

**ESTIMATES COMMITTEE
(1968-69)**

SIXTY-THIRD REPORT

(FOURTH LOK SABHA)

MINISTRY OF FINANCE

[Action taken by Government on the recommendations contained in the Eleventh Report of the Estimates Committee (Fourth Lok Sabha) on the Ministry of Finance—Utilisation of External Assistance.]



**LOK SABHA SECRETARIAT
NEW DELHI**

December, 1968/Agrahayana, 1890 (Saka)

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CORRIGENDA

To

Sixty-third Report of the Estimates Committee (Fourth Lok Sabha) on the Ministry of Finance - Utilisation of External Assistance.

Line

- 29 For "to" at the beginning of the line read "of".
- 10 For "22" read "2".
- 22 Omit the line.
- 25 after the line add "deliveries against the orders. The present position is that contracts for almost the whole of the first credit have been entered into".
- 26 For "111:26" read "111.26"
- 20 For "4th" read "11th"
- 14 For "as" read "a"
- 8 ~~from below,~~ after "5" per cent add "per"
- 4 from below, For "110" read "10"
- 3 from below, For "Decmal" read "decimal"
- 12 For "spedy" read "speedy".

CONTENTS

	PAGE
COMPOSITION OF THE COMMITTEE	(iii)
COMPOSITION OF STUDY GROUP 'F' OF THE COMMITTEE	(v)
INTRODUCTION	(vii)
CHAPTER I—Report	I
CHAPTER II—Recommendations which have been accepted by Government	5
CHAPTER III—Recommendations which the Committee do not desire to pursue in view of the Government's reply	45
CHAPTER IV—Recommendations in respect of which replies have not been accepted by the Committee	67
CHAPTER V—Recommendations in respect of which final replies of Government are still awaited	75
 APPENDIX—	
Analysis of the action taken by Government on the recommendations contained in the 11th Report of the Estimates Committee (Fourth Lok Sabha)	77

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(1968-69)

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Shri G. D. Sharma—*Under Secretary.*

STUDY GROUP 'F' (ESTIMATES COMMITTEE)
1968-69

CONVENER

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Shri G. D. Sharma—*Under Secretary.*

INTRODUCTION

I, the Chairman of the Estimates Committee having been authorised by the Committee, present this Sixty-third Report of the Estimates Committee on the action taken by Government on the recommendations contained in the Eleventh Report of the Estimates Committee (Fourth Lok Sabha) on the Ministry of Finance—Utilization of External Assistance.

2. The Eleventh Report was presented to the Lok Sabha on the 11th August, 1967. Government furnished their replies indicating the action taken on the recommendations contained in this Report between 20th February, 1968 and 21st September, 1968. The replies were examined by the Study Group 'F' of the Estimates Committee at their sitting held on the 16th October, 1968. The draft Report was adopted by the Estimates Committee on the 20th November, 1968.

3. The Report has been divided into the following chapters:—

I. Report.

II. Recommendations which have been accepted by the Government.

III. Recommendations which the Committee do not desire to pursue in view of the Government's reply.

IV. Recommendations in respect of which replies of Government have not been accepted by the Committee.

V. Recommendations in respect of which final replies of Government are still awaited.

4. An analysis of the action taken by Government on the recommendations contained in the Eleventh Report of the Estimates Committee (Fourth Lok Sabha) is given in Appendix. It would be observed therefrom that out of 99 recommendations made in the Report, 72 recommendations, i.e., 73 per cent, have been accepted by Government; the Committee do not desire to pursue 17 recommendations, i.e., 17 per cent, in view of Government's reply; replies of Government in respect of 7 recommendations, i.e., 7 per cent, have not been accepted by the Committee while final replies of the Government are still awaited in respect of the remaining 3 recommendations, i.e., 3 per cent.

NEW DELHI;

2nd December, 1968.

11th Agrahayana, 1890 (Saka)

P. VENKATASUBBAIAH,

Chairman,

Estimates Committee.

CHAPTER I

REPORT

FOUNDRY FORGE PLANT DURGAPUR

(Serial No. 73; Para 4,300)

The Committee had noticed that the utilisation of Czech credit allocated for the Foundry Forge Plant, Durgapur was lagging far behind and that the completion schedules of the various sections of the Plant had been extended by about 12 to 22 months. The Committee, not having been satisfied with the reasons advanced by Government for the delay, had, in para 4.300 of their report, urged that the circumstances under which completion of the project had been delayed should be enquired into by the Government so as to pin-point responsibility and evolve guidelines for the future.

2. Government have, in their reply, adduced the following reasons for the delay in the completion and commissioning of the project:—

- (a) Extensive investigation requirement of the sub-soil.
- (b) Heterogenous nature of the sub-soil.
- (c) Lack of information about foundation piles in the country which necessitated delay in deciding about the adoption of a suitable system for foundation piles on account of heterogenous character of the sub-soil.
- (d) Non-availability of particular types of steel required for fabrication of structural steel and its import from abroad.
- (e) Adoption of maximum quantity of indigenous structural steel for fabrication.
- (f) Change over from British system to decimal system.
- (g) Delay in starting the project for non-availability of sufficient quantity of structural steel to start with.
- (h) Go slow strike by the workers of the contractors and certain communal disturbances.

They have further stated that at every stage those responsible for the carrying out of the project were taking remedial measures but for which the project would have been delayed further.

3. The Committee consider that the reasons given in (a), (b) and (c) reflect on the competence of the technical personnel responsible for the job while those given in (d), (e) and (g) indicate lack of advance planning on the part of the project administration.

The statement of the Government that "at every stage those responsible for the carrying out of the project were taking remedial measures but for which the project would have been delayed further" does not carry conviction. The Committee reiterate their earlier recommendation that a study into the circumstances leading to the delays in the setting-up of the project should be made and guidelines evolved for the future.

MARKET RESEARCH STUDIES

(Serial No. 93, Para 5.15)

4. In para 5.15, the Committee had underlines the importance of collection of data regarding prices of various types of goods in foreign countries and markets and had recommended that the work of Market Research Organisation of the D.G.S. & D. should be organised on more systematic lines making the best utilisation of the available staff, and the purchasing authorities enjoyed upon to consult the intelligence compiled by it at the time of assessing the price quotations.

5. Government have in reply stated that D.G.S. & D. is not adequately equipped at present to undertake collection, analysis and interpretation of market research data. They are, however, stated to be exploring ways and means of improving this work so as to make it more useful.

6. The Committee consider that market research study recommended by them would be of definite advantage as the data compiled would enable Government to assess whether the rates and prices quoted by the aid-giving countries for various kinds of goods are internationally competitive. They regret the delay in organising the Market Research Cell on more systematic lines with a view to make it really useful to the purchasing authorities. The Committee urge that this may be done early.

PURCHASES UNDER AID AND OUTSIDE AID

(Serial No. 94; Para 5.17)

7. Cautioning against setting up enterprises with over-priced plants and equipment imported against foreign aid which not only

increased the debt burden of the country but also made the end products costlier in the domestic market and uncompetitive in the international market, the Committee had, in para 5.17, observed that it would be useful to attempt a comparative study on a 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 goods in the same country. This, in Committee's opinion, would help in 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 countries concerned.

8. Government have in their reply, stated that such a comparative study would be only 'theoretical' as "a completely free economic choice is not always possible." Pointing out the difficulties in conducting such a study, it is stated:—

"It would not be out of place to mention that the complexity of the type of study envisaged is well recognised by almost all commentators on tied aid. The IBRD has been urging that increased economic aid through multilateral agencies would promote the net utility of aid through competitive buying. But the Bank itself, with all the statistical facilities available to it, has not been able to make any final evaluation of the premia that have to be paid by developing countries for purchases under tied credits."

9. The Committee feel that a comparative study of prices charge for purchases under the aid and outside the aid, even post mortem, would be very useful and informative. They, therefore, reiterate their earlier recommendation in this regard and urge that steps should be taken to undertake such studies at an early date.

IMPACT OF EXTERNAL ASSISTANCE ON COUNTRY'S ECONOMY

(Serial No. 97; Para 5.30)

10. Government were asked to state whether they had assessed the impact of foreign aid on the economy of the country, industrial development, promotion of indigenous knowhow etc. and also the import trends to find out if investments as a result of foreign aid had generated additional capacity in the country reducing import requirements. After considering the Government's reply, the Committee had in para 5.30, felt 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 inasmuch as the conclusions that might be drawn upon could provide guidelines for future efforts in that direction.

11. Government have, in their reply, stated that such a study cannot be undertaken in isolation from the impact of other policies and programmes of the Central and State Governments. They have maintained that any such study would involve evaluation of the country's plans of development and their implementation which, according to them, cannot be made by an independent panel of economists and financial experts. Such an evaluation, the Government say, is progressively being made by the Government themselves in their annual presentation of the Budget and related documents to Parliament and Parliamentary Committees.

12. *The Committee deem it necessary that the economics of development through external assistance in the form in which it is available should be gone into by an independent panel of economists and other experts so that Government may have an independent opinion in the light of which they may review their policy in this regard. The Committee are unable to agree with the view that such an evaluation cannot be made "in isolation from the impact of other policies and programmes of the Central and State Governments". The Committee therefore reiterate their earlier recommendation that an independent Committee consisting of eminent economists and other experts may be set up by Government to examine the impact of external assistance of the development of the various sectors of the country's economy and make suggestions in this regard.*

CHAPTER II

RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Serial No. 1, Para 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.

REPLY OF GOVERNMENT

Government agree with the Committee's feeling that a developing country should take into account not only its needs but its ability to mobilise resources, to absorb aid and to generate resources to

repay debts. Indeed this has always been the case in India. Government also agree that in arranging for external assistance it is necessary to look at the terms on which such assistance is offered and ensure that they are suitable from the point of view of the country's economic capacity. This also has been the policy of Government all along.

2. Government have noted the Committee's reference to the increased burden on servicing of foreign loans consequent on devaluation. This has been kept in mind. (Incidentally it may be pointed out that budgetary receipts corresponding to external assistance have also increased as a result of devaluation).

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W)/67, dated 20th February, 1968].

Recommendation (Serial No. 3, Para 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 co-ordination. 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.

REPLY OF GOVERNMENT

Noted.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W)/67 dated 20th February, 1968].

Recommendation (Serial No. 5, Para 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.

REPLY OF GOVERNMENT

Noted. Please see also reply to recommendation No. 9.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25|1-US(W)|67 dated 20th February, 1968].

Recommendation (Serial No. 6, Para 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.

REPLY OF GOVERNMENT

Noted.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25|1-US(W)|67 dated 20th February, 1968].

Recommendation (Serial No. 7, Para 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 minimum extent possible, from indigenous sources, particularly from heavy complexes set up with aid from U.S.S.R. and East European countries.

REPLY OF GOVERNMENT

Noted.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25|1-US(W)|67 dated 20th February, 1968].

Recommendation (Serial No 12, Para 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.

REPLY OF GOVERNMENT

The recommendation of the Committee is noted.

2. The disbursement procedures in vogue in respect of loans from various countries|institutions are those prescribed by them and are based mainly on the statutory and other requirements of the donor. The donor has its own procedures which are followed in respect of loans given by it not only to India but also to other countries. For example, in case of IBRD|IDA loans extended to India, the borrower's right to withdraw from the loan amount accrues only after the loan has been declared effective on production of legal opinion to the effect that the Loan Agreement or the Guarantee Agreement has been properly executed and ratified. There are four alternative procedures laid down for withdrawals from the loan accounts, known as Case I, Case III, Case V and Case VI Procedures. These procedures have been laid down keeping in view the IBRD|IDA's administrative and other requirements and conform to those applicable to loans not only to India but to other countries. The borrower is given option to follow one or more of these procedures. As regards the loan from the U.S. Agency for International Development for specific projects in the public sector, Letter of Commitment Procedure is generally followed, while for non-project imports and imports by the private sector, reimbursement procedure is applicable. Here also, before the loan amount can be drawn, there are a large number of formalities which have to be fulfilled, like the Legal Option of the Attorney-General of India in support of the validity of the agreement, nomination of officers who will transact business with AID in respect of various matters and approval of the AID to the various items eligible to be financed. Besides, there are certain other conditions which have to be fulfilled before any payments can be made under AID Loans, like submission of engineering plans, details of contracts awarded, scope of consultancy services etc. It is only after these are approved by AID that the disbursements can start. U.S. Export-Import Bank follows a procedure similar to that obtaining under reimbursement procedure of AID loans. However, the Export-Import Bank has now agreed to issue Letters of Guarantee to certain banks within stipulated limits in the USA so that more or less the Letter of Commitment Procedure as in the case of AID loans can be followed. In case of U.K.

balance of payments credits, drawals can be made on producing evidence that payments have been made to U.K. suppliers. This is done by production of Exchange Control forms certified by the U.K. paying banks. In case of other loans from U.K., public sector imports are usually paid for by the Chief Accounting Officer, High Commission of India, London directly out of the credit, whereas in case of private parties, remittances are first made through the normal banking channels and reimbursement claimed later on evidence of payment and production of a certificate that goods are manufactured in the U.K. For Japan, payment for public sector contracts are made initially to suppliers through a special account of the Embassy of India, Tokyo and reimbursement claimed subsequently. Private sector parties open Letters of Credit on the Japanese Banks nominated by the Export-Import Bank of Japan. On the basis of this Letter of Credit, the Japanese bank makes payment to the Japanese suppliers directly out of the credit.

It would not be possible at this stage to change the procedure in respect of aid for which agreements have already been signed. Efforts are made and will continue to be made to obtain a simplification of procedures of disbursement of future loans, to the extent that the donor's requirements and our requirements can be met.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25|1-US(W)|67 dated 20th February, 1968].

Recommendation (Serial No. 13, Para 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.

REPLY OF GOVERNMENT

Noted.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W)/67, dated 20th February, 1968].

Recommendation (Serial No. 14, Para 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.

REPLY OF GOVERNMENT

Noted.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W)/67, dated 20th February, 1968].

Recommendation (Serial No. 15, Para 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.

REPLY OF GOVERNMENT

Noted.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W)/67, dated 20th February, 1968].

Recommendation (Serial No. 16, Para 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.

REPLY OF GOVERNMENT

Noted.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W)/67, dated 20th February, 1968].

Recommendation (Serial No. 17, Para 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 USA 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 to 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 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.

REPLY OF GOVERNMENT

Noted.

The conclusion in para 3.30 of the Report relates not only to non-project loans but to non-project aid which, as stated in para 3.27 *ibid*, consists of both loans and grants. As such it is necessary to

take into account Canadian loans as well as grants. While it is true that Canada did not make any non-project loan to India during the Third Five Year Plan period, it will be seen from the table of Grants on p. 48 of the Report that non-project grants from Canada during that period averaged about 67 per cent of total grants from that country. In fact, total non-project grants from that country during the Third Plan (Rs. 36.85 crores) were more than the total Canadian loans (Rs. 30.97 crores).

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W)/67, dated 20th February, 1968].

Recommendation (Serial No. 18, Para 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.

REPLY OF GOVERNMENT

Noted.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W)/67, dated 20th February, 1968].

Recommendation (Serial No. 19, Para 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 categorization 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.

REPLY OF GOVERNMENT

Note. The Government are already keeping a watch with a view to ensuring that technical assistance is channelised into fields in

which Indian technical know-how is either not available or has not reached the requisite stage of development.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W)/67, dated 20th February, 1968].

Recommendation (Serial Nos. 20 and 21, Paras 4.6 and 4.11)

20. 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 acceleration the pace of industrialisation and economic growth.

21. 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 authorisation are placed with foreign suppliers with the utmost expedition after assessing their capacity to deliver the equipment in time.

REPLY OF GOVERNMENT

According to another method of assessing utilisation of external assistance, known as the cumulative method, which is widely used in international comparisons, the utilisation of aid upto the end of the Third Plan period was 72 per cent. It is felt however that whatever the method of assessment an average percentage of utilisation is not likely to be meaningful. For instance, in the very nature of things, non-project aid can be utilised much faster than project aid. Again it has to be seen whether the unutilised aid at any point of time (whatever its percentage) has remained unused for a disproportionately long time. Comparisons of the performance of aid utilisation are therefore not easy to make.

2. Government agree with the Committee's recommendation that procedures for negotiation and utilisation of aid should be kept under review and all possible steps taken to expedite utilisation of aid. This is being done already.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W)/67, dated 20th February, 1968].

Recommendation (Serial No. 22, Para 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.

REPLY OF GOVERNMENT

Noted. The Government are already keeping a constant watch over the utilisation of non-project assistance and taking corrective measures in appropriate cases. It is the intention to make full use of credits like those from I.D.A., Canada etc. which are given on 'soft' terms. It will be noticed from the table on page 82 of the Report that so far as the I.D.A. is concerned almost the entire non-project credit of \$90 million granted in June 1964 had been utilised by March '66. Over 15.5 per cent of the second non-project credit from I.D.A. made available in August 1965 had been used up by March 1966.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25|1-US(W)|67, dated 20th February, 1968].

Recommendation (Serial No. 25, Para 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.

REPLY OF GOVERNMENT

Great importance has been attached to increasing the production of non-ferrous metals in the country. It is proposed to increase the production of aluminium from about 67,000 tonnes in 1965-66 to 2,20,000 tonnes in 1970-71. The production of copper is to be stepped up from 9,400 tonnes in 1965-66 to 37,500 tonnes in 1970-71. While there was practically no production of zinc in 1965-66, zinc smelter is being established in the country and it is proposed to have a production of about 18,000 tonnes of zinc by 1970-71.

The step-up in production of non-ferrous metals is to be achieved both by setting up of new units in the public sector as well as expansion of the units already set-up in the private sector. For

aluminium, two public sector projects are to be set-up at Koyna and Kobra which are, however, likely to be completed in 1971-72. An outlay of Rs. 81.24 crores has been provided for these projects in the Draft Outline of the Fourth Five-Year Plan. For copper, an outlay of Rs. 79 crores has been provided in the Draft Fourth Plan for implementing Khetri Copper Project as well as taking up other projects at Rakha, Agnigundala etc. For zinc, an outlay of Rs. 15 crores has been provided. For copper and zinc also the private sector projects of the Indian Copper Corporation and Binani Zinc Limited will make substantial contribution. Foreign exchange to the extent necessary is being provided for all these projects.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W)/67, dated 20th February, 1968].

Recommendation (Serial No. 26, Para 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 in-puts, such as, fertilizers, 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 supply of power for irrigation purposes, fertilizers, 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.

REPLY OF GOVERNMENT

It may be pointed out that it is one of the important objectives of National Planning to give highest priority to the development of industries providing in-puts for agriculture. These include industries such as, fertilizers, pesticides, agricultural tractors, diesel engines, pumping sets etc. This has been clearly indicated in the Draft Outline of the Fourth Five Year Plan. Keeping this objective in view, a substantial step-up is proposed in the production of the above items in the next few years. For example, the production of nitrogenous fertilizers (in terms of N) is proposed to be increased from 233,000 tonnes in 1965-66 to 2 million tonnes by 1970-71 and that of phosphatic fertilizers (in terms of P₂O₅) from 122,000 tonnes in 1965-66 to one million tonnes by 1970-71. The production of agricultural tractors is to be increased from about 6,000 in 1965-66 to 35,000 by 1970-71, production of diesel engines from 93,000 in

1965-66 to 200,000 in 1970-71 and power driven pumps from 261,000 in 1965-66 to 400,000 in 1970-71. With the measures of already taken, substantial increase has been achieved in the production of these items even during the Third Plan period. For instance, while there was practically no indigenous production of tractors in 1960-61, it rose to about 6,000 in 1965-66. The production of fertilizers, diesel engines and power driven pumps has more than doubled during the Third Plan period. Efforts are already being made for achieving the targets for the above mentioned items and it is expected that by 1970-71 it would be possible to meet the bulk of demand for these items from indigenous production. These industries have already been indicated as priority industries for the purpose of allocating foreign exchange for import of components and raw materials etc. as well as for granting of assistance by the financial institutions. In the case of fertilizers industry the public sector has assumed preponderant role in creating additional capacity. At the same time measures have been taken to attract private investment in this industry. In spite of the general constraint on resources, no efforts are being spared to provide the required amounts including foreign exchange for the fertilizer industry.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W)/67, dated 20th February, 1968].

Recommendation (Serial No, 28, Para 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 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.

REPLY OF GOVERNMENT

Noted.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W)/67, dated 20th February, 1968].

Recommendation (Serial No. 29, Para 4.57)

The Committee are gratified to note the assistance that the International Bank of Reconstruction and 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 IBRD and IDA 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.

REPLY OF GOVERNMENT

Noted.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W)/67, dated 20th February, 1968].

Recommendation (Serial No. 30, Para 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.

REPLY OF GOVERNMENT

Noted.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W)/67, dated 20th February, 1968].

Recommendation (Serial No. 31, Para 4.73)

The Committee need hardly emphasise that import of commodities from U.S.A. against rupee 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 the PL-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 PL-480 unless it is absolutely necessary.

REPLY OF GOVERNMENT

Government has and will continue to exercise utmost care to ensure that no commodity is imported under PL-480 unless it is absolutely necessary.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W)/67 dated 20th February, 1968].

Recommendation (Serial No. 32, Para 4.82)

It is a moot point whether PL-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 PL-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.

REPLY OF GOVERNMENT

The recommendation of the Committee has been noted.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W)/67, dated 20th February, 1968].

Recommendation (Serial No. 33, Para 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.

REPLY OF GOVERNMENT

The recommendations of the Committee have been noted. The Cooley loans are granted only in those cases where an enterprise has obtained the requisite industrial licence, Government's approval

to foreign collaboration, etc. It is thus ensured that these Cooley loans are given only to those enterprises which are within the general frame-work of the Plan.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W)/67 dated 20th February, 1968].

Recommendation (Serial No. 35, Para 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 details all the transactions under U.S. PL-480 during the preceding year and those contemplated during the budget year and their effect on the money supply.

REPLY OF GOVERNMENT

(a) Investment/Disinvestment in Special Securities

The payments towards the cost of foodgrains imported under PL-480 and in repayment of the loans advanced by the U.S. Government and interest thereon (where payable in rupees) are deposited with the Reserve Bank who invests them in special non-negotiable securities of the Government of India along with interest earned thereon. Withdrawals (and consequent disinvestment of securities) are made for the grant of PL-480 Loans and Grants to the Government of India, for meeting US Embassy's expenditure and for advancing loans under the Cooley amendment to PL-480.

The amount of net investment or disinvestment in Special Securities (together with broad details) is indicated on page 67 of the Explanatory Memorandum for 1967-68.

(b) P.L. 480 Grants/Loans

The amount of Grants expected to be received by the Government of India is given on pages 30-31 of the Explanatory Memorandum of 1967-68 and likewise, the information about PL-480 loans expected to be received is given on page 67 *ibid*.

(c) Special Development Fund

The amounts received by the Government of India as loans and Grants are transferred to the Special Development Fund in the Public Account and withdrawn as and when expenditure is incurred by Government on approved projects.

The estimates for credits and withdrawals from the Special Development Fund are shown at pages 31 and 37 of the Budget Statement (1967-68).

2. The Committee's recommendation for providing more details in the Explanatory Memorandum on the Budget as also in the Economic Survey has been noted and will be given to next year i.e. in the Budget documents for 1968-69.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W)/67 dated 20th February, 1968].

Recommendation (Serial No. 36, Para 4.121)

The Committee feel that PL-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.

REPLY OF GOVERNMENT

The views of the Committee have been noted.

[Ministry of Finance (Department of Economic Affairs), O.M. No. 25/1-US(W)/67 dated 20th February, 1968].

Recommendation (Serial No. 37, Para 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. PL-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 foodgrains before the end of next Plan period.

REPLY OF GOVERNMENT

This is in accordance with the Government's declared policy to attain self-sufficiency in foodgrains by 1970-71.

[Ministry of Finance (Department of Economic Affairs), O.M. No. 25/1-US(W)/67, dated 20th February, 1968].

Recommendation (Serial No. 38, Para 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.

REPLY OF GOVERNMENT

The proposal to set up a Food Production Resources Programme under auspices of the F.A.O. was considered at a meeting of an Ad-hoc Committee of which India is a member, constituted by the F.A.O. for the purpose.

The Government is fully aware of the need for securing an increased flow from abroad of agricultural inputs, under this and other programmes, with a view to promoting rapid agricultural production.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25|1-US(W)|67, dated 20th February, 1968].

Recommendation (Serial No. 39, Para 4.137)

The Committee observe that the progress of utilisation of the General line of Credit extended by US Exim Bank on 21st August, 1964 has been slow and recommend that it should be speeded up.

REPLY OF GOVERNMENT

Every effort is being made for the speedy and complete utilisation of this loan. The present terminal date of the loan is 30th June, 1968 and it is hoped that the full amount of the loan will be utilised by that date.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25|1-US(W)|67, dated 20th February, 1968].

Recommendation (Serial No. 41, Para 4.140)

The Committee feel that the terms of the US Banks for the purchase of aircraft (carrying an interest rate of 6½ per cent per annum and repayable 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.

REPLY OF GOVERNMENT

The economic aspects such as Air India's ability to earn sufficient amount of foreign exchange to service the loans were gone into before these loans were obtained. It may be pointed out that the interest rate on these loans is comparable to the interest charged in the case of other loans from some of the Aid India Consortium countries during the same period.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25|1-US(W)|67, dated 20th February, 1968].

Recommendation (Serial No. 42, Para 4.146)

The Committee note that the rate of interest on U.S.A.I.D. loans has progressively risen from flat rate of $\frac{3}{4}$ % per annum applicable to loans authorised before 16th December, 1963 to 1% per annum for the first 10 years and $2\frac{1}{2}$ % 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.

REPLY OF GOVERNMENT

The Government is continuously impressing upon all donor countries including the United States the need for softer terms for their aid to India. It may however be stated that the rate of interest to be charged by the US AID on development loans is determined by the US Foreign Assistance Act and the provision as to rate of interest is subject to any amendment which U.S. Congress may make while considering annual foreign aid appropriation to the U.S. Government.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25|1-US(W)|67, dated 20th February, 1968].

Recommendation (Serial No. 43, Para 4.148)

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

REPLY OF GOVERNMENT

Noted. The I.F.C. has been requested to undertake this examination now.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25|1-US(W)|67, dated 20th February, 1968].

Recommendation (Serial No. 44, Para 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 delay in finalization 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.

REPLY OF GOVERNMENT

Noted. The Ministry of Irrigation and Power are intensifying their organisational activities to ensure, as far as possible, elimination of such avoidable delays.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25|1-US(W)|67, dated 11th March, 1968].

Recommendation (Serial No. 45, Para 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 compared 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.

REPLY OF GOVERNMENT

According to our analysis, the position regarding the utilisation of the three credits from USSR for industrial projects during the Second and Third Plan:

		Rs. crores	
	Amount authorised.	Utilisation during II Plan % of Utilisation	Utilisation during III Plan % of Utilisation
II Plan Credit	59.53	$\frac{8.08}{13.6\%}$	$\frac{36.73}{71.4\%}$

It will be observed that the rate of utilisation of the Soviet credits for industrial projects during the Third Plan was higher during the Second Plan. The utilisation of the industrial credits for the Third Plan was 63.4 per cent of the amount available under the two credits as against the utilisation of 13.6 per cent of the industrial credit for the Second Plan during the Second Plan period.

2. The Committee's recommendation to take necessary measures to speed up the utilisation of Soviet credits in the interest of industrial development has been noted.

[Ministry of Finance (Department of Economic Affairs), O.M. No. 25|1-US(W)|67, dated 20th February, 1968].

Recommendation (Serial No. 46, Para 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 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 as 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.

REPLY OF GOVERNMENT

The Heavy Machine Building Plant is designed to cater essentially to the requirements of equipment for steel plants. Because of a slow down in the expansion of steel plants the problem of full utilisation of Heavy Machine Building Plant has arisen. Presently, with orders for Bokaro and other miscellaneous orders, the capacity developing from year to year will be fully utilised upto 1969-70. Advance planning for expansion of steel plants is being considered and steps have also been initiated to diversify the production in the Heavy Machine Building Plant so that the surplus capacity from

1970-71 may be utilised to the maximum extent possible. The observations of the Committee are noted.

{Ministry of Finance (Department of Economic Affairs) O.M. No. 25|1-US(W)|67, dated 20th February, 1968}.

Recommendation (Serial No. 47, Para 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.

REPLY OF GOVERNMENT

Noted. All possible steps including diversification of the production programme of Mining and Allied Machinery Corporation Ltd., Durgapur are being taken.

{Ministry of Finance (Department of Economic Affairs) O.M. No. 25|1-US(W)|67, dated 20th February, 1968}.

Recommendation (Serial No. 48, Para 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 million tonnes per annum for a period of $1\frac{1}{2}$ 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 USSR 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.

REPLY OF GOVERNMENT

Noted.

{Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67 dated 20th February, 1968}.

Recommendation (Serial No. 49, Para 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 USSR. 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.

REPLY OF GOVERNMENT

Noted.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67 dated 20th February, 1968].

Recommendation (Serial No. 51, Para 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 details, possibilities of further economies would receive utmost consideration.

REPLY OF GOVERNMENT

The Memorandum of Acceptance of the Soviet Detailed Project Report signed by Bokaro Steels Ltd. on 29th March, 1966, provides that during the course of detailed engineering and preparation of drawings for the project, the Soviet organisations would study all possibilities of cost reduction in the capital investment of the Bokaro Steel Plant.

The Soviet Government has already confirmed that the Soviet agencies will go on looking for further possibilities of cost reduction in the course of detailed engineering. The same will be done by the Indian agencies in respect of the facilities designed by them.

The Government have accepted this along with other conclusions on the cost reduction proposals which were specifically put to the Soviet agencies.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67 dated 11th March, 1968].

Recommendation (Serial No. 52, Para 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 private decision in the matter in the light of experience.

REPLY OF GOVERNMENT

The Committee's recommendation has been noted and will be borne in mind at the time of negotiation of the next Soviet credit.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67 dated 20th February, 1968].

Recommendation (Serial No. 53, Para 4.202)

The Committee note that India's exports to USSR 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.

REPLY OF GOVERNMENT

The Committee's recommendation has been noted. Attempts are being consistently made to increase the proportion of non-traditional items to the traditional items in the annual Trade Plans for exports to the USSR. In fact the Soviet response to our requests for including larger provision for new items like engineering goods, consumer goods, etc. has been very encouraging. The actual performance would also show that there has been an increase in the Soviet purchase of items like cotton and woollen textiles, various consumer goods like handloom products and engineering products over the years. During 1967, the Soviet authorities have agreed to buy new

items like enamels, refrigerators, paints, heavy duty tyres for earth moving machinery, vacuum flasks, linoleum, etc. They have also placed orders for 1,00,000 tons of steel structurals valued at Rs. 6.75 crores.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67 dated 20th February, 1968].

Recommendation (Serial No. 55, Para 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.

REPLY OF GOVERNMENT

Government are anxious to speed up the utilisation of credits but this is subject to some unavoidable time lag arising from the procedural requirements of the aid giving countries and is also dependent on the delivery schedule of the machinery and equipment on order. The utilization of West German Credits for the Third Plan stood at 81 per cent as on 30.6.1967.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67 dated 20th February, 1968].

Recommendation (Serial No. 56, para 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.

REPLY OF GOVERNMENT

Noted.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67 dated 20th February, 1968].

Recommendation (Serial No 57, Para 4.227)

The Committee are gratified to note the progressive softening of the terms of the loan 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.

REPLY OF GOVERNMENT

No comments.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25.1-US(W) |67 dated 11th March, 1968].

Recommendation (Serial No. 59, Para 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 allocations, no time is lost in placing the orders.

REPLY OF GOVERNMENT

Confirmed.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W) |67 dated 20th February, 1968].

Recommendation (Serial No. 60, Para 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.

REPLY OF GOVERNMENT

As mentioned in the Report, there have been a few isolated instances of slow utilisation of external assistance on account of difficulty in finding adequate rupee finances. However, this difficulty cannot be considered a general or major reason for slow utilisation. It may be added that while applying for import licences applicants are required to indicate the registration number allotted to their income tax verification certificate and for this purpose they are also called upon to give details regarding their firm, amount of income tax paid in the previous years etc. This procedure ensures that the applicant do possess the requisite financial capacity for meeting the

cost of the items to be imported. Apart from this, in order to ensure proper utilisation of the licence it is insisted that the firm should open an irrevocable Letter of Credit within a specified period after issue of the licence. Later if the firm fails to honour its commitment to its supplier, the bank with whom the Letter of Credit was opened is reckoned as the joint holder of the licences to the extent of the goods covered by the licence. This would enable the bank to honour the commitment with the foreign suppliers and thus avoid delay in the utilisation of external credits. It is considered that these procedures are adequate for the purpose.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67 dated 20th February, 1968].

Recommendation (Serial No. 62, Para 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.

REPLY OF GOVERNMENT

All the four machines of the Mill have since been commissioned and production is being gradually stepped up. Every effort will be made to reach the full rated capacity of the Mill as quickly as possible. The U.K. Credit allocated to the Mill has been practically fully contracted for and is being utilised.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67 dated 20th February, 1968].

Recommendation (Serial No. 63, Para 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.

REPLY OF GOVERNMENT

No comments.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67 dated 28th February, 1968].

Recommendation (Serial No. 64, Para 4.248)

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

REPLY OF GOVERNMENT

All necessary steps including the allocation of savings and non-utilisations are being expeditiously taken with a view to ensure the speedy utilisation of the grants.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67 dated 28th February, 1968].

Recommendation (Serial No. 65, Para 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.

REPLY OF GOVERNMENT

The Canadian counterpart funds generated in any year are taken into account and spent through the Government's Budget for that year. Only notional attributions of these funds are being made to projects|programmes in consultation with the Government of Canada. Discussions with the Canadian Government are in progress regarding these notional attributions in respect of accruals which have not yet been attributed and an agreement in principle regarding the major portion of these accruals has been reached.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67, dated 28th February, 1968].

Recommendation (Serial No. 67, Para 4.256)

The Committee regret to observe that the progress in the utilisation of the credits extended by Canada through the Export 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.

REPLY OF GOVERNMENT

The recommendation has been noted. It may, however, be pointed out that as far as ECIC is concerned, this Corporation permits

the signing of Loan agreements for projects which are to be completed over a long period of time even though the commitments thus entered into are over and above the annual level of aid through ECIC of C\$ 12.5 million. This is on the expectation that the estimated total drawals against all ECIC loan agreements do not exceed the availability from the annual level of C\$ 12.5 million. Thus while the value of loan agreements signed upto 31st March 1966 amounted to C\$ 70.36 million, only a maximum C\$ 65.54 million was available for drawal upto that date. Against this the amount actually drawn by 31st March, 1966 was C\$ 27.3 million. It will, however, be appreciated that the drawals depend on the pace at which the implementation of the project progresses and payments to the Canadian Suppliers etc. fall due and are effected by the project authorities.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67 dated 28th February, 1968].

Recommendation (Serial No. 67, Para 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 arrangements for 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.

REPLY OF GOVERNMENT

The Committee's recommendations have been noted. The procedures have been streamlined and loan agreements have been signed for the full amount of Development Loan Assistance pledged by Canada upto now.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25|1-US(W)|67, dated 28th February, 1968].

Recommendation (Serial No. 68, Para 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 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.

REPLY OF GOVERNMENT

The Fifth Yen Credit is for \$60 million. As on 31-8-1967, the value of orders placed against this credit is \$59.436 million. The credit has, therefore, been virtually used up.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67 dated 20th February, 1968].

Recommendation (Serial No. 69, Para 4.277)

The Committee observe that the progress of utilising the Italian Supplier's 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.

REPLY OF GOVERNMENT

The importers were in the initial stages finding it difficult to locate the Italian Suppliers who would be willing to supply the goods under the deferred payment terms of the Italian Government. With the experience gained by the importers, the position of contracting has since considerably improved, as the contracting upto date is to the extent of Rs. 49.50 crores against the Suppliers Credit of Rs. 55.71 crores for the years 1963-64, 1964-65 and 1965-66. The balance of the credit is also expected to be utilised shortly.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67 dated 20th February, 1968].

Recommendation (Serial No. 71, Para 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.

REPLY OF GOVERNMENT

The Committee's recommendation is accepted.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67 dated 20th February, 1968].

Recommendation (Serial No. 72, Para, 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 section of the Plants have been extended by about 12 to 22 months. They also note that it has taken Government over 22½ 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.

REPLY OF GOVERNMENT

The Committee's observations are noted. Action is being taken to expedite completion of the project.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67 dated 20th February, 1968].

Recommendation (Serial No. 74, Para 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.

REPLY OF GOVERNMENT

The Committee's observations are noted and suitable action is being taken in the matter.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67 dated 20th February, 1968].

Recommendation (Serial No. 77, Para 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.

REPLY OF GOVERNMENT

There has been a significant improvement in the pace of utilisation of the French credits. As on 31st August, 1967, a little over 90 per cent of the credits have been utilised by placement of firm contracts.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67 dated 20th February, 1968].

Recommendation (Serial No. 78, Para 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.

REPLY OF GOVERNMENT

Soon after the acquisition of the undertaking by the Central Government on 22nd October, 1965, expeditious action was taken for clearing the equipment from the Bombay Port. Government have examined the various steps taken in this respect by the Hindustan Zinc Ltd. and the concerned Departments. It is found that there has been no avoidable delay on the part of the project authorities to take delivery of the equipment.

2. The undertaking of the Metal Corporation of India was acquired by the Central Government on 22nd October, 1965. As regards customs duty, it was assessed at about Rs. 33.52 lakhs as on 22nd October, 1965. According to the information available, there has been no upward revision of the duty between the period 22nd October, 1965 and the date of final clearance of the equipment. The Government Company represented to the Customs authorities for reduction of the charges. Their decision in the matter is awaited. The liability for payment of the assessed duty of Rs. 33.52 lakhs, or any reduced amount as may be agreed to by the Customs authorities, is that of the Metal Corporation of India.

3. In the case of Port Charges, wharfage, demurrage, etc., the charges payable as on 21st October, 1965 have been assessed at Rs. 24.4 lakhs. Such charges for the period from 22nd October 1965 to

the date of final clearance of equipment are still under the consideration of the Port Trust Authorities. The liability for payment of the charges upto 21st October 1965 is that of the Metals Corporation of India.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67, dated 20th February, 1968].

Recommendation (Serial No. 79, Para 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 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 accerate the exploration work.

REPLY OF GOVERNMENT

The Commission has already dispensed with the services of the French contractors and decided to carry out further exploration through its own agencies.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67 dated 20th February, 1968].

Recommendation (Serial No. 80, Para 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 appro- decision in the matter in the light of experience.

REPLY OF GOVERNMENT

Action has already been initiated to divert the unused portion of the B.F.C.E. French Credit to IFC, for other purposes.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67 dated 20th February, 1968].

Recommendation (Serial No. 81, Para 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.

REPLY OF GOVERNMENT

The Committee's recommendations is accepted.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67 dated 20th February, 1968].

Recommendation (Serial No. 82, Para 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.

REPLY OF GOVERNMENT

The requirements of mining machinery by the coal industry have been recently reviewed and it has been decided that indigenous capacity of the Mining and Allied Machinery Corporation Ltd. and other indigenous manufactures should be utilised to the maximum extent. Imports under the Polish credits will also be limited to the absolute minimum of those items which cannot be manufactured indigenously. The unutilised balance under these credits will be reappropriated for other purposes, if required, having regard to indigenous production.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67 dated 20th February, 1968].

Recommendation (Serial No. 57, Para 4.227)

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.

REPLY OF GOVERNMENT

The Committee's suggestion is accepted. It is expected that allocation of the counterpart funds will be made shortly.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67 dated 20th February, 1968].

(Recommendation (Serial No. 84, Para 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 utilization of these credits.

REPLY OF GOVERNMENT

Swiss credits extended so far are the First Credit (in three tranches) and the Second Credit extended in March, 1966.

The total value of capital goods to be contracted for financing under the first credit (extended in three tranches during 1960—65) is 140 million Swiss Francs. The Credit itself is for only 90 per cent of the value of the goods *viz.*, 126 million Swiss Francs. Though the contracts entered into upto March, 1966 against this were for nearly 95 actual drawls were about 55.4 million Swiss Francs (or approximately 95 per cent of the value of the goods to be covered under the credit, the actual drawals were about 55.4 million Swiss Francs (or approximately 44 per cent of these credits) taking into account the actual and approximately 111.26 million Swiss Francs drawn upto February, 1968. It may be mentioned that the actual drawals would depend upon deliveries, which are somewhat prolonged in the case of capital goods, and the procedure followed for drawals in the case of Swiss Credits is such that deliveries are quickly followed by drawals from the credit.

The total value of goods to be contracted for financing under the Second Credit is 70 million Swiss francs, of which 49 million were for capital goods and 21 million Francs were reserved for component parts of capital goods, within the framework of joint venture products or on the basis of license agreements between Swiss and Indian firms. Allocations have been made to fully cover the amount of 49 million Swiss Francs for import of capital goods. Contracts already

received are for a value of about 27.5 million Swiss Francs, and the balance is expected to be contracted for in a few months. In regard to the amount reserved for 'Components' contracts already entered into are for a value of approximately 3 million Swiss Francs. In this case, the Swiss authorities who were approached to agree to the utilisation of the credit for import of raw materials and components for the manufacturing programme and spare parts have not so far agreed to this proposal, and the credit may have to be utilised by import of capital goods. This have affected the utilisation of the credit. Every effort is being made to expedite the contracting (and thus utilisation) of the credit.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25|1-US(W)|67, dated 11th March, 1968].

Recommendation (Serial No. 87, Para 4.358)

The Committee find an apparent inconsistency in the 1964 & 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 opportunity to suggest that in order that the publication could be used as source material on external assistance, maximum consistency should be maintained in the pattern and arrangement of data and other information in the successive issues of the publication.

REPLY OF GOVERNMENT

The inconsistency pointed out by the Committee was due to a clerical error that crept into the brochure on External Assistance 1964 which was corrected in the publication for 1965-66. This correction was, however, not specifically explained.

The suggestions of the Committee have been noted for compliance and these will be kept in view while compiling the future editions of the publication External Assistance.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W)67 dated 20th February, 1968]

Recommendation (Serial No. 88, Para 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.

REPLY OF GOVERNMENT

Necessary steps have already been taken and the credit of Skr. 24 million is now covered by Contracts to the extent of about Skr. 23 million. The actual drawal depends on delivery schedules in the contracts and the amount actually drawn up to 31-8-1967 is Skr. 14 million.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W)67 dated 20th February, 1968]

Recommendation (Serial No. 90, Para 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.

REPLY OF GOVERNMENT

The recommendation of the Committee has been noted by Government. Indeed, this consideration has always been kept in mind. [Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W)67 dated 20th February, 1968]

Recommendation (Serial No. 91, Para 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 contracting loans on commercial terms, as far as possible.

REPLY OF GOVERNMENT

The Government are in agreement with the sentiment behind this recommendation. The distinction between the development loans and commercial credits can only be on the basis of terms of the two types of loans. Till the middle 1950's, members of the Berne Union were granting loans/commercial credits for the import of heavy capital goods for a period of 5 years only. Later on, the members of the Union have been granting and insuring export credits on easier and longer terms for a variety of purposes, thus blurring to some extent the distinction between trade and aid. It is, therefore, difficult to be precise about any criterion, in terms of the period of repayment, for distinguishing development aid from commercial cre-

redits. It is the view of the Government that the longer the term of repayment, the better it may be regarded as development aid.

It is the policy of the Government to try and obtain as much of foreign assistance on as favourable terms of repayment as possible. Actually, there has been a considerable improvement in the terms of repayment of aid received by India over the last few years. Thus, for example, the average interest rate for loans taken during the Second Plan period was 4.3 per cent per annum and it came down to 2.4 per cent per annum in 1966-67. As to the period of loans, the following table will indicate the improvement in this regard.

Period	II Plan	III Plan	1966-67
Maturities	(Percentage of loans authorised)		
Upto 6 years	6.0	0.4	1.3
7—10 years	9.7	9.3	—
11—14 years	32.6	8.6	11.8
15—19 years	24.0	15.5	30.6
20—23 years	23.3	16.2	0.6
24—25 years	0.7	10.8	11.6
Over 25 years	3.7	39.2	44.1

Mention may be made in this connection of certain countries and institutions which have been giving us aid on soft terms. The International Development Association gives us interest-free loans repayable over a period of 50 years. The loans from the United Kingdom are now interest-free and repayable over 25 years with 7 years' grace. The bulk of assistance coming from Canada is in the form of grants, their loans are interest-free and repayable in 50 years. The loans from America are repayable in 40 years with 10 years' grace and now carry interest @1% for the first ten years and 2½% for the next 30 years. West Germany is also giving loans carrying interest @3 per cent and repayable in 25 years.

It may, however, be pointed out that while it is the policy of the Government to take loans mostly on easy terms, there can be no rigid approach in the matter. It may, for example, be justified to take medium-term loans from a country which for the most part is giving its aid in the shape of grants or loans with extended amortisation periods with a very low rate of interest. Again, if a lender agrees to its loans being serviced wholly or in part by additional exports of non-traditional goods not commanding a ready market elsewhere, a medium-term loan could be justifiable. Besides, a particular credit may be for the purpose which clearly and calculably saves

foreign exchange and where, according to international practice, long term credits are not available; in such cases medium term credits would have to be taken. Ships are a case in point where there is a direct and calculable foreign exchange saving. So also aircraft where credit is not available for more than 7 or 8 years. Another point to be borne in mind is the level of indigenous production achieved. In some Industries, a large portion of the machinery requirements can be met indigenously, the import content being restricted to some components and spares. In such cases, it would not be unjustified to accept medium term credits for importing parts required rather than taking a long term loans for importing the complete machinery. However, in all these, the objective of avoiding undue increase of the debit burden, by accepting short term loans, should be an important one on an over all basis.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25|1-US(W)|67 dated 28th February, 1968].

Recommendation (Serial No. 92, Para 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.

REPLY OF GOVERNMENT

The recommendation has been noted.

After a project has been approved from the techno-economic angle and the project report is finalised, the various sources of financing it have to be considered. In this context, due regard is paid to the availability of the latest technical know-how in various countries in

the particular field. Efforts are made to obtain assistance for the project from a country which has the latest technical know-how suitable to Indian conditions and the requirements of the particular project and which can supply at a competitive cost. It is not always possible or desirable to classify aid giving countries by sectors of the economy in which they could assist such a classification can also not have any permanent validity in a world of rapid technical progress and in view of our ever changing requirements. Attempts are always made to obtain plant and equipment for Indian projects from countries who have developed at the time of ordering required technical competence in manufacturing these equipments and have the capacity to supply the same to India. Further, when aid is tied to particular countries, the procedure is to invite tenders from the country so selected and award the contract to the lowest suitable tender. Prices of comparable equipment available in other countries are also kept in view in finalising the contract and where possible attempts are made to obtain a reduction in prices on the basis of such comparison.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W)/67 dated 28th February, 1968].

Recommendation (Serial No. 96, Para 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.

REPLY OF GOVERNMENT

Noted.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W)/67, dated 20th February, 1968].

Recommendation (Serial No. 98, Para 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.

REPLY OF GOVERNMENT

Noted.

[*Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W)/67, dated 20th February, 1968*].

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLY

Recommendation (Serial No. 2, Para 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.

REPLY OF GOVERNMENT

The requirements of foreign assistance are worked out when the outline of the Plan is drawn up. However, it is not possible to work out the distribution of the foreign assistance required, under categories like grants, medium term loans, long term loans, etc. The ideal situation would, of course, be to obtain the entire foreign assistance in the form of grants. That however, is not possible. It is the policy of the Government to get as much of the assistance as possible in the form of long term loans. The Government of India also try to get as much assistance as possible in the non-project form and they are trying continuously to impress on the lending authorities our needs in this regard.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25|1-US(W)|67 dated 20th February, 1968].

Recommendation (Serial No. 4, Para 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 AID and more than three months to reply to AID'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.

REPLY OF GOVERNMENT

The US pledge of \$435 million for economic assistance in the form of development loans to India for the year 1964-65 was subject to formal appropriation by U.S. Government. Further the amount pledged, was merely an indication of the total amount of U.S. assistance for both project and non-project aid and was not related to any specified list of projects.

2. As regards the time taken for filing the draft consultancy agreement it may be mentioned that as required by the U.S. Foreign Assistance Act, the agreement between the project and the Consultant has to be got approved by AID prior to execution. But such approval is *not* a condition precedent to the authorization of a loan. As regards the time taken to answer the queries raised by the AID, these queries related to technical matters such as suggestion of alternative sites, coal transport, economics, alternative sources of coal, planning and associated time table for construction of transmission lines, sub-stations etc. and had to be answered by the project after detailed examination.

3. As regards the time taken for signing the loan agreement, it may be mentioned that the U.S. Government suspended new economic aid commitments to India on 10.9.1965 on account of Indo-Pak hostilities. Although the AID presented the draft loan agreement on 29.1.1966 for discussion and finalisation, the signing of the loan agreement was contingent on resumption of U.S. aid to India. As a matter of fact the decision to resume aid to India was taken in May 1966 (and was formally announced in an U.S.I.S. press release dated 16.6.1966), and the loan agreement was signed on June 1, 1966.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25|1-US(W)|67 dated 20th February, 1968].

Recommendation (Serial No. 8, Para 2.28)

Taking into account the heavy burden of debt servicing and 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.

REPLY OF GOVERNMENT

The only international institutions to be considered in this context are the I.B.R.D. group. Under its Articles of Agreement, the I.B.R.D. is restricted to making loans of upto 25 years duration to member countries or private enterprises located in their territories on strictly commercial terms. It was because of this restriction on the I.B.R.D.'s operations that the need was felt of another institution which could provide finance on terms which are more flexible and which bear less heavily on the balance of payments of the recipient countries. It was to meet this need that the I.D.A. was created.

International Financial Corporation's operations are very limited and it usually provides investment in private manufacturing enterprises, usually at a mixed loan-and-equity-basis. International Monetary Fund does not provide any "loans". Member countries draw foreign exchange from the Fund to meet their *short term* balance of payments difficulties and these drawings are limited by provisions relating to the Funds holdings of the member country's currency.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25|1-US(W)|67 dated 20th February, 1968]

Recommendation (Serial No. 11, Para 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.

REPLY OF GOVERNMENT

It is felt that a more meaningful comparison would be on the basis of total investment in each sector, more specifically the share of each sector in the building up of industries. For example, there is no doubt that the role assigned to the public sector in the building up of the steel industry has been much larger than to the private sector. This is in accordance with the Industrial Policy Resolution of 1956. The emphasis so far has been on infra-structure development and there the role of the public sector is much larger.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25|1-US(W)|67 dated 20th February, 1968]

Recommendations (Serial Nos. 23 & 24, Paras 4.20 and 4.21)

23. *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.*

24. *The Committee would like Government to go into the detailed reasons for non-utilization 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.*

REPLY OF GOVERNMENT

In the case of the Power Projects, there were 19 separate power projects, for which specific loans have been secured during the Third Plan. Besides, there was a loan for the construction of transmission programme under 15 State Electricity Boards and 3 Electricity Undertakings. Also, small amounts from miscellaneous loans were allocated for power programmes. It is the total of all these that amounted to Rs. 273.37 crores (pre-devaluation) during the Third Plan for the power sector. Drawals of the loans proceed with the actual procurement of goods and services which the loan is meant to finance. This in turn is related to the progress of construction of the projects. Thus, when goods are ordered, the value of loans corresponding to that order get committed but only when the goods are received and paid for, and some times the payment gets completed only after the warranty period, that the entire utilisation takes place. Since construction of power projects takes four years or more, the utilisation is also correspondingly lengthened. Out of Rs. 136.70 crores remaining undrawn at the end of the Third Plan period, Rs. 98.91 crores pertained to loans less than three years old. The more than three year old credits included such large projects as D.V.C. IV, Talcher, Sharavathi, Koyna, Bandel, Satpura, Delhi etc. which were still in the process of construction at the end of the Third Plan and in respect of whom the amount remaining to be drawn at the end of the period was Rs. 31.29 crores.

2. In the case of loan for steel and steel projects, out of the amount of Rs. 161.95 crores remaining to be drawn Rs. 100.50 crores pertained to the Bokaro Steel Project. Expansion schemes of Durgapur, Rourkela, Mysore Alloy & Steel Plant and Indian Iron and Steel Ltd., in respect of which work was still in progress, had yet to draw Rs. 44.78 crores to complete their works.

3. In respect of Port and Port development projects, out of the unutilised amount of Rs. 13.21 crores, Rs. 12.22 pertained to the major port schemes of Bombay and Calcutta. These two schemes met with certain difficulties on account of which work was delayed. The delayed completion of the schemes is reflected in the longer time taken for the drawal of the loans.

4. In the case of the loans for Agriculture Development purposes, out of the amount of Rs. 65.27 crores undrawn as on 31st March, 1966, Rs. 45.21 crores were loans within about nine months of that date. Of the balance of Rs. 20.06 crores, Rs. 9.65 crores pertained to a loan given to the Coromandel Fertilizer Plant to build a fertilizer production unit. The loan had been given less than two years before that date and the plant was still under construction. Of the balance of Rs. 10.41 crores, over Rs. 7 crores pertained to five specific irrigation projects viz. Salandi (Orissa), Shtrunji (Gujarat), Punjab, Sone (Bihar) and Purna (Maharashtra), which were under construction as at the end of the Third Plan.

The Government are alive to the needs of speedy implementation of projects. The detailed reasons for delay in each of the projects involved in these have been looked into from time to time. Apart from taking remedial steps, in the case of individual projects, when delays or difficulties are noticed, measures are also taken from time to time to improve procedures. Some of the measures taken are indicated in the enclosed statement.

Measures to speed-up projects implementation.

I—EXTRACTS FROM DPM'S LETTER NO. 1942-DPM/67, DATED AUGUST 3, 1967, TO CERTAIN MINISTERS AT THE CENTRE.

* * * * *

The procedure that I have outlined here for feasibility studies and detailed project reports should not help Government to avoid the sort of mistakes in planning projects that have occurred so far, but also lessen administrative delays among the various Ministries. As a corollary I should like to emphasise that once the outlines of

the sectoral programmes in the Plan are settled, the Ministries should take up the formulation of projects immediately. As soon as there is general agreement with the Planning Commission and the Finance Ministry on the need for a project, the administrative Ministry should undertake or commission the preparation of feasibility studies. For most of the projects likely to be undertaken during the Fourth Plan period, approvals and financial sanctions have been issued. For the few projects which remain, it is desirable that feasibility studies should be completed, and appraised by the Ministry of Finance as soon as possible. On account of the constraint on resources, investment on new projects has had to be slowed down somewhat in 1966-67 and 1967-68. The shortfall in agricultural production and slowing down of the rate of growth in the economy generally make it necessary for us to undertake fresh assessments of the demand for most commodities, including capital goods. This reassessment of demand should not be restricted to the period upto 1970-71, but should be projected forwards beyond the Fourth Plan period, to enable Ministries to formulate investment projects for the Fifth Plan, on which it may be necessary to undertake some outlay before 1970-71.

II—The Central Water & Power Commission also issued appropriate instructions to the project authorities to speed up utilisation of external assistance. In addition, the following steps were also taken by Central Water & Power Commission at the Centre:—

- (a) It was decided to strengthen the progress cells of the C.W.P.C., to enable a periodic review of the Projects being conducted with particular reference to the utilisation of external assistance.
- (b) Necessary liaison was established with the C.C.I.E. and the D.G.T.D. to speed up clearance from indigenous angle and issue of licences.
- (c) C.W.P.C. was given the responsibility of advising the Project authorities in the matter of claiming reimbursement under the foreign credits and of watching the progress of utilisation.
- (d) To speed up releases of foreign exchange, appropriate powers were delegated by the Ministry of Finance to the Ministry of Irrigation and Power/C.W.P.C.

[Ministry of Finance (Department of Economic Affairs) O.M.
No. 25/1-US(W)/68, dated the 21st September, 1968.]

Recommendation (Serial No. 40, Para 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.

REPLY OF GOVERNMENT

Loans given to private sector parties by financial institutions of various countries are either tied to specific projects or schemes or are part of suppliers' credits from those institutions. So far as loans for specific projects are concerned, there is a separate agreement and the letter of implementation and one of the requirements is the submission by the recipient of periodical reports with regard to the progress of the project or scheme. The utilisation of the loans is linked with the performance of the project which in turn is linked with the delivery of equipment by the suppliers. Thus, the utilisation of such loans by the private sector is watched through the periodical reports submitted by the beneficiary. In so far as suppliers' credits are concerned, the utilisation of such credits runs *pari passu* with the deliveries of goods under the contract. The contract generally lays down the delivery dates of equipment and the schedule of payments therefor. Hence, no special procedure is necessary for watching the progress of utilisation of suppliers' credits. In fact, the utilization of such credits cannot be altered by the Government taking any steps in that direction since the delivery of goods and the schedule of payments therefor has been specified in the contract concerned.

[*Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US (W)/67, dated 20th February, 1968.*]

Recommendation (Serial No. 50, Para 4.186)

The Committee regret 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.

REPLY OF GOVERNMENT

There was no imbalance in the planning for the commissioning of Coke Oven Battery No. 6 and Blast Furnace No. 5. Minimum commissioning schedule was earlier prepared and all associated units for commissioning Blast Furnace No. 5 were taken into account.

As per the schedule, Turbo Blower No. 6 was to be commissioned by September 1965, and Coke Oven Battery No. 6 and Blast Furnace No. 5 by October, 1965. The construction work on all the units was started according to this programme.

There was, however, an inordinate delay in the supply of high pressure pipes (about 30 tonnes) from the USSR for the Turbo Blower No. 6 which were received only in November, 1965. It was, not possible to commission the Blast Furnace without Turbo Blower No. 6.

In anticipation of the commissioning of the Turbo Blower No. 6 in early 1966 the Coke Oven Battery No. 6 was put under heating from 24th December, 1965 so that it could be ready for pushing as soon as the Turbo Blower was commissioned and the Blast Furnace No. 5 could be started then. Thus after the commissioning of the Turbo Blower No. 6, the schedule for commissioning Blast Furnace No. 5 was drawn up and heating of the stoves was started so that tapping of the Blast Furnace could be done before 31st May, 1966.

This schedule had, however, to be abandoned on account of difficulty in getting adequate power supply from Korba, although the Blast Furnace No. 6 was ready in May, 1966, in spite of assurance from the Madhya Pradesh Electricity Board (with which the project authorities were in constant touch till as late as 16th October, 1965) to the effect that power requirements of expansion programmes of Bhilai Steel Plant would be met by them.

The power supply for the Coke Oven Battery No. 6 and the connected Blast Furnace No. 5 was dependent on Madhya Pradesh Electricity Board being able to commission the first unit of 50 MW in their new 200 M.W. Power Station at Korba. It was also envisaged to supply power from Amarkantak.

Firstly, there was delay in the commissioning of the first 50 MW Unit of 200 MW Power Station at Korba which though commissioned on 15th September, 1965 was reported not running satisfactorily till December, 1965.

Secondly, import of power from Amarkantak could not materialise as the power from that station was diverted to consumers at

Jabalpur and Bhopal on account of reduced output from Chambal Hydel System consequent upon failure of monsoon.

The increased power supply was ultimately made available only from 15th November, 1966 and the Blast Furnace was commissioned thereafter on the 23rd November, 1966.

The Bhilai Steel Plant authorities, therefore, did not spare any efforts to keep coordination in the schedules of construction of Bhilai's Fifth Blast Furnace and the associated Coke Oven facilities as well as for obtaining the required quantity of power from the Madhya Pradesh Electricity Board who could not meet the requirement on account of unavoidable circumstances.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25|1-US(W)|67, dated 20th February, 1968].

Recommendation (Serial No. 54, Para 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 fertilizers signed on 14th March, 1966 has been made available, they hope that the trend set by the terms of this agreement would be maintained.

REPLY OF GOVERNMENT

The Government of the Federal Republic of Germany extended a special credit of DM-12 million in 1966-67 for purchase of fertilizer to provide assistance to alleviate the prevailing food crisis in India. The credit is repayable over a period of 25 years (including a grace period of 7 years) and carries interest at 1 per cent per annum. This was special credit provided to us.

2. The above terms were given in exceptional circumstances and by way of Emergency Food Aid to India. The German Government have not found it possible to repeat these terms in toto for their normal economic aid to India. Even so, for 1967-68, a credit of DM-240 million has been made available with repayment spread over a period of 25 years (including a grace period of 7 years) and interest at 3 per cent per annum. (The terms are slightly different for a small amount of DM-20 million applicable to Development Banks.)

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25|1-US(W)|68, dated 20th February, 1968].

Recommendation (Serial No. 58, Para 4.234)

The Committee recommend that procedural difficulties in regard to payments which have been vitiating speedier utilisation of the

First and Second Kipling Loans from British may also be simplified in consultation with the British Government.

REPLY OF GOVERNMENT

It is difficult to change the present reimbursement procedure governing the first two Kipling Loans in mid-stream as all the outstanding import licences would be in various stages of utilisation.

It may, however, be pointed out that all-out efforts are being made to draw the two loans fully. We have obtained the approval of the U.K. Government to the extension of these two loans upto 30th September, 1968 and 31st December, 1968 respectively. The undrawn amounts were mainly due to defective/incomplete documentation received from importers and on account of non-submission of documents by the importers. We are trying to get these deficiencies rectified from the importers/UK Suppliers and teams of Accountants from our Accounts Branch have been visiting the main centres periodically and contacting the importers for this purpose. Savings on account of surrenders/non-utilisation are also being re-allocated expeditiously to quick-moving items.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US (W)/67, dated 4th March, 1968.]

Recommendation (Serial No. 61, Para 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 advance 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 of CPWD 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.

REPLY OF GOVERNMENT

While noting the observations of the Committee, it is urged that the following points be taken into account. The capital cost of Rs. 6.95 crores referred to was for a three machine mill. However, the planning of the factory structure was such that a fourth machine could be added later as and when such a decision was taken. The decision to expand the Mill capacity by the addition of a fourth machine was taken in 1965 and this meant an additional capital

cost of Rs. 1.69 crores. The devaluation of the rupee in 1966 added another Rs. 1.56 crores to the capital cost. It would be seen that these two factors alone accounted for the major part of the increase in capital cost referred to. In regard to the delay in the commissioning of the Mill, it is urged that there were special circumstances in this case. There were considerable difficulties for the CPWD in getting suitable contractors for work at this place, and recruitment of a Senior Engineer for the Project also posed a serious problem, which in turn handicapped the project in working out several details. Factors such as these were beyond the reasonable control of the Project. The observations of the Committee will, however, be kept in view for future occasions.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US (W)/67, dated 20th February, 1968.]

Recommendation (Serial No. 70, Para 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 ENI (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 therefore, 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 credit were ultimately dropped by them.

The Committee consider case of ENI 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.

REPLY OF GOVERNMENT

The ENI Credit was originally covered under an Agreement concluded in 1961 between the then Ministry of Steel, Mines and Fuel and ENI of Italy. Prior to the conclusion of this Agreement there were several inter-departmental discussions with regard to ENI's offer of a loan to a maximum amount of Italian Lire 60 billion (\$ 94 million or about Rs. 46 crores, pre-devaluation). It was found that the ENI Credit terms were not very favourable in that it involved

cash outgo from our own free resources to the extent of 8 per cent of the value of the contracts to be concluded against the loan; besides, the interest was 6 per cent and repayment period only 10 years. These terms were not very favourable in the context of our attempts to get much softer terms from the members of the Aid India Consortium in which Italy had not yet become a member in 1961. It was also necessary to proceed only with projects of priority included in the Plan the value of which did not exceed \$ 45 million (Rs. 21.43 crores). Government, therefore, felt that a loan of only \$ 45 million from the ENI of Italy may suffice. However as ENI were willing to provide a larger amount there was no objection to a larger amount being indicated by way of an enabling provision particularly when no commitment charges or fees were to be paid on that account. Accordingly, in the original Agreement dated 29th August, 1961 as maximum amount of Italian Lire 60 billion (\$94 million or Rs. 46 crores) was shown as available for petroleum and petrochemical industries. Subsequently, however, Italy joined as member of the Aid India Consortium for the first time in 1962 and at the 6th meeting of the Consortium held in July, 1962 the Italian Government themselves announced availability of only \$ 45 million in 1962-63 for projects under the ENI Credit. The utilisation of the ENI Credit has therefore to be assessed with reference to this amount of \$ 45 million only.

2. Against the above amount of \$ 45 million (Rs. 21.43 crores) thus made available against the ENI Credit, orders were placed to the extent of Rs. 13.21 crores by December, 1964. Projects originally proposed for the balance of Rs. 8 crores did not materialise for one reason or other in the clarifications given by the Ministry of Petroleum and Chemicals, as indicated in the succeeding paragraphs. Nevertheless, the Italian authorities agreed that although contracts for this balance of Rs. 8 crores could not be processed within the ENI framework (the licence given to ENI by the Italian Government ceased to be operative after 31st December, 1964), we could process them under the normal procedure applicable to the Italian Supplier Credit. In May, 1967, the Italian authorities also agreed that this balance of Rs. 8 crores could be treated as part of the Italian Supplier Credit. The entire amount has since been fully utilised and therefore no part of the ENI Credit has lapsed.

3. The Ministry of Petroleum and Chemicals who were concerned with actual utilisation of the ENI Credit were requested to investigate the detailed circumstances in which the ENI Credit amounting to Rs. 8 crores could not be utilised earlier for the purposes envisaged. That Ministry have advised as follows:

- (i) There are two categories of projects which were financed

under the ENI Credit: the first category, e.g. Product Pipelines, gas fractionation in Assam etc. for which provision had already been made in the Third Five Year Plan and the second category relating to projects for which there was no specific provision in the Third Five Year Plan and which consequently would need clearance by the Planning Commission and the Ministry of Finance.

- (ii) Clause I of the Agreement of 29th August, 1961, clearly states that "ENI is agreeable to supply to Government through the companies of the ENI Group, plants, equipment etc. up to the amount of about 95 billion Italian Lire and up to a maximum amount of 60 billion of Italian Lire on account of goods, services" etc.

Clause II states that Government is interested in negotiating the purchase of plants, equipment etc. made available by ENI provided that their quality and prices are in line with those offered by companies of international repute. Clause III clearly provides that the 7 projects under category one, e.g. product pipeline, gas fractionation plants etc. which the two parties are interested to execute would be subject to the project reports being accepted and approved by the Government.

- (iii) It will be observed from these three clauses that no fixed sum was given as a credit under this Agreement, but only the maximum ceiling up to which ENI could provide equipment and services was indicated. Secondly, the execution of the Projects was contingent on the Project Reports being accepted and approved by Government or the concerned authorities. It is, therefore, evident that the Government did not undertake to utilise the entire amount up to the maximum ceiling, and it was not contemplated that all the projects mentioned in category I would definitely materialise. If in a particular case, the project report was not found acceptable, the project would not be proceeded with. There is, therefore, a built-in provision in the Agreement itself for lapsing of some amount if certain projects did not materialise. A statement (Annexure) indicating the original estimated amount, amount allocated, amount utilised and the amount unutilised under the ENI Credit is enclosed from which it would be observed that out of the original 7 projects under category I, the gas fractionation plant in Assam, LPG bottling and distribution facilities and lubrication oil plant did not materialise while the amount estimated for the Product Pipe-

line was not fully utilised. The reasons for this are given below:—

(a) *Gas fractionation Plant in Upper Assam:*

The Assam Government who were designated as the authority to implement this project, considered the Project Report submitted by ENI and came to the conclusion that the capital outlay and the operating costs given in the report were high. They request ENI to prepare a revised Project Report for a simpler type of fractionation unit on the basis of revised data furnished by them based on more realistic figures of gas availability but the ENI expressed their inability to revise the Project Report. The project, therefore did not materialise.

(b) *LPG Bottling and Distribution facilities:*

The original estimate for this project was Rs. 160 lakhs. A project report was prepared at a cost of Rs. 1.21 lakhs. On the basis of the Project Report, it was proposed to utilise Rs. 27.50 lakhs for setting up of 3 LPG Bottling plants and Rs. 21.95 lakhs for the purchase of LPG Cylinder with valves and regulators. The ENI Credit procedure was however replaced by Italian Supplier Credit procedure before the negotiations could be finalised. The Indian Oil Corporation have since set up a bottling plant at Delhi at a foreign exchange cost of less than Rs. 3 lakhs.

The proposal to purchase the cylinders was not pursued as they became available subsequently from indigenous source.

(c) *Distribution equipment:*

A sum of Rs. 160 lakhs was provided for the procurement of distribution equipment. As ENI was not in a position to supply most of the items required and the prices quoted were not competitive, the equipment was not purchased.

(d) *Product Pipeline—Barauni—Delhi—Calcutta:*

Against the original estimate of Rs. 740 lakhs for the Barauni-Delhi and Barauni-Calcutta Product Pipeline, only a sum of Rs. 556.19 lakhs was actually allocated and utilised as the Barauni-Delhi section of the pipeline was terminated at Kanpur instead of Delhi as originally envisaged as all the products were expected to be consumed within Barauni-Kanpur Zone itself.

(e) Lubricating Oil Plant of 100,000 tons HVI capacity.

The project reports for a lube refinery and lube plant at Koyali were prepared at a cost of Rs. 5.38 lakhs. These reports were examined in consultation with Indian Oil Corporation (Refineries Division). It was decided that the lube oil facilities could not be established economically at Koyali because the crude oil processed by the refinery was not very suitable. It was, therefore, decided to incorporate lube oil manufacturing facilities, where technically feasible, at the new locations where public sector refineries are to come up. This has been achieved in as much as these facilities are integrated with other manufacturing facilities in the Madras and Haldia Refinery Project".

(f) It will be seen from the above that of the Rs. 2140 lakhs originally estimated for the first 7 projects, a sum of Rs. 957.81 lakhs was actually allocated and utilised.

(g) Attempts were made to utilise the balance amount of Rs. 1182 lakhs by diverting it to other category II projects (No. 8 to 15 of enclosed statement). In spite of our best efforts and for reasons mentioned below, an amount of nearly Rs. 8 crores remained unutilised:—

(i) Offshore drilling in the Gulf of Cambay.

Amount uptilised:	Rs. 205.20 lakhs.
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A contract for off-shore drilling in the Gulf of Cambay was signed by the Oil and National Gas Commission with SNAM SPA on 26th September, 1964. However, due to an accident the drilling platform which SNAM intended to bring for drilling in the Gulf of Cambay was destroyed and hence the contract could not be implemented.

(ii) Drilling of production wells in Nawagam/Kalol.

Amount unutilised:	Rs. 483.60 lakhs.
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A draft contract was obtained from M/s. SNAM for drilling of production wells in Nawagam. According to the offer made by M/s. SNAM, a minimum of 80 wells were to be drilled. However, as the Nawagam field did not come upto the expectation and as it was felt that a commitment for drilling of a minimum of 80 wells could not be given, the contract was not signed.

(iii) Drill bits, drill collars etc.

Amount unutilised: Rs. 61.28 lakhs.

An allocation of Rs. 61.28 lakhs was made for the procurement of drill bits, drill collars etc. for the ONG Commission. The proposal was made in late 1964, and by the time it could be finalised, the ENI Credit procedure had changed to normal Suppliers' Credit procedure. This amount has since been allocated under Italian suppliers credit and contracts placed under Italian supplier credit procedure.

(iv) LPG Cylinders with valves and regulators.

Amount unutilised: Rs. 21.95 lakhs.

No commercial contract could be concluded by IOC with M/s. SNAM as the latter demanded higher prices than their original quotations. In view of this, the import of the equipments under ENI Credit did not materialise.

(v) Setting up of three LPG Filling Plants.

Amount unutilised: Rs. 27.50 lakhs.

The ENI Credit procedure had changed before the negotiations could be finalised. The Indian Oil Corporation have since set up a bottling plant at Delhi at a foreign exchange cost of less than Rs. 3 lakhs.

4. The Ministry of Petroleum and Chemicals are of the view that as there has been no lapse on their part, the question of fixing responsibility does not arise. Further as stated in para 2 above the contracting for the unutilised amount of the ENI Credit viz., Rs. 8.00 crores has since been allowed by the Italian authorities, and as such no amount of the Credit stands lapsed.

ANNEXURE

Category I

In lakhs of Rupees

	Original Estimate	Amount allocated	Amount utilised	Amount un-utilised
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	1	2	3	4
				(Difference between Col. 2 & 3)
1. Product Pipeline Barauni-Delhi, Borauni-Calcutta.	740.00	566.19	556.19	—
2. Gas fractionation plant in Upper Assam.	100.00	.33	.33	—
3. LPG Bottling and Distribution facilities.	160.00	1.21	1.21	—
4. Lubricating Oil Plant of 100,000 tons HVI capacity	620.00	5.38	5.38	—
5. Distribution equipment	160.00	—	—	—
6. Contract drilling and production equipment	300.00	318.00	318.00	—
7. Consultancies	60.00	76.70	76.70	—
	2140.00	957.81	957.81	—

(The following items were not included in the original estimated list).

Category II

8. Gujrat Pipelines	—	149.10	149.10	—
9. Udex Plant	—	69.05	69.05	—
10. Off-shore drilling in the Gulf of Cambay	—	205.20	—	205.20
11. Nonmati-Siliguri Pipeline	—	144.96	144.96	—
12. Drilling and Production Well in Nawagam and Kalol	—	483.60	—	483.60
13. Drill bits, drill collars etc.	—	61.28	—	61.28
14. LPG Cylinders with valves and regulators	—	21.95	—	21.95
15. Setting up of 3 LPG (filling) Plants	—	27.50	—	27.50
	2140.00	2120.15	1320.92	799.23

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US (W)/67 dated 11th March, 1968]

Recommendation (Serial No. 76, Para No. 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 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.

REPLY OF GOVERNMENT

At the time when the French credit for the Second Plan was made available, France was unwilling to provide for credit facilities beyond a period of 5 years. In fact, their reluctance to liberalise the terms continued for quite some time after that. As the credit was repayable within 5 years, Government were anxious that it should be utilised only in respect of high priority projects which were in the 'core' of the Second Plan. At the same time, efforts were continued for improvement in French credit terms and as a result, the credit facilities made available by France during the Third Plan period are more liberal. It may also be stated, by way of explanation, that the credit given by France during the Second Plan was more by way of a ceiling upto which importers in India could sign contracts with exporters in France subject to the approval of the two Governments. Having regard to our balance of payments difficulties and having regard to the necessity which we have since felt to reschedule debt repayment obligations of even longer duration, it was on the whole desirable that this credit with rather hard terms was not used up to its full extent.

[Ministry of Finance (Department of Economic Affairs) O.M. No. No. 25/1-US (W)/67, dated 20th February, 1968].

Recommendation (Serial No. 85, Para 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 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.

REPLY OF GOVERNMENT

The Third Dutch General Purpose Credit of Dfl. 26 million for 1964-65 was covered by Loan V and VI under Agreements dated 7th

November, 1963 and 2nd July, 1965 respectively providing interest at 5½ per cent. The Dutch authorities subsequently agreed, as a special case, to provide under the 3rd General Purpose Credit, a further amount of Dfl. 6.5 million specifically for purchase of fokker aircraft, and the connected Agreement for this Loan described as "Loan VI A" was signed on 16th December, 1965 providing the same interest rate i.e. 5½ per cent. The Dutch authorities did not agree to our proposal to reduce the interest rate for any of the loans covering the Third General Purpose Credit.

The Fourth General Purpose Credit of Dfl. 26 million only covered by Loans VII and VIII was pledged for 1965-66 and the relevant Agreement was signed on 5th January, 1966. For these loans the Dutch authorities agreed to interest rate of 3 per cent.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25|1-US(W)|67 dated 20th February, 1968]

Recommendation (Serial No. 89, Para 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 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.

REPLY OF GOVERNMENT

The recommendation of the Committee was brought to the notice of the Department of Agriculture. From 1953 till 1963 the activities under the Indo-Norwegian Project were confined to an area in Quilon District. A survey of the Project has been conducted by the Kerala Government, the preliminary conclusions of which is that the activities under the Project has been quite encouraging.

It may, however, be stated that in the III supplementary and subsequent agreement periods, the objectives have ceased to be specifically socio-economic and have been confined to training, exploration and demonstration, the items of equipment required for these purposes being supplied mostly from Norway.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25|1-US(W)|67 dated 20th February, 1968]

Recommendation (Serial No. 95, Para 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 therefore as and when they fall due.

REPLY OF GOVERNMENT

In so far as public sector projects are concerned, the question of economic and profitability of the projects is gone into in detail along with other questions before the project is sanctioned. A forecast is made of the earnings from the project and in addition to estimating the return from the project during the first few years, an attempt is also made to work out a profitability index. Another point which is considered in connection with the feasibility of the project is what benefits the national economy will derive from the project. Actually, it has been laid down in the Fourth Plan document that there should be an insistence on the most efficient and economic phasing of the plan programmes which alone can ensure the maximum return out of scarce resources available. All non-essential expenditure has to be firmly avoided, costs have to be carefully scrutinised and kept to the barest minimum, benefits, have to be carefully assessed and the principle of comparative advantage followed to the maximum extent possible in the choice projects and programmes.

However, so far as external resources are concerned, it is not possible to ensure that each individual project will generate resources enough to repay the instalments of principal and interest on the loan. Although the foreign exchange earning or saving potentialities of the project are given due consideration, the criteria suitable for internal financing cannot always be applied the foreign financing. In the case of the latter, the criterion of linking the foreign loan for a project to its capacity to generate external resources is not applicable in all cases. Thus, to say that a foreign loan for the improvement of transport facilities in the country or for the construction of a power house should be able to generate resources for repaying the foreign loan, is valid only in case of internal financing, but it becomes completely meaningless in terms of international landing because the improvement of transport facilities or the building of a power house will have only an indirect relation to the exports which the

overall economy is able to generate. Not all projects have got an export angle, however beneficial they may be for the general economy of the country. Another factor to be considered is the terms on which the foreign loans are taken. As the Estimates Committee are aware, there has been a considerable improvement in the climate of international financing and it has been possible for India to get a substantial portion of her foreign aid requirements in the form of soft loans. It is axiomatic that loans taken on rather enorous terms will cause a considerable pressure on the balance of payments of the country, while in case of the soft loans this burden is not likely to be so heavy. Even in the World Bank's annual report for 1965-66, this question has been discussed in the context of the overall productivity and of the economic progress implicit in an overall well-balanced scheme of development and not with regard to each particular project or enterprise.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W)/67 dated 28th February, 1968].

Recommendation (Serial No. 99, Para 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.

REPLY OF GOVERNMENT

The Ministry of Finance have considered in the past the advantages and disadvantages of foreign loans and credits vis-a-vis private foreign investment. The advantages of private foreign investment are as follows:—

- (i) India requires not only foreign exchange for import of machinery capital equipment, components, etc., but also specialised technical know-how for starting new manufacturing industries. While foreign loans may meet the foreign exchange requirements, the foreign capital investment has the additional advantage of imparting technical know-how.
- (ii) As a result of foreign capital participation, the Indian companies are assured of the benefits of research conducted by foreign companies abroad. The Indian companies are

also kept informed about the latest developments in technology.

- (iii) As a rule, loan finance from private foreign parties has to be repaid in a relatively short period of time with commercial rate of interest. Foreign equity investment, on the other hand, earns dividends only when the plant has gone into production and usually remittable profits in the initial years are low.
- (iv) Foreign equity investment does not often seek repatriation of the capital while in the case of loans repayment of loan with interest thereon, has to be made in accordance with the terms and conditions of the loan agreement.

2. As regards the percentage of foreign shareholding in enterprises where financing through foreign equity is approved, Government usually insists on only minority shareholding by foreign collaborators. It would be disadvantageous to allow majority foreign shareholding by foreign nationals and companies, as not only the control of the industry would then vest in the foreigners, but there would be greater drain of foreign exchange in the shape of remittance of dividends. If foreign exchange needs of a project are large and cannot to met, exclusively by foreign minority participation, financing of the balance requirements has to be only through foreign loans.

3. On the other hand, it is not advantageous to have foreign equity investment in industries which yield high profits and consequently involve declaration of large dividends, and Government therefore, prefers in the case of such industries, to meet the foreign exchange cost through loans, instead of foreign equity investment.

4. Thus the question whether foreign equity participation or a foreign loan would be more advantageous depends on the circumstances of each case. The relative advantages and disadvantages of foreign loans, *vis-a-vis*, foreign investment participation are weighed by Government in each case before according permission for the investment in the particular form proposed. It is, therefore, not feasible to lay down any firm or uniform guide lines in the matter, as much would depend upon the facts and circumstances of each industry, line of manufacture and the nature of the product, the progress of technology in that field in the country and the size and sources of foreign exchange finance available.

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Serial No. 9, Para 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.

REPLY OF GOVERNMENT

The type of studies suggested would have to proceed on the basis of some sort of an average of the time taken at each stage between the pledging by a country and the translation of the amount into loan agreements. It is felt that the number of loan agreements involved is large and the purposes for which they are intended are varied. Besides, the legislative procedures involved in the lending countries, at times, may take much longer than normally for reasons beyond anybody's control. It would be difficult in practice to reduce all this to any hard and fast formula. However, the Government are keeping in view the time-lag in various stages between pledging and commitment, and are trying to accelerate the process where possible.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W)/67, dated 20th February, 1968].

COMMENTS OF THE COMMITTEE

The Committee consider that the studies proposed in their earlier recommendation would be useful inasmuch as the information gathered will enable Government to take steps to reduce the delays by rationalising procedures where possible, and by making appropriate preparations in advance. They, therefore, reiterate the recommendation.

Recommendation (Serial No. 110, Para 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.

REPLY OF GOVERNMENT

It is felt that it is not always possible or desirable to classify aid-giving countries by the sectors of economy they could assist. It would be better to classify aid-givers in terms of supply-capability for commodities and equipment rather in terms of projects or sectors.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US(W) 67, dated 20th February, 1968.]

COMMENTS OF THE COMMITTEE

The Committee agree to the aid-giving countries being classified "in terms of supply-capability for commodities and equipments" and hope that the job of classification will soon be completed.

Recommendation (Serial No. 73, Para 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 responsibility and evolve guidelines for the future.

REPLY OF GOVERNMENT

The delay in completion and commissioning of Foundry Forge Project is on account of the following reasons:

- (a) Extensive investigation requirement of the sub-soil.
- (b) Heterogenous nature of the subsoil.
- (c) Lack of information about foundation piles in the country which necessitated delay in deciding about the adoption of a suitable system for foundation piles on account of heterogenous character of the subsoil.
- (d) Non-availability of particular types of steel required for fabrication of structural steel and its import from abroad.
- (e) Adoption of maximum quantity of indigenous structural steel for fabrication.
- (f) Change over from British system to decmal system.
- (g) Delay in starting the project for non-availability of sufficient quantity of structural steel to start with.

(h) Go slow strike by the workers of the contractors and certain communal disturbances.

At every stage those responsible for the carrying out of the project were taking remedial measures but for which the project would have been delayed further.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 25/1-US (W)/67, dated 20th February, 1968].

COMMENTS OF THE COMMITTEE

Please see Paras 1—3 of the Report (Chapter I).

Recommendation (Serial No. 75, Para 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.

REPLY OF GOVERNMENT

Allocation of Rs. 14.18 crores has been made from the Second Czech Credit for creation of additional Foundry Forge facilities which includes the setting up of the Foundry Forge Plant at Wardha and Grey Iron Foundry at Jabalpur. The project at Jabalpur is the concern of Ministry of Defence. At the time when the decision about setting up of this project was taken, it was anticipated that there would be considered demand in the country for steel forgings and castings but the situation has since undergone a change and reports have been received of idle capacity in these industries. Also the Preliminary Estimates and Economics of the Foundry Forge Project, Wardha which was received from the Czechs in April 1966 showed that the cost of the project had gone up considerably higher. It was, therefore, considered necessary to examine the question of setting up of another project in the public sector for these industries carefully, so as to avoid the chances of massive investment made in the project going waste. The matter has been examined by concerned department and it has been found out that defence

requirements of gun barrels could be met by Heavy Engineering Corporation, Ranchi. A part of the requirements of castings is also now expected to be met by the existing factories under Defence Ministry. The National Industrial Development Corporation who were asked to study and ascertain if the project as it now stands (minus the requirements of forgings for gun barrels and a part of requirements for castings) would be economically feasible, have on the basis of the demand and production facilities for these items, shown that there is clear evidence pointing to the need for one more Press in addition to the Presses to be installed at Hardwar. The advisability of locating this Press at Wardha or at Ranchi or at Hardwar will have to be determined by further examination. Such examination could be undertaken when the picture relating to the Fourth Plan becomes more specific and in particular with regard to the targets for industries which are the users of steel castings. It is difficult to predict as to when the specific targets for the end-user industries will become available but it would probably take a minimum of six months or even as long as 12 months.

It would be seen from the above facts that the question of setting up or otherwise of this project has been under active consideration of the Government, and the delay in taking a final decision has been due to Government's concern to see that existing capacities are not duplicated which may result in substantial investments made in this project remaining idle.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25/1-US (W)/67 dated 20th February, 1968].

COMMENTS OF THE COMMITTEE

The position explained by Government is noted. The Committee hope that in future allocations of credit would be made only after the economics and feasibility of the project has been adequately examined.

Recommendation (Serial No. 93, Para 5.15)

The Committee observe that Market Research Cell of the DGS&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.

REPLY OF GOVERNMENT

As already pointed out, DGS&D is not adequately equipped at present to undertake collection, analysis and interpretation of market research data. They are, however, exploring ways and means of improving this work so as to make it more useful.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67 dated 28th February, 1968].

COMMENTS OF THE COMMITTEE

Please see Paras 4—6 of the Report (Chapter I).

Recommendation (Serial No. 94, Para 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 these charged for purchases outside the aid under commercial arrangements for similar 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 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.

REPLY OF GOVERNMENT

Ideally, the type of study in this recommendation would be possible if tenders for identical goods were invited from one country simultaneously for purchases against aid from that country and against our own free resources. However, that is seldom the case; there have been few cases of similar and simultaneous purchases in a country against that country's aid and against free foreign exchange. The degree of comparability is vitiated by differences in quantities ordered, delivery periods, differences in specifications and terms of contract etc. Besides, so far as the USA is concerned, the concept of comparability is highly relative and hence elusive as was

demonstrated a few years ago when, taking advantage of US funds, we "bulked" together the purchases of generators (14 in number) for various power stations in India. By bulking the orders, we were able to beat down the prices by 25% of the standard U.S. prices because the American suppliers were able to plan their manufacture better and thus give us substantial cost benefits.

Within these limitations, however, a comparative picture of prices of the particular goods ruling in the country concerned at a particular time is always kept in view when procurement is decided upon. This is done with the help of the data brought together by the Market Research Cell of the DGS&D on conditions and prices in different markets. As a result of the work done by this Cell, it is possible roughly to indicate the ranges of prices of different type of goods that enter into the import content of development programmes.

It will, however, be agreed that a completely free economic choice is not always possible because India's own free foreign exchange resources are very limited and a sizable portion of her import bill has to be financed from foreign aid. The question whether we are paying high prices for purchases under credits has to be viewed in this context. Once it is conceded that economic development is to be achieved with certain volume of foreign aid and as foreign lending agencies are not willing to grant untied aid for various reasons, the comparison of prices paid for free foreign exchange purchases with those under foreign credits would become theoretical. It would be useful only in evaluating the bids and wherever possible, in making attempts to secure price reduction by bulking of orders or otherwise. Actually, in an extreme case, the choice may not be between buying from our own resources and buying against foreign credit from the country concerned but between putting through some projects even at higher cost and not putting them up at all.

For a comparison of prices paid for purchases under aid and under free foreign exchange, it will also be necessary to take into account the terms of credits offered by the country concerned. Tied aid in most cases carries concessional rates of interest and is repayable over long periods. This applies particularly to the U.S., British, Canada and German assistance. A study made a few years ago by the Development Centre of the Organisation for Economic Cooperation and Development in Europe came to the conclusion that there was a grant element involved in loans advanced to countries at concessional rates of interest and repayable over a long term. Thus, for

example, it was estimated that the grant element in an A.I.D. loan which is normally payable in 40 years with rate of interest of 1% for the first ten years and 2½% for the remaining 30 years was about 1/3rd of the total face value of the loan. This, in other words, would mean that if U.S. prices for purchases under A.I.D. loan did not exceed this grant element, there would be no harm in buying from USA under AID financing.

It would not be out of place to mention that the complexity of the type of study envisaged is well recognised by almost all commentators on tied aid. The IBRD has been urging that increased economic aid through multilateral agencies would promote the net utility of aid through competitive buying. But the Bank itself, with all the statistical facilities available to it, has not been able to make any final evaluation of the premia that have to be paid by developing countries for purchases under tied credits.

[*Ministry of Finance (Department of Economic Affairs) O.M. No 25/1-US(W)/67 dated 28th February, 1968*]

COMMENTS OF THE COMMITTEE

Please see Paras 7—9 of the Report (Chapter I)

Recommendation (Serial No. 97, Para 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.

Any study of the impact of external assistance on the development of the economy cannot be undertaken in isolation from the impact of other policies and programmes of the Central and State Governments. In fact, any such study would involve evaluation of the country's plans of development and their implementation. Such an evaluation cannot be made by an independent panel of economists and financial experts. Such an evaluation is progressively being made by the Government itself in its annual presentation of the Budget and related documents to Parliament and Parliamentary Committees. It would be invidious for an independent expert body to be set up to study the developments in the economy in all their aspects. The notion that the impact of external assistance can be segregated from other programmes and policies is not acceptable to Government. For these reasons, Government is not

able to accept the recommendation. Government, however, notes the spirit behind the recommendation.

[*Ministry of Finance (Department of Economic Affairs) O. M. No. 25/1-US (W)/67 dated 20th February, 1968*].

COMMENTS OF THE COMMITTEE

Please see Paras 10-12 of the Report (Chapter I).

CHAPTER V

RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF GOVERNMENT ARE STILL AWAITED

Recommendation (Serial No. 27, Para 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.

REPLY OF GOVERNMENT

The procedure for watching the follow-up measures taken in pursuance of recommendations of high-powered Committees/Commissions is being worked out by the Cabinet Secretariat in consultation with the various Ministries.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67 dated 20th February, 1968].

(III) Recommendation (Serial No. 34, Para 4.111)

The Committee recommend that the impact of U.S. PL-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.

REPLY OF GOVERNMENT

Government will make arrangements for a study, by a small expert group, of the impact of PL-480 transactions on the monetary system.

[Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67 dated 20th February, 1968].

Recommendation (Serial No. 86, Para 4.354)

The Committee feel that the rate of progress 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.

REPLY OF GOVERNMENT

The Committee's observation has been noted. As recommended by the Committee, Government would take up the matter with the concerned projects and units.

[*Ministry of Finance (Department of Economic Affairs) O. M. No. 25|1-US(W)|67 dated 20th February, 1968*].

NEW DELHI;
2nd December, 1968
11th Agrahayana, 1890 (Saka)

P. VENKATASUBBAIAH,
Chairman,
Estimates Committee.

APPENDIX

(Vide Introduction)

Analysis of the action taken by the Government on the recommendations contained in the 11th Report of the Estimates Committee (Fourth Lok Sabha)

I. Total Number of Recommendations	99
II. Recommendations which have been accepted by Government (<i>Vide</i> recommendations at S. No. 1, 3, 5—7, 12—22, 25, 26, 28—33, 35—39, 41—49, 51—53, 55—57, 59, 60, 62—69, 71, 72, 74, 77—84, 87, 88, 90—92, 96 and 98)	
Number	72
Percentage to total	73
III. Recommendations which the Committee do not desire to pursue in view of Government's reply (<i>vide</i> recommendations at S. Nos. 2, 4, 8, 11, 23, 24, 40, 50, 54, 58, 61, 70, 76, 85, 89, 95, 99)	
Number	17
Percentage to total	17
IV. Recommendations in respect of which replies of Government have not been accepted by the committee (<i>vide</i> recommendations at S. Nos. 9, 10, 73, 75, 93, 94, 97)	
Number	7
Percentage to total	7
V. Recommendations in respect of which final replies of Government are still awaited: (<i>vide</i> recommendations at S. Nos. 27, 34 and 86)	
Number	3
Percentage to total	3