentage of utilisation against authorisation of foreign loans, namely, the 'net' basis and the 'gross' basis. The percentage of utilisation according to each of these methods is indicated in the following statements:

TABLE I

FIRST METHOD

(Net basis method)

(Rs. crores)

First Plan	
Authorisation	226.90
Utilisation	126.42
Balance	100.48
Utilisation as percentage of authorisation	56%
Second Plan	
Total utilisation	724.75
Utilisation against First Plan Loans	(-) 98.94
Utilisation against Second Plan loans	625.81

Authorisation	1290.02
Utilisation as percentage of authorisation	49%

Third Plan

Total Utilisation	1918.83
Utilisation against First and Second Plan Loans	(-) 525.81
Utilisation against Third Plan Loans	1393.01
Authorisation	2356.22
Utilisation as percentage of authorisation	59%

TABLE II

SECOND METHOD

(*Gross basis method*)

First Plan

Authorisation	226.90
Utilisation	126.42
Balance	100.48
Utilisation as percentage of authorisation	56%

Second Plan

Authorisation	1290.02
Brought forward from 1st Plan	100.48
Total available	1390.50
Utilisation	724.75
Utilisation as percentage of authorisation	52%

Third Plan

Brought forward from Second Plan	665.75
Authorisation	2356.21
Total Available	3021.96
Utilisation	1918.83
Utilisation as percentage of authorisation	64%

4.4. According to the first method the base for the calculation of the percentage in respect of a Plan period being the amount authorised during the Plan period, the utilisation is also considered only in respect of loans authorised during the same Plan period. Thus the answer is obtained for the two questions (1) how much was authorised during a particular Plan period and (2) how much of it was utilised in the same period. This gives the results for the Second and Third Plan periods on a comparable basis with that of the First Plan period.

4.5. In the second method utilisation during a particular Plan period is compared with the total amount available for utilisation during the period. This latter amount consists not only of the authorisations during the period but also the unutilised amount of the previous Plan periods carried over into the Plan period under examination.

4.6. The Committee observe that, whatever be the method of assessment, utilisation of external assistance has not exceeded 52 per cent during the Second Plan and 64 per cent during the Third Plan. Though there has been slight improvement in utilisation during the Third Plan as compared to the Second Plan, the Committee feel that overall utilisation was still very low. They hope the Government would keep under constant review the machinery and procedures of negotiations for aid and its utilisation and would remove all impediments coming in the way of expeditious utilisation of aid for accelerating the pace of industrialisation and economic growth.

Progress in Ordering against Authorisations

4.7. A loan is taken as authorised, when agreement therefor has been signed with the aid-giving country. After the agreement is signed, orders for goods, equipment, etc. are placed with the aid-giving country. As and when the deliveries of goods, equipment, etc. against the orders take place, disbursement against the loan is made and the loan is stated to have been utilised to the extent of the value of goods, equipment etc. delivered and paid for.

4.8. Government have furnished the following statement showing the amounts for which loan agreements have been signed, value of orders placed against the loan agreements and the amounts disbursed|utilised as at the end of 31st March, 1966:

(Figures at pre-devaluation rates) (Rs. crores)

Name of the lending country/institution	Amount for which agreements have been signed up to March 31, 1966	Value of equipment stores ordered upto March 31, 1966	Loan amounts disbursed upto March 31, 1966
1. Austria	8·49	7·19	4·70
2. Belgium	11·42	7·24	4·89
3. Britain	364·63	352·08	292·27
4. Canada	46·68	45·47	27·25
5. Czechoslovakia	63·10	26·15	12·61
6. Denmark	2·41	1·50	0.60
7. Germany (West)	447·37	398·90	344·81
8. France	57·13	3·22	20·98
9. Italy	81·32	33·2[illegible]	11·65
10. Japan	*173·53	152·09	112·88
11. Netherlands	21·90	18·38	9·51
12. Poland	41·30	13·70	11·34
13. Sweden	2·21	1·40	..
14. Switzerland	24·40	14·26	6·04
15. U.S.S.R.	484·31	313·68	282·08
16. U.S.A. (other than PL 480)	@1284·16	1187·73	1042·43
17. Yugoslavia	21·43	17·98	9·71
18. I.B.R.D.	462·93	396·41	380·06
19. I.D.A.	278·55	247·08	201·49
Total:	3877·37	3272·70	2775·30

*Includes Japanese *Ad hoc* credit of 1959 amounting to Rs. 8.64 crores which is fully disbursed.

@Excludes amount of Rs. 19.69 crores made available from PL 665 counterpart funds in the three development assistance loans.

Note.—This statement excludes (1) commodity assistance under PL 480 and PL 665; (ii) drawings from IMF; (iii) Kuwait Loan of Rs. 34.19 crores on account of repatriation of special Indian notes which were in circulation as legal tender in Kuwait, and (iv) Grant Assistance.

4.9. It is seen from the above table that though the actual disbursement/utilisation against the authorisations was 71* per cent., orders had been placed with the aid-giving countries for 84 per cent of the loan authorised.

4.10. Asked to state the average time taken by Government in the utilisation of loans and credits repayable in foreign currency at the various stages namely, (a) Formal sanction of loan by the foreign country concerned; (b) signing of agreements; (c) allocations; (d) placing of orders; and (e) actual disbursement from loans/credits, Government have stated as follows:

> "an average worked out for each of these stages for all foreign loans utilised during each plan period is not likely to be meaningful. Not only is the number of loan agreements involved very large but the terms of loans, the purposes for which they are intended, the procedures attached to the utilisation of different loans, are different. Pledges of aid are subject to appropriate legislation and other action by the lender.
>
> Sometimes even for the same type of loan from the same source the time lag between the pledging of a loan and the signing of the related agreement may be very wide. As to utilisation, not only is the utilisation of non-project assistance quicker than project assistance, but also the period of utilisation of the latter type of assistance differs from loan to loan depending upon the particular type of machinery or equipment to be imported under it. The allocation and utilisation of loans are also to some extent affected by the conditions prevailing in the particular sector of the economy in this country. For instance, urgent need for some raw material in India at a particular time may lead to the diversion of aid funds from other uses if the required material is in the permitted list of the donor country. In some cases, there is no specific allocation from loan to loan, but ordering is done on a continuing basis. This applies particularly to loans from IBRD/IDA for the programmes of Indian Railways. Again, some West European countries extend credits which are known as "Suppliers" Credits because the insti-

*Figures of authorisations and utilisations by the end of Third Plan have been indicated as Rs. 3878 crores and 2775 crores respectively in para 4.1. According to these figures, percentage of utilisation works out to 72 per cent.

tutional arrangements in these countries are more suited to such credits. In case of these credits, "utilisation" can only be notional, since payment for the capital equipment imported under these credits is spread over a number of years."

4.11. **The Committee are glad that orders to the extent of 84 per cent of aid authorisation have been placed. In view of the fact that it takes considerable time for the foreign suppliers to deliver machinery and equipment which accounts for substantial part of the delay in utilisation of external assistance, the Committee have no doubt that Government will continue to ensure that orders for machinery and equipment against aid authorisations are placed with foreign suppliers with the utmost expedition after assessing their capacity to deliver the equipment in time.**

Utilisation of Untied Aid

4.12. Total external assistance (excluding assistance under U.S. Public Laws) of untied* nature authorised upto the end of the Third Plan period was of the order of Rs 850 crores. Out of this, a sum of Rs. 685 crores or 80 per cent had been utilised by the end of that period as follows:

(Rs. crores)

	Authorisation	Utilisation	Percentage of utilisation
Upto the end of First Plan . .	57.22	33.82	60
During Second Plan . . .	366.08	299.27	82
During Third Plan . . .	427.11	352.50	77
Total:	850.41	685.59	80

Utilisation of Non-Project Assistance.

4.13. The authorisation for non-project purposes out of the loan agreements signed upto the end of the Third Five Year Plan period

*The term "tied/untied" has used here in the sense of aid being "tied/untied" to the aid-giving countries.

amounted to Rs. 1217 crores, against which a sum of Rs. 964 crores or 80 per cent was utilised by the end of that period as under:—

(Rs. crores)

Country/Institution	Amount of loan	Amount utilised
I.D.A.	90.48	50.01
U.K.	217.37	189.39
U.S.A.	593.33	481.13
West Germany	200.88	182.98
Japan	65.95	46.26
Italy	16.19	..
France	9.99	..
Netherlands	14.54	9.51
Austria	8.01	4.70
	1216.74	963.98

4.14. Explaining the reasons for short utilisation of loans allocated for non-project purposes to the extent of 20 per cent, Government have stated that some of the credits "were signed a few months before the end of the financial year 1965-66, upto which utilisation has been indicated in the last column of the statement. Naturally, the utilisation is significantly lower than the amount authorised. Normally it takes about 12 to 18 months for a non-project assistance for import of maintenance commodities to be drawn fully." The Committee find from the details furnished by Government of loan agreements concluded towards the end of 1965-66 that these could account for only 57 per cent of the non-project aid which remained unutilised. Asked about the reasons for non-utilisation of remaining non-project assistance, the Government have adduced the following reasons:

(i) In some cases, "even though the credits are termed as non-project, in the sense that the commodities are not tied to predetermined specified projects, the commodities to be imported are of capital nature and go to a larger number of projects for their requirements. Naturally, in all such cases, after the loan/credit agreement is signed, there is the process of allocating the sums for the requirements of various user projects, according to the eligibility of the items needed for those projects for imports under the respective credits and according to the nature of the requirements of the project. Thereafter the projects invite tenders, place contracts and indicate a delivery period which will partly depend upon the time necessary for the supplier to get the goods ready and supply them and partly upon the timing of the requirement of that particular piece of machinery for use or installation in the course of the construction of the project. Naturally, this type of loan is midway between a non-project maintenance loan and a project loan. Naturally, they take somewhat longer for full utilisation than loans obtained for purely maintenance purposes."

(ii) Another category of cases, which are "firstly of the same category as that mentioned.....above",......"have an additional characteristic that these are also suppliers credits, which require that the importer should first enter into an agreement with the supplier who should be willing to supply the commodities under the credit terms and the terms should be approved by an agency of the lending government. Naturally, these credits have been slower than those mentioned in the second category."

4.15. In view of the fact that India is hard pressed to finance imports, particularly of maintenance goods, the Committee suggest that the utilisation of non-project assistance should be kept under careful review so as to maximise its utilisation. In particular, the Committee would stress that full use should be made of loans from I.D.A., Canada, etc. which are given interest free and are repayable over a long period, with a moratorium for the first few years.

Sector-wise Utilisation of External Assistance

4.16. Asked to state the position of utilisation of external assistance in some of the key sectors of the country's economy, Government have furnished the following statement indicating the position during each of the years of the Third Plan:

Classified Statement of Loans & Credits authorised and dutilised during Third Plan.

(Rupees Crores)

	1961-62		1962-63		1963-64		1964-65		1965-66		Total		Balance
	A	U	A	U	A	U	A	U	A	U	A	U	
1. Railway Development	31.38	1·24	67·22	27·38	23·40	44·98	44·39	48·02	4·58	38·52	170·97	160·14	10·83
2. Power Project . .	58·70	0·20	79·11	15·66	66·98	32·03	27·59	35·75	40·99	53·03	273·37	136·67	136·70
3. Steel & Steel Projects	19·04		67·81	13·80	88·96	31·98	109·98	45·51	12·95	45·50	298·74	136·79	161·95
4. Iron Ore Projects .	..	.	..	..	..	..	..	..		..	..	..	..
5. Ports Development .	10·52	·34	9·34	1·16	1·08	1·87	..	1·70	..	2·51	20·94	7·73	13·21
6. Transport & Communications .	37·26	6·78	20·90	6·12	23·60	14·36	28·60	28·30	9·42	24·84	119·78	80·40	39·38
7. Agricultural Development .	15·61		28·68	8·63	8.93	12.44	28.79	15·79	48.02	27.90	130.03	64.76	65.27
8. Industrial Development	160·38	22·01	313·70	98·84	235·08	148·73	242·85	197·32	285·88	236·69	1237·89	703·59	534·30
9. Wheat Loans .	..	..	..	..	..	..	..	..	..	..	..	..	..
TOTAL	332·89	30·27	586·76	172·04	448·03	286·39	482·20	372·39	401·84	428·99	2251·72	1290·08	961·64

This statement excludes Refinance and cash credits from West Germany and Grant assistance.

A=Authorisation.
U=Utilisation.

4.17. It is noticed from the above table that out of the total external assistance authorised during the Third Plan period for Power Projects, Steel and Steel Projects, Port Development and Agricultural Development, less than 50 per cent was utilised by the end of the Plan period. Asked to state the reasons for non-utilisation of such large amounts of external assistance in these crucial sectors of country's economy, the representative of the Ministry stated during evidence that, generally speaking, "the period of utilisation of a loan is co-terminus with the speed with which that project is implemented. The speed with which a project is implemented depends upon several factors largely our own but in considerable part also on the quickness with which the equipment is supplied." In regard to slow utilisation in the field of Power Projects, it was stated:

> "First of all, there is negotiation of the credit and the time taken in it........ During this period we try to draw up a complete design of the equipment and so on; tenders for the projects have to be invited after we know where the credit sources are likely to be...... Then, we have detailed consultations with the aid-giving countries so that the orders that we place, the documentation that has to be obtained and the reimbursement of the drawals of the credit are according to the requirements of the aid-givers. Then we have to place orders with the suppliers. The deliveries are planned and made most often in time but in the power field it is not unusual even for foreign people to have delays in the supply of equipment because of reasons beyond their control. Ultimately, it takes anything between 5 to 6 years for a power project to really be completely installed. Undoubtedly, our attempts should be to make this period as short as possible. In the United States, which is so richly placed in talent, production capacity and various instruments of production, they can finish it in three years...... When it comes to the question of levelling the ground for a power station, they are able to use mechanised methods. They can use mechanical equipments to quicken the pace of the project. Here, because of the shortage of foreign exchange, unemployment problem and so on and so forth, we temper it down with use of labour. Further, because of the very nature of these power projects because of the tremendous capital investment, they do take more time."

4.18. As for the shortfall in the use of funds for agricultural development, the representative of the Ministry stated during evidence:

"Agricultural development is said to have received a total loan of Rs. 130·03 crores of which as much as Rs. 76:81 crores were committed during the course of 1964-65 and 1965-66. Therefore, they—the latter—are only two year old credits. Considering that even a scheme like the U.P. Tubewell Scheme or the Punjab Drainage Scheme take more than two years to complete, it is not surprising that out of Rs. 130 crores for the Fourth Plan, Rs. 65 crores, which is less than what was committed during the last years, remain unutilised."

4.19. So far as the ports are concerned the representative of the Ministry of Finance stated during evidence that:

"We have had some problems in the port loans. Taking the Calcutta Port Loans, for instance, we had to go through certain procedures twice over. In the first instance, we wanted to manufacture dredgers and certain other harbour craft purely indigenously and debit the bill to the World Bank. We could not do that. Therefore, we had to do once over, the inviting of tenders, this time on a global basis. In the case of the Bombay Port, for instance, there have been delays arising out of the technical difficulties relating to the installation of spare lock-gates and so on. Again, I would submit that nobody can be unhappier than we that there is a substantial pipeline of unutilised aid. But, at the same time, there is this fact that from the technical angle the manufacture and supply of equipment take longer time than we imagine. In the other countries of the World which may not be totally uncomparable with us from the point of view of their less developed nature, perhaps even more developed nature, we find the position not very much different...."

"So far as the Madras Port is concerned the original project that was contained within the loan was finished ahead of time and cheaper in foreign exchange than the foreign exchange loan. We tried to utilise the savings for the installation of some equipment for iron ore handling. The negotiations took some time and finally the World Bank did not agree."

4.20. The Committee are constrained to note that out of the total external assistance authorised during the Third Plan period for Power Projects, Steel and Steel Projects, Port Development and

Agricultural Development, less than 50 per cent was utilised by the end of the Plan period. The reasons furnished by the Government for slow utilisation in these fields indicate that, at least, in some cases, delays could have been avoided or at least minimised by advanced preparatory action as in the case of Power Projects, by detailed planning and timely decisions as in the case of Calcutta and Bombay ports.

4.21. The Committee would like Government to go into the detailed reasons for non-utilisation of external assistance so as to fix responsibility and devise remedial measures to speed up implementation of important projects, in these key sectors of the economy, in the Fourth Plan.

Aid in the field of Non-ferrous Metals

4.22. Government have furnished the following statement showing details of loans and credits secured specifically for exploiting indigenous resources of non-ferrous metals:

(Rs. crores)

Sr. No.	Title of Loan	Date of Agreement	Amount of Loan (upto 31-3-66)	Amount Utilised
II. Plan Period				
	Hindustran Aluminium I (US Exim)	22-9-1960	6·50	6·41
III. Plan Period				
1.	Hindustan Aluminium II (US Exim)	16-9-1963	2·38	2·30
2.	Indian Aluminium Co. I (Canada)	4-12-1963	0·44	0·44
3.	Comico Binani Zinc (Canada)	28-5-1964	0·70	0·55
4.	Indian Aluminium Co. II (Canada)	11-6-1964	0·40	0·24
5.	Hindustan Aluminium III (US Exim)	14-1-1965	5·24	1·43
6.	Operation Hardrock	25-5-1966	1 67	..
		Total	17·33	11·37

4.23. It is seen from the above statement that loans and credits secured for the exploitation of indigenous resources in the field of non-ferrous metals totalled no more than Rs. 17.33 crores up to the end of the Third Plan period, out of which Rs. 11.37 crores were utilised by the end of that period.

4.24. In view of the crucial and strategic position occupied by non-ferrous metals, the Committee urge that Government should extend necessary assistance, including external aid, for speedy and extensive exploitation of non-ferrous metals in the country.

Utilisation of Aid for Agricultural Purposes

4.25. Government was asked to give details of, and the progress made in, the utilisation of external credits for developing the manufacture of fertilisers, small tractors and other mechanised equipments for agricultural purposes. The information furnished by the Ministry is reproduced below:

STATEMENT I

Credits from foreign countries for developing the manufacture of fertilisers

(Rs. lakhs)
(Pre-devaluation)

Name of the project for which the credit was obtained	Name of the credit with date of agreement	Amount of credit allocated for the project	Amount of credit utilised as on 31-5-66	Remarks
1	2	3	4	5
Trombay Fertilisers Plant	DLF loan No. 162 dated 29-12-1960	1428·57	1375·24	
	AID Loan No. 386 -H-104 dated 19-6-1964	371·43	286·19	
Fertilisers and Chemicals Travancore Ltd. (Third Stage Expansion)	£30 million (FYP) U.K. Credit dated 1-5-1961	280·00	264·00	
	Exim Second Line of Credit dated 3-1-1961 . .	51·00	51·00	
	DM 107 million West German Credit dated 12-12-1962	24·00	24·00	
Naharkatiy Fertilizer Project	£30 million (EYP) U.K. Credit dated 1-5-1961 . .	583.00	476.00	

1	2	3	4	5
Rourkela Fertiliser Plant.	DM 107 million West German Credit dated 12-12-1962. .	182·26	182·26	
	DM 40 million West German Credit for Selected Project II dated 26-11-1963 . .	303·57	303·57	
	DM 100 million Suppliers' Credit dated 22-12-1965 . .	119·05	Nil.	
Gorakhpur Fertilizer Project.	Second Yen Credit dated 18-8-1961.	748·30	748·30	
	Third Yen Credit dated 24-10-1963 . . .	362·48	362·48	
	Fourth Yen Credit dated 25-6-1965 . . .	138·10	138·10	
	Fifth Yen Credit dated 25-6-1965	61·90	61·90	
Gujarat Fertiliser Project.	Third Yen Credit dated 24-10-1963	380·95	380·95	
	Fourth Yen Credit dated 25-6-1965	357·14	357·14	
	Fifth Yen Credit dated 25-6-1965	480·95	480·95	
Sulphuric Acid Plant at Sindri (to help production of fertiliser at Sindri Fertiliser Project).	£ 0·5 million U. K. Credit dated 29-1-1965 . . .	67·00	19·00	
	£ 0·167 million U.K. Credit dated 20-4-1966 . . .	23·00	..	
	TOTAL . . .	5962·70	551·08	

STATEMENT II

Credit from foreign countries for developing the manufacture of small tractors and other mechanised equipment for agricultural farms

(Rs. lakhs)
(Pre-devaluation)

Credit	Amount allocated	Purpose	Utilisation	Remarks
1	2	3	4	5
1. Second Czechoslav Credit dt. 11-5-64	150·00	Establishment of a factory for tractors and power tillers.	..	The Czechoslovakian Party signed an agreement with the Government of India on the 28th August, 1965 for the pre-

1	2	3	4	5
				paration of a detailed Project Report. The first part of the Report is expected to be ready by the end of 1966.
2. First Kipping Loan dt. 16-10-1963.	25·00	(i) Components for manufacture of agricultural tractors—TAFE	25·00	
	20·00	(ii) Components for manufacture of agricultural tractors—International Tractors	20·00	
	5·55	(iii) Components for Track Parts of India Ltd.	5·55	
3. Second Kipping Loan dt. 9-9-1964.	25·00	(i) Components for manufacture of agricultural tractors—TAFE	25·00	
	20·00	(ii) Components for manufacture of agricultural tractors—International Tractors.	5·00	
	25·90	(iii) Tractors India Ltd.	5·00	
4. Third Kipping Loan dt. 20-12-64.	10·00	(i) Components for manufacture of agricultural tractors—TAFE	Not known	Full orders placed. payment under the credit will be made direct to the suppliers.
	63-27	(ii) Component for manufacture of agricultural tractors—International Tractors.	Not Known	
5. Food Emergency Loan dt. 11-2-66.	46·00	(i) Components for manufacture of agricultural tractors—TAFE	Not known	Licences have been issued to the parties concerned. Payment under the credit will be made direct to the suppliers.
	45·00	(ii) Components for manufacture of agricultural tractors—International Tractors.	Not known	
	19·00	(iii) for the manufacture of engines for TAFE tractors—Simpson.	Not known	
Total	454·72			

It is noticed from the above statements that credits from foreign countries for developing the manufacture of fertilizers total Rs. 59.63 crores and for developing the manufacture of small tractors and other mechanised equipment for agricultural purposes, Rs. 4.55 crores only. Asked whether he considered the quantum of credits so far obtained for these purposes adequate when annual import of fertilizers alone was of the order of Rs. 38 crores in 1963-64 and Rs. 30 crores in 1964-65, the representative of the Ministry agreed during evidence that "perhaps we should have given more attention to these aspects of economic development even in the Third Plan, a little bit more than what we have done; and to that extent one has to say that it is a bit of our own, shall we say, shortcoming, that we did not do it". He, however, assured that in the Fourth Five Year Plan (Draft Outline) adequate provision has been made for manufacture of fertilizers and of small tractors for agricultural use.

4.27. The Committee regret that despite repeated affirmation in three successive Plans of the crucial importance of achieving a break-through in agriculture to attain self-sufficiency in foodgrains, no concerted efforts were made to increase the manufacturing capacity for vital inputs such as fertilisers, tractors, power tillers etc. The Committee feel that if the intensive agricultural programme is to be implemented extensively in the country, it is essential that no time is lost in increasing supplies of power for irrigation purposes, fertilisers, tractors and other agricultural machinery required for achieving this programme. They need hardly stress that all available resources, including external assistance, should be effectively used to achieve this national objective of attaining self-sufficiency in agricultural production.

Implementation of recommendation of Rao Committee and decisions of Government thereon

4.28. Government had appointed* a Committee on Utilisation of External Assistance in June, 1963 under the Chairmanship of Dr. V. K. R. V. Rao, Member, Planning Commission. The Committee was charged *inter alia* "to examine the present procedures for the negotiation, allocation and disbursement of external assistance and to suggest measures in the light of such examination to ensure speedier and more efficient utilisation of available assistance in keeping with priorities in the Plan". In their Report submitted to

*Ministry of Finance (Department of Economic Affairs) Resolution No. F. 12|35|63 EF Coord. dated the 19th June, 1963.

Government in March, 1964, the Committee had made a number of recommendations with the object of accelerating the pace of utilization of external assistance.

4.29. Government was requested to furnish a statement showing upto date position in respect of the implementation of the recommendations of the Committee, which had been accepted by the Government in 1964. The statement of 'action taken' furnished by them in June, 1966 is given in Appendix III. It was observed from the statement that in the case of most of the recommendations, no conclusive action had been taken by Government although more than two years had elapsed since the report was accepted by Government. Confronted with the indecisive position stated by Government in the case of some of the more important recommendation, the representative of the Ministry stated during evidence that—

"I would like to apologise for some factual errors in our reply given in June 1966. With your permission I would make the corrections now and perhaps submit a written statement".

4.30. In regard to the recommendation that no project should be proposed for aid unless a "feasibility report" had been completed and the feasibility studies must cover both economic and technological aspects (item 3 of the Statement), the representative of the Ministry stated:—

"All the Ministries were informed of this together with the acceptance of this Report. But the form of feasibility study, it was felt necessary, should be laid down in order that the Ministries would have a guideline and they should know in what detail the data should be collected for a project proposal prior to its approval by Government and it being forwarded to the aid-givers. This work was entrusted to an expert group set up by the Planning Commission and the Group's final report was actually received only in May, 1966. This proforma is quite a substantial document indicating for the industrial projects what kind of data must be collected before a project could be considered either for foreign aid or for sanction by the Government.

There were several intermediate drafts of this proforma which have been seen by the Ministries and the Ministries have been acting upon it. There have been some problems in the manner in which the demand studies should be made, about the manner in which the capital costs to benefit ratio should be calculated. These have taken more time than perhaps it need have. On account of this there was no delay in the implementation of this proforma. It was actually accepted in its draft form in October 1965 and a circular (reproduced in Appendix I) was issued from the Finance Ministry to all the Ministries stating this proforma should now be adopted. The final form of this proforma of document, it is true, has been dated May, 1966".

4.31. As regards the recommendation to draw up lists of Indian and foreign firms qualified to prepare project reports in different fields (Item 4 of statement), the representative of the Ministry stated during evidence:

"Every Ministry does have already its own list of qualified consultants and engineers to whom they refer when they wish to have a project report prepared apart from their own subordinate organisations like the Fertilizer Corporation or the Central Engineering and Design Bureau. The broad proposal of the Rao Committee was that an attempt should be made to prepare a list out of these existing lists which would be such that reports prepared by them would be automatically acceptable to the lenders....This was broadly the thinking of the Rao Committe which, on further examination, of course, turned out not to be practicable. We did have discussions with some of our major lenders whether it would be of any assistance to have such a panel; they did not think that it would be possible to give advance assurance of acceptability of recommendations by panel members. The further work that is going on is for our own purpose of having a reduced list of really qualified firms to whom we, in our own interest, can refer projects and that work has been submitted to an expert committee under Mr. Barve, Member (Industry) of the Planning Commission, and their report is shortly expected. I would like to add that even that raises certain problems which the committee has to resolve. If an official list is prepared of firms to whom work would be given, then others not in that list would be excluded. There are legal problems involved. However, it may be solved by some device like licensing a professional association. Our reply referred to this further work. It may not be easy to list out the contractors, based on performance and knowledge of the consultants, to whom we can entrust the preparation of the project report and who in fact will be our technical consultants. When I was serving on the Executive Board of the World Bank, I put the same question to the World Bank and asked them to list out reliable consultants the World over so that developing countries can take advantage of their services. They took six months, must have spent a lot of money and reported back......that it is not possible in actual practice".

4.32. On the recommendation regarding changes in the scope of projects at a late stage which was a major cause of delay (Item 5 of the statement) the representative of the Ministry stated:

> "I think a separate circular was issued in October, 1965* although it merely repeated what was already known to the Ministries that Government wish this recommendation to be put into effect."

4.33. Another cause noted by the Rao Committee for delay in utilisation of external assistance was on account of the time taken in regard to acquisition of land, erection of townships etc. for setting up the undertakings. The Government had decided to undertake detailed examination of the subject in April, 1964. In June, 1966, it had been stated that "This issue is to be considered at a meeting to be convened for the purpose of concerned Ministries, e.g. Law, Home, Transport, Industry, Irrigation and Power and the Planning Commission etc." (Item 6 of the statement). Asked whether the matter had since been considered at the Inter-Ministr meeting and if so, what action had Government taken to reduce th delays experienced in the acquisition of land, erection of townships etc. for setting up the undertakings, the representative of the Ministry statd during evidence that the Government was "faced with.... a difficulty which cuts at the root of acquisition, and that is the recent judgment of the Supreme Court, repeated again in another case which we took up to the Supreme Court" which, he said, Government was "trying to cover.... by bringing up the matter to Parliament shortly (in the form of a Bill amending the relevant section of the Act concerned)**".

4.34. In regard to the recommendation that a suitable time table should be prepared at the start of the project, against which pro-

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*Ministry of Finance (Department of Co-ordination) O.M. No. 3879/J.S. (AM) dated the 7th October, 1965 (Appendix IV).

**Government have since issued an ordinance (No. 1 of 1967) on this subject which has been published in Gazette of India, Extraordinary, Pt. II, Sec. I, dated the 20th January, 1967.

gress could be measured, in which case Government had, in June, 1966, stated that "the Department of Coordination is issuing an O.M. on the need for advance planning and with regard to preparation and matching of time tables of progress" (Item 7 of the Statement), the representative of the Ministry stated during evidence:

> "I am sorry to report one more error. Necessary orders have been issued by the Planning Commission".

In a subsequent written communication, the Ministry have stated as follows:

> "This point was specifically included in the O.M. dated the 7th October, 1965, mentioned above. This, however, only reiterated an existing position. The former Ministry of Economic & Defence Coordination had instituted a detailed system of monthly reports by projects under construction as far back as 1962. This system has been continued and the work is now done by the Bureau of Public Enterprises under the Department of Coordination."

4.35. **The Committee are unhappy to note that despite the announcement by Government of acceptance of recommendations of the Committee on Utilisation of External Assistance in April 1964, concrete follow-up measures to enforce these recommendations were not taken. They are of the opinion that if Government had implemented the recommendations of the afore mentioned Committee in letter and spirit, many of the impediments which have hampered the speedy and meaningful utilisation of external assistance would have been removed, resulting in gain to national economy. The Committee feel that it may be advisable for Government to lay down a regular procedure whereby the administering Ministry|Department|Co-ordinating Agency could keep a careful watch on the follow-up measures taken in pursuance of recommendations of high powered Committees/Commissions, which are accepted by Government.**

Commitment/Service Charges on Loans

4.36. Government have to bear commitment/service charges on loans which have been negotiated and authorised but remain undrawn. These charges, it is stated, are levied by the lending countries "to meet their own cost of maintaining liquid funds for making disbursements to the borrowers (or to the foreign suppliers on their behalf) on demand from the loan funds" and are payable on the undrawn amounts of loans from the date of authorisation of the loan or a later date mutually agreed upon. The incidence of these charges is reduced with progressive drawal of the loans and it ceases altogether on the complete drawal of the loans or on the terminal dates of the loans. The charges have to be paid even when the loan agreement itself provides that the drawals will take place over a number of years. If the loans are surrendered ultimately, the obligation to pay commitment charges on such loans extends up to the date of surrender. The names of countries/institutions that levy such charges, the rate charged and the date from which commitment/service charges become payable in the case of loans advanced by them are as follows:—

Sl. No.	Name of country/ institution	Rate of service/ commitment charges levied	Dates from which payable
1	I.B.R.D.	3/4 % p.a. reduced to 3/8 with effect from the 1st July, 1964.	The commitment charge is payable on the unwithdrawn amount of the loan, such charge being payable from a date 60 days after the date the loan agreement is signed.
2	Canada . .	3/4% p.a. in respect of the credit dated the 20th April, 1966 for the Diesel Locos for the Calcutta Port.	Commitment charge is payable in respect of only one credit from Canada which was signed on April 20 1966 relating to purchase of Diesel locos by Calcutta Port. For this credit the charge is payable on the undrawn amount of the loan from the date of the agreement. There has been no such charge in respect of earlier credits from Canada and the Canadians have agreed to provide further credits without commitment/ service charge.

Sl. No.	Name of country/ institution	Rate of service/ commitment charges levied	Dates from which payable
3	West Germany .	1/4% p.a. for Government loans and 3/8 % p.a. for loans to development banks.	From 1963-64 the commitment charges were payable from the date of signing of the agreement to dates on which disbursements were debited. From 1964-65 such charge is calculated as from the 90th day of the date of signing of the agreement to the dates on which disbursements are debited. But in regard to loans to Development Banks the commitment charge is calculated as from the date on which Kreditanstalt (German Bank of Reconstruction agrees to the respective sub-loans based on the amount of such sub-loans—until the dates on which the disbursements are debited.
4	Netherlands .	1/6% p.a. (No commitment charges are payable n respect of the latest tranche of D.G. 26·00 million agreement for which is under negotiation).	The commitment charge in respect of the Dutch Credits is payable for each loan period during which the loan amount has to be drawn. The loan period has to be indicated by India in advance on the basis of our actual requirements for the funds. At our request, the Dutch Bank has to commit the loan amount for the particular loan period and for this commitment they levy the charge.

Sl. No.	Name of country/ institution	Rate of service/ commitment charges levied	Dates from which payable
5	U.S. Export Import Bank.	1/2% p.a. commencing from the DLW III credit, agreement for which was signed in December, 1966.	There was no commitment charge on credits from this Bank prior to December, 1966. The commitment charge is payable from the date of formal announcement of the credit and is Payable on the undrawn amount of the credit.

N.B. (*i*) The International Development Association levies a service charge of 3/4% p.a. on the amount drawn and outstanding from time to time. This charge, which is intended to meet the administrative cost of the credit, is in lieu of interest charges and, therefore, it is distinct from commitment/service charges mentioned above.

(*ii*) In respect of credits from Austria, there is no commitment/service charge but the Austrian National Bank charges 1/8% commission for handling documents relating to each contract.

There have been cases where commitment/service charges had to be paid on account of delay in the utilisation of loans contracted The Committee are informed that during the Third Five Year Plan period (1961-62 to 1965-66), a sum of over Rs. 2 crores was paid to I.B.R.D., West Germany and Netherlands, almost half of which was on Government account. The details are indicated below:

(Rs. lakhs)

Loan on Government account	
I.B.R.D.	80·09
West Germany	19·38
Netherlands	0·63
TOTAL	100·10
Loan outside Government account	
I.B.R.D.	102·29
West Germany	3·67
TOTAL	105·96
GRAND TOTAL	206·06

The amount of such charges on loans which were ultimately surrendered is Rs. 23.25 lakhs upto the 31st March, 1966.

4.37. Asked as to who bears the burden of commitment charges, Government have stated that "In case where the Government are the borrower they have to bear the charges. However, in respect of loans which are directly given to outside parties, commitment charges are payable by the parties concerned and the Government of India do not undertake any liability on that account'.

4.38. The Committee find that the commitment charges vary from country to country and that Government's efforts to persuade aid giving countries not to levy commitment charges have borne in the case of some countries e.g. Canada. The Committee feel that in view of the heavy burden of loan repayments, every effort should be made by Government to persuade the aid giving countries and institutions not to levy the commitment charge but where this is unavoidable, the Committee sugest thatt he levy should start from as late a date, after the signing of the agreement, as possible. They also commend the arrangement made with Netherlands according to which the quantum of loan and the period of utilisation are indicated periodically in advance by India on the basis of assessed requirements, thereby limiting the levy of the commitment charge to the specified amount. The Committee would like Government to make a special effort in respect of loans from United States who were not levying any commitment charge prior to December, 1966, so that *status quo ante* **may be restored. The Committee would also like to stress on the Government the need for advance detailed planning and realistic assessment of requirements so as to reduce to the minimum the payment of commitment charges.**

B. Source-wise

Loans from International Institutions

Aid from IBRD

4.39. *Loans*: India has been receiving long term loans from the I.B.R.D. for financing various development projects both in the public and private sectors since 1949. Upto March 31, 1966, *i.e.* till the end of the Third Five Year Plan, the total amount of loans made available by the I.B.R.D. (net of cancellations), for both the public and private sector projects and programmes, was Rs. 463 crores. Against this total, as much as Rs. 380 crores was actually drawn upto March 31, 1966, leaving an amount of Rs. 83 crores to be utilised during the Fourth Five Year Plan.

4.40. The I.B.R.D. being an international organisation, its loans can be used for financing imports for development programmes in various sectors of the economy from any of the Bank's member countries (as well as Switzerland) subject to general observance of the principle of broad international competition. A purpose-wise distribution of the loans given by I.B.R.D. is given below:—

($ million)

Railways	377·81
Ports	61·00
Aviation	5·60
Power (Generation & transmission)	175·44
Steel Plants	176·15
Coal Industry	29.06
Other industries (through loans to ICICI)	139.65
Agriculture	7·20
TOTAL	971.91

4.41. The particulars of the I.B.R.D. loans sanctioned upto March 31, 1966, the terms of repayment applicable for each loan and the present position of withdrawals and repayments are given in the following statements:—

($ million)

Name of the Loan	Date of Agreement	Rate of interest	Peroid of loan	Amount of loan	Amount drawnl	Amount repaid
1	2	3	4	5	6	7
			(years)			
(a) *Public Sector*						
1. Agriculture	29-4-49	3[illegible]%	7	7·20	7·20	7·20
2. Railways I	18-8-49	4%	15	32·80	32·80	32·80
3-6. Railways-II	12-7-57	5 [illegible]%	15	90·01	90·01	32·24
7. Railways III	16-9-58	5[illegible]%	20	85·00	85·00	12·05

1	2	3	4	5	6	7
8. Railways IV .	15-7-59	6%	20	50·00	50·00	6·64
9. Raiways V	29-7-60	5¾%	20	70·00	70·00	6·57
10. Railways VI .	13-10-61	5¾%	20	*50·50	50·00	2·74
11. D.V.C. I .	18-4-50	4%	20	16·72	16·72	10·80
12. D.V.C. II	23-1-53	4 ⅞%	25	10·50	10·50	3·58
13. D.V.C. III .	23-7-58	5 ⅜%	20	22·00	22·00	4·39
14. Koyna . .	8-4-59	5¾%	25	18·70	18·70	0·54
15. Air India . .	5-3-57	5½%	9	5·60	5·60	5·60
16. Calcutta Port I . .	25-6-58	5⅝%	20	29·00	29·00	3·89
17. Calcutta Port II .	17-8-61	5¾%	25	*21·00	9·91	—
18. Madras Port . .	25-6-58	5⅝%	20	11·00	10·00	2·06
19. Power Transmission .	11-6-65	5½%	25	*70·00	—	—
20. Kothagudam Power .	11-6-65	5½%	25	*14·0	5·24	—
TOTAL (a)				603·53	512·68	131·16
				($million)		
(*b*) *Private Sector*						
21. I.S.I. Co. I . .	18-12-52	4¾%	15	21·20	29·20	21·41
22. I.S.I. Co. II .	19-12-65	5%	11	19·95	19·95	14·21
23. I,S.I. Co. III . .	22-12-61	5¾%	12	*19·50	4·72	.
24. T.I.S. Co. I .	25-6-56	4¾%	15	75·00	75·00	35·37
25. TI.S. Co. II . .	20-11-57	6%	13½	32·50	32·50	20·20
26. Trombay I .	19-11-54	4⅝%	20	13·85	13·81	5·15
27. Trombay II . .	29-5-57	5⅝%	18	9·67	9·58	2·83
28. ICICI. I . .	14-3-55	4¾%	15	9·88	9·88	5·38
29. ICICI. II . .	15-7-59	Variable	10	9·77	9·75	4·78
30. ICICI. III . .	28-10-60	Do.	10	20·00	18·75	5·75
31. ICICI. IV . .	28-2-62	Do.	15	*20·00	16·64	0·55
32. ICICI. V . .	5-6-63	Do.	Not fixed	*30·00	16·75	0·18
33. ICICI VI . .	28-5-65	5½%	28	*50·00	0·44	.
34 Coal Industry .	9-8-61	5¾%	15	*29·06	28.27	.
			TOTAL—(*b*)	368·38	285·24	115·81
	GRAND TOTAL .			971·91	797·92	246·91

*These loans have been sanctioned in pursuance of the commitments made by the I.B.R.D. at the various Consortium Meetings from May 1961 onwards.

4.42. The table below shows the authorisation and utilisation of various loans during each of the three Five Year Plans:

(Rs. crores)

	Authorisation	Utilisation	Percentage of Utilisation
Upto end of First Five year Plan .	57·21	33·82	60
During Second Five Year Plan . .	261·04	222·79	85
During Third Five Year Plan .	144·56	123·36	85
TOTAL . .	462·81	379·91	82

Grants:

4.43. In addition to loans, India has also received assistance from I.B.R.D. in the form of grants, details of which are given below:—

(i) In May 1962, the I.B.R.D. agreed to finance the foreign exchange cost of an engineering study to explore the feasibility of a second crossing over the Hooghly river as a part of the West Bengal Government's Greater Calcutta Scheme. The Bank also agreed to finance a part of the local cost of the study under certain specified conditions. The total commitment of the Bank was not to exceed U.S. $ 116,000 which will be treated as a grant to the Government of India. The consultants appointed for this purpose have submitted their report which is under consideration of the Government.

(ii) In January 1963, the I.B.R.D. agreed to extend another grant to India to cover the foreign exchange requirement amounting to $ 750,000 approximately for a team of consultants engaged to undertake a study of the coal transport problem in the country. The consultants have suggested both short-term and long-term measures to put coal transport on a better organised footing. These suggestions are under the consideration of the Government of India.

(iii) In July, 1965, the I.B.R.D. also agreed to join in financing a survey of all modes of transport in the eastern region of India. The survey is being undertaken to enable the

Government of India to formulate a transport investment programme for the Fourth and Fifth Five Year Plans (1966 to 1976). The survey is being conducted under the auspices of the Planning Commission which has established a Joint Technical Group for Transport Planning for the purpose. The I.B.R.D. has agreed to make available a team of experts to assist the Planning Commission and also to bear the foreign exchange cost of the services of these experts, presently estimated at $ 285,000.

I.D.A. Credits

4.44. The International Development Association was created in 1960 particularly for making additional resources available to the under-developed and developing countries, for their economic development, on soft and liberal terms. The credits extended by the IDA are repayable over a period of 50 years inclusive of a moratorium of first ten years. The credits are interest free but a service charge of ¾ of one per cent per annum, mainly intended to cover the Association's administrative expenses, is payable on the amounts drawn and outstanding from time to time. Upto the end of the Third Five Year Plan, *i.e.* March 31, 1966, the Association has extended seventeen credits to India in pursuance of the commitments made at the various Consortium meetings amounting to Rs. 278.55 crores out of which Rs. 200.63 crores (or 72 per cent) were utilised by the end of that period. The details of the projects financed by these credits and disbursements made upto March 31, 1966 are given in the table below:—

Sl. No.	Name of the Project	Date of Agree-ment	Credit Amount ($ million)	Amount drawn ($ Mil.)
1	2	3	4	5
1	Construction of National Highways	21-6-61	60·00*	51·69
2	U.P. Tubewell Irrigation	6-9-61	6·00	6·00
3	Shetrunji Irri. (Gujarat)	22-11-61	4.50	3.39
4	Salandi Irrigation (Orissa)	22-11-61	8·00	1·57
5	Punjab flood protction & drainage	22-11-61	10·00	9·43
6	DVC (Durgapur 3rd Unit)	14-2-62	18·50	12·00

*An amount of $530.000 has since been cancelled on 4-4-1966.

1	2	3	4	
7	Sone barrage in Bihar . .	29-6-62	15·00	11·56
8	Purna Irrigation — Power Project in Maharashtra	18-6-62	13·00	9·41
9	Koyna Power (II Stage) . .	8-8-62	17·50	9·05
10	Improvements in Bombay Port	14-9-62	18·00	3·42
11	Telecommunications I . .	14-9-62	42·00	35·55
12	Railways (VII) . .	22-3-63	67·50	67·50
13	Kothagudem Power I .	24-5-63	20·00	13·46
14	Industrial Imports I .	9-6-64	90·00	89·45
15	Telecommunications II . .	6-7-64	33·00	20·28
16	Railways VIII . .	26-10-64	62·00	62·00
17	Industrial Imports II . .	11-8-65	100·00	15·56
	TOTAL . . .		585·00	421·32

Instances of Slow Utilisation of I.B.R.D. loans and I.D.A. Credits

4.45. Out of a total of 34 schemes financed by I.B.R.D. loans and 17 schemes by I.D.A. credits, following are a few instances where utilisation of the loans and credit has been noticed to be particularly lagging behind:

Sl. No.	Loan/Scheme	Loan/ Credit No.	Date of Loan	Amount authorised	Balance available as on 31-3-1966
1	2	3	4	5	6
		I.B.R.D.		($ million)	
	Public Sector				
1.	Calcutta Port II . .	294 IN	17-8-61	21·00	11·09

1	2	3	4	5	6
2.	Kothagudem Power II .	417 IN	11-6-65	14·00	8·76
3.	Power Transmission .	416 IN	11-6-65	70·00	70·00
	Private Sector				
4.	I.S.C.O. -III .	307 IN	22-12-61	19·50	14·78
5.	I.C.I.C.I -V	340 IN	5-6-63	30·00	13·25
6.	I.C.I.C.I.-VI .	414 IN	28-5-65	50·00	49·56
		I.D.A.			
1.	Salanadi Irrigation	14 IN	22-11-61	8·00	6·43
2.	Koyna Power II .	24 IN	8-8-62	17·50	8·45
3.	Bombay Port	27 IN	14-9-62	18·00	14·58

4.46. Asked the reasons for the slow utilisation of some of the I.B.R.D. and I.D.A. loans, Government have stated that the progress of utilisation of all I.B.R.D. loans and I.D.A. credits might be considered in the light of the following basic points:

"(a) Most of the IBRD loans and IDA credits are financing specific projects and are therefore disbursible only on proof of expenditure incurred on the projects.

(b) Since the expenditure in foreign exchange, mainly on imports, is incurred over a period of time (ranging from two to six years because of fabrication of equipment after the order is placed—which generally follows the loan or credit agreement—and delivery thereof the disbursement of IBRD loan or IDA credit gets inevitably spread over a long period. Local currency expenditure on the project is also closely related to the timing of import of machinery and equipment and thus the physical implementation of projects is generally phased over a period of years.

(c) The I.B.R.D. generally requires international competition to be followed for procurement of goods for the project financed by the IBRD/IDA. This necessarily involves global tendering, evaluation of bids, taking prior approval of the IBRD in cases of major contracts, etc., which also consume time before an order is finally placed.

(d) In full recognition of the points at (b) and (c) above, the loan/credit agreement with the IBRD/IDA specifies an appropriate date (ranging from 3 to 6 years from the date of the agreement) as the closing date for the loan or credit before which the loan or credit is required to be fully drawn.

(e) In some cases, the original anticipations of time required for execution of a project are later found to be unrealistic or cannot be adhered to because of certain difficulties encountered during the project execution. In such cases the closing date stipulated in the agreement is required to be extended so as to conform to the revised schedule of the execution of a project.

It can, therefore, be concluded that the utilisation of IBRD loans or IDA credits is necessarily dependent on the project execution, and even in the normal course, should be expected to spread over a period of 3 to 6 years. Thus, it is the speed with which a project is executed that determines the rate of utilisation of IBRD loan or IDA credit and not *vice-versa*. Also the rate of utilisation can be expected to be slower in the earlier part of the validity of loan period.

It may also be pointed out here, that the points mentioned (above) are not peculiar to India alone......most of the under developed or developing countries, which have borrowed from the IBRD/IDA, have taken or are taking considerable time to fully utilise the credits or loans".

4.47. The Committee called for data from Government in respect of these loans. The examination of the data has revealed the following salient features:

(i) *Power Transmission Schemes and Kothagundam Power Second Loan*

4.48. Pledges for IBRD loans of Rs. 33·33 crores and Rs. 6·67 crores for "Power. Transmission Scheme" and "Kothagudam Power Stage II" respectively, were made on the 7th August, 1963, but agreements therefor were signed almost two years later, *i.e.* on the 11th June, 1965. The result was that, by the 31st March, 1966, in respect of "Power Transmission Schemes", even orders could not be placed and, in respect of "Kothagudam Power Stage II", only Rs. 2.49 crores could be utilised leaving a balance of Rs. 4.18 crores to be utilised during the Fourth Plan period.

4.49. In the case of "Power Transmission Projects", although the negotiations for the loan were spread over a period of two years, it took the Government another 6 months after signing the agreement, to obtain the guarantees regarding commercial system of accounting and achievement of a specific rate of return on investment by the Electricity Boards prescribed by the I.B.R.D. and the loan was finally declared effective by the Bank on the 6th January, 1966. The closing date of the Power Transmission loan is June 30, 1968. Asked whether it would be possible to utilise the credits by the closing date, Government have stated that "the position is being kept under close watch and, if found necessary, an extension of the closing date will be sought".

(ii) *Calcutta Port Second Loan*

4.50. Explaining the reasons for utilisation of only Rs. 4.72 crores by the end of the Third Plan period out of the Second Calcutta Port Loan of Rs. 10 crores contracted with the I.B.R.D. on the 17th August, 1961 it was stated that "orders for some of the equipment were delayed for several reasons which were explained to IBRD and accepted by them and the closing date of the loan has since been extended to March 31, 1967". An assurance was also given that "on the basis of the delivery period indicated by the suppliers, the balance of $11 million is likely to be drawn by 31-3-1967". Asked whether on the basis of progress in regard to deliveries against orders placed, the credit was likely to be fully utilised by the 31st March, 1967, Government have subsequently stated as follows:

"Due to some unforseen reasons, which are explained below, the terminal date of the loan will have to be extended:

(i) The U.K. firm entrusted with the construction of Grab Dredger and four Hopper Barges has gone into liquidation. The Grab Dredger, which was on its voyage to India, has broken down at Gibraltar. Two of the four Hopper Barges are not yet complete for delivery. The loan may therefore have to be extended to cover the final 5 per cent instalment in respect of Grab Dredger and the the two 1400 Tonnes Hopper Barges and the cost of two 1100 Tonnes Hopper Barges. (Total amount approximately 0.67 million).

(ii) From the loan amount, a saving of about Rs. 75 lakhs is anticipated. The Port Commissioners are finalising the list of equipment to be fixed against the savings. Since the procurement will involve international bidding there is likely to be delay".

(iii) *Coal Mining*

4.51. The IBRD gave a loan of $35 million to Government of India for maintenance and expansion of coal production by the private sector in India with a view to increasing the annual rate of such production by about 16 million long tons by March 31, 1966. It is stated that the "utilisation of this loan was inordinately slow since the private coal producers who were the real users of these funds did not show any enthusiasm for availing of these facilities for expanding their activities.......The reasons cited by these producers were such as lack of demand for coal by the customers of these companies, difficulties experienced by these companies for raising matching rupee resources etc. Government tried to solve these difficulties by making available the necessary credit facilities etc. Even then, there was no response from the coal producers to come up with proposals for opening of new mines with the result that the progress on this loan was unsatisfactory. The closing date for the new mines portion of the loans was September 30, 1965 and for the rest of the loan, July 31, 1963. The latter date was, however, subsequently got changed to September 30, 1965 with the concurrence of the IBRD. However, in its review in August, 1965 the IBRD did not find the progress satisfactory. Since the loan was primarily intended for meeting the Third Plan requirements of the coal industry, the IBRD did not favour a general extension of the loan beyond December 31, 1965......This led to a surrender of $5.943 million from the loan amount which could not be drawn till December 31, 1965."

4.52. Asked whether any survey of demand for credit was made before negotiating the loan from the I.B.R.D. and if so, whether the Government was not made aware of the difficulties of the managements of the private Collieries before the loan agreement was signed, Government have stated that:

"The IBRD Loan of $35 million was obtained for meeting the foreign exchange requirements of the private sector coal industry for its development during Third Plan period. The target set for additional production of coal by private sector during the Third Plan was 17 million tons. The figures of 17 million tons for the private sector was arrived at as a result of an examination of the actual programmes of increased production put forward by individual collieries through the Joint Working Committee of the three coal mining associations. This examination was conducted by a Working Group set up by Government and it was found that the private sector had the capacity to achieve this target. The foreign exchange requirements for the additional production and for maintenance of production was assessed at Rs. 25·41 crores. It was proposed to obtain a loan to cover this foreign exchange requirements. The Bank however decided to grant a loan of Rs. 16·67 crores ($35 million).

No difficulties of the managements of the private collieries were brought to the notice of the Government before the loan agreement was signed."

(iv) *Salanadi Irrigation Project*

4.53. I.D.A. Credit for Rs. 3.81 crores was given on 22-11-1961 for Salanadi Irrigation Project which was to be executed by the Orissa Government and scheduled to be completed by 30-6-1965. It was stated that "IDA team which came to review the progress on the project in 1962-63 noticed that there was a considerable change made in the scope and design of the project by the Orissa authorities and that there were certain inaccuracies in the hydro-logical data supplied to the World Bank. The IDA, therefore, wanted a proper revision of the project and appointment of consultants to the project to ensure working of the project on a proper and sound basis. Until this was done, IDA stopped further disbursement against their credit since May, 1963."

4.54. Subsequently in a written note, Government have stated that the project was originally a medium scheme costing less than Rs. 5 crores and as such the project was "investigated, planned and designed by the State authorities". The hydrological data was originally supplied by the State authorities and was subsequently confirmed by them on the basis of which the approval of Planning Commission was issued on 8-10-1959. In 1963, the State Chief Engineer stated that "the hydrological data intimated by him earlier in the Project Report was found to be incorrect." The revised data necessitated material changes in the scope and design of the Project. It is further stated that "The I.D.A. authorities have now agreed to resume disbursements against this credit and the closing date of the Credit has also been extended to 30th June 1969 from 31-12-1965. The Project is now expected to be completed by March, 1969 as per revised construction schedule furnished to the I.D.A."

(v) *Koyna Power Second Loan*

4.55. Explaining the reasons for the slow utilisation of the IDA credit for Koyna Power Scheme, Government have stated that:

"Two items of the project, *viz.*, construction of power house at the base of the dam and construction of the transmission line to Jaigad (for supplying power to the proposed Aluminium factory) have not yet started as basic decisions on the exact location of the dam and the proposed Aluminium factory have not yet been taken. The location of the Jaigad factory has been decided only very recently and the work on the transmission line is being taken up. It is expected that the entire project will be completed and the whole of the credit drawn before the prescribed closing date".

(vi) *Bombay Port*

4.56. Government have explained the reasons for slow utilisation of this I.D.A. credit as follows:

"In 1965, it was clear that due to upward revision of the cost estimates the number of floating craft, port equipment etc. as included in the credit financing, had to be revised with IDA's approval. Due to the time lost in getting the revisions finalised and approved by the IDA, the pace of ordering was somewhat slowed down, but since these revisions the ordering has picked up.

The International Development Association has also now prescribed a strict time schedule to be followed to speed up the completion of the project and drawal of the credit. Necessary steps have been taken to adhere to the time schedule laid down by the IDA and the progress is being watched."

4.57. The Committee are gratified to note the assistance that the International Bank of Reconstruction & Development has rendered to the country for development of infra-structure facilities and industrialisation. They specially commend the terms on which the I.D.A. loans have been made repayable over a period of 50 years, with a moratorium of first ten years and with no interest except a service charge of 3/4 of one per cent per annum. The Committee note that the percentage of utilisation of loans from I.B.R.D. and I.D.A. work out to 82 and 72 respectively. The Committee have no doubt that Government would take remedial measures, as necessary, in the light of above analysis, to further speed up utilisation of these valuable loans.

Assistance from I.M.F.

4.58. India has been receiving exchange assistance from I.M.F. ever since the fund began exchange operations in 1947. From this institution, against the deposit of rupees and subject to defined limits, foreign exchange can be purchased for specific periods of time after which the transactions have to be reversed and "repurchase" of rupees with foreign exchange has to be effected. India's transactions with the I.M.F. are indicated in the following statement:

India's transactions with the International Monetary Fund

(In U.S. $ Millio)

1. 1945-December .	Membership Quota	400·00
1947-February . .	Gold Subscription	27·53
2. 1959-October .	Quota Increased to	600·00
	Gold Subscription	50·00
	Currency Subscription .	150·00
3. 1966-March . .	Quota Increased to . .	750·00
	Gold Subscription .	37·50
	Currency Subscription .	112·50

Drawings		*Repayments*	
1948-March	28·00	1954-March . .	36·22
May . ,	8·06	July .	10·50
June	8·06	1955-March .	25·68
November .	8·06	July .	15·00
December .	16·12		
1949-February	24·18	1956-April . .	12·50
March .	7·50	1960-February	50·00
		June . .	22·50
1957-February	60·00	1961-June . .	64·25
March .	67·50	August .	63·25
June .	72·50		
1961-August .	250·00	1963-June .	25·00
1962-July	25·00	1964-February .	25·00
		June . . .	25·00
1965-March	100·00		

April	25·00	1965-March	75·00
June	25·00	1966-March	75·00
July	25·00		
October	25·00		
1966-March (Special Drawing)	37·50	Outstanding repayment (U.S.$ millions)	
April	187·50	$50·00 (from $ 250·00 of 1961 August) $200·00 (of 1965 March) $37·50(Special Drawing March, 1966) $ 287·50 of April, 1966.	

4.59. The Committee are happy to note the consistent accommodation which has been extended by International Monetary Fund to this country to meet the balance of payments situation, from time to time.

U.S.A.

(a) *Assistance under Public Laws 480 and 665*

Assistance under U.S. PL 665.

4.60. Substantial quantities of wheat and cotton were imported from U.S.A. during the U.S. fiscal years 1959, 1956 and 1957 under U.S. Public Law 665, as a part of the development assistance under the technical cooperation programme. The cost of these commodities was paid in rupees which were held in a special account of the U.S. Government. The rupees funds thus generated were subsequently to be made available to India as a part of development assistance loans and grants for mutually agreed projects. Out of the total amount of Rs. 31.87 crores generated as counterpart funds and deposited in U.S. Government account, a sum of Rs. 19.74 crores was made available as part of development assistance loans and about Rs. 9.7 lakhs as grants for the Rihand Valley development. The balance amount is being utilised by the U.S. Aid Mid Mission in India to meet the cost of international travel of participants and technicians, local cost of technicians and local technical support cost of the projects and programmes. The total expenditure on these items reported upto the end of March 1966 amounted to Rs. 10.55 crores.

*To be repaid by 31st July, 1966.

Assistance under U.S. P.L. 480

4.61, Commodity assistance by U.S.A. under U.S. P.L. 480 is classified as under Titles II, II and III of the Law.

4.62. T'itle I' of U.S. Public Law 480 authorises the U.S. President to enter into agreements with other countries providing for the sale of agricultural commodities against payment in the currency of the recipient country. The supplies are made on condition that the importing country continues to maintain normal level of imports out of its own funds.

4.63. 'Title II' enables the U.S. President to furnish emergency assistance to foreign countries in meeting famine or other urgent or extraordinary relief requirements. Under this title India has received till the end of January 1966 agricultural commodities worth $ 15.8 million (Rs. 7.5 crores).

4.64. 'Title III' allows distribution of dried milk, wheat, rice, corn, cotton seed oil and other such commodities by voluntary agencies. As at the end of June, 1965, India has received a sum of $228·970 million (Rs. 109·98 crores).

4.65. Under 'Third Country Currency Assistance', out of the U.S. Government holdings of local currencies in certain countries out of U.S. P.L. 480 assistance to these countries, the U.S. Government has allocated a total of $ 5.84 million (Rs. 2.78 crores) for "Triangular Trade" transactions. They include purchases by AID for India, fertiliser with Japanese Yen, French Francs and Italian Lire, and electrical goods and clay products from Japan. These commodities are resold in India and the rupee proceeds by these transactions accrue to the U.S. Treasury for use in finishing the operations of the U.S. Government in India.

Assistance under Title I of P.L. 480

4.66. Beginning with the first agreement signed on 29-8-1956, India has, upto the period ending March 31, 1966, entered into 9 arrangements for the import of agricultural commodities from U.S.A. against payment in Rupees. The agreements specify the commodities to be imported, their value and the allocations out of the counterpart rupee funds for (1) Loans and Grants to the Government of India, (2) U.S. uses in India, and (3) Loans under Cooley Amendment. A statement showing particulars of these agreements and the use-wise allocation of funds generating therefrom is at Appendix V.

4.67. The value of commodities and allocations thereof provided for in the agreements and the value of commodities imported and paid for and its use-wise allocation is as under:

Position as on 31-3-1966
(Rs. crores)

	As provided for in the Agreements	Value of Commodities actually imported and paid for
Total Value . .	1563·63	1370·10
Allocations		
Loans	873·16	740·82
Grants	375·32	351·22
U.S. Uses	205·82	183·82
Cooley Loans	109·33	94·24
	1563·63	1370·10

Commodity Component of Agreements and Actual Imports

4.68. The commodity components of the agreements signed upto 31-3-1966 have been indicated as follows:

Commodity	Unit	Quantity in thousands	Value $ million
Wheat	Metric ton	36101·10	2215·770
Rice	Do.	1756·86	208·050
Cotton	US Bales	1980·00	275·800
Tobacco	Pounds	13690·00	13·900
Milk Powder and Milk Products	Metric tons	40·60	8·173
Corn (Maize) .	Do.	780·00	40·850
Serghum (Milo)	Do.	1349·00	57·100
Soyabean Oil and other lubricants	Tons	121·30	29·800
Ocean Transport .			434·219
		TOTAL	3283·626

4.69. It is seen from the above statement that value of commodities, other than foodgrains, import of which was provided for in the agreements valued $ 327.637 million of which imports of cotton and tobacco was to be of the value of $ 275·800 million and [13·900 million respectively.

4.70. The actual imports of 'foodgrains' and non-food commodities have, upto the end of March, 1966, been as follows:

Foodgrains	Quantity ('000 M. T.)	Estimated C&F Value (Rs. crores)
Wheat	33498	1265
Rice	1756	123·61
Corn	53	1·67
Milo	354	10·32
TOTAL	35661	1400·60

Non-food commodities	Quantity	Approx. Value ($ million)	(Rs. crores)
Cotton	19·47 (lakh bales of 500 lbs. each)	287·57	136·94
Maize for Starch Industry	773000 M.T.	48·15	22·93
Tobacco	13·16 million lbs.	15·90	7·57
Milk Products	40700 M. T.	9·27	4·42
Soyabean Oil	69000 M. T.	21·00	10·00
Tallow	42700 M. T.	9·90	4·72
TOTAL		391·79	186·58

4.71. Asked whether the import of commodities other than foodgrains under U.S. P.L. 480 arrangements was absolutely necessary, the representative of the Ministry stated during evidence that:

"No commodity would obviously be imported by Government unless it was considered absolutely necessary...... tobacco is ued in very small proportion in blending with indigenous tobacco in order to produce high quality cigarettes and cigars. This makes it possible to use indigenous tobacco, which by itself, would be considered of low quality, in manufature of high quality cigarettes. On account of the higher value because of this blending, it yields us very high revenue. With regard to cotton ......the cotton imported is cotton which is not produced in this country such as long staple and extra long staple for superior varieties of production."

4.72. Answering the question whether the import of cotton and tobacco is tied to export of superior variety of cloth or tobacco manufactures, he stated:

"the answer is in the negative in the sense that there is no obligation on us to export any given quality of manufactures out of commodities imported under P.L. 480."

4.73. The Committee need hardly emphasise that import of commodities against rupee payment, as hitherto, cannot be taken for granted. It is significant that the latest amendment (Food for Peace) made to P.L. 480 by the United States Congress specially lays stress on payment in dollars. Besides, the huge amounts standing in counterpart funds in the name of the United States in India cannot be viewed with complacency and underline the importance of exercising utmost discipline and restraint in ordering imports under the programme. The Committee hope that Government would take effective action in accordance with the assurance given to the Committee that no commodity would be imported under P.L. 480 unless it is absolutely necessary.

Quality of Commodities Imported

4.74. The representative of the Ministry was asked whether the commodities sold by the U.S. Government under U.S P.L. 480 are out of the stock pile of those commodities maintained by the U.S. Government and if so, whether the Government, in usual course, ascertain as to how long have the commodities contracted for been held in stock. He stated:

"Normally, the commodities are supplied by the suppliers from current availabilities in the open market, but some times the U.S. Government releases stocks from their stockpile into the market and this is done in order to roll over their stocks so that their own stocks do not become too old and are not kept there too long. It is our understanding that normal sales made are out of current crops or at the most from the previous year's crop so that the period of roll over is about a year.... This is more so since their surpluses have been dwindling. Lately, there has been no stock available with them."

4.75. He further stated that "we have got pre-despatch inspection facilities, available to us before the goods are actually shipped from there......we have got an agency in all the loading ports which works on our behalf, takes samples and sees to it that they are according to the standards laid down by the United States Government. On receipt of the goods in India we also take samples from different shipments from time to time and get it analysed in our laboratories and also ascertain that they are according to standards. We have made sure that the United States Government does not use any deleterious chemicals for storage." Asked whether there was any way to find out the age of the imported wheat, he stated that "here is no way, but, on the basis of the analysis which we do here, we find out that it has not deteriorated under storage which means that it was not to long in storage."

Transport of Import under P.L. 480

4.76. One of the conditions in the U.S. P.L. 480 agreements for import of commodities is that 50 per cent of the total tonnage of the P.L. 480 commodities has to be transported in U.S. vessels. Till June, 1965, the U.S. Government used to finance the dollar cost of this 50% tonnage, with corresponding payment being made in rupees in the U.S. account in India. The Agreements signed after June, 1965 require that while 50% of the total tonnage will continue to be transported in U.S. vessels, the ocean freight in respect of this tonnage will be paid by India in dollars except to the extent of the freight differential between the U.S. and non-U.S. vessels rates, which will be borne by the U.S. Government.

4.77. The insurance cost could also be financed by the U.S. Government as a part of the transportation charges to the extent mentioned above. According to data furnished by Government, the freight paid to the U.S. Flag Ships for foodgrains imported from U.S.A.

under P.L. 480 during the period 1955-56 to 1965-66 has been as follows:

(Rs. crores)

	Amount	Percentage of Total
U.S. Flag Ships . . .	77·99)* +6·70)	46·0
Non-U.S. Flag Ships . .	98·10	53·2
Indian Flag Ships . .	1·41	0·8
	184·20	100·0

*Rs. 77·99 crores was paid in Rupees and Rs. 6·70 crores was additional payment in dollars.

4.78. Asked why the share of Indian Flag Ships in carrying the P.L. 480 imports was negligible, the representative of the Ministry stated that it was because the Indian Liners were engaged in carrying general cargo, rather than bulk cargo, which fetches better freight. He, however, maintained that "the first preference is given to the Indian Ships." Only when these were not available that other ships were engaged. Asked by what percentage on an average were U.S. ship freight rates higher as compared to those of Indian and other non-U.S. ships, the representative of the Ministry stated: "It is about 100 per cent—almost double on an average."

Impact of P.L. 480 on Wheat Imports

4.79. A view has been expressed "that the production of agricultural commodities is heavily subsidised by the U.S. Department of Agriculture.... When these commodities are exported, they are again subsidised....On arrival in India, these commodities are further subsidised by the Indian Government in the interest of consumers. These commodities are then....(required to) compete with the indigenous produce." Asked whether in view of the fact that the stock pile of agricultural commodities by the U.S. Government acts as a powerful price support for the local produce, the export prices charged for commodities under P.L. 480 are largely artificial, the representative of the Ministry admitted during evidence that "the export prices are artificial in the sense that they are subsidised by the U.S. Government." While the extent to which they are subsidised "depends on the commodities; normally to the extent of bringing them into competitive line with world prices." Asked how the export prices of the commodities supplied under the P.L. 480 agreements were actually determined, the representative of the Ministry stated:

"The United States Government every day announces the quantum of federal subsidy that would be available to various supply areas for commodities exported by them under P.L. 480. The potential suppliers, after taking into consideration the export subsidy permissible, make their own determination of the prices at which they are willing to sell foodgrains but these prices are subject to review and approval by the United States Government with the object of ensuring that importers are not being charged unduly high prices. As a matter of fact, the amount of federal subsidy announced is so adjusted that their export prices become competitive with the international prices."

4.80. He further stated that the prices charged were "competitive" and that there were no "price differentials......but there may be minor variations."

4.81. According to Prof. K.N. Raj of the Delhi University (quoted by Edward S. Mason in his book: Economic Development in India and Pakistan)—

"During the period 1960—64 not less than 3½ million tons of food grains were released each year by the Government for consumption even in 1960-61 and 1961-62 when bumper harests resulted in peak levels of production.... the large-scale releases....kept (food grain) prices at a low level, relative to the prices of manufactured products and created the impression that the Government had no interest in maintaining a structure of relative prices which would give incentive (or at least not create disincentive) for raising food grain production".

4.82. It is a moot point whether P.L. 480 imports in the beginning of the Third Plan had the effect of depressing prices of agricultural commodities. The more important point, in the context of failure of rains during the last two years, is to have a well thought out programme for imports under P.L. 480 so as to ensure that there is enough buffer stock available, particularly in vulnerable States, and that food supplies to the public in scarcity areas are on no account interrupted.

P.L. 480 Counterpart Funds

4.83. As stated earlier, U.S. PL 480 agreements provide for allocations of the sale proceeds of the commodities imported, for disbursement by the U.S. Government:

(a) as loans and grants to the Government of India;

(b) for U.S. uses; and

(c) for Cooley Loans.

The value of commodities imported and paid for in rupees amounted to Rs. 1370.10 crores while the amount actually disbursed by U.S. Government for different purposes upto 31-3-1966 was Rs. 983.37 crores. The details are as follows:

(As on 31-3-1966)
(Rs. crores)

	Allocations	Amount actually disbursed	Balance
Loans to Government of India .	740·82	528·85	211·97
Grants to Government of India .	351·22	316·40	34·82
Cooley Loans	94·24	44·59	49·65
U.S. Uses	183·82	93·53	90·29
	1370·10	983·37	386·73

4.84. The balance of counterpart funds amounting to Rs. 386·73 crores (together with other rupee funds accruing to the U.S. Government from interest on rupee loans and repayments thereof and the interest earned by them on their rupee holdings in India which in all aggregated Rs. 208.20 crores on 31-3-1966) are held by the U.S. Government mainly in their account in the Reserve Bank of India, and the later invests these in special securities of the Government of India.

Quantum of Loans and Grants to Government of India

4.85. Out of counterpart funds generated as a result of sale of commodities under P.L. 480, U.S. Government has till 31-3-1966 disbursed a sum of Rs. 845.25 crores as loans and grants to Government of India (Rs. 528.85 crores as loans and Rs. 316.40 crores as grants) for financing the rupee requirements of mutually agreed projects. The grants are against the agreements signed prior to 1960. The agreements signed between 1960 and 1966 do not provide for any grant to Government of India out of counterpart funds.

4.86. Upto May, 1966, a total of 11 loan agreements had been signed under the P.L. agreements. The terms and conditions of these agreements are given below:

Date of the PL 480 commodity agreement which earmarked the loan	Date of the loan agreement	Amount of the loan authorised	Rate of interest	Period of repayment
		(Rs. crores)		
1. 29-8-1956 . .	28-6-1957	107·74	4%	Repayable in 73 semi-annual instalments commencing four years after the date of first disbursement.
2. 23-6-1958 . .	3-11-1958	15·89	5%	
3. 26-9-1958 . .	27-4-1959	61·76	3½%	
4. 13-11-1959 . .	15-4-1960	49·19	4%	
5. 4-5-1960 . .	26-3-1962	256·76	4%	
6. 4-5-1960 (Amendments dated 29-7-60 22-9-60 and 9-3-1961) . .	1-6-1962	18·99	4%	
7. 1-5-1962 . . (as amended on 17-5-62)	30-9-1964	16·65	¾%	Repayable in 75 semi-annual instalments commencing three years after the date of first disbursement.
8. 30-9-1964 . . (main agreement)	30-9-1964	153·19	¾%	
9. 26-11-1962 . .	29-4-1965	42·06	¾%	
10. 30-11-1962 . .	29-4-1965	2·08	¾%	
11. 30-9-1964 . . (amendments dated 31-12-64 and 26-7-65)	23-5-66	32·07	1% for first 10 years and 2½% thereafter	Repayable in 75 semi-annual instalments commencing 3 years after the first disbursement.

NOTE: 1. The loans at 1, 2 and 3 are designated in dollars. All other loans are designated in rupees. All loans are repayable in rupees or in dollars at India's option.

2. The amounts shown for these agreements are the equivalent of the dollar amounts converted at the pre-devaluation rates.

4.87. It is seen from the above statement that in the case of the loan agreement signed on 23.5.1966 for Rs. 32.07 crores, the rate of interest agreed to is 1% for first 10 years and 2½ per cent thereafter as against ¾% for earlier loans. Asked the reasons for the higher rate of interest agreed to, the representative of the Ministry stated during evidence that—

> "The answer is that they want to bring the interest terms for these rupee loans on par with the interest terms for the dollar loans which we receive from them. There is some hardening in respect of dollar lending; it is that same rate which they have adopted for their rupee loans."

Rate of Allocation of Loans

4.88. A reference to the original loan agreements signed has revealed that the allocations (out of funds generated by commodity agreements) of loans to the Government have been provided for in the various loan agreements at different percentages as indicated below:

Date of Loan Agreement	Percentage of funds allocated for loan to Government
15-4-1960	40%
26-3-1962	43%
1-6-1962	43%
30-9-1964	89%
30-9-1964	80%
29-4-1965	85%
29-4-1965	85%
23-5-1966	77%

4.89. Asked about the reasons for differences in the rate of allocations of those loans, the representative of the Ministry stated that the rise in the percentage of allocations for loans was due to the elimination of grant element in the agreements signed after 1960. In answer to the question as to why was the grant element withdrawn from agreements signed after 1960, he stated:

> "I think that this is part of a general policy change in the U.S. around 1960 or 1961 when the Administration's feelings seem to have turned to making people less dependent on grants, or in a sense more self-reliant than if they

were to be continuously fed by grants. There are perhaps exceptions. In South Korea, I think, they continued to give some grants, after they withdrew it from elsewhere . . . .But when they used to give half the money as grant and the other half as loan, the interest rate on the loan portion was 4%. When the whole of it came as loan, the interest rate on the whole of it was to begin with $\frac{3}{4}$% and now it has been changed to 1% and $2\frac{1}{2}$%. This is still lower than the original rate of interest on the loan portion."

Use of Loans and Grants out of PL 480 Funds

4.90. The loans and grants received from U.S. Government out of the U.S. P.L. 480 rupee funds are expendable on mutually agreed projects and schemes. These projects/schemes number 49. On the basis of the information furnished by the Ministry, field-wise use of the loans and grants has been worked out as follows:

(In Millions of Rs.)

	Loan	Grant	
Agricultural Development . .	3074·3	396·7	= 3471·0 or 41%
Technical and Medical Education	..	1541·8	= 1541·8
Industrial Development .	1252·0	6·2	= 1258·2
Medical Services .	..	1019·3	= 1019·3
Power Projects . . .	962·2		= 962·2
National Highways .	..	200·0	= 200·0
	5288·5	3164·0	= 8452·5

4.91. It was pointed out to the representative of the Ministry during evidence that out of a total amount of Rs. 845.25 crores received by the Government as loans or grants under P.L. 480, upto the 31st March, 1966, Rs. 347·10 crores or about 41% had been utilised for projects intended to increase the agricultural potential of the country. Asked whether the allocations of loans and grants under P.L. 480 as between different sectors of economy were decided upon according to any set policy and, if so, what was the policy of the

Government in this regard, he stated that "the money which becomes available to us under P.L. 480 is all used by us for projects which are in the Plan. Seen in this background, P.L. 480 is just one of the resources for the Plan alongwith taxation or borrowing or any other source of funds which the Government could have. It is upto a point only notional that a particular thing is financed out of a particular source of revenue. Upto a point this is merely a question of the kind of predilection the U.S. Government may have....It is largely a matter of mutual convenience and agreement".

Amount Reserved for U.S. Uses

4.92. The amount earmarked for U.S. uses is available to the U.S. Government and can be spent by them for the purposes authorised in various sub-sections of Section 104 of PL-480 Law, except to the extent that our PL-480 Agreements with the U.S. Government exclude use under any particular sub-section. The U.S. Government are free to determine their expenditure as between the various sub-sections.

4.93. Out of the deposits for commodities imported and paid for in rupees till 31-3-1966 under U.S. PL-480 programme, Rs. 183.82 crores were earmarked for "U.S. uses". As against this, the amount spent by the U.S. Government till 31-3-1966 was Rs. 93·53 crores. The detailed break-up of expenditure is given below:

I. *Expenditure of the U. S. Embassy on*		
	(Rs. crores)	
(i) Educational exchange programmes in India .	7·14	
(ii) Agricultural programmes in India . . .	4·13	35·77
(iii) Other administrative and programme expenditures	24·50	
II. Expenditure of the US AID Mission . . .		4·39
III. Expenditure of the US Information Service . .		15·04
IV. Aid to Nepal		28·96
V. Aid to Burma		2·19
VI. *Conversion into foreign currencies*		
(i) for agricultural market development . .	3·79	
(ii) for educational exchange . . .	2·40	
(iii) for sale to American Tourists . . .	0·02	
(iv) for sale to U. S. citizens and foundations .	0·97	7·18
Total expenditure : . .		93·53

4.94. The balance available for U.S. uses can be spent by them for the purposes listed in agreed sub-sections of Section 104 of U.S. Public Law 480. (See Appendix VI).

Cooley Loans

4.95. The Cooley Amendment to PL 480 (named after Congressman Harold D. Cooley) enacted in 1957 provides that a portion of the local currency proceeds from the sale of American farm products in the importing country be made available for lending to the under-noted firms in the private sector:

(i) U.S. firms, branches or their subsidiaries or indigenous firms which are affiliates of American firms; and

(ii) indigenous firms, which would facilitate the disposal and marketing of American agricultural products e.g. local private warehouses storing grains, flour mills processing the grain etc.

4.96. The allocations for Cooley Loans and the amount actually disbursed as on 31-3-1966 were as follows:

(1) Allocation out of authorised value of imports (Rs. 1563·63 crores) . . .	Rs. 109·33 crores or 7%.
(2) Allocation out of value of actual imports (Rs. 1370·10 crores)	Rs. 94·24 crores or 6·9%
(3) Amount actually disbursed as loan under Cooley Amendment out of total disbursements (Rs. 983·53)	Rs. 44·59 crores or 4·5%

4.97. It is observed that while the amount earmarked for loans under Cooley Amendment constituted about 7 per cent of the total, the amount actually disbursed as Cooley Loans till 31-3-1966 constituted only 4.5 per cent of the total disbursement till that date. 49 firms have so far availed of assistance under the scheme. Government have stated that these loans have to be mutually agreeable to AID and the Government of India. The views of the Government of

*Upto June, 1966, the total amount of loans approved by the Government of India was Rs. 63.2 crores, out of which Rs. 58 crores were granted by the Government of U.S.A.

India are ascertained on the point whether or not they have any objection to the AID granting the loan applied for. The representative of the Ministry added during evidence that:

> "We do not go out of the way to ask for it (Cooley Loans) and this is particularly so because the judgment as to any project is entirely that of the U.S. Government since the money belongs to the U.S. Government. If we do so it might give rise to the feeling that we are perhaps pushing projects which may not be strictly creditworthy from the point of view of the U.S. Government. So this judgment is left to the particular Indian firm and to the U.S. Government. All that we can do is not to come in the way of such loans being made available."

4.98. Between the period 1958-59 to 1965-66, a total of 96 applications are stated to have been referred to the Government of India out of which "no objection" was conveyed by Government in the case of 82 applications. Government have stated that there has been no case in which the loan application turned down by the Government of India was subsequently approved by the U.S. Government. Further, according to Government "these loans have made a useful contribution in providing, to some extent, rupee finance for establishing new industries or expansion of the existing units."

4.99. The Committee note that Cooley loans are disbursed only after obtaining "no objection" from the Government of India. The Committee need hardly stress that in granting the loan, the contribution which the private sector would be enabled to make towards general economy, particularly towards increasing agricultural production, should be kept in view.

Repayment of PL 480 and 665 Loans

4.100. The following statement indicates amounts of loans under U.S. P.L. 480 and their repayments during the period 1955-56 to

1965-66:

Amounts outstanding as Loans under PL 480

(Rs. in crores)

Year ending 31st March	Principal amount	Rate of Interest	Amount repaid (Cumulative)		Amount out-standing	
			Principal	Interest	Principal (Rs. crores)	Interest
1956 to 1958	Nil	Nil	Nil	Nil	Nil	Nil
1959	5·00	4%	Nil	Nil	5·00	Nil
1960	28·05	4%	Nil	Nil	28·05	Nil
1961	77·88	generally 4%	Nil	Nil	77·88	Nil
1962	132·59	Do.	Nil	0·20	132·59	Nil
1963	212·31	Do.	0·01	4·02	212·30	Nil
1964	278·47	Do.	0·07	10·18	278·40	Nil
1965	448·85	Do.	0·20	23·39	448·65	Nil
1966	528·85	Do.	0·49	40·47	528·36	Nil

4.101. Against PL 665 loans of the value of $130 million the re-payment of principal and interest till 31-3-1966 was as follows:

($ Million)

Loan	Year	Principal Amount	Rate of Interest	Amount Repaid		Amount out-standing	
				Principal	Interest	Principal	Interest
First Loan	1955	45·00	4%	1·28	14·28	43·72	Nil
Second Loan	1956	37·50	4%	0·39	7·41	37·11	Nil
Third Loan	1957	47·50	4%	0·56	9·31	46·94	Nil
		130·00		2·23	31·00	127·77	

4.102. The following statement shows the net investment by U.S. Government in non-negotiable Special Securities issued by the

Government between 1960-61 and 1966-67 (upto 1-6-1966) and the amount of interest charges paid by the Government thereon:

(Rs. in lakhs)

	Net Investments	Interest charges paid
1960-61	2,40,41	86
1961-62 .	54,13	3,68
1962-63 .	48,07	4,47
1963-64 . .	87,38	5,25
1964-65	(—)1,57	5,60
1965-66	1,33,06	7,38
1966-67 . . . . . (Up to 1-6-1966)	69,93	4,00
	6,31,41	31,24

4.103. It is seen from the above statement that the annual payments to U.S. Title Account on account of interest on 'Special Securities' held by P.S. Government and repayment of principal and interest in respect of loans taken by Government under P.L. 480 have, by 1965-66, reached the order of Rs. 24·75 crores as follows:

Interest charges on special securities . .	Rs. 7·38 crores
Repayment of P.L. 480 *Loans*	
(*i*) Principal	Rs. 0·29 crores
(*ii*) Interest	Rs.17·08 crores
TOTAL . .	Rs. 24·75 crores

In addition, repayments, during 1965-66, of principal and interest charges in respect of P.L. 665 loans amounted to \$0.69 million and \$5.13 million respectively.

4.104. The representative of the Ministry was asked during evidence whether, looking to the large magnitude of annual accretions to the rupee account of the U.S. Government as a result of servicing of transactions under P.L. 480 and P.L. 665 alone, which is likely to increase year after year, the Government have considered the question of devising ways and means of gradual redemption of the rupee from U.S. control. He stated that—

> "although the P.S. portion of the rupees increases—and there are large sums there—fortunately, they are for practical purposes frozen until we find some method by which they are lent to us. Now part of the reason for the Indo-U.S. Foundation, which was talked about and which created some political opposition, was again to freeze a substantial portion of these U.S. rupees. This will be a very long-term problem. Though they remain in U.S. Government account, for all practical purposes their use is governed by mutual agreement and therefore they do not constitute any serious danger to the economy."

4.105. Asked whether it was a fact that so far no agreement had been reached with the U.S. Government on the use of the funds generated as a result of payment of interest and repayments of principal in respect of loans from U.S. PL-480 counterpart funds and, if so, what steps were contemplated in that direction, the representative of the Ministry stated:

> "It would not be correct to say that no agreement has been reached. It would probably be more correct to say that no occasion has arisen for us to start programming these funds, except Indo-U.S. Educational Foundation, and I think it would not be correct to say that no agreement was possible with the U.S. Government in that case."

4.106. Asked whether, in the absence of any agreement with the U.S. Government regarding the use of rupee holdings of the U.S. Government amounting to about Rs. 600 crores, the U.S. Government were at liberty to spend the funds as they liked, he stated that "it is not entirely in their discretion to spend" and that amounts could be spent only by mutual agreement.

P.L. 480 Payment Procedures

4.107. The impact on money supply of the inports under U.S. PL-480 has been analysed in the January, 1963 Bulletin of the Reserve Bank of India thus:

> "When the food is imported, Government makes payment to the U.S. Embassy by selling ad hoc Treasury bills to the

Reserve Bank; thus the net bank credit to the Government and hence money supply increases by an equivalent amount, However, since the U.S. Embassy invests these funds in special securities, the Government sets back the amount paid to the U.S. Embassy and with these funds retires the ad hoc Treasury bills held by the Reserve Bank. Thus the initial expansionary impact on the net bank credit to the Government and money supply would be offset, and the food imports would have no impact on the net bank credit to the Government and on money supply.

When the Government sells food to the public, the Government cash balances with the Reserve Bank increase and this would exert a contractionary impact on the net bank credit to the Government and money supply.

Thus till the counterpart funds are finally allocated to specific projects, the impact of commodity assistance on the net bank credit to the Government and money supply would be contractionary ....

When the U.S. Embassy allocates the counterpart funds for expenditure on specific purposes; the Government has to pay the U.S. Embassy against special securities. The Government would pay out of its cash balances with the Reserve Bank (which would increase as a result of the proceeds of the sales of the P.L. 480 and P.L. 665 commodities to the public); thus there would be an expansionary impact on the net bank credit to the Government and on money supply and this would be equal to the earlier contractionary impact......Thus, the total impact of all the transactions relating to commodity assistance on the net bank credit to the Government and private sector as well as on money supply would be neutral....

However, if the Government increases its food stocks and/or sells food to the public at subsidized prices, its sale proceeds from the public would be less than the amount it has to repay to the U.S. Embassy. In this case, the earlier contractionary impact would be less than the later expansionary impact and the impact on the net bank credit to the Government and money supply would be expansionary to the extent of the increase in the Government food stocks and/or subsidy to the public."

4.108. In this connection, the attention of the Committee has been attracted by the views of an eminent economist according to whom the process of retirement of Special Securities for disbursement by U.S. Government out of counterpart funds "quietly brings into being created money; and their disbursements by U.S. AID result in an inflationary expansion of Reserve Bank money with the public" as "in the final stage of the operations, moneys have to be physically issued out to the various beneficiaries of the disbursements". He has calculated that the expansion of money with the public as a result of operations under U.S. PL-480 between the period 1959-60 and 1964-65 has been of the order of Rs. 311.9 crores.

4.109. Government have, however, in the following note furnished to the Committee contradicted the view that the various uses of U.S. PL-480 counterpart funds lead to expansion of money having an inflationary effect on the economy of the country:

"There is lack of clarity in regard to the impact of PL-480 transactions on the economy. This note attempts to analyse the effect of these transactions at the various stages of the operation.

The first stage is the import of commodities (foodgrains) and payment for these in rupees to the United States authorities. Since the money received by the United States authorities in payment for foodgrains is almost simultaneously invested by them in special securities, the transactions upto this stage have no real or monetary effect on the economy. All that happens is that a debit is made for payment for foodgrains in one part of the budget and a credit is taken for the receipt from the sale of special securities in another part of the budget.

The real effect on the economy occurs when the food is sold to the public and Government collects money from the public. All other things remaining the same, the sale of foodgrains to the public has a strong deflationary effect.

The money realised from the sale of foodgrains is credit to the budget and is available for expenditure. In this sense, therefore, import of foodgrains under PL-480 provide a strong budgetary support.

The next stage of the transaction is the transfer of rupees held in special securities by the U.S. authorities to the Government of India in the form of a loan or a grant or to the private sector in the form of the so-called Cooley loans. Whether the money is given to the Government or, to the private sector, this, like the first stage, is a transaction of a book-keeping nature. All that happens is that Government retires special securities in an amount equal to the expenditure out of counterpart funds by the U.S. authorities, whether for loan to Government, loan to private sector or for the Embassy's own use. The net effect of this transaction is already taken into account in striking the balance of Government's total transactions, so that the deficit in the budget, if there is one, is what it is after allowing for all these transactions and there is no further adjustment to be made to the figure of deficit as given in the budget for a particular year.

The same applies when foodgrains are sold at a price below the purchase price or when a part of the imported foodgrains is diverted to Government's stocks. In either case there is an expenditure by Government; in the first case in the from of a subsidy, and in the second case in the form of inventory investment. But both these outlays are fully taken into account in the budget and the figure of deficit which is shown in the budget does not have to be further adjusted merely because some of these transactions involve counterpart funds.

The point is that all the transactions arising from the import of PL-480 foodgrains pass through the budget, and this is true even when the transactions relate to the private sector or to the U.S. Embassy's own expenditures. Thus, the effect of the Government's budget either on the expansion of money or generally on the economy has to be judged by reference to the budgetary and monetary picture presented to Parliament, without any further adjustment."

4.110. The representative of the Ministry was asked during evidence whether in order to make the position of operations of PL-480 clear to the Parliament and public, would it not be better to have a distinct account in respect of all the transactions under PL-480 agreements. He stated that:

"I understand the drift of the question. I realise the difficulties of Members not always following this. Therefore, what I would suggest is that—for accounting purpose—it has got to be reflected in a broad way—we shall introduce a section in explanatory Memorandum (to the Budget) next year which will bring (it) out clearly."

4.111. The Committee recommend that the impact of U.S. P.L. 480 transactions on the monetary system in the country may be gone into by a committee consisting of eminent economists and financial experts drawn from, the Government, Universities, Economic Research institutions, commerce, industry etc.

4.112. The Committee hope that Government will, in pursuance of the assurance given to them, incorporate in the budget documents as well as in Economic Survey, paragraphs indicating in sufficient detail all the transactions under U.S. P.L. 480 during the preceding year and those contemplated during the budget year and their effect on the money supply.

PL 480 Agreement signed on 20-2-1967

4.113. India has entered into a new agreement with U.S.A. for the import of agricultural commodities under Title I of the U.S. Agricultural Trade Development and Assistance Act (P.L. 480), as amended. The agreement provides for the sale by U.S.A. during the U.S. Fiscal year 1967, of agricultural commodities of the value of Rs. 101·15 crores as follows:

	Quantity (m.t.)	Value ($ m.)
Wheat/Wheat Flour	1,200,000	79·8
Grain Sorghums .	800,000	42·3
Tallow (Inedible)	30,000	5·5
Soya Bean and/or Cottonseed Oil	30,000	7·4
		135·0

4.114. As under the previous agreement, India will pay for the commodities in rupees. The ocean transportation costs for 50 per cent of imports required to be transported in U.S. vessels are, as hitherto, payable in dollars, after deducting the ocean freight differentials.

4.115. The use of rupee funds generated by the sale of commodities under the agreement has been provided for in the new agreement as follows:

	Percentage under new Agreement	Percentage under Sept., 1964 Agreement
Loans	65	80
Grants under Section 104-(f) of the Act	12	Nil
Grants under Sec. 104(h) of the Act	10	
U.S. uses	8	10
Cooley Loans	5	10

4.116. The grants under Section 104(h) of the Act for which 10 per cent of the rupee funds have been reserved are an innovation These would be available "for financing programs emphasising maternal welfare, child health and nutrition, and activities, where participation is voluntary, related to the problems of population growth as may be mutually agreed under sub-section 104(h) of the Act."

4.117. In regard to loans to Government of India for which 65 per cent of the funds have been allocated, the Agreement provides that these shall be made available "for financing such projects to promote multilateral trade and agricultural and other economic development, including projects not heretofore included in programmes of the Government of the importing country, as may be mutually agreed". The two Governments have further agreed "to give emphasis to projects to be financed under this loan that are designed to promote, increase and improve food production, processing, distribution and marketing".

4.118. It is also observed that the new agreement makes specific mention of the "overall development programme for the fiscal year beginning April, 1967" and the priority which is to be given in the programme "to improve production, storage and distribution of agricultural commodities, particularly food crops." The Agreement also mentions the target of production of fertilisers, acreage to be placed under new varieties of seeds, the crop area to sprayed for protection, the area to be irrigated with the help of minor irrigation schemes, the need for expansion of agricultural credit and increase in storage facilities. It also takes note of the Government's resolve to implement price support and food distribution policies.

4.119. For the purpose of loans to be granted to the Government of India out of the rupee funds generated by the sale of commodities under the Agreement also, projects that are "designed to promote, increase and improve food production, processing, distribution and marketing" are to receive emphasis.

4.120. It will be apparent from the above provisions in the Agreement regarding improvement in production, processing, storage, distribution and marketing of agricultural commodities in India, that the Government of United States desire to under-score the importance that they attach to the self-help measures to be taken by this country *suo motu* or through assistance provided by the U.S.A.

4.121. The Committee feel that P.L. 480 imports should be viewed only as emergency help which is being extended by the United States to meet the gap in the requirements and food production particularly in the context of failure of rains in two successive years.

4.122. The Committee would like to draw pointed attention of Government to the reports that food resources the World over, particularly in advanced countries, are not growing as fast as the population in under-developed areas. Even the United States may not have as big a food surplus as in previous years. The recent emphasis on getting matching foodgrain contribution from other countries is a pointer to the United States' anxiety to share the burden with other countries. The Committee would, therefore, stress that Government should not take the imports under U.S. P.L. 480 for granted in years to come and give highest priority to increase in agricultural production and bend all its energies to attain self-sufficiency in food grains before the end of the next Plan period.

4.123. The Committee understand that the F.A.O., a United Nations Organisation, is thinking of a Food Production Resources Programme under which fertilisers and other agricultural inputs may be made available to the developing countries. The Committee have no doubt that Government would explore the possibilities of getting necessary agricultural inputs, particularly fertilisers, under this Programme.

Salient Features of U.S. Public Law Assistance

4.124. As stated in the earlier paragraphs, U.S. Public law Assistance consists of sale/gift of surplus agricultural commodities to India under U.S. Public Law 665 and 480. Assistance under Title II and III of P.L. 480 is in the shape of gifts, while imports under P.L. 665 and Title I of P.L. 480 have to be paid for, though in Indian rupees. The amount of gift assistance covering imports under Titles II and III of P.L. 480 by the end of March, 1966 was Rs. 116·53 crores (Title II—Rs. 7·50 crores and Title III—Rs. 109·03 crores). For imports upto the end of March, 1966 under P.L. 665 and Title I of P.L. 480, India has paid to the U.S. Government a sum of Rs. 1401·97 crores (P.L. 665—Rs. 31·87 crores; and P.L. 480 Title I—Rs. 1370·10 crores). Out of this a sum of Rs. 327·92 crores has been received back by the Government of India as grants for various projects—Rs. 11·52 crores under P.L. 665 and Rs. 316·40 crores under Title I of P.L. 480 of the remaining Rs. 1074·05 crores, a total of Rs. 548·59 crores have been extended by the U.S. Government as loans to Government of India, Rs. 44·59 crores as loans to private parties under Cooley Amendment and Rs. 93·53 crores have been used by U.S. Government for their own purposes, leaving as on 31-3-1966 an undisbursed balance of Rs. 387·18 crores—Rs. 0·61 crores under P.L. 665 and Rs. 386·73 crores under Title I of P.L. 480. The undisbursed balance as on 31-3-1966 under Title I of P.L. 480 has been allocated as follows:

Loans	Rs. 211.97 crores
Grants	Rs. 34·82 "
Cooley loans	Rs. 49.65 „
U.S. Uses	Rs. 90.29 „
	Rs. 386.73 „

4.125. P.L. 480 agreements signed between 1960 and 1966 do not provide for any grant to the Government of India out of the counterpart funds. Agreement signed in May, 1966 provided for 77 per cent of the counterpart funds being extended as loan to Government of India, 7 per cent being reserved as loans to the private parties under Cooley Amendment and the remaining being reserved for U.S. uses. For loans provided in P.L. 480 Commodity Agreements signed since December, 1964, the rate of interest has been increased from ¾ per cent per annum to 1 per cent per annum for first 10 years and 2½ per cent per annum thereafter. 50 per cent of the imports under P.L. 480 have to be transported in U.S. vessels. Till June 1965, the freight on U.S. vessels could be paid for in rupees. After that date, such freight has to be paid for in dollars except that U.S. Government has undertaken to bear the freight differentials between U.S. and non-U.S. vessels.

4.126. The main advantage of transactions under Title I of P.L. 480. which is currently in operation, is that the imports are against Indian rupees and that, out of the rupees funds generated by the sale, the U.S. Government extends to India for agreed projects and proposes funds in the shape of grants and long term loans at low rate of interest payable in Indian rupees. Further the undisbursed balances to the credit of U.S. Government, together with the amount accruing as a result of servicing of the loans, are invested by that Government in non-negotiable special securities and thus, from part of the general cash balance of the Government of India.

(b) *Assistance other than under Public Laws* 480 *and* 665

Quantum of U.S. Assistance

4.127. The largest contribution from external sources for India's development plants has come from United States of America. A regular flow of U.S. assistance to India began with the signing of the Indo-U.S. Technical Cooperation Agreement in January, 1952. Initially, the programme contemplated assistance to projects of technical cooperation mutually agreed upon by the two Governments and the entire aid, consisting of foreign exchange costs of the material and equipment needed for the projects as well as services of foreign experts, contract services and training facilities, was in the form of grants. Over the years, however, the forms of aid have changed. The scope of the technical cooperation progromme has been extended to embrace (a) Development assistance loans and grants for the import of capital goods and equipment, (b) Special assistance grants for the Malaria. Eradication Programme and (c) a loan from the Asian Development Fund for the development of Orissa iron ore mines. In 1956, the first PL-480 agreement was signed for the supply of surplus agricultural commodities. This was followed by the establishment of the Development Loan Fund (DLF) in 1957 and its successor, the Agency for International Development (AID) in 1961 to provide long term loans. From 1958 loans were also extended through the U.S. Export-Import Bank. Earlier, the U.S. Government had granted a wheat loan in 1951, to enable India to tide over the prevailing acute shortage of food. Apart from the assistance from U.S. Government sources mentioned above, a cansortium of U.S. banks also provided loans for the purchase of Boeing aircraft by Air India.

4.128. The table below summarises the authorisations and utilisation of U.S. assistance other than under Public Laws 480 and 665 during the Plan periods:

	Loan		Grants		Total	
	Authorised	Utilised	Authorised	Utilised	Authorised	Utilisation
			(Rs. crores)			
Upto the end of Fisrt Five Year Plan	104·94	92·60	86·16	42·00	191·10	134·60
Durihg Second Five Year Plan	338·92	153·66	44·11	76·17	383·03	229·83
During Third Five Year Plan	840·30	796·17	17·01	24·76	857·31	820·93
TOTAL	1284·16	1042·43	147·28	142·93*	1431·44	1185·36
Percentage of utilisation	81%		97%		83%	

*Excludes (dollar and rupee grants) towards technical assistance in the form of experts and trainees.

4.129 It would be seen from the above table that by 31-3-1966, U.S. assistance utilised, other than under Public Laws 480 and 665, reached a total of Rs. 1185.36 crores. Another Rs. 995.82 crores were utilised out of loans and grants extended under Public Laws 480 and 665 programmes (P.L. 665—Rs. 31·26 crores; P.L. 480 Title I—Rs. 845.25 crores; Title II—Rs. 7.50 crores; Title III—Rs. 109.03 crores; and Third Country Currency Assistance—Rs. 2.78 crores). The overall U.S. Assistance thus works out to be of the order of Rs. 2181.18 crores.

U.S. Grants

4.130. U.S.A. has been extending assistance to India in the form of grants under the Technical Cooperation Programme. The purpose of these grants is to help India develop human resources and increase productivity by providing (i) the services of American experts to work on specific technical and economic problems in the Indian development programme, (ii) training facilities to enable Indian participants to acquire much needed technical skills and (iii) supplies and equipment to support the research, demonstration and training programmes, and essential commodities such as food grain, cotton, steel, fertilisers and D.D.T. While the U.S. Government has generally provided the foreign exchange component of the project costs, the Government of India have contributed rupee expenditure on project sites, local construction costs, inland transportation and handling charges, local cost of U.S. technicians and salaries of Indian trainees.

4.131. Till 31-3-1966, the total amount of grants authorised was Rs. 147.28 crores. As against this, a sum of Rs. 142.93 (or 97 per cent) was utilised by 31-3-1966.

U.S. Loans

4.132. The amount of loans (other than those under PL 480) authorised by U.S.A. till 31-3-1966 was Rs. 1284.59 crores out of which a sum of Rs. 1042.43 (or 81 per cent) was utilised by that date. The details are as follows:

Loans repayable in foreign currency	Authorisation	Utilisation
1	2	3
	(Rs. crores)	
1. Wheat Loans	90·31	90·31
2. Exim Bank Loans	195·10	162·26
3. U.S. Banks' Loans including Boeings Share	25·88	16·83

1	2	3
	(Rs. crores)	
4. AID Loans	679·33	498·13
TOTAL .	990·62	767·53
Loans repayable in Indian Rupees		
5. T.C.A. Loans (dollar portions only) .	50·97	50·67
6. D.L.F. Loans .	243·00	224·23
TOTAL .	293·97	274·90
GRAND TOTAL	1284·59	1042·43

Wheat Loans

4.133 This loan was extended by the U.S. Government in June 1951 to finance the purchase of two million tons of wheat to meet an acute shortage of foodgrains. The loan is repayable in dollars and bears an interest rate of 2½ per cent per annum. Repayment was scheduled to commence on June 30, 1957. However, in view of India's adverse balance of payment position, the U.S. Government have postponed the 18 semi-annual instalments of interest and principal due from December 31, 1958 and re-scheduled them to fall due from December 1986 to June 1995 without additional interest payments.

Exim Bank Loans

4.134. The U.S. Export-Import Bank has been extending lines of credit for the purchase of capital equipment and related services from U.S.A. It has, till 31st March, 1966, extended in all 23 lines of credit amounting to Rs. 195.10 crores as follows:

	(Rs. crores)
4 General lines for use by the public as well as private sector	119·04
2 Boeing credits . . .	6·82
2 Varanasi Diesel Loco Works Credit .	17·15
15 Private sector credits	52·09
	195·10

The credits carry a commercial rate of interest varying from 5¼ to 6 per cent per annum while the repayments are spread over a period varying from 9 to 15 years.

4.135. Imports against the 'General Lines' of credit, in the case of public sector, related mostly to mining, power, transport and communications, irrigation and flood control. The beneficiaries of these lines of credit in the private sector were the textiles, electrical and automobile engineering, chemical and machine tool industries. The following are among the main beneficiaries of the lines of credit extended to the private sector:

	($ million)
Hindustan Aluminium	29.65
Coromondel Fertilisers Ltd.	27.00
Orient Paper Mills Ltd.	18.50
Union Carbide Ltd.	7.65

4.136. The following Exim Bank loans attracted notice:

(i) Agreement for a 'General line of credit' for $ 25 million was signed with the U.S. Exim Bank on 21st August, 1964. The repayments in regard to the loan are to commence from 1st June, 1967. It is, however, notice that as on 31st March, 1966 only $ 7.00 million were drawn against the credit. Asked to state the reasons for the slow utilization of the credit, the representative of the Ministry stated during evidence that:

> "This loan is all for capital equipment, not a bit of it for maintenance. I must, however, regretfully say that in the utilisation of the allocations under this credit, there were some delays due to the involvement and time taken for placing orders of different types of earth-moving equipment for different projects. There was also the point that, since this was the last of the lines of credit that we had from the U.S. Exim Bank which we could utilise for the purchase of any type of capital equipment available in the country, we ourselves went slow in utilising this. This was, so to say, money which could be freely utilised for any capital equipment from the U.S.A. and therefore we had a tendency to treasure this".

(ii) Agreement for Exim Bank credit of $ 27.00 million to Coromondel Fertilizers Ltd., was signed on 16th April, 1964 for the construction of a Fertilizer Plant at Vishakhapatnam. The repayment of loan is to commence from 30th June, 1968. By 31st March, 1966, however, only $ 8.15 million were drawn against the credit. Asked whether there was any machinery to ensure that the credits allocated to the parties in the private sector were utilised by them without undue delay, Government have stated that:

> "In respect of direct loans to private parties from U.S. Exim Bank, there is no special machinery set up by the Government of India to ensure that the Projects are using loans without delay as the primary responsibility for speedy utilisation of the loan falls on the private parties concerned since the loans is directly to them. The projects as borrowers are required under the loan agreements to submit detailed periodical reports on the progress of the Projects to the Exim Bank such as quarterly reports on physical progress with statements, photographs, etc. So far as Government of India concerned, a watch is kept on the loan utilisation through periodical reports which the Project authorities furnish".

The reasons for slow utilisation of the credit has, however, been attributed to delay in progress of the plant due to "labour troubles". It is stated that the loan amount has almost fully been covered by orders and the amount drawn upto the end of November, 1966, was of the order of $20.64 million.

4.137. The Committee observe that the progress of utilisation of the General Line of Credit extended by the Exim Bank on 21-8-1964 has been slow and recommend that it should be speeded up.

4.138. The Committee also recommend that Government should devise means of maintaining a close watch on the progress of utilisation of credits extended to the private sector directly by financial institutions of foreign countries.

U.S. Bank Loans

4.139. Apart from U.S. Exim Bank loans, a consortium of U.S. Banks and Boeing Co., have also extended in all six credits amounting to Rs. 25.89 crores to Air India for the purchase of ten Boeing Jet Aircrafts. These loans also carry commercial rates of interest varying from 5 per cent per annum in the case of the first credit extended in 1957 to 6¼ per cent per annum applicable to the credit extended in 1965. The credits are generally repayable in half-yearly instalments spread over a period of 5 years.

4.140. The Committee feel that the terms of the U.S. Bank credits for the purchase of aircraft (carrying an interest rate of 6¼ per cent per annum and repayable within 5 years) appear to be compara-

tively hard. They hope that the economic aspects connected with these loans have been fully gone into before entering into credit agreements.

DLF/AID Loans

4.141. The main source of U.S. loan assistance to India has been the Development Loan Fund (DLF) and the institution that succeeded it in November, 1961 namely, the Agency for International Development (AID) which together have, till 31st March, 1966, extended loans amounting to Rs. 922 crores. DLF has extended 28 credits to Government of India and private bodies. These loans are repayable in rupees over a period ranging from 5 to 20 years and carrying interest rates ranging from 3½ per cent to 5¾ per annum.

4.142. Agency for International Development has, since its inception in November, 1961 to 31st March, 1966, extended in all 36 loans. The loans extended by AID are repayable in dollars. The repayment is scheduled over 40 years including a grace period of 10 years. The interest is repayable in dollars and at the following rates:

	Rate of Interest	
	First ten years	Remaining 30 years
Loans authorised by AID before 16-12-63 i.e. the date of coming into force of the U.S. Foreign Assistance Act, 1963	3/4% p.a.	3/4% p.a.
Loans authorised after 16-12-63 (The date of coming into force of the U.S. Foreign Assistance Act, 1963) but before 7-10-64	3/4% p.a.	2% p.a.
Loans authorised after 7-10-64 (i.e. the date of coming into force of the U.S. Foreign Assistance Act, 1964)	1% p.a.	2 1/2% p.a.

4.143. Some of the loans have been extended directly to private parties and other corporate enterprises. In respect of these loans, a new arrangement known as "Special Loan Repayment Procedure" has been introduced. Under this procedure the private parties pay the amounts of principal and credit fee in rupees to the Government of India within a period ranging from 9 to 18 years. On receipt of these payments, Government assumes the obligations for payments of principal and credit fee in dollars based on its own repayment schedule spread over 40 years including a grace period of 10 years. The private parties also pay in rupees a special charge varying from 2¾ per cent per annum to 5 per cent per annum to the Government.

4.144. Upto the end of March 1966, loans amounting to Rs. 922.33 crores had been extended by the DLF/AID, out of which a sum of Rs. 722 crores, was drawn by that period.

4.145. DLF/AID loans have been used for power project, railway development, coal washeries and ropeways, manufacture of road transport vehicles and fertilizers, development of industries in the private sector, etc.

4.146. The Committee note that the rate of interest on U.S. AID loans has progressively risen from flat rate of ¾ per cent per annum applicable to loans authorised before 16th December, 1963, to 1 per cent per annum for the first 10 years and 2½ per cent per annum for the remaining period of 30 years being charged for loans extended after 7th October, 1964.

The Committee hope that Government are utilising every opportunity to impress upon the U.S. Government the need for softer development loans, specially in view of the fact that the servicing of these loans has to be in dollars.

4.147. As a result of the study of details furnished by the Government in respect of the various DLF/AID loans, the following points have emerged:

(i) Agreement for Second Loan of $ 20 million to the Industrial Finance Corporation was signed on 28th June, 1962 out of which, by 31st March, 1966, only $ 5.05 million were drawn by the Corporation. Asked to state the reasons for slow utilisation of the credit and to indicate the steps taken by the Government in the light of experience to accelerate the pace of utilisation of the credit, the representative of the Industrial Finance Corporation stated during evidence that:

"The position is that this agreement was executed on 28th June, 1962, but actual operations could not commence under this agreement since the implementation letter which provides for all financial procedures and other requirements was not finalised. It was only on 16th January, 1964 that this implementation letter was issued to us and immediately in February we requested AID to issue letter of commitment to our US bankers whereafter operations commenced in April, 1964. Now the present position is that we have issued letters of credit for about 11 million dollars out of which disbursements of 8·42 million dollars have taken place. Now these sub-loans are project loans and when the IFC considers these loans the parties are in possession of C.G. clearances. It is only after the sub-loans are sanctioned that the parties start getting import licences and finalising the lists with the suppliers abroad and apart from this, small business requirements have to be compiled with by the parties which takes 2, 3 or 4 months. With a view to expediting these things, of late we have started that even before the sanction of the said loan we are calling upon these parties to submit us the lists of items for our submitting those lists to the AID without any commitment on our part to the parties that the sub-loans will be made available or not. This is to save time which was wasted after the sanction of the sub-loans. The other steps that the Corporation has taken on its own side is that they have instituted their own foreign exchange department to which some officials from the State Bank of India have been deputed and we have not to go to any bank for opening letters of credit and other procedures for disbursement. We straightaway issue letters of credit ourselves and that has moved the pace of utilisation of the loan. Even where the parties want some relaxation of the conditions that we freely consider. We even dispense with the mortgage deed by the parties. We even accept the bank guarantee from scheduled banks."

4.148. The Committee hope that the new procedures in regard to grant of sub-loans by the I.F.C. would lead to expeditious utilisation of the credit. They recommend that the impact of the new procedure over the pace of utilisation may be examined after it has been worked for some time.

4.149. (ii) Large balances have been indicated as remaining undrawn on 31st March, 1966 against U.S. DLF/AID credits granted in 1963 for power projects as follows:

(in million $)

	Date of loan	Amount of loans	Amount drawn as on 31-3-1966
(a) Delhi 'C'— Thermal Power Extension Station . .	8-3-63	.16·00	5·97
(b) Satpura Thermal Power Project	8-3-63	25·10	11·52
(c) Ramagundum Thermal Power .	21-5-63	8·40	1·62

4.150. Asked to indicate the precise reasons for the slow progress in utilisation of credits and the progress made in the commissioning of these projects, Government have stated that, in the case of project at (a) above, the delay of about 15 months in the commissioning was on account of "the delays in the finalisation of the specifications and the time taken in the opening of duly operative letters of credit, shipment of goods and their clearance at Indian ports". In the case of (b), the "time involved in finalising procurement orders for major auxiliary plant and equipment" is stated to be the "main reason" for slow utilisation. As for (3), the slow utilisation is attributed to "delay in procurement of steam generators and accessories; in the finalisation of contract for Boiler and finalisation of other equipment like Dust Collector and Ash Handling Plant (which) was delayed due to want of Boiler drawing". Besides, according to Government, tenders for some of the equipment had to be called twice and an agreement (with Dr. Teja) for procurement of some equipment from Japan had to be cancelled at a very late stage.

4.151. The Committee regret to note that utilisation of the aforementioned AID loans was held up for reasons such as delays in finalisation of specifications, clearance of goods at Indian ports, finalising procurement orders or in finalising of contracts for want of drawings, which appear to have been avoidable. They are particularly constrained to note that one of the reasons which held up the installation of Delhi 'C' Thermal Power Extension Station was delay in clearance of goods at Indian ports. Care should have been taken to ensure that such avoidable factors as above did not cause delay in utilisation of the credit and commissioning of the project.

Salient Features of U.S. Assistance other than U. S. Public Law Assistance

4.152. The sailent features of U. S. assistance other than that under U. S. Public Laws, to India are as follows:

(1) Amongst the countries who have been assisting India in the execution of its development Plans, U.S.A. is the country which has extended the largest contribution;

(2) About 54·4 per cent of the total assistance received from U.S.A. has been outside U.S. Public Laws 665 and 480;

(3) The grant element in the U.S. assistance, other than that under U.S. Public Laws, was 12 per cent;

(4) About 26·3 per cent of the loans received, other than those under U.S. Public Laws, are repayable in rupees;

(5) U.S. Government have postponed some instalments of repayment in respect of Wheat Loans amounting to Rs. 162·26 crores contracted in 1951 by 28 years;

(6) U.S. Bank Loans for the purchase of aircraft are short term credits at commercial rates of interest. Rate of interest on Exim bank loans is slightly less and the period of repayment is also longer;

(7) The main source of development assistance is the DLF/AID. DLF loans were repayable in rupees. AID loans carry softer conditions in regard to rate of interest and the period of repayment but the loans are serviceable only in dollars;

(8) The rate of interest on AID loans has increased from 3/4 per cent per annum applicable to loans contracted before 16th December, 1963 to 1 per cent for the first ten years and thereafter at 2½ per cent per annum payable in respect of loans contracted after 7th December, 1964.

(9) U.S. loans and grants have been used for projects and purposes in a vast variety of fields, both in the private as well as the public sector.

U.S.S.R.

Quantum of USSR Aid and its Utilisation

4.153. Till 31st March, 1966, U.S.S.R. has extended economic assistance to India of the total value of Rs. 489·27 crores (Rs. 484·31 crores as loans and Rs. 4·96 crores as grants) out of which a sum of Rs. 287·04 crores (or 59 per cent) was utilised by that date (Rs. 282·08 crores out of loans and the entire grant assistance amounting to Rs. 4·96 crores). The following table indicates the assistance authorised and utilised during the last three Plan periods:

(Rs. crores)

	Loans		Grants	
	Authorisation	Utilisation	Authorisation	Utilisation
First Plan . .	64·74			..
Second Plan .	319·07	74·85	1·15	1·15
Third Plan	100·50	207·23	3·81	3·81
	484·31	282·08	4·96	4·96

Grant Assistance from U.S.S.R.

4.154. Grant assistance from U.S.S.R. began with the gift of agricultural machinery valued at Rs. 0·79 crores for the Central Mechanised Farm at Suratgarh in August, 1956. In December 1958, another gift of the value of Rs. 0·36 crores was received in the form of equipment for the Indian Institute of Technology, Bombay, making a total of Rs. 1·51 crores during the Second Plan period. Grant assistance during the Third Plan period was of the value of Rs. 3·81 crores and was in the form of small pox vaccine, milk powder, vegetable oil, biscuits, baby food, etc. The entire grants has been utilised.

Loans from U.S.S.R.

4.155. Beginning with the Bhilai credit amounting to Rs. 64·74 crores extended in 1955, U.S.S.R. has extended in all 7 credits, so far. The credits are for steel, drugs, power, coal, oil and other heavy industrial projects. The credits carry an interest rate of 2½ per cent per annum and are repayable over a period of 12 years, except in the case of the credit for drugs project amounting to Rs. 9·52 crores which is repayable in 7 years. The repayments towards the principal begin one year after the completion of deliveries of equipment required for putting the respective projects into operation. Both the payments of interest and repayments of principal are made in rupees which are utilised by the Soviet authorities for the purchase of goods in India in accordance with the Indo-Soviet Trade Agreements. The following table shows the particulars of credits, value of orders placed and the amount drawn till 31-3-1966:

(Rs. crores)

Name of the Loan	Date of Agreement	Amount of loan	Project	Contracts placed	Amount drawn as on 31-3-66
1	2	3	4	5	6
1. Bhilai Credit . . .	2-2-55	64·74	Bhilai Steel Plant . . .	64·74	64·74
2. Credit for Industrial Projects	9-11-57	59·53	1. Heavy Machine Building Plant	15·94	15·26
			2. Coal Mining Machinery Plant .	9·91	9·35
			3. Opthalmic Glass Project .	1·18	1·05
			4. Korba Coal Mining Project .	5·19	4·90
			5. Neyveli Lignite Power Project .	13·91	13·82
				46·13	44·38
3. Credit for Drug Project .	29-5-59	9·52	Durgs Project	9·52	9·46
4. arauni Credit . . .	28-9-59	11·91	Barauni Oil Refinery . .	11·91	11·31
5. First Credit for Third Five Year Plan .	12-9-59	178·58	1. Expansion of Bhilai Steel Plant	57·61	54·42
			2. Expansion of Neyveli Thermal Plant	8·41	7·3;

1	2	3	4	5	6
			3. Singarauli Power Station (OBRA)	14·57	13·37
			4. Expansion of HMBP . .	6·52	5·72
			5. Kotah Precision Instruments Projects	1·72	0·92
			6. Expansion of Coal Mining Machinery Plant . . .	2·24	1·13
			7. Expansion of Korba Thermal Power Station . . .	11·43	10·81
			8. Barauni Oil Refinery .	3·95	3·95
			9. Heavy Electricals Plant .	14·95	4·24
			10. Carrying out prospecting and production of oil and gas .	33·00	31·31
				154·40	133·25
6. Second Credit for Third Plan Projects . . .	21-2-61	59·53	1. Bhahkra Right Hydro-Electric Power Station . . .	5·87	6·01*
			2. Koyali Oil Refinery . .	8·01	8·01

3. Coal Washery at Kathara	2·88	2·19
4. Refractories Plant . .	0·16	0·11
5. Exploration, development and production of oil in Cambay, Anakaleswar and in other areas .	4·36	1·02
6. Production of pumps and compressors—prepatation of techno-economic report . . .	0·02	0·02
	21·30	17·36
Additional projects agreed for financing under the savings from the Soviet Credits.		
1. 5th Unit for Bhakra Right Bank Power Station .	0·99*	..
2. Kerala Precision Instruments Plant	0·23	0·07
3. Expansion of Refineries :		
(*i*) Barauni . . .	0·81	0·98
(*ii*) Koyali	0·89	

*The figure of Rs. 6·01 crores is for five units of Bhakra Right Bank Power Station.

1	2	3	4	5	6
			4. Compressors and Pumps Project	0·26	0·12
			5. Steel Foundary for Railways .	0·15	..
			6. Sixth Blast Furnace at Bhilai .	4·45	0·36
			7. Neyveli Thermal Power Station Expansion (400 MW to 600 MW)	0·26	0·05
			TOTAL .	8·04	1·85
7. Bokaro Credit . .	25-1-65	105·82	Bokaro Steel Plant . . .	..	..

4.156. It would be seen from the above table that against the credits amounting to Rs. 484.31 crores authorised upto 31-3-1966, the value of orders placed and the drawals were Rs. 316.04 crores and Rs. 282.08 crores constituting 65 per cent and 58 per cent respectively of the value authorised. It was stated during evidence that out of total amount of loans authorised, a sum of Rs. 38 crores remained unallocated. The representative of the Government stated that "this will be allocated as and when the requirements of the specified projects arise, or for new projects if and when agreed to between the Indian Government and the U.S.S.R. Government".

Credits for the Second and Third Plans.

4.157. Soviet Government had extended three credits for industrial projects during the Second and Third Plan periods. The credit for the Second Plan amounting to Rs. 59.53 crores was agreed to on 9-11-1957 while the two credits for the Third Plan aggregating Rs. 238.11 crores were extended at the beginning of the Plan: the first about 1½ years prior to the beginning of the Plan in September, 1959 and the second at the beginning of the Plan period in Feb., 1961. Till 31-3-1966, against the industrial credit authorised for the Second Plan, orders were placed with the Soviet authorities for 77 per cent of the value authorised while the actual drawals constituted only 73 per cent thereof. In the case of the industrial credits for the Third Plan, the value of orders placed and actual drawals till 31-3-1966 constituted only 65 per cent and 54 per cent respectively of the value authorised. Asked about the reasons for the slow progress in placing orders against the credits despite the fact that the credit for Second Plan was agreed to at the beginning of the Plan and that for the Third Plan, well before the beginning of the Plan, Government have stated that—

> "As a result of periodic reviews of the utilisation of the credits, it came to our notice that there would be savings in these credits due to revision in the scope of the projects in some cases, greater indigenous availability of machinery and equipment than originally estimated and certain third-country imports, which had to be financed separately."

4.158. **The Committee note that Soviet credits have mainly been utilised for building up basic industries. They also note with satisfaction that the credit for the Third Plan was arranged before the commencement of the Plan period. The Committee, however, would like Government to analyse in detail how the utilisation of Soviet credit came down to 54 per cent in the Third Plan as com-**

pared to 73 per cent in the Second Plan and take necessary remedial measures to speed up the utilisation of Soviet credits in the interest of industrial development.

4.159. Some of the projects which are being financed from the credits extended by U.S.S.R. are discussed in the following paragraphs.

Heavy Machine Building Plant, Ranchi.

The Heavy Machine Building Plant at Ranchi is designed to produce 80,000 tonnes of heavy machinery items per annum and is being set up with Soviet assistance. The estimated capital cost of the plant is Rs. 43 crores with a foreign exchange component of Rs. 26.85 crores. It is expected to be in full production by 1971-72 and then it is likely to produce heavy machinery valued at Rs. 53 crores per anum.

4.160. The progress in setting up the Plant has ben described as follows:

"(i) Civil works for the plant have been almost completed except for some equipment foundations. Erection of equipment is in progress. 21,042 tonnes against a total of 27,940 tonnes has already been erected.

(ii) According to the Agreement the supply of equipment from U.S.S.R. is to be completed by the end of 1966. The present indications from Soviet side about delivery are that some equipment will be despatched only by middle of 1967.

Initial production had commenced in certain sections towards the end of 1963 on the basis of the equipment erected. Production achieved so far is as under:

Year	Quantity (Tonnes)	Value (Rs. lakhs)
1963-64	640	11·61
1964-65	3208	72·11
1965-66	8598	264·41

Production planned for 1966-67 is for 19,519 tonnes."

4.161. As already stated, the foreign exchange component of the cost of Heavy Machine Building Plant is estimated to be Rs. 26.85 crores. As to the progress in the utilisation of the Soviet credits, it is noticed that till 31-3-1966 orders had been placed upon Soviet Organisation for a total amount of Rs. 22.46 crores only (Rs. 15.94 crores against the 1957 credit and Rs. 6.52 crores against First 1959 Credit for the Third Plan) while the amount withdrawn till that date was only Rs. 20.98 crores. Asked the reasons for the delay in placing the orders for the full amount allocated for the Plant, it has been state that:

"the total initial allocation was Rs. 25.50 crores. This was eventually reduced to Rs. 22.46 crores as the requirement for steel structural shop was substantially reduced, savings were effected elsewhere and the replacements of equipment damaged by fire were to be met from out of the Trade Plan. Thus the net allocation to the Heavy Machine Building Plant is Rs. 22.46 crores. Contracts covering this amount fully, have already been placed. Against these contracts goods valued at Rs. 20.83 crores were delivered by 31-3-66."

4.162. Government were asked whether it was true that the plant did not have adequate orders for supply of products with the result that a very small percentage of its capacity was being utilised and, if so, what steps were envisaged to ensure that the plant was utilised to its full capacity. They have replied as follows:

"The present position is that against a total capacity for the manufacture of equipment and structurals upto 227800 tonnes during the Fourth Plan period, firm orders under negotiation add up to 24418 tonnes and orders under negotiation add up to 122846 tonnes, leaving gap of 80536 tonnes still to be filled. Orders under negotiation include orders for Bokaro for 80000 tonnes of equipment and 30000 tonnes of technological structurals.

Heavy Engineering Corporation Ltd., are making every effort to secure adequate orders and are maintaining liaison with all prospective customers. They are also strengthening their commercial department. To the extent possible, they are also trying to diversify production."

4.163. The Committee cannot help concluding that the Heavy Machine Building Plant, Ranchi with an estimated capital expenditure of Rs. 43 crores including a foreign exchange component of about Rs. 27 crores, is suffering for want of sufficient orders. It is noted that the firm orders amount to about 10 per cent of the capacity only. Further even if the orders under negotiations are taken into account, 35 per cent of the capacity of the Plan would still remain unutilised. It seems to indicate that while planning the setting up of this plant careful consideration was not given to the utilisation of its capacity. It is significant that this capital intesive plant has been set up with loan assistance from the Soviet Union, on which repayment of interest and principal is being made although the capacity of the plant is largely unutilised and there is no return from it. The Committee cannot over-emphasise the urgency of taking effective measures to ensure that the plant is utilised to the maximum capacity. The experience of Heavy Machine Building Plant also underlines the inmperative need for carefully assessing the requirements and planning the size and capacity of the plant accordingly on realistic basis.

Coal Mining Machinery Plant, Durgapur.

4.164. The Coal Mining Machinery Plant is being set up at Durgapur (West Bengal). It is designed to produce 45,000 tons of coal mining machinery such as conveyors, haulage gears, coal cuttors, loaders, pumps etc. The value of the output of the plant at full annual capacity will be about Rs. 23 crores. Describing the progress made so far in erection of the plant, Government have stated that:

> "Out of the total plant and machineries to be imported from USSR, 88.7% have so far been received, of which 82.5% have been installed. 59% of the machinery and equipments have been commissioned and handed over for production work. As per the present schedule, all erection and commissioning of the machineries will be completed by the end of 1966."

4.165 It was noticed that till 31-3-1966, orders placed on the Soviet organisations for the coal Mining Machinery Plan (including those for its expansion) amounted to Rs. 12.15 crores while the amount drawn was Rs. 10.48 crores. Asked whether orders for the full foreign exhcange component of the cost of the plant including its expansion) had been placed with the Soviet organisations, Government have stated that:

> "the revised foreign exchange requirement of the Coal Mining Machinery Plant as well as its expansion for the import

of machinery, equipments etc. under the U.S.S.R. credits is now estimated at Rs. 12.24 crores (pre-devaluation) orders for which have already been placed on the Soviet organisations."

4.166. In answer to another question whether on the basis of the present position regarding orders placed and supplies received from USSR, the expectation that "all erection and commissioning of the machineries (of the Main Plant as well as its expansion) will be completed by the end of 1966" is likely to be fulfilled, the Government have stated that:

"On the basis of the present position regarding orders placed and supplies received, it is expected that erection and commissioning of machineries of the Main Plant as well as its expansion will be completed by 30-6-67. Some miscellaneous work may however, continue till the end of the year. But such work will be of very minor nature which will not affect the production work."

4.167. It is stated that as per the study made by the Soviet Team on Long Term Planning, annual targets of production for 1965-66 and 1966-67 were fixed at 5,000 tons and 10,000 tons respectively. The production target of 1965-66 is stated to have been exceeded, the production during that year being 5178 tons. Asked why the plant was currently working much below its rated capacity, Government have stated that—

"Due to downward revision of coal production targets now, the Mining and Allied Machinery Corporation has been forced to lower down production of coal mining machinery."

4.168. In answer to the question whether at the time of setting up of the plant, the requirements of the end-products were carefully assessed, Government have stated that:

"The requirement of Coal Mining Machinery to be manufactured by Mining and Allied Machinery Corporation during the Fourth Plan period had been assessed by a Joint Study team consisting of Indian and Russian Engineers. The targets of production were laid down on the basis of coal production programme envisaged in the Fourth Plan period."

4.169. The Committee are concerned to note that the Coal Mining Machinery Plant, set up with Soviet assistance, is yet another example of non-utilisation of the full capacity of the plant. The

Committee would like to emphasise that while planning the setting up of the big projects in future, the miscalculations made in the case of Coal Mining Machinery Plant, Durgapur and the Heavy Machine Building Plant, Ranchi should be avoided and realistic assessment of the requirements made so as to ensure that the capacities created are fully utilised. As to the Coal Mining Machinery Plant, Durgapur, the Committee would urge that all possible measures to diversify its production capacity should be made so as to utilise its capacity to the maximum extent possible.

Credit for Oil Exploration and Refining

4.170. Exploration: The Oil and Natural Gas Commission is mainly a Soviet assisted project. In the Third Five Year Plan period, a sum of Rs. 51.21 crores was allocated to the Commission out of the two Indo-Soviet credit agreements signed on 16th June, 1960 and 21st February, 1961. Against this credit, the Commission had concluded, by 31st March, 1966, contracts with the Soviet organisations of the total value of Rs. 37.36 crores. The amount acountlly drawn against the credit by 31st March, 1966, however, was only Rs. 32.33 crores or 63 per cent. of the credit allocated to the O.N.G.C.

4.171. Refining: Barauni Oil Refinery: The Barauni Oil Refinery with a processing capacity of three million tonnes per annum of Naharkatiya Crude has been set up with Soviet assistance. Originally, a credit of Rs. 11.91 crores was extended for the project in September, 1959. Later, a part of the Second Industrial Credit for the Third Plant was also allocated for expansion of the Refinery. Against the allocations, orders planced with the Soviet Organisations till 31st March, 1966 were valued at Rs. 16.67 crores.

4.172. The first stage of the Refinery comprising one million tonnes of distillation capacity was inaugurated on 15th January, 1965 and the second stage comprising another one million tonnes distillation capacity and the kerosene refining unit were expected to be ready by September, 1966. The expansion of the oil refinery to 3 million tonnes is expected to be achieved during 1967.

4.173. As regards the progress made so far in regard to the second and third stage of expansion of the Refinery, it is stated that the Second Stage comprising 2 million tonnes refining capacity has been completed and tested but it will be possible to operate the Refinery on full throughput of two million tonnes only in the last quarter of 1966. Explaining the reasons for the delay in commissioning the second stage of the Refinery according to schedule, Government have stated that "during the first stage operations of the Refinery it was found that the designed capacity of the coking unit was short and it required extensive modifications. It may be mentioned that at 2 million tonne capacity, the Coking Unit of Barauni Refinery is expected to take a feedstock of 2,000 tonnes per day whereas at present it is capable of taking a feedstock of about 1,400 tonnes per day. In order to make up the deficiency in designs, a contract was signed in October, 1965 with the USSR, for an additional supply of about 400 tonnes of equipment and materials to carry out extensive modifications in the Coking Unit. In addition, about 200 tonnes of materials are required to be obtained indigenously. We expect that delivery of equipment from USSR will materialise in July, 1966. On that basis it is expected that all the modifications in the Coking Unit will be completed by end of September, 1966 onwards provided the Lube Oil Plant and the Bitumen Unit can operate on full capacity."

4.174. As for the Third Stage, it is stated that "the Government has approved the expansion of the Refinery from 2 to 3 million tonnes of the crude processing capacity per year and in this connection a contract was executed.... on the 11th January, 1963 for the supply of 1540 tonnes of equipment and material at a total cost of 12,54,000 Roubles. The work of grading the site for expansion scheme has already been completed. The contract for civil engineering work is about to be placed. It is expected that the expansion of the refinery will materialise in mid 1967."

4.175. Asked during evidence in November, 1966 as to who was responsible for the defective design noticed during the first stage operations of the refinery necessitating "extensive modifications", the representative of the Ministry stated:

> "the Russians have agreed that there was a defect in their designing and they have therefore agreed to bear part of the cost of the reconstruction and modifications........ The total cost of modifications will be about Rs. 35 to 40 lakhs. About 25 per cent of this cost is borne by the Russians. The balance is borne by us because the modifications has for us a value in connection with the expansion of this refinery from 2 millions to 3 million tonne capacity. We have combined, therefore, modification to correct the defect in designing and modification to serve the needs of the expanded refinery capacity. To that extent we are going to bear the cost of the incremental modifications."

4.176. Explaining the consequences of delay in commissioning the second phase of the expansion programme, he stated:

> "The original completion of the first phase was 1964 and the second phase in early 1966. The first phase was commis-

sioned in early 1965 and the second phase has been commissioned only about three weeks ago...... The delay is not entirely due to the coking unit being under-sized. There are other difficulties also for the completion of other plants. We have lost of course refining capacity of the refinery.... This has been lost over a period of 1½ years at the rate of ¾ to 1 million tonnes per year. That is the loss of refining capacity."

4.177. The Committee regret to note that there has been a loss of refining capacity to the extent of ¾ to 1 million tonnes per annum for a period of 1½ years at the Barauni Refinery due partly to the defective design of the coking unit and partly to difficulties encountered in the completion of other units there. They note that the U.S.S.R. has agreed to bear part of the cost of reconstruction and modification of their coking unit. The Committee hope that modifications to the coking unit would be carried out at the earliest so as to achieve the full rated capacity of the Refinery.

4.178. *Koyali Oil Refinery.*—The Koyali Oil Refinery has been set up with Soviet assistance to process the crude oil obtained from the oil fields of Ankleshwar and Kalol in Gujarat. The Refinery is designed to come into operation in two stages. The first stage of the Refinery comprising a capacity of one million tonnes went on stream on the 11th October, 1965. In regard to the second stage of the Refinery comprising the second million tonnes, it is stated that all the construction and erection work has been completed. The Atmospheric Unit is undergoing test while the Catalytic Reformer Unit is expected to be completed in all respects by the end of September, if as indicated by the Soviet suppliers, all the critical items of equipment for this unit are received from U.S.S.R. by the end of June, 1966.

4.179. Asked whether both the stages of the Refinery were completed according to schedules previously laid down, the representative of the Ministry stated during evidence that:

"The dates for completion were for the first phase of the refinery of a million tonne capacity in the beginning of 1965 and the second phase by July-August 1965. But, in fact, the first phase was completed in October 1965, i.e. nine months later. And the second phase was completed in two stages—one in May 1966 and the other in October 1966, so that the complete second phase was ready about 14 months later than originally scheduled. In both these cases, primarily it was delay in the arrival of equipment that was the cause for delay. The supply of equipment from the USSR did not keep to the delivery dates stipulated. There was substantial delay in the completion of deliveries as per the agreements, and this is primarily, if I may say so, the sole cause of the delay in the commissioning of the two phases."

4.180. It is further stated in a written reply by the Government that:

"Although the second million tonnes unit has been completed, it is not possible at this stage to operate the Refinery at the full capacity *i.e.*, at an annual throughout of 2 million tonnes, until the Catalytic Reforming Unit, which is intended to raise the octane number of Motor Spirit and to avoid purchasing of High Octane Gasolene from Shell Refinery, is commissioned and our expectation about consumption of Naptha by bulk consumers in Maharashtra/Gujarat States materialises which is possible only if adequate duty concession is given by the Government."

4.181. The Committee note that the completion of the first phase of the Koyali Refinery was delayed by 9 months and the second phase was delayed by about 14 months due primarily to the delay in the arrival of equipment from the U.S.S.R. They however regret to note that though the second million ton unit at the Refinery has been completed it has not been possible to operate it at the full-capacity due to the non-commissioning of the Catalytic Reforming Unit. As the delay in the commissioning of the Catlytic Reforming Unit is causing loss of production at the Refinery, the Committee would urge that effective steps should be taken to complete this unit as early as possible.

Credits for Bhilai and Bokaro Steel Plants

4.182. *Bhilai Credit.*—The erection of the Bhilai Steel Plant with Soviet assistance was completed before the end of the Second Five Year Plan. Its initial capacity was one million tonnes of steel ingots. The work of expansion of the steel plant to 2.5 million tonnes capacity was taken up on the 15th August, 1962. It is stated that "the work is progressing satisfactorily (and) the entire expanded plant is likely to be commissioned shortly".

4.183. It had come to the notice of the Committee that the newly built blast furnace at the Bhilai Steel Plant remained inoperaive for quite some time and one of the reasons for that was non-supply of power in time by the Korba Power Station on account of a dispute about the price of coal to be supplied by N.C.D.C.—a government undertaking—to the Korba Power Station. In this connection, Government have furnished the following note:

"The construction of Bhilai's Fifth Blast Furnace proper was completed in May, 1966. The construction of the associated coke oven facilities was, however, completed only in July, 1966 due to the delay in installing the hammer crusher. The Blast Furnace complex as a whole was, therefore, ready for commissioning only towards the end of July, 1966. At this stage, the question of commissioning he Blast Furnace complex was reviewed at Government level and it was decided that the commissioning should not be held up even though the market situation was not favourable.

Although the stage was thus set for commissioning the Fifth Blast Furnace at Bhilai in August, 1966, the commissioning could take place only on 27th November, 1966. The main reason for this delay was the lack of assured power supply from the Korba Power Plant of the Madhya Pradesh State Electricity Board. A Blast Furnace complex requires substantial and assured supplies of power. Taking the requirements of the 5th Blast Furnace complex into account, Bhilai's total power demand is 82 Mega Watts. Bhilai's own power station is capable of a supply of about 24 Mega Watts. The balance requirements amounting to about 58 Mega Watts had to be secured from Korba. The Madhya Pradesh State Electricity Board could give an assurance of supply of 58 Mega Watts of power only from about the middle of November, 1966. In these circumstances, the 5th Blast Furnace complex at Bhilai could be commissioned only in the last week of November, 1966.

The likely expenditure on the Fifth Blast Furnace proper is Rs. 101 million.

This Ministry was generally aware that the Madhya Pradesh State Electricity Board had operational and other difficulties including problems connected with supply of coal which stood in the way of their giving the assured supply of 58 Mega Watts of power required by the Bhilai Steel Plant till the middle of November, 1966."

4.184. In answer to the question as to what action was taken by the Plant authorities to ensure that power and other resources were available in time, it is stated that:

> "Even apart from the question of supply of power for the commissioning of the Fifth Blast Furnace complex, there is close liaison between the Bhilai Steel Plant authorities and the Madhya Pradesh State Electricity Board authorities as the operation of the Korba—Bhilai power system is an integrated one involving the power generation facilities at Korba and the power generation facilities at Bhilai. In particular, in the context of securing the power supplies for commissioning the Fifth Blast Furnace comlex, there were frequent contacts between the management of the Bhilai Steel Plant and the Chairman, Madhya Pradesh State Electricity Board. The Bhilai Steel Plant authorities deputed technical teams to Korba a number of times between August and November, 1966 to discuss matters concerning power availability. Apart from such technical contacts as well as contats between the management of the Bhilai Steel Plant and of the Madhya Pradesh State Electricity Board, this Ministry also moved the Ministry of Irrigation and Power and the Madhya Pradesh Government at the highest levels so as to arrange the supply of the required power from Korba. At the instance of this Ministry the Ministry of Irrigation and Power deputed a Member of the Central Water and Power Commission to explore possibilities of arranging supplies of the required power to Bhilai."

4.185. Government have also stated that "in view of the unfavourable market conditions both for pig iron and for steel items, it is difficult to estimate the loss in terms of quantity and value arising out of the delay in the commissioning of the Fifth Blast Furnace Complex.... (and that) no steel had to be imported due to non-commissioning of this Furnace."

4.186. The Committee regret to note that there has not been effective coordination in the schedule of construction of Bhilai's Fifth Blast Furnace and the associated coke even facilities, as also the availability of power from the Madhya Pradesh State Electricity Board for the working of the Blast Furnace. While the Blast Furnace was completed in May, 1966 the associated coke oven facilities were completed in July, 1966 and the power could be made available only from the middle of November, 1966. The Committee would

like to emphasise that as large amounts of loan money are spent in the commissioning of those industrial units, it should be ensured that all arrangements for supply of power, raw materials etc. are completed well in advance so as to facilitate production without delay.

4.187. *Bokaro Credit:* An agreement was signed with the U.S.S.R. Government for assistance in the construction of a steel plant at Bokaro of the capacity of 1.5 to 2 million tonnes with provision for its future expansion to 4 million tonnes. The soviet Government have agreed to extend a credit of Rs. 100.5 crores for the purpose of meeting the foreign exchange cost of the steel plant. The credit will carry an interest of 2½ per cent per annum and is repayable in 12 years. The Soviet Organisations will supply, during the period 1966 to 1969, such equipment as is not available in India. The steel plant is expected to be commissioned in early 1970.

4.188. The representative of the Ministry stated during evidence that against the credit, orders of value of Rs. 1684 million (post-devaluation) have already been placed with the Soviet Organisations.

4.189. In regard to the capital cost of the Bokaro Plant, the representative of the Ministry stated that:

> "The Soviet detailed project report estimated the cost of construction of 4 million ton plant at 7,700 million rupees—770 crores. There was no separate figure given for the first stage. But a technical committee examined the project report and they revised the Soviet estimate after discussion wih the Soviet Consultants. They incorporated certain savings. They further included provision for items which had been excluded by the Soviet. The technical committee gave the revised estimate of the plant at Rs. 808 crores—for 4 million ton plant. That means they included a number of other facilities which had not been included in the DPR and they estimated the cost of 1.7 million stage at 559 crores. Then, if you add to this charges such as deferred revenue charges, capitalised interest, off-site facilities and so on, the cost would become something like 620 crores for 1.7 million stage. The revised plant cost which has been currently worked out excluding the deferred charges, etc., comes to Rs. 602 crores."

4.190. **Elaborating on the economies in the capital cost suggested by the Government and those accepted by the Soviet organisations, it is stated that the Detailed Project Report of the Plant pre-**

pared by the Soviet organisation was accepted by the Government on 29th March, 1966. In the Memo. of Acceptance, however, a provision was made for consideration by the Soviet Organisations concrete technical suggestions aimed at reducing the cost ot project. After considering the various suggestions of economy made by Government of India with the assistance of a private firm of consultants, the Soviet Organisations have accepted proposals "resulting in a net reduction in the cost of plant and equipment of Rs. 95 million, apart from the consequential reductions in engineering, service facilities, custom duty, etc." It is stated that the Soviet Government have assured that they will continue to examine the possibilities of further reducing the capital cost of the plant during the course of the detailed engineering of the project.

4.191. The Committee note that the economies effected in the overall cost of the Bokaro Steel Plant as a result of discussion between Indian officials assisted by private consultants and the Russians are only marginal. The Committee hope that in working out and implementing the project in detail, possibilities of further economies would receive utmost consideration.

Servicing of Soviet Loans

4.192. The repayments of principal and payment of interest on loans extended by U.S.S.R. have been as follows:

(Rs. crores)

		Towards payment of principal	Towards payment of interest
Upto	1960-61	16·73	1·93
	1961-62	6·40	1·22
	1962-63	9·79	1·48
	1963-64	7·85	3·32
	1964-65	8·36	4·20
	1965-66	4·34	5·14
	TOTAL	53·47	17·29

Explaining the irregular pattern of repayments indicated above, Government have stated that these were due to an arrangement whereby advance payment of repayment instalments were made to U.S.S.R. at their request which continued upto 1964-65, thereby saving some interest charges due on the credit.

4.193. The terms of repayment of principal and payment of interest on Soviet loan have been stated by Government as follows:

> "Repayments of Soviet credits generally commence one year after the completion of deliveries of equipment for putting the project(s) financed under the credits into operation. In the case of the Bhilai and the Bokaro credits however, the repayment procedure is different. Under the Bhilai Agrtement, credit was raised upon each consignment to be rapid in 12 equal annual instalments payable on or before the 15th March every year, following the year in which the credit was raised.
>
> In the mase of the Bokaro credit, amounts utilised during a calendar year will be repaid in 12 equal annual instalments starting from the 15th October of the year following the year during which the corresponding part of the credit has been utilised. Therefore, in the case of the Bhilai and the Bokaro credits, repayments begin even before completion of deliveries. There are, thus, cases where repayments begin even before the projects are fully commissioned and start production.
>
> Interest against Soviet credits as is the case with repayments, is paid project-wise. In the case of the Industrial Enterprises Credit of 1957, although interest accrues annually, its payment commences only 'at the time of repayment of the main debt'; in other words, only as the repayment of the credit begins. In the case of the other credits, however, interest is paid annually. It may be added that in the case of the credits from the Western countries also, interest is paid even before completion of the projects."

4.194. In reply to the question whether Government have approached the Soviet authorities to modify the terms and conditions of Soviet credits in such a manner as to provide repayments of principal only after the projects have started production upto the rated capacity and have begun to earn profits and that payment of interest may start after the plant has gone into production, Government have stated as follows:

> "The question of securing more liberal terms for the Soviet credits has been discussed with the Soviet authorities more than once. The matter was raised at the negotia-

tions for the I credit for the III Plan in September, 1959 when we proposed to liberalisation of the repayment terms. The matters was again taken up with the USSR authorities in 1965 but they did not agree to it. During the negotiations in December, 1966 the issue was again raised. We suggested that the terms should be liberalised to permit the repayment of the first instalment of the principal one year after the commissioning of the project. The Soviet Delegation did not agree to our proposal. They felt that the terms offered by them particularly for repayment through exports, were favourable and were similar to those extended by them to the other countries both in respect of the period of credit and the commencement of the repayment, one year after the completion of deliveries for each project. They said that they could not agree to making any distinction in the case of India."

4.195. The Committee note that the Soviet Union was the first country which gave loans at a low rate of interest which practice has now been increasingly followed by other countries. The Committee, however, consider that the terms of repayment of the principal i.e. one year after the completion of deliveries of equipment tend to weigh heavily as in many cases the repayment of principal and interest begins even before the plants have been full commissioned and have attained their rated capacity. This tends to aggravate the balance of payment difficulties of the country as the benefits from the heavy loan investments do not begin to bear fruit while repayments thereon become due. The Committee would urge Government to explore the possibilities of obtaining liberalisation of the terms of repayment so that these could commence after the plants have actually gone into full production.

Purchases made against funds generated by servicing of loans.

4.196. The payments made to U.S.S.R. towards repayment of principal and payment of interest on loans are credited to a special account maintained by the Reserve Bank of India in the name of the Bank for Foreign Trade of U.S.S.R. The funds held in special account along with funds generated by current imports from the Soviet Union (held in current accounts with commercial banks in India opened under the Trade Agreement) are utilised by U.S.S.R. Government for purchase of Indian exports listed out in the Trade Plan.

4.197. The total rupees reserves of U.S.S.R. as on 5th June and 31st October, 1966 were as follows:

(Rs. lakhs)

	Central account	Special account	Total
on 5-6-1966	0·9	131·6	132·5
on 31-10-1966	284·7	987·6	1272·3

4.198. Asked how much out of the funds generated by the servicing of loans had been utilised by the U.S.S.R. up to 31-3-66, for purchase of Indian goods and for conversion of the holdings into free and transferable currency, Government have stated as follows:

"The repayments of principal as well as the payments of interest, made from time to time in terms of the Indo-Soviet Credit Agreements are to be utilised for purchase of Indian exports under the Indo-Soviet Trade Agreement. The Soviet Union has accordingly been using up these payments for financing their purchases in India. It will not be possible to indicate the amounts actually used up for such purchases as these payments have to be necessarily transferred to the accounts maintained by them with commercial banks in India for making payments to Indian exporters, as the Reserve Bank do not entertain any commercial transactions. As such, these payments also merge with the other receipts on account of their exports to India under the Trade Agreement and lose their identity. No part of these payments have however been converted into free currency."

4.199. Government have, however, furnished a statement showing India's exports to U.S.S.R. Calender-year-wise since 1963, by major groups. It is noticed from the statement that exports of the following goods to U.S.S.R. have declined during 1965:

India's exports to USSR, 1963—65

(Rs. lakhs)

Category of exports	Traditional			Non-traditional		
	1963	1964	1965	1963	1964	1965
1. *Manufactured* :						
Leather footwear.	..		..	162	159	110
Vegetable oil	293	203	188			
Essential oils	56	25	23			
2. *Semi-Manufactured* :						
Shellac	68	64	20	..		..
3. *Raw*						
Coffee	86	375	340			..
Tobacco	490	769	671	..		..
HPS groundnuts	..	93		..	..	..

4.200. Asked the reasons for this decline, the representative of the Ministry stated during evidence as follows:

"The main reason was lack of availability and the high price prevailing in India. Castor oil was the main vegetable oil which they were purchasing in previous years. Prices were ruling so high in India that they found it cheaper to go to other sources. The same is true in the case of essential oils.

With regard to leather footwear the figure of 1965 are somewhat misleading ....if we take the totality of exports in 1965 with the spill-over in 1966 there has been no set back.

With regard to shellac there has been a decline in export. This was used by gramophone industries. They have now substituted it with plastics with the result that all over the

World we are finding it difficult to push our sale in this item. We have taken many measures to increase our export of shellac.

In the case of coffee and tobacco the fall is due to non-availability of coffee and tobacco. Coffee is one of those items where we make very restrictive export to East European countries so that we may preserve something for free foreign exchange countries. It is not due to any lack of desire on the part of USSR to buy our coffee. The same applies to tobacco also. In addition to this, the very high price that ruled in 1965 was one of the reason which made U.S.S.R. not to take all that they wanted.

As regards HPS groundnuts, you know it is a banned item and it is for this reason the figures have fallen. There is great interest in East European countries to buy this if we relax the ban.

4.201. Regarding the possibility of export of more items of non-traditional nature, the representative of the Ministry stated that:

"We have made special efforts to increase our export of manufactured goods to the U.S.S.R. and we have succeeded very well indeed. We have reason to think that we have succeeded very well in diversifying our exports to this country. We have increased our exports particularly in the field of textiles, ready-made garments, woollen knitwear and a variety of other items. We have been able to increase our exports to a very sizeable proportion....We have also been making a good deal of efforts to come to an understanding with them on the basis of international division of labour so that according to that principle, which the Comecon countries have adopted, certain specific industries can be allotted to India on the basis of division of specialised skills, availability of manpower and raw material. Russia is a country which requires such large quantities of any particular item that we can try to supply; for example GLS lamps and bulbs; their demand is very large. We propose to produce them to meet their requirement in the Fourth Plan. We can at least try to meet a part of their requirement by setting up new capacities in the Fourth Plan."

4.202. The Committee note that India's exports to U.S.S.R. are mostly of traditional items majority of which are agricultural products. Since the country is facing acute shortage of agricultural

produce and has made good progress in the manufacture of industrial and engineering goods, the Committee urge that the Soviet authorities should be persuaded to include increasingly non-traditional items in their trade plan.

Salient Features of Assistance from U.S.S.R.

4.203. To sum up, the characteristic features of assistance received from U.S.S.R. are as follows:

(i) According to the quantum of assistance extended to India by foreign countries, U.S.S.R. rates second, next only to U.S.A.

(ii) U.S.S.R. has assisted India in setting up basic industries such as steel, power, coal, oil and heavy engineering.

(iii) The assistance received has been utilised for setting up an industrial complex in the public sector.

(iv) The assistance consists almost entirely of loans. The grants amount to about 1 per cent of the total assistance.

(v) The loans carry a low rate of interest (2½ per cent per annum) but are repayable over a comparatively short period of 12 years.

The repayments begin an year after the completion of deliveries of equipment.

(vi) The terms and conditions of all loans received so far have been more or less uniform.

(vii) Repayments of loans and payments of interest thereon can be in Indian rupees.

(viii) The rupee funds generated by the servicing of loans are utilised by the Soviet Government for import of Indian goods of wide variety ranging from raw materials to manufactured goods.

Federal Republic of Germany

Quantum of West German Aid

4.204 After U.S.A. and U.S.S.R., Federal Republic of Germany (West Germany) has extended largest amount of assistance to this country, mainly in the form of loans during the Second and Third Plan periods. Till 31st March, 1966, West Germany had authorised assistance amounting to Rs. 449.96 crores (Rs. 447.40 crores as loans and Rs. 2.56 crores as grants) out of which Rs. 347.33 crores (77 per cent of authorisations) were utilised by that date (Rs. 344.81 out of loans and Rs. 2.52 crores out of grants). The following table shows the amounts of West German assistance authorised and utilised during each of the Plan periods:

(Rs. crores)

	Loans			Grants		
	Authorised	Utilised	Percentage of utilisation	Authorised	Utilised	Percentage of utilisation
During Second Five Year Plan	139·28	125·08	90	2·09	0·61	29
During Third Five Year Plan	308·12	219·73	72	·47	1·91	
	447·40*	344·81	77	2·56	2·52	98

*Includes DM 12 million (Rs. 1.43 crores) for fertilisers as special food assistance.

West German Grants

4.205. Under agreements signed from time to time, West Germany has been extending technical and scientific assistance for the various institutions and projects in the form of supply of equipment and expert services and training of Indians. These projects are: (1) Indian Institute of Technology, Madras, (2) Prototype Production-*cum*-Training Centre, Okhla, and (3) Agricultural Development Project in Mandi District of Himachal Pradesh. Besides, Government have also entered into a "general technical assistance" agreement under which West Germany will assist in setting up of technical training centres making available services of German experts, supplying articles of equipment as may be required for the work of German experts in planned projects and making available the technical training facilities in Germany for the nominees of the Government of India.

4.206. The total amount of grants extended by the West German Government till 31st March, 1966 was Rs. 2.56 crores out of which Rs. 2.52 crores or 98 per cent was utilised by that date.

West German Loans

4.207. Government of India has entered into a total of 40 loan agreements with the West German Government authorising loans of the value of Rs. 447.40 crores: 5 of them for Rs. 139.28 crores during the Second Plan and 35 during the Third Plan amounting to Rs. 308.12 crores.

4.208. Two credits during the Second Plan period were short term credits repayable in 3-4 years and carried a rate of interest of 6.3—5½ per cent per annum. Other credits during that period were repayable in 15—20 years and carried an interest rate of 5½ to 6½ per cent per annum. The terms and conditions of the credits during the Third Plan period varied from a repayment period of 10 years with a rate of interest of 5½ to 6 per cent in the case of suppliers' or refinance credits or those for purchase of ships, to repayments extending over 25 years with interest rate of 3 per cent per annum*. The last credit received on 14th March, 1966 for the purchase of fertilizers which is repayable in 25 years and carries a rate of interest of only 1 per cent per annum is a class apart.

4.209. Out of the loans authorised, an amount of Rs. 344.81 or 77 per cent was utilised upto the end of the Third Plan leaving a balance of Rs. 102.59 crores for utilisation during the Fourth Plan period.

4.210. The following table indicates the broad purpose-wise classification of German assistance for the Third Five Year Plan (1961—66) amounting to Rs. 306.69 crores, excluding Rs. 1.43 crores for the import of fertilisers for which agreement was signed on 14th March, 1966:

(Rs. crores)

		Amount authorised upto 31-3-66	Amount disbursed upto 31-3-66
1	2	3	4
1.	Rourkela Refinancing	66·66	66·66
2.	Rourkela Steel Plant Services and Maintenance Requirements	6·67	4·46
3.	Rourkela Expansion	49·28	33·13
4.	Cash Credits	28·58	28·58

*The credit for D. M. 107 million is however repayable in 15 years and carries interest @ 6½%.

1	2	3	4
5.	Maintenance Requirements including Commodity Assistance	42·08	25·61
6.	Project Financing	51·06	27·95
7.	Direct Loans to IFC, ICICI and NSIC .	20·20	8·10
8.	Balance of Payment support for making down payments for ships	3·35	3·35
9.	Suppliers' Credits for Ships and other purposes.	38·81	8·62
		306·69	206·46

4.211. The Committee appreciate the sizeable aid extended by the Federal Republic of Germany. Noting the soft terms and conditions on which the credit for import of fertilisers signed on 14-3-1966 has been made available, they hope that the trend set by the terms of this agreement would be maintained.

Slow Progress in Utilisation of Loans

4.212. It is noticed from the table given in para No. 4.210 that large unutilised balances were available on 1-4-1966 in the case of the following credits:

(1)	Rourkela Expan sion	Rs. 16·15 crores
(2)	Maintenance Requirements including commodity assistance	Rs. 16.47 "
(3)	Project Financing	Rs. 23·11 „
(4)	Direct Loans to IFC, ICICI and NSIC	Rs. 12·10 „
(5)	Suppliers' Credit for Ships and other purposes	Rs. 30·19 „

4.213. In the case of the credit for 'Rourkela Expansion' it is stated that, of the total credit amounting to DM 400 million, agreement for DM 396 million for financing the steel works proper was signed on 25-4-1963 while that for DM 4 million was signed on 3-12-1963. It is further stated that "there has been no appreciable delay in utilising this loan....the terms of payment in the contracts determine the rate of utilisation and there are no means of forcing the pace. The expansion is expected to be completed by about the end of 1967 and drawals on the loan are likely to continue up to the middle of

1968". It is, however, observed that although almost the entire amount of the credit was committed by the West German Government in 1961-62, that is the first year of the Third Plan period, the agreement therefor was signed as late as April, 1963 and the letters of credit exchanged only in July, 1963, resulting in first payment under the credit being made sometime in September, 1963.

4.214. In regard to suppliers' credit for ships and other purposes, it is stated that "there is no disbursement as such from the credit" but "measured in terms of the value of ships delivered, it may be held that that the credit has been utilised to the extent of DM 126·42 million." It is, however, admitted that "though the suppliers' credit of DM 28 million was extended during 1964-65, the terms of the credit were finalised later after lengthy correspondence and protected consultations with the German authorities."

4.215. In regard to slow progress in the utilisation of credits to the IFC, ICICI and NSIC amounting to Rs. 20·20 crores out of which only Rs. 8·10 crores were utilised by 21-3-1966, it has been stated that "one common factor accounting for the comparatively slow utlisation of the credit is that these loans instead of being evenly spread over the five years of the Third Plan were sanctioned only from 1963 onwards." Other reasons stated are as follows:

Loans to IFC|ICICI

(i) After sanction of a sub-loan, a minimum period of three to four months generally elapses before a company is in a position to comply with all the requirements precedent to the issuance of letters of credit by the Corporation. These requirements include raising of share capital by new concerns, finalisation of the negotiations for the purchase of plant and machinery and relative lists, issue of import licences by the Government, obtaining permission from the Reserve Bank of India for availing of the sub-loans, establishment of clear and marketable title to the properties to be mortgaged to the Corporation as security for the sub-loans, execution of the requisite loan documents, etc.

(ii) Sometimes, the sub-borrowers decide upon certain changes in the equipment after sanction of the sub-loans. These changes require prior approval of the Chief Controller of Imports & Exports. Till such time as the said approval is not forthcoming, the Corporation is not in a position to establish any letter of credit in respect of the new items of equipment, with the result that the utilisation of the relative sub-loan is unavoidably held up.

With a view, however, to ensuring expeditious utilisation of the sub-loans, it is stated that the Corporations go on reviewing each case from time to time so as to find out whether any of the requirements which hold up the utilisation of the sub-loans, could, in any way, be modified or relaxed and that the need for making the terms and conditions as practicable as possible is kept actively in view.

Loans to NSIC

On receipt of applications from the entrepreneurs through State Directors of Industries these are scrutinised by NSIC and, if complete in all respects, these are included in the agenda for acceptance by the Small Scale Industry Committee. The SSI committee meets once in a fortnight and after the applications are approved by it acceptance letters are issued to the entrepreneurs. Enquiries on the West German suppliers are also floated calling for quotations. Sending the quotations by the West German suppliers takes another one month. On receipt of quotations the Corporation calls for earnest money from the applicants. The applicants normally take another one or two months to deposit the earnest money and when the deposits are received applications for obtaining import licence are made by NSIC. After completion of these formalities the supply order is placed on the foreign supplier. Simultaneously, the approval of the German authorities (KFW) for supply orders for DM 80,000/- and above is obtained and summary sheets for supply orders below DM 80,000|- are sent to KFW. This is required in terms of the procedure prescribed by the German authorities. On receipt of import licences steps are taken to open a letter of credit on the German suppliers concerned. The whole process takes about 6 to 8 months from the date of receipt of application by the NSIC to the opening of letter of credit. However, once the orders have been placed, the pace of disbursement from the credit is determined by the delivery schedule of the orders, which varies from case to case.

4.216. It is admitted that the above procedure is "a time-consuming process"; but according to Government, it is "unavoidable.... as it is incumbent in the context of rules and regulations under which NSIC has to function."

4.217. The Government have also stated that "since the operation of foreign credits through the Development Banks had to follow commercial practices and procedures, their utilisation is unavoidably slower than Governmental credits."

4.218. Following reasons have been adduced by Government for slow utilisation of DM 40 million credit for "continuing projects" which was a part of the Rs. 40.06 crores credit agreement for which was signed on 26-11-1963:

(i) The Germans raised the question of appraising them first.

(ii) They suggested that we extend rupee loans to them on terms and conditions corresponding to DM loans.

(iii) While selecting the projects already receiving assistance, the Kreditanstalt has suggested "improvements" and "additions" to the project requiring additional imports not originally envisaged. Considerable time was taken to satisfy the Germans on these points.

(iv) The elaborate way of having loans/project agreements and Government guaranteeing that arrangements satisfactory to Kreditanstalt for full financing of the project have been made, etc., entailed a lot of correspondence resulting in delay in conclusion of the agreement concerned.

4.219. The Committee note that while the overall percentage of utilisation of West Germany loans extended upto 31-3-1966 is 77, only 67 per cent of the loans extended during the Third Plan period have been utilised by the end of the Plan period. The Committee recommend that the pace of utilisation of West Germany credits should be stepped up.

Use of Credit for Defence Oriented Projects

4.220. It is noticed that out of the West German credit for Rs. 40.06 crores agreement for which was signed on 26-11-1963, Rs. 4.46 crores were allocated for use in two projects which were defence oriented, namely, Rourkela Special Steel Plant (Rs. 1·66 crores) and the 'Shaktiman' Project (Rs. 2.80 crores). After protracted negotiations and "unusually long" time taken by the West German authorities in appraising the project, they have finally not agreed to utilisation of a part of their credit directly for financing the type of project envisaged.

4.221. The Committee feel that foreign development loans or grants involving detailed appraisals of the projects to be financed thereunder, by the aid-giving country should, as far as possible, not be used for projects having a direct bearing on national defence. The Committee hope that Government will keep this consideration in view in all aid negotiations in future.

Salient Features of West German Assistance

4.222. The salient features of the assistance from the Federal Republic of Germany (West Germany) are as follows:

(1) In terms of the magnitude of assistance extended, West Germany rates third among the countries who have extended assistance to India.

(2) West German assistance has been mainly in the form of credits.

(3) Grants assistance from West Germany has been in the form of scientific and technical assistance for various technical institutions and projects and also in pursuance of the "general technical assistance" agreement with the Government of India.

(4) The rates of interest in respect of Refinance/Suppliers' credits during the Second Plan were 5¼ to 6.3 per cent per annum. The credits were repayable in 3-4 years. During the Third Plan, such credit carried interest at the rate of 5½ to 6 per cent per annum and were repayable in 10 years.

(5) Other credits during the Second Plan period carried interest at the rate of 5¼ to 6½ per cent per annum and were repayable in 15-20 years. During the Third Plan, the interest rate on the credits was 3 per cent per annum and the period of repayment 25 years.

(6) Terms of credit for fertilisers signed on 14-3-1966 are softer. The rate of interest is 1 per cent per annum and the credit is repayable in 25 years.

(7) West Germany has extended sizeable refinance credits which have been used for servicing of old Rourkela credit, West Germany has also extended cash credits.

(8) West German credits have been used for setting up capacity for the manufacture of iron and steel, fertilisers, electrical goods etc. and for the import of variety of equipment. Direct credits have also been extended to Indian financial institutions which extends sub-loans to the private sector.

Britain

Quantum of British Aid and its Utilisation

4.223. The British assistance to India has been in two forms:

(i) technical assistance under the Colombo Plan which is in the form of grants, and (ii) capital assistance in the form of long term loans through the Aid-India Consortium. The amounts of authorisation and utilisations upto the 31st March, 1966 were as follows:

	Authorisation	Utilisation	Percentage of utilisation
	(Rs. in	crores)	
Grants	1·80	1·26	70
Loans	364·63	292·27	80
TOTAL .	366·43	293·53	80

4.224. Asked about the latest position in regard to the utilisation of grants and the reasons for short utilisations, if any, the Ministry have stated as follows:

> "Proposals regarding the supply of equipment to various institutes and laboratories in India are approved by U. K. Government from time to time on the basis of the requirements given by these institutions. Procurement and shipment of equipment are also arranged by the U.K. Government. Hence, information regarding the actual amount utilised out of the total authorised grant on any particular date will be available only with the U. K. authorities in London. The British High Commission in New Delhi gives us the actual figures of utilisation for each financial year and the next report is due from them only after the end of March, 1967. They do not now have the figure of utilisation upto the present date.
>
> The utilisation of the grant depends on the requirements from time to time of equipment etc., by the concerned institutions. There is also a normal time lag between the date of approval of the grant and ordering of equipment and even after the equipment is ordered, there is a further time lag on account of actual placement of orders, delivery and shipment schedules."

British Loans

4.225. Britain did not extend any credit to India during the First Five Year Plan. During the Second and Third Plans, however, a total of 37 loan agreements were concluded with Britain authorising credits amounting to Rs. 349.30 crores. In addition, a credit of Rs. 15.33 crores was extended by Lazard Bros., heading a syndicate of British banks, for financing the Durgapur Steel Plant. Thus, the total amount of British credits upto 31-3-1966 was Rs. 364.63 crores. Over the years, Britain has been progressively softening the terms and conditions of its loans. Of the 6 loans extended during the Second Plan period, the first three were repayable in 11, 20 and 6-1/2 years and the remaining in 20 years. Those extended during the Third Plan period, the first three were repayable in 11, 20 and 6-1|2 years with a grace period of 5-7 years during which no repayment of capital is required. The interest rate was linked to British Government's borrowing rate for a loan of comparable period. However, for the loans sanctioned in 1963-64 and 1964-65, the British Government waived payment of interest for the first 7 years of the loans. This 7 year waiver brought down the effective rate of interest from about 6-1|2% to 3-1|2%. Commencing with the General purpose Loan authorised in October, 1965 no interest is payable on British loans.

Non-Project Loans

4.226. Britain is stated to be one of the earliest countries to recognise the importance of non-project aid to developing countries. Out of the loans extended by Britain during the Second Plan period, 77.4 per cent were not tied to specific projects while during the Third Plan period, out of the loans amounting to Rs. 242.00 crores, the non-project element amounted to Rs. 134.03 crores or 55 per cent. Asked the reasons for a drop in the proportion of non-project element to the total loans during the Third Plan period the representative of the Ministry stated during evidence:

> "The total amount of project aid went up and with it the project assistance also because of larger number of projects that we presented for British financing. As a consequence of that, the relationship between project and non-project assistance altered."

4.227. The Committee are gratified to note the progressive softening of the terms of the loans extended by Britain. They also appreciate that the major part of the British loansh is not tied to specific projects, thus allowing a measure of flexibility in the use of funds.

Kipping Loans

4.228. Kipping Loans, known after Sir Norman Kipping, who as Director General of British Federation of Industries visited India in early 1963 and made certain recommendations, are authorised by the British Government "for the purchase from U.K. of components, spare parts, specialised raw materials and some balancing equipment by metal-using and engineering industries in India that traditionally look to Britain for these supplies." By the end of May, 1966, four Kipping Loans had been authorised by the British Government as follows:

(Rs. in crores)

	Date of Loan	Amount authorised	Balance available as on 31-5-66
First Kipping Loan	16-10-63	5·33	2·96
Second Kipping Loan	9-9-64	5·33	5·13
Third Kipping Loan	20-12-65	5·33	5.14
Fourth Kipping Loan	10-5-66	5·33	5.33

4.229. These Loans have been made on the same terms as other loans given by U.K. through the Consortium during the comparable period. All the Kipping Loans are repayable over a period of 25 years inclusive of a grace period of 7 years.

4.230. The interest payable on the first two Kipping Loans, like other loans during this period, is based on British Government's borrowing rate plus a small administrative charge, with a waiver that no interest need be paid for the first 7 years of these loans. Because of this 7-year waiver, the effective rate of interest works out to about 3½ per cent per annum. On the Third and Fourth Kipping Loans, no interest fee is payable as U.K. Government have decided not to charge interest on their loans commencing with the General Purpose Loan sanctioned in October, 1965.

Progress in Utilisation of Kipping Loans

4.231. It is stated that licensing and ordering against the first two Kipping Loans has been completed and reimbursement work is currently in progress. Issue of licences against the third loan has been completed while against the fourth loan, it is in progress.

4.232. Explaining the reasons for slow disbursement against the first two Kipping Loans against which a balance of Rs. 8.09 crores was available on 1.6.1966, Government have stated that:

> "The licensees are free to choose the suppliers and take some time to locate suitable supplies consistent with delivery time requirements and price. As and when imports take place, the Indian importers arrange remittances (this involves the aspect of their having enough rupee resources) and then forward the necessary documents to the E.A. Department (Accounts Branch) for claiming reimbursement under the U.K. Credit. These documents are first processed by the E.A. Department and transmitted to the High Commission of India in London who submit them to the ECGD for their scrutiny and reimbursement. All these various stages consume appreciable time."

4.233. Asked whether the Government have examined, in consultation with U.K. Government, the possibility of simplifying the payment procedure in respect of these loans with a view to accelerating their utilisation, the representative of the Ministry stated during evidence that "under the Third Kipping Loan, we are using the direct payment method which, we hope, would obviate a considerable part of the delay that occurs in the stage of collecting documents after the import takes place."

4.234. The Committee recommend that procedural difficulties in regard to payments which have been vitiating speedier utilisation of the first and second Kipping loans may also be simplified in consultation with the British Government.

Project Loans

4.235. The British credits have helped India in financing the foreign exchange costs of projects like Durgapur Steel Plant, Heavy Electricals Plant at Bhopal, Naharkatiya Oil Pipeline Project, Naharkatiya Fertiliser Plant, the Security Paper Mill at Hoshangabad, the Hindustan Cables Factory at Rupnarainpur, etc.

4.236. As the progress of utilisation in respect of some of the credits was slow, Government was requested to furnish a note on the progress made in respect of some selected credits. From the note furnished by them in respect of those credits, the following points were noticed:

(i) A common reason given for the low utilisation of U.K. credits (*e.g.* Nos. XIV, XVIII, XXI) is "the time taken in locating supplies" by the project authorities/licencees. Asked whether the Government have considered the question of indicating broadly the source of credit to the project authorities, before the formal conclusion of agreement so that they may start gathering information regarding suppliers of goods of the types required and place orders on conclusion of agreement without avoidable delay, the representative of the Ministry stated during evidence that:

"They are doing it........for the last three four years. The pattern of U.K. assistance is becoming stabilised...... Generally, the British are not particularly worried how we use their money so long as we use it in the U.K. and so long as we don't keep on pressing them for more and more disbursements every year. They are very sophisticated people and they really do not bother very much. Their stabilising it is to our advantage; of course, there can be different definitions of 'to our advantage'."

(ii) The following is given as another reason for the extremely slow pace of utilisation of U.K. credits for the purchase of capital goods and components by private sector:

"Because the importers are private parties, there is this aspect of difficulty in finding adequate rupee resources to pay for the imports."

In reply to the question whether it is not ensured at the stage of issue of import licence that the party has adequate rupee resources to pay for the imports, Government have stated that:

"Although there have been a few isolated instances of slow utilisation on account of difficulty in finding adequate rupee resources, this difficulty cannot be considered to be a general and major reason for slow utilisation.

It is not possible to ensure at the stage of the issue of the import licences that the party has adequate rupee resources to pay for the imports. However, in order to ensure proper utilisation of the licence, it is insisted that the firm should open irrevocable letter of credit within a limited period from the date of the issue of the licence."

(iii) U.K. credits (Nos. XXV, XXVI) amounting to Rs. 6.96 crores were received on 9.9.1964 for the purchase of components and raw materials by the Bhopal Heavy Electricals, out of which only Rs. 39 lakhs were drawn upto 31.5.1966. The delay in utilisation is stated to be due to the fact that "the delivery period of the U.K. suppliers is long because the items have to be manufactured to Bhopal designs."

From the details regarding ordering of equipment against the credits furnished by the Government, it is noticed that while it took Government less than 2½ months to place orders for the full value in the case of credit No. XXV amounting to Rs. 4.30 crores, orders were placed for the full value against credit No. XXVI amounting to Rs. 2.66 crores not before 14½ months had elapsed.

(iv) The cost of the Security Paper Mill at Hoshangabad was originally estimated in 1962 as Rs. 6.95 crores. It was revised to Rs. 7.65 crores in August 1964 and to Rs. 9.34 crores in June, 1965 while the present revised estimate is Rs. 11.85 crores. The following reasons are given for repeated revisions of the estimated cost of the project:

"(i) Hoshangabad being an out-of-the-way place, reputable contractors were not willing to take up work there at the schedule of rates applicable to Delhi on the basis of which estimates for building works had been framed. After the contracts were actually awarded it was found that the rates were much higher. This accounted for an increase of about Rs. 69 lakhs (original Rs. 3.34 crores).

(ii) The additional amount required for the fourth machine was estimated at Rs. 1.69 crores.

(iii) After contracts were placed for purchase of plant and machinery and for their erection it was found that the expenditure would be Rs. 41 lakhs more than originally envisaged (Rs. 2.27 crores).

(iv) The total impact of devaluation has been estimated at Rs. 1.56 crores (plant and equipment including erection: Rs. 78 lakhs, Technical Collaborators' fees and pay and allowances of technicians: Rs. 78 lakhs).

(v) Extra items not envisaged at the time of preparation of original estimate (such as Air Compressors, two guillotines, Vehicles, Road Tanker, Dust Extraction Plant

House, two Fire Stations, Cycle Stand and Parking Bay, additional residential quarters (350) accounts for an additional outlay of Rs. 68 lakhs.

(vi) Reduction on account of lesser amount of fees payable to the collaborators for the fourth machine including incidence of *tax*: *Rs.* 18 lakhs."

On the basis of the anticipated cost of project, the estimated cost of the paper produced in the Mill has been worked out to be in the range of Rs. 19.98 per kg. while the average landed cost of paper imported from M/s. Portals is around Rs. 14.70 per kg. CIF Bombay and Rs. 14.31 per Kg. FOB U.K. On a total production of 2800 tonnes of security paper a year, the total difference between Hoshangabad's and Portals' cost (CIF) will be of the order of Rs. 104 lakhs.

As regards the delay in commissioning the Paper Mill, it has been stated that collaboration agreement was signed in March, 1962 and "it was felt that production might commence in September, 1964. The Mill is, however, now expected to be commissioned in March-April, 1967". The reasons given for the delay may be summed up as follows:

(1) the period of 2½ years mentioned in the agreement with M/s. Portals was unrealistic.

(2) difficulty of C.P.W.D. in getting suitable contractors.

(3) shortage of building material like cement and steel.

(4) delays in ordering of equipment and requests for extensions of the delivery time.

(5) difficulties in recruitment to senior appointments.

(6) shortage of copper.

(7) delay in shipment of cables from U.K. due to Seamen's strike.

4.237. The Committee presume that in proposing projects or other items of imports for allocations out of the credit, Government are guided by the knowledge of the capacity of the country to assist in that field. The locating of sources of supply in that country should therefore begin well before the amount is finally allocated and the period of negotiations connected with allocation should be used for identifying the sources of supply so that upon allocation, no time is lost in placing the orders.

4.238. The Committee recommend, that in order to avoid a situation in which utilisation of external credit is held up for want of rupee resources with the licencees, Government may consider the desirability of requiring applicants to establish their financial capacity before licences are actually issued to them.

4.239. As regards the Security Paper Mill at Hoshangabad, a 70 per cent increase in the capital cost of the project from Rs. 6.95 crores to Rs. 11.85 crores indicates lack of proper advanced planning of the project, which the Committee feel, could have been largely avoided, by better technical appraisals at the initial stage and foresight. The Committee are also unhappy at the delay of 22 years in the commissioning of the project for such reasons as shortage of building materials, difficulties in recruitment to senior appointments, difficulties of C.P.W.D. in getting suitable contractors, delays in ordering of equipment etc., some of which do not appear to be insurmountable. The Committee recommend that the whole matter may be looked into to adopt suitable corrective measures.

4.240. The Committee would like Government to ensure that commissioning of the Mill to full capacity is not held up and that the credit allocated for the Mill is fully utilised, without avoidable delay.

Salient Features of British Assistance

4.241. The salient features of assistance extended by Britain are as follows:—

(1) According to quantum of aid extended, Britain rates fourth among the countries who have extended aid to this country.

(2) British assistance consists mainly of loans.

(3) Grant assistance from Britain consists of technical assistance under the Colombo Plan.

(4) British loans extended before October, 1965, carried commercial rates of interest. British Government have, however, waived payment of interest in respect of loans extended during 1963-64 and 1964-65 for the first seven years. Commencing with the loan extended in October, 1965, no interest is being charged on British loans.

(5) Repayment of loans extended for the Second Plan are spread over a period ranging from 6½ years to 20 years. Third Plan loans are, however, repayable over 25 years with a 5 to 7 years moratorium on repayment.

(6) British credits have a sizeable non-project element (77·4 per cent) which has enabled deployment of funds on a more flexible basis.

(7) Since 1963, a portion of the British loan has been extended specifically to finance purchases from Britain by 'metal-using and engineering industries in India that traditionally look to Britain for these supplies' (Kipping Loans).

(8) The loans have been used for Durgapur Steel Plant, Heavy Electrical Plant, Fertiliser, Power, Ropeways, Oil Pipeline, Cables, Security Paper, Coal, Alloy Steel etc. projects and for the import of a variety of other machinery.

Canada

Quantum of Canadian assistance

4.242. Canada has been providing economic and technical assistance to India since the beginning of the First Five Year Plan. Aid received from Canada upto the end of the Second Five Year Plan was almost entirely in the form of grants under the Colombo Plan and food supply programmes, the only exception being two loans for the import of wheat. During the Third Five Year Plan, Canadian assistance included both grants as well as medium term credits extended through the Export Credits Insurance Corporation (ECIC) of Canada. Beginning from the year 1964-65, Canada has also been pledging Development Assistance loans on soft terms.

4.243. A special feature of Canadian aid programme has been a generous supply of sorely needed non-ferrous metals. Canada has also assisted India in expanding the production of aluminium, financing zinc smelter and exploring local sources of non-ferrous metals.

4.244. The total value of assistance authorised by Canada till 31.3.1966 and that utilised by that date is as follows:—

(Rs. crores)

	Authorisations	Utilisation	Percentage of utilisation
Loans	46·68	27·25	57
Grants	144·51*	130·45*	90
TOTAL .	191·19	157·60	82

*Excludes amounts authorised and utilised out of assistance mentioned in para 4.245 *infra*.

4.245. In addition, Canada has announced further assistance totalling C$71 million (Rs. 31.27 crores) as follows:—

Jan., 1966 . . .	C \$ 15 million (Rs. 6·61 crores)	For purchase of Wheat, Dried Peas, Skimmed Milk Powder, Whole Milk Powder and Wheat Flour.
March, 1966 . .	C \$ 56 million (Rs. 24·66 crores)	For the purchase of 7 lakh tonnes of Wheat.
	C \$ 71 million (Rs. 31·27 crores)	

4.246. The Committee are glad to note that Canadian assistance has been mostly in the form of grants, the loans carry soft terms and that Canada has provided special food assistance to India to tide over the actue food shortage.

Canadian Grants

4.247. Grant assistance from Canada, which totalled Rs. 14.51 crores at the end of March, 1966, constituted 76 per cent of the total assistance from that country upto that period. The grants have been used in a wide field of developmental activities such as Transport and Communications, Power Generation, Agriculture and Natural Resources, Atomic Reactor at Trombay, Health, Rural Electrification and Supply of essential raw materials and foodgrains. As on 31.3.1966, 90 per cent of the grants authorised had been utilised. Asked the reasons for non-utilisation of the remaining amount of grants, Government have furnished the following reply:—

"Allocations of grant funds come under three broad categories (i) commodities such as non-ferrous metals, newsprint, fertilisers, sulphur (ii) non-project miscellaneous equipment and (iii) equipment (and services) for specific projects like Kundah, Idikki Hydro-electric Projects and Atomic Energy Department. The utilisation of the first category depends on physical availability of commodities and supplies. The allocations made for commodities have been practically fully utilised. The utilisation of the allocations for the latter two categories is dependent on location of suitable equipment with adequate Canadian content and manufacture and delivery of the equipment. This inevitably takes time."

4.248. The Committee would like Government to take necessary measures to step up the utilisation of Canadian grants.

4.249. The counterpart funds generated by the sale of raw materials and food stuffs received from Canada as grants had, till till 31.3.1966, reached a total of C$196·80 million (or Rs. 86·69 crores) out of which a sum of C$130.25 million (or Rs. 58.54 crores)* had been allocated for different projects—The actual expenditure against the allocations was, till 31.3.1966, Rs. 14.83 crores only. Asked the reasons for a third of the counterpart funds remaining unallocated upto 31.3.1966 and also how the principles and procedures of their allocation differed from those under U.S. PL—480, the representative of the Ministry stated during evidence that—

> "So far as the use of the Canadian funds is concerned, there is one Canadian peculiarity which is different from the American position in respect of PL 480 counterpart funds. The Canadians prefer to have their counterpart funds allocated to projects associated with Canada and as the projects of this type are comparatively few, a sizeable portion of these funds remains unallocated. But that the counterpart funds have remained unallocated and have remained as a book entry is not a national loss."

4.250. The Committee note that the progress in the utilisation of the counterpart funds, generated by the sale of raw materials and food-stuff received from Canada in the form of grants, has been slow. The procedural and other difficulties in the way of utilisation of these funds should be removed so as to speed up their utilisation.

Canadian Loans

4.251. Canadian loans to the Government of India have consisted of (1) Wheat Loans, (2) Credits extended through the Canadian Export and Credit Insurance Corporation (ECIC), and (3) Development Loans.

4.252. *Wheat Loans:*—In 1958 the Government of Canada extended 2 loans to India totalling C$ 33 million (Rs. 157.1 million) for the purchase of wheat and flour. Having regard to the critical food situation and balance of payments position in India, the Government of Canada announced in March, 1966 that the entire outstanding principal in respect of these two loans together with interest thereon totalling C$10 million (Rs. 44 million) would be written off.

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*According to pre-devaluation exchange rate, the figure works out to Rs. 57.37 crores. The figure indicated is that intimated by the Government.

4.253. *ECIC Credits*:—Since 1963-64, Canada has been extending credits to India through the Export and Credit Insurance Corporation of Canada. Till 31.3.1966, a total of 9 credits were extended: 8 of them amounting to Rs. 30·26 crores for the public sector and one amounting to Rs. 0·71 crores for the private sector, making a total of Rs. 30·97 crores. The repayment period ranges from 14 to 20 years with a grace period varying from 2½ to 5 years. The interest rate in the case of all the credits is 6 per cent per annum.

4.254. The position on 31.3.1966 regarding utilisation of these credits is, however, not very satisfactory, being Rs. 11.54 crores only against the authorisations amounting to Rs. 30:97 or about 39 per cent. The projects which are particularly lagging behind in utilising the credits allocated to them are:—

(Rs. crores)

Project	Date of Agreement	Authorisation	Utilisation
R.A.P.P.I.	27-4-64	16·28	1·71
AMCO Furnaces	16-10-64	0·87	0·42
Kota Hydro-Electric Project . .	18-2-65	3·52	0·42

4.255. It was noticed from the information furnished by Government that loan agreements were signed in the later half of the Third Plan period, resulting in shortfalls in the utilisation of credits during the Plan period and delay in the setting up of the projects financed therefrom. Asked to state the reasons therefor, the representative of the Ministry stated during evidence that:—

"Canada does have a certain amount of capital goods production but not of sufficient varieties as we have been getting in the continental countries or in the U.S. Therefore, when Canada gives us a loan, we have got to find out what it is that Canada produces which we can use. Canada is not such a diversified producer that we can get almost anything from there. The second part of it is that the Canadian's have a definition of Canadian content. It is not enough that we buy goods in Canada but it is also necessary that the goods should have a certain pre-arranged minimum percentage of Canadian-content. Let me give you an instance. Suppose you are buying a tele-communication equipment in Canada. It may include in it some imports from Britain or from the U.S. as for instance valves and some assemblies. If the import-content of the Canadian production is above a certain percentage, it would not quality under the credits.

"Then, there is one more thing. The loans that are covered in this question are from an agency called the Export

Credits Insurance Corporation. The credit agreement with the Export Credit Insurance Corporation must follow a contract between the Indian party and the supplying party; it is the reverse of what happens elsewhere. Therefore, with having to locate what Canada produces that we want and also considering the price factor therein, then having to check up whether it has the appropriate Canadian-content-otherwise to look about for something else—having to enter into supply contracts between the local importer and the Canadian exporter before we go in for the Government financing agreement, I should say that—after all these operations—it is a surprise that we have got the agreements signed so quickly."

4.256. The Committee regret to observe that the progress in the utilisation of the credits extended by Canada through the Export and Credit Insurance Corporation has not been satisfactory. They suggest that Government should undertake a detailed study of the procedures required to be fulfilled in utilising the credit assistance given by different countries well in advance so that no time is lost in fulfilling formalities for such loans. They hope that concerted action will be taken to utilise these credits as early as possible so as to complete the projects which are being financed therefrom.

Development Loans

4.257. For the first time Canada pledged a sum of Rs. 4.40 crores as Development Assistance to India for the year 1964-65. For 1965-66, Canada pledged C $20 million (Rs. 8·80 crores) for this purpose. These Development loans are repayable over a period of 50 years inclusive of a grace period of 10 years. No interest is payable but a service charge of ¾% per annum was levied on the first such loan, Upto the end of March, 1966 no agreement had been signed. The following agreements are, however, expected to be signed soon.

i. Diesel locos for Calcutta port	(C$ 2·15 million)
ii. Idikki Hydroelectric Project	(C$ 20·0 million)
iii. Rehabilitation & Re-equipment	(C$ 9·5 million)

4.258. Asked why an unduly long time was being taken in finalising agreements for the Development Assistance announced by Canada as far back as 1964-65, the representative of the Ministry stated during evidence as follows:—

"They announced in their Parliament that they are introducing this programme. And having announced a pledge to us out of those funds in the Constorium, they then begin working out the detailed procedures—the accounting regulations, etc. It took nearly 9-10 months to get from them their enunciation of the various policies and procedures, and the methods of utilisation of these funds. Two main uses of this project have been the Idikki hydro-electric project in Kerala and the programme of rehabilitation of the Geological Survey of India.

On the first one—*i.e.*, the Idikki project—while the Canadian Government has committed itself to finding the funds, the exact description of the project and the type of imports that are necessary for it have had to be determined only after the Canadian consultants reported. For instance, it was only recently that it has been decided that in the Fourth Plan there should be only two generating units in the Idikki project........Canadian Geological Survey is almost a model in the whole world. Therefore, we and the Ministry of Mines and Metals were very keen that we should take the help of Canada in this regard. For this purpose, they sent out a team to help us locate the areas in which we need their expertise and to locate the types of equipment that Canada can supply that would be useful for our purpose.

These transactions took about 8-9 months. We thought we were very near the signing of a loan. However, in both these a further piece of trouble cropped up, namely, that on a survey of our procurement procedures they felt that they were such as in the Canadian context would make for delay. They have asked us that we should authorise a Canadian consultant to be available on the spot for handling of the tenders that might be received for individual bits of equipment and we should nominate our own local representative so that the two could take a decision on the spot rather than write back to us and so on. Rightly or wrongly we felt that it was not right to make an exception in the case of one country. We argued long and bitterly, and I regret to say that we lost.

An arrangement has now been made that from our Embassy in Washington—we have also an Indian Supply Mission in Washington, where there are engineers available—we would associate one of them with a consultant in Canada itself to make decisions on the spot which would be subject to the decision of the Financial Adviser in our

Embassy in Washington. We hope that this settlement of the procurement procedure would avoid further difficulties."

4.259. The Committee are distressed to note that though Canada had pledged Development assistance amounting to Rs. 4.40 crores in 1964-65 and similar further assistance amounting to Rs. 8.80 crores in 1965-66 on extremely soft terms, no agreements for the utilisation of this assistance have been finalised so far. They feel that a period of two years is too long for resolving procedural difficulties and indicates the need for simplifying and streamlining the procedures. The Committee urge that, in view of the economic importance of the projects for which these loans are available, immediate action should be taken to finalise the agreements and speed up their utilisation. The Committee would like to stress that delays in the utilisation of aid tend to create an unfavourable impression on the aid-giving countries which should be avoided at all costs.

Salient features of Canadian Assistance

4.260. The characteristic features of the Canadian assistance to India may be summed up as follows:—

(i) Judged by the quantum of assistance extended to India, Canada stands fifth amongst the countries who have been assisting India in her economic development.

(ii) Canada is the only country besides U.S.A. which has extended sizeable assistance to India on grant basis. The grant element in the gross Canadian assistance works out to 76 per cent of the total. According to the magnitude of assistance extended to India on grant basis, Canada closely follows U.S.A.

(iii) Canada has, in view of the critical food situation and the balance of payments position in India, written off the outstanding principal in respect of wheat loans of 1958 together with interest thereon amounting to Rs. 4·40 crores.

(iv) Canadian loans extended through the Canadian Export and Credit Insurance Corporation carry an uniform interest rate of 6 per cent per annum. The period of repayment ranges from 14½ to 20 years with a grace period verying from 2½ to 5 years.

(v) Since 1964-65, Canada has been extending "Development Loans" on strikingly soft terms. The loans are interest free. Repayment of loans is spread over a period of 50 years, inclusive of a grace period of 10 years.

(vi) Canadian assistance has been used in a wide field of developmental activities such as transport and communications, power generation, agriculture and natural resources, Industry, health, rural electrification, expanding the production of aluminium, Zinc Smelter and exploring sources of non-ferrous metals, import of diesel locos, raw materials such as aluminium, Zinc, lead etc., foodgrains and the Atomic Reactor at Trombay.

(vii) A major portion of Canadian assistance is being used in the public sector.

Japan

Quantum of Assistance and its Utilisation

4.261. Japan has been extending economic assistance to India since 1958. Till 31.3.1966, Japanese assistance totalled Rs. 174:01 crores: Rs. 173:53 crores as Loans and Rs. 0:48 crores as grants. The position regarding authorisation and utilisation of assistance from Japan as on 31.3.1966 was as follows:—

(Rs. crores)

	Loans		Grants	
	Authorisation	Utilisation	Authorisation	Utilisation
Second Plan . . .	35·45*	16·01	0·35	0·35
Third Plan	138·08	96·86	0·13	0·13
TOTAL .	173·53	112·87	0·48	0·48

*Includes *ad hoc* credit of Rs. 8·64 crores mentioned in para 4·268 *infra*.

4.262. In addition, Japan has provided under the Colombo Plan services of experts and training facilities in Japan for Indian nationals The total number of experts obtained and trainees sent up to the 30th June, 1965 was 56 and 235 respectively and covered such fields of activity as small scale industry, fisheries, agriculture, engineering and plant protection.

Japanese Grants

4.263. Japan has extended assistance on grant basis for setting up (i) Indo-Japanese Prototype Production and Training Centre, Howrah, (2) Marine Products Processing Training Centre, Mangalore, and (3) Eight Agricultural Demonstration Farms in the States of Bihar, West Bengal, Orissa, Gujarat, Maharashtra, Kerala, Mysore and Andhra Pradesh. The entire grant assistance amounting to Rs. 0.48 crores received upto 3st March 1966 has been utilised.

Japanese Credits

4.264. Besides Suppliers' and *ad hoc* credits, Japan had, by 31st March 1966, extended in all five yen credits aggregating Rs. 157·14 crores in value. All the credits carry an interest rate of 5·75 per cent per annum except the Second Yen Credit in which case an interest rate of 6 per cent per annum has been agreed to. In the case of the first credit, repayment was to commence after the expiry of three years from the date on which 50 per cent or more was drawn against each separate loan agreement and was to be completed over the succeeding 7 years. Agreements for all other credits provide for repayments spread over periods ranging from 15 to 18 years with a grace period of 5—5½ years.

4.265. Among the important sectors financed under the first Yen Credit are equipment for power projects, road construction, rayon industry, tractors and ships. The four credits extended during the Third Plan were used for financing the following projects and purposes:

1. Gorakhpur Fertiliser Project.
2. Durgapur Power Station (Boiler).
3. Kosi Power Project.
4. Durgapur Alloy & Special Steel Plant.
5. Pandurangiah Alloy & Tool Steel Plant.
6. Kuttiadi Hydro-Electric Project.
7. Gujarat Fertiliser Project.
8. Ball and Roller Bearings Plant of Andhra Pradesh Industrial Development Corporation.
9. Equipment for Gauhati, Umiam, Gandak and Jaldhaka Power Projects.
10. P.S. Ball Bearings Plant.
11. Plant and Machinery for Dhrangadhra Chemical Works.

12. Barsua Benefication Plant.
13. Oriental Power Cable Co.—Cable Plant.
14. A.I.R. Transmitters.

Plant, Machinery and Commodities

1. Plant and machinery, cranes, machine tools, power equipment etc.
2. Locomotives, wheelsets and other equipment for Railways.
3. Components for manufacture of trucks and tractors.
4. Insulators, Rolls and Power Tillers.
5. National Small Industries Corpn. Ltd.
6. Spare parts, components and other materials for Indo-Japanese ventures.

4.266. The position as on 31st March, 1966 regarding amount authorised, value of orders placed and the amount drawn in respect of the five Yen Credits was as follows:

	Date of Agreement	Authorisation	Value of orders placed	Utilisation
I Yen Credit . . .	4-2-1958	23·00	23·00	23·00
II Yen Credit . . .	23-5-1963	45·24	45·24	45·12
III Yen Credit . .	24-10-63	30·95	30·95	21·04
IV Yen Credit . . .	3-9-1964	28·57	28·57	6·25
V Yen Credit . . .	25-6-1965	28·57	12·47	2·04
		156·33	140·23	97·45

4.267. In addition to the Yen Credits to the Government of India, Japan has also extended Suppliers' Credits involving direct loan arrangements between the importers on the Indian side and Japanese exporters under the aegis of the Japanese Export-Import Bank. Thse credits carry interest at a rate not exceeding 6 per cent per annum and are repayable generally in 5 to 10 years. Two of the more important projects financed under the Suppliers' Credits are described below:

Kiriburu Iron Ore Project

An agreement was signed between the Government of India and ten Steel Mills of Japan in March, 1958, for a suppliers' credit of 2.9 billion yen (Rs. 3.81 crores) for the development of an iron ore mine at Kiribure (Bihar/Orissa) from which 2 million tons of iron ore are to be exported to Japan annually for a period of 10 pears. The credit bears interest 6 per cent per annum and is repayable in five years from April, 1964. The project has been completed and the mine went into production in 1964-65.

Bailadilla Iron Ore Project

A second agreement was signed with the Steel Mills of Japan in March, 1960 for a credit of 7.6 billion yen (Rs. 10 crores) for the development of the Bailadilla Iron Ore Project from which 4 million tons of iron ore are to be exported to Japan annually for a period of 15 years. The credit carries interest at 6 per cent per annum and is repayable in five years commencing from December, 1967. The project is under construction and is expected to be completed by the middle of 1967.

The export earnings from the Bailadilla iron ore are being computed on the basis of export of 4 million tons per annum from Deposit No. 14. The price estimated per ton of ore from Deposit No. 14 is 68 sh. per ton. In the first year of production a quantity of 2 million tons per annum is likely to be exported. On this basis the export for the next 10 years commencing from middle of 1967 will be 38 million tons. On an estimated price of 68 sh. (equivalent to Rs. 71.40) per ton, the foreign exchange earnings on this export will be Rs. 271.32 crores.

4.268. Besides the Suppliers' and Yen Credits, Japan had also made available *ad hoc* credits in August, 1958 for $ 10 million (Rs. 4.76 crores) and in March 1959 for a total amount of 18.1 million (Approx. Rs. 8.64 crores). These credits were utilised for the import of equipment and machinery both in the public and private sectors, which could not be financed under the First Yen Credit.

4.269. The Committee note that the entire amount authorised by the first four Japanese Yen Credits has been ordered for and even

in the case of the Fifth Yen Credit extended in June, 1965, 44 per cent of the amount authorised has been ordered for by the end of March, 1966.

The Committee hope that the progress in the utilisation of these credits would be maintained.

Salient features of the Japanese assistance

4.270. The characteristic features of assistance received from Japan may be summed up as follows:

(1) Japan has extended sizeable economic assistance to this country mostly in the form of loans and credits.

(2) Major portion of Japanese credits comprises of Government to Government loans. A part of the credits is in the form of Supliers' Credits.

(3) Loans, including suppliers' credits, carry an interest rate varying from 5.75 to 6 per cent per annum. The repayments in the case of the first loan are spread over 7 years while in the case of all other loans, over periods ranging from 15 to 18 years with a grace period of 5—5½ years. The Suppliers' credits were repayable generaly in 5 to 10 years.

(4) The credits have been used for setting up projects for the manufacture of fertilisers, special steel, ball and roller bearings, chemicals, power, cables, and for the import of heavy machinery and components.

Among the more important projects being financed out of the Suppliers' credits are projects for the development of iron ore mines at Kiriburu and Bailadilla from which iron ore is to be exported to Japan.

(5) The loans and credits are repayable in foreign currency.

Italy

Quantum of Italian Assistance

4.271. Italian credits to India till 31st March 1966, amounted to a total of Rs. 81.32 crores out of which Rs. 55.71 crores were by way of Suppliers' credits. Of the Rs. 25.61 crores, Rs. 21.43 crores were extended by the E.N.I. and the remaining Rs. 4.18 crores by Montecatni for the Madras Aluminium Co. Ltd., including Rs. 0.38 crores provided to cover the insurance charges. The position regarding the credits authorised, value of orders placed and the amount drawn till 31st March 1966 is indicated below:

(Rs. Crores)

	Authorisation	Value of orders placed	Amount drawn
ENI Credit	21·43 (69%)	14·71 (69%)	7·94 (37%)
Montecatni Credit	4·18	3·81	3·71
Suppliers' Credit	55·71	14·76 (26%)	..
	81·32 (41%)	33·38 (14%)	11·65

4.272. Italy has also offered $2 million as a long term loan for the purchase of fertilisers. Cash contribution amounting to $4·75 million and commodities like macorani and syrup are also stated to have been offered as special food assistance.

Italian Suppliers' Credits

4.273. Italy has been extending suppliers' credits to India since 1963-64. During the last three years of the Plan, such credits totalled Rs. 55·71 crores. The credits were earmarked both for project financing and purchase of commodities. The rate of interest is 6 per cent per annum including credit insurance charges. The terms of payment are: 5 per cent on order; 5 per cent on shipment, and balance 90 per cent over a period of 10 years in equal annual or half-yearly instalments commencing one year after the completion of shipment. As against the credits authorised amounting to Rs. 55.71 crores, only Rs. 50.17 crores have been allocated upto 30th April 1966. The position on that date regarding value of approvals, placing of orders and drawals against the amount allocated has been indicated as follows:

(*Position as on* 30-4-1966)

(Rs. in crores)

	Allocation	Approval	Contracts placed	Drawals
Public Sector . . .	26·39	10·23	2·61	Nil
Private Sector . . .	23·78	20·90	12·58	Nil
	50·17	31·13	15·19	Nil

4.274. Asked to state the reasons for the low utilisation of credits particularly by the public sector, Government have stated that:

"After finalising the credit, allocations have to be made in consultation with various Ministries/Departments. The allocations are then intimated to the concerned Units or Projects actually importing the equipment. The Units or Projects thereafter take some time for negotiating the supply contracts with the Italian suppliers and finally the supply contracts are sent to the Department of Economic Affairs. These contracts are then forwarded to the Italian authorities for their approval and after the Italian approval the contracts are made effective. The protracted negotiations between the Italian suppliers and Indian importers (sometimes due to higher prices quoted by the suppliers) and the extended delivery periods mainly account for the time taken in utilisation of the crdit."

4.275. Other reasons for slow utilisation stated by the Government may be summed up as follows:

(1) Italian Government's refusal to the utilisation of the credit for the purchases of some sorely needed commodities for which the credit was initially allocated.

(2) Imports until 1965-66 being on *c.i.f.* basis.

(3) Absence of suitable financing arrangements in Italy and difficulty of guarantee procedures.

(4) Suppliers' unwillingness in certain cases to supply under the credit arrangements.

4.276. The above difficulties Government have stated, had affected in varing degrees the utilisation of the credits by Units in the public and private sector. Besides, major allocations for public sector were made in combination with other available credits and the most competitive offer might not have been against the Italian credit or the equipment might have by then become indigenously available and the credit therefore remained untilised necessitating its reallocation for some other requirements. There were also delays due to procedure.

4.277. The Committee observe that the progress of utilising the Italian Suppliers' Credits is extremely slow. The position is worse in the case of allocations to the public sector. They would like Government to simplify the cumbersome procedures that have been hampering speedy utilisation of credits in consultation with the Italian Government and keep a strict watch on the progress in ordering equipment and supplies against the credit allocations by the public sector units and projects as also by the private sector.

ENI Credits

4.278. The financing of projects under the E.N.I. credit is under the agreement between the Government of India and the Ente Naxionale Idrocarburi (ENI) of Italy signed on the 29th August, 1961. Under the agreement, E.N.I. agreed to provide credit amounting to about Rs. 45.71 crores to meet the foreign exchange costs of certain projects in the petroleum and petro-chemical industries and for the import of goods and services etc. of Italian origin. The broad terms of payment were: 5 per cent on order; 3 per cent payable 12 months after order; 92 per cent payable in 20 equal half-yearly instalments. The rate of interest was 6 per cent (including credit insurance) per annum, starting from 2 years after order.

4.279. The agreement listed 8 specific items amounting to Rs. 32.15 crores for being financed under the credit. The agreement also provided for propsing additional projects for the balance amounting to Rs.13.56 crores within a period of two years from the date of the agreement *i.e.* 29-8-1961. Accordingly, five additional projects amounting to Rs. 10·52 crores were proposed by the Government for being financed under the credit. The balance cost of Rs. 3.04 crores lapsed as no more projects could be proposed for financing within the specified time limit of 2 years which expired on 29-8-1963. The earlier proposals for financing the 13 projects amounting to in aggregate Rs. 42·67 crores, were on reassessment revised and the requirement of those projects were put at Rs. 13.21 crores only "either because they (the projects) were dropped subsequenly or because they were not considered economical etc." Since in terms of the original (1961) agreement with E.N.I., no new projects, besides those included in the agreement and in the supplementary list, could be financed out of the credit, the amount originally assessed in excess *i.e.* Rs. 29·46 crores also lapsed. The possibility of any further negotiation for the use of the unutilised amount was finally closed when the Italian Government's general licence to E.N.I. for entering into contract against the credit arrangements without requiring approval of each contract by the Italian authorities expired on 31-12-1964 and was not renewed.

4.280. However, the Italian authorities have agreed that further requirements intended to be posed against the E.N.I. credit could now be proceeded with under the Italian Suppliers' credits on a case to case basis after approval of each contract by the Italian authorities. Thus, Government was able to make use of only Rs. 13·21 crores out of the ENI credit of about Rs. 46 crores.

4.281. The following projects are being financed out of the E.N.I. credit:

Projects proposed under clause 3.1 *of the agreement*

1. Product pipelines
    - (a) Barauni-Delhi
    - (b) Barauni Calcutta
2. Gas Fractionation Plant in Upper Assam.
3. LPG Bottling and distribution facilities.
4. Lubrication Oil Plant.
5. Distribution equipment.
6. Contract drilling and production equipment.
7. Consultancies.
8. Refinery.

Projects proposed under clauses 3.2 *and* 3.3 *of the agreement*

1. Nunmati-Siliguri Pipeline.
2. Gujarat Pipeline.
3. Udex Plant.
4. Off-shore drilling in the gulf of Cambay.
5. Driling of production wells in Navgaon and Kalol.

4.282. Against the alocations for these projects amounting to Rs. 13·21 crores, by the 10th December, 1966, orders had been placed for the full amount and a sum of Rs. 12·14 crores was drawn. The amount drawn includes cost of preparation of detiled project report in respect of certain project such as Gas Fractionation Plant in Upper Assam, L.P.G. Bottling Plant and Lubricating Oil Plant etc., which were ultimately dropped.

4.283. The Committee regret that Government have been able to make use of only a little more than Rs. 13 crores out of the credit of Rs. 46 crores extended by the E.N.I. (Italy) in 1961 for projects in the field of petroleum and petrochemicals which is a crucial sector of the country's economy. They find that the credit amounting to nearly Rs. 33 crores lapsed primarily because Government could not propose projects for financing out of the credit, or sign contracts therefor, within the period stipulated in the agreement or because they grossly over-estimated to credit requirement for individual projects at the time of entering into agreement or because some projects originally agreed to be financed out of the credits were ultimately dropped by them.

The Committee consider the case of E.N.I. credits as a telling example of inadequate advanced project planning and red tape coming in the way of utilisation of external assistance, which they cannot too strongly deprecate. They recommend that the circumstances in which the ENI credits amounting to Rs. 33 crores could not be utilised should be thoroughly investigated and responsibility for lapses fixed.

Salient Features of Italian Assistance

4.284 To sum up, the salient features of Italian assistance to India are as follows:

(1) Italian assistance has been mainly in the form of loans;

(2) Major portion of the loans extended are in the form of Suppliers' Credits;

(3) ENI-an Italian public sector industrial combine-have extended sizeable credits for pertroleum and petro-chemical industries;

(4) Suppliers' credits carry interest at the rate of 6 per cent per annum including credit insurance. Terms of repayment are: 5 per cent on order; 5 per cent on shipment and 90 per cent over a period of 10 years in equal annual or half-yearly instalments commencing one year after completion of shipment; and

(5) ENI credits cary interest at the same rate as Suppliers' Credits, *i.e.*, 6 per cent per annum including credit insurance. The interest statrts from 2 years after order. The terms of repayment are: 5 per cent on order; 3 per cent payable 12 months after order; and 92 per cent payable in 20 equal half-yearly instalments.

Czechoslovakia

Quantum of Assistance and its utilisation

4.285. Czechoslovakian Government has extended to India, till 31-3-1966, assistance of the value of Rs. 63·50 crores: Rs. 63·10 crores as loans and Rs. 0.40 crores as grants. Against this, till 31-3-1966, a sum of Rs. 13.01 crores was utilised leaving a balance of Rs. 50.49 crores for utilisation during the Fourth Plan period. Plan-wise authorisation and utilisation was as follows:

(Rs. crores)

	Authorisation			Utilisation		
	Loans	Grants	Total	Loans	Grants	Total
Second Plan .	23·10		23·10		..	..
Third Plan .	40·00	0·40	40·40	12·61	0·40	13·01
TOTAL .	63·10	0·40	63·50	12·61	0·40	13·01

Czechoslovakian Grants

4.286. The assistance receied from Czechoslovakia on grant basis till 31-31966 amounted to Rs. 0.40 crores. This represents the value of machinery, equipment, training aids, tools and essential spares received against a gift of Rs. 0·60 crores given by Czechoslovakian Government for "design, development and standardisation of machine tools, training of designers for machine tools industry and research in designing and metal cutting etc." for the Central Machine Tools Institute, Bangalore. The balance amount of Rs. 0.2 crore has been earmarked for technical assistance such as training of Indians and making available services of experts.

Czech. Loans

4.287. Czech. Government have so far extended two credits for a total amount of Rs. 63.10 crores. The first credit amounting to Rs. 23.10 crores was extended on 24-11-1959 while the agreement for the second credit amounting to Rs. 40 crores was signed on the 11th May, 1964. Both the credits carry interest at 2½% per annum. The first credit is repayable in 8 equal yearly instalments, the first instalment being payable one year after the presentation of the final invoice in respect of each plan. The second credit, in so far as it relates to capital goods, is repayable in 12 equal yearly instalments, the first instalment being payable one year after the presentation of the final invoice in respect of the plant in question. In the case of components however the repayment will be in 8 equal yearly instalments, the first instalment being payable on the second day of the second following calendar year. The repayments are made in rupees which are to be utilised for the purchase of Indian goods for export to Czechoslovakia.

4.288. The position regarding value authorised, ordered for and utilised till 31-3-1966 was as follows:

(Rs. crores)

	Authorisation	Orders placed	Amount utilised
First Credit	23·10	17·43**	12·31*
Second Credit	40·00	17·37 **	0·30 **
	63·10	34·80	12·61

4.289. It would be seen from above that, until 31-3-1966, only 55 per cent (or 41 per cent according to the value of orders placed indicated in another statement as Rs. 25.85 crores) of the credit authorised was ordered for while less than 20 per cent was actually drawn against the credit.

*In reply to specific questions the value of Orders placed against the first credit till 31st March, 1966 has been indicated as Rs. 17.13 crores and the amount drawn against the credit by that date Rs. 12.61 crores in one statement and Rs. 11.12 crores in another statement.

**In reply to specific questions, the value of Orders placed against the second credit till 31st March, 1966 has been indicated as Rs. 8.72 crores and the amount drawn against the credit by that date as 'NIL' in one statement and Rs. 1.48 crores in another statement.

First Czech. Credit

4.290. The allocations made out of the First Czech. Credit of Rs. 23·10 crores, the value of contracts placed and the amounts drawn are shown in the statement below:

(Rs. crores)

Sl. No.	Name of the Project	Allocation 1-6-66	Contracts placed as on 1-6-66	Amount drawn upto 31-3-66
1	1st phase III stage of Foundry Gorge Plant, Ranchi .	3·15	3·15	1·94
2	Heavy Machine Tools Projects, Ranchi	3 32	3·32	3 20
3	High Pressure Boiler Project, Tiruchirapalli	2·86	2·86	2·62
4	Heavy Power Equipment Plant, Hyderabad	3·43	3·43	3·36
5	6000 tons press and furnance for the foundary forge project, Ranchi .	2·83	2·83	
6	Additional equipment for Heavy Power Equipment Plant, Ramachandrapuram . . .	2·09	1.49	1 10
7	Tools, Jigs and fixtures .	1·85	0·35	0.09
8	Heavy Plates and Vessels Works	2·56		..
9	Unallocated	1·01	..	..
	TOTAL	23·10	17 43	12 31

4.291. It is seen that although the first Czech. credit was signed in November 1959, less than half of the value authorised was actually drawn till 31-3-1966. Although contracts for the full value of allocations are stated to have been concluded in respect of projects at Sr. Nos. 1 to 6, the progress of ordering against allocations for the last three items is extremely slow in the first case and nil in the case of the other two. In regard to the allocation for 'Tools, Jigs **and** Fixtures' it is stated that—

> "The delay in contracting is due to the prolonged discussions which have to be conducted for finalising the types of materials to be ordered and their prices. The project authorites are discussing with Messrs. Technoexport for further supplies. In as much as the jigs, tools and fixtures are required for production, their requirements have to be tied up with the manufacturing programme; hence the delay in contracting."

4.292. The delay in placing the contracts against allocation of "Heavy Plates and Vessels Works" is explained to be on accont of the agreement for the design documentation having been signed only in Nov. 1965. The unallocated balance represents the savings, the utilisation of which is stated to be under discussion.

4.293. The Committee find that the progress of utilisation of first Czech. credit extended as far back as 1959 is extremely slow. They would like Government to go more closely into the reasons thereof and take measures to step up the utilisation.

Foundry Forge Plant—1st Phase—III stage

4.494. A sum of Rs. 3.15 crores was allocated out of the first Czech. credit for First Phase III Stage of the Foundry Forge Plant, Ranchi. It is noticed that although the first credit agreement was signed on 24-11-1959, the first supply order for plant and machinery was placed as late as 30-5-1963 with the result that till 31-3-1966, only Rs. 1·94 crores could be drawn constituting 61·6% of the amount allocated.

4.295. After devaluation, the value of contracts concluded amounts to Rs. 4·47 crores against which supplies of the value of Rs. 3·54 crores are stated to have been received so far.

4.296. As regards the progress in setting up the Foundry Forge Plant, the dates of commissioning of various pricipal shops of the Foundry Forge Project as indicated in the Detailed Project Report and their actual/estimated dates of completion are as under:

	As in Detailed Project Report		Actual/Estimated Dates	
	Initial Production	Completion	Initial production	Completion
	1	2	3	4
Grey Iron Foundry	1-1-65	31-12-65	1-5-64	31-12-66
Steel Foundry	1-1-66	31-12-66	15-2-66	30-9-68

	1	2	3	4
Forge Shop . .	1-3-65	31-7-66	1-9-66	31-12-67
Rough Machine Shop	1-1-65	31-8-66	30-9-66	30-6-68
Fettling Shop . .	1-1-65	31-1-66	1-6-66	31-8-68

4.297. Asked to state the reasons for delay in commissioning the project, it has been stated that:

"The delays encountered in the construction of major production buildings were mainly due to (i) change in the original civil foundations to piling and pile caps in view of the low load bearing capacity of the soil and (ii) short supply of steel structures. On the basis of the promised deliveries of fabricated structures, Heavy Engineering Corporation revised the programme of completion of shops, erection and commissioning of equipment. Because of delay in supplying the matching steel sections, the whole programme of commissioning the plant and equipment in various shops got delayed by about 2 to 2½ years. By concerted efforts, the Company have been able to reduce the delay by 6 months to a year."

4.298. Asked whether, in the absence of commissioning of the plant, the castings for the Heavy Machine Building Plant were being imported from abroad and, if so, what was the estimated value of such imports, Government have stated as follows:

"Completing parts and components required for the manufacture of machines are being imported. These completing parts and components contain some castings and forgings. The estimated value of the castings and forgings included in such contracts which have either been already imported or under importation is given below:

1965-66—Rs. 46.83 lakhs.

1966-67—Rs. 28.67 lakhs.

3030 tonnes of steel castings may have to be imported during 1968 as the installed capacity of Foundry Forge Project is only 7770 tonnes whereas the requirement of Heavy Machine Building Plant is 10800 tonnes. The value of steel castings to be imported during 1968 will amount to Rs. 76 lakhs approximately. No import of steel castings is required during 1967 and 1969. No import of forgings and iron castings is anticipated during the next three years."

4.299. The Committee find it distressing that the utilisation of the Czech. credit allocated for the Foundry Forge Plant, Durgapur has been lagging far behind and that the completion schedules of the various sections of the Plant have been extended by about 12 to 22 months. They also note that it has taken Government over 2½ years to place the first supply order against the credit allocation and during more than six years ending on the 31st March, 1966, no more than 61.6 per cent of the credit has been drawn.

4.300. The Committee urge that the circumstances under which completion of the project has been delayed should be enquired into by the Government so as to pin-point responsibility and evolve guidelines for the future.

Second Czech Credit

4.301. The allocations made out of the Second Czech. credit of Rs. 40 crores, the value of contracts placed and the amount drawn are indicated in the statement below:

(Rs. crores)

Sl. No.	Name of the Projects	Allocation	Contracts placed as on 1-6-66	Amount drawn upto 31-3-66
2	2	3	4	5
1	Expansion of the High Pressure Boiler Plant at Tiruchi .	2·1		
2	Expansion of the Heavy Power Equipment Plant at Ramachandrapuram . . .	2·1		
3	Two Heavy Machine Tool Factories	4·0	..	..
4	Additional Foundry and Forge facilities	9·0		
5	2×110 MW Thermal Power station	7·5	7·87	..
6	Factory for the manufacture of tractors and power tillers .	1·5	..	

1	2	3	4	5
7	Walchand Nagar Industries collaboration with Skodas .	1·80	..	
8	Components. . . .	12·00		..
9	(*i*) Heavy Power Equipment Plant (Hyderabad)	6·27	..	6·27
	(*ii*) Heavy Pressure Boiler Plant (Tiruchi) . 1·50	..	1·50	0·30
	(*iii*) H.M.T. (Ranchi) 1·12	..	1·12	
	(*iv*) Ennore-Balancing equipment (Rs. 0·61)	..	0·61	
	TOTAL .	40·00	17·37	0·30

4.302. It is seen that although the agreement for the second credit was signed in May, 1964, by the end of May 1966, only Rs. 17·37 crores worth of orders were placed while the amount actually drawn upto 31st March, 1966 was Rs. 0·30 crore only. Asked the reasons for the slow progress in utilisation of the credit, Government have stated as follows:

> "The credit is tied to specific projects which have a long gestation period. Soon after the signing of the credit agreement, action is taken for preparation of the economic viability and preliminary project reports. On receipt of these reports, a decision is taken whether orders for the preparation of the Detailed Project Report should be placed or not. Thereafter, in suitable cases, contracts for the preparation of the Detailed Project Reports are signed. Considerable time is taken in the preparation of these reports. When these reports are accepted after due consideration, the final orders on the suppliers are placed for the procurement of machinery and equipment. Deliveries of the machinery are so staggered as to coincide with the construction of the civil works. This entire process usually takes between 2 to 5 years. Hence the pace of utilisation of the 11 Czech. credit is satisfactory."

4.303. The Committee note that the progress of utilisation of the Second Czech. credit is slow. They feel that at least in the matter of placing of orders with the Czech. authorities the existing record could have been improved. The Committee recommend that appropriate steps should be taken by Government to speed up the progress in placing the orders against the credit.

Additional Foundry and Forge Facilities under Czech Credit.

4.304. It was noticed that though the second Czech. credit was agreed to on 11th May, 1964, the agreement for the preparation of detailed project report in respect of the foundry forge plant at Wardha to be financed from this credit, could not be placed till 25th March, 1965. Another 6 months elapsed before full data was supplied to the Czech. authority for the preparation of D.P.R. The preliminary estimates and economics of the project received by the Government in April, 1966 were still under the consideration of the Government.

4.305. When this fact was brought to the notice of the Government, they admitted that 'some delay' had occurred in the setting up of the Wardha Foundry Forge Project but maintained that it was "due to valid reasons and could not be avoided."

4.306. In regard to the point that the preliminary estimates and economics of the project received by Government in April, 1966 were still under consideration, Government have stated that:

> "The question of setting up of the Wardha Foundry Forge Project has been considered in series of high level inter-departmental meetings held on the 17th August, 25th August, 7th September, 20th October and 23rd November, 1966 but no final decision could be taken in these meetings. In the last meeting held on the 23rd November, 1966 it was agreed that a Working Group be convened by Adviser (I & M), Planning Commission comprising of Project Administrator, Wardha Foundry Forge Project and Adviser (Production), Bureau of Public Enterprises and such other officers as might be considered necessary to examine the various papers submitted by the Planning Commission, Department of Coordination and the Ministry of Industry in regard to the available capacities and demands of steel castings and steel forgings and report as quickly as possible their findings for the consideration of the Government. The Working Group held its meetings

on the 30th November, 3rd December and 6th December, 1966. Their report is expected to be received within the month of December, 1966.

The present study of the Working Group is quite desirable to assess the capacities of steel castings and steel forgings which have already been installed and which are being installed in the various public sector undertakings to find out the volume of gap between the demand and supply before any decision is taken on establishing the new capacities at Wardha.

From the trend of studies of demand and supply of steel castings and forgings it is observed that the gap between the available capacity and the demand of forgings is quite wide and it might be necessary to set up the Wardha Foundry Forge Project. Final decision to this effect is likely to be taken in January, 1967. It is hoped that as soon as the decision has been taken a registered company would be set up to accelerate the setting up of this project. It is also hoped that all the contracts for obtaining supplies of equipments which have to be obtained from Czechoslovakia under second Czech. Credit would be executed before the expiry of the last date *i.e.* 31st December, 1967."

4.307.. From a study of the facts stated by the Government, the Committee cannot help concluding that the question of setting up additional Foundry Forge facilities at Wardha has been proceeded with in a rather leisurely fashion. They are unable to appreciate why the preliminary issue as to whether the additonal facilities should be established or not could not be decided before the credit was allocated for the project.

The Committee hope that Government have by now taken a definite decision in the matter and have initiated follow up action without further loss of time.

Salient features of Czech. Assistance

4.308. The characteristic features of assistance received from Czechoslovakia may be summed up as follows:

(i) From amongst the countries of the Eastern Block who have extended economic assistance to India, Czech. rates second, next only to U.S.S.R., according to quantum of assistance extended.

(ii) The Czech. credits have been used for setting up heavy industries such as foundry forge project, heavy power equipment project, heavy plates and vessels project, heavy machine tools project, power project, manufacture of tractors and power tillers, and for import of components.

(iii) The credits carry a low rate of interest (2½ per cent per annum) but are repayable over a comparatively short period of 8 to 12 years.

(iv) Repayments of loans and payments of interest thereon can be in Indian rupees.

(v) The rupee funds generated by the servicing of loans are utilised by the Czech. Government for import of Indian goods of wide variety ranging from raw materials to manufactured goods.

France

Second Plant Credits

4.309. Under the Economic and Technical Cooperation Agreement with France signed on 23rd January, 1958 which was renewed on 23rd January, 1960, the French Government was to facilitate the financing of the manufacture and delivery by French suppliers of capital goods necessary for projects in the Second Plan of a total value of FF 500 million (Approx. Rs. 56 crores). The terms of each contract under the credit were to be negotiated separately bet-tween the supplier and the purchaser and were to be approved by the two Governments. Under the agreement, contracts of the value of Rs. 20.91 crores were concluded. The credit, it is stated, could not be utilised fully "as the terms of credit were not sufficiently effective". The contracts concluded were on the basis of 10 per cent on order, 10 per cent on delivery and 80 per cent spread out in five years after delivery.

The credits were utilised for setting up capacity for manufacture of Fertilisers, Sugar, Paper, Steel, Caustic Soda, Machine Tools and for Zinc Extraction and Power Projects.

4.310. The Committee are unable to apreciate the explanation offered by the Government that the slow utilisation of French credits for the Second Plan was because "the terms of the credit were not sufficiently effective". They feel that Government should have taken into fullest consideration the terms offered by the French Government at the time of entering into the agreement. Even after the

agreement was signed, if the terms were found, in actual practice, to be harsh or otherwise unworkable, appropriate steps should have been taken in due time.

Third Plan Credits.

4.311. French assistance during the Third Plan period comprised 6 credits aggregating Rs. 57.13 crores in value. The amount of credits authorised, value of orders placed and the amount drawn as on 31st March, 1966 is indicated below:

(Rs. crores)

Particulars of credit	Consortium meeting at which extended	Amount of credit	Value of contracts placed as on 31-3-1966	Amount drawn as on 31-3-1966
First Credit	May-June 1961	14·29		
Second Credit .	July, 1962	9·52	22·38	
Third Credit . .	August, 1963	9·52		20·86
Fourth Creidt	May, 1964	9·52	15·09	
Fifth Credit .	April, 1965	9·52		
I.F.C. Credit .	July, 1962	4·76	0·75	0·12
		57·13	38·22*	20·98 (Estimate)

4.312. The French credits are in the nature of export credits and take the form of a guarantee by the Campagnie Francaise d' Assurance au Commerce Exterieur on credits granted by French suppliers to Indian importers for purchases approved by both the Governments. The rate of interest on the first two tranches of the credit amounting to Rs. 23.81 crores is 5 per cent per annum plus credit insurance premium at 1.08 per cent approx. on outstanding balance from the date of final delivery or completion of erection. The rate of interest for the third, fourth and fifth tranches of the

*In the Brochure 'External Assistance—1965-66', the value of contracts placed against the first five French Credits upto the end of March, 1966 is indicated as Rs. 32.71 crores whereas according to above table furnished in reply to a specific question it works out to Rs. 37.47 crores.

credit amounting to Rs. 28·56 crores is 5.25 per cent per annum inclusive of insurance charge on outstanding balance from the date of final delivery or completion of erection. The credit are also subject to a 'Pre-Shipment Financing Charge' of 4·5 per cent per annum of the value of the contract from the date of contract becoming effective till the date of final delivery or completion of erection. A down payment is to be made not exceeding 1 per cent per annum calculated from the date of signing the contract till the date of final delivery or completion of assembly of the equipment but the total down payment is not to exceed 5 per cent of the value of the contract. The balance amount is repayable in equal instalments over a period of 10 years commencing six months after the date of final delivery or completion of assembly of the equipment. The total repayment period is, however, not to exceed 13 years from the date of contract in the case of delivery contracts, or 15 years in the case of contracts for assembly of industrial units.

4.313. The rate of interest for the sixth tranche of Rs. 4·76 crores from the Campagnie Francaise D' Assurance au Commerce Exterieur to the Industrial Finance Corporation is 5·75 per cent per annum. In addition, a credit insurance charge of 1·15 per cent per annum is also payable I.F.C. has sanctioned 8 sub-loans of the total value of Rs. 1·15 crores to private sector parties under this credit.

4.314 The main purposes for which the French credits have been used are: Lighthouse Equipment, Cement Plants, Chemical Plants, Purchase of Aircrafts, Equipment for Machine Tools Factories, Earthmoving Equipment, Mining Machinery, Forge Factory, Power Equipment and Oil Exploration.

4.315. It is seen that export credits amounting to Rs. 52·37 crores were received from France during the Third Plan period, out of which, by the end of the Plan period, contracts of the value of Rs. 32·71 crores were placed and Rs. 20·98 crores were actually drawn. The following reasons have been given for the slow utilisation:

(i) difficulties of guarantee procedure.

(ii) high prices of equipment under the credit arrangement—usually 25 to 30 per cent higher than under ordinary commercial arrangements.

(iii) Indian buyers' disinterest in deferred payment terms for small value purchases.

4.316. The representative of the Ministry stated during evidence that the Government, have, with the agreement of French authorities, liberalised the guarantee procedure in that now a large number of scheduled banks can stand guarantee for transactions under the credit. As regards the question of high prices being charged for imports under the credit, he stated that "we have taken it up with them but here the success has not been so very definite. It has varied from case to case.... It is a question of suppliers' willingness. Luckily, France permitted us to buy on general tenders with other countries. Whenever we have made such purchases where France is the lowest tenderer, this problem does not arise."

4.317. The Committee hope that Government's efforts to secure the intervention of the French Government in specific cases of high prices charged under the credit arrangements would meet with success. The Committee would, at the same time, like Government to review in the light of experience the measures taken to accelerate the pace of utilisation of the credits.

Mining Machinery imported by Metal Corporation

4.318. An amount of Rs. 85·5 lakhs was allocated out of the French Credit to the Metal Corporation of India Ltd. for import of mining machinery from France. A contract was entered into by the Metal Corporation with a group of French suppliers on the 31st July, 1962. The contract was to come into force on a guarantee being given by the Industrial Finance Corporation of India and approval of the contract by the French authorities. The Industrial Finance Corporation of India gave a guarantee on 31st October, 1962. The contract came into force on 29th November, 1962.

4.319. The shipments against the contracts commenced in March, 1964 and were completed by June, 1964. The material started arriving at Bombay port in April, 1964 and the last shipment was received in July, 1964. Metal Corporation of India could not provide sufficient funds for payment of custom duty, port trust charges etc. for completing the clearance formalities. The undertaking—the Metal Corporation of India—was therefore acquired by the Central Government on the 22nd October, 1965 and a Government Company, Hindustan Zinc Limited, was formed to administer and manage the undertakings of the Metal Corporation of India. It is stated that "soon after the acquisition of the undertaking, action for the clearance of the consignments was initiated, and on the guarantees furnished to the Bombay customs and the Bombay Port Trust by the Government of India, the equipments were taken delivery of and started moving from Bombay port from 5th February, 1966. All the equipments, except three packages which still remain untraced. were cleared by 12th April, 1966.'

4.320. Asked to state the amount of port and other dues which had to be paid on account of delay in the clearance of goods, Government have stated as follows:

> "If the equipments were taken delivery soon after their arrival, an amount of Rs. 17.14 lakhs would have been paid as customs duty, but due to the enhancement of custom duty since then, the amount on this account will now come to Rs. 33.52 lakhs. Similarly, wharfage and port trust charges would have amounted to only Rs. 50,000 but on account of the late clearance, this would come to about Rs. 36 lakhs. The Hindustan Zinc Limited have taken up the question of remission of customs duty, port trust, wharfage and demurrage charges with the concerned authorities."

4.321. The Committee note that the customs duty, wharfage and port trust charges escalated from Rs. 17·64 to Rs. 69·52 lakhs on account of delay in clearance of the machinery imported by the now defunct Metal Corporation of India. The Committee would like Government to investigate whether any part of the time taken in commencing and completing the clearance operations by the newly established Hindustan Zinc Ltd. could have been avoided thereby saving some part of the charges that have now become payable.

Credit for Oil Exploration Work

4.322. Out of the French credits, a sum of approx. Rs. 4 crores (FF 39·49 million) was allocated to the O.N.G.C. for oil development programme. The credit has been used by O.N.G.C. for carrying out exploratory operations in Jaisalmer, Rajasthan with the help of French specialists of the I.F.P. The first agreement between O.N.G.C. and I.F.P. was signed in September, 1961 and in a subsequent agreement between the two organisations signed in November, 1962, the details of terms and conditions and financial arrangements were settled. From the figures furnished to the Committee, it is noticed that, till 30th April, 1966 a total of 10 agreements were concluded by the O.N.G.C. with the I.F.P. or private French contractors for various stages of exploration work. The value of orders placed by 30th April, 1966 was only Rs. 1·52 crores while the amount actually drawn against the credit was approx. Rs. 33 lakhs only. The Government have given the following reasons for the slow utilisation of the allocation:

"The principal reason has been delay in the finalisation of the detailed terms and conditions of repayment of the credit by the Government of France and India.

The agreement between the Commission and the I.F.P. was concluded in September, 1961. The Credit Agreement between Governments of France and India was not however, signed till February 5, 1962. The details of the terms and conditions of the credit were not indicated in the said agreement. Some of these points were settled later and the financial agreement with the I.F.P. was concluded in November, 1962. Certain other details also remained to be settled which held up the conclusion of the contract between the Commission and the C.G.G. These details were finally settled at the end of January, 1963. After all the terms of repayment and other conditions had been settled, some new points were raised by C.G.G. in respect of payment of income tax and other taxes in India. Prolonged negotiations ensued and the contract was signed on 1st June, 1963. The delay in finalising the contract with C.G.G. had put off the programme of operations for about a year, as all the operations were dependent on the results of seismic work.

A proposal for structural drilling contract was submitted to the Government in May, 1963. and was approved in September, 1963. Detailed negotiations had to be carried out with Messrs. Forasol and the contract could only be signed in February, 1964. Due to the outbreak of hostilities in the area in September, 1965, the operations had to be suspended. After a gap of about 3½ months, drilling operations were resumed in January, 1966.

An amount of Rs. 114·20 lakhs was allocated for deep drilling, which has not been utilised so far. Due to delay in start of seismic operations, a large part of the amount allocated for seismic surveys remains still to be utilised."

4.323. It is stated that the allocation to the O.N.G.C. is "intended for financing the services of French firms engaged in oil exploration and for procurement of consumable stores for the execution of such works by the French firms." The type of services provided by the French contractors are indicated as seismic surveys, drilling of wells, logging of structural wells etc. It is also stated that an Indo-French Exploration team comprising French and Indian specialists has been set up "to plan and supervise exploration activities". This includes "planning of seismic and drilling operations," and analysis of interpretation of data collected. Asked for the reasons for employing French contractors for survey and drilling work in the Jaisalmer area when elsewhere their assistance was not needed, the representative of the Ministry stated during evidence that:

> "This work is being carried on in the Jaisalmer desert where the conditions are unlike any encountered in the rest of India . . . special types of equipment, vehicles, rigs, seismic equipment to carry out these surveys in the midst of sand dunes are required. The French have had special experience of this kind of work in Algeria and certain other African countries. We wanted to make use of their expertise for this survey. We did not encounter this kind of conditions anywhere else and mostly all the work is being carried out by ourselves in the rest of India."

4.324. The Committee note that between September, 1961, when the first agreement was signed with the Institute Francaise de Petrole and 30th April, 1966, a sum of Rs. 33 lakhs only was drawn against the credit allocation of Rs. 4 crores for oil exploration work in Rajasthan. The expenditure was mainly on account of payments to French contractors for work and services, which, elsewhere, are being performed by Oil and Natural Gas Commission themselves or by Indian contractors.

The Committee recommend that Government may reconsider whether the employment of French contractors and firms for exploration work in Rajasthan is absolutely necessary and that the exploration know-how developed by the Oil and Natural Gas Commission cannot be usefully employed in that area as well. In case, on reconsideration, the existing arrangements are found to be necessary or desirable, steps should be taken to accelerate the exploration work.

French Credit for IFC

4.325. French Bank credit amounting to Rs. 4·76 crores was pledged by France at the July, 1962 Consortium meeting for the Industrial Finance Corporation, out of which the Corporation had by 31st March, 1967 sanctioned 8 sub-loans of the total value of Rs. 1·15 crores. Asked the reasons for low utilisation of the credit, Government have admitted that "the demand for sub-loans under the French credit has not been picking up even though the Corporation agreed to absorb Coface charges amounting to 1·15 per cent" which the Corporation was required to pay to the creditors. The difficulties enumerated by the Government which have been coming in the way of speedy utilisation of credit may be summarised as follows:

(i) high French rate of interest.

(ii) high ceiling laid down by French for financing under the credit.

(iii) requirement of prior French approval in all cases.

(iv) French requirement that Letters of Credit can be only for the entire contract.

(v) French requirement that goods originating from outside France should be routed through French suppliers.

(vi) elaborate French financing procedure.

4.326. Asked whether Government were making efforts to get the conditions further softened, Government have stated that:

> "This particular line of credit has not been so easy of operation as some of the other foreign credits available to the I.F.C. and because of the difficulties in the way of speedy utilization the question of curtailing the total credit to a smaller figure is actually under consideration. It is expected that any curtailment thus effected would become available to India as additional credit in a revised and easier form."

4.327. The Committee recommend that Government should review the economic advantage of the French credit to the Industrial Finance Corporation at the existing terms and conditions and take appropriate decision in the matter in the light of experience.

Special ford and Technical Assistance

4.328. France has offered a gift of about 10 million new francs (Rs. 1.60 crores) for the supply of milk powder and some quantities of pesticides to alleviate the distress caused by scarcity of conditions during 1965-66.

4.329. The Government of France has made available to India services of 38 technicians in such fields as ship-buildings, child welfare, pilot plant experiments, petroleum etc. and provided training to 419 Indian nationals in prestressed concrete, dams and civil engineering, heavy electrical equipment, petroleum, aerial photography etc.

Salient Features of French Assistance

4.330. To sum up, the salient features of French assistance to India are as follows:

(1) French assistance to India consists almost entirely of loans;

(2) French grants have been in the shape of supply of milk powder and pesticides during the scarcity conditions in 1965-66, technical training of Indians and making available the services of French experts;

(3) French loans are mainly in the nature of suppliers'/export credits;

(4) Rate of interest in the case of Second Plan credits varies from contract to contract. In the case of Third Plan credits, however, it is 4.5 per cent per annum between order and delivery/erection and thereafter varying from 5.25 to 6.90 per cent per annum inclusive of credit insurance.

(5) Terms of repayment in the case of Second Plan credits are: 10 per cent on order; 10 per cent on delivery; and 80 per cent spread out in 5 years after delivery. In the case of Third Plan credits, these are: one per cent of the value of contract per annum after order and until delivery, subject to a ceiling of 5 per cent of the value of contract; balance spread over 10 years, commencing six months after delivery. Repayment period is not to exceed a total of 13 years after order in the case of delivery contracts and 15 years after order in the case of assembly of industrial units; and

(6) It is admitted that the prices of equipment under the credit arrangements are higher by 25 to 30 per cent than under ordinary commercial arrangements.

Other Countries

4.331. The salient features of assistance from other countries are dealt with in the following paragraphs:

Polish Credits

4.332. Polish assistance consists of three credits extended during the Second and Third Plan periods amounting to Rs. 41.30 crores. The rate of interest is 2½ per cent per annum and repayments extend over a period of 8 years in the case of first two credits, commencing one year after the date of final invoice, and 12 years in the case of the Third credit, commencing 3 years after the last invoice. The repayments are to be made in rupees to be used by the Polish Government for buying Indian goods for export to Poland. The credits have been utilised for development of machine tools project, power generation, coal mining and washery, manufacture of mining machinery, manufacture of motor cycles, Cellular Concrete factories and Zinc Smelter Project.

4.333. The position regarding utilisation of the credits as on 31-3-1966 is as under:

(Rs. crores)

	Date of Agreement	Amount	Value of orders placed	Amount drawn
First Credit	7-5-1960	14·30	14·53	10·96
	15-1-1966	1·00		
Second Credit	16-11-1952	15·50	0·48	0·38
Third Credit	25-1-1965	10·50	..	..
		41·30	15·01	11·34

4.334. The Committee note that the progress of utilisation of the Second and Third Polish Credits is extremely slow. They would like Government to inquire into the matter and remove any impediments coming in the way of speedy utilisation of assistance.

4.335. It is stated that a sum of Rs. 24.24 crores has been allocated out of the Polish Credits for utilisation in the field of coal mining. Asked whether the allocations for this purpose was made after taking into account the estimated production capacity built up by the Mining and Allied Machinery Manufacturing Corporation, Durgapur, it has been stated in reply as follows:

> "At the time of making allocations for the coal projects under the First and the Second Polish Credit Agreements, adequate indigenous capacity to manufacture coal mining equipment and machinery was not set up. At the time of entering into contract and placement of orders, the indigenous capacity by the M.A.M.C. and others has been taken into account. According to present indications, requirement under the first and second credits may be Rs. 7.52 crores and Rs. 5.35 crores respectively."

4.336. The Committee suggest that Government should carefully review the requirements of coal mining industry with reference to the indigenous productive capacity developed and restrict the imports against the Polish credits to absolutely necessary items which cannot be manufactured locally. The excess allocations in the field could be deployed for import of other necessary items.

Australian Assistance

4.337. The main flow of Australia's bilateral aid has been under the Colombo Plan and is in the form of grants. Out of the total grant assistance of Rs. 19.67 crores provided by Australia upto March, 1966, the assistance under the Colombo Plan comprises Rs. 15·95 crores. This is made up of economic assistance of the value of Rs. 14·85 crores and an expenditure of Rs. 1:10 crores on technical assistance. The economic assistance under the Colombo Plan consists of the following:

(1) Supply of commodities,

(2) Milk Schemes,

(3) Railway Development, and

(4) Power and Irrigation Projects.

4.338. The grants other than those under Colombo Plan are in the form of supply of Wheat, Milk Powder, Port handling equipment, Automatic Bakeries, Trucks, Sheep and Cattle and Wool.

4.339. Upto the end of March, 1966, the grants authorised totalled Rs. 25·67 crores out of which only Rs. 19·67 were utilised by the end of that period. Asked the reasons for short utilisation of grant, the Ministry have stated as follows:

> "Assistance from Australia is received only under the Colombo Plan. The entire assistance is on grant basis. There is no annual monetary allocation as in the case of Colombo Plan assistance from Canada. Assistance for projects mutually agreed upon is made available in the form of equipment and materials manufactured in Australia. The selection of the items to be supplied, issuing of tenders, their acceptance and shipping arrangements etc., are all made by Australian authorities. There are no formal agreements. Exchange of correspondence constitutes agreement for such assistance. Since the entire assistance is on grant basis and the ordering etc., by Indian authorities is not involved, there are no amounts undrawn or orders yet to be placed at any one time. Assist-

ance agreed to be provided by Australia in the previous years has mostly been received. During 1965-66, Australia agreed to provide equipments for six automatic bakeries (estimated to cost about Rs. 2.7 million), has already supplied 36 trucks for the Rajasthan Canal Projects; and has agreed to supply wool estimated to cost about Rs. 15 million, wool is to be supplied over a period of 3 years. Purchase of bakery equipments has not yet been made by the Australian authorities."

4.340. The rupee proceeds derived from the sale of gifts of commodities from Australia upto the end of March, 1965 totalled A$ 11·43 million. The accrual to counterpart funds was between 1951-52 and 1960-61.

4.341. Out of the counterpart funds, as on 31-3-1965, a sum of A$ 9.27 million has been allocated to different projects, leaving an unallocated balance of A$ 2.16 millions. Asked to state why this amount remained unallocated upto 31-3-1965, in spite of the fact that the counterpart funds were created between 1951-52 and 1960-61, the Government have stated that:

"There is a balance of the rupee equivalent of £(A) 2.3 million which still remains to be allocated. The reasons of their non-allocation is that no suitable project has been agreed upon to be financed from these funds. In the past few years, Australia has not supplied equipment etc., for a sizeable project which could be a good choice for utilising the counterpart funds. The counterpart funds are credited to a special account in the books of of the A.G.C.R. and it is not as if this money has to be drawn from the Australian authorities. The amount is already available to us and it is a question of a mere book adjustment *i.e.* the expenditure on agreed projects will be adjusted against the counterpart funds as and when it is incurred."

4.342. The Committee are unable to appreciate why a sizeable amount out of Australian counterpart funds remained unallocated for quite a long time. They suggest that Government should try to reach agreement with the Australian Government as regards the projects which might be financed out of the funds.

Swiss Credits

4.343. Swiss Government have extended transfer credits for payment to suppliers in Switzerland for the import of capital goods by importers in India. The credits extended upto the end of March, 1966 amounted to Rs. 22.89* crores: Rs. 19.08 crores extended through a consortium of Swiss Banks and the balance of Rs. 3.81 crores provided directly by the Swiss Government. The terms of conditions in respect of the credits amounting to Rs. 15.26 crores extended between 1960-65 were uniform. These were: interest rate of 3¾ per cent per annum above the official discount rate; repayments within a period of 10 years, with a grace period of 3 years; in equal half yearly instalments. As to the credit extended in 1966, half the amount of the actual credit viz. 31.50 million Swiss Francs (Rs. 3.43 crores), financed by the Swiss Government carried interest @ 3% p.a. For the other half financed by the Swiss Banks Consortium, it is 3¾% above the official discount rate. Repayment were to be made in equal half-yearly instalments spread over a period of 5 years with a grace period of 5-10 years.

4.344. Upto the end of March, 1966, the value of orders placed amounted to Rs. 14.51 crores and Rs. 6.04 crores were drawn.

4.345. The Swiss Government have also offered on grant basis, grain handling machinery valued at Rs. 25 lakhs; logging equipment and tools, equipment for a cattle breeding farm and technical assistance for Indo-Swiss Training Centre for training precision instrument mechanics.

4.346. The Committee note that although a major portion of the Swiss credits was extended during 1960-63, less than 25 per cent of the credits were utilised till the end of March, 1966. They hope that Government will now take effective steps to accelerate the pace of utilisation of these credits.

Assistance from Netherlands

4.347. Netherlands has extended assistance to India mainly in the form of credits. Nearly 64 per cent of the credits are in the shape of General Purpose Credits which, being not tied to any particular project, have been allocated to various projects and units in the public and private sectors. The balance comprises export|suppliers' credits. The position as on 31st March, 1966 as regards the amount

*The credit is only for 90% of F.O.B. value of the goods to be imported under it; the balance of 10% is to be met from India's own resources.

authorised, value of orders placed and the amount drawn is as follows:

(Rs. crores)

	Amount authorised	Value of orders placed	Amount drawn
General Purpose Credit . .	14·54	13·83	9·51
Export/Suppliers' Credit .	7·36 } 0·90 }	6·27	N.A.
	22·80	20·10	9·51

4.348. Upto the 31st March, 1966, in all 4 General Purpose credits have been extended. In the case of the first credit extended in 1963 the rate of interest is 5¼ per cent per annum on the first credit slab of determined value (13 m. Dutch Guilders) and 5½ per cent per annum for the rest of the credit. Next two credits extended in July and December, 1965 carried interest at the rate of 5½ per cent per annum while the interest rate for the Fourth credit extended in early January, 1966 was 3 per cent per annum only. All of the General Purpose credits are repayable in 25 years with a grace period of 7 years.

4.349. In the case of export/suppliers' credits, commercial rate of interest is charged subject to a ceiling of 6 per cent per annum. The terms of repayment are: 5 per cent on order; 5 per cent on completion of shipment and 90 per cent in equal yearly or half-yearly instalments spread over a period of 10 years after delivery. very.

4.350. The Committee are glad to note the lowering .down of the rate of interest of the Fourth General Purpose Credit extended by the Netherlands Government from 5½ per cent per annum applicable to earlier credits to 3 per cent per annum. They, however, find it rather incongruous that different rates of interest are applicable to the Third and Fourth General Purpose Credits when the period between the two was less than a month.

Assistance from Yugoslavia

4.351. In January, 1960, Yugoslavia agreed to extend credit to India amounting to Rs. 19.05 crores. In June, 1965 the original credit was enhanced by Rs. 2.38 crores making the total of Rs. 21.43 crores. These credits have been used mainly for the purchase of ships and equipment for power projects, though a part of these has been used also for importing diesel engines for fisheries project and Milk Processing Plant. The credits carry interest at the rate of 3 per cent per annum and are repayable in 16 and 12 half-yearly instalments in the case of capital goods and ships respectively.

4.352. The position regarding utilisation of these credits upto 31st March, 1966 is as follows:

Amount authorised	Amount allocated	Value of orders placed	Amount Drawn
21.43	18.30	17.98	9.71

4.353. Asked the reasons for slow utilisation of the credit extended as far back as January, 1960, the Ministry have stated as follows:

> Since the Yugoslav credit like the credits from other East European countries, is "tied" to long gestation period projects, the pace of the utilisation of the credit may be assessed with reference to the value of the contracts concluded and not with reference to the actual deliveries upto 31st March 1966. The contracts concluded under the Agreement amount to Rs. 17·98 crores. Seen in this context, the credit has moved satisfactorily."

4.354. The Committee feel that the rate of utilisation of the Yugoslav credit has been very slow. They would like Government to impress upon the projects and units using the credits to avoid any delay in utilisation where possible.

Assistance from Belgium

4.355. Belgium has upto 31st March, 1966 extended to India Suppliers' credits of the value of Rs. 11·42 crores. Upto 31st March, 1966, orders of the value of Rs. 6·15 crores have been placed and a sum of Rs. 4·89 crores has been drawn. The credit has been used in the public as well as private sectors in the field of Power Generation, Railways, Transport and Communication, steel and steel Products etc. and for the import of capital goods for industrial development.

4.356. The terms of repayment are: 5 per cent on order; 10 per cent on delivery and 85 per cent in yearly or half--yearly equal instalments over a period of 10 years after delivery.

4.357. According to the publication 'External Assistance—1964', "the rate of interest together with credit insurance payable on outstanding amounts does not exceed 6 per cent." In the publication for 1965-66, however, it is stated that "The rate of interest does not exceed 6 per cent. In addition, a credit insurance charge is included in the price."

4.358. The Committee find an apparent inconsistency in the 1964 and 1965-66 issues of the publication "External Assistance" in regard to the rate of interest in respect of Belgian credits. The Committee suggest that all major changes in the quantum and terms and conditions of credits effected during the year should be indicated and explained in the publication for that year. The Committee also take the oportunity to suggest that in order that the publication could be used as source material on external assistance, maximum consistancy should be maintained in the pattern and arrangement of data and other information in the successive issues of the publication.

Quantum of Austrian aid and its Utilisation

4.359. The Austrian aid consists of 4 loans extended during 1962, 1963 and 1965 and a suppliers' credit extended during 1965-66, together amounting to Rs. 8·49 crores. The loans and the credit carry a uniform rate of interest of 5½ per cent per annum (except that for the first loan, in respect of payments made before 30th June, 1964, it was 6 per cent) repayable in 20 equal half-yearly instalments. The loans are being used for the procurement of steel and fertilisers, and for import of equipment for irrigation and power generation, railway development and industrial development in the private sector. A sum of Rs. 1·07 crores has been allocated out of the loans for payment of technical fees to M|s. Bohler who are collaborating with Mysore Iron and Steel Works.

4.360. As on 31st March, 1966, out of the loans and credits authorised amounting to Rs. 8:49 crores, orders were placed for Rs. 7·15 crores, and a sum of Rs. 4·70 crores was utilised constituting 63 per cent of the value of loans and credits authorised.

4.361. In addition to the above loans and credit, a grant of U.S. $ one million has been authorised by the Austrian Government in January, 1966 to relieve the scarcity of food in India.

Assistance from Sweden

4.362. Upto 31st March, 1966, Sweden has extended assistance to India of the total value of Rs. 5·86 crores. Major portion of the assistance (Rs. 3·65 crores) is in the form of grants while the credits amount to Rs. 2·21 crores.

4.363. Grants comprise the following:

(1) gifts of paper on year-to-year basis for the production of text books for Indian schools. By the end of March, 1966, a total quantity of 26,000 tons of paper was imported valued at Rs. 2·30 crores. The proceeds from a possible sale of the paper or text books are to be used for educational purposes;

(2) assistance in setting up a school of paper Technology at Saharanpur;

(3) technical assistance to All India Institute of Medical Sciences, New Delhi and Saha Institute of Nuclear Physics, Calcutta;

(4) financing of study in grain storage system; and

(5) assistance to Logging Training Centres;

4.364. Swedish credit amounting to Rs. 2·21 crores was extended in 1963-64 and carries interest at the rate of 2 per cent per annum on the principal amount outstanding from time to time. The repayments are in semi-annual instalments spread over a period of 16 years. The credit has been utilised mainly for Dairy and Power Projects. The position regarding utilisation of assistance as on 31-3-1966 is as follows:

(Rs. crores)

	Authorisation	*Utilisation*
Loan	2.21	..
Grant	3.65	2 58

4.365. The Committee note that no amount has been utilised upto 31-3-1966 against the Swedish credit extended in 1963-64 and recommend that Government should take steps to speed up the utilisation.

Assistance from Norway

4.366. Norway has, upto 31st March, 1966, extended to India assistance of the value of Rs. 5·14 crores. The entire assistance is in the form of grants and represents the Norwegian contribution to the expenditure on the Indo-Norwegian Project. The aim of the project is stated to be "to raise the standard of living of the fishermen of the area . . . . . through an increase in the return of their activities by improvement of fishing methods, efficient distribution of fresh fish, improvement of fish products and improvement of the health of the fishing population." The project was launched in October, 1952 at Quilon, Kerala and has subsequently been extended to two more States, namely, Madras and Mysore. The activities of the project are now based at Mandapam in Madras, Karwar in Mysore and Cannanore, Cochin and Ernakulam in Kerala.

4.367. In view of fact that the Indo-Norwegian Project has been in operation for about 15 years and by the end of March, 1966, a sum of Rs. 6·36 crores has been spent thereon (Norwegian grant: Rs. 5·14 crores and expenditure by Government of India. Rs. 1·22 crores), Government was asked to state whether any surveys have been made in the area in which the scheme is in operation to find out how far the aims of the project have been achieved in actual practice. In reply, they have stated as follows:

> "In order to assess the socio-economic impact of the Indo-Norwegian Project on the Fishery Industry in Kerala State a survey has been undertaken by the Kerala Government recently. Though the survey has been completed, the final report of the survey is still under preparation. A copy of the report, when received, will be submitted to the Estimates Committee."

4.368. The Committe feel that, in view of the fact that Indo-Norwegian Project is the responsibility of the Central Government and also that the rupee funds for the project are being provided by the Central Government, it should be for the Central Government to assess the advantages accruing out of the scheme. The Committee recommend that a proper survey of the living conditions of the fishermen in the area should be conducted and a decision in regard to the continuance thereof in its present form. taken in the light thereof.

Assistance from New Zealand

4.369. New Zealand has, upto the end of March, 1966, extended assistance to India entirely in the form of grants of the value of Rs. 4·28 crores out of which, by that date, a sum of Rs. 3·85 crores has been utilised. In the earlier years, New Zealand aid covered a variety of fields, biggest assistance to individual project being to the All India Institute of Medical Sciences, New Delhi. In recent years, however, New Zealand has concentrated on aid to the dairy industry.

Assistance from Denmark

4.370. The Government of Denmark have upto the end of March, 1966, provided two credits to India of the total value of Rs. 2·41

Crores. The first credit of the value of Rs. 1.03 crores was extended in May, 1963 and the Second one of the value of Rs. 1.38 crores in November, 1964. Upto 31st March, 1966, the total value of orders placed against the credits was Rs. 1.02 crores and the amount drawn Rs. 0.60 crores. The credits have been used for development of cement, dairy, and poultry industry and for the import of marine diesel engines, referigeration and other equipment.

4.371. The credits carry interest at the rate of 5 per cent per annum and are repayable in 20 equal semi-annual instalments. Both payment of principal and payment of interest is to be made in Indian rupees. The funds so generated are utilised by the Danish Government for local rupee expenditure incurred on mutually agreed socio-economic projects in India. The Governments of India and Denmark have so far entered into an agreement for assistance to the following projects:

(1) Development of Agriculture in Mysore;
(2) Anti-Leprosy work in Andhra Pradesh;
(3) Development of Educational facilities in Shivaragudda Vidyapeetha, Mysore.
(4) Development of Educational facilities in Tunga Vidyapeeth, Mysore.

The fifth project under consideration for assistance is 'Anti-Leprosy work in Ganjam District Orissa.'

Private and Philanthropic Institutions

Assistance from Ford Foundation

4.372. The Ford Foundation, a private philanthorpic organisation of U.S.A. has extended substantial assistance to India in the form of grants for India's development programmes and activities in the economic and social spheres since 1951. The programmes selected for financing from the Foundation's grants are generally those included in, or closely related to, India's five year Plans for which local resources are likely to be available for continuing the schemes after the Foundation's assistance ceases. The Foundation's grants cover a specified number of years and are used for financing the services of foreign specialists and consultants, import of such equipment as is not available in India, and foreign training of Indian nationals who are directly connected with the Foundation-assisted development programmes. From inception of the aid programme in 1951 upto 31st March, 1966, grants authorised by the Foundation totalled Rs. 20.65 crores out of which Rs. 18 crores were utilised by that date. Asked to describe the procedure followed by the Ford Foundation in making funds available to Government agencies, the Ministry have stated as follows:

"The Ford Foundation normally has informal discussions with the Government bodies and organisations about the extent and the kind of assistance they are prepared to render.

After informal discussions the Ministry concerned obtains the clearance of the Department of Economic Affairs who examines such proposals from the following angles:—

(i) that foreign aid is taken only for schemes included in the Five Year Plan;

(ii) the foreign aid should as far as possible cover full foreign exchange cost of the scheme;

(iii) import of equipment is limited to items not indigenously available;

(iv) number of foreign experts is kept to the minimum; and

(v) privileges and facilities given to foreign experts.

After the proposal has been approved by the Department of Economic Affairs and the Ministry of External Affairs, a formal grant letter is received from the Ford Foundation which is accepted by the Ministry concerned."

Assistance from Rockefeller Foundation

4.373. The Rockefeller Foundation is another private philanthropic organisation of U.S.A. which has been extending substantial assistance to India since 1920. Assistance from Rockefeller Foundation generally takes the form of fellowships and travel grants to individuals and grants to institutions in various fields of activities. Since the inception of its programmes in India upto March, 31, 1966, the grants made by Foundation are reported to be of the order of \$17·54 million (about Rs. 8·35 crores).

4.374. Stating the procedure of making available grants from the Rockefeller Foundation, the Ministry have stated:

"The representative of the Rockefeller Foundation in India normally has tentative informal discussions with various institutions and organisations and also with individuals engaged in activities of interest to the Foundation before proposals are prepared for the consideration of the trustees of the Foundation. It is necessary that before the Foundation. Takes final action, it consults this Department (Department of Economic Affairs of the Ministry of Finance). This Department does in turn obtain the views of the administrative Ministries concerned and the clearance of the Ministry of External Affairs. On the recommendations of the Ministry concerned and after clearance by the Ministry of External Affairs, the decision of the government is coneveyed to the Rockefeller Foundation by this Department. This ensures that Rockefeller Foundation travel grants go to individuals and for study in such fields as are considered essential and useful by the Ministries concerned. The procedure of obtaining grants from the Rockefeller Foundation for Government agencies as well as the private agencies is the same as mentioned above."

Assistance from other private organisations

4.375. Apart from the Ford and Rockefeller Foundations, other organisations that are providing financial assistance to institutions and individuals in India are: The Population Council, The Worecestor Foundation, Tea Asia Foundation and Cooperative for American Relief Everywhere (CARE). The Population Council and the Worecestor Foundation award a few fellowships each year in demography and family planning candidates for these fellowships are selected by the Ministry of Health. No economic assistance or cash grant is received from these institutions. The CARE is a non-profit voluntary American organisation engaged in a programme of supply of mid-day meals to Indian school children. During the 5 years ending in 1965-66, CARE has extended assistance worth about Rs. 43 crores. The Department of Economic Affairs of the Ministry of Finance coordinates assistance from these organisations.

4.376. Asia Foundation has also been assisting institutions and individuals in various fields of activities. All assistance from Asia foundation is channelled through the Ministry of External Affairs. The Asia Foundation brings to the notice of the Ministry of External Affairs its intention to make an award. That Ministry takes a decision in each case in consultation with the administrative Ministry concerned, and after considering the grant from the political angle.

4.377. Asked why Asia Foundation alone is outside the purview of the Ministry of Finance and is being dealt with by the Ministry of External Affairs, the representative of the Ministry stated during evidence that:

> "It has so happened that from the time the Asian Foundation opened their office in India, the matter has been dealt with by the Ministry of External Affairs and that was because of the political angle. But I would like to tell the Committee that we have already taken steps to reopen the subject with that Ministry to see that this is also brought within the ambit of the Ministry of Finance."

4.378. The Committee are appreciative of the various forms of assistance being extended by private philanthropic and other non-profit organisations and hope that in years to come their activities would further expand in magnitude and scope. The Committee would, however, like Government to remain watchful with a view to obviate any possible impression that the aid from private organisation may be politically motivated.

V

AID AND ECONOMIC DEVELOPMENT

A. Motivations Behind Aid

Motivations Behind Aid

5.1. A study of the terms and conditions of assistance received from various countries broadly enumerated in the preceding chapter would suggest that the grant element in the overall assistance has been declining from plan to plan so much so that only 5 per cent of the assistance received during the Third Plan was extended on grant basis. The terms and conditions of loans received from various countries also varied, not only from country to country but also as between different loans extended by the same country at different points of time. There are loans on which no interest is payable such as the British General Purpose Loans or the Canadian Development Loans. On the other hand, there is a loan which carries an interest rate as high as 6.75 per cent per annum (West German Loan extened in December, 1962) or even 6.90 per cent per annum including a compulsory credit insurance charge (French credit to the Industrial Finance Corporation of India. The period of repayment also varied widely. Many loans are repayable within a short period of 10 years or less (West German Loan for financing Rourkela Steel Plant was repayable in 3 years). Some are repayable in as long a period as 40 or even 50 years such as the Canadian Development Loans, the British General Purpose Loans or the recent loans from the U.S.A. to private parties under a "Special Loan Repayment Procedure". There are some countries which have agreed to a moratorium on interest for a few initial years. Some others have allowed a grace period for repayment of loans. Payment of interest and repayment of principal in Indian Rupees in the case of some loans, as for instance from the U.S.S.R. and other East European countries, introduces another element of considerable importance to India. The question therefore arises as to what criterion should be applied to distinguish foreign credits primarily linked with the export promotion schemes of the aid-giving country from the aid given by that country for development purposes. Asked what criterion is applied by Government in this matter, it is stated that—

> "It must be recalled that practically all the credits and loans that we get as foreign assistance, other than those sanctioned by the World Bank and International Development Association are 'tied' in their use to the country which gives the loans. In other words, the U.S. loans can be

spent only in the United States; Japanese loans can be spent only in Japan; Soviet loans can be spent only in U.S.S.R. etc. To this extent every loan (other than World Bank or I.D.A.) is a loan which promotes the exports of the lending country on the basis of prices determined with relevance to the cost structure of the lending country. Whether such loans have been inspired by the lending country as a part of Export Promotion or as the genuine developmental aid or a mixture of both is very hard to say.

However, the question......can be viewed from a more specific angle. Financing for Export Promotion Scheme, *qua* export promotion would mean that the terms of financing would be the same whether the importer is a developing country or a developed country; Economic aid, on the other hand, would be solely for the developing countries. From this point of view export promotion financing must be linked to what is known as the Berne Convention under which credits are available for only 7 or 8 years, at the utmost 10 years, at market rates of interest. Taking the economic aid received by India, there is generally speaking no loan which has been granted for a term not in excess of 10 years. The only major exception to this are the loans for purchases of aircraft which have been for 7 or 8 years. (Thus economic aid received by India can be distinguished clearly and specifically from the Export Promotion Financing available in countries of export to potential importers whether developed or developing)."

5.2. Asked whether a study had been made of the advantages that might have been caused to the aid giving countries out of the aid given to India or any other developing country, the representative of the Ministry stated during evidence that—

"I would say that much as we sometimes like to believe that the aid that other people give us gives them some economic advantages, I think that argument is generally overdone; in the short run, it does not benefit them much even if in the long run it does. We have the memory of the Depression days when we used to think that the Americans or the British can't maintain full employment unless they artificially stimulate investment and when they are giving foreign aid, they are doing nothing more than artificially stimulating demand for their own products, and that their unemployed resources come to us as foreign aid. I think this argument is rather everdone in the post-war context. Whatever may be the motive in the thirties, the Western democracies or even the Eastern countries have not been suffering from the problem of unemployment to any great extent in the post-war period and they have many unsatisfied wants in their own countries—housing, roads and any number of other things—which they could have satisfied and they could have created a demand to maintain full employment; so that I would discount this kind of reasoning......it is true, the PL 480 supply is a surplus to them. It is also true that aid benefits them in the long run, if not in the very short run, because when all is said and done, not even the United States is so rich that they have got all the natural resources for further progress. They need a large variety of things which they can't produce competitively and efficiently and to the extent that we develop......they are able to take advantage of international division of labour...... in a much more progressive and growing manner. Otherwise, world trade will not grow as fast as it could and if world trade does not grow as fast as it could, it means that a country's ability to grow, on the basis of its own momentum, tends to get limited. Certainly aid can and does help from the point of view of the long-term prosperity of the richer countries, but I would in all earnestness say that we should not try to say, in the short run, it is costing them nothing; otherwise they would have thrown it into the sea."

5.3. It was pointed out during evidence that the aid-giving countries "export some capital goods; they export some know-how and they get some royality or some expert service fees......These are more or less part of the aid. All accounted together, were not many of these transactions of financial benefit to the aid-giving country?" In reply, the representative of the Ministry stated that—

"I am not disputing that they do get some gain. All that I am saying is that it would not be correct on our part to think that perhaps they had no use for it. The world has developed a social consciousness to such an extent now, not only in respect of poorer countries but in respect of the poorer people in their own borders, that that social consciousness keeps continually demanding more and more activity on the part of their governments—more schools, more housing, more roads and so on; if they had two tenements previously, they want five now; if they had the best roads, they want still better roads. Even in the United States today they have a 'Poverty Programme.' I was only saying that we should not easily say that they had no use for the resources they put at our disposal."

5.4. Asked whether, considering the benefits accruing to the aid-giving country out of aid extended by it to a developing country, it was a valid criterion to classify all credits repayable in 10 years or more in the category of "development aid", the representative of the Ministry stated that—

> "Whether we should consider 10 years or 15 years as development aid or not, it is very hard to say. Therefore, our point of view is: the further the long term (credits) we get, the better it may be regarded as development aid."

5.5. The Committee feel that there is need to evolve criteria fo distinguishing foreign development loans from loans extended by foreign countries on commercial terms. They would like Government to avoid contracting loans on commercial terms, as far as possible.

B. Purchases against external assistance

Dear ~~Imports under~~ Credits and Grants

5.6. Except the credits extended by the I.B.R.D and the I.D.A. and a few of the U.S.A. (D.L.F.) credits, all the credits and grants ~~are~~ tied in the sense that these ~~have~~ to be utilised for imports of goods or know-how from the aid-giving country. ~~Tied aid comprised 79.8 per cent of the total aid authorised till the end of the Third Plan period. This brings~~ to the fore the question whether the purchases made from the aid-giving country against the credit ~~are~~ at internationally competitive prices.

~~5.7.~~ Government ~~have stated that~~ comparative picture of prices ruling in different countries ~~is~~ always kept in view in deciding on procurement and indeed in deciding on allocations from different credits for different purposes. Often, however, it ~~is~~ not possible to make a completely free economic choice, particularly when the entire requirements of a project ~~are~~ covered by a particular credit which ~~is~~ tied to imports from the donor country. Even in such cases knowledge of comparative prices for similar equipment elsewhere ~~is~~ useful in evaluating bids and, wherever possible, making attempts to secure price reduction. The economics of higher prices against purchases tied to donor countries ~~had~~, however, to be considered in the light of overall terms and conditions of specific loans as well as the relative availability of free foreign exchange for alternative uses."

5.8. Prof. Edward S. Mason has in his book "Economic Development in India and Pakistan", mentioned that Dr. Mehboob Al Haq, a member of the Pakistan Planning Commission has calculated the effect of tied aid on particular projects and procurements from particular countries on the cost of 20 development projects financed by 6 countries. The cost of these projects, according to him, amounted to 51 per cent more than what the cost would have been if the procurement had been possible from the lowest source of supply. The representative of the Ministry was asked whether a study of the type conducted by a Pakistani economist could not be made here. He stated that such a study on more scientific lines was attempted by the Institute of Economic Development in Poland but they gave up the attempt "because it was really a question of comparing item by item at a particular given time." According to him "very many of the development goods have some differences from one to the other. From the cost point of view, it does not make strict comparisons possible". Asked whether he could give an assurance that the purchases made out of tied aid were not in any way costlier than those made in other markets, the representative of the Ministry stated that "I could not give that assurance......All I can say is that we.... avoid paying higher prices.... (but) to come to the same conclusion as Pakistan (economist's) conclusion would be straining a bit too much.".

5.9. While the Committee appreciate the difficulties in making strict comparisons between the prices of goods quoted by exporters in different countries on account of possible variations in quality and design, they hope that every effort is being made at the time of making the purchases to co-relate the prices quoted with those prevailing in other markets. The Committee have already recommended in para 2.33 that the aid giving countries may be classified according to the sectors of economy that they could assist so that a country is approached for assistance only in fields in which it has specialised and has capital and know-how to spare. They would further suggest that after a project has been approved from the techno-economic angle, Government should ascertain through Indian Missions abroad and other sources, the availability of latest know-how in the field and the comparative cost of the plant and equipment required for the project in different countries, so as to approach that country for assistance in setting up the project, the imports from which would be most economical.

Market Research

5.10. Asked whether Government have undertaken any study to assess the comparative cost and advantages or disadvantages of purchases made from the aid-giving countries *vis-a-vis* those from other markets, Government have stated that—

> "The question of initiating systematic studies for assessing the comparative advantage or disadvantages in purchasing plant and equipment under various credits was considered by a Committee of Secretaries presided over by the Cabinet Secretary in March, 1960. It was decided that the Market Research Cell of the Directorate General of Supplies and Disposals should maintain up-to-date, and make available to Government indentors, the relevant data which would enable them to ensure that reasonable prices are paid for equipment and machinery. An expert Study Group set up by this Committee reported in 1961 and made various recommendations in this regard. Investigations on the lines recommended by this expert Study Group are being implemented by the Directorate General of Supplies and Disposals."

5.11. In answer to a question whether all Government Indentors including public undertakings were enjoined by administrative instructions to call for and consult the data compiled by the Market Research Cell whenever any import from the aid-giving country was contemplated; Government have stated as follows:

> "...... Minutes of the Committee (of Secretaries) were circulated among the Ministries of Works, Housing & Supply; Commerce & Industry, Steel, Mines and Fuel and Finance. Secretary of the then Ministry of Works, Housing and Supply in his d.o. letter No. P II-3 (23)/59 dated May 23, 1960 invited attention of all other Ministries of the decisions of the Secretaries Committee in respect of the Market Research work. Besides the Department of Expenditure, Ministry of Finance circulated decisions of the Committee to all the Associated Finance Units for necessary action; in turn the Associated Finance (Supply) had requested offices under its financial control to do the needful and it is presumed that other Associated Finance Units acted likewise."

5.12. Government was further asked whether the Market Research Cell of the D.G.S. & D. had adequate organisation and technical competence to compile and keep up-to-date such data. In reply, it has been stated that "D.G.S. & D. is not adequately equipped at present to undertake collection, analysis and interpretation of Market Research data, although the underlying objective and utility stand fully appreciated. They are exploring ways and means to improve the Market Research Work as a part of their overall programme to give a new look to the entire statistics so as to make it more useful."

5.13. Another question asked of the Government was that, in view of the fact that almost all the purchases from foreign countries against external assistance were being made by the Ministries concerned or the project authorities, what were the advantages in making a separate organisation responsible for collecting and maintaining up-to-date data in regard to diverse varieties of goods of different specifications. Answering the point, Government have stated that:

> "It terms of the assessment made by the Stores Purchase Committee, D.G.S. & D. should be looked upon as the primary Central Purchase Organisation of the Government although limited powers of purchase within specific limits have been delegated from time to time to various operational agencies and projective authorities for reasons of administrative/executive convenience. Even so, all the Ministries of the Government of India, State Governments as well as public sector undertakings have been requested to keep the DGS &D informed of their purchases, on the one hand, and comparative quotations received by them in respect of 55 selected items of capital equipment on the other. Every effort is made to render this information as complete and reliable as possible and is used for market research work undertaken by the Statistical Directorate of the DGS & D in consultation with the Inspection Wing/DGTD. It, therefore, appears that there are advantages in centralising market research work in the central purchase organisation itself so that, while all the potential users of this type of data can drawn upon the same whenever needed, avoidable duplication of effort entailed in similar market research work by smaller purchase units attached to plan projects etc. is obviated."

5.14. Explaining the role and functions of the Market Research Cell during evidence, the representative of the Ministry stated:

> "though we have used the words market research and all that, I think we should not over-estimate the functions of a

branch like this. When we allocate a credit to a particular Ministry for a purchase for Government Department or by a public sector undertaking, it is the responsibility of that Ministry or that public sector undertaking to see that they make the best purchase within the credit which is being made available to them. This (Market Research) is as an assistance to them. ......"

5.15. The Committee observe that Market Research Cell of the D.G.S.&D. which is charged with the responsibility of collecting and publishing the data in regard to prices of various type of goods in foreign countries and markets on a centralised basis is not adequately equipped to handle the task. They also observe that nothing has been done to ensure the use of the type of information being compiled by the Cell by the purchasing authorities beyond circularising the activities of the Cell as far back as 1960.

The Committee feel that if the object underlying the creation of the Market Research Organisation is to be achieved, its work should be organised on more systematic lines making the best utilisation of the available staff, and the purchasing authorities enjoined upon to consult the intelligence compiled by it at the time of assessing the price quotations.

Price Discrimination in Purchases against aid

5.16. It was asked of the Government whether they had ever caused an enquiry to be made whether there was any difference between prices charged by foreign suppliers for goods under the loans/grants and those for same goods sold commercially outside the aid. In reply it has been stated that "No enquiry has been instituted in this regard. Notwithstanding this, every attempt is made to place orders at the lowest price for acceptable stores. While considering stores from various countries it is fully examined as to which country's offer meets the specification requirements and is the lowest; but on account of the particular type of foreign exchange which alone is available, it is not possible at times to place orders on the basis of global quotations, and the examination has therefore necessarily to be amongst quotations received for goods from particular countries."

5.17. The Committee feel that it would be useful to attempt a comparative study on continuing basis of prices charged for purchases under the aid and those charged for purchases outside the aid under commercial arrangements for similar type of good in the same country. This would help detection of cases of unfavourable discrimination in prices for goods purchased against aid arrangements which should be promptly brought to the notice of the Governments of the country concerned. The Committee would like

to sound a note of caution that enterprises set up with over-priced plants and equipment imported against aid, not only increase the debt burden of the country but also make the end-products costlier in the domestic market and uncompetitive in the international market.

C. Debt Servicing Burden

Debt Servicing Burden

5.18. By 31st March, 1966, *i.e.* the end of the Third Plan period, the external loans utilised by India had reached a total of Rs. 3323.87 crores, out of which Rs. 2499.78 crores were repayable in foreign currency. The debt payments during the Third Plan period have been indicate as follows:—

(Rs. crores)

Year	Inflow of foreign assistance (excluding U.S. commodity assistance)	Debt repayments
1961-62	251	105
1962-63	325	91
1963-64	407	114
1964-65	501	125
1965-66	522	154
TOTAL—Third Plan period	2,006	589

5.19 It would be seen from the above figures that the payments in 1965-66 *i.e.*, during the last year of the Third Plan, on account of foreign debt servicing have been of the order of Rs. 154 crores and constitute nearly 30 per cent of the total foreign assistance (excluding U.S. commodity assistance) received during that year. This percentage is likely to increase year after year with the maturing of fresh obligations with little prospect of increase in the overall quantum of aid.

520. Taking note of the observation of the World Bank in their Annual Report of 1965-66, that as along as capital (*i.e.* external assistance and internal resources) is employed for productive purposes

to give an economic return at least commensurate with, if not more than the terms on which it is raised, no unsuperable debt servicing burden should arise from its use, the representative of the Ministry was asked during evidence whether the Government ensured that these conditions were observed when proposals for the investment of capital were approved by them particularly at the time of setting up of public undertakings. His answer was as follows:—

> "It is not in respect of each particular enterprise that you can come to this judgment but as they say in the World Bank report, in the context of the overall productivity and of the economic progress implicit in an overall well-balanced scheme of development. When one mentions the public sector or the private sector, the real impact of the World Bank's pronouncement is that you have got to consider the totality of the circumstances, not each individual project."

* * * * *

> "This has to be seen against the perspective of the resources of a well-balanced development programme. While we must certainly ensure that each public sector enterprise and each private sector enterprise—regardless whether it is private or public—each investment brings in productivity, the context of the total foreign aid has to be taken against the whole, not section-wise, of the investment programme......We must have the time to get past adolescence. Some of our projects are now swinging into production......To judge on the return without giving time to grow. I think, would be unfair......Undoubtedly, there might be cases—there are probably many such cases—where perhaps the gestation period of an industry has been a little too longer; but then it is part of the fact of under-development."

5.21. The Committee have, in para 2.6 already emphasised the need "to keep realistically in view the burden of servicing external loans with particular reference to the gestation periods of the projects and the quantum of resources likely to be generated thereby to pay back the loans." The Committee recommend that while scrutinising proposals for setting up new undertakings with external assistance, Government should ensure that, as far as possible, they generate the resources to repay the instalments of principal and interest on loans contracted therefor as and when they fall due.

D. Rescheduling of repayment obligations

Refinancing of loans or rescheduling of repayments

5.22. The Committee understand that Federal Republic of Germany (West Germany) has extended credits for refinancing the payments due against the Rourkela Credit extended by that country in 1958. Explaining the genesis of these refinance credits, the representative of the Ministry stated that "the Rourkela Steel Plant was ordered on terms of payment which were too stiff, because at that time the climate of foreign aid had not adequately generated and we had not started getting sufficiently soft terms. So we had gone ahead with the ordering of equipment and machinery for for the Rourkela Steel Plant and at that time the idea of regular aid from different developed countries crept up. The effort from time to time has been that the payment which we have to make for Rourkela Plant, as originally contracted for.... (might be made), by refinancing from subsequent West German credits."

5.23. Asked whether efforts have been made to obtain refinance credits from any other country also, he stated that "there were no such prospects" and added that "our problem has not been similar elsewhere. The problem of Rourkela Steel Plant, of such short term payments, was peculiar......" Government have however, according to him, "approached members of the consortium for refinancing of the credits in a general sense."

5.24 Asked whether Government was trying to have the payment of interest on loans postponed, the representative of the Ministry stated as follows:—

> "We are trying very hard for some kind of a debt relief so to say by a variety of methods such as postponement, refinancing of new loans to pay off the old loans with special conditions as also aid loans to cover this gap and so on and so forth. Negotiations are now in a very delicate and nebullous stage. As I said earlier, such a sizeable chunk of our current earnings is coming in for repayment of our servicing of debts. The other countries have realised that; we discussed with them and they feel that we need some relief in these matters. There are vast differences between the systems of the different countries. The natural desire of these countries is that country A is giving us loans with a view to repay country B quicker. This is a sort of a burden on their part in the matter of helping India...... we are very much conscious of the fact that there is considerable generosity on the part of our creditors to

accommodate us in the business of debt servicing. We have run into great difficulties. As I said the whole matter is now under very complicated and delicate negotiations in the international forum and we are hopeful of a moderate success."

5.25. The Committee are glad that efforts are being made by the Government to secure softening of the terms of some of the existing loans or obtain new loans for refinancing the repayments due against those loans. They hope that Government are making every effort at appropriate international forums and at bilateral negotiations to make the aid giving countries aware of the economic problems confronting this country and the need for lightening India's debt servicing burden.

E. Impact of aid on Development

Impact of Aid on Development

5.26. Asked whether Government have assessed the impact of foreign aid on the economy of the country, industrial development, promotion of indigenous know-how etc. and, if so, what are the broad conclusions reached, the representative of the Ministry stated during evidence as follows:

"This is a subject where we continuously make realistic assessments before we accept any aid: we see what is it intended for and what kinds of lacunae are there in our production mechanism and organisations and how to plug them. Mr. Bhoothalingam in his general remarks made one point that the very fact that we have been able to invest in successive Five Year Plans more than what we have been able to save ourselves is really the key to the general measure of the good that foreign aid has done. It has enabled us to invest more than we were able to save and thereby get a higher rate of growth, not only growth in the sense of production but what goes with production *viz.*, the skills, the development of new attitudes, better confidence, hopefulness—all that goes with a higher rate of growth. The benefit of the foreign aid is that it bridges the difference between what we are able to save and what we are investing. In fact, the contribution that the foreign aid makes is somewhat larger than what this formulation suggests. It is no question of a simply saying that we have invested 14%, our own savings are 11 per cent, so 3 per cent is the contribution of foreign aid. What I want to say is: if you take away that foreign aid—it is not as if by saving something more ourselves we could have converted those savings into foreign exchange. Foreign exchange is still the biggest bottleneck. It is not that our domesetic effort is a complete substitute to what we can get from abroad. That is a point which generally we lose sight of ......

I am not very competent to say what it has done in the promotion of indigenous, know-how except that we all know from our own experience that the know-how we have today in the matter of power generating equipment or railways or fertiliser production or steel prodction is obviously much greater than what we had before. It is not all due to foreign aid. Let us make no mistake about it. This is the product of the whole process in which the resources we get from abroad and the effort we put in ourselves gets involved and mixed up very intricately. It is very difficult to say at what point some know-how we got because our own people got trained and started training others. We also have men to train. So it is difficult to isolate the general improvement which results from our own efforts rather than from the efforts of others by way of foreign aid. I would say generally that the contribution of foreign aid is considerable. It is certainly more than what we might think from our own investment and savings calculations."

5.27. Answering the question whether the Government have assessed the import trends to find out whether investments as a result of the foreign aid have generated additional capacity in the country reducing import requirements. Government have stated that—

"Import requirements in absolute terms are bound to grow as the economy develops; but they decline in relative terms *i.e.* in relation to total supplies available in the country. The best way of assessing the impact of investments in reducing the import requirements is to relate imports of particular commodities to estimated supplies of the commodities available in the economy. As the attached table would show, the proportion of imports to total supplies (including imports) has been declining in many items, and there has been a marked improvement in this direction since 1955-56, with the major exception of foodgrains."

Imports Substitution, percentage of Imports to estimated total Supplies

Commodity	Unit of Account	1950-51 Total estimated supplies (a)	1950-51 Percentage of imports to (a) (b)	1955-56 Total estimated supplies (a)	1955-56 Percentage of imports to (a) (b)	1964-65 Total estimated supplies (a)	1964-65 Percentage of imports to (a) (b)
Bicycles . .	'000 Nos.	264	62·5	661	22·4	14·42	Neg.
Sugar-mill machinery	Rs. lakhs	100	100·0	419	95·2	949	4·1
Textile machinery	Rs. lakhs	N.A.	N.A.	1233	67·6	4960	56 4
Soda ash . .	'000 Tonnes	75	40·0	154	46·7	320	10·6
Bleaching powder .	'000Tonnes	9·4	61·7	8·2	61·0	10·3	22·3
Iron and Steel .	'000 Tonnes	1391	25·2	2219	41·5	5626	21·2
Caustic Soda .	'000 Tonnes	34	64·7	97	62·9	260	26·1
Aluminium .	'000 Tonnes	14·7	72·8	23·5	68·5	77·0	29·7
Machine tools .	Rs. lakhs	356	91·6	523	84·7	4636	44·6
Newsprint . .	'000 Tonnes	76·3	100·0	84·0	95·6	131·7	77·8
Raw cotton . .	Lakh bales of 180 kgs.	39·5	27·6	45·5	13·2	61·7	12·5
Foodgrains .	Mill. Tonnes	56·2	6·5	67·2	0·6	87·4	5·8
Raw jute . .	Lakh bales of 180 kgs.	57·3	35·3	57·1	25·9	62·2	5·0
Sewing machines .	'000 Nos.	56	41·1	125	11·2	330	Neg.
Paper and paper boards etc. .	'000 Tonnes	151	23·2	260	26·2	507	2·

Notes: (1) In the case of raw cotton and raw jute, the total estimated supply is for crop/agricultural years; in the case of foodgrains, production is for agricultural year and imports for the financial year.

(2) In the case of raw cotton, raw jute, and foodgrains, figures under 1950-51 refer to the average of three years, *viz.*, 1949-50. 1950-51 and 1951-52; and those under 1964-65 refer to the average of 1962-63, 1963-64 and 1964-65.

(3) Textile machinery includes machinery for Cotton, Rayon, Silk and Woollen industries.

5.28. Asked whether any assessment has been made as to what extent the decline in imports was due to factors other than foreign aid such as protective tariff and other import restrictions, the representative of the Ministry stated during evidence as follows:

> "In answering this question, I would like to meet the basic point that foreign aid by itself is not an instrument of progress or of regress in any particular line. In the scheme of planned development as we have or any other country with a planning device has, certain effects inclusive of the good effect mentioned herein, namely, declining proportion of imports in various categories and so on, are the result of the sum total of investment and all economic action and foreign aid is always only a part of it; in that sense foreign aid is a resources problem, a resource factor. Therefore, the way we officials have been looking at it is not to try to isolate the effect of foreign aid because it is a problem of total resources where you take definite steps, for instance, import duties, protective tariffs and regulatory rules. These in toto produce the effect and it is according to the pattern of imports that develops as a result of these various other factors that foreign aid is then put into the system of use. Foreign aid is, therefore, a consequence of a set of other determinents, not a concommitant or a precedent."

5.29. The Secretary of the Ministry added that—

> ". . . . it is the selection of the right kind of activity and not the particular resource with which you do it that matters. It is by way of correct employment of our total resources. Looked at from that way, I think we have done on the whole quite well; but figure comparisons . . . . are sometimes misleading because all the time our total utilisation is increasing. Consumption is increasing. Take a thing like rubber; it is a simple case. Only 10 years ago we produced only 20,000 tons of rubber, and at one stage, I personally remember, when our crop was 20,000 tons, there was some trouble in selling it . . . . . . Now we produce 60,000 tons of rubber and yet it is not enough. We want to import more. Therefore this additional 40,000 is really import substitution in the sense that if you had not produced these extra 40,000 tons of rubber and at the same time allowed all those rubber using industries to grow, then we would have to import

these 40,000 tons. So in that way in the whole field of drugs, chemicals etc. we have done reasonably well, but it is because our total requirement is increasing that our import bill also continues to increase ...... There are a number of items we are still importing which we might have produced ourselves. That is a negative way of looking at it. If you look at it in a positive way—what are the things which we are now producing which but for this production we would have been compelled to import—I think our plans have on the whole been very well-conceived."

5.30. The Committee feel that a study of the impact of external assistance on the development of various sectors of the contry's economy by an independent panel of economists and financial experts would be of definite advantage in so far as the conclusions that might be drawn upon could provide guidelines for future efforts in this direction.

F. Trade with East European Countries

Diversion of Trade from Convertible Currency Markets

5.31. The representative of the Ministry was asked during evidence as to what extent the Trade and Payment Agreements with East European countries have led to diversion of India's trade from convertible currency markets. In reply it was stated:

"We have analysed these figures of exports to the East European countries and the rest of the world and we find that between 1961-62 and 1964-65 the exports to East Europe have risen from Rs. 64 crores to Rs. 144 crores whereas to the rest of the World it has risen from Rs. 317 crores to Rs. 327 crores. There has been increase in both directions. The proportions may be slightly different because we have used the bilateral trade agreements as an instrument of trade promotion. So, naturally the rate expansion to the East European countries was much more rapid. We analysed it in another manner. We took those items where we fear diversion—where exportable surplus should be rationed—and between 1961-62 and 1964-65 as of the divertible items it rose from Rs. 104 crores to Rs. 106 crores. Therefore in the items where we feared diversion, necessary directional control and other checks have been imposed. All this has been very effective. There has been no reason to fear that there has been large scale diversion of trade."

Resale of Indian goods in Convertible Currency Markets

5.32. It has been represented to the Committee by a non-official organisation that there have been cases where the goods exported to East European countries under the Barter Agreements have been re-exported by them to other countries. It has also been alleged that, in certain cases, goods exported by an East European country to India under the Agreement were not out of the country's indigenous production, but obtained from some other sources. The representative of the Ministry admitted during evidence that there have been such complaints. He added:

> "We have found some cases of this type. We have investigated into them as far as possible. We have put in one stipulation in our agreement with these countries that the goods are intended for use in their country. We have put this clause. Whenever we found that there was any diversion we have analysed the statistics of West European countries to find out whether any Indian origin goods have been finding their way to Western Europe. There is no direct and concrete evidence to this expecting a few stray cases. We take due notice of it and those Governments have made amends also."

5.33. In a subsequent communication, Government have further stated that:—

> "Cases of diversion and re-sale of Indian goods at and through Hamburg, Antwerp, Rijeka etc. have come to cur notice from time to time through indirect sources. The items involved are cashew nuts, H.P.S. Groundnuts, spices, E.I. tanned skins, coffee, tea, mica, jute goods etc. These diversions|resale were stated to have been resorted to by almost all the East European countries......The only exception is USSR about whom very few complaints have come to our notice. All these cases....have been investigated in detail by us through our Consulate Generals and other Indian Missions but we could not get any concrete proof of re-sale although it is felt from evidences collected that some East European countries have indulged in this practice."

5.34. Asked what steps have been taken to avoid the possibility of such resale, Government have stated as follows:—

> "As a remedial measure we tried to enforce a system of production of "Landing Certificate" from the ultimate consignee. But it could not be put into effect as it has

no *de-jure* force and because it would amount to open discrimination rendering the whole process as an action of doubtful efficacy. We are, therefore, depending on the operation of our trade and payments agreements understanding by exchange of confidential letters that neither party will indulge in re-export. We have also alerted our Missions at transit ports to keep an eye on consignments of goods which are likely to be diverted as to whether they are actually diverted.".

5.35. In regard to the allegation that some of the goods exported by East European countries to India are procured by them from abroad, the representative of the Ministry stated during evidence that "We know that there is existence of such a practice. This kind of trade is very very marginal. Our biggest supplier is USSR (in the East European Group of countries) and the available surplus is so big that they would not buy from any other source.".

Price and Quality of Imports from East European Countries

5.36. Asked whether the price and quality of goods imported from, or services provided by, the East European countries under the Trade and Payments Agreements had been generally satisfactory and in price and quality, comparable to those imported from, or provided by, the Western countries, the representative of the Ministry stated during evidence that:—

"We have to confess that whenever we invited limited tenders from a single source, whether it is East European country or any other source, we are not able to get always a competitive price. In the case of East Europe, they are sensitive to.....our ever finding out that prices are not competitive. According to the Agreement, we buy only when the prices are competitive in relation to World prices. They have always shown willingness to reduce price. This can be said about the cases which have come to our purview. Recently the Institute of Foreign Trade made a detailed research and produced a pamphlet* called India's Trade with Eastern Europe. They have gone into this subject in great detail. They have found this feeling

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*The Indian Institute of Foreign Trade have, in their publication "India's Trade with East European countries" concluded their analysis in the following words:

"The conclusions of this study can be summed up as follows: (i) In view of the dire necessity of expanding markets wherever it can the trade and payments agreements have enabled addition of new markets of Eastern Europe; (ii) Under these agreements India has continuously increased about the unit prices of imports from East Europe. About quality one can only compare like with like. If it is with sophisticated attachment, a machine become superior in quality and in performance. Quality-wise we are not able to make a correct assessment about the East European products."

5.37. The Committee are glad to note that Government is fully cognizant of the possibility of resale of Indian goods exported to East European countries under the Barter Agreements and are taking necessary measures in this regard.

They also note that the prices of goods imported from these countries are generally competitive and these are reduced whenever any case of higher prices is noticed. The Committee hope that due vigilance would continue to be exercised by Government in this regard in future.

Diversion of Aid from Traditional Channels

5.38. Answering the question whether aid operations have led to any diversion of trade from the traditional channels, Government have admitted that "aid that is tied is to that extent a deviation from what otherwise might have been the normal source or sources of imports." They have, however, not indicated the extent to which such diversion has effected the balance of payment position. The

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her trade with East European countries and the composition of trade is in keeping with her needs based on planned priorities; (iii) With regard to price of exports and imports and terms of trade, there is no evidence that India has lost. On the other hand, she has been able to import cheaper from the East European countries. Similarly, exports to these countries have fetched relatively higher prices as compared to the prices secured from the rest of the world; (iv) Contrary to belief that the trade and payments agreements with East European countries have led to diversion of India's trade from the convertible currency markets, all evidence adduced here goes to prove that they have been instruments of expansion of trade in goods for which demand is stagnant in the convertible currency markets. As a result of this expansion, prices of goods whose volatile fluctuations have serious economic effects have been, to a large extent, stabilised. With regard to exports whose expansion is inadequate to the convertible currency areas, the reason must be found in other factors, economic, and non-economic, which operate in the world market. The burden of limited success of unsatisfactory performance of the non-tradional items of exports cannot be attributed to the trade and payments agreements. Reasons for this must be sought in such factors as export incentive scheme, inadequate supply in required quantities etc.; (v) Contrary to general belief, the trade and payments agreements with the East European countries have not introduced any inflexibility or rigidity in the commercial policy of the country. Further, these agreements have enabled India to enjoy such privileges as MFN treatment and entry of her goods duty free into countries of this block thereby strengthening her trading position with them; (vi) There is no evidence to show that India with a relatively weak export-sector has been placed in an unfavourable bargaining position; (vii) the quality of goods imported as well as the terms of sales have been satisfactory."

reason given is that "the utilisation of tied aid is not always done after calling for global tenders"....and that "the concept of assessing aid patterns from the point of view of a 'traditional channel' of import is subject to vary many limitations.".

G. Private Foreign Investment V/s. Govt. to Govt. Aid

Private Foreign Investment V/s. Government to Government Aid

5.39. At the time of oral evidence, the representative of the Ministry was asked whether Government had made a comparative study of the economies of receiving foreign loans and credits on the one hand and attracting private foreign investment on the other and if so, what were its findings and conclusions, he replied as follows:

> "There was a study made by the FICCI which, according to me, came to wrong conclusions. They tried to compare the cost of foreign investments with the cost of foreign loans. But, they simply forget to take note of the fact that private foreign investment is never paid back. But, it creates foreign exchange liability continuously till the investment is actually expatriated—which may not be ever. But, once a loan is discharged or is paid off say, after 15 or 20 years, then there is no further liability.... There was similar study having been made on various hypothetical assumptions by the Columbia University. This is not a general problem. It varies from country to country. There is an average return on the normal investment. We know also the full terms under which a loan is given. It is really a comparison of two mathematical propositions."

5.40. The Committe suggest that Government should undertake a comparative study of the advantages and disadvantages of foreign loans and credits *vis-a-vis* private foreign investment in the light of the present industrial and technological development of the country with a view to formulate guidelines regarding the particular fields in which each of the two types of foreign capital would be useful.

NEW DELHI-1,

August 7, 1967

Sravana 16, 1889 (*Saka*)

P. VENKATASUBBAIAH,

Chairman,

Estimates Committee.

APPENDIX I

(*See* para 2·15)

COPY OF O.M. NO. 3878/JS(AM) DATED 7.10.1965 FROM JOINT SECRETARY, DEPARTMENT OF COORDINATION TO ALL MINISTRIES ETC.

SUBJECT: *Preparation of feasibility studies before proposing projects for external assistance.*

The Committee on utilisation of external assistance under the chairmanship of Dr. V. K. R. V. Rao, while examining causes for delay in the aid utilisation in the public sector commented on the dearth of well-conceived projects for which all necessary preparations had been made for placing of orders as soon as foreign exchange become available. While noting that even projects included in the lists to be forwarded to the Aid India Consortium were often not ready for immediate implementation in the event of funds being made available, the Committee had recommended that no project should be proposed for aid unless a feasibility report had been completed. The Government accepted this recommendation.

2. The Rao Committee had emphasised that feasibility reports should not merely be technological in character but should fully explore the economic aspects, taking due account of the possibilities of economising on the use of scarce resources such as foreign exchange. The Committee had also observed that feasibility studies must be of a high standard, so that they are accepted by the institutions and countries providing assistance as justification of the acceptance of projects in principle.

3. The need for careful and detailed investigations in regard to suitability of site availability of required natural resources, other raw materials etc. was emphasized in this Department's O.M. No. D/347/65/D.S.(B) dated 7.8.1965. The Planning Commission have also circulated a draft memorandum on feasibility studies for public sector projects *vide* Shri Tarlok Singh's D.O. No. 12(4)/65 M&A dated 26.7.1965. On finalisation of the Planning Commission study, a comprehensive office memorandum indicating in detail the scope of feasibility reports will be issued in due course.

Meanwhile, the Ministry of Industry etc. are requested to ensure that before any new investment proposal is posed for external assistance, there should be available, if not a detailed project report, atleast a feasibility study which should be drawn up after adequate preliminary investigations and should give evidence, that alternative technologies, sizes of plant, locations, product-mix etc. have been considered.

APPENDIX II

(*See* para 3·2)

Statement showing the aid authorised and utilised during 1951-52 *to* 1965-66 (15 *years*)

(Rs. crores)

S. No.	Source	Authorisation	Utilisation	Balance
	A. *Loans and Credits Repayable in Foreign Currency*	3583·69	2499·78	1083.91
1	Austria	8·49	4·70	3·79
2	Belgium	11·42	4·89	6·53
3	Britain	364·63	292·27	72·36
4	Canada	46·68	27·25	19·43
5	Denmark	1·38	..	1·38
6	Federal Republic of Germany	447·40	444·81	102·59
7	France	57·13	20·98	36·15
8	Itlay	81·32	11·65	69·67
9	Japan	173·53	112·87	60·66
10	Netherlands	22·80	9·51	13·29
11	Sweden	2·21	..	2·21
12	Switzerland	24·51	6·04	18·47
13	U. S. A.			
	(i) Exim	195·06	162·26	32·80
	(ii) Wheat Loan	90·31	90·31	..
	(iii) AID Loans	679·33	498·13	181·20
	(iv) U.S. Banks	25.88	16.83	9.05
14	I.B.R.D.	462.92	380.05	82.87
15	I.D.A.	278.55	201.49	77·06
16	U.S.S.R.	484.31	282.08	202.23*
17	Czechoslovakia	63.10	12.61	50.49*
18	Yugoslavia	21.43	9.71	11.72*
19	Poland	41.30	11.34	29.96*
	B. *Loans and Credits Repayable in Rupees*	294·61	275·50	19·11
1	Denmark	1·03	0·60	0·43
2	U. S. A.	293·58	274·90	18·68
	(i) D.A. Loans (Dollars portion only)	42·22	42·22	..

*Repayable generally through export of goods.

S. No.	Source	Authorisation	Utilisation	Balance
	(ii) U. S. President's Asian Economic Development Loan for Orissa Iron Ore . . .	8·75	8·45	0·30
	(iii) Development Loan Fund .	242·61	224·23	18·33
	(c) Grants (Excluding PL 480 and PL 665)	401·30	337·97	63·33
	(a) *U. S. A.* .	167·50	160·93	6·57
	(i) TCA Grant (excluding PL 480 and PL 665) . .	147·28	142·93	4·35
	(ii) Ford Foundation	20·22	18·00	2·22
	(b) *Colombo Plan* .	207·50	159·14	48·36
	Canada . .	175·75	134·36	41·39
	Australia . .	15·61	14·85	0·66
	Newzealand . .	4·14	3·62	0·52
	Britain . .	1·45	0·98	0·47
	(c) Norway	4·51	4·51	..
	(d) West Germany .	2·09	2·05	0·04
	(e) U. S. S. R. .	1·15	1·15	..
	(f) Japan	0.48	0.48	..
	(g) Sweden	3.65	2.58	1.7
	(h) Czechoslovakia	0.40	0.40	..
	(i) U.N. Special Fund	8.49	1.83	6.66
	D. *U.S. Assistance under PL 480 and PL 665 and Third Country Currency Assistance* . .	1598·28	1403·10	195·18
	(i) PL 480 . . .	1563·63a	1368·45b	195·18c
	(ii) PL 665	31·87a	31·87b	..
	(iii) Third Country Currency Assistance . . .	2·78	2·78	..
	Grand Total A—B—C—D	5877·88	4516·35	1361.53

a. Shows the value of assistance received.

b. Shows the value of rupee deposits made against commodities imported.

c. The old agreements having expired and taking into account rupees which were not deposited in respect of them due to freight differentials non-imports etc., the real carry over to the Fourth Plan will be Rs. 107.65 crores.

APPENDIX III

(*See* para 4·29)

Statement showing action taken by Government on the recommendations contained in the Report of the Committee on Utilisation of External Assistance (Rao Committee).

Recommendation	Government decision	Action taken
1	2	3
1. Government should publish periodically statistics of ordering against available assistance in addition to data regarding disbursements.	The recommendatoin is accepted and the Department of Economic Affairs will arrange for publication.	A press summary is being issued every quarter through the Information Officer. The information is also being published in the "Journal of Industry and Trade".
2. The middle ground between the overall mapping of resources and the detailed study of particular projects is not adequately covered. Considerably greater attention must be paid to geological, meteorological, soil, water and forest resources studies. Assistance may be sought from the U. N. Special Fund and the World Bank for these surveys.	The recommendation is accepted. The concerned agencies of Government will draw up detailed proposals for undertaking further surveys and external assistance from appropriate agencies and institutions will be sought.	Considerable progress has been made in securing assistance for general and pre-investment surveys in different fields, such as geological, survey, ground water survey, forest resources, soil, survey, etc. Action is on a continuing basis.
3. No. project should be proposed for aid unless a feasibility report has been completed. The feasibility studies must cover both economic and technological aspects and must be of a high standard	The recommendation is aecepted. Administrative orders are being issued to the effect that feasibility studies must be prepared and scrutinised before any final allotment of external assis-	A General proforma relating to preparation of feasibility studies has been drawn up in the Planning Commission and is under consideration by various Ministries, etc. Pending finanlisation of the

so that they are acceptable to the institutions and countries providing assistance. There should be further strengthing of the agenies which undertake feasibility studies.	tance is sught for any particular project. The agencies in Government and public sector undertakings concerned with the preparation of feasibility studies will be asked to prepare detailed proposals for expansion of their activities and these will be considered by Government.	Planning Commission study, issue of an interim O.M. on preparation of feasibility studies from the Department of Coordination is under consideration.
4. The early preparation of project reports should be insisted on for each project which is considered to be *prima-facie* feasible. It would be useful to draw up lists of Indian and foreign firms qualified to prepare project reports in different fields. The institutions and countries providing assistance could be requested to agree to finance the foreign exchange cost of the preparation of project reports, without being committed to financing the projects themselves.	The recommendation is accepted. The agency for preparation of the project report will be selected having regard *inter-alia* to the likely source of financing.	A list of Indian and foreign firms qualified to prepare project reports is being drawn up by the Planning Commission and the D. G. T. D. it is to be, however, noted that lending countries often insist on fresh preparation of project reports mostly by their own nationals or have prepferences of their own. The Deptt. of Coordination is issuing on O.M. drawing attention on the need for early preparation of project reports.
5. A major cause of delay has been the change in the scope of projects at a late stage. Such changes should be avoided.	The recommendation is noted.	An O.M. is being issued from the Department of Coordination bringig this recommendation to the notice of all concerned.
6. A cause of delay has been with regard to acquisition of land, the erection of township, etc. Government should review the legal position and take whatever steps. are necessary to speed up land acquisition subject to certain safeguards.	This recommendation requires detailed examination which is being undertaken.	This issue is to be considered at a meeting to be convened for the purpose of concerned Ministries, *e.g.* Law, Home, Transport, Industry, Irrigation and Power, and the Planning Commission etc.

1	2	3
7. The need to secure financial sanction at every stage is a cause of delay. The project should prepare reasonably accurate over-all financial estimates in advance. A suitable time-table should also be prepared at the start, against which progress can be measured. The project can then be given complete freedom within the overall amount to place orders, subject to there being no material change in the scope of the work.	The recommendation is accepted. Administrative instructions will be issued emphasising the need for advance planning and with regard to the preparation and watching of time-tables of progress. There has already been considerable delegation of powers to the projects to place orders without reference to the Administrative Ministry and the Ministry of Finance. The scope for further delegation is being examined in detail.	The Department of Coordination is issuing an O.M. on the need for advance planning and with regard to preparation and watching of time-tables of progress.
8. In the case of certain industries the practice is followed of setting monetary limits for the import of standard plants, and there is no detailed scrutiny of the list of goods proposed to be imported by the D.G.T.D. or other technical authority. The practice of relaying on monetary ceilings rather than on detailed scrutiny of items should be extended to a number of other industries also.	The recommendation is accepted.	The practice has been extended to the following 10 additional industries, *viz.* sugar making plant, cement making plant, soolvent extraction plant, sulphuric acid plant, super-phosphate plant, industrial gas, cables and wires, rectifier, power capacitors, and electric lamps. Action is envisaged on a continuing basis. Paper and caustic soda are the two industries which are now being examined.

9. There should be a certain relaxation of procedures with regard to the scrutiny of applications for import of equipment by industrial units with fixed assets of less than Rs. 25 lakhs. The D.G.T.D. or other concerned technical authority should take a broad view as to the legitimate amount of foreign exchange needed to establish the capacity proposed taking into account the availability of indigenous capacity for manufacture of equipment in question. There should be no further scrutiny of the import application, and import of equipment within the overall amount should be allowed subject to the capacity as proposed being established.	The recommendation is accepted. Individual items, other than banned items, will not be deleted from import applications on the ground of indigenous availability, and adjustment will be made only in the overall amount. In determining the total amount of foreign exchange needed, full account will be taken of the indigenous availability of equipment, in order to avoid waste of foreign exchange.	Necessary instructions, implementing this decision, have been issued, *vide* an office memorandum No. TD-17(12)/64 dated 29th January,1965, from the Department of Supply and Technical Development. Under the revised scheme for import of equipment by industrial units with fixed assets of less than Rs. 25 lakhs, the D.G.T.D. would quickly arrive at a broad assessment of the quantum of foreign exchange release that would be appropriate for establishing the proposed capacity. Once clearance has been given by the C.G. Committee or Capital goods *ad hoc* Committee, the papers shall be forwarded direct to the CCI & E for issue of a licence, obviating the need for any further scrutiny by the D.G.T.D. from the viewpoint of essentiality of indigenous availability.
10. Delays can be minimised if project authorities consult the D.G.T.D.at a early stage as possible. Strict instructions should be issued with regard to the early reference of cases to the D.G.T.D.	The recommendation is accepted.	An O.M. would now be issued by the Department of Supply and Technical Development. This was held up since the Mathur Committee was also seized of this problem.
11. Much greater effort should be devoted by the D.G.T.D. to the collection of really detailed and up-to-date information regarding the equipment manufactured	The recommendation is accepted. Action will be taken to devise an improved scheme for the maintenance of statistics. While statistics regarding	An AID export has made a pilot study on the information gathering procedure of D.G.T.D. On the basis of this report, a detailed study is being

1	2	3
in the country and the order book position of individual manufacturers. This information should be kept on cards, should be accessible to public and private sector industry, and should be cross checked on the basis of reports from customers.	orders cannot be maintained for all industrial units, such information will be collected for important sectors.	initiated and for this work, Government has chosen Messrs. Vcoz, Allen and Hamilton. The contract with this firm is being finalised in consultation with the World Bank/IDA. The necessary staff is being recruited from 1st October, 1965, and the report is expected to be finalised in 4 months time. The D.G.T.D. has now assumed the responsibility of fixing what is locally available, and the practice of applicants securing letters of refusal from indigenous manufacturers was given up. Though it is difficult to keep track of the order book position of individual manufacturers, the D.G.T.D. is now better equipped on delivery dates of indigenous manufacturers.
12. While items for which indigenous capacity is sufficient to meet all requirements should be banned in the import trade control policy, a liberal view should be	The recommendation is accepted in principle. However, while actual users can be given somewhat greater flexibility within the foreign exchange al-	This is being done to the extent possible.

taken with regard to the import by actual users of other items of capital equipment.	locations made to them, these levels will continue to be determined after allowing fully for supplies available within the country, in order to conserve foreign exchange.	
13. As Indian equipment becomes more competitive, the screening of ists of equipment proposed to be imported from the point of view of indigenous availability will become easier. A major reason for the high cost of Indian made equipment is the shortage of components and raw materials for the machinery manufacturing industries. These industries should be given high priority in the allocation of available foreign exchange. They should also be enabled to offer equipment on deferred payment basis, and the Development Bank or other suitable institutions should provide finance for this purpose.	The recommendation is accepted. The machinery manufacturing industries will continue to be given high priority in the allocation of foreign exchange for the import of components and raw materials. The arrangements for financing sale of Indian made equipment on deferred payment basis will be reviewed in detail.	Priority consideration is being given to requirements of capital goods industries. The recent IDA credits are in this direction. A scheme has been drawn by the Industrial Development Bank for financing sales of Indian equipment on deferred payment basis.
14. Attention should be paid to the price aspect when screening import applications. Collection of price data is essential both for determining whether import should be allowed or not and to choose between alternative foreign sources of supply. The D.G.S. & D. and the D.G.T.D. could cooperate in the collection of such information. Government agencies abroad could assist in the work.	The recommendation is accepted. Government have made a start in the matter of the collection of information about prices of imported equipment in various countries, and the collection of fuller information is being organised.	The "Sacmar" in D.G.S.&D. is collecting information on 55 selected import items. These, however, relate only to items for which tenders are submitted. It has been now decided to collect alternative prices from applicants for import licences, since they must have before finalising a deal, made inquiries and received quotations from different sources. Action is being initiated to revise the C.G. application

1	2	3
		form so as to introduce a new column for showing alternative prices with source.
15. The private sector should be asked to actively assist in collection of information regarding the indigenous availability of various items particularly of capital equipment. If the units requiring equipment and the manufacturers can agree on what items can reasonably be allowed for import, many of the present delays can be eliminated. There could be separate committees with regard to each major type of equipment, and the Federation of the Indian Chambers of Commerce and Industry and the Associated Chambers should be requested to organise such committees.	Government agree with this recommendation, and the assistance of the concerned Chambers of Commerce and Industry will be requested.	The Federation and the Associated Chamber have agreed in principle to assist. A beginning was to be made with a limited group of industries. Accordingly a list of industries in respect of which information on indigenous availability is to be collected has been prepared. Action would now be taken by the Federation and the Associated Chamber according to this list.
16. Prior clearance by the DGTD from the point of view of indigenous availability should not be necessary with regard to the import of components and raw materials by public sector projects. Reporting of orders placed may, however,	The recommendation is accepted and will be tried on an experimental basis, after initial caution to the public sector authorities to exercise the greatest care not to import any thing if locally available except	The principle underlying this relaxation is that public sector authorities have sufficient information on what is available with indigenous manufacturers. It does not appear that public sector authorities al-

be insisted on. This procedure may also be extended to the private sector, at least for priority industries.	for special and urgent reasons. A decision will be taken with regard to the private sector industries to which a revised procedure can be applied, after detailed examination.	ways have this information. There have been many instances where project authorities have placed orders abroad for items which (or whose close substitutes) were indigenously available. Implementation of this decision has thus to await the building up of necessary information with project authorities. For private sector, consideration of the question arises only after some experience is gained with the public sector.
17. A major source of delay has been the requirement that a public sector project must secure the clearance of the administrative Ministry/Ministry of Finance before placing each order for imported equipment or components or raw materials of more than small value. Once foreign exchange for specified sources has been allocated for the import of equipment, there should be no further need for the project authority to make a reference to the administrative Ministry or the Finance Ministry. Similarly, the project authority should be given full freedom to order components and raw materials against half-yearly allocations of exchange made from different sources, without	The recommendation is accepted in principle. Instructions revising the procedures will be issued after detailed examination of the scope for further delegation of powers.	Until the current year, there were some delegations of powers in respect of allocations under the foreign exchange budget, but these had to be withdrawn this year (except the delegation to Defence) due to the tight foreign exchange position. Any consideration of delegation in respect of budgetary allocations thus does not arise at the preset stage. Specific lines of credit tied to projects have, from 1964-65 been removed from the purview of the foreign exchange budget allocation. There is now thus no restriction on the amount which could be used by projects in a period. and they have the freedom to utilise upto

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having to make a reference to the administrative Ministry/Ministry of Finance. The project authorities would naturally have the responsibility of ensuring that loan conditions are observed. The projects themselves should have better arrangements than at present for reviewing inventories and placing orders on a scientific basis, in order to minimise stock-holdings. There should also be provision for post-audit of use of foreign exchange by the projects under the delegated powers.		the full amount of the loan. But for each individual order, the sanction to the Department of Economic Affairs has to be obtained. except in the case of order within the ceilings delegated in respect of some of the power projects, Railways and P. & T. loans. The question of delegating wider powers to projects so as to obviate the need for consulting the Department of Economic Affairs every time an order was to be placed was recently considered. It was decided to initiate action for delegating powers to administrative Ministry/projects to place orders against specific loans tied to projects, keeping in view that the Department of Economic Affairs has to be consulted where there are limits imposed by aid giving countries/institutions, orders for Rs. 1 crore and above would have to be

		submitted to Finance Minister, and that the import licensing conditions ensure adherence to loan conditions.
18. The new entrepreneurs should be assisted to draw up projects in a manner acceptable to financing institutions and collaborators and capable of being implemented speedily. The Indian Investment Centre should expand its activities in the field, and provide detailed advice regarding the feasibility of proposed projects.	Government accept the recommendation. The Governing Body of the Indian Investment Centre will also be requested to consider the recommendation expeditiously.	The Indian Investment Centre is acting on this recommendation. The Chairman of the Indian Investment Centre has made a reference to this in his statement at the Annual General Meeting on 9th July, 1964.
19. Government should publish periodically information regarding availability of credits from different sources for financing the import of the equipment. This will help businessmen to choose sources of supply for which funds are available.	Government accept the recommendation. While specific amounts are often not allocated from credits for the import of equipment by private industry, information will be published in as much detail as possible.	To some extent, the information is being given in the Import Trade Control. Policy. The issue of a brochure is under consideration ; this would give information on credits which are available to the private sector from loans extended to financial institutions such as the IFC, ICICI etc., and from lines of credits secured by the Government for imports in the public and private sector. It would also deal with procedural aspects of loans.
20. Industrial units should be offered as wide a range of choice as possible,	The recommendation is accepted.	To the extent possible, action is being continuously taken on this basis.

1	2	3
with regard to the sources of supply. While this may in some instances mean that a change of source will need to be accepted, after equipment has been selected, it will in general operate to bring down prices of equipment as a result of competition amongst suppliers in different countries.		
21. In a number of instances, the private industrial unit proposing to import capital equipment requires not a loan but foreign exchange against cash payment in rupees. At the present time, the availability of foreign exchange for this purpose is inadequate. Somewhat larger amounts should be made available for this purpose against Government to Government loans.	The recommendation is noted and will be taken into account when determining allocations of foreign exchange for different purposes from time to time.	To the extent possible, action is being pursued on this basis. Lines of credits for imports of capital goods are arranged from time to time. The recent IDA loans are in this direction.
22. The non-availability of adequate rupee finance has operated to delay the implementation of a number of priority projects for which foreign exchange has been earmarked. The IFC and the ICICI have been of assistance, but the Institutional arrange-	The recommendation is accepted.	The setting up of the Industrial Bank has been another step in helping in the availability of rupee finance.

ments in this regard require further review by Government.		
23. The possibility of laying down standards of foreign collaboration terms for different industries should be examined by Government.	Government will undertake the examination suggested.	Standard foreign collaboration terms are being formulated for official use.
24. Public sector projects could be advised that, in the six months following the current half year the allotments of foreign exchange will not fall below certain specified level. In the case of projects requiring specialised components and raw materials with long delivery periods, the project authorities should prepare their foreign exchange budgets to cover at least two or three half years, requirements and authorisations for the placement of orders could then be given on that basis.	The posssibilityof making exchange allocations on an annual instead of half-yearly basis will be examined. For projects requiring specialised components and raw materials with long delivery periods, the release of foreign exchange for longer periods against detailed foreign exchange budgets will be considered; when the imports are to be financed against external assistance, this will naturally be subject to the agreement of the country or institution providing assistance.	
25. There is provision for annual licensing for the requirements of components and raw materials of most private sector industries. It is, however, indicated	The recommendation is accepted in principle. The detailed implementation will be worked out.	Annual allocation is followed for raw cotton, wool and fertilisers. This year, foreign exchange budgeting was done on an annual basis. But

1	2	3
that the second halves of licences will be subject to adjustment in value at the start of the second half of the year. It would help private industry if it were announced that the allotments against the second halves of the licence will in any event not be less than some specified percentage of the allocations in the first half year and that orders to that extent may be placed in advance though the actual shipment and payments can be affected only in the second half of the financial year. It would be desirable also to ensure that the licences for issue in any given half year are physically issued within three months of the start of the licensing period. An allotment which is nominally unchanged may in fact entail a significant reduction, if the issue of the licence is delayed by some months.		this was done on an exceptional basis, when there was a critical foreign exchange position. The expenditure of foreign exchange against the annual allocation had thus to be placed into two periods.

APPENDIX IV

(*See* para 4.32, footnote)

MINISTRY OF FINANCE

Department of Coordination

O.M. No. 3879|JS(AM)

Dated the 7th October, 1965.

SUBJECT: *Early preparation of project reports; avoidance of change in the scope of projects at a late stage; necessity of preparation of reasonably accurate financial estimates and time tables of progress.*

While examining the cause for delays in aid utilisation in the public sector, the Committee, on utilisation of external assistance uuder the chairmanship of Dr. V. K. R. V. Rao emphasised the need for early preparations of project reports for each project considered to be *prima facie* feasible. Observing that a major cause of delay had been the change in the scope of the projects at a late stage, they recommended that such changes should be avoided. They also recommended that the project should prepare reasonably accurate overally financial estimates in advance and that a suitable time-table should also be prepared at the start, against which progress should be measured. Government have accepted these recommendations. The Ministry of Industry etc. are accordingly requested to ensure that:

(a) once the *prima facie* feasibility of the project is established, the preparation of the detailed project report should be completed without undue delay;

(b) there is sufficient advance planning of projects with preparation of reasonably accurate overall financial estimates which would obviate the need for frequent revision of estimates once sanctioned; and

(c) a suitable time-table is also prepared by the project authorities at the start and furnished to the Ministries concerned so that the progress of implementation could be watched and measured.

Sd/- AJIT MOZOOMDAR,
Joint Secretary.

To

1. All the Ministries of the Govt. of India, (10 copies each).
2. Planning Commission (20 copies).
3. Deptt. of expenditure (20 copies).
4. Deptt. of Economic Affairs (50 copies).
5. Bureau of Public Enterprises.

APPENDIX V

(*Vide* Para 4. 66)

Statement showing brief particulars of P.L. 480 *Agreements signed till* 31-3-1966 *and Use-wise Allocation of Rupee Loans and Grants.*

Sl. No.	Date of Agreement	Commodities	Value Mil. $	Government of India		(In million of dollars)	
				Loans	Grants	Retained for U.S. uses in India (for US Embassy)	US loans to US and eligible Indian firms under Cooley Amendment
1	2	3	4	5	6	7	8
1	29-8-56 as amended	Wheat, Rice, Cotton, Tobacco, Dairy Products	354.556	226.256	54.000	74.300	..
2	23-6-58	Wheat, Yellow Corn and Sorghum .	55.277	33.377	..	8.081	13.819
3	26-9-58	Wheat and Yellow Corn . .	259.800	129.700	37.500	27.600	66.000
4	13-11-59 as amended	Wheat, Rice, Tobacco, Cotton and Corn	297.870	119.110	119.110	44.740	14.910
5	4-5-60 as amended	Wheat, Rice, Milo, Corn, Cotton, Tobacco and Soyabean Oil . .	1369.800	577.565	577.565	146.115	68.555
6	1-5-62 as amended	Tobacco, Yellow Corn and Cotton.	39.300	34.977	..	3.930]	0.393

7	26-11-62 as amended	Cotton, Maize and Tobacco . .	103.100	87.635	..	10.310	5.155
8	30-11-62	Milk Powder, Cheese and Canned Fruit	5.103	4.338	..	0.510	0.255
9	30-9-64 as amended	Wheat, Rice, Milo, Vegetable Oils, Lubricants, Cotton, Maize and Tobacco	798.819	620.683	..	116.627	61.509
			3283.625	1833.641	788.175	432.213	229.596
		Rs. million :	15636.3	8731.6	3753.2	2058.2	1093.3

APPENDIX VI

(*See* Para 4.94)

Sub-sections specified in PL 480 agreements for which U.S. Government may utilise their use portion of PL-480 funds

Sl. No.	Commodity Agreement date	Sub-Sections specified
1	29-8-56 as amended . .	(a), (b), (d), (f), (h) and (i) of Section 104.
2	23-6 58	(a), (b), (d), (e), (f), (h), (i) and (j) of Section 104.
3	26-9-58	(a), (b), (d), (e), (f), (h), (i), (j) (k), (l), (m), (n) and (o) of Section 104.
4	13-11-59 as amended.	(f) of Section 104.
5	4-5-60 as amended . .	(a), (b), (d), (e), (f), (h) through (r) of Section 104.
6	1-5-62 as amended . .	(a), (b), (d), (e), (f) and (h) through (r) of Section 104.
7	26-11-62 as amended .	(a), (b), (d), (e), (f) and (h) through (r) of Section 104.
8	30-11-62	(a), (b), (d), (e), (f) and (h) through (r) of Section 104
9	30-9-64 as amended . .	(a), (b), (d), (f) and (h) through (t) of section 104.

SECTION 104 OF THE U.S. AGRICULTURAL TRADE DEVELOPMENT AND ASSISTANCE ACT (PL 480) AS ON OCTOBER 31, 1964

Section 104. Notwithstanding Section 1415 of the Supplemental Appropriation Act, 1953, or any other provision of law, the President may use or enter into agreements with friendly nations or organisations of nations to use the foreign currencies, including principal and interest from loan repayments, which accrue under this title for one or more of the following purposes:

(a) To help develop new markets for United States agricultural commodities on a mutually benefiting basis. From sale proceeds and loan repayments under this title not less than the equivalent of 5 per centum of the total sales made each year under this title after the date of this amendment shall be set aside in the amounts and kinds of foreign currencies specified by the Secretary of Agriculture and made available in advance for use as provided by this sub-Section over such period of years as the Secretary of Agriculture determines will most effectively carry out the purpose of this subsection: Provided, that no such funds shall be allocated under this subsection after June 30, 1960, except as may be specified, from time to time, in appropriation acts. Provision shall be made in sale and loan agreements for the convertibility of such amount of the proceeds thereof (not less han 2 per centum) as the Secretary of Agriculture determines to be needed to carry out the purpose of this subsection in those countries which are or offer reasonable potential of becoming dollar markets for United States agricultural commodities. Such sums shall be converted into the types and kinds of foreign currencies as the Secretary deems necessary to carry out the provisions of this subsection and such sums shall be deposited to a special Treasury account and shall not be made available or expanded except for carrying out the provisions of this subsection. Notwithstanding any other provision of law, if sufficient foreign currencies for carrying out the purpose of this subsection in such countries are not otherwise available, the Secretary of Agriculture is authorized and directed to enter into agreements with such countries for the sale of surplus agricultural commodities in such amount as the Secretary of Agriculture determines to be adequate and for the use of the proceeds to carry out the purpose of this sub-setion;

(b) To purchase or contract to purchase, in such amounts as may be specified from time to time in appropriation acts, strategic or other materials for a supplemental United States stockpile of such materials as the President may determine from time to time. Such strategic or other materials acquired under this subsection shall be placed in the above named supplemental stockpile and shall be released therefrom only under the provisions of section 3 of the Strategic and Critical Materials Stock Piling Act.

(c) To procure equipment, materials, facilities, and services for the common defense; including internal Security;

(d) For financing the purchase of goods or services for other friendly countries;

(e) For promoting balanced economic development and trade among nations, for which purposes currency shall also be available to maximum usable extent through and under the procedures established by such agency as the President shall direct for loans mutually agreeable to said agency and the country with which the agreement is made to United States business firms and branches, subsidiaries, or affiliates of such firms for business development and trade expansion in such countries and for loans to domestic or foreign firms for the establishment of facilities for aiding in the utilisation, distribution or otherwise increasing the consumption of, and markets for, United States agricultural products: Provided, however, that no such loans shall be made for the manufacture of any products to be exported to the United States in competition with products produced in the United States or for the manufacture or production of any commodity to be marketed in competition with United States agricultural commodities of the products thereof. Foreign currencies may be accepted in repayment of such loans.

(f) To pay United States obligations abroad;

(g) For loans to promote multilateral trade and economic development, made through established banking facilities of the friendly nations from which the foreign currency was obtained or in any other manner which the President may deem to be appropriate. Strategic materials, services, or foreign currencies may be accepted in payment of such loans;

(h) For the financing of international educational exchange activities under the programmes authorised by section 32(b)(2) of the Surplus Property Act of 1944, as amended (50 U.S.C. App. 1641 (B) and for the financing in such amounts as may be specified from time to time in appropriation acts of programs for the inter-change of persons under title II of the United States information and Educational Exchange Act of 1948, as amended (22 U.S.C. 1446). In the allocation of funds as among the various purposes set forth in this section, a special effort shall be made to provide for the purposes of this sub-section, including a particular effort with regard to: (1) countries where adequate funds are not available from other sources for such purposes, and (2) countries where agreements can be negotiated to establish a fund with the interest and principal available over a period of years for such purposes, such special and particular effort to include the setting aside of such amounts from sale proceeds and loan repayments under this title, not in excess of $1,000,000 a year in any one country for a period of not more than five years in advance, as may be determined by the Secretary of State to be required for the purposes of this sub-section:

(i) For financing the translation, publication, and distribution of books and periodicals, including Government publications, abroad: Provided, that not more than $5,000,000 may be allocated for this purpose during any fiscal year.

(j) For providing assistance to activities and projects authorised by section 203 of the United States Information and Educational Exchange Act of 1948, as amended (22 U.S.C. 1448), but no foreign currencies which are available under the terms of any agreement for appropriation for the general use of the United States shall be used for the purposes of this sub-section (j) without appropriation therefor;

(k) To collect, collate, translate, abstract, and disseminate scientific and technological information and to conduct research and support scientific activities overseas including programs and projects of scientific cooperation between the United States and other countries such as coordinated research against diseases common to all of mankind or unique to individual regions of the globe, and to promote and support programs of medical and scientific research, cultural and educational development, health, nutrition, and sanitation: Provided, That foreign currencies shall be available for the purposes of this sub-section (in addition to funds otherwise made available for such purposes) only in such amounts as may be specified from time to time in Appropriation Acts.

(l) For the acquisition by purchase lease, rental or otherwise, of sites and buildings and grounds abroad; for United States Government use including offices, residence quarters, community and other facilities, and for construcion, repair, alteration and furnishing of such buildings and facilities. Provided, that foreign currencies shall be available for the purposes of this sub-section (in addition to funds otherwise made available for such purposes) in such amounts as may be specified from time to time in appropriation acts;

(m) For financing in such amounts as may be specified from time to time in appropriation acts (a) trade fair participation and related activities authorized by section 3 of the International Cultural Exchange and Trade Fair Participation Act of 1956 (22 U.S.C. 1992), or Section 212 (b) of the Merchant Marine Act, 1936 and (b) agricultural and horticultural fair participation and related activities;

(n) For financing under the direction of the Librarian of Congress, in consultation with the National Science Foundation and other interested agencies, in such amounts as may be specified from time to time in appropriation acts, (1) programs outside the Unied States for the analysis and evaluation of foreign books, periodicals, and other materials to determine whether they would provide information of technical or scientific significance in the United States and whether such books, periodicals, and other materials are of cultural or educational significance; (2) the registry, indexing, binding, reproduction, cataloging, abstracting, translating and dissemination of books, periodicals, and related materials determined to have such significance; and (3) the acquisition of such books, periodicals, and other materials and the deposit thereof in libraries and research centres in the United States specializing in the areas to which they relate;

(o) For providing assistance, in such amounts as may be specified from time to time in appropriation acts, by grant or otherwise, in the expansion or operation in foreign countries of establised schools, colleges, or universities founded or sponsored by citizens of the United States, for the purpose of enabling such educational institutions to carry on programs of vocational, professional, scientific, technological, or general education;

(p) For supporting workshops in American studies or American educational techniques and supporting chairs in American studies;

(q) For assistance to meet emergency or extraordinary relief requirements other than requirements for surplus food commodities: Provided, that not more than a total amount equivalent to $5,000,000 may be made available for the purpose during any fiscal year;

(r) For financing the preparation, distribution and exhibiting of audio-visual informational and educational materials, including Government materials, abroad: Provided, that not more than a total equivalent to $2,500,000 may be made available for this purpose during any fiscal year, but nothing in this sub-section shall limit or affect the use of foreign currencies to finance the preparation, distribution, or exhibition of such materials in connection with trade fairs and other market development activities under sub-section (a);

(s) For the sale for dollars to American tourists under such terms and conditions as the President may prescribe;

(t) "For sale to United States citizens as provided herein. In order to provide for the foreign currency needs of United States Citizens for travel or other purposes, the Secretary of the Treasury may make available for sale for United States dollars to such citizens, at United States embassies or other convenient locations, foreign currencies acquired by the United States through operations under the Foreign Assistance Act of 1961, as amended, the Mutual Security Act of 1954, as amended, or any Act repealed thereby, or the Agricultural Trade Development and Assistance Act of 1954, as amended, which (1) he determines to be in excess of the needs of departments and agencies of the United States for such currencies, and (2) are not prohibited from such use or committed to other uses by agreement heretofore entered into with another country. United States dollars received from the sale of foreign currencies under this subsection shall be deposited in the Treasury as miscellaneous receipts, except that in the case of any such foreign currencies acqiured through operations under title 1 of the Agricultural Trade Development and Assistance Act of 1954, as amended, the United States dollars received from the sale of such foreign currencies shall be deposited to the account of the Commodity Credit Corporation and shall be treated as a reimbursement to Commodity Credit Corporation under section 105 of this Act. Provided, however, that section 1415 of the Supplemental Appropriation Act, 1953, shall apply to all foreign currencies used for grants under sub-sections (d) and (e) and for payment of United States obligations involving grants under subsection (f) and to not less than 10 per centum of the foreign currencies which accrue under this title pursuant to agreements entered into on or before December 31, 1964 and to not less than 20 per centum in the aggregate of the foreign currencies which accrue pursuant to agreements entered into thereafter: Provided, however, that the President is authorized to waive such applicability of section 1415 in any case where he determines that it would be inappropriate or inconsistent with the purposes of this title: Provided, however, that no foreign currencies shall be available pursuant to sub-section (k), (p) and (r), except in such amounts as may be specified from time to time in appropriation Acts.

APPENDIX VII

Summary of Conclusions/Recommendations

Sl. No.	Reference to para No. of Report	Summary of Conclusions/Recommendations
1	2	3
1	2·6	The Committee note Government's statement that "the question of raising external resources through foreign loans or credits cannot be dissociated from the process of planning as it is in vogue in this country." The Committee feel that while in a developing country, needs naturally come to the fore, the problem of mobilising resources, the health of the economy, the absorptive capacity for external aid and deficit financing, the capacity for generation of resources to pay debts (particularly foreign debts) cannot be overstressed. It is pertinent to state that the term external assistance is too wide and covers loans as well as grants and it is, therefore, incumbent on Government to keep realistically in view the burden of servicing external loans with particular reference to the gestation periods of the project and the nature and quantum of resources likely to be generated thereby to pay back the loans. The Committee need hardly emphasise that in the context of a heavy debt servicing obligation and the need for securing import of capital and maintenance goods at most competitive international rates, every effort should be made to secure as much of the loan on long term and non-project basis as possible. The Committee would like to sound a note of caution that they would not like the Government, in their anxiety to fill the gap in their resources to meet a need based plan, to rush into loans for short-term periods on commercial rates which the present state of India's economy can hardly bear. The Committee would also like Government to bear in mind the increased burden of servicing of foreign loans consequent on devaluation of the rupee while contracting fresh loans.

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2	2·10	The Committee suggest that as soon as the "Outline of the Plan" is finalised, Government should carefully work out the magnitude of the foreign assistance required, the nature of assistance *viz.* grant or loan, project/non-project, the terms of assistance, long term or medium term etc. so that a fairly complete and comprehensive picture of requirements can be placed before International Bank of Reconstruction and Development, Aid India Consortium, Asian Development Bank etc. in order to raise the external resources on most favourable terms.
3	2·13	The Committee appreciate the legislative and other difficulties in pledging long term assistance by aid-giving countries. But they have no doubt that most of the developed countries which are giving aid to India, recognise that effective and purposeful utilisation of external assistance requires detailed advance planning and coordination. Moreover the availability of external resources to the country is assessed on a five-year basis and forms part of the resources for the Plan period. The Committee, therefore, feel that while there may be no firm commitment of external assistance for the plan period by the aid-giving countries, it may be suggested to them that it is desirable to have a broad indication of the availability of the external resources for the full plan period to enable the execution of schemes and projects expeditiously and effectively.
4	2·18	The Committee note that in the case of credit for Durgapur Thermal Power Station II (VI Unit), Government have taken more than six months to file the loan application and the draft consultancy agreement with A.I.D. and more than three months to reply to A.I.D.'s queries. Even after the draft loan agreement was received from A.I.D., it took 4 months for the loan agreement to be signed.
5	2·19	The Committee urge that every endeavour should be made to reduce the delays occurring at the various stages of aid negotiations so as to keep the time lag between pledging of assistance and conclusion of agreement to the minimum necessary.
6	2·24	Considering that external assistance from U.S.S.R. and other East European countries forms a significant percentage of the total external assistance to India, the Committee feel that it would be desirable if the aid from these countries is arranged on long term basis. To enable the aid from these countries

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		to be mutually complementary, it would be advantageous if the quantum and the details of aid from these countries could be discussed and finalised well in advance of the implementation of Plan projects.
7	2·25	The Committee also feel that in view of India's growing maintenance requirements, efforts should be made to secure as much aid as possible from U.S.S.R. and other East European countries in non-project form. Wherever project aid has to be accepted, every effort should be made to ensure that machinery and equipment are drawn, to the maximum extent possible, from indigenous sources, particularly from heavy complexes set up with aid from U.S.S.R. and East European countries.
8	2·28	Taking into account the heavy burden of debt servicing and the conditions of Indian economy, the Committee feel that what the country requires are loans on terms and conditions extended by I.D.A. The Committee have no doubt that Government would make every effort that as much of multilateral aid by international institutions as possible is given on terms and conditions analogous to those of I.D.A.
9	2·32	The Committee recommend that a systematic study be made, country-wise, of the time-lag between pledge of assistance and conclusion of agreement and the reasons therefor, the formalities and conditions usually insisted upon by that country before entering into agreement with the recipient country, methods of appraisal of the projects by that country, terms and conditions of loans and grants by that country and other allied matters, with a view to locate points at which delays occur and to take remedial measures.
10	2·33	The Committee also recommend that the aid-giving countries may be classified according to the sectors of economy that they could assist so that a country is approached for assistance only in fields in which it has specialised and has capital and know-how to spare. The Committee hope that it should be possible to conduct the studies recommended in this as well as in the preceding paragraph with the existing staff of the Ministry of Finance.

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11	2·39	The Committee note that there is wide disparity in allocation of external assistance as between the public and private sectors. They feel that the allocation of external assistance as between the two sectors should be on some well defined principles having regard to the importance and contribution to national economy of the industry.
12	2·46	The Committee recommend that a study be made of the various disbursement procedures in vogue in consultation with the representatives of the user parties in the public and private sectors with a view to evolve a procedure acceptable to the aid giving countries which is the least cumbersome and does not come in the way of speedy utilisation of external assistance.
13	3·8	The Committee note that the total grant which was Rs. 70·18 crores during the First Plan and increased to Rs. 160·64 crores during the Second Plan, came down to Rs. 107.15 crores during the Third Plan. In terms of percentage of the total assistance, the decline has been very sharp. From 36 per cent of the total assistance during the First Plan it declined to 18 per cent during the Second Plan and to 5 per cent only during the Third Plan period. Viewed in the context of the loans contracted which increased from Rs. 126·42 crores in the First Plan to Rs. 1909·33 crores during the Third Plan, the sharp decline in percentage and quantum of grants is disquieting. The Committee realise that terms of external assistance and in particular the quantum of grants therein depends solely on the attitudes of the aid-giving Governments, their global commitments and the conditions prevailing in those countries at particular times. The matter however may be considered by the aid-giving countries from a broader angle particularly the needs of the developing countries, their foreign aid requirements and their capacity for repayment.
14	3·18	While agreeing that the post-war aid received by countries covered by the Marshal Plan and Japan may have had "big political overtones" and as such could not be strictly comparable to international aid to developing countries on Government to Government basis which is of recent origin, the Committee find it disconcerting to note that the annual per capita aid received by India is about the lowest and almost half of what Pakistan has received during this period.

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15	3·19	The Committee appreciate the efforts being made by Government to convincingly project the needs of the country at international forums and during bilateral negotiations. The Committee would like to refer in this connection to the Report of the Trade and Development Board appointed by U.N. Conference on Trade and Development recommending to the developed countries to provide for suitable increases in the net flow of their developmental assistance to under-developed countries so as to achieve as early as possible the target of one per cent of their national income. The Committee feel that every endeavour should be made through international forums to secure developmental aid from developed countries on the basis of the U.N. resolution so that the development targets envisaged can be achieved to alleviate, the crushing burden of poverty and suffering of the masses.
16	3·25	The Committee view with concern that, at present, assistance of 'united' nature is available only from the World Bank and the I.D.A. The advantages of 'united' aid as against 'tied' aid need no emphasis. They hope that, while urging for a larger quantum of aid from these institutions, Government will not leave unavailed of any opportunity of making the aid giving countries aware of the importance of assistance of 'united' nature at the developing stage of the country's economy.
17	3·30	The Committee note that while the U.S.S.R. and other East European countries and Canada have not given any non-project loans during the Third Plan period, the percentage of non-project aid, to the total loans given by other major aid-giving countries have fluctuated widely from year to year. While West Germany gave 100 per cent loans as non-project in 1961-62, it came down to 16 per cent during 1963-64 and again rose to 47 per cent during 1965-66. Similarly non-project aid given by Japan as percentage to the total loans has come down from 72 per cent in 1961-62 to nil in 1962-63 and ultimately rose to 47 per cent in 1965-66. In the case of U.S.A. also, the percentage of non-project aid to the total loans was only 12 per cent during 1961-62 and since then has fluctuated between 44 per cent and 78 per cent. The Committee are, however glad to note that in the last year of Third Plan i.e. 1965-66, the percentage of non-project aid to the total loans has

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		generally gone up in respect of most of the countries. This is a welcome sign and indicates recognition on the part of the aid-giving countries of the need for larger non-project aid to the country. The Committee hope that this trend will continue and the quantum of non-project aid would increase considerably during the coming years.
18	3·31	It is well known that large capacities created in a number of complex industries, with foreign assistance, require maintenance imports of considerable magnitude. It is, therefore, imperative that as much of non-project aid as possible should be procured in the interest of keeping these industries in production. This has also the merit from the point of view of aid giving countries of introducing their exports to a larger number of undertakings and thereby subserving their trade interest. The Committee have no doubt that Government would impress upon the aid-giving countries that it would be in mutual interest if the element of non-project aid in external assistance is increased.
19	3·36	The Committee find from the above that the mixed aid has increased from Rs. 2·26 crores in the First Plan to Rs. 247.78 crores in the Third Plan. While they appreciate that the categorisation of mixed aid is somewhat artificial, they nevertheless feel that careful watch should be kept by Government on the component of both technical and mixed aid to ensure that it is channelised into fields where Indian technical know-how is either not available or has not reached the requisite stage of development.
20	4·6	The Committee observe that, whatever be the method of assessment, utilisation of external assistance has not exceeded 52 per cent during the Second Plan and 64 per cent during the Third Plan. Though there has been slight improvement in utilisation during the Third Plan as compared to the Second Plan, the Committee feel that overall utilisation was still very low. They hope that Government would keep under constant review the machinery and procedures of negotiations for aid and its utilisation and would remove all impediments coming in the way of expeditious utilisation of aid for accelerating the pace of industrialisation and economic growth.

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21	4·11	The Committee are glad that orders to the extent of 84 per cent of aid authorisation have been placed. In view of the fact that it takes considerable time for the foreign suppliers to deliver machinery and equipment which accounts for substantial part of the delay in utilisation of external assistance, the Committee have no doubt that Government will continue to ensure that orders for machinery and equipment against aid authorisations are placed with foreign suppliers with the utmost expedition after assessing their capacity to deliver the equipment in time.
22	4·15	In view of the fact that India is hard pressed to finance imports, particularly of maintenance goods, the Committee suggest that the utilisation of non-project assistance should be kept under careful review so as to maximise its utilisation. In particular, the Committee would stress that full use should be made of loans from I.D.A., Canada, etc. which are given interest free and are repayable over a long period, with a mortorium for the first few years.
23	4·20	The Committee are constrained to note that out of the total external assistance authorised during the Third Plan period for Power Projects, Steel and Steel Projects, Port Development and Agricultural Development, less than 50 per cent was utilised by the end of the Plan period. The reasons furnished by the Government for slow utilisation in these fields indicate that, atleast, in some cases, delays could have been avoided or at least minimised by advanced preparatory action as in the case of Power Projects, by detailed planning and timely decisions as in the case of Calcutta and Bombay ports.
24	4·21	The Committee would like Government to go into the detailed reasons for non-utilisation of external assistance in the sectors referred to in the preceding paragraph, so as to fix responsibility and devise remedial measures to speed up implementation of important projects, in these key sectors of the economy, in the Fourth Plan.
25	4·24	In view of the crucial and strategic position occupied by non-ferrous metals, the Committee

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		urge that Government should extend necessary assistance, including external aid, for speedy and extensive exploitation of non-ferrous metals in the country.
26	4·27	The Committee regret that despite repeated affirmation in three successive Plans of the crucial importance of achieving a break-through in agriculture to attain self-sufficiency in foodgrains, no concerted efforts were made to increase the manufacturing capacity for vital inputs such as fertilisers, tractors, power tillers etc. The Committee feel that if the intensive agricultural programme is to be implemented extensively in the country, it is essential that no time is lost in increasing supplies of power for irrigation purposes, fertilisers, tractors and other agricultural machinery required for achieving this programme. They need hardly stress that all available resources, including external assistance, should be effectively used to achieve this national objective of attaining self-sufficiency in agricultural production.
27	4·35	The Committee are unhappy to note that despite the announcement by Government of acceptance of recommendations of the Committee on Utilisation of External Assistance in April 1964, concrete follow-up measures to enforce these recommendations were not taken. They are of the opinion that if Government had implemented the recommendations of the aforementioned Committee in letter and spirit, many of the impediments which have hampered the speedy and meaningful utilisation of external assistance would have been removed, resulting in gain to national economy. The Committee feel that it may be advisable for Government to lay down a regular procedure whereby the administering Ministry/Department/Co-ordinating Agency keep a careful watch on the follow-up measures taken in pursuance of recommendations of high powered Committees/Commissions, which are accepted by Government.
28	4·38	The Committee find that the commitment charges vary from country to country and that Government's efforts to persuade aid giving countries not to levy commitment charges have borne fruit in

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		the case of some countries *e.g.* Canada. The Committee feel that in view of the heavy burden of loan repayments, every effort should be made by Government to persuade the aid giving countries and institutions not to levy the commitment charge but where this is unavoidable, the Committee suggest that the levy should start from as late a date, after the signing of the agreement, as possible. They also commend the arrangement made with Netherlands according to which the quantum of loan and the period of utilisation are indicated periodically in advance by India on the basis of assessed requirements, thereby limiting the levy of the commitment charge to the specified amount. The Committee would like Government to make a special effort in respect of loans from United States who were not levying any commitment charge prior to December, 1966, so that *status quo ante* may be restored. The Committee would also like to stress on the Government the need for advance detailed planning and realistic assessment of requirements so as to reduce to the minimum the payment of commitment charges.
29	4.57	The Committee are gratified to note the assistance that the International Bank of Reconstruction & Development has rendered to the country for development of infra-structure facilities and industrialisation. They specially commend the terms on which the I.D.A. loans have been made repayable over a period of 50 years, with a moratorium of first ten years and with no interest except a service charge of ¾ of one percent per annum. The Committee note that the percentage of utilisation of loans from I.B.R.D. and I.D.A. work out to 82 and 72 respectively. The Committee have not doubt that Government would take remedial measures, as necessary, in the light of above analysis, to further speed up utilisation of these valuable loans.
30	4.59	The Committee are happy to note the consistent accommodation which has been extended by International Monetary Fund to this country to meet the balance of payments situation, from time to time.
31	4.73	The Committee need hardly emphasise that import of commodities from U.S.A. against rupee

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		payment under P.L. 480 programme, as hitherto, cannot be taken for granted. It is significant that the latest amendment (Food for Peace) made to P.L. 480 by the United States Congress specially lays stress on payment in dollars. Besides, the huge amounts standing in counterpart funds in the name of the United States in India cannot be viewed with complacency and underline the importance of exercising utmost discipline and restraint in odering imports under the programme. The Committee hope that Government would take effective action in accordance with the assurance given to the Committee that no commodity would be imported under P.L. 480 unless it is absolutely necessary.
32	4·82	It is a moot point whether P.L. 480 imports in the beginning of the Third Plan had the effect of depressing prices of agricultural commodities. The more important point, in the context of failure of rains during the last two years, is to have a well thought out programme for imports under P.L. 480 so as to ensure that there is enough buffer stock available, particularly in vulnerable States, and that food supplies to the public in scarcity areas are on no account interrupted.
33	4·99	The Committee note that Cooley loans are disbursed only after obtaining "no objection" from the Government of India. The Committee need hardly stress that in granting the loan, the contribution which the private sector would be enabled to make towards general economy, particularly towards increasing agricultural production, should be kept in view.
34	4·111	The Committee recommend that the impact of U.S. P.L. 480 transactions on the monetary system in the country may be gone into by a committee consisting of eminent economists and financial experts drawn from, the Government, Universities, Economic Research institutions, commerce, industry etc.
35	4·112	The Committee hope that Government will, in pursuance of the assurance given to them, incorporate in the budget documents as well as in Economic Survey, paragraphs indidating in sufficient detail

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		all the transactions under U.S. P.L. 480 during the preceding year and those contemplated during the budget year and their effect on the money supply.
36	4.121	The Committee feel that P.L. 480 imports should be viewed only as emergency help which is being extended by the United States to meet the gap in the requirements and food production particularly in the context of failure of rains in two successive years.
37	4.122	The Committee would like to draw pointed attention of Government to the reports that food resources the World over, particularly in advanced countries, are not growing as fast as the population in under-developed areas. Even the United States may not have as big a food surplus as in previous years. The recent emphasis on getting matching foodgrain contribution from other countries is a pointer to the Unied States' anxiety to share the burden with other countries. The Committee would, therefore, stress that Government should not take the imports under U.S. P.L. 480 for granted in years to come and give highest priority to increase in agricultural production and bend all its energies to attain self-sufficiency in food grains before the end of the next Plan period.
38	4.123	The Committee understand that the F.A.O., a United Nations Organisation, is thinking of a Food Production Resources Programme under which fertilisers and other agricultural inputs may be made available to the developing countries. The Committee have no doubt that Government would explore the possibilities of geeting necessary agricultural inputs, particularly fertilisers, under this Programme.
39	4.137	The Committee observe that the progress of utilisation of the General Line of Credit extended by the U.S. Exim Bank on 21-8-1964 has been slow and recommend that it should be speeded up.
40	4.138	The Committee also recommend that Government should devise means of maintaining a close watch on the progress of utilisation of credits extended to the private sector directly by financial institutions of foreign countries.

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41	4·140	The Committee feel that the terms of the U.S. Banks credits for the purchase of aircraft (carrying an interest rate of 6¼ per cent per annum and re-payable within 5 years) appear to be comparatively hard. They hope that the economic aspects connected with these loans have been fully gone into before entering into credit agreements.
42	4·146	The Committee note that the rate of interest on U.S. AID loans has progressively risen from flat rate of ¾% per annum applicable to loans authorised before 16.12.1963, to 1% per annum for the first 10 years and 2½% per annum for the remaining period of 30 years being charged for loans extended after 7.10.1964. The Committee hope that Government are utilising every opportunity to impress upon the U.S. Government the need for softer development loans, specially in view of the fact that the servicing of these loans has to be in dollars.
43	4·148	The Committee hope that the new procedures in regard to grant of sub-loans by the I.F.C. would lead to expeditious utilisation of the credit. They recommend that the impact of the new procedure over the pace of utilisation may be examined after it has been worked for some time.
44	4·151	The Committee regret to note that utilisation of the AID loans mentioned in paragraph 4.149 was held up for reasons such as delays in finalisation of specifications, clearance of goods at Indian ports, finalising procurement orders or in finalising of contracts for want of drawings, which appear to have been avoidable. They are particularly constrained to note that one of the reasons which held up the installation of Delhi 'C' Thermal Power Extension Station was delay in clearance of goods at Indian ports. Care should have been taken to ensure that such avoidable factors as above did not cause delay in utilisation of the credit and commissioning of the project.
45	4·158	The Committee note that Soviet credits have mainly been utilised for building up basic industries. They also note with satisfaction that the credit for the Third Plan was arranged before the commencement of the Plan period. The Committee, however, would like Government to analyse in detail

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		how the utilisation of Soviet credit came down to 54% in the Third Plan as compared to 73% in the Second Plan and take necessary remedial measures to speed up the utilisation of Soviet credits in the interest of industrial development.
46	4·163	The Committee cannot help concluding that the Heavy Machine Building Plan, Ranchi with an estimated capital expenditure of Rs. 43 crores including a foreign exchange component of about Rs. 27 crores, is suffering for want of sufficient orders. It is noted that the firm orders amount to about 10% of the capacity only. Further even if the orders under negotiations are taken into account, 35% of the capacity of the Plant would still remain unutilised. It seems to indicate that while planning the setting up of this plant careful consideration was not given to the utilisation of its capacity. It is significant that this capital intensive plant has been set up with loan assistance from the Soviet Union, on which repayment of interest and principal is being made although the capacity of the plant is largely unutilised ad there is no return from it. The Committee cannot over-emphasise the urgency of taking effective measures to ensure that the plant is utilised to the maximum capacity. The experience of Heavy Machine Building Plant also underlines the imperative need for carefully assessing the requirements and planning the size and capacity of the plant accordingly on realistic basis.
47	4·169	The Committee are concerned to note that the Coal Mining Machinery Plant, set up with Soviet assistance, is yet another example of non-utilisation of the full capacity of the plant. The Committee would like to emphasise that while planning the setting up of the big projects in future, the miscalculations made in the case of Coal Mining Machinery Plant, Durgapur and the Heavy Machine Building Plant, Ranchi should be avoided and realistic assessment of the requirements made so as to ensure that the capacities created are fully utilised. As to the Coal Mining Machinery Plant, Durgapur, the Committee would urge that all possible measures to diversify its production capacity should be made so as to utilise its capacity to the maximum extent possible.
48	4·177	The Committee regret to note that there has been a loss of refining capacity to the extent of $\frac{3}{4}$ to 1

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		million tonnes per annum for a period of 1½ years at the Barauni Refinery due partly to the defective design of the coking unit and partly to difficulties encountered in the completion of other units there. They note that the U.S.S.R. has agreed to bear part of the cost of reconstruction and modification of their coking unit. The Committee hope that modifications to the coking unit would be carried out at the earliest so as to achieve the full rated capacity of the Refinery.
49	4·181	The Committee note that the completion of the first phase of the Koyali Refinery was delayed by 9 months and the second phase was delayed by about 14 months due primarily to the delay in the arrival of equipment from the U.S.S.R. They however regret to note that though the second million ton unit at the Refinery has been completed it has not been possible to operate it at the full capacity due to the non-commissioning of the Catalytic Reforming Unit. As the delay in the commissioning of the Catalytic Reforming Unit is causing loss of production at the Refinery, the Committee would urge that effective steps should be taken to complete this unit as early as possible.
50	4·186	The Committee regreat to note that there has not been effective coordination in the schedules of construction of Bhilai's Fifth Blast Furnace and the associated coke oven facilities, as also the availability of power from the Madhya Pradesh State Electricity Board for the working of the Blast Furnace. While the Blast Furnace was completed in May, 1966 the associated coke oven facilities were completed in July, 1966 and the power could be made available only from the middle of November, 1966. The Committee would like to emphasise that as large amounts of loan money are spent in the commissioning of these industrial units, it should be ensured that all arrangements for supply of power, raw materials etc. are completed well in advance so as to facilitate production without delay.
51	4·191	The Committee note that the economies effected in the overall cost of the Bokaro Steel Plant as a result of discussion between Indian officials assisted by private consultants and the Russians are only marginal. The Committee hope that in working out and implementing the project in detail, possibilities of further economies would received utmost consideraation.

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52	4·195	The Committee note that the Soviet Union was the first country which gave loans at a low rate of interest which practice has now been increasingly followed by other countries. The Committee, however, consider that the terms of repayment of the principal i.e. one year after the completion of deliveries of equipment tend to weigh heavily as in many cases the repayment of principal and interest begins even before the plants have been fully commissioned and have attained their rated capacity. This tends to aggravate the balance of payment difficulties of the country as the benefits from the heavy loan investments do not begin to bear fruit while repayments thereon become due. The Committee would urge Government to explore the possibilities of obtaining liberalisation of the terms of repayment so that these could commence after the plants have actually gone into full production.
53	4·202	The Committee note that India's exports to U.S.S.R. are mostly of traditional items majority of which are agricultural products. Since the country is facing acute shortage of agricultural produce and has made good progress in the manufacture of industrial and engineering goods, the Committee urge that the Soviet authorities should be persuaded to include increasingly non-traditional items in their trade plan.
54	4.211	The Committee appreciate the sizeable aid extended by the Federal Republic of Germany. Noting the soft terms and conditions on which the credit for import of fertilisers signed on 14.3.1966 has been made available, they hope that the trend set by the terms of this agreement would be maintained.
55	4·219	The Committtee note that while the overall percentage of utilisation of West German loans extended upto 31.3.1966 is 77, only 67 per cent of the loans extended during the Third Plan period have been utilised by the end of the Plan period. The Committee recommend that the pace of utilisation of West German credits should be stepped up.
56	4·221	The Committee feel that foreign development loans or grants involving detailed appraisals of the projects to be financed thereunder, by the aid-giving country should, as far as possible, not be used for

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		projects having a direct bearing on national defence. The Committee hope that Government will keep this consideration in view in all aid negotiations in future.
57	4·227	The Committee are gratified to note the progressive softening of the terms of the loans extended by Britain. They also appreciate that the major part of the British loans is not tied to specific projects, thus allowing a measure of flexibility in the use of funds.
58	4·234	The Committee recommend that procedural difficulties in regard to payments which have been vitiating speedier utilisation of the first and second Kipping Loans from Britain may also be simplified in consultation with the British Government.
59	4·237	The Committee presume that in proposing projects or other items of imports for allocations out of the credit, Government are guided by the knowledge of the capacity of the country to assist in that field. The locating of sources of supply in that country should therefore begin well before the amount is finally allocated and the period of negotiations connected with allocation should be used for identifying the sources of supply so that upon allocation, no time is lost in placing the orders.
60	4.238	The Committee recommend, that in order to avoid a situation in which utilisation of external credit is held up for want of rupee resources with the licencees, Government may consider the desirability of requiring applicants to establish their financial capacity before licences are actually issued to them.
61	4.239	As regards the Security Paper Mill at Hoshangabad, a 70 per cent increase in the capital cost of the project from Rs. 6.95 crores to Rs. 11.85 crores indicates lack of proper advanced planning of the project, which, the Committee feel, could have been largely avoided, by better technical appraisals at the initial stage and foresight. The Committee are also unhappy at the delay of 2½ years in the commissioning of the project for such reasons as shortage of building materials, difficulties in recruitment to senior appointments, difficulties of C.P.W.D. in getting suitable contractors, delays in ordering of equipment etc., some of which do not appear to be insurmountable. The Committee recommend that the whole matter may be looked into to adopt suitable corrective measures.

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62	4.240	The Committee would like Government to ensure that commissioning of the Security Paper Mill to full capacity is not held up and that the credit allocated for the Mill is fully utilised, without avoidable delay.
63	4.246	The Committee are glad to note that Canadian assistance has been mostly in the form of grants, the loans carry soft terms and that Canada has provided special food assistance to India to tide over the acute food shortage.
64	4.248	The Committee would like Government to take necessary measures to step up the utilisation of Canadian grants.
65	4.250	The Committee note that the progress in the utilisation of the counterpart funds, generated by the sale of raw materials and food-stuff received from Canada in the form of grants, has been slow. The procedural and other difficulties in the way of utilisation of these funds should be removed so as to speed up their utilisation.
66	4.256	The Committee regret to observe that the progress in the utilisation of the credits extended by Canada through the Export and Credit Insurance Corporation has not been satisfactory. They suggest that Government should undertake a detailed study of the procedures required to be fulfilled in utilising the credit assistance given by different countries well in advance so that no time is lost in fulfilling formalities for such loans. They hope that concerted action will be taken to utilise these credits as early as possible so as to complete the projects which are being financed therefrom.
67	4.259	The Committee are distressed to note that though Canada had pledged Development assistance amounting to Rs. 4.40 crores in 1964-65 and similar further assistance amounting to Rs. 8.80 crores in 1965-66 on extremely soft terms, no agreements for the utilisation of this assistance have been finalised so far. They feel that a period of two years is too long for resolving procedural difficulties and indicates the need for simplifying and streamlining the procedures. The Committee urge that, in view of the economic importance of the projects for which these loans are available, immediate action should be taken

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		to finalise the agreements and speed up their utilisation. The Committee would like to stress that delays in the utilisation of aid tend to create an unfavourable impression on the aid-giving countries which should be avoided at all costs.
68	4·269	The Committee note that the entire amount authorised by the first four Japanese Yen Credits has been ordered for and even in the case of the Fifth Yen Credit extended in June, 1965, 44 per cent of the amount authorised has been ordered for by the end of March, 1966. The Committee hope that the progress in the utilisation of these credits would be maintained.
69	4·277	The Committee observe that the progress of utilising the Italian Suppliers' Credits is extremely slow. The position is worse in the case of allocations to the public sector. They would like Government to simplify the cumbersome procedures that have been hampering speedy utilisation of credits in consultation with the Italian Government and keep a strict watch on the progress in ordering equipment and supplies against the credit allocations by the public sector units and projects as also by the private sector.
70	4·283	The Committee regret that Government have been able to make use of only a little more than Rs. 13 crores out of the credit of Rs. 46 crores extended by the E.N.I. (Italy) in 1961 for projects in the field of pertroleum and petrochemicals which is a crucial sector of the country's economy. They find that the credit amounting to nearly Rs. 33 crores lapsed primarily because Government could not propose projects for financing out of the credit, or sign contracts therefor, within the period stipulated in the agreement or because they grossly over-estimated the credit requirement for individual projects at the time of entering into agreement or because some projects originally agreed to be financed out of the credits were ultimately dropped by them. The Committee consider the case of E.N.I. credits as a telling example of inadequate advanced project planning and red tape coming in the way of utilisation of external assistance, which they cannot too strongly deprecate. They recommend that the circumstances in which the ENI credits amounting to Rs. 33 crores could not be utilised should be

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		thoroughly investigated and responsibility for lapses fixed.
71	4·293	The Committee find that the progress of utilisation of first Czech credit extended as far back as 1959 is extremely slow. They would like Government to go more closely into the reasons thereof and take measures to step up the utilisation.
72	4·299	The Committee find it distressing that the utilisation of the Cozech credit allocated for the Foundry Forge Plant, Durgapur has been lagging far behind and that the completion schedules of the various sections of the Plant have been extended by about 12 to 22 months. They also note that it has taken Government over 2½ years to place the first supply order against the credit allocation and during more than six years ending on the 31st March, 1966, no more than 61.6 per cent of the credit has been drawn.
73	4·300	The Committee urge that the circumstances under which completion of the Foundry Forge Plant, Durgapur has been delayed should be enquired into by the Government so as to pin-point responsiblilty and evolve guidelines for the future.
74	4·303	The Committee note that the progress of utilisation of the Second Czech credit is slow. They feel that at least in the matter of placing of orders with the Czech authorities the existing record could have been improved. The Committee recommend that appropriate steps should be taken by Government to speed up the progress in placing the orders against the credit.
75	4·307	From a study of the facts stated by the Government, the Committee cannot help concluding that the question of setting up additional Foundry Forge facilities at Wardha has been proceeded with in a rather leisurely fashion. They are unable to appreciate why the preliminary issue as to whether the additional facilities should be established or not could not be decided before the credit was allocated for the project. The Committee hope that Government have by now taken a definite decision in the matter and have initiated follow up action without further loss of time.
76	4·310	The Committee are unable to appreciate the explanation offered by the Government that the slow utilisation of French credits for the Second Plan was

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		because "the terms of the credit were not sufficiently effective". They feel that Government should have taken into fullest consideration the terms offered by the French Government at the time of entering into the agreement. Even after the agreement was signed, if the terms were found, in actual practice, to be harsh or otherwise unworkable, appropriate steps should have been taken in due time.
77	4·317	The Committee hope that Government's efforts to secure the intervention of the French Government in specific cases of high prices charged under the credit arrangements would meet with success. The Committee would, at the same time, like Government to review in the light of experience the measures taken to accelerate the pace of utilisation of the credits.
78	4·321	The Committee note that the customs duty, wharfage and port trust charges escalated from Rs. 17.64 lakhs to Rs. 69.52 lakhs on account of delay in clearance of the machinery imported by the now defunct Metal Corporation of India. The Committee would like Government to investigate whether any part of the time taken in commencing and completing the clearance operations by the newly established Hindustan Zinc Ltd. could have been avoided thereby saving some part of the charges that have now become payable.
79	4·324	The Committee note that between September, 1961, when the first agreement was signed with the I.F.P. and 30-4-1966, a sum of Rs. 33 lakhs only was drawn against the French credit allocation of Rs. 4 crores for oil exploration work in Rajasthan. The expenditure was mainly on account of payments to French contractors for work and services, which elsewhere, are being performed by Oil and Natural Gas Commission themselves or by Indian contractors.
		The Committee recommend that Government may reconsider whether the employment of French contractors and firms for exploration work in Rajasthan is absolutely necessary and that the exploration know-how developed by the Oil and Natural Gas Commission cannot be usefully employed in that area as well. In case, on reconsideration, the existing arrangements are found to be necessary or desirable, steps should be taken to accelerate the exploration work.

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80	4.327	The Committee recommend that Government should review the economic advantage of the French credit to the Industrial Finance Corporation at the existing terms and conditions and take appropriate decision in the matter in the light of experience.
81	4.334	The Committee note that the progress of utilisation of the Second and Third Polish Credits is extremely slow. They would like Government to inquire into the matter and remove any impediments coming in the way of speedy utilisation of assistance.
82	4.336	The Committee suggest that Government should carefuly review the requirements of coal mining industry with reference to the indigenous productive capacity developed and restrict the imports against the Polish credits to absolutely necessary items which cannot be manufactured locally. The excess allocations in the field could be deployed for import of other necessary items.
83	4.342	The Committee are unable to appreciate why a sizeable amount out of Australian counterpart funds remained unallocated for quite a long time. They suggest that Government should try to reach agreement with the Austraian Government as regards the projects which might be financed out of the funds.
84	4.346	The Committee note that although a major portion of the Swiss credits was extended during 1960—63, less than 25 per cent of the credits were utilised till the end of March, 1966. They hope that Government will now take effective steps to accelerate the pace of utilisation of these credits.
85	4.350	The Committee are glad to note the lowering down of the rate of interest of the Fourth General Purpose Credit extended by the Netherlands Government from 5½ per cent per annum applicable to earlier credits to 3 per cent per annum. They, however, find it rather incongrous that different rates of interest are applicable to the Third and Fourth General Purpose Credits when the perid between the two was less than a month.
86	4.354	The Committee feel that the rate of utilisation of the Yugoslav credit has been very slow. They would like Government to impress upon the projects and units using the credits to avoid any delay in utilisation where possible.

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87	4.358	The Committee find an apparent inconsistency in the 1964 and 1965-66 issues of the publication "External Assistance" in regard to the rate of interest in respect of Belgain credits. The Committee suggest that all major changes in the quantum and terms and conditions of credits effected during the year should be indicated and explained in the publication for that year. The Committee also take the opportunity to suggest that in order that the publication could be used as source material on external assistance, maximum consistancy should be maintained in the pattern and arrangement of data and other information in the successive issues of the publication.
88	4.365	The Committee note that no amount has been utilised upto 31-3-1966 against the Swedish credit extended in 1963-64 and recommend that Government should take steps to speed up the utilisation.
89	4.368	The Committee feel that, in view of the fact that Indo-Norwegian Project is the responsibility of the Central Government and also that the rupee funds for the project are being provided by the Central Government, it should be for the Central Government to assess hte advantages accruing out of the scheme. The Committee recommend that a proper survey of the living conditions of the fishermen in the area should be conducted and a decision in regard to the continuance thereof in its present form, taken in the light thereof.
90	4.378	The Committee are appreciative of the various forms of assistance being extended by private philanthropic and other non-profit organisations and hope that in years to come their activities would further expand in magnitude and scope. The Committee would, however, like Government to remain watchful with a view to obviate any possible impression that the aid from private organisations may be politically motivated.
91	5.5	The Committee feel that there is need to evolve criteria for distinguishing foreign development loans from loans extended by foreign countries on commercial terms. They would like Government to avoid contractng loans on commercal terms, as far as possible.
92	5.9	While the Committee appreciate the difficulties in making strict comparisons between the prices of goods quoted by exporters in different countries on

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		account of possible variations in quality and design, they hope that every effort is being made at the time of making the purchases to co-relate the prices quoted with those prevailing in other markets. The Committee have already recommended in para 2.33 that the aid giving countries may be classified according to the sectors of economy that they could assist so that a country is approached for assistance only in fields in which it has specialised and has capital and know-how to spare. They would further suggest that after a project has been approved from the techno-economic angle, Government should ascertain through Indian Missions abroad and other sources, the availability of latest know-how in the field and the comparative cost of the plant and equipment required for the project in different countries, so as to approach that country for assistance in setting up the project, the imports from which would be most economical.
93	5.15	The Committee observe that Market Research Cell of the D.G.S. & D. which is charged with the responsibility of collecting and publishing the data in regard to prices of various type of goods in foreign countries and markets on a centralised basis is not adequately equipped to handle the task. They also observe that nothing has been done to ensure the use of the type of information being compiled by the Cell by the purchasing authorities beyond circularising the activities of the Cell as far back as 1960. The Committee feel that if the object underlying the creation of the Market Research Organisation is to be achieved, its work should be organised on more systematic lines making the best utilisation of the available staff, and the purchasing authorities enjoined upon to consult the intelligence compiled by it at the time of assessing the price quotations.
94	5.17	The Committee feel that it would be useful to attempt a comparative study on continuing basis of prices charged for purchases under the aid and those charged for purchases outside the aid under commercail arrangements for similiar type of goods in the same country. This would help detection of cases of unfavourable discrimination in prices for goods purchased against aid arrangements which should be promptly brought to the notice of the Governments of the country concerned. The Committee would like to sound a note of caution that enterprises set

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		up with over-priced plants and equipment imported against aid, not only increase the debt burden of the country but also make the end-products costlier in the domestic market and uncompetitive in the international market.
95	5.21	The Committee have, in para 2.6 already emphasised the need "to keep realistically in view the burden of servicing external loans with particular reference to the gestation periods of the projects and the quantum of resources likely to be generated thereby to pay back the loans. The Committee recommend that while scrutinising proposals for setting up new undertakings with external assistance, Government should ensure that, as far as possible, they generate the resources to repay the instalments of principal and interest on loans contracted therefor as and when they fall due.
96	5.25	The Committee are glad that efforts are being made by the Government to secure softening of the terms of some of the existing loans or obtain new loans for refinancing the repayments due against those loans. They hope that Government are making every effort at appropriate international forums and at bilateral negotiations to make the aid giving countries aware of the economic problems confronting this country and the need for lightening India's debt servicing burden.
97	5.30	The Committee feel that a study of the impact of external assistance on the development of various sectors of the country's economy by an independent panel of economists and financial experts would be of definite advantage in so far as the conclusions that might be drawn upon could provide guidelines for future efforts in this direction.
98	5.37	The Committee are glad to note that Government is fully cognizant of the possibility of resale of Indian goods exported to East European countries under the Barter Agreements and are taking necessary measures in this regard. They also note that the prices of goods imported from these countries are generally competitive and these are reduced whenever any case of higher prices is noticed. The Committee hope that due vigilance would continue to be exercised by Government in this regard in future.

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99	5·40	The Committee suggest that Government should undertake a comparative study of the advantages and disadvantages of foreign loans and credits *vis-a-vis* private foreign investment in the light of the present industrial and technological development of the country with a view to formulate guidelines regarding the particular fields in which each of the two types of foreign capital would be useful.

APPENDIX VIII

(*Vide* Introduction)

Analysis of Recommendations/Conclusions contained in the Report

I. CLASSIFICATION OF RECOMMENDATIONS

A. Recommendations for improving the Organisation and Working :

Serial No. 2, 4, 5, 9, 10, 12, 20, 27, 28, 34, 35, 40, 41, 43, 58, 59, 60, 66, 67, 69, 75, 76, 78, 87, 92, 92, 93 and 94.

B. Recommendations for effecting economy :

Serial Nos. 51 and 61.

C. Miscellaneous Recommendations:

Serial Nos. 1, 3, 6, 7, 8, 11, 13, 14, 15, 16, 17, 18, 19, 21, 22, 23, 24, 25, 26, 29, 30, 31, 32, 33, 36, 37, 38, 39, 42, 44, 45, 46, 47, 48, 49, 50, 52, 53, 54, 55, 56, 57, 62, 63, 64, 65, 68, 70, 71, 72, 73, 74, 77, 79, 80, 81, 82, 83, 84, 85, 86, 88, 89, 90, 91, 95, 96, 97, 98 and 99.

II. ANALYSIS OF THE RECOMMENDATIONS DIRECTED TOWARDS ECONOMY :

Sl. No.	S.No. as per summary of recommendations Appendix VII	Particulars
1	2	3
1	51	Economy effected in the overall cost of the Bokaro Steel Plant as a result of discussion between Indian officials assisted by private consultants and the Russians are only marginal. In working out and implementing the project in detail, possibilities of further economies should receive utmost consideration.
2	61	A 70 per cent increase in the capital cost of Security Paper Mill at Hoshangabad from Rs. 6·95 crores to Rs. 11·85 crores indicates lack of proper advanced planning of the project, which could have been largely avoided by better technical appraisals at the initial stage and foresight.

Sl. No.	Name of Agent	Agency No.	Sl. No.	Name of Agent	Agency No.
18	W. Newman & Company Ltd., 3, Old Court House Street, Calcutta.	44	29	Oxford Book & Stationery Company, Sciendia House, Connaught Plance, New Delhi.	68
19	Firma K.L. Mukhopadhyay, 6/IA, Banchharam Akrur Lane, Calcutta-12.	82	30	Poeple's Publishing House, Rani Jhansi Road, New Delhi.	76
	DELHI				
20	Jain Book Agency, Connaught Place, New Delhi.	1	31	The United Book Agency, 48, Amrit Kaur Market, Pahar Ganj, New Delhi.	88
21	Sat Narain & Sons, 3141, Mohd. Ali Bazar, Mori Gate, Delhi.	3	32	Hind Book House, 82, Janpath, New Delhi.	95
22	Atma Ram & Sons, Kashmere Gate, Delhi-6.	9			
23	J.M. Jaina & Brothers, Mori Gate, Delhi.	11	33	Book Well, 4, Sant Narankari Colony. Kingsway Camp, Delhi-9.	96
24	The Central News Agency, 23/90, Connaught Place, New Delhi.	15		MANIPUR	
25	The English Book Store, 7-L, Connaught Circus, New Delhi.	20	34	Shri N. Chaoba Singh, News Agent, Ramlal Paul High School Annexe Imphal.	77
26	Lakshmi Book Store, 42, Municipal Market, Janpath, New Delhi.	23			
27	Bahree Brothers, 188, Lajpatrai Market, Delhi-6.	27		AGENTS IN FOREIGN COUNTRIES	
28	Jayana Book Depot, Chapparwala Kuan, Karol Bagh, New Delhi.	66	35	The Secretary, Establishment Department, The High Commission of India, India House, Aldwych, LONDON, W.C. 2.	

PUBLISHED UNDER RULE 382 OF THE RULES OF PROCEDURE AND CONDUCT OF BUSINESS IN LOK SABHA (FIFTH EDITION) AND PRINTED BY THE GENERAL MANAGER, GOVERNMENT OF INDIA PRESS, MINTO ROAD, NEW DELHI.