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## Aid management in India

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enterprise's basis of existence has precedence. In the second place would then come the comparatively riskless capital investments in the Federal Republic, e.g. in another branch in order to expand one's own production programme. With the foundation of the European Economic Community private entrepreneurs' investments in other member states of the EEC acquired third priority. The Common Market's customs union will be completed by mid-1968 and the further development of EEC to an economic union similar to a domestic market is the next target. Investments in EFTA-countries hold fourth place for the German investor—e.g. in order to bridge the European "tariff-ditch"—and the same applies to investments in other countries outside EEC.

In the fifth place finally come investments in developing countries. Although here the special political and economic risks have impeding effects, they can partly be neutralised by the Federal Government's already mentioned promotion measures. With-

in this fifth category, on the other hand, the German investor will select those countries with which he already maintains trade relations and whose investment climate appeals to him.

It is quite obvious how much is depending on the investment climate in a country that wants to attract private capital of German entrepreneurs. It is therefore all the more incomprehensible that some developing nations—which according to their economic position and also according to the statements of their leading politicians are urgently requiring private capital—refuse assurances in respect of the treatment of foreign property. Bilateral and multilateral agreements might create more security. The reference to the practice of many years' standing and to the country's constitution is not always convincing completely. A favourable investment climate does also contribute quite considerably to keeping capital in the country and to enabling its use for the acceleration of the domestic development process.

## DEVELOPMENT PLANNING

# Aid Management in India

by M. S. Dabke, Bombay

Improving the aid climate is a special objective, both a long-term and a short-term one. While the long-term objective is to assess the prospects of foreign assistance to India during future years, the immediate task is to dispel misgivings abroad over India's achievements and future potential of growth. Confident declarations that India would be able to dispense with foreign aid after 10 to 12 years without jeopardising its prospects for future growth, are meant to allay public fears in other countries. Although India has completed three five-year plans, its growth rate has not been satisfactory. The hope of attaining a take-off stage is still eluding it. Particularly in the sixties, the Indian economy found itself enmeshed in great difficulties. The Chinese aggression in October 1962, was no doubt of a short duration. However, it has since kept India's northern frontiers tense and defence expenditure mounting. The flare-up with Pakistan in October 1965 was a calamity that ran concurrent to a severe drought. Crops failed again in 1966 and the desperate devaluation of the Indian rupee in June 1966, did not improve the balance of payments position.

### **The Problem of Aid Utilisation**

As against this, the aid pool in the world is shrinking. About a decade ago, there were only a couple of countries wanting foreign assistance. Today, the number of claimants for aid is high. With the exception of France, India's traditional sources of aid in the West are drying up fast. The growing involvement of the United States in the Vietnam war has

made American public opinion on aid to other countries rather reluctant. Britain and West Germany, too, are engulfed in their own monetary and budgetary troubles. While thus the prospects of future aid are bleak, the problem of utilisation of aid already sanctioned assumes a special significance. Better utilisation of aid on hand is, perhaps, the surest way of getting a maximum out of the assistance other countries have been rendering to India.

There is one more reason why utilisation of aid must assume top urgency. That reason is to be found in India's mounting burden of repayment obligations. In the initial stage of planning in India, the volume of aid was modest. More than 50 per cent of India's industries depends directly on agriculture. The satisfactory crop position enabled a reasonable increase in the industrial production as well as in exports. In the British regime, there was no industrialisation worth the name and the Indian economy was almost virgin. As a result, the inputs in terms of Indian and foreign currencies led to an upward production curve. However, this trend proved to be short-lived and the economy was again on the descend. In an attempt to arrest the falling growth rate, the rulers contracted heavy external debts and made huge investments in the public sector. India's public sector lived up to the notoriety public sector ventures have earned elsewhere. It was the same story of massive investments and meagre or no yields at all. On the one hand, there was no exportable surplus. On the other, Indian goods started getting out-priced in the world markets due to their higher costs of production.

The cumulative effect of all these factors was that debt repayment obligations kept on mounting. A measure of the increase in these obligations is to be seen in the recent Report of the World Bank. As a proportion of merchandise exports, for instance, India's debt-service obligations (principal and interest) rose from 10 per cent in 1962 to 22 per cent in 1966. This was because the debt-service obligations taken by themselves registered a rise by 84 per cent. Indian exports during the period, however, rose by only 14 per cent. One more important factor to be remembered in this context is that the level of present debt-service payments is determined primarily by the volume and the terms of aid India has received in the 1950s. In later years, the terms of aid have been more adverse to India in a number of instances. While projecting the future debt-servicing obligations, therefore, one has perforce to take into account the impact these harder terms of loans would have on India's debt-service obligations in years to come. The external official debt-service charges as percentage of exports of goods and services rose from 9.8 per cent in 1962 to 22 per cent in 1966. This is no doubt less than Argentina and Brazil have to pay, but a continuous increase is the peculiarity in the Indian case.

#### **Under-utilisation of External Assistance**

In the background of the rising debt-servicing ratio, and the declining aid commitments, it becomes a must for India to concentrate on better utilisation of aid already granted. Aid management is a complicated affair in which the governments and institutions concerned (in the case of institutional assistance) have to work together. Naturally, much depends on the co-operation among all the parties involved in a particular programme and the Indian Government by itself could not be expected to be able to remove all the hurdles in aid utilisation. A lot also depends on the legislatures and the procedures in the aid giving countries. However, there are many instances of delay primarily occurring as a result of sluggish movement of things in New Delhi. For instance, the USAID had approved a credit line for the Durgapur thermal power station. More than two years had to pass between the initial sanction and the actual signing of the loan agreement. The main reason of the delay was that the loan application was not filed by India early and a lot of time was also consumed between the queries by the USAID about the project and India's replies thereto. This is not a solitary instance and this list could be multiplied.

According to figures of aid authorisation and the utilisation of the aid India has hardly utilised 77 per cent of the aid authorised. This is no doubt a grave situation. However, the problem of aid utilisation has not assumed these proportions suddenly. In fact, it was faced by India right since the early sixties. In June 1963, the Indian Government had appointed an expert committee, known as the Rao Committee, to examine the question of proper aid utilisation. The

Rao Committee did make important recommendations on streamlining the procedures for negotiation, allocation and disbursement of external assistance in order also to ensure more efficient utilisation of foreign aid in accordance with the priorities assigned by the Plan. The recommendations of the Rao Committee were accepted by the Indian Government in April 1964. However, precious little was done to implement those recommendations. As a result, the under-utilisation of foreign aid continued to grow and it has now assumed the present staggering proportion. The under-utilisation of aid, therefore, has rightly come in for severe criticism by the Estimates Committee of the Indian Parliament. In its Report (1967-68) on utilisation of external assistance, the Estimates Committee has unfolded the same unpalatable features of the Government's policy in aid utilisation. To cut short the time of negotiations and to speed up replies to queries and other formalities are the twin hinges on which must stand the entire edifice of maximum aid utilisation in India.

#### **Reliance on Foreign Aid**

Apart from the fact that the aid pool itself has been shrinking, it is evident that aid terms have started hardening again. It was only in 1964 that the terms of aid were rather softer for developing countries like India. Even the improvement in 1964 was to a large extent due to the IDA stepping up its lending. Government-to-government loans tended between 1963 and 1965 to be contracted at higher interest rates, with curtailed or no grace years. They also had shorter maturity periods. During the last year of the Third Plan, India had to allocate Rs 1,540 million for debt-servicing. That came to about 30 per cent of the total external assistance received by the country during that year. In years to come, this percentage is likely to rise as a result of more and more loans falling due for repayment.

Any under-utilisation of aid unnecessarily increases India's reliance on foreign aid. On a long-term basis, such undue reliance on outside assistance tends to exert pressure on the external solvency of the country. As a result, the debtor country's bargaining position in the field of imports is affected. Fortunately, India's solvency is still rated high in the international field. The country has so far met all its obligations as they matured. Finance Minister Mr Desai has publicly assured the US that even in years to come, India would surely meet its repayment obligations. However, one often hears these days a talk of "re-scheduling" of India's debt repayments. This is a pointer to the direction in which the wind is blowing.

Apparently, it is not possible to step up aid utilisation to 100 per cent. However, with determined efforts, it could very well be improved beyond 90 per cent. All such improvements in aid utilisation would be a signal contribution to India's ideal of going without aid ten years hence.