

**The Second Country Study for Japan's Official  
Development Assistance to India**

March 1995



The Committee on the Country Study for Japan's  
Development Assistance  
to India

Organized by  
Japan International Cooperation Agency









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## Foreword

This Report is a continuation of the first Country Study Report for Japan's Official Development Assistance (ODA) to India, published in March 1988 which explored appropriate forms of Japanese ODA to India. Taking into consideration the extensive changes that have reshaped India over the past seven years, the Committee on Second Country Study for Japan's ODA was launched in July 1994 to bring together the conclusions of an investigative quest aimed at providing the country more timely and effective aid packages.

India itself has been a part of the global trend, in which the former Soviet Union republics and nations, and Eastern European countries are striving to transform themselves into market-driven economies. Under the Rao administration, which came into power in 1991, India has driven the positive program of economic reform. Already, the country has demonstrated some measure of success in the arena of macroeconomic management, and has begun to draw the world's attention as a potentially enormous consumer market rivaling even China. Nonetheless, the country is in need to devote itself more to date in dealing with a number of pressing challenges, including action to redress its regional disparities and improve the living standard of the poor, who account for fully four-tenths of it's population.

A vast country, India has a population of some 850 million which is based on a federal system of government comprising 25 states and seven union territories. It is well-known for the rich bio-diversity characterizing its natural environment, and is also distinguished for the complex interrelations among its different languages, religions and social strata. The country is latent with the need for development aid assistance. Taking into account the above mentioned characteristics together with the complex web of tough problems it is facing, we need to take an action which specially matches the situation and conditions of India.

Since 1986, Japan has been India's largest donor of bilateral aid and is playing an important role in external assistance of India. It is imperative that it strive above all to supply effective forms of aid shaped through a considerate, long-term perspective. This report offers recommendations for new approaches aimed at facilitating the implementation of aid itself, including the institutional consolidation. Through the work of our study committee, we became

aware of the restrictive conditions of effective implementation and expansion of Japanese ODA to India. Indeed, we are now convinced that stronger actions to erase this deficiency will ultimately translate into more-productive and appropriate aid activities.

It is my sincere hope that this report will contribute to the formulation of future development assistance policy on India, to the effective implementation aid, and to strengthen friendship ties between our two countries.

In closing , I would like to express my deepest thanks to all involved in the activities of this Study Group: the Study Committee members, who shared their extensive expertise and understanding of Indian affairs; the Task Force members; and the officials of Japanese Embassy and the Japan International Cooperation Agency office of India who provided us with full assistance in our on-site investigative studies. Finally, I wish to gratefully acknowledge the generous assistance afforded us in so many ways by the government officials, scholars and those concerned of India.

March 1995

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## **1. Political and Economic Trends**

### **1.1 Changes in the International Climate**

Global trends in the late 1980s were shaped by the ebbing Cold War era and an emerging transition to market economies by some of the former socialist countries. In India, these developments have been one of the factors influencing economic policy since the country's independence, and at the same time have helped spur a focus in the foreign-policy that hitherto had reflected pro-Soviet in its complexion. In effect, the Eastern bloc's embrace of market-driven economic structures thrust the inefficiencies plaguing India's own traditional economic system into the spotlight of scrutiny. Many Asian countries, and including China, have achieved impressive economic strides on the basis of economic liberalization policies, thus showing lesser importance in India's protectionist policies of economic management.

India launched programmes to liberalise its economy in the late 1980s. However, a worsened trade imbalance due to an increasing import surplus expanded the deficit in the country's balance of payments. This, coupled with the impact of the war in the Persian Gulf, confronted India with a serious foreign currency crisis at the start of the 1990s. With assistance from the IMF and World Bank, the Indian government thus embarked on a new programme of economic reform in an effort to make a serious break with economic policies of the past.

The collapse of the Soviet Union triggered a realignment in diplomatic relations among countries throughout South Asia. Given the strong ties it had nurtured with the former Soviet Union in the economic, political, and security dimensions, India, for its part, thus found itself compelled to search for a set of new foreign-policy arrangements. The rupee-ruble bases for trade benefited India, for it had enabled the country to import crude oil and refined petroleum products without having to rely on its foreign currency reserves. But after the Soviet Union's collapse, non-defense-related trade with members of the Commonwealth of Independent States (CIS) dwindled significantly. The Soviet Union and India had been bound by a peace and friendship treaty in which the former counted as a vital source of weapons imports. Its collapse accordingly had a major impact on Indian foreign policy.

These developments effectively accelerated the pace of efforts to mend Indo-U.S. ties, which had already begun to evidence signs of improving with the end

of the war in Afghanistan. Indeed, the two countries have made particularly striking progress toward strengthening their economic ties and heightening their cooperation in the security arena. India has been working hard to lure in more foreign investment. The U.S. has taken notice of the Indian market's future potential. Echoing that fact, Indo-U.S. trade has been burgeoning for some years now, and U.S. direct investments in India dwarf the inflows from other countries. Cooperation in security affairs has also picked up, as evidenced by the joint Indo-U.S. naval exercises conducted in May 1992. In fact, in January 1995, U.S. Secretary of Defense William Perry paid an official visit to India—the first by a U.S. defense secretary in seven years—to sign an accord paving the way for closer relations in the defense sector.

Solution of border tensions with China has long been a major task facing the Governments. However, during a state visit to China in September 1993, Indian Prime Minister Narasimha Rao signed a pact on maintaining peace and tranquillity along their existing borders. That step appears to have put ties between the two countries on the mend. India has also sought to strengthen its economic links with other Asian countries. As a result, Asian investment in India has been picking up steadily.

Relations with Pakistan, however, have come under the spotlight. To be sure, India and Pakistan remain effectively deadlocked on a number of contentious issues. The expulsion of diplomatic staff, the 1994 remark by the former Pakistani Premier Nawaz Sharif that his country "has the bomb," the struggle in Kashmir, and controversies surrounding nuclear development programmes in both countries have contributed to a persistent atmosphere of tension. The shock waves from the religious uprising in Ayodhya, twice postponed the SAARC (South Asian Association for Regional Cooperation) leaders' summit slated to convene in Dacca, in April 1993 the summit ultimately concluded with a fundamental accord on the South Asia Preferential Trade Agreement (SAPTA).

India's efforts to reform its economy are aimed at securing the country's bonds with the global economy at large. The country has begun to draw attention as a gigantic market with potential second only to China's in scale; given that factor, India's presence on the world stage can only be expected to loom ever larger in the years ahead. Nonetheless, to nurture healthier ties with the rest of the international community, India and Pakistan will be well advised to build friendly relations within the context of SAARC and at the same time by signing the Nuclear Nonproliferation Treaty.

## **1.2 Domestic Political and Economic Trends**

Domestic political and economic affairs in India grew increasingly turbulent in the late 1980s. In the November 1989 elections in Lok Sabha, the Congress Party was soundly defeated and toppled from power by the National Front, a coalition led by the Janata Dal party. In its place emerged the National Front administration of Prime Minister V. P. Singh. The change of government, however, did nothing to ease domestic tensions. In November 1990, a new administration led by Janata Dal dissident Chandra Shekhar took the reins, but came to an abrupt end only four months later, thus paving the way for general elections in May 1991. The assassination of former Prime Minister Rajiv Gandhi and demonstrations by the Bharatiya Janata Party (BJP) were among the turbulent events that marred the campaign period. Ultimately, although the Congress Party was unable to regain its majority, it did garner the greatest number of seats, and it assumed power under the leadership of elder statesman Narasimha Rao the following June.

India during this period also faced an economic crisis. Though economic reforms she had pursued during Rajiv Gandhi administration, had fostered strong growth averaging 5.8 percent per annum, the expansion was accompanied by a widening budget deficit as well as a surge in imports. Accordingly, the late 1980s saw conditions of macroeconomic disequilibrium become increasingly manifest. The external debt soared, the budget deficit ballooned, and inflation moved up and remained at double-digit levels. In August 1990, at the very height of all these destabilizing political and economic developments, the crisis in the Persian Gulf flared. The price of imported crude oil shot up, exports tumbled, and fund transfers from Indian workers in the Middle East dwindled. In response, India's foreign currency reserves fell precipitously low, and just as precipitously, the country suddenly found itself saddled with a political and economic crisis of dire proportions. In 1991, with the assassination of Rajiv Gandhi, crisis conditions came to a head. Same year in March, India was ranked as the world's third-largest debtor nation. The renewed current of political instability, however, hampered its chances for new loans from the IMF.

As its first order of business, the Rao administration that came to power in June 1991 faced the pressing task of dealing with the foreign-currency crisis.

To that end, it appointed Manmohan Singh, a specialist in economic affairs, and embarked on a bold process of economic reform with backing from the IMF, the World Bank, and leading bilateral donors such as Japan. Essentially drawn up in keeping with elements of the structural adjustment programme advocated by those two institutions, the reform programme consisted chiefly of policies aimed at curbing overall demand: macroeconomic stabilization measures and institutional reform on the supply side of the economy (including the liberalization of trade and foreign exchange, the relaxation of restrictive industrial policies, steps to overhaul and privatise state-run enterprises, tax reform, and reforms to the financial system). India deserves high marks for the accomplishments in macroeconomic management it has demonstrated since implementing its economic reform. Macroeconomic indicators began hinting of an improving trend in the economy in fiscal 1992. And, to be sure, India met most of its targets in economic stabilization during the first two years of the reform process.<sup>1</sup> Nonetheless, it still faces numerous problems in the arena of budget reform and in striving to overhaul its state-run enterprises and the financial system.

The current economic reform process represents a bold departure from past policy conventions. Given that India is a political democracy, though, it stands to reason that trends in public opinion will be a crucial factor guiding the strategies chosen to drive that process on into the future. That prospect notwithstanding, it should be noted that the political parties comprising the opposition in India generally support the aims of the economic reform process itself. Consequently, India does not appear likely to steer away from its basic course of economic reform any time soon. Still, the Congress Party did suffer defeats in two vital state elections held in December 1994. On top of that, the con-

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<sup>1</sup> In terms of the wholesale price index (WPI), inflation peaked out at 17 percent year-on-year in August 1991. By the end of fiscal 1992/93, it had fallen back to the 7 percent level. India's foreign currency reserves bottomed at \$2.2 billion (equivalent to a month's worth of imports) at the end of fiscal 1990/91. By the end of fiscal 1992/93, though, reserves had recovered to \$6.4 billion (3.4 months of imports). Economic growth at that point was running at 4 percent, up substantially from the 1.2 percent pace registered at the end of fiscal 1991/92.

The fiscal budget deficit at the end of fiscal 1990/1991 had reached 8.4 percent of GDP. By the end of 1991/92 it had fallen to a corresponding 5.9 percent, and—albeit still above the official target—to 5.7 percent by the end of 1992/93 (Government of India, *Economic Survey* 1993-94). The government was aiming for a fiscal 1993/94 budget deficit of 4.7 percent of GDP. However, given that the budget itself was growth-oriented; that factor was compounded by a decline in tax revenues and a parallel expansion in subsidy outlays, thus leaving a deficit that actually measured 7.3 percent of GDP that year. Another matter of concern is that the inflation rate has begun to rise again (Table 1, Fig. 1).



sumer price index has been moving consistently up and at a rather steep pace. Combined, these factors suggest the government will be compelled to pursue its reforms with extra care in years ahead.

## **2. Development Programmes and Trends in Development Assistance**

### **2.1 Economic Development**

#### **2.1.1 Economic Management: an Overview**

India embarked on a clear-cut economic development path in the mid-1950s. The development policies it has pursued since can be classified into four periods defined in terms of the strength and scope of state-run sector-focused policies for industrial protection, cultivation, and regulation.

The first phase (from the mid-1950s to the mid-1960s) witnessed government intervention designed to foster industrialization with a priority on the manufacture of intermediate goods, together with the implementation of policies that gave preference to state-run enterprises. The second phase (from the mid-1960s to the mid-1970s) was distinguished by a strengthening of regulations on industry, industrial conglomerates, and foreign currency transactions, and also marked the inception of the Green Revolution. The third phase (from the mid-1970s to the start of the 1990s) witnessed ad hoc measures in deregulation (on a sector-by-sector basis) backed by achievements in food self-sufficiency. The fourth phase (July 1991 to the present) has been one of serious and far-reaching efforts in economic liberalization. Though state-enterprise-led economic management did contribute to the establishment of India's modern industrial base, inefficiencies and low productivity eventually formed bottlenecks to further economic advance. The above four phases of development strategy effectively reflect this mutation.

In the fourth and latest phase, India since mid-1991 has pursued measures in macroeconomic stabilization, sweeping economic liberalization, and deregulation. As a result of those strategies, the country witnessed a favourable turnaround in its financial balance, particularly in its balance of payments. Furthermore, within the span of some two years, it had removed constraints on growth in its foreign currency reserves. Nonetheless, India still faces a number of more-stubborn problems: for instance, stronger anti-inflationary measures, financial system reform, fiscal reform including changes to the tax system, and the task of overhauling state-run enterprises. Accordingly, for the next few years, it must ensure that accomplishments in macroeconomic stabilization take firm hold and work their way through the economy, strive to bring its

multiple programmes in economic reform to culmination, and aim for even faster-paced economic growth.

Still, it should be noted that Indian accomplishments in economic liberalization and deregulation to date have already begun to serve as a major stimulus to activity in the private sector. In particular, leading private firms are now able to raise enormous sums of cash in the domestic and foreign capital markets. In addition, demand for consumer durables has been picking up since 1994: growth in industrial output of cars, audiovisual equipment, and machine tools has been especially pronounced. Liberalization together with the devaluation of the rupee, moreover, have fed export growth in labour-intensive industrial fields, stimulated activity in the small- and middle-sized-business sector, driven up inflows of direct investment and securities investment funds—particularly from countries in Europe and North America—and triggered a steep expansion in the software industry. Conversely, revisions in the agricultural-subsidy programme and efforts to implement taxes on agricultural income have not shown any noticeable results.

Areas demanding further action tend to be characterised by a number of problems. In the arena of tax reform, for instance, India faces the task of adjusting the ratio of direct to indirect taxation, establishing clearer lines of demarcation between central- and state-government jurisdiction in tax-collection affairs, and bolstering government abilities in tax collection itself. In striving to reform its state-run enterprises, India has made virtually no headway in privatization. Further, stiff opposition from labour unions has delayed work to downsize or terminate deficit-ridden state-run enterprises. In the dimension of industrial policy, the country has vastly increased the number of industrial sectors open to foreign and domestic private-sector participation, and has all but scrapped its industrial licensing framework. Nonetheless, ambiguities still riddle guidelines on participation in the electric power and communications fields, particularly concerning conditions for entry by foreign-capitalised firms.

Though direct investment in India has been growing at an impressive pace, it remains diminutive in absolute scale. Each state has proven eager in angling for more foreign investment, yet one current reality is that private-sector interests tend to concentrate their investments in states that are more industrially advanced, thus increasing expectations of a steadily widening rift in the level of development state-by-state. India has also launched a host of measures in

financial reform; nonetheless, serious new progress in financial deregulation will ultimately be conditioned on real cuts in the fiscal deficit. In exchange rates and foreign trade, India has already liberalised current transactions and achieved status as an IMF Article 8 nation. However, it must devote substantially more effort to the task of expanding exports if it is to effectively offset import growth driven by the uptrend in manufacturing-sector output.

As it happens, India's trade balance in 1994 worsened in comparison with the previous year's. Another cause for concern is the impact that agreements under the GATT Uruguay Round will likely have on the country's high tariff rates. In any event, it will be necessary for India to explore schedules and eligible items for tariff rate cuts that reflect its domestic manufacturing sector's level of growth and development.

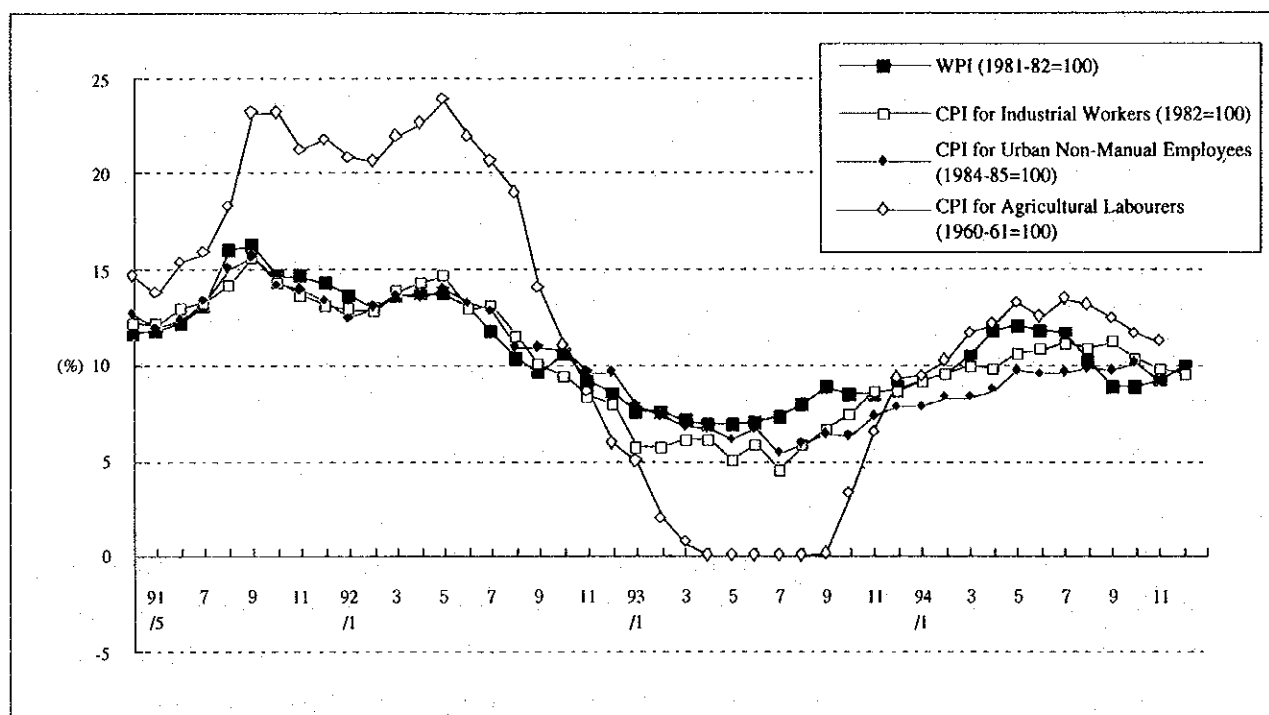
**Table 1 Key Macroeconomic Indicators**

	89/90	90/91	91/92	92/93	93/94	94/95
GDP Growth Rate (in 1980/81 prices)	5.6	4.9	0.9	4.3	4.3	5.3
Wholesale Price Index	9.1	12.1	13.6	7	10.8	11.5
Gross Fiscal Deficit (as a % of GDP)	7.8	8.4	5.9	5.7	7.7	6.7
Current Account Deficit (as a % of GDP)	2	3.3	0.4	1.8	0.1	
Foreign Currency Reserves (millions of US\$) *1	33.6	22.4	56.3	64.3	150.7	196.5 *2

\*1 Excluding gold and special drawing rights.

Sources: Government of India, *Economic Survey 1992-93*, *Economic Survey 1993-94*, *Budget at a Glance 1994-95*. Reserve Bank of India, *Annual Report 1993-94*.

**Fig. 1 Annual Inflation Rate**



Source: Compiled from data in Government of India, *Economic Survey 1991-92*, *Economic Survey 1993-94*.

**[Addendum: Overview of the Eighth Five-Year Plan]**

The Eighth Five-Year economic plan (1992-97) currently in force is somewhat more relaxed in character than its predecessors, as it aims for general development frameworks and merely recommends targets for specific industrial sectors while striving for heightened efficiency through efforts to bolster the market mechanism. Echoing the liberalization trend, it stresses a central-government role of coordination and intervention in affairs with and between state governments, and focuses government efforts at large on the enhancement of social services and on infrastructure development to offset negative repercussions stemming from economic reforms. In particular, one priority is to encourage more-active public participation in the social and economic development process by enhancing rural development programmes.

Under the current plan, India has introduced participatory approaches to rural development that, on the basis, involve the public at the village, community, and district levels to find and elaborate projects that are better-adapted to the local needs. In the meantime, moreover, it appears to be moving to curb

population flows into urban centres through productive and sustained investments aimed at creating more employment in rural areas. Furthermore, for the longer term, it has decided to encourage private initiative in the industrial sector and private participation in physical infrastructure development.

Human development has been accorded status as the ultimate goal. To that end, the economic plan accords priority to generation of adequate employment opportunities to achieve near-full employment by the turn of the century, building up people's institutions, control of population growth, universalisation of elementary education, eradication of illiteracy, provision of safe drinking water and primary health facilities to all, growth and diversification of agriculture to achieve self-sufficiency in foodgrains and generate surpluses for exports.

The Eighth Five-Year plan calls for further cuts in the government investment rate, focused increases in agriculture-related investment, a heightened allocation of investment to state governments, reductions in external and domestic borrowing, curbs in non-plan expenditures, and efforts to boost revenues. Features of the fiscal 1994/95 budget include cuts in subsidies to state-run enterprises, actions in industrial stimulus, and increases in expenditures for social-sector and rural development.

### **2.1.2 Sectoral Trends**

#### **Agriculture**

Since India instituted its fifth five-year plan, manufacturing and services have each accounted for gradually widening shares of total GDP in tandem with a corresponding contraction in the share attributable to agriculture (Fig. 2). In view of the growth gap distinguishing it from manufacturing, agriculture would seem to have a relatively weakened role to play in India's modern economic development. Nonetheless, she still employs about 70% of the nation's work force, and also counts as a vital, stabilising foundation for advances in other sectors as well as successes in the arena of economic reform.

As it happens, an acknowledged peaking trend in food crop yields stands out as the primary issue facing Indian agriculture at this time. That trend, moreover, appears to be a manifestation of several background factors. For instance, India has approached its limits in terms of maximising land area in

cultivation. In addition, erosion and deteriorating soil quality have widened the total in uncultivable land area, investments in irrigation and other infrastructure projects have languished, and government subsidies have been cut.

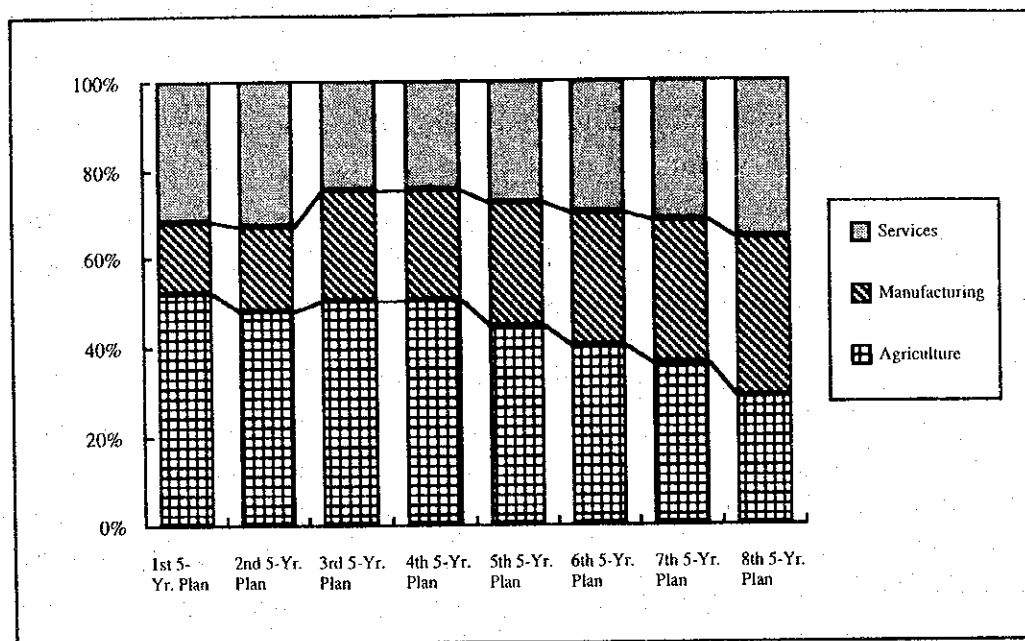
Second, there is an imbalance in cereal crop production region-by-region, and poor productivity characterises key growing regions for rice, wheat, and other crops. These problems stem from such factors as varying soil and climate conditions, but in some ways also count as a manifestation of the uneven distribution of the Green Revolution's benefits.

Disparities among different classes of land holding, count as yet a third problem. In India, agricultural labourers account for 40 percent of the agricultural sector's total work force; further, small or marginal farmers who manage tracts of two hectares or less account for three-fourths of all farm households and over 90 percent of all new farm households, thus underscoring the trend toward small-scale farmland ownership. Such small-scale farming operations face shortages of funding for purchases of fertilizer and basic farm implements and facilities, poor access to rural credit, and difficulties in adopting new farming techniques.

## **Industry**

In the secondary industrial sector, and manufacturing in particular, the capital-goods industry, heavily dependent on state-run enterprises, has shrunk. Intermediate goods and consumer durables, however, have followed notable expansion trends. Lagging infrastructure (chiefly in electric power and the supply of water) has been one of the basic bottlenecks to industry. The expansion in intermediate goods output is attributable in part to advances in electric power, coal, and other primary industrial sectors, as well as improvements made in recent years on the institutional front. The eagerness of India's burgeoning middle class to purchase durable goods, especially household electrical appliances, has been one of the factors driving the advance of industries engaged in the production of consumer durables.

**Fig. 2 Composition of GDP**



Note: The periods covered by India's eight five-year plans are as follows, in chronological order: 1951-56, 1956-61, 1962-66, 1969-74, 1974-79, 1980-85, 1985-90, and 1992-97.

Source: Chart compiled from data in the Centre for Monitoring Indian Economy document, Eighth Five Year Plan 1992-97: *A Comparative Picture*, 1992.

Foreign investment in India has been climbing steeply since the government unveiled its "new industrial policy" in 1991. Under the eighth five-year plan, 23 percent of total investment has been allocated to the manufacturing sector, and of that, expectations are that the private sector will furnish 75 percent. Compared with the mining sector, which is strongly dependent on government workers, the manufacturing sector accounts for 60 percent of the private-sector labour force. About half of India's domestic companies are located in the southern and western regions of the nation.

In trade, petroleum and lubricants account for a large share of imports; however, while primary product imports overall are on a downtrend, there has been a notable and persistent uptrend in imports of practically all types of finished manufactured goods. In share terms, this same primary-product downtrend and finished-product uptrend is evident in exports, as well.

Under the eighth five-year plan, priority has been placed on bolstering exports of labour-intensive manufactured goods, including products from the rural industrial sector. Backed by the growth-oriented budgets of fiscal 1993 and following years, the once-lackluster pace of industrial output has picked up in response to a series of deregulatory measures that were enacted via struc-



tural adjustment policies and industrial policies. Growth under the eighth five-year plan is expected to be led by the manufacturing sector, especially by small-scale enterprises. Though the growth outlook for better-organised mid-tier and larger manufacturing firms is flat, for the industry overall it is bright.

### **Infrastructure**

Supporting the advance of India's key industries is the primary goal of infrastructure development. To that end, the government has long been enthusiastically engaged in various projects to build and expand infrastructure. For some years now, though, the focus of concern has increasingly turned to aging facilities as well as the declines in efficiency and service attributable to the existence of massive, oligopolistic organizations. This has fostered a gradual turn to efforts in organizational reform and steps to inject more private-sector capital.

In less-populated regions that have benefited relatively little from the economic development process, economic revitalization and action to spur indigenous industries through the construction of power plants and roadways together count as a secondary goal of infrastructure development. To that end, India to date has pursued projects for the construction of large power-generation facilities. Even so, growth in electricity supply capacity has continued to lag behind the burgeoning pace of private-sector-led demand by about 10 percent, and chronic shortages are expected in the years ahead as well. In fact, some companies already run their own on-site generating facilities to offset the supply shortfall. More recently, power-plant construction projects have been delayed by a host of other factors, including deteriorating finances at the state-government level, environmental damage caused by large-scale hydroelectric projects, and problems associated with the resettlement of local residents.

Another negative factor is extremely low energy efficiency, not only among suppliers of electric power, but also among sources of final demand. Recent projects to modernise aging power facilities have shown a measure of success in lifting efficiency. Actions to lift efficiency at sources of demand, however, have not been pursued on a systematic or nationwide basis, and accordingly have proven relatively ineffective up to now.

The Indian government is now striving to offset its past concentration of investment in projects aimed at boosting supply alone. Still, efforts to promote energy conservation have shown little if any headway, partly due to the excep-

tionally low electricity rate structure in rural districts and for certain industrial sectors.

India has long-term plans to lower its dependence on thermal generation by harnessing its extensive reserves of hydro power. Indians are well-aware of the problems associated with thermal generation (namely, transport-related problems and environmental ills attributable to strip-mining activities, exhaust gases, and air pollution). To be sure, one priority in the energy field is to curb oil consumption, an activity that demands a significant amount of India's foreign currency reserves.

In the railway sector, low productivity and poor service are chiefly attributable to the giant public monopoly. Such conditions have prompted a shift in private-sector demand (commercial and private cargo) to the trucking industry instead. For this reason, rail-based shipping is heavily weighted in bulk cargo (e.g., coal and iron ore). Passenger volume is climbing, thanks in part to artificially low fares. Work to expand the number of railway lines, however, has not kept pace with demand, and for that reason, overcrowding on passenger trains is now the norm. As to road-based transport, commercial and private cargo is chiefly handled by small private-sector trucking firms, while buses are the prime mode of passenger transportation. Accordingly, roadways have been placed under heavy strain.

India's central and state governments alike are typically unable to secure any more than 60-70 percent of their minimum budget allocation for essential road maintenance alone. Further, some observers contend it will be very challenging for India to complete its national highway expansion projects on schedule with the level of construction management practices it now has at its command. Several of the nation's larger urban centers now face severe traffic congestion along their principal commuter and trucking routes. Indian port and harbor facilities have been in a state of disrepair for some time. Though projects to build new facilities are under way, inefficient management has stalled efforts to accommodate the rapid increase in container cargo and other maritime cargo volume.

### **Social Sector**

To be sure, India still faces a plethora of hurdles in striving to improve the quality of life for all its citizens. Though the percentage of Indians living below

the poverty line<sup>2</sup> has been on a downtrend since the 1970s, in all but a few regions of the country despite the poverty-alleviation measures of the government, it has not been able to achieve countable reduction in the absolute number of poor in the population. As it happens, Uttar Pradesh, Bihar, Madhya Pradesh, and other states spanning from northern to central India are home to relatively larger concentrations of poor people, and have lagged the nation in terms of economic development. Not only that, but the regional disparities actually appear to be widening.

Various disparities also distinguish India's scheduled castes (SCs) and scheduled tribes (STs) from other social groups. SCs and STs together comprise a sizable 25 percent and still-growing share of the total population. As such, the disparities affecting them now will likely become increasingly serious problems for India in the years ahead.

Another issue in India is the difference between sexes concerning equal opportunity of employment, education and health cares. After India achieved independence, women were enfranchised and accorded legal equality with men, and efforts were made to provide girls broader access to education and promote the participation of women in society. As a result, in the cities and among the more economically powerful social classes today, education for women has progressed, and women are accepted members of the national labour force. Judging by most social indicators, though, India has not yet succeeded in providing equal opportunities for both sexes in society at large. For example, in some rural areas, boys still have preference in education and health care, being perceived as future bread winners. The prevalence of such circumstances, particularly in the poor social classes, have encumbered efforts to improve the diets and health conditions of poor women, fostered malnutrition, high morbidity and infant mortality rates, and posed a major obstacle to the spread of family-planning and the desire of women to obtain an education.

At present, some of India's citizens remain trapped in the "vicious cycle" of poverty. That is, poverty has confronted them with poor health conditions and scarce opportunities for education that in turn inhibit their ability to improve

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2 Among both individual Indian scholars and official agencies themselves, differing measurements have given rise to a number of divergent estimates of the size of the population living below the poverty line. This paper relies on Expert Group estimates, which put 39.3 percent of the population below the poverty line in 1987-88 (51.8 percent in 1977-78 and 44.8 percent in 1983-84). (Source: *Economic Survey 1993-94*. Original source: Planning Commission, *Report of the Expert Group on Estimation of Proportion and Number of Poor*, 1993.)

their level of income. Further, it is difficult for such groups to extricate themselves from this structure of intensifying poverty on their own strength alone.

Here, we would like to note that the Structural adjustment programmes could bring hardships to the urban and rural poor under certain conditions. Social safety nets and other social services do constitute one component of programmes in structural adjustment. It is still too early, however, to gauge the impact on India's poor from structural adjustment efforts now under way; further, not enough data is yet available to permit such an assessment in the first place. In any event, several features of the economic reform path deserve closer attention as factors bearing potential social costs.

First of all, though the targeted budget expenditure for social services under the eighth five-year plan increases in share terms from its level under the previous five-year plan, actual expenditures in fiscal 1992/93 and 1993/94 registered 15.5 and 15.4 percent, respectively, substantially below the 18.2 percent target share. Further, while social expenditures have risen in absolute terms every year since 1990, they have generally traced a gradual decline in percentage terms compared with the targeted average (Table 5). Also, though conditions at the state level vary, as an overall trend, state-government spending on social services appears to be slipping.<sup>3</sup> Most programmes in the social sector are under state-government jurisdiction. That reality suggests the downtrend in state expenditures will adversely impact the poor.

A second matter of concern is that deregulation and other actions in structural adjustment could possibly widen and in other ways add to the severity of extant economic and societal gaps. Economic disparities between the cities and rural districts are particularly evident, and as such, threaten to exacerbate the population flow from rural to urban areas. Indeed, fears are that rural society could fall even further behind in the arenas of social infrastructure, education, and health care.

Yet a third factor is inflation: though it had been on a calming course since 1992, in 1994 it began showing signs of a renewed uptrend. The pace of growth has been particularly steep in the consumer price indexes for agricultural labourers and industrial workers. Sharply rising prices for food and other essential goods threaten to deal a direct and heavy blow to the livelihoods of poor people.

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<sup>3</sup> S.P. Gupta, A.K. Sarkar (1994). "Fiscal Correction and Human Resource Development", *Economic and Political Weekly*, May 26, 1994.

**Table 2 Basic Economic Indicators: a Comparison with Other Asian Nations**

	A. GNP Per Capita		B. Average Annual Inflation Rate, % (1980-92)	C. Annual Population Growth Rate, % (1960-92)	D. People in Absolute Poverty, % (1980-90)			E. Number of People in Absolute Poverty (Millions, 1992)	
	US\$ (1992)	Growth Rate, % (1980-92)			Total	Rural	Urban	Total	Rural
India	310	3.1	8.5	2.2	40	42	33	350	270
Bangladesh	220	1.8	9.1	2.7	78	86	NA	93.2	84.3
Pakistan	420	3.1	7.1	2.9	28	29	26	35	24.3
Sri Lanka	540	2.6	11	1.8	39	46	15	7	6.3
China	470	7.6	6.5	1.9	9	13	NA	105	105
Thailand	1840	6	4.2	2.4	30	34	17	16.8	14.7
Indonesia	670	4	8.4	2.2	25	27	20	47.8	35.9

Source: Table compiled on basis of data in the World Bank's Report on World Development, 1994 (for columns A and B), and the UNDP's Report on Human Development, 1994 (for columns C,D, and E).

**Table 3 Health Care and Education: a Comparison with Other Asian Nations**

	A. Life Expectancy at birth (1993)	B. Child Mortality Rate (per 1000)		C. Infant Mortality Rate (per 1000)		D. Percentage of Population with Access to Safe Water (1988-93)			E. Percentage of Population with Access to Health Services (1988-93)		
		(1960)	(1993)	(1960)	(1993)	Total	Rural	Urban	Total	Rural	Urban
India	61	236	122	144	81	79	85	78	27	62	12
Bangladesh	53	247	122	151	94	84	82	85	42	63	26
Pakistan	59	221	137	137	95	68	85	50	38	60	17
Sri Lanka	72	130	19	90	15	60	80	55	50	68	45
China	71	209	43	140	35	69	99	60	16	58	3
Thailand	69	146	33	101	27	77	87	72	74	80	72
Indonesia	63	216	111	127	71	51	68	43	44	64	36

	F. Population per Doctor (1990)	G. Daily Calorie Supply Per Capita, % (1988-90)	H. Adult Literacy Rate, % (1992) *1		I. Primary School Enrollment Ratio (Gross) (1986-92)		J. Percentage of First-year Primary-school Students Still Enrolled by Fifth Year (1986-92)
			Men	Women	Men	Women	
India	2440	101	64	35	112	84	62
Bangladesh	6670	88	49	23	83	71	47
Pakistan	2940	99	49	22	54	30	48
Sri Lanka	7140	101	94	85	110	106	95
China	730	112	92	68	127	118	86
Thailand	5000	103	96	92	92	88	88
Indonesia	7140	121	91	77	119	114	83

Note: The infant mortality rate is the number of deaths per thousand infants under one year of age.

\* These percentages vary somewhat from figures released by the Indian government (Table 5).

Source: Table compiled on basis of data in UNICEF's White Paper on the World's Children, 1995 (for columns A, B, C, D, E, G, I, and J), and the UNDP's Report on Human Development, 1994 (for columns F and H).

**Table 4 Demographic and Social Indicators for Indian States and Territories**

	Per Capita SDP (rupees) *1	Population (thousands)*2	Population Growth Rate, % (1981-91)	Sex Rate	Mean Age at Marriage (Female)(1981)	Infant Mortality		Life Expectancy			Literacy Rate, % (1991)		
						Rate (1990-92)		(1988-91)			(1991)		
						Rural	Urban	Men	Women	Total	Men	Women	Total
<b>South</b>													
Andhra Pradesh	5570	66,508	2.17	973	17.26	76	52	59.1	62.23	60.64	55.13	32.72	44.09
Karnataka	5555	44,977	1.92	961	19.21	83	42	62.15	63.31	62.72	67.26	44.34	56.04
Kerala	4618	29,098	1.34	1040	21.32	17	15	67.6	73.3	70.76	93.62	86.13	89.79
Tamil Nadu	5078	55,855	1.43	972	20.25	67	40	60.85	60.8	60.83	73.75	51.33	62.66
<b>West</b>													
Goa	8096	1,169	1.49	969	-	22	18	-	-	-	83.64	67.09	75.51
Gujarat	6425	41,309	1.92	936	19.52	74	55	58.34	61.49	59.86	73.13	48.64	61.29
Maharashtra	8180	78,937	2.29	935	18.77	67	41	62	64.3	63.11	76.56	52.32	64.87
<b>Central</b>													
Madhya Pradesh	4077	6,681	2.38	932	16.56	118	70	56.24	54.71	55.5	58.42	28.85	44.2
Uttar Pradesh	4012	139,112	2.27	881	16.71	103	73	54.14	49.64	52.03	55.73	25.31	41.6
<b>East</b>													
Bihar	2904	86,374	2.11	912	16.55	74	47	58.21	57	57.63	52.19	22.89	38.48
Orissa	4068	31,659	1.83	972	19.08	124	73	57.13	55.15	56.15	63.09	34.68	49.09
West Bengal	5383	63,077	2.21	917	19.23	71	42	59.95	59.53	59.75	67.81	46.56	57.7
<b>Northeast</b>													
Arunachal Pradesh	5551	864	3.14	861	-	65	47	-	-	-	51.45	29.69	41.59
Assam	4230	22,414	2.17	925	-	79	44	55.74	55.23	55.47	61.9	43	52.9
Manipur	4180	1,837	2.57	961	-	25	20	-	-	-	71.63	47.6	59.86
Meghalaya	4458	1,774	2.84	947	-	61	29	-	-	-	53.12	44.85	49.1
Mizoram	4135	689	3.34	924	-	-	-	-	-	-	85.61	78.6	82.27
Nagaland	5810	1,209	4.45	890	-	11	0	-	-	-	67.62	54.75	61.65
Sikkim	5416	406	2.51	878	-	49	29	-	-	-	65.74	46.69	56.94
Tripura	3569	2,757	2.95	946	-	52	36	-	-	-	70.58	49.65	60.44
<b>North</b>													
Himachal Pradesh	5355	5,170	1.89	996	-	72	37	-	-	-	75.36	52.13	63.86
Jammu and Kashmir	4051	7,718	2.54	923	-	-	-	-	-	-	-	-	-
Punjab	9643	20,281	1.89	888	21.07	61	42	65.61	65.3	65.46	65.66	50.41	58.51
Rajasthan	4361	44,005	2.5	913	16.1	88	58	57.8	58.69	58.22	54.99	20.44	38.55
Haryana	8690	16,463	2.42	874	17.84	75	52	63.41	61.97	62.74	69.1	40.47	55.85
Nationwide		846,302	2.14	929	18.33	86	52	58.1	59.1	58.58	64.2	39.19	52.19

Notes: The sex ratio is the number of women per 1,000 men.

\*1. Except for Mizoram (1989-90) and Tripura (1990-91), all SDP figures are for 1991-92.

\*2. Based on the 1991 census (figure for Jammu and Kashmir is estimated).

Sources: Government of India, *Economic Survey* 1993-94. EPW Research Foundation, "Social Indicators of Development for India-II: Inter-State Disparities," *Economic and Political Weekly*, May 21, 1994.

**Table 5 Component Expenditure Trends under Annual and Seventh and Eighth Five-Year Plans (%)**

	7th 5-Yr. Plan (1985-90) (Actual)	Annual Plan (1990-91) (Actual)	Annual Plan (1991-92) (Actual)	8th 5-Yr. Plan (1992-97) (Budgeted)	Annual Plan (1992-93) (Revised)	Annual Plan (1993-94) (Budgeted)
Agriculture and Allied Activities	5.8	5.8	5.9	5.2	5.8	5.3
Rural Development	7	7.1	6.4	7.9	7	7.6
Special Area Programmes	1.6	1.7	1.6	1.6	1.8	1.4
Irrigation and Flood Control	7.6	6.8	6.5	7.5	6.5	5.4
Energy	28.2	29.3	30.5	26.6	27.9	29.2
power	17.3	19.5	22.4	18.3	16.7	14.8
petroleum	7.3	6.2	5.2	5.5	7.8	11.5
coal and lignite	3.3	3.4	2.6	2.4	3.1	2.6
non-conventional sources of energy	0.3	0.2	0.3	0.3	0.2	0.3
Industry and Mineral	13.4	10.9	10.1	10.8	10.2	11.4
village and small-scale industries	1.5	1.5	1.5	1.5	1.4	1.3
other industries	11.9	9.4	8.7	9.3	8.9	10.2
Transport	13.5	13.8	14.4	12.9	14.6	14.4
railways	7.6	8.4	8.3	6.3	8.5	7.1
others	5.9	5.5	6.1	6.6	6.2	7.3
Communications	3.9	5.1	5.6	5.8	7.1	6.9
Science, Technology, and Environment	1.4	1.3	1.3	2.1	1.3	1.4
General Economic Services	1	1.3	1.3	1	2	1
Social Services	16	16.5	15.9	18.2	15.5	15.4
education	3.5	4	4	4.5	3.6	3.5
medical and public health	1.7	1.8	1.4	1.7	1.7	1.5
family welfare	1.4	1.3	1.6	1.5	1.4	1.4
housing	1.2	1.6	0.9	1.2	0.9	1.5
urban development	1.1	1.3	1.2	1.2	1.1	0.8
other social services	7.1	6.5	6.8	8	6.9	6.7
General Services	0.7	0.4	0.4	0.4	0.4	0.5
Total	100	100	100	100	100	100
Central	58.3	60.4	58.4	57.1	60	66.3
State	40	39.6	39.8	41.5	38.3	32.2
Union Territory	1.7	1.7	1.8	1.4	1.7	1.5

Source: Government of India, Economic Survey 1993-94.

## **2.2 Trends in Development Assistance**

### **2.2.1 India's Framework for the Utilization of Aid: Changes and Challenges**

As can be seen from the Mahalanobis model shaping key elements of its second five-year plan, India has long given priority to heavy industry and capital-goods manufacturing while placing emphasis on the public-sector role in those fields. With the launch of its "Green Revolution" policies in the mid-1960s, priority widened to include the fertiliser industry as well. In allocating development funds, India concentrated its efforts in redressing disparities at the regional level. Foreign aid, moreover, was woven into the fabric of Indian development strategy: up to the late 1980s, yen loans and World Bank loans alike were allocated primarily to plant construction projects in priority industrial fields. Aid funds were incorporated into planned allocations under the central government's development budget and disbursed on the basis of central-government intermediation.

The Ministry of Finance's Department of Economic Affairs acts as the central government's treasury window. The aid funds it receives are transferred to the state governments, 30 percent in the form of grants, and 70 percent in the form of subloans on equal terms (at a rate of interest almost identical to the domestic long-term rate) regardless of whether the original aid funds were grants or loans, and if the latter, regardless of terms and conditions. One condition for transfer, however, is that state governments must establish local-currency reserves equivalent to the amount of aid to be transferred to their control. Though there are exceptions to and variations on this formula, it has been almost uniformly applied to the transfer of aid funds to state governments, which account for most development projects, and to public-sector projects under state-government jurisdiction. Also, because aid funds are incorporated into planned allocations from the central government, state governments are obligated to budget their projections of the amounts of aid they will require in advance.

Varying terms and conditions associated with the original aid could create or exacerbate disparities in access by state governments or agencies responsible for aid-project implementation. One objective of the above-described scheme, therefore, is to skirt this drawback and maintain a certain degree of fairness. Another advantage for state agencies is that the central government itself



accepts all exchange-rate risk stemming from the management of interest on their aid subloans, and assumes responsibility for raising amounts of foreign currency necessary for debt payments on foreign loan aid.

On the downside, the fact that the aid funds are transferred as part of general planning expenditures dulls the state agencies' awareness of the effective utilization of ODA funds. One particular problem deriving from this intermediation system is that it prevents Indian project-implementing agencies from benefiting fully from the use of grant aid, for grant sums are not transferred in their entirety or under their original terms and conditions. Furthermore, aid institutions find it difficult to trace funds transferred in this manner. Accordingly, India has been urged to overhaul the system, particularly by institutions that furnish mostly grant-based assistance.

Also, after the applicable scope of aid widened in the late 1980s, India found itself confronted by a number of glaring issues that had been all but absent in earlier years when individual projects counted as the chief focus of aid. In particular, delays in or stemming from the transfer of aid funds from the central government to the states raised questions about India's real abilities in implementation. Given this environment, promoting headway in implementation amounted to a matter in which aid donors and concerned Indian authorities had a common interest. The chief reasons for project delays were as follows:

- (i) Problems stemming from the approach to project formulation: e.g., project scope, alterations in policy, and difficulties in obtaining budget appropriations in local currency.
- (ii) Problems attributable to frameworks for the receipt and transfer of aid funds (i.e., intermediation): e.g., delays in the transfer of funds from the central government to the states, and thence to the agencies responsible for implementation, difficulty in tracing the flow of funds.
- (iii) Factors attributable to the manner in which concerned Indian parties involved themselves in implementation affairs: e.g., complicated licensing procedures and elaborate measures to accommodate special interests.
- (iv) Factors relating to the ability of concerned parties to resolve problems: e.g., weaknesses among implementing agencies and local con-

tractors.

To deal with these drawbacks, the Indian government, in the June 1993 Consultative Group meeting on India, recommended the following countermeasures:

- (a) Disintermediation (that is, policies that treat public corporations as direct borrowers because they are under central-government jurisdiction),
- (b) Frameworks for the advance disbursement of budget appropriations in local currency (in particular, the release of 25 percent of the annual budget allocation for each project to the implementing agencies in April, the first month of the Indian fiscal year),
- (c) Strengthened project monitoring by the Ministry of Finance's Economic Agency,
- (d) Improved procurement procedures (e.g., through the standardization of forms for project bidding), and
- (e) The cancellation of projects that have no chance of reaching the implementation stage.

The above actions could be credited for helping to expedite the flow of aid funds and improving the project implementation process. The disintermediation strategy, however, sparked debate on various points. Though donors chiefly of grant-based aid were in favour of seeing the strategy put into effect immediately, donors primarily of loan-based aid cited problems with disintermediation, per se. One problem that cannot be ignored under the disintermediation approach is that agencies responsible for the implementation of projects financed with loan-based aid could find themselves unable to assume the consequent exchange-rate risk in lieu of central government assistance. In fact, this problem could become a new bottleneck to efforts in infrastructure development that harness aid funds.

Also, in many sectors, especially at the state level, improving the management and financial health of institutions responsible for project implementation remains a serious challenge. For this reason, the matter of how high a priority should be placed on disintermediation is still an issue. Indeed, over the longer term, disintermediation could lead to a situation that effectively affords

only the financially healthier states access to aid funds. Should that happen, aid itself likely would not help to erase the regional disparities that have long drawn the Indian government's attention, but pose the danger of aggravating them instead.

Should the disintermediation strategy eventually be adopted, India's central government will come under pressure to simultaneously strengthen its ability to comprehensively coordinate its development investment priorities with the sequential order and timing of other measures aimed at improving project implementation. Accordingly, it will be necessary to urge that Indian authorities devote ample consideration to that endeavour.

### **2.2.2 Other Aid Institutions: Accomplishments and Trends**

Donor-nation assistance for Indian economic reforms factors largely behind the uptrend in total ODA flowing into India. In terms of aggregate totals, the five top donors of aid to India from 1988 through 1992 were Japan, Germany, Britain, the Netherlands, and Sweden, in descending order.

Among leading aid-project categories in 1992, water-resource management, environmental protection, and other projects in the natural resources field accounted for the largest share of aid spent: 24 percent. Next up were projects in the agriculture, forestry, and fisheries field, at a combined 19.6 percent, followed by projects in health care, at 12.2 percent, and projects in the energy field, at 8.5 percent.<sup>4</sup>

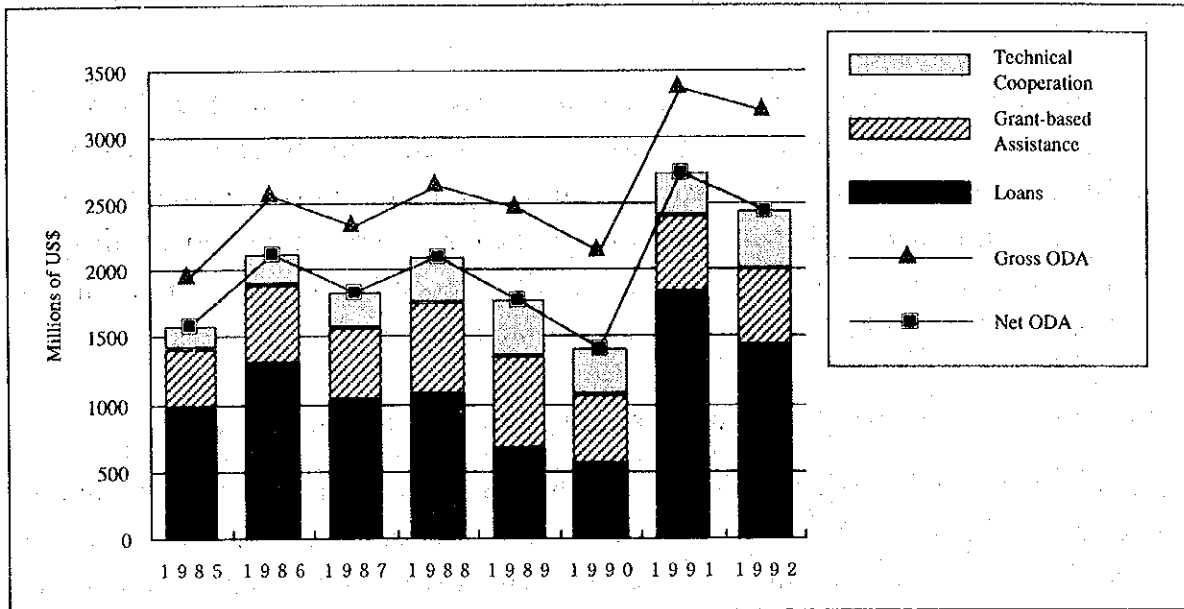
As to types of aid, loan assistance amounted to 60 percent of the total in 1992, thanks in part to the strong growth trend in IDA soft-loan volume since the start of the 1990s. Of grant aid extended, 60 percent was in the form of grant-based assistance, and the remaining 40 percent, in technical assistance.

As noted above, the largest concentration of assistance was focused in water-resource management, environmental protection, and other undertakings aimed at preserving and managing India's natural resources. Assistance from many aid institutions, however, also placed emphasis on poverty alleviation-oriented health care, education, the development of potable water supplies and improved public health conditions, and other social services (Fig. 4).

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4 UNDP, India: *Development Cooperation Report 1993*.

**Fig. 3 Levels of ODA to India from DAC Countries and International Organizations (disbursement basis)**



Source: OECD, Geographical Distribution of Financial Flows to Developing Countries (editions for all years surveyed).

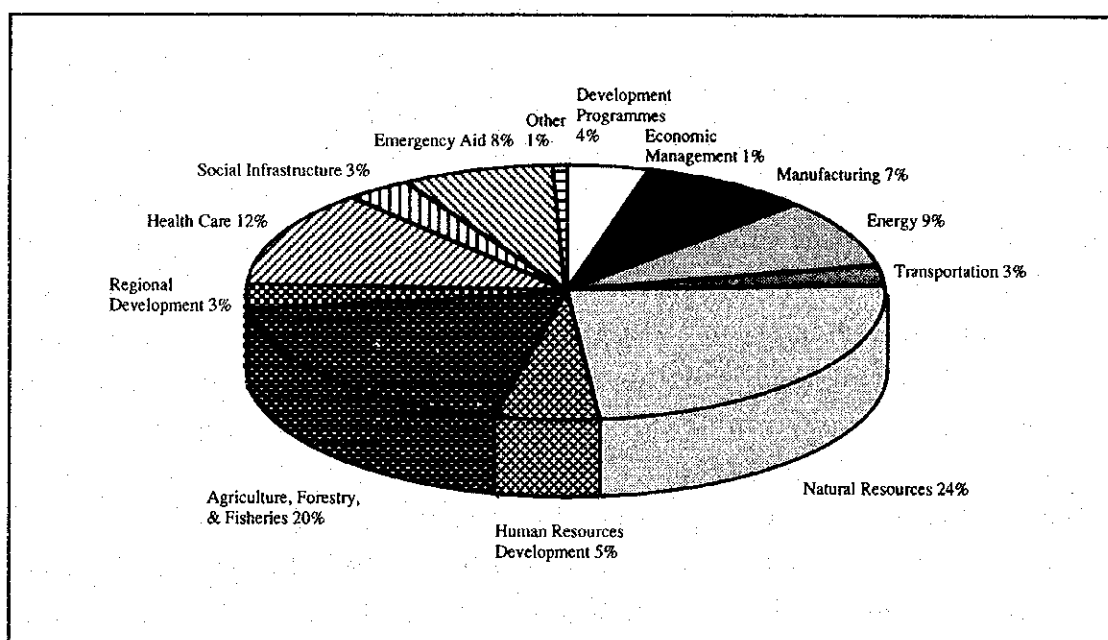
To foster project headway within India's complex socioeconomic setting, a number of approaches have been followed in the arena of grant aid to meet local needs, ranging from the deployment of project formulation advisory officers to cooperative tie-ups between donor-country and Indian NGOs. Mindful of India's wealth of human resources, some aid institutions have chosen unconventional approaches, for instance, by placing project implementation and management under Indian control and conducting only the project-monitoring and accounting-audit tasks themselves (Table 7).

In addition, the U.S. has furnished exim-bank loans and other forms of aid as support for economic liberalization and the the market-oriented transition India has been pursuing since the 1980s.

Aid from institutions in the World Bank consultative group laid emphasis chiefly on support for structural adjustments up to 1993. With the improving trend in India's external balance, however, the group has increasingly turned its focus to support for structural adjustment programmes at the sectoral level, bundled with conditionalities for conventional project aid. Soft components, e.g., steps to bolster the organizational foundations of agencies responsible for project implementation, have received priority. One distinguishing trend of

recent years is that financing for the social sector, including personnel expenses, has accounted for a growing share of total aid. Factors behind this trend include an Indian preference for IDA soft loans, as well as the World Bank's own policy of emphasizing a stronger role for private-sector capital in the arena of infrastructure development.

**Fig. 4 Sectoral Breakdown of ODA to India (1992 actual percentages, gross disbursement basis)**



Source: Chart based on data in UNDP, *India: Development Cooperation Report 1993*.

### 2.2.3 Japanese Aid: Accomplishments and Trends

On a net cumulative basis, by 1993 India had become the sixth-largest recipient of Japanese bilateral ODA. Conversely, Japan has been the top donor of bilateral ODA to India practically every year since 1986 (excluding 1990).

India now ranks as one of the most politically and economically vital countries of Southwest Asia. On top of that, it has maintained friendly ties with Japan. Approximately 40 percent of India's population is considered to live below the poverty line, thus underscoring the country's pressing demand for aid. In view of these factors, as well as Indian efforts to build a market-driven economy, Japan has assumed a more active role in providing aid than in years past. As one example, Japan's extension of yen-based emergency loans to In-

dia—ahead of such moves by other donor countries—during the foreign-currency shortage the country suffered in 1991 were praised highly.

One feature of Japanese aid to India is that loan assistance accounts for a much larger share of the total than does grant aid in the form of technical and grant-based assistance. On a net-disbursement basis, loan-based assistance accounted for about 90 percent of the total in aid Japan extended to India each year from 1989 through 1993 (excluding 1990).

On a cumulative net-disbursement basis, India had received approximately \$2,967 million in Japanese loan assistance as of 1993, making it the fourth-largest recipient after Indonesia, China, and the Philippines, respectively. Among cumulative targets in medium-term ODA, the annual amount approved for India has risen sharply since fiscal 1987. Since fiscal 1990, moreover, it has topped the ¥100 billion mark on a commitments basis. Also, since fiscal 1991 India has been the third-largest recipient, following Indonesia and China. Japanese ODA to India has become increasingly diversified, ranging from projects aimed at cultivating small businesses (development financing) to irrigation, rural development, environmental preservation, and other areas of the social service sector. In terms of absolute amounts, Japanese ODA has been concentrated heavily in the electric power field, the area where demand for such aid is strongest. In fact, over the five-year span from 1989 through 1993, electric power projects consumed approximately 40 percent of the Japanese ODA total.

**Table 6 Japanese ODA to India, 1989-1993**

(Millions of \$, net disbursement basis)

Fiscal Year	Grants			Loans		Total
	Grant-based Assistance	Technical Cooperation	Total	(Gross Disbursement)	Net Disbursement	
89	24.58	10.51	35.09	318.52	222.15	257.24
90	22.17	11.72	33.88	149.57	53.38	87.26
91	25.79	13.17	38.96	965.40	852.09	891.05
92	23.94	16.62	40.55	505.47	384.64	425.19
93	31.03	17.73	48.76	379.70	247.18	295.94
Total	321.17	130.50	457.64	4611.42	2967.09	3424.73

Source: Japanese Ministry of Finance, "Japanese Official Development Assistance, 1994."

Of the cumulative total in grant aid, grant-based assistance accounted for 70 percent, and technical cooperation, 30 percent. From 1989 through 1993, annual disbursements for grant-based assistance and technical cooperation averaged no more than \$25.00 million and \$14.00 million, respectively. Though cumulative grant-based assistance over the five-year span totaled \$327.17 million, between 30 and 60 percent of that was extended each year as aid for debt relief and increased food production. Donations of material and equipment also accounted for a sizable share. For comparison, the corresponding cumulative total in ODA for technical cooperation came to \$130.50 million.

In terms of net disbursements, the cumulative grant total flowing to India comes to only half the level flowing to other Southwest Asian countries such as Nepal, Sri Lanka, or Pakistan, and only one-fifth the total flowing to China, a country with a comparably massive population. Japanese loan-based assistance to India has widened substantially. Grant aid's having increased at a comparatively low rate owes itself to the fact that, as previously stated, grants constitute a comparatively small fraction of Japan's total aid funding. Given the comparatively high percentage of Indians still living in poverty, India would seem to have an immense need for additional aid—in the form of not only loans but also grants. In view of these factors, it does not appear the Japanese record in the provision of grant aid to India can be termed adequate.

**Table 7 Details and Features of Grant Aid Extended to India by Leading Institutions Engaged in the Provision of Bilateral Aid**

Institution Name	No. of Staff Deployed in Agencies Responsible for Implementation	Aid Total (grant aid only; fiscal 1992 commitments; based figures, in millions of \$; technical cooperation in parentheses)	Priority Areas	Chief Forms of Assistance	No. of Projects (fiscal 1992)	Remarks	Features
Overseas Development Administration (ODA, Britain)	4	210.7 (67.5)	Coal and other energy sources, health care and population issues, primary education, slum-district redevelopment, afforestation programmes, regional water supplies Regional focus: Maharashtra, Karnataka, West Bengal, Orissa, Andhra Pradesh, Uttar Pradesh	Support for government-led sectoral reforms in the energy field; cooperation with participatory programmes of poverty alleviation and environmental protection	100	Is not significantly engaged in technology transfers through the deployment of experts. In addition to listed no. of staff deployed, also deploys British Council staff and other personnel throughout India.	Conducts only the project-monitoring and accounting-audit-related tasks associated with social-sector projects, thus leaving implementation under Indian control. India is the largest recipient of British ODA.
USAID (US)	15	116.0 (39.0)	Growth-oriented economic assistance, population issues, environmental protection.	Support for stronger financial markets, industrial deregulation, and improved technologies in the small-manufacturing sector. Cooperation with steps to curb population growth through the empowerment of women, family planning, and programmes for children. Support for energy conservation, efficient energy use, and measures against air pollution.	19	In line with strategies formulated under high-level accords, obtains government approval for and then carries out projects proposed by AID staff. To that end, aside from specialists (contract-based consultants) on information-gathering-related assignments of fixed duration.	Given the difficulty of involving foreigners in frameworks for policy recommendation and core programme formulation, AID lays emphasis on forms of assistance that draw on the strengths of NGOs, which do not have to go through the procedural routine of requesting official government approval for their activities. In employing this strategy, though, AID does seek prior approval through negotiation with the Indian government.
SIDA (Sweden)	8	64.6 (grant-based assistance only)	Social forestry, land development, primary health care, development of regional water supplies and improved public sanitation, elementary education, continuing or informal education, energy, antipollution measures	Sector-level cooperation in selected regions. Cooperation in efforts to improve water supplies and public health conditions through support for local programmes in those areas led by international institutions. Has implemented social-sector projects that encourage local inhabitant participation by harnessing the strengths of NGOs.	20	Does not engage in technology transfers through the deployment of experts. Six-member SIDA team draws up projects in cooperation with relevant Indian agencies.	Respects Indian self-determination in project affairs; provides essential project funding, but handles only the periodic project-monitoring and accounting-audit side of project management. Emphasizes application of gender-specific guidelines in all projects.
GTZ (Germany)	2	59.2 (37.3)	Environmental protection and natural-resource preservation, technical training, higher education and research, improvements in industrial productivity and competitiveness, poverty alleviation, etc.	National and state-level antipollution measures, technology transfers aimed primarily at the cultivation of small- or medium-scale enterprises; cooperation with university- and research institution-led undertakings in the fields of electronics and information science, cooperation in the health-care field.	42	Deploys German experts on long-term assignments in India for preliminary surveys of use to project formulation, and for technology transfers aimed at expediting project implementation. Also appoints coordination staff for each project.	Uncommon among aid institutions, in that it does not place project management in Indian hands, and moreover, deploys German experts to lead technology transfers.

Sources: UNDP, India: Development Cooperation Report 1993. OECD, Geographical Distribution of Financial Flows to Developing Countries

1994. Additional data from local Indian surveys and hearings.



### 3. Development Issues

India registered rapid growth in the 1980s but suffered an economic crisis in 1990 and 1991. Since then, it has undergone an extensive transition led by measures in economic reform. In turn, ensuing changes in its social and economic fabric have confronted India with an increasingly diversified array of development challenges.

India by and large surmounted its 1991 economic crisis within the space of two years. Now that its economy has begun demonstrating signs of recovery, the country faces the tasks of sustaining its reform path while dealing effectively with problems stemming from the reform process and striving to achieve steady and sustained growth.

The reforms now in force are aimed at weeding out the inefficiencies of India's traditional government-controlled, public investment-reliant system and building a new, more energetic economic framework in its place. To that end, the country will find it essential to show continuing inroads in the arenas of fiscal reform, state-enterprise reform, and financial reform. Given the current trend toward deregulation and economic liberalization, it seems critically important for India to create a climate better able to harness private-sector vitality than the past, centrally planned system by taking resolute action to redefine the government's role and shifting to efficient intervention frameworks that allow market forces to work more effectively. At the same time, as a democracy, India will be compelled to pay attention to trends in inflation, unemployment, and other indicators and pursue the reform track in a manner that has broad public support.

In the meantime, steps must be taken to develop a fresh awareness of the many problems that economic reform alone is unable to adequately address. Though the economy has begun recovering its growth momentum, several stark realities remain untouched: namely, the high percentage of population in poverty, low literacy rates, and the high population growth rate. Also, while upward mobility has begun to distinguish those social classes that have benefited from the drives in economic reform and liberalization, there has apparently been a symmetrical shift in the position of classes that have been "left out." It has already been pointed out that private-sector participation in social services (health care, education, etc.) is one trend now squeezing the finances of poor households. Though government budget expenditures in the social service sec-

tor have risen in absolute terms since 1991, they have dropped as a share of the expenditure total. This too will conceivably have a negative impact on the livelihood of India's poorer classes.

Commodity price inflation can deal a particularly heavy blow to the poor. For that reason, and also in the interest of poverty alleviation itself, macroeconomic stability stands out as a matter of special urgency. Heightened regional initiatives should certainly be welcomed. Nevertheless, they pose some danger of aggravating disparities that already exist between different regions and between urban and rural districts. That prospect suggests the central government still has an instrumental coordination role to play. In a society as diverse as India's, the benefits of economic growth will likely need some time to trickle down and reach all social classes. Steps in liberalization will help to create a more-competitive society; in that process, though, India will find it essential to pursue tandem efforts in social infrastructure development.

Compared with other Asian countries, India still lags in terms of economic infrastructure. In striving for steady and sustained growth, infrastructure development counts as a task India must address while dealing with the various challenges outlined above. Indeed, infrastructure gains will be essential to industrial growth and the enlivenment of regions. With the deregulation of foreign investment, India has begun to harness foreign capital as one engine of economic growth. Boosting the competitiveness of another force for growth—the manufacturing sector—will demand that India strive to fortify its manufacturing and mass-production technologies and aim for enhancements in quality if its sophisticated technologies are to better reflect and meet the needs of industry. In tackling that challenge, though, it will also be imperative to nurture the growth of labor-intensive industries, particularly small-scale and export-oriented operations that can help to create new job opportunities for the labor force.

Agriculture accounts for a steadily shrinking share of Indian GDP. Nonetheless, sustained levels of output in the agricultural sector will be essential to stable economic growth. Under an austere fiscal policy regime, agricultural investments are dwindling. The administrative climate is also formidable, with agricultural subsidies decreasing and GATT exerting trade-related pressures. Still, considering the percentage of the population inhabiting rural areas, as well as the need to boost food output if it is to accommodate its population growth, India cannot expect to achieve steady growth in its overall economy

without parallel gains in its agricultural sector.

In line with the foregoing awareness, we have arranged the key development issues confronting India in several sections, below.

### **3.1 Continuing Work to Promote Economic Reform**

India has made serious progress in rebuilding its foreign currency reserves and in pursuing economic liberalization and deregulation led by structural adjustment programmes. Nonetheless, several difficult challenges remain: e.g., in the fight against inflation; tax reform and other fiscal reforms; reforms to state-run enterprises; the deregulation of foreign trade and currency transactions; and financial reform. What is more, all of these challenges are tightly interconnected, particularly in structural and cyclical terms, and for that reason, must be addressed within a medium- and long-term policy context.

Cutting the fiscal deficit has become a pivotal challenge for the government. Headway in that undertaking will be key not only to macroeconomic stabilization, but to the country's medium- and long-term economic growth as well. However, trimming current expenditures remains next to impossible under existing economic conditions, and for that reason, India has little choice but to rely heavily on government bond issues as a source of revenue. Yet this, too, ultimately adds to overall expenditures in the form of increased interest payments. India also needs to step up its efforts to cut subsidies of various kinds.

The challenge of trimming the fiscal deficit centers on three issues. First, the expansion in liquidity has become an inflationary pressure. As expressed through rises in real interest rates, that pressure limits opportunities for the utilization of private-sector capital. Further, the central bank has imposed high reserve requirements on the banking sector as a means of controlling India's burgeoning money supply. Together, these forces tend to squeeze bank earnings and could function as bottlenecks to further financial deregulation.

To be sure, though, curbing public investments and other capital outlays essential to improvements in infrastructure and social services would not be in the interest of socio-economic development at this time. Accordingly, steps to lift revenue through tax reform and other measures will be of paramount importance. In the years ahead, the private sector can be expected to assume an

increasingly substantive role in the arena of infrastructure investment. However, piecemeal incentives for private-sector participation that ignore the inefficiencies of institutions responsible for project implementation could threaten to undermine the value of public investment as a means of redressing regional disparities and ensuring that the benefits have a favourable ripple effect on regional economies. Consequently, bearing in mind the need to skirt this scenario, it will be important to explore roles the Indian government should actively assume in striving to boost efficiency in the public sector, introducing initiatives that effectively funnel private-sector investment into priority development fields, and making strategic investments that will have a pump-priming impact.

A second issue in the effort to cut the deficit is that, while electric power, machinery, and automobiles count among the priority industries for economic liberalization in India today, steps to bolster output and exports in these fields can lead to expanded imports of capital goods and intermediate goods, in turn triggering a trade deficit. India is in need of suitable industrial, trade, and financing policies, as well as fast-track programmes to cultivate labor-intensive export industries, including sectors with a low dependence on imports.

The third consideration in deficit-trimming concerns efforts to improve the health of state finances. Such efforts will be one of the most important determinants steering India's future economic course. As it happens, the states have been borrowing more and more from the central government and through financial markets. That trend, however, threatens to heighten their burden of interest payments and in turn cramp their fiscal latitude. However, striving to reinforce state tax bases by placing value-added tax collection under state control would demand attention to the potential aggravating impact this could have on existing economic gaps at the state level due to unevenness in the degree of industrialization. First of all, though, steps should be taken to institute agricultural income taxes and set fair usage rates for electric power and irrigation facilities, elements of infrastructure that are already under state jurisdiction.

### **3.2 Physical Infrastructure Development**

Steps to upgrade deficient Indian infrastructure will be extremely vital to industrial progress and development in the country's backward regions. In

reality, most industrial model towns, EPZs (export processing zones), and other industrial sites across the country face constraints stemming from a lack of essential production and distribution infrastructure. Though the government recently approved factory installations of on-site power-generating facilities, it is strongly advised that additional efforts in the arenas of physical infrastructure and operational efficiency be pursued in the years ahead as measures to promote growth in the manufacturing sector (as will be discussed in section 3.3 below). In India, the public sector for many years led undertakings in infrastructure development. Aging facilities and organizational bloat, however, have contributed to poor levels of efficiency and service.

In the arena of electric power, the government has long concentrated its energies on expanding supply capacity through the construction of new generating facilities. Some observers contend, however, that relentless drives for heightened capacity, as witnessed in years past, would now be untenable even from an economic perspective. Conversely, outside of building new power plants, steps to improve the efficiency of electricity transmission and delivery, and to more closely monitor consumption at sources of demand would together appear to be highly effective ways of improving the overall quality of power utility service and of curbing massive increases in generation for household use. India to date has no record of success whatsoever in energy-conservation drives aimed at final consumers. On top of that, the country's electric-power sector has been run at an extremely low level of efficiency compared to the international norm. As things stand, India has plenty of room to implement electricity conservation programmes in its industrial sector.

Another problem is that exceptionally low rates apply to electricity consumed for agricultural irrigation purposes, thus undermining the incentive to conserve. One conceivable countermeasure that imposes little if any extra burden in the real costs borne by users would be to combine a rate hike with improved electricity use-efficiency throughout the irrigation system at large. Beginning with the establishment of rate structures that the poorer classes can bear, it seems imperative that India foster the virtue that one should pay a rate commensurate with services rendered.

Further, building or installing locally based, small-scale generating facilities would be one viable way of supplying electric power to isolated districts. It should be borne in mind, however, that small-scale hydroelectric generation faces a number of environmental preconditions and constraints. For that rea-

son, work to develop and foster the use of renewable energy sources will be a key challenge in the years ahead.

As to transportation, road- and rail-based modes of transport currently account for over 95 percent of all domestic passenger and cargo traffic in India. Further, given that demand for transportation and shipping services is expected to climb, it seems urgent that the country launch projects to expand and improve its transportation infrastructure. In the railway sector, the country faces the challenge of boosting cargo volumes and improving shipping systems, augmenting the railway network, promoting containerization, and improving reliability as well as service offerings. In the road sector, work to enlarge the highway grid connecting major cities, improve road maintenance, lay rural roads, and establish organizations for that latter undertaking all count as fundamental tasks.

Due to deficiencies in rail service and reliability, recent years have witnessed a shift to road-based transport, in passenger traffic and cargo volumes alike. However, in terms of energy use-efficiencies on a metric-ton/km scale, rail-based cargo transport is said to consume only one-eighth the amount of energy required by comparable road-based modes. That advantage suggests steps to revive the rail system would be in the best interest of India's long-term economic growth. Another transportation-related challenge will be that of developing efficient port and harbor facilities: in particular, through the construction of container terminals and the modernization of frameworks for port management and operation.

### **3.3 Promotion of Industrial Growth**

Agriculture should be able to supply heightened opportunities for employment, but currently it falls short in that role. Consequently, hopes have turned to the industrial sector, and manufacturing in particular, as the sector most capable of creating new jobs and as one of the leading engines of economic growth.

Under the belt-tightening fiscal policies of the Rao administration, sluggish conditions in manufacturing inhibited growth in the industrial sector overall up to 1993. Since then, the upsurge in foreign investment has fuelled expectations of strong growth led by industries engaged in the production of consumer

durables. However, certain elements of the protective industrial policy established in a past era of government economic control remain firmly entrenched. Accordingly, India will find it essential to further relax its industrial licensing framework and pursue new tax reforms if it is to draw on foreign investment as a catalyst for heightened domestic output, advances in manufacturing technology, stronger international competitiveness, and in other ways boost productive activity. In conjunction with those efforts, (as will be explained later in section 4.1) the country will also be compelled to move forward with improvements in physical infrastructure and in operational efficiency, including measures to streamline customs procedures.

Moreover, for sustaining the current favourable position in its balance of payments, and speeding up the economy's growth pace, which leads to the creation of new jobs for the people, India needs to take steps to widen the flow of manufactured exports. To that end, though, it is crucial for the country to strengthen its capabilities in mass-production technologies and to strive for enhancements in quality as well as improvement of delivery times.

Small-scale manufacturing operations have posted fast growth and now employ some 35 percent of the manufacturing sector's total work force. Further, as a group, they are expected to sustain pronounced volume growth trends both in output and exports. Small ventures contribute significantly to the flow of Indian exports, and in value terms account for about 30 percent (as of 1991) of the export total in leather articles, marine products, apparel, handwoven fabrics, and handcrafted goods. Indeed, small-scale industrial ventures already count as a valuable segment of India's industrial sector. Steps to cultivate them can be expected to have a number of beneficial effects, including heightened industrial activity, new jobs, poverty alleviation, and advances in rural industrialization. Manufactured exports by small and indigenous industrial enterprises play an instrumental role in helping India earn foreign exchange, and for that reason stand out as sectors especially worthy of assistance.

As one of its undertakings in economic reform, in 1991 India took tangible steps to overhaul its public enterprises, which numbered around 1200, including those operating at the state level. To date, though, the reforms have amounted to little more than "privatization" through the government divestiture of stock-holdings in several dozen companies that had operating surpluses. And in most cases, the government still holds a controlling interest, a reality that effectively precludes independent management. Under its eighth five-year

economic plan, India has declared that it will begin work to modernise the facilities and technologies of its public enterprises, promote their independent management, and even remove restrictions on their operation. How these reforms ultimately materialise and how strongly they are enforced, however, remain matters of pressing concern.

### **3.4 Better Living Conditions focusing on the Rural and Urban Poor**

Improving economic conditions for India's rural poor can be expected to have a strong uplifting influence on the quality of life for Indian society in general. Better public services and other enhancements in rural social infrastructure, as well as steps to expand rural household income through the creation of nonfarm work opportunities, thus count as crucial challenges.

In the public service arena, India will find it necessary to improve its delivery of primary services: e.g., elementary education, health care, and access to potable water supplies.

In elementary education, the challenges center chiefly in building and repairing school structures and facilities in rural and remote areas, and in finding enough teachers and improving their skills and qualifications. Though enrollment rates are high, roughly half of all elementary school students drop out. This situation seems to highlight a need for improvements in the quality of education itself, as well as measures of some kind that will effectively enable or encourage poor children to attend classes. Wide gaps along gender lines distinguish literacy and matriculation rates in India (Table 4). Action to close those gaps seems advisable, given the widespread recognition that improved literacy rates and levels of education for women would be an effective means of curbing the pace of population growth.

In health care, India faces the task of offsetting rural inadequacies in facilities and equipment, improving access to services, and raising the quality of doctors and trained paramedical staff, especially at the primary-health-centre level. In the process, though, additional attention and action should be devoted to expanding the utilization of health-care services by women. That focus in turn would be valuable to the quest for better maternal and child health care, improved access to health education and primary education, and



lower infant disease and death rates. As to the task of ensuring potable water supplies, measures aimed at improving sanitary practices and raising awareness of the connections between water and health would also deserve to be pursued in parallel.

Whatever is done, it will be imperative to combine work aimed at improving public services for the poor with measures to encourage sustained effort by the targeted groups themselves. That goal will demand an awareness of the social role and position of people in the targeted regions as well as attention to ensure that the benefits of development are evenly distributed and that the weaker classes (e.g., scheduled castes, scheduled tribes, and women) are not adversely impacted. Furthermore, it will call for policies that encourage local residents to voluntarily and actively participate in the development process. In particular, given that women play a valuable role in the productive and reproductive activities of society, efforts to improve their lives and societal status will count as a challenge of critical importance to the goal of maximising the benefits of development and sustaining regional society's economic advance. Open-ended efforts to that end, however, will have to address the issues from a society-wide perspective, not just in terms of the impact on women alone.

Another conceivably effective strategy would be to link investments in the agricultural sector with programmes of assistance for the poor. Lifting farm productivity through public investments (for instance, in small-scale irrigation and drainage facilities, waterway dredging operations, steps to revive farmland impacted by topsoil erosion, tree-planting programmes, and road construction) will be essential not only to boosting farm output to keep pace with population growth, but also to the goal of expanding per-capita food consumption. Indeed, combining publicly financed civil engineering projects with programmes aimed at employing large numbers of the rural labor force could be expected to help lift agricultural productivity, raise wage levels, alleviate conditions of poverty, and stimulate the agricultural population's interest in participating. Though the Indian government has already initiated ventures of this kind, additional actions are recommended.

Steps to provide income-generation opportunities outside the agricultural sector should reach beyond the framework of poverty alleviation and strive to increase non-agricultural employment in keeping with the general goals of economic policy. In rural districts, one task will be to create income-generation opportunities by fostering crop processing operations and livestock farming.

This in turn will likely demand new projects in rural infrastructure development, measures to establish favourable conditions for the distribution and marketing of agricultural produce, and financial assistance extended in conjunction with technical assistance for the rural poor.

Living conditions in India's urban slum districts have undergone a pronounced deterioration attributable to deficient or decaying housing, water systems, sewerage facilities, and other elements of infrastructure, and to inadequate health care, garbage processing, and other public services. As of 1992, India's urban population stood at 224 million, or 26 percent of the national total. By 2001, it is expected to reach 307 million (30.5 percent), a margin of increase that underscores the urgency of measures to improve living conditions in slum areas, which on average are reportedly home to as much as one-fourth of the population in each city.

### **3.5 Sustaining and Increasing Agricultural Production**

In view of India's burgeoning population growth, the fact that per-capita cereal and protein intake has not changed in 30 years, the massive size of the rural population, and the high percentage of citizens living in poverty, stable output and growth in the agricultural sector together count as the development challenge of top priority at this time.

It thus seems essential that action be taken to redress regional disparities in farm productivity, particularly in the soil-poor rice-growing eastern states as well as the rainwater-based and semiarid farming belts of the central and southern states, by fostering the advances of the Green Revolution and introducing improved methods of cultivation. Moving ahead with projects to build irrigation facilities, feeder roads, and other elements of agricultural infrastructure, and improving operational efficiency by such means as training teams of engineers to run and maintain them, will be crucial to that quest. It would be desirable, moreover, to strengthen frameworks for the rapid dissemination of new and necessary agricultural technologies. Improving local pilot farm research capabilities and reinforcing frameworks for effectively promoting suitable modes of cultivation, together with instructing promotional personnel, would be of value to the task of fostering wider use of better agricultural technologies.

Though farm workers account for a shrinking share of India's total labor force, their ranks are still expanding in absolute terms. One critical question, therefore, is how long the agricultural and agriculture-related sectors of the economy will be able to continue assimilating their numerical growth. Small farmers account for the vast majority of the agricultural labor force, and partly for that reason, it will be important to encourage labor-intensive, job-generating agricultural activities aimed at producing higher value-added. Suitable farm-management methods and financing programmes for small farming operations count as yet another matter of concern. Also, considering the strong relationship between the depletion of India's forest resources and the heightened population pressures and poverty-related problems now facing the farm sector, social forestry and other participatory development programmes are mounting in their importance.

Rate structures for the agricultural use of electricity and irrigation water, along with subsidies for fertiliser, count among the more serious institutional issues. Attention has also been called to GATT-related factors. Accordingly, it would seem imperative to develop agricultural infrastructure for farm households that own more than a certain minimum amount of land. Nonetheless, more-involved measures will be called for to assist the small and marginal farmers and agricultural labourers who make up the overwhelming majority of the rural population. At the very least, furnishing such groups the requisite economic base for self-subsistence will demand a redistribution of surplus land as defined by ownership ceilings enforced at the state level, for at present, land ownership in India remains extremely uneven. Indeed, that step will be indispensable to motivating small farmers and encouraging their participation in the development process. What is more, such actions will probably need to be complemented with expanded levels of basic investment in the agricultural sector, as well as the reinstatement of rights to the use of communal lands.

### **3.6 Conservation of Environment for Sustainable Growth**

Pollution, natural resources depletion, and urban environmental problems in India are closely correlated with the pressures of population growth. As such, they must be effectively addressed if the country is to seriously aim for sustained and balanced growth.

Sixty percent of India's air pollution has been attributed to vehicular emissions. Car inspections and maintenance, together with traffic management programmes aimed at countering traffic congestion, will be crucial in dealing with this particular issue. The principal cause of water pollution is effluent runoff from textile and paper and pulp mills located chiefly in medium-scale cities.

As one of the leading issues in natural resources depletion, India's forest reserves have dwindled rapidly in recent years, and heightened demand stemming from population pressures appears to be the prime culprit. Soil deterioration is the most serious problem caused by forest depletion. Open grazing on large farmland tracts, the cultivation of forest tracts and other marginal lands, and the wide-area use of pesticides, herbicides, and chemical fertiliser all contribute to soil deterioration. In fact, soil deterioration attributable to these causal agents harms land productivity and tends to be more severe than in densely populated agricultural districts under cultivation mostly by small farmers. The redistribution of farmland, together with the rehabilitation of communal lands for open grazing and forestation, will be valuable not only to the interest of environmental policy and the goal of affording small and marginal farmers new income-generating opportunities, but also to stable agricultural output over the longer term.

Demand placed on India's forests as sources of fuel is growing, and the amount of wood utilised for that purpose is also expanding in absolute terms. Illegal logging and resource extraction by local inhabitants for their personal use or as a means of income are widespread activities and constitute serious problems.

Though the proper utilization of forest resources for firewood and other ends is beneficial to rural citizens, it is now widely accepted that villages should collectively manage forest tracts if they are to effectively protect and sustain those resources. With the enactment of its 73rd constitutional amendment, India has moved to give municipal governments more power. As a result, popular support for the collective village management and sustainable utilization of forest tracts is now growing nationwide.

India's fast-growing population, and particularly its poorer classes, face higher morbidity and deteriorating living conditions attributable to deficiencies in the supply of potable water, public health facilities, and other public

services. Accordingly, projects to develop these basic elements of social infrastructure, along with measures aimed at lifting the incomes of small and marginal farmers in rural districts, seem essential.

Moreover, the deterioration in urban living conditions due to the population influx from the countryside has fostered spreading slum conditions and aggravated levels of air and water pollution attributable to industrial and human activities.

Another matter demanding attention is "resettling and rehabilitating" local inhabitants, an issue associated with the implementation of big development projects. Many large infrastructure projects in India have been sited in mountainous zones, in some cases placing members of scheduled tribes, scheduled castes, and other socially disadvantaged local inhabitants under threat of eviction. Devoting attention to the potential impact of such projects on the natural environment is, of course, to be expected. However, in view of the above factor, it also seems imperative that project proponents pursue prior negotiations with the local inhabitants who stand to be affected the most, and in other ways give adequate attention to their needs.

As India moves forward with infrastructure projects essential to sustained and steady agricultural output, industrial growth, and economic development in the years ahead, environmental problems should be addressed from a long-term perspective in tandem with work to improve the lives of the poor. To be sure, it is anticipated that foreign and domestic investment will together power the development process as India makes further headway in the arenas of economic liberalization and reform. It is of course imperative that the country make necessary investments and address its environmental problems by pursuing technological innovations in the agricultural, industrial, and energy fields. In addition, though, projects in basic infrastructure aimed at improving the living environment for its citizens, as well as structural undertakings for the effective management of land, water, and other natural resources, will also be of cardinal importance.

#### **4. Key Goals and Priorities of Aid**

India's current and future needs in the arenas of social and economic development, as well as the problems and constraints confronting efforts to satisfy those needs, were mentioned earlier in the sections on economic development trends and issues (2-1 and 3, respectively). Those considerations, along with the Indian government's own expectations, suggest Japanese aid would be best aimed at assisting the stable and sustained development of the Indian economy while ensuring that India's impoverished classes also share in the resulting social and economic benefits. In view of Indian policies toward these ends, as well as of current conditions and the role of aid, per se, it is assumed Japanese aid should be aimed at three key goals: namely, support for (i) modernization and efficiency drives in the industrial sector, (ii) poverty-alleviation measures, and (iii) environmental conservation and effective resource utilization.

In addressing that first goal, steps to boost the international competitiveness of Indian industry and develop and improve the efficiency of the transportation and energy sectors would have priority. In turn, aid priorities in working toward the second goal would be focused on rural programmes of poverty alleviation and assistance to small or marginal farmers. The third key goal, however, would appear to share the same priorities for action as the first two. Furthermore, it is understood that all these goals and priorities should be closely and reciprocally bound, not treated as singular, independent undertakings.

##### **4.1 Support for Modernization and Efficiency Drives in the Industrial Sector**

Efforts to boost productivity can serve as a driving force for economic growth. As such, though, they count as one of the most crucial challenges facing the quest for economic stability and development in India. The globalization trends in commerce and trade, along with economic reforms at home, have placed Indian industry under mounting pressure to bolster its international competitiveness. In the meantime, the Indian government has been moving to harness the vitality of the private sector. Yet at the sametime, the government still has an instrumental role to fulfill: be it in redressing regional disparities, in encouraging employment and economic ripple effects through public investments,

or in developing the physical infrastructure and improving operational efficiency which are essential to spurring investment and industrial activity and fostering new economic growth.

(1) Strengthened international competitiveness

In certain fields, India already has an abundance of highly trained human resources and advanced technologies; what is more, levels of foreign direct investment in the country have been rising for some years now. Even so, the country still needs to actively pursue technology transfers and exchanges to equip itself with the applied manufacturing expertise that will enable it to adequately weather the forces of international competition. To that end, though, it is critical that it cultivate human resources qualified to assume the management responsibilities associated with these tasks. India is in a position to foster labour-intensive manufacturing operations that exploit the comparative advantage symbolised by its wealth of low-cost labour. However, it should strive as well to attract or cultivate high-tech industries that can effectively apply its existing, domestic technological base to the manufacture of value-added goods (e.g., computer software). In that process, it will be vital to harness the strengths of domestic industry, and pursue technology transfers and exchanges in key fields by spurring direct investments by foreign companies already strongly competitive on the international market. Success, however, will demand reinforced levels of physical infrastructure and operational efficiency if India is to put its newly developed or acquired technologies to work in real-world manufacturing applications. In this respect, the effective actions that Japan could take would be to cooperate with technically oriented educational and research institutions, as well as acceptance of trainees from private-sector companies and other organizations into Japan to improve the quality of managing- and working-level technicians and spread their expertise on return to India.

As a large country, India is distinguished by significant regional disparities. One ostensibly effective means of supporting economic development suited to the features of each region would be to cooperate on the cultivation of local industries as well as work aimed at improving the functions of core cities that can be expected to lead development drives in their regions over the short and medium term. India has a diverse array of local industries that employ a large

segment of the work force and produce finished goods for the country's impoverished classes, overseas markets, and other sources of demand. Ultimately, though, these industries will find it imperative to shift to products that offer higher value-added with an emphasis on quality and design. Some will be important to nourish as export-oriented industries and others, like the agro-industry, as industries capitalizing on the special features or products of their locale. Assisting such local industries through technical cooperation, heightened institutional lending to small or medium-sized businesses, and vocational or professional training will all be of value in the crusade to erase regional disparities in development.

As measures to cultivate or attract blue-chip companies, India has already shown headway in deregulating business and fashioning policy incentives aimed at attracting more foreign investment. Japanese cooperation to support for such actions would seem desirable. Developing basic industrial infrastructure, however, will be essential to the task of locating sites for new corporate ventures. Electricity and industrial-use water are considered to be in short supply. Assistance thus would be vital to projects aimed particularly at redressing such shortages, building industrial trucking lanes and other elements of transportation and communications network infrastructure, and model industrial towns equipped with infrastructural facilities considered advanced by international standards.

(2) Efficiency improvements and development of the transportation and energy sectors

India faces critical challenges in developing, as well as strengthening the maintenance of, those elements of infrastructure fundamental to its quest for continued economic growth. Though capable of exerting an immense ripple effect on economic activity at large, transportation and electric power stand out for their underdevelopment and inefficiency. Consequently, assistance in the arena of infrastructure development should give high priority to work in these two areas.

In the field of electric power development, Japan to date has cooperated in the construction of numerous generation plants and transmission systems as well as in work aimed at boosting generation and transmission efficiencies. To be sure, this is an area that will demand continued assistance for years to



come. Besides cooperating with projects to build efficient power plants and boost the efficiency of existing facilities through renovation work, it will also be important to provide continued assistance in facility operation and maintenance. In addition to promoting efficiency gains at the source, Japanese experience and expertise would likely prove of value in helping India formulate policies that foster conservation by the final consumers of electric power. Efforts to lift efficiency at the source would conceivably include renovation work on power plants and the transmission grid, acceptance of trainees and training programmes for Indian personnel in the electric power industry, and the joint research and development of renewable energy sources. On the final-consumer side, cooperation could take form as help with a complete overhaul of India's reputedly inefficient power-distribution system, work to renovate irrigation pumps, and technical assistance in the formulation of energy-conservation policies for industrial plants and machinery.

Among elements of the transportation sector, India's vast, nationwide rail system has often been criticised for its disappointing level of reliability, services, and productivity. Attention has also been drawn to the deficiencies characterizing road maintenance. However, considering the related structural problems as well as emerging plans for development projects driven by privatization or build-operate-transfer schemes, cooperative efforts should be conditioned on a well-informed grasp of Indian government policies and objectives.

## **4.2 Support for Livelihood Improvement and Poverty Alleviation**

About 40 percent of India's population lives below the poverty line. Achieving equitable conditions and ensuring that the social and economic benefits of development extend to the impoverished classes have become challenges of top priority. Emphasis accordingly should be placed on programmes for the country's rural districts, where most of the poverty-stricken live, including small and marginal farmers, agricultural labourers, and the potential unemployed.

Favourable monsoon seasons since 1988 have enabled India's agricultural sector to expand food output and build up the country's food reserves. To be sure, though, the gains thus far have barely kept up with the pace of population growth, and for that reason, no visible change has yet been evidenced in

per-capita food consumption, per se. Another obvious problem is that current levels of food output will be difficult to maintain should a monsoon season be punctuated by irregular weather. What is more, rather than tying in with programmes of poverty alleviation, agricultural development strategy since the Green Revolution has placed emphasis chiefly on boosting yields in those states considered best-suited for development.

This report has already discussed the importance of striving to boost agricultural output on a nationwide scale and the necessity of linking that drive to programmes of poverty alleviation. Despite the difficulties involved under the current framework, it is high time to adopt a comprehensive approach to aid. This approach might contribute to strengthening the economic autonomy of India's fast-growing classes of small and marginal farmers. Pilot projects would be effective means of implementing such an approach in India.

Pilot projects would have two dimensions, one being investments in productivity. This would conceivably involve basic investments in the construction of roads and small-scale irrigation facilities, the dredging of rivers and waterways, efforts to revive depleted soils, and afforestation. Those actions could help to boost land productivity and at the same time furnish stimulus to ventures in forestry, livestock farming, fish breeding, and other fields. Indeed, gains in land productivity could be expected to encourage farmers to stop tilling marginal farmland and appropriate it instead to joint use by villagers for livestock farming or forestry. Low-interest, long-term financing for farmers will deserve consideration as one means of encouraging this process. Further, public ventures of this kind could also serve as employment programmes.

Combined, these actions could effectively lift employment, ease conditions of rural poverty, boost consumers' purchasing power, and accordingly spur demand for manufactured goods. Ultimately, such benefits would likely stem the pressures driving the population flow from rural areas into the cities, and in turn help to mitigate regional disparities nationwide.

Social investments count as the other dimensional focus for pilot projects. Target areas for investment would include education with attention to the role of women in development (e.g., literacy training for adults, education in environmental, hygienic, and nutritional basics, and occupational training for people who would be involved in the aforementioned productive activities); medical care (e.g., bolstering for the activities of mobile clinics and other undertakings

at the primary-health-centre; and sanitation (for instance, improving supplies of water). Other areas requiring a response are the population explosion, and AIDS, which have grown into urgent problems of worldwide scope. The number of people in India infected with the AIDS virus is estimated to have reached one million by the year 2000; the disease can be expected to place a large burden not only on the economic positions of households but also on public finances, thus exerting a devastating impact on the impoverished classes.<sup>5</sup> Japan views the population and AIDS as major issues: it has designated India a priority country for assistance in these areas under the Global Issues Initiative (GII)<sup>6</sup>. Assistance related to AIDS and population control also needs to be increased as a way to combat poverty. One effective means of creating essential elements of social infrastructure designed to benefit the impoverished classes directly is grant assistance for grass-roots projects.<sup>7</sup> Such assistance has the potential to be very effective in India, where an especially large number of non-governmental organizations (NGO's) are active. Assistance for grass-roots projects should therefore continue to be expanded ambitiously.

#### **4.3 Support for Environmental Conservation and Effective Resource Utilization**

Heightened resource consumption and waste emissions stemming from industrial development and population growth threaten to aggravate pollution ills and damage to the natural environment. Achieving more-efficient resource utilization and curbing industrial pollution will demand the implementation of effective energy-conservation programmes, including actions to remedy the inefficiencies characterizing India's energy and transportation sectors, as well as modernization work on existing industrial facilities and other measures to boost the efficiency of their manufacturing processes. Support for efforts along

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5. By Asian Development Bank projections, annual expenditures on AIDS programmes will likely measure 5 percent of GDP in India by the year 2000.

6. GII: At the Japan-U.S. framework talks held in January 1994, Japan announced its Global Issues Initiative, a seven-year, \$3.0 billion programme of assistance for population- and AIDS-related projects. It plans to actively pursue the GII in close coordination with the U.S.

7. "Grant Assistance for Grass-roots Projects": A framework set up in 1989 for the purpose of flexibly furnishing assistance more-finely tailored to needs at the grass-roots level. Japanese embassy and consular offices overseas utilise it to screen and quickly provide grant aid to comparatively small-scale candidate projects in response to requests from local municipalities in developing countries, nonprofit institutions engaged in education, training, and research, and local active NGOs.

this line would conceivably have both hard and soft dimensions: first, in the form of financial and technical cooperation for facility improvements, followed by help in conducting environmental impact assessments and establishing effective systems of environmental regulation. Building model industrial towns equipped with suitable industrial waste-disposal facilities, and encouraging factories in residential or commercial zones to relocate, would also be necessary as steps toward curbing industrial pollution.

Population growth and the population influx into cities aggravate urban decay, undermine city services and functions, contribute to backward living conditions, and stoke environmental pollution. As such, they have become serious obstacles to economic development. Japan must therefore move ahead with aid designed to help India develop not only its transportation grid and other elements of industrial infrastructure, but also its urban infrastructural essentials, including water and sewage systems, garbage and waste disposal facilities, and antipollution programmes. Improving the urban environment and living conditions through such actions can be expected to have a beneficial impact on the economic development process, in terms of boosting the supply of quality labour and attracting more direct investment from abroad.

Mounting population pressures in rural India have accelerated the depletion of forest resources and ultimately could threaten to deplete its water resources as well. In addition, while limits to the expansion of farmland have begun to emerge, acreage in nonproductive farmland is spreading due to deteriorating soil quality. These factors demand that India adopt rural-oriented programmes in environmental conservation and development that will pave the way for sustainable growth in farm output. Accordingly, India would probably welcome assistance aimed at instituting social forestry programmes and disseminating appropriate farming technologies attentive to the conservation of water resource-carrying forests and soil conservation as part of the overall attempt at rural village and agricultural development mentioned above.

As noted in 3-6, aid to large-scale development projects that call for the relocation of inhabitants will have to be conditioned on exhaustive preliminary deliberations that have the active participation of the inhabitants concerned.

## **5. Problems in Implementation and Countermeasures for Improvement**

India is a geographically vast country characterised by complex administrative machinery and social structure. Furnishing efficient and effective aid thus will call for close attention to needs at the local level, as well as full-ranging deliberations and coordination on the essential procedural details of implementation itself. In the arena of loan assistance, which in value terms has accounted for the bulk of aid to India in the past, steps have already been taken to introduce a long-list approach at the request stage and to foster a broader understanding of the terms and conditions behind project selection. However, to better accommodate India's expectations for technical cooperation and grant aid in the years ahead, it will be essential to step up work aimed at finding or formulating aid projects for each priority area, and to further consolidate Japanese frameworks for implementation as well as India's own ability to receive and effectively utilise aid.

### **5.1 Action to Find and Formulate Suitable Aid Projects**

#### **Selecting Preferential Fields and Target Regions**

Finding and formulating quality projects shaped by the aid goals and priorities outlined earlier in Chapter 4 will demand comprehensive assessments of regional disparities, the special features of each region, and the potential of each field under consideration for aid. Preferential fields and target regions in turn should be selected on the basis of such study. The effectiveness of aid, moreover, would conceivably be heightened if target regions were selected on the basis of study devoted to combinations of preferential fields with a potential synergy effect.

#### **Harnessing Local Resources for a Better Understanding of Aid Needs**

As big as India is, actively drawing on local information resources would likely be a highly effective way of developing a better understanding of conditions at the state or regional levels, and in turn, accurately identifying their aid requirements. Many Indian institutions at the central and state levels have been engaged in ongoing, long-term research on a diverse array of social,

political, and economic themes. As such, they possess a wealth of invaluable information and human resources, and wield significant influence over the formulation of official development programmes. Hence, in terms of capitalizing on India's own inherent strengths, cooperating with such institutions would seem to be one expedient approach.

### **Pursuing Projects in Economic Infrastructure**

Japan for some time has furnished aid for the development of economic infrastructure. Such aid should of course be continued for years to come, and with an emphasis on not only the direct economic benefits to industry, but also the benefits to and pervasive effects on society at large. In finding and formulating new aid projects, though, it will be crucial to balance development goals with the needs of environmental conservation and heed the potential impact on local residents. India is currently moving to privatise certain state-run enterprises and transfer the management of public utilities to private-sector control. This can be expected to foster heightened demand for more active and flexible strategies of project finding and formulation guided by assessments of potential public interest or welfare.

Project finding and formulation that demand the formation of road or electric-power networks, or that can be expected to cover broad geographical areas, as with rural development or agricultural infrastructure development, should be pursued with attention to recipient development programmes. Prior to that, it would be imperative to request that India put together and submit plans that clearly identify those projects, regions, and industries with special priority in its overall development programme.

### **Setting Up Frameworks for Project Finding and Formulation**

Coming up with quality aid projects will call for project formulation surveys in the priority fields of aid. In addition, though, it will demand the collection and analysis of detailed information on local conditions by project formulation specialists with expertise in such fields, followed by a selection of aid needs per field and region. In that undertaking, serious attention should be given to staffing the local JICA office with specialised coordinators well-versed in all stages of the process from project finding to aid requests and implementation, and with responsibilities in gathering information and han-

ding coordination with local institutions. Also worthy of consideration would be the long-term deployment of Japanese advisory officers, with duties ranging from in-depth surveys of requested aid and advice on programme formulation to the monitoring of projects in progress.

## **5.2 Strengthened Implementation Frameworks**

### **Developing Frameworks for Expanding and Consolidating Project Implementation**

It is essential to expand the local staff frameworks of Japanese aid institutions to supply aid effectively based on the recommendations of this Study Group. This point was originally made by the First Study Group; however, in the intervening six years, JICA so far has added only two personnel to the staff running its local office in India. Hence, we wish here to emphasise once again the pressing need for a seriously substantial increase in personnel.

To be sure, enlarging levels of technical cooperation aimed at helping India develop its human resources and establish needed organizational set ups and institutional systems will demand work to develop frameworks for project finding and formulation, as discussed in the previous section. On top of that, though, in dealing with project requests, it will also be imperative at the early stages to deploy numerous experts to help in putting together finely tailored plans and local frameworks for implementation. Further, to facilitate aid efforts in general, it would seem fitting to strengthen project monitoring frameworks: for instance, through placements of advisory officers, as mentioned above.

### **Strengthening Links with Japanese Institutions and Securing More and Better Qualified Experts**

Boosting its aid-related activities in India will demand that Japan dispatch more and better qualified aid experts. To that end, though, more enthusiastic cooperation from domestic Japanese organizations and institutions seems crucial. Stronger incentives are needed to encourage research institutes and other domestic, specialised institutions, including those in the private sector, to beef up their training and recruiting systems for experts in fields that have aid priority, and to accommodate more foreign trainees or in other ways participate in Japanese aid programmes.

## **Harnessing Local Resources for Project Implementation**

India produces vast numbers of technically and academically proficient personnel. Accordingly, and also appreciating India's own strengths and self-confidence, it would be beneficial to utilise such human resources in the implementation phase, contingent upon project scope. In particular, steps are needed to develop the institutional and budgetary frameworks that will encourage active reliance on local consultants and local NGOs.

## **Gauging India's Ability to Utilise Aid and Promoting Local Participation**

In moving to the stage of actual project implementation, it will be important to adequately gauge India's fiscal means and other organizational strengths. In some instances, budgetary shortfalls in local currency have apparently prevented the responsible Indian institutions from moving ahead with project implementation. To be sure, Indian authorities also will be called on to take adequate action in securing the funds necessary to run aid projects once they are completed and put into operation. In addition, participation by local inhabitants will be also essential to project implementation as well as sustainable project operations thereafter.

## **5.3 Promotion of Dialogue and Mutual Understanding**

### **The Need for Mutual Understanding in Aid Affairs**

Whatever the case may be at the central-government level, India's state governments apparently do not possess much knowledge about the workings and accomplishments of Japanese aid. Though they have demonstrated a need for aid, it has been suggested that some have an inadequate grasp of the actual procedures involved in making requests for aid or bringing projects to fruition. To be sure, various inconsistencies highlight Indian and Japanese notions about, and frameworks for, aid. For instance, in the arena of technical cooperation, fields for which aid has been requested do not mesh so well with those fields in which Japan is readily able to lend a helping hand. Also, India needs to include in its budget preliminary estimates of the amount of aid funds it expects to use, for the Japanese government is not in a position to submit budget expenditure estimates for grant aid and technical cooperation in the fiscal year



prior to actual appropriation. In the interest of more effective and more smoothly implemented efforts in assistance, It would be desirable if both countries worked harder to iron out these differences by promoting dialogue and mutual understanding with respect to aid mechanisms and frameworks.

### **Constructive Dialogue**

Japan should strive even harder than it has to date, through publicity efforts and dialogue, to foster heightened Indian awareness of its views, including at the state level. In addition, it must become more assertive in offering advice and recommendations: e.g., for improvements in Indian frameworks for finding and implementing aid projects. To that end, it should call for transparency and continuity in the policies of Indian state- and central-government departments responsible for appropriating foreign aid, and urge the training and sustained placement of personnel well-versed in aid affairs.

### **Pilot Projects**

Model projects would appear to be one effective way of fostering greater understanding of Japanese aid policies and mechanisms. For instance, it would be useful to select and pursue even small-scale pilot projects that can demonstrate the effectiveness of aid, and bundle them with on-site ODA seminars and workshops. Another likely approach would be to expand acceptance of trainees into Japan through group training courses designed specifically for India, and actively lead local follow-up seminars for course graduates.

### **Encouragement of Indian Researchers on Japan**

Though expectations toward and interest in Japan are strong, the fact is that India still has few experts on Japan, especially in social sciences. Heightened exchange in scholarly fields, coupled with support for research on Japan by suitable research institutions, would likely be helpful in promoting mutual understanding and encouraging Japanese studies in India.







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