

Country Study for Development Assistance to India

“Basic Strategy for Development Assistance”

December 1988

**Country Study Group
for Development Assistance to India
organized by the Japan International Cooperation Agency**

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ANNEX

Preface

India, a vast country holding a population of nearly 800 million, is rich in its diversity, and notable for the distinct regional differences. Despite this, overall it is a stable society which shares common cultural values, and which possesses an administrative system managed by an well-established bureaucracy. Although India is still on the road to development, it is a country with limitless undeveloped resources and rich in human resources, and implies tremendous potential for future development. In this context, India differs greatly from many other developing countries. Of the countries to which Japan provides development assistance, India presents the least amount of risk, and can hold great expectations of fully reaping the benefits from that assistance. In recent years, the economic relationship between our two countries has become more active, and India is looking for Japan's effective cooperation especially in development sectors. Japan's development assistance must respond to those expectations. Further than this, it has great significance in Asia's development, as well in a broader international perspective.

In the twelve months since December 1987, Country Study Group for Development Assistance to India, which was commissioned by the President of the Japan International Cooperation Agency (JICA), has examined the results of Japan's development assistance to India thus far, has analyzed the economic development of India as it stands today as well as the

trends of its development policies, and has discussed at length about the pose that Japan's development assistance should take.

This report was compiled with the support of a task force comprised of JICA personnel, and it is hoped that the report, and its recommendations, will contribute to the more effective and more efficient implementation of Japan's development assistance in the future.

December 1988

Country Study Group for
Development Assistance to India
Chairperson : Chie NAKANE

I . Assistance to India - Issues for Consideration

1. Background

India is a vast country nine times the area of Japan with a huge population of about 781 million, and taking official language alone amounts to sixteen kinds. It is administratively divided into 25 states and six union territories. There are regional differences in climate, topography, types of agricultural products, industrial productivity, levels of income, and medical and social services.

Despite being prone to be regarded as a poorer country, India is an industrialized country rich in natural resources with highly competent scientists and engineers. In 1986 India's gross national product (GNP) ranked 11th in the world at US\$266.6 billion.

Not only is India, like China, important to the development of Asia, it also has a critical role to play in the trend of East-West detente both as the major country in South Asia and also as one of the leading non-aligned countries.

In 1985 India and its neighbouring countries of Bangladesh, Nepal, Sri Lanka, Pakistan, Maldives and Bhutan formed the South Asia Association for Regional Co-operation (SAARC). Co-operation within SAARC is at present magnanimous in areas where there are no contentious issues, and it is expected to play

a major role in the future development of the region. India is also providing development assistance to these countries, and so it is important to view Japan's assistance to India in light of its relevance with future assistance to the region. It may be noted that, according to 1986 figures, Japan is the largest donor country to India, Bangladesh, Sri Lanka, Nepal, Maldives and Bhutan and the second largest donor country to Pakistan.

The Indian economy is based on the socialist-type mixed economic system, and while it has fostered technocrats rich in the knowledge and the experience to formulate and implement development programmes, it has also seen a decline in the efficiency of the industrial sector and a falling behind in the development of its infrastructure.

It can be said that India's economic circumstances are considerably different to those of the ASEAN countries or the Asian NIE's. India has less latitude to expand its export base in comparison to the period when the NIEs experienced rapid growth, because the international economic environment has become more intense, and there are already a number of rivals. Furthermore, the NIE's expanded their export base by adopting outward-looking economic development policies and forming close ties with specific countries, such as Japan or the USA, whereas India, over a long period of time, has proceeded with an inward-looking development strategy, resulting in a lack of international competitiveness in industry. Consequently, India is in a poor position to develop export markets.

During the 1980s India has become aware of the problems faced by its economy and has started to reform its economic structure. These reforms are aimed at easing economic regulations and improving the country's ability to acquire foreign currency, and have acted as a catalyst for Japanese private investment, and in the establishment of business ties. In conjunction with policies to ease economic regulations, India is placing emphasis on the modernization and stimulation of industry, and on the promotion of exports. In particular, India is seeking to modernize industry through the introduction of the latest technology, and to improve productivity in both public and private corporations. India has raised their expectations of Japanese co-operation, and Japan must respond to this. The way in which co-operation between the governments and between the private sectors of the two countries is co-ordinated and augmented will become significant in terms of the future Japan-India economic relationship.

2. Government Spending and ODA

When considering the role of assistance in the overall Indian economy, it is important to realize that the ratio of Official Development Assistance (ODA) to the expenditure of the Central Government is comparatively small. In 1986 the ratio of ODA to total expenditure (excluding defense expenditure) was only about 6.8% compared to Pakistan with about 17.9%, Sri Lanka with about 31.6%, Nepal with about 63.9%, and Bangladesh with

about 91.1%. From these figures it can be seen that foreign assistance has only a limited role in India.

Moreover, the majority of overseas assistance is multi-lateral, coming from the World Bank and IDA. Although multi-lateral assistance to India has been decreasing of late, it is necessary to fully examine those trends when implementing bi-lateral assistance.

3. Poverty and Population Growth

Poverty is widespread, and India must tackle the issues of agricultural development and the fulfillment of basic human needs (BNN). Consequently, most of the assistance provided to India by the World Bank and the developed countries is based on the BHN principle.

In 1986 India's per capita GNP was about US\$290, and about 35% of the population lived below the absolute poverty line. There is an annual population increase of about 15 million, and it is expected to approach one billion in the year 2000.

To solve the problems of poverty and population growth it is necessary to control the population growth rate, to secure a stable supply of food, to maintain and improve the natural environment, to enhance the levels of health and sanitation, and to solve the slum problem. In particular, it is essential to raise

the level of productivity of the farming sector. This will not only contribute to maintaining food self-sufficiency and to raising the income level of the poor, but it will also form the foundation of industrialization and employment generation.

It is necessary to examine Japan's assistance to India, from the aspect of supporting efforts to solve the problem of poverty, by studying the trends of assistance provided by international organizations and the aid agencies of the developed countries.

4. Improving the Efficiency of Macro-Economic Policies

In the past few years India has come to have enormous domestic and foreign debt, which is impeding the progress of the Government's development programmes, and which cannot be easily resolved by India's efforts alone.

In the light of this situation, it has become essential to give backing to structural adjustment of India's economy in order to resolve the domestic financial deficits and foreign debt accumulated by the Government. For this reason, contributing to India's efforts to improve the efficiency of their macro-economic policy management by providing structural adjustment type loans is a course which should be examined.

Furthermore, the full effects of an improvement in the efficiency of the macro-economic policies cannot be realized unless

it is accompanied by reforms to the present system, brought about by the Indian Government itself, and so it is necessary to carry out close policy dialogue with the Government while maintaining close liaison with the international organizations when providing those loans.

5. Improvement in the Ability to Acquire Foreign Currency

India has yet to emerge from the long-term decline in its international balance of payments. The speed in which economic development can be carried out is severely limited by a shortage of foreign currency resources. Furthermore, in order to maintain and accelerate its current policies to ease economic regulations, India must first improve its ability to acquire foreign currency.

To this end, the promotion of exports is crucial. However, India's international competitiveness in manufactured products is still low, and the prospects for export expansion are not bright. As indicated in the "Report of the Committee on Trade Policies (Hussain Committee)" by the Indian Government, domestic factors are the main cause of India's decline in export competitiveness.

Accordingly, the most appropriate form of development assistance is that which will bring about long-term improvements to domestic factors, such as the economic environment, which

should, in turn, improve India's ability to acquire foreign currency.

II. Implementation

1. The Japanese System

It is apparent that Japan does not have an effective system to gather the detailed sectoral and regional information necessary to find and implement eligible aid projects in India, and it has been difficult to formulate good projects and carry out them smoothly. In contrast, the international organizations and other aid agencies of the developed countries are carrying out liaison with the staff of counter part agencies at the state level, and as a result are much more systematic.

One factor behind this contrast is that the number of staff attached to Japan's aid agencies is extremely small compared to that of their foreign counterparts. This is particularly so for overseas offices; OECF and JICA have a staff of three and one respectively, whereas USAID has 25.

Moreover, since Japanese experts have rarely been assigned to India's central and state government offices, implementation organization or public corporations, it is difficult to formulate and implement projects which are suited to the Japanese system.

In recent years, through the efforts of the Japanese Embassy and Japan's aid agencies in India, the responsible agencies in the Indian government now understand Japan's system, which has enabled requests for aid to be processed more efficiently.

However, the system itself differs in many ways to that of the World Bank and the United Nations, so it will still take time to achieve a better level of co-ordination.

In particular, the present system is based on a single year budget, where the amount of assistance for each country is estimated by totalling the cost of individual projects committed during the year. Consequently, it is somewhat difficult to indicate clearly the amounts of assistance and potential projects in the medium and long term which makes it difficult for the Indian government to make request other than those on a short-term basis.

The following are the problems related to development assistance,

<ODA Loans>

With an increase in the amount of loans provided in recent years, it has become necessary to secure good assistance projects on a continuous basis. For this reason, Japan has started to introduce a "pipeline" system which will enable a medium and long-term continuity of assistance and selection of effective projects, while still adhering to the principle of single-year budgets and totalling projects mentioned previously. However, there is a need to promote further the introduction of this system.

<Grant Aid>

The number of requests for grant aid has increased, and it is difficult to combine it effectively with technical co-operation. Further, India would much prefer to use its own corporations and consultants rather than to use those of Japan, so it is difficult to implement projects to construct facilities, and hence the grant aid ends to be used for equipment and materials. As a result, the level of grant aid provided to India is lower than that provided to its neighbouring countries, such as Pakistan and Bangladesh, but it is desirable to proceed with grant aid in areas where effective results can be obtained, taking into consideration India's unique situation.

<Technical Co-operation>

India's requests for assistance place an emphasis on advanced technology that it does not possess, industrial technology and trade promotion, much of which is held by the private sector in Japan. Therefore there are many cases where technical co-operation should be carried out by the private sector. As it stands, it is difficult to recruit experts to carry out government-based technical co-operation.

Japan has based its technical co-operation on the principle of sending experts on a long-term basis to transfer technology to the Indian "counterpart". However, India has requested the assignment of experts on a short-term basis to act as advisors, as partners in joint research, or to provide services, and so there remains a gap between the two countries in these concepts.

In addition, many requests do not fall into Japan's technical co-operation scheme of training and developing human resources, such kind of project-type technical co-operation, which entails providing extremely large sums only for the provision of equipment and materials.

2. The Indian System for Accepting Foreign Assistance

Except for the projects of the Central Government and the public corporations coming under their direct jurisdiction, most projects are carried out by the states or state-controlled public corporations. They are responsible for formulating the projects, and those requiring foreign currency are submitted to the Central Government to be entered as requests for foreign assistance. However, the Central Government is stringent in allocating foreign currency, and the state governments or public corporations must cover the domestic currency element from their own funds, or by borrowing from the Central Government or commercial banks.

India has a massive administrative structure and a complex system for accepting foreign assistance, and is finding it difficult to coordinate the requests for that assistance from the central and state governments. In addition, due to the various control measures placed on imports under the planned economic system, there are often delays in procuring assistance-related equipment and material.

Many of the projects for human resources development, health and medical care, and social services, which are aimed at fulfilling the BHN, and rural development projects, which are aimed at employment generation and the eradication of poverty, are under the control of the state governments, who are finding it difficult to make foreign assistance requests for these projects through the Central Government.

India has many highly competent engineers who are capable of formulating and implementing development programmes. There are also numerous corporations and consultant firms that possess sufficient levels of technology to carry out civil engineering and construction work. Therefore, except for the transfer of special technology, there is a tendency for India to regard foreign assistance as a source of funds for development.

3. Measures to Improve the Implementation of Assistance

(1) First, it is necessary to adopt new approaches which take into consideration India's diversity, such as responding to the country's development needs in terms of states and regions.

(2) In order to find and implement good projects, and to expand the evaluating system, it is necessary to:

increase substantially the number of personnel responsible for development assistance, particularly those at the overseas offices; increase the number of opportunities between Japan and India to

examine various issues extending over the entire project cycle, such as improvements to the development assistance system, and project evaluation and improve further the level of communication between the personnel responsible for development assistance from both countries regarding its effective implementation.

It is also essential to utilize fully development surveys when expanding future financial co-operation.

(3) It is necessary for the Indian side to deepen understanding Japan's development assistance system in order to carry out that assistance efficiently and on a continuous basis. In particular, considering the numerous differences between Japan's system and those of the other aid agencies, it is necessary to intensify the flow of information to the central and state governments.

(4) It is necessary to provide aid with more relaxed terms and conditions on a continuous basis, and which meet India's needs for development funds. In view of the large percentage of the population living below the absolute poverty line, it is also necessary to strengthen the coordination between grant aid and technical co-operation, and to continue efforts to find good projects which will play a role in the eradication of poverty, the fulfillment of BHN, and the expansion of social services.

Furthermore, there is a necessity to carry out joint projects with the other aid agencies and to provide auxiliary support to

the activities of the NGOs. Japan should not limit the selection of projects to include only those that are based on BHN, but should carefully select projects from a range as wide as possible, such as infrastructure development, in order to ensure the effective utilization of the limited assistance resources.

III Future Priorities

India's basic goals of long-term development are the eradication of poverty, the achievement of full employment, and the redressing of social disparity. In its seventh 5-Year Development Programme India has emphasized securing a sufficient food supply, increasing employment opportunities, and raising the levels of productivity as measures to realize these goals. Since development assistance to India would have little long-term effect unless it were implemented within the framework of the Development Programme, Japan's priorities for the provision of development assistance are to:

develop the basic infrastructure, improve economic efficiency, raise the levels of agricultural productivity, promote afforestation and environmental conservation, enhance medical care and social services, develop human resources, promote advanced science and technology, improve the international balance of payments, diversify development assistance, and promote a mutual understanding between the peoples of the two countries.

(These do not indicate any particular order of priority)

(1) Basic Infrastructure

India's industrial development and trade promotion has been hampered by under-developed infrastructures. In particular, the shortage of electricity has become a serious problem. In addition

to being under-developed, the network between the various infrastructures is poor, which has inhibited the country's overall development potential.

In order to deal with these problems, it is essential to provide development assistance to formulate programmes which encompass the entire distribution plan, and which take into account electricity supply and demand and its potential for development, and the development of the network between the infrastructures, such as railways, harbours (including river sand control measures), bridges, airports, and the communications network.

Furthermore, in providing financial assistance for the various infrastructures, it is important to provide effectively technical co-operation which ties in with that assistance, such as sending consultants and experts in the management and control of facilities. It is also important to provide assistance which will enable India to make improvements, through its own efforts, by utilizing the technology it already possesses.

(2) Economic Efficiency

The poor operational efficiency of India's factories in both the public and the private sectors is another aspect hampering its economic development. In addition to the poor operational efficiency of individual factories, an insufficient consideration of

market research and market forces can lead to problems of over-production.

Therefore, in addition to financial assistance to revitalize old factories and equipment, and the short-term assignment of experts in facilities re-activation, operations management, maintenance, and market research to offer guidance and make recommendations for improvement, Japan should also provide training for quality control and market research.

(3) Agricultural Productivity

It is critical for India to secure food self-sufficiency on a continuous basis. To this end, Japan has provided development assistance in the form of ODA loans and grant aid for the development of the agricultural base, and for the construction of factories to produce fertilizers. This assistance has met India's needs and is worth continuing. It is apparent that there are greater needs for assistance for irrigation (consideration should be given to its relationship with hydro-electric power generation), farm machinery and food warehouses. In 1981 the National Bank for Agriculture and Rural Development (NABARD) was established, which led to an improvement in farm and rural district financing. Consideration should be given to the possibility of providing "two-step loans" through this bank.

While India has achieved, in a sense, a food self-sufficiency through the spread of the "Green Revolution" in the wheat and

rice-growing districts, the average food intake of the population has yet to reach the required level. Agricultural output is still greatly influenced by the weather, and the poor harvest of 1987 is a good example of the effects of this weakness. The seventh 5-Year Development Programme has emphasized agricultural development in the under-developed eastern, dry-farming, and non-irrigation farming regions to increase the output of edible grain and to redress the regional contrasts in productivity.

While the "Green Revolution" was brought about by the introduction and spread of high-yield strains of rice and wheat, the use of indigenous strains are showing a steady annual decline. Although world-wide attention is being focused on the importance of gathering, evaluating, and preserving the genetic resources of useful crops, and effectively applying them in breeding projects, it is also necessary to assist in the collection and preservation of the genetic resources of India's indigenous crops, and to foster the better strains which are suited to the country's climate and topography.

(4) Afforestation and Environmental Conservation

It is said that since independence India has lost an area of forest roughly the size of Japan (400,000 km²), mainly in the northern regions. In order to provide assistance for afforestation in those regions it will first be necessary to undertake large-scale geological and dendrological surveys to determine specifically the types of trees suitable for water and soil conservation in each

region. Halting the rapid loss of forests will be of particular use for flood control, will benefit the farmers whose livelihood depends on the forests, and will also be of value in India's long-term energy supply and demand.

Furthermore, transferring Japan's pollution control technology should greatly contribute to the environmental conservation of the region.

Since there are experts and consultants in India with sufficient technology to carry out the necessary surveys, it is preferable that items (3) and (4) be carried out jointly.

(5) Health and Medical Care and Social Services

35% of India's population are living in absolute poverty, and the per capita income is low. Due to an overall lack of development in service water and sewer systems and medical facilities, there is a critical need to enhance health and medical care and the social services.

More specifically, it is necessary to expand the current levels of health and medical assistance, to formulate medium and long-term assistance programmes, and also to provide on a continuous basis medical equipment and supplies, simple water supply facilities, epidemic diseases diagnosis and research equipment and supplies.

Furthermore, there is great potential to undertake joint projects with WHO, UNICEF, and USAID, which have the experience and know-how in health and medical care and family planning programmes throughout the region. Apart from co-operating with these organizations, Japan should also give consideration to programmes which support the activities of Indian and Japanese NGOs.

(6) Human Resources Development

Although India has many well-trained engineers, it also has a large population of unskilled workers, who are at the core of the problems of poverty and unemployment. The state and central governments have made some effort to improve the elementary education system, but the pending issue is to foster semiskilled workers and supervisors who have obtained secondary and higher education, and so it is important to provide assistance for industrial skills vocational centres, and for polytechnics by combining financial and technical co-operation. Much of the development assistance for vocational training to date has consisted of the provision of facilities and the assignment of specialists to individual training centres, but there is a necessity also to examine development assistance which will combine subcentres in a number of regional cities based on the regional distribution of population and industry.

(7) Advanced Science and Technology

Advanced science and technology is the field most emphasized by India when making requests for development assistance. In Japan most of that type of technology is held by the private sector, so there is a necessity both to examine carefully whether the development assistance should be carried out as a private or as a government undertaking, and to investigate the potential of joint research if the latter.

Additionally, comprehensive assistance for the major university in one region, such as that given to the highly regarded Indian Institute of Technology (IIT) by the USA, West Germany, and the Soviet Union, among others, would also be very effective.

(8) International Balance of Payments and Assistance Diversification

Since the beginning of the 1980s the Indian government's financial deficits have grown rapidly, and the flexibility of its financial policies has been reduced. To add to this, its international balance of payments have continued to show a deficit, while foreign debts have been steadily increasing. To counter these trends, Japan should not only continue with the current project-based development assistance, but also examine as soon as possible the provision of structural adjustment type non-project loans, in concert with IDA or ADF.

In addition to providing loans with less stringent conditions that take into account India's foreign debts, there is a necessity to expand the provision of "two-step loans" to provide assistance both for small business promotion, and to improve agricultural financing. To improve India's local cost financing and its international balance of payments, which in turn will raise its ability to acquire foreign currency, it is necessary to provide assistance to develop the tourism structure and industrial estates, to foster small businesses and rural-based industry, and to distribute and export processed agricultural products.

(9) Promotion of Mutual Understanding

In the past Japan's relationship with India was much weaker than its relationship with China and the ASEAN countries. In order to carry out effectively development assistance, it is essential to deepen further the mutual understanding between the two peoples.

To achieve this, it is necessary not only to develop the political and economic relationships, but also to develop human exchanges in a wide range of fields, such as culture, the arts, and academic research.

More specifically, the possibilities may include the establishment of a research centre where both Japanese and Indian researchers can be permanently stationed; the provision of books and literature about Japan, and Japanese language courses

to universities and research institutes of the major states when requested; the substantial increase in the number of exchange students and trainees; and the provision of support for restoration and preservation of India's historic relics and for the development of tourism.

Summary of Analysis

1. Analysis of Development Assistance

1-1 Trends of ODA to India

Examining the trends of ODA to India from the early 1960s to the mid 1980s based on DAC's statistics for net disbursement, reveals a favourable growth in the amount of development assistance. Furthermore, while bi-lateral assistance has been declining, multi-lateral has been growing markedly. In terms of the break-down of ODA to India, while the share of bi-lateral assistance in the aggregate amount is 58.6%, that of multi-lateral has been increasing from 57.7% for the five years between 1976-1980 to 60.4% for 1981-1985. The main provider of bi-lateral assistance is the USA with 41%, which is due to the fact that it accounted for 63.3% of all ODA to India in the 1960s. Next was the UK with 15% due, in part, to the fact that it exercised direct colonial rule over India until its independence in 1947. Japan ranked eighth with 6.6%.

On the other hand, the aggregate multi-lateral assistance to India from 1961 to 1986 has been \$13.141 billion, which accounts for 50.7% of all ODA. Most of this amount has been provided by the World Bank Group, consisting of IBRD and IDA. In particular, IDA's share has reached 73.6%, which has covered the decrease in bi-lateral assistance from the first half of the 1970s.

1-2 Assistance to India by Major Countries and Organizations

Assistance from the UK has been progressing favourably, and from 1976 has covered the repayments with grants. Its assistance policy has been to regard India as a LLDC and, in principle, provides assistance with grants, mainly for the energy sector.

During the 1960s the USA provided large amounts of politically motivated funds, but reviewed its development assistance policy in light of the India-Pakistan war, and the amount of assistance has tended to drop. Based on the assistance philosophy of eradicating poverty, it has placed the emphasis on providing assistance for agricultural, forestry, population and health projects, and human resources development at the local level.

Development assistance by West Germany has been increasing markedly in the 1980s. In particular, they are making the best use of the technical co-operation in a consultative role. It has also placed an emphasis on providing assistance for the promotion of industry and for the raising of the levels of agricultural productivity.

Development assistance by the World Bank Group has greatly increased since the 1970s. In particular, IDA has had the central role in terms of net disbursement, and has placed an emphasis on agriculture, the service sector and human resources development. In recent years, IBRD's commitment has been rapidly increasing, and it has placed an emphasis on

infrastructure development, such as the mining and manufacturing industries, electricity, and roads.

1-3 Japan's Assistance to India

Since participation in the India Consortium, which was formed in 1958 by the major aid countries and the World Bank Group, Japan's development assistance to India has mainly consisted of ODA loans. Its grant aid started with disaster aid in 1977, and has been provide on a full-scale basis since 1979. Japan's aid to India in terms of ODA net disbursement has reached \$1.3 billion aggregate from 1961 to 1986, and ranks eighth in the world (6.6%) for total bi-lateral assistance to India.

In terms of commitment however, Japan has ranked first in bi-lateral aid since 1984, and accounts for 28.4% (\$287.5 million) of the total assistance. In 1986 Japan accounted for 45.2% of the bilateral assistance to India, and in the 1987 financial year Japan's commitment in yearly ODA loans increased by 31.8% over the previous year.

Types of Assistance

ODA loans have been provided since 1958, and in aggregate, India has been the second largest recipient following Indonesia. The loan conditions have been relaxed, and the types of loans have diversified in recent years.

Notable examples are: rehabilitation loans, domestic currency financing and "two-step loans", product loans, project

loans and debt relief. Although the target areas have often been in the manufacturing sector, such as fertilizer factories, power generation plants and telecommunications, of late they have been diversifying into such areas as harbours, tourist development, irrigation and small business promotion. The loans have covered virtually all regions of India.

Grant aid has consisted of general grants, cultural grants, second KR and debt relief, and has been provided mainly in the form of equipment and materials. Frequent target areas have been agriculture, forestry, fisheries, and health and medical care. Although in recent years the amount has increased due to large projects related to medical equipment and supplies, the level of provision has been lower than that of the other countries in the region.

There has not been a great deal of technical co-operation provided because India has moderately advanced level of technology, and a highly advanced level in certain areas. As of the end of March 1987, Japan had accepted a total of 1,822 trainees, had dispatched 227 experts, 311 survey team members and 131 Japanese Overseas Co-operation volunteers. Frequent target areas have been agriculture, fisheries, manufacturing, traffic and transportation, and health and medical care. There have been eight cases of project-type technical co-operation, although there are none currently being implemented.

1-4 India's System for Accepting and Implementing Foreign Assistance

Partly due to its regulated economy the Indian government is highly centralized and has a highly developed administrative structure. It has its own highly centralized system and rules for accepting and implementing foreign assistance. The Economic Bureau of India's Ministry of Finance regulates all requests for assistance, the Central Government accepts the foreign assistance, provides the implementing agency with a foreign currency quota for each project, who then meet any deficiency with domestic currency.

2. Macro-Economy and Development Programmes

2-1 Trends

India's economic growth rate has gradually risen since the 1970s and reached an average annual rate of 5.2% for the first half of the 1980s, which is not particularly high when compared with other countries with similar income levels. The economy grew by 5.1% in the 1985/86 financial year, but this figure is expected to drop to a low 1.5% for 1987/88, partly due to a decline in the agricultural output brought about by the drought.

India's industrial structure is slowly changing, and although the industrial sector now leads the economy, the agricultural

sector still occupies an important position, and so it can be said that the country is still in the initial stages of economic development. However, in the future the industrial sector's relative importance to the economy is expected to rise even further.

India's degree of dependence on international trade is low. During the 1980s exports of textiles and craftwork products have increased, as have imports of raw materials, intermediate goods, and capital goods, the domestic production of which was reasonably developed during the 1960s. Similar to the industrial structure, the import/export structure is not undergoing a period of great change. The country's major export partners are the USA and the Soviet Union, and its major import partner is the USA. Overall, however, the OECD countries account for more than half of both imports and exports. The four major overseas investors in India are the USA, West Germany, the UK and Japan, and account for almost 60% of all investments.

India's international balance of payments have continued to be in arrears, and the size of the deficit has grown rapidly, particularly during the 1980s. In 1986 the country's total debt stood at \$41.1 billion, and its debt service ratio reached 18%. It further deteriorated in 1987. The domestic investment and savings ratio rose greatly from the latter half of the 1950s to the latter half of the 1970s, and it is worth noting that India has financed its necessary investments through domestic savings, rather than by relying too heavily on foreign loans. The 1980s,

however, have seen the gap between investment and savings ratios (ratios to GNP) gradually expand.

Public and private financial institutions have played a key role in promoting heavy industrialization by concentrating domestic savings in public enterprises, but since 1980, financial deficits have rapidly expanded, which has, in turn, limited the flexibility of those financial policies. Given these circumstances, the efficiency of the public enterprises, whose profitability is low despite receiving large subsidization, has become a problem.

Two further characteristics of India are its problems of population and unemployment. The population is expected to reach 996 million in the year 2000, and considering that the working population in 1985 was 56% of the total population, securing employment towards the year 2000 is going to be one of India's major economic challenges. The seventh 5-Year Development Programme listed employment generation as its most important goal, and its major challenge is to find a way to achieve this together with an improvement in efficiency.

From the latter half of the 1960s to the early 1980s India's distribution of income improved slightly, both in urban and in rural areas, and the percentage of the population living below the poverty line gradually declined. When the seventh 5-Year Programme came to an end, it was said that the percentage of the population living in absolute poverty had further declined as a result of the promotion of the agricultural sector, and the

Government's poverty eradication programmes. However, because employment generation must be carried out in conjunction with a rise in the level of efficiency in industry, and depending on the trends of the agricultural sector, there is still a fear that the population living in absolute poverty may expand in the future.

2-2 Development Philosophy and Economic Policies

Based on the industrial policy resolution of 1948 and 1956, India's heavy industrialization was promoted mainly by public enterprises based on state-led programmes, rather than on the principle of resources allocation through market mechanisms. However, because import-substitution for heavy chemical industries was pursued through monopolistic and protectionist policies which had the State playing the leading role, low operation rates and high production costs resulted, and when the public enterprises' low production efficiency led to a decline in the efficiency of the overall economy, industrialization, which had been progressing with remarkable speed, slowed down, and the high growth rates seen in the past could no longer be matched.

In order to emerge from this situation, the "Industrial Policy Announcement of 1980" sought to reconsider past industrial policies, and the outcome has been the economic liberalization policies being promoted today by the Rajiv Gandhi administration. However, there has been strong political opposition by the groups that wish to preserve their vested interests acquired under the old system, and there is a possibility

that the liberalization could be delayed. Further, the policies cannot be expected to produce immediate effects in raising the level of efficiency.

India's financial combines, which are a characteristic of the country's economic structure, occupied an important position economically prior to independence, and they continued to expand after independence. Therefore, through the 1950s and 1960s economic power came to be concentrated in a small number of enterprises, forming what became an oligopolistic market structure. In the 1970s oligopolistic control by large financial combines such as Tata and Birla further strengthened. It is important to note, however, that since the 1970s, the tendency for government-affiliated financial institutions to control the stocks of private enterprises has been strengthening.

Due to the emphasis on heavy industrialization, investment in infrastructures has been insufficient compared to that in the industrial sector. The Indian economy's future task, therefore, is first to develop these infrastructures. At the same time it is necessary to improve the systems for formulating and implementing programmes so as to promote them efficiently and effectively.

Another task might be to reduce the regional differences. One cannot say that there have been great changes in the overall domestic output from the 1970s to the first half of the 1980s, and one cannot say that the regional differences have been

reduced in the process of economic development. In the 1984 financial year large shares were recorded by the states of Maharashtra and Uttar Pradesh. States with high per capita income levels were concentrated in the northern and western sections of the country, mainly the states of Punjab, Maharashtra and Haryana where there were many manufacturing industries, or which succeeded in the "Green Revolution".

2-3 Trends of Past 5-Year Development Programmes

Through the first to the fifth 5-year development programmes, India promoted economic development by setting the basic goals of economic independence and development, reduction of poverty and improvement of the levels of income, by emphasizing the agriculture and heavy chemical industries. The areas of emphasis have consisted of infrastructure development (first programme), promotion of heavy chemical industrialization (second and third), agricultural development for food self-sufficiency (third), stable growth of agriculture, employment generation and the redressing of gaps between industries (fourth), and domestic production of industrial products, food self-sufficiency, and raising of the income of the poorest stratum (fifth). Overall, these programmes did not produce favourable results. Consequently, productivity improvement, particularly in modernizing the industrial sector, was added to the sixth programme. The economic growth rate during the course of this programme was 5.4%, which exceeded the target of 5.2%.

2-4 Outline of the Present 5-Year Development Programme

The present seventh 5-year programme (1985/86-89/90 financial years) is being positioned as the first step in promoting long-term economic development until the year 2000. India's long-term development strategy has set forth such goals as the eradication of poverty, full employment and the redress of social differences, and the programme's development strategy coincides with these. Its specific points of emphasis are the increase of food production, the creation of employment opportunities, and the development of productivity. A further characteristic might be that in addition to the effective utilization of capital (such as the improvement of the productivity of existing facilities), it lays emphasis on the introduction of new technology and promotion of exports. In order to stop the decline of the efficiency of the overall economy brought about by past protectionist policies in conjunction with heavy chemical industrialization, it will be important in the future to create an economic environment which will lead to efficiency improvement through policies such as "liberalization".

3. Sectorial Conditions of Economic Development

3-1 Agriculture

Agriculture is India's most important economic sector. In the past it imported enormous amounts of foodstuffs, but that

situation began to change in the latter half of the 1970s, and the country achieved a food self-sufficiency in 1978. The share of the agricultural sector in India's total economy is about 40%, and that of agricultural workers among the total employed was slightly over 70%. While it is expected that the farm sector's GNP ratio will gradually decline with the progress of industrialization, ensuring food self-sufficiency is necessary to cope with the increasing population. It is therefore necessary to increase further the farm production because, after independence, India actively promoted irrigation projects, and also, due to the spread of high-yield varieties and the increased use of chemical fertilizers, food and textile production has increased markedly.

While the irrigation capacity increased by 11 million hectares during the sixth 5-year programme, there are still many problems related to the major tasks, such as modernizing the irrigation channel systems, developing drainage, and improving the irrigation water control. Although India has achieved a food self-sufficiency, it is using less fertilizers than other Asian countries, and its irrigation and other agricultural infrastructures are less developed. Furthermore, farm productivity (single crop) is low due to under-developed technology, and it continues to be influenced by the weather. Occasionally agricultural production declines due to drought, and the entire economy regresses. In particular, the drought during the 1987/88 financial year was said to be the worst in 100 years, and rainfall during the southwest monsoon period, which is needed for planting KARIFU, was

abnormally small. The drought affected a wide area, and is expected to reduce considerably agricultural production.

The country's long-term outlook and programme regarding the farming sector aims to maintain the edible grain self-sufficiency system in order to maintain a stable supply of food, and to achieve self-sufficiency in beans, oil crops and vegetables.

Under the seventh 5-year programme, the most important development targets for the farming sector are mainly to increase grain production and agricultural development, and to develop rural areas aimed at improving the rural infrastructure and expanding productive employment. In order to eliminate the regional differences in farm development and modernization, the seventh 5-year programme has placed the emphasis on increasing rice productivity in the under-developed rice farming areas in the east, the non-irrigation areas and the dry-farming areas. By doing so, the country seeks to expand the "Green Revolution" to new regions, and develop agricultural productivity in regions which are economically less developed than the rest of the country.

3-2 Forestry

India has 74.6 million hectares of forests which account for 22.7% of its land. Only 56.7 million hectares, however, are economic forests. Furthermore, it is said that 1.5 million hectares of forests are being lost every year, and virtually half of the forests are either denuded or losing trees. However, the

roles and importance of forests are becoming better understood from the viewpoint of protecting the eco-system and the supply of various forestry products. The seventh 5-year programme aims to make one-third of the country forests by the end of the century.

3-3 Fisheries

The sixth 5-year programme placed the emphasis on fresh-water aquaculture, and the fresh-water fishery output markedly increased. In contrast, sea fishery has progressed little, and about two-thirds of their output has been catches by traditional non-powered vessels. Fisheries mainly consist of small-scale operations, and the prawn fishery are an important export industry. The key targets of the seventh 5-year programme are to modernize the fishing boats and equipment of the coastal fisheries in order to enhance their production efficiency, and to make improvements in distribution by developing the fisheries infrastructure. It also aims to promote offshore fisheries in order to develop the fishery resources with the exclusive economic zone.

3-4 Mining and Manufacturing Industries

Production of electricity grew favourably for three consecutive years, due mainly to increased production by thermo-electric power plants. Based on this, the chemical, electronic equipment, and vehicle industries grew markedly, recording a growth rate of 8.9% in the 1986 financial year, which meant that

the eight percent level had been maintained for three consecutive years, showing the trend for steady growth.

The industrial sector accounted for 21.9% of the GNP (1985/86), which has hardly changed from the 20.7% of 15 years ago, and which indicated that India was still an agricultural country. The main reason for this was that the public sector, which accounts for 65% of the industrial sector's total fixed assets, has fallen into management difficulties due to low rates of operation resulting from delays in modernization, and managements' lack of awareness in selection, competition and efficiency when introducing new technology.

While liberalization policies are being promoted to adjust the industrial structure there are those who doubt whether the policies can fully modernize or activate the industries because they are basically confined within the framework of the construction of an independent economic society. There is also criticism from within the Indian government and the industrial sector stating that the liberalization policies will damage the domestic industries, and those trends will be closely watched.

3-5 Energy

India's energy sector is characterized by a diversity of energy sources, from nuclear power to cow dung. The main commercial energy sources are coal (21%), petroleum (49%), and electricity (24.9%). Non-commercial energy sources include

firewood and plant dregs. Petroleum production for the 1985/86 financial year was 30.2 million tonnes, which showed an increase over the 1984/85 amount of 29 million tonnes, but imports have also increased, brought about by an increased domestic demand, so the self-sufficiency rate has substantially declined from over 80% in 1984/85 to 67% in 1985/86.

Although hydro-electric power generation dropped due to insufficient rain, power generation from thermoelectric power plants increased by about 16% through facility expansion. Combined with a growth of nuclear power generation, the amount of power generated during the 1985/86 financial year reached 170GWh. This was an increase over the 1984/85 financial year of 8.7%, which itself increased by 11.6% over the previous year's amount, and showed a continuing trend of high growth. This contributed to the increase in industrial production, particularly that of the manufacturing industry.

To improve the energy self-sufficiency rate and its usage, the most important goals of the country's energy policies are:

- (1) the acceleration of coal development and use of hydro-electric and nuclear power generation,
- (2) the build-up of petroleum and gas exploration and development,
- (3) the development of reusable energy resources (winds solar energy, biomass etc.), and
- (4) the build-up of research and development on all energy sources, but particularly utilization technology.

3-6 Infrastructure

Most development investment has been allocated to the industrial sector, partly because India promoted heavy chemical industrialization policies after the 1950s. Therefore, investment in the infrastructure as a whole has been kept at a chronically low level. As a result, considering the size of India and the distribution of industry throughout the country, investment in electricity, transport and communication is important, but the shortage of investment in these sectors has brought about a chronic disparity in supply and demand.

In addition to the limited amount of investment in the various sectors, the problems associated with the means for project formulation, implementation and management have aggravated the investment efficiency, and this has lowered the efficiency of all economic activities in general.

Electricity.

Despite the growth of power generation, there is still a considerable disparity in supply and demand (6.1% in 1984 financial year). This particularly affects the industries that consume enormous amounts of electricity, such as coal, steel and fertilizer. To resolve the power shortage, it will be necessary to:

- (1) improve the rate of operations,
- (2) expand the electricity transmission and distribution systems, and

(3) improve project management.

Railways.

In order to deal with the increase in transportation demand, which is due to increases in the transportation of raw materials and products resulting from the industrial dispersion policy, and to increases in the amount of coal being transported (for power generation), it is necessary to improve the quality of transportation by replacing the superannuated cars, modernizing the existing maintenance facilities, and establishing inter-modal transportation systems.

Roads.

Despite the fact that car ownership has increased 3.7 fold during the past 15 years, investments in roads have not grown in real terms. The issue is how to secure the investment funds, and to maintain and manage the existing national roads.

Airlines.

In order to cope with the volume of passengers and freight, which are increasing annually by 8% and 18% respectively, it is necessary to improve the facilities of both domestic and international airports, including the modernization of air traffic control systems.

Harbours.

To cope with the increased volume of freight, it is necessary to modernize harbour equipment and facilities (in particular, to improve the container equipment and facilities), and develop inter-modal systems with railway and other inland traffic facilities.

Telecommunications.

While India seeks to reduce the gap between supply and demand by increasing the investment amount by about 2.3 times of that in the sixth 5-year programme, the issue will be whether the domestic production programmes based on the introduction of foreign technology, such as that for digital switchboards, will progress according to schedule.

3-7 The Environment

Development and the Environment

India's environmental problems are closely linked with under-development and poverty. In particular, if sufficient consideration is not given to the environment in the development programmes' formulation or implementation stages, the development's negative effects will greatly affect the environment and the eco-systems. The main goals of India's development programmes are the eradication of poverty and the generation of employment, and because of the urgency in achieving those goals, there is a tendency for environmental considerations to be set aside.

Environmental Administration.

Systematization of India's environmental administration only started in earnest when the Environment Agency was established in the Central Government in 1980, during the period of the sixth 5-year programme. Corresponding offices were subsequently established in the various state government. Moreover, in 1985 the Department of Environment, Forest and Wildlife was established to deal with environmental, forestry and wildlife issues in general.

Water and Air Pollution.

India is monitoring large and medium sized factories based on the Water and Air Pollution Prevention Act, and pollution source control programmes. It is also establishing national environmental standards to control polluting substances.

Forests and Wildlife.

India is estimated to have about 747.2 million hectares of forests, of which 397.8 million hectares are national and 216.5 million are protected. A satellite survey showed that it had lost about 91.7 million hectares of forests during the ten years from 1972 to 1982. Some of the causes have been the population increase which necessitated the clearing of forests for farmland, and the gathering of firewood and charcoal to provide for basic fuel needs.

India has formulated programmes to protect the wildlife, such as "Project Tiger", has established the Indian Wildlife Research Institute, and is offering protection to various forms of wildlife within national zoological parks.

4. Society

4-1 Human Resources and Social Composition

One of the foundations of the "National Education Policy" of 1968 was to grant compulsory education to the entire population, and India has poured a great deal of energy into increasing the number of educational facilities and training teachers. As a result, today elementary schools have been established in all regions, even the outlying regions (although some may lack certain facilities). In 1986 the illiteracy rate among the population of 15 year old and over was 59.2% (74.3% among women and 45.2% among men), or 238 million. However, this high illiteracy rate simply means that these people have not received a modern school education. Through community activities, mainly through Hindu temples, the general population have received a traditional social education by means other than writing. For this reason, even farmers who can neither read nor write are, to a reasonable extent, familiar with abstract concepts and have the ability to think logically. Therefore, the existence of a large illiterate population does not mean that the people are uneducated. Accordingly, Indian society might be considered as

one in which the fruits of modern education can quickly be reaped if the people are given the proper opportunities.

In contrast to the existence of a large population who are unable to receive modern education, in today's India the number of college graduates far exceeds the number of jobs that are available. Many cannot find jobs which are commensurate with their education, or are simply unemployed. That there should be such a marked polarization in a single country is rare in the world. Although India has produced outstanding world-class scientists, it has only a relatively thin layer of the population who have received secondary education or specialist training, in other words: those who are able to become middle-level or specialist technicians. It can be said that this is one of India's characteristics. This layer is absolutely critical for the economic development of India. Overall however, employment opportunities are lacking in relation to the available human resources. Although the generation of employment is the major goal in the seventh 5-Year Development Programme, one can feel the slow tempo of social and economic development.

The following points can be specified when viewing India's population in terms of social composition. On one hand, there is the upper caste which has traditionally supplied the intellectuals, while on the other, there is the designated caste, which has occupied the lower position in terms of both caste and social hierarchy. There are also the minority groups (tribals), which are said to number over 400 groups, and which account for

slightly under 7% of the population. The latter two groups have been placed at a disadvantage in the process of social and economic development. However, educational and economic consideration has been given to them since the first and second development programmes, and their situation is gradually improving. The social and economic gap between the designated caste and the minorities, who together account for 23.4% of the population, and the upper caste, who have produced the elite, has been of a size not seen in other countries. However, a marked trend in recent years is the growth of a middle layer, and the society as a whole is beginning to show some dynamism. Not a few people who had belonged to the lower caste or minority groups have achieved important positions or have succeeded economically. Also marked is the social advance by women. In the past social advance by upper-class women had been more marked than in Japan, for example, by trend in recent years is the quantitative increase of social advance by middle-class women.

Regionally, India consists of many languages, and is the most prominent country in the world in terms of its diversity. Consequently, the relationship between the country's overall unity, and the individuality of the regions has many problems. For example: although there are problem areas, such as that related the Sikhs or regions of Tamil Nadu and Assam, it continues to be a stable society because it has a common social system throughout the country, which is based on the Hindu society who account for the majority of the population, they share

common cultural values, and there is an intellectual stratum which has a nation-wide network. Furthermore, it has an administrative structure managed by an outstanding bureaucracy, and of all the countries to which Japan provides development assistance, India presents the least amount of risk. In this sense, it is a country that can hold great expectations of fully reaping the benefits from that assistance.

4-2 Social Welfare

Today almost 40% of India's population are living below the absolute poverty line, and providing social welfare and health and medical care for these people has become a critical problem.

Social welfare has traditionally been carried out at the community level. For example, in the villages, the wealthy upper-class families had the responsibility of keeping the village's pond water clean, or the poor who had nothing to eat were given food, which had been contributed by the wealthy, at the temples.

These were systems to ensure that the village members did not suffer in terms of sanitation and livelihood. Furthermore, a considerable amount of mutual help was available among members of the same caste or paternal family. However, together with modernization (industrialization) came a gradual increase in the number of people who could no longer make a living by the former caste-determined occupations, or who had entered new occupations, and in particular, there were great changes to the village economy due to an out-flow of the upper-class, and a shortage of land caused by the population increase.

The previous community systems started to break down, and the situations of the poor became even more acute. Whole communities from the minority groups, who had relied on slash-and-burn farming in mountain districts, became impoverished due to the incessant increase to the population, and a layer of poor, which had not previously existed within their societies, was formed. This type of situation had already become apparent in the 1950s, and it is becoming more severe each year. The surplus rural population moved to the cities in search of work, but the cities did not have the capacity to accept them, which further aggravated the situation. In light of this situation, it has become critical for the Government to provide social welfare.

It is essential that this social welfare deals with the problem at the state, the district and, furthermore, the community level. Social workers and others are providing detailed guidance in some regions, but it requires an enormous budget, simply because of the size of the population. The problem is not going to be an easy one to solve. However it is an area in which the Government must make progress, even if just by small steps. It is essential to recognize that foreign assistance designed to fulfill basic human needs will produce effects only when it reaches a grass-roots level.

4-3 Health and Medical Care

Population and Family Planning

Since India's population will approach one billion in the year 2000, the implementation of effective population and

family planning has become a critical task. It has set forth a long-term population policy of reducing its overall net reproduction rate (NRR) to one by 1996, as well as establishing the goal of reducing the NRR of each state also to one by the year 2000.

Nourishment and Disease

Chronic under-nourishment and malnutrition are greatly affecting the health of the Indian people. Protein shortage in particular has become the central nourishment problem. Xerophthalmia, which is due to a lack of proteins and vitamins, is prevalent among growing infants, pregnant women and nursing mothers; anemia, which is due to a lack of iron, is prevalent among women of child-bearing age; and goitre, which is due to a lack of iodine, has become widespread. Laxative diseases in infants, which are caused by an unsanitary environment and a lack of safe drinking water, are also prevalent

Development Programmes for Health and Medical Care

The Indian government has made the slogan "Health to all people by the year 2000", which was adopted by WHO, its long-term goal, and has given the following points in particular priority within its national health policies:

- (1) to extend health and medical services to the individual,
- (2) to promote community participation in health and medical development, and

(3) to position health and medical development as a part of human resources development, and to bring into harmony the programmes for the supply of safe drinking water, environmental sanitation, nourishment, housing and education.

ANNEX 1

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