CHAPTER - 11

CONCLUSIONS

AND

RECOMMENDATIONS
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CONCLUSIONS AND RECOMMENDATIONS

We are now on the verge of summarizing this doctoral thesis. We summarize fully aware that much can be said to straighten the issues. Yet we humbly conclude one small endeavor to clarify some issues by way of this thesis. First of all we put forth the findings of our research then we go for conclusion and in the end we will cover recommendations. Based on the evidence of these findings, conclusions and recommendations has been drawn along with limitations of the study.

FINDINGS:

Findings are the concrete facts and figures which are stated as they are in their original and natural form. It is the findings on the basis of which conclusions and recommendations of any report are based later on. Findings of this research report will incorporate Foreign Institutional Financing in India, International Monetary Fund, International Bank for Reconstruction & Development and Asian Development Bank.

[I] FOREIGN INSTITUTIONAL FINANCING IN INDIA

(1) During pre - liberalization scenario (1980-1990), India secured an average of Rs. 7529.00 crores an year as Foreign Institutional Finance whereas in post - liberalization scenario (1991-2000), India secured an average of Rs. 12187.60 crores an year as Foreign Institutional Finance.

(2) As far as recent trend is considered, India secured an average of Rs. 16739.50 crores an year as Foreign Institutional Finance from 1997-2007.
Comparative analysis between Foreign Institutional Loans and Foreign Institutional Grants depicts that in pre—liberalization scenario (1980-1990), India secured an average of Rs. 6970.10 crores an year as Foreign Institutional Loans and an average of Rs. 558.90 crores an year as Foreign Institutional Grants. In post-liberalization scenario (1991-2000), India secured an average of Rs. 11363.10 crores an year as Foreign Institutional Loans and an average of Rs. 824.50 crores an year as Foreign Institutional Grants.

As far as recent trend is considered, India secured an average of Rs. 15414.90 crores an year as Foreign Institutional Loans and an average of Rs. 824.50 crores an year as Foreign Institutional Grants in previous ten years (1997-2007).

The efficiency of utilizing Foreign Institutional Finance out of authorized Foreign Institutional Finance in pre—liberalization regime (1980-1990) was 86.3 % whereas its efficiency in post-liberalization (1991-2000) regime was 88.2 %

The efficiency of utilizing Foreign Institutional Finance out of authorized Foreign Institutional Finance in recent scenario (2000-2007) is 89.4 %

Among various International Financial Institutions (including IBRD, IDA, ADB and IMF), IBRD comes out to be the most prominent one by providing 43.56 % of total Foreign Institutional Finance provided to India (i.e. Rs. 311415 crores) from 1980-2007. IDA and ADB were second and third prominent FIF providers as they had given 23.17 % and 22 % of total Foreign Institutional Finance provided to India.
(8) Sectoral analysis depicts that in pre - liberalization scenario most of Foreign Institutional Finance goes in agriculture sector (22.69 %) followed by social sector (21.56 %) and urban development (20.44 %). In post-liberalization scenario most of Foreign Institutional Finance goes in energy sector sector (25.24 %) followed by infrastructure (20.30 %) and industry (16.93 %). In nutshell, we can say that in case of pre - liberalization scenario most prominent sector in fetching Foreign Institutional Finance was agriculture sector ( which fetched 22.69 % of total FIF) whereas in case of post - liberalization scenario most prominent sector in fetching Foreign Institutional Finance was energy sector ( which fetched 25.24 % of total FIF).

(9) Comparative analysis between Gross Domestic Product and Foreign Institutional Financing reveals the fact that in pre - liberalization scenario (1980-1990) percentage of FIF (w.r.t. GDP) was not unidirectional. In post - liberalization scenario (1991-2000) percentage of FIF (with respect to GDP) was not only unidirectional but it was on incremental trend. From the year 2000 it shows a continuous declining trend.

(10) As far as recent trend is concerned, from the year 2000 to 2007, percentage of FIF (with respect to GDP) shows a continuous declining trend which signifies that dependence of Indian economy on FIF is decreasing day by day which is a good sign for India

(11) Comparative analysis between National Income and Foreign Institutional Financing reveals the fact that in pre - liberalization scenario (1980-1990) percentage of FIF (w.r.t. National Income) decreased from 4.5 % to 1.5 %. In
post – liberalization scenario (1991-2000) percentage of FIF (with respect to National Income) slowly and gradually decreases from 1.3 % to 0.92 %.

(12) As far as recent trend is concerned, from the year 2000 to 2007, percentage of FIF (with respect to National Income) shows a continuous declining trend (from 0.91 % to 0.43 %) which signifies that dependence of Indian Economy on FIF is decreasing day by day which is a good sign for India.

[II] INTERNATIONAL MONETARY FUND

IMF promotes international monetary cooperation, exchange stability, and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of payments adjustment. In case of India, besides receiving loans to meet deficits in its Balance of payments, India has benefited in various aspects from the membership of the Fund by virtue of being a member of the fund. India has been getting advisory help from the fund under the Fund surveillance conditionality. Specific findings in case of India are as follows:

(1) During pre-reforms period, India was one of the largest beneficiaries of IMF assistance peaking to the highest borrowing of 3999750000 SDR in the year 1984 but after 1999 (in post-reform period) India had not gathered any financial assistance (till 2007) from IMF on the grounds that after 1999 India is not in need of severe financial assistance from IMF.
(2) Decreased Financial Disbursements: Financial assistance from IMF is on declining trend (factually stopped after 1999) on the grounds that Indian position on foreign exchange reserves is becoming stronger day by day.

(3) Borrower to Donor: The relationship between the IMF and India has grown strong over the years. In fact, the country has turned from borrower to donor to the IMF and has stopped taking loans from it. For the first time India has contributed US $205 million to Financial Transaction Plan thereby turning themselves from debtor to creditor of IMF.

(4) Convertibility of Indian currency: The economic crisis that India had faced in 1991, IMF strongly suggested to go for free convertibility of its currency on both accounts (current & capital) so that market governed exchange rate could be established. Following this suggestive mode of IMF, Government of India has made Indian currency fully convertible on current account in August 1994 (by accepting Article VIII of the Articles of Agreement of the IMF) but this could not happened on capital account as yet. For capital account convertibility IMF has suggested government of India to go for fiscal consolidation, mandated inflation target and strengthening of the financial system.

(5) Adverse Balance of Payment Problem: The severe BOP crisis of 1991 has forced Indian Government to accept the terms and conditions of loan agreement bewteen India and IMF underwhich IMF was ready for a bailout package but wanted Indian government to introduce a whole range of economic reforms. India accepted these loans mainly to service its foreign debt. The prescriptions of the IMF included measures like devaluation of the Indian rupee, removal of heavy
duties (domestic and international) and strategic sale of public sector units. In regard to such measures IMF has helped India since long.

[III] INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

World Bank's current Country Strategy for India was finalized on August 26, 2004. The strategy is used to guide the Bank Group's programs in India for a period of four years, from fiscal years 2005 to 2008. As India is home to over a quarter of the world's poor, the overarching goal of the World Bank's Country Strategy (CAS) for India for 2005-08 is mainly incorporates poverty reduction, helping India to move closer to achieving the Millennium Development Goals (MDGs) and improving the people's standards of living. The focus areas of World Bank's strategy envisages a substantial increase in the volume of lending to India in areas that are crucial for poverty reduction including infrastructure development (roads, electricity, water and sanitation, transportation and communication), health and education, creation of more jobs and better livelihoods (especially in the rural areas) etc. Specific findings in case of India IBRD relationship are as follows:

(1) During pre-liberalization scenario (1980-1990), India secured an average of Rs. 3581.80 crores an year for different projects whereas in post-liberalization scenario (1991-2000), India secured an average of Rs. 5990.8 crores an year from IBRD.

(2) As far as recent trend is considered, India secured an average of Rs. 4989.63 crores an year for different projects from 2000-2007.
(3) In totality International Bank for Reconstruction and Development has provided Rs. 135643 crores in different projects from 1980 – 2007.

(4) There is significant decrease in funding of IBRD in different projects over past many years because as from 1991-2000 India secured an average of Rs. 5990.8 crores an year whereas from 2000-2007 India secured only of Rs. 4989.63 crores an year on the grounds that of Indian Economy is becoming more and more financially sound during post- reform regime.

[IV] ASIAN DEVELOPMENT BANK

ADB is undertaking comprehensive and detailed economic and sectoral work, which forms the basis for its support for policy reform capacity building and institutional strengthening in India. The economic and sectoral work also provides assessment of the overall consistency of economic and structural policies and their developmental impact on efficiency and sustainability of economic growth, a prerequisite for progress in reducing widespread poverty. Specific findings in case of India ADB relationship are as follows:

(1) During pre - liberalization scenario (1980-1990), India secured an average of Rs. 1685.40 crores an year for different projects whereas in post - liberalization scenario (1991-2000), India secured an average of Rs. 2814.2 crores an year from ADB.

(2) As far as recent trend is considered, India secured an average of Rs. 2949.63 crores an year for different projects from 2000-2007.
(3) In totality Asian Development Bank has provided Rs. 68593 crores in different

(4) There is marginal increase in funding of ADB in different projects over past many
years because as from 1991-2000 India secured an average of Rs. 2814.2 crores
an year whereas from 2000-2007 India secured only of Rs. 2949.63 crores an year
on the grounds that of Indian Economy is having sufficient potential to sustain
itself.

(5) After China, India has been the biggest recipient of finances from ADB since its
inception.

(6) Energy sector has secured maximum amount of assistance from ADB amounting
to US $ 5125.80 Millions representing almost 31.16 % of total receipts followed
by transport and communication sector which received 30 % of total receipts
amounting to US $ 4979.20 Million.

(7) The largest single loan of US $ 3000 Millions in a year has received by India for

(8) More than 1.5 Million people mainly urban poor and those with low income
benefited from the finances extended by ADB since its inception.

(9) By the end of 2007, ADB has provided assistance for construction of more than
17,000 Kilometer of rural roads.

(10) More than 27,500 low income houses were fitted with sanitation facilities through
the assistance provided by ADB till the end of year 2007.
CONCLUSIONS

India’s candidature for growth and prosperity offer its own attraction to foreign institutional financers to collaborate and work together as India wish to expand and modernize with the development of long term policies that provide sustainable development, favourable investment scenario, location, choice of strategic alliances, production, import and export. More and more global economic institutions are intending to assist and support monetarily and technically for the consolidation of modern economic scenario. Government of India recognizes that global economic institutions will influence the pace of economic development in future too. Continuing economic reforms have removed restrictions regarding inflow and made process of foreign institutional financing easier. However, poverty is considered to the main hindrance to success of various projects. Specific points of conclusion regarding Foreign Institutional Financing are as follows:

(1) In post-reform scenario Foreign Institutional Financing has been received mainly turn key sectors namely Energy (25.24 %), Infrastructure (20.30 %), Industry (16.93), Agriculture (15.23 %), Social Sector (12.27 %) and Urban Development (9.89 %).

(2) Finances provided by Global Economic Institutions in the country has increased standards of rural life, building infrastructure for absorbing large part of country’s vast human resource and offering them basic livelihood.

(3) Foreign institutional financing is extending their assistance in all major sectors of the economy. It can be concluded that global economic institutions have acknowledged India as huge potential for economic growth. Their ever
increasing commitment to various projects and activities in the country is a clear cut indicator of their confidence in India’s potential.

(4) International Monetary Fund (IMF) coordinates the global financial system by following the macroeconomic policies of its member countries, in particular to those with an impact on exchange rates and the balance of payments. It also offers financial and technical assistance to its members, making it an international lender of last resort.

(5) Over the years IMF has played a critical role in the economic restructuring of the country. Though India has not been a frequent user of IMF resources even then IMF credit has been instrumental in helping India respond to emerging balance of payments problems on two occasions. In 1981-82, India borrowed SDR 3.9 billion under an Extended Fund Facility, the largest arrangement in IMF history at the time. Again in 1991-93, India borrowed a total of SDR 2.2 billion under two stand by arrangements and in 1991 it borrowed SDR 1.4 billion under the Compensatory Financing Facility.

(6) In view of its strong BOP and comfortable forex reserve position, India has been selected for the first time by IMF to become a member of its Financial Transaction plan (FTP). Accordingly, India has contributed US $ 205 million FTP in the year 2002, thereby turning India from a debtor into a creditor to IMF.

(7) The IMF is helping low-income countries make progress toward the MDGs and contributing to the approach embodied in the Monterrey Consensus through each of the Fund’s three key functions—lending, technical assistance,
and surveillance. The IMF provides low-income countries with policy advice, technical assistance and financial support. Low-income countries receive more than half of the technical assistance provided by the Fund and financial support is extended at low interest rates and over relatively long time horizons. Low-income countries with high external debt burdens are also eligible for debt relief.

(8) Though India is the second largest subscriber among the regional countries next only to Japan, it has refrained from borrowing any funds from ADB for its own development. India has left the Bank free to lend to the neighboring countries in the region for their overall growth.

(9) ADB’s work include focus on the development of the long term debt market, the design and implementation of further policy reforms in the power sector, focusing of the restructuring and privatization of transmission and distribution while also addressing the vexed issue of power subsidies and capacity building for efficient public sector management at the national and state levels and for local government resource mobilization.

(10) In India, ADB collaborates closely with multilateral and bilateral development partners such as the World Bank, United Kingdom’s Department for International Development, Japan Bank for International Cooperation and the European Union. Consultations with the development partners are conducted regularly at the project level as well as during country programming.
RECOMMENDATIONS

Financial requirements of developing economies like India are broadly of two types – one emerging from huge deficits in the balance of payments and the other type of requirement is of development finance in particular. Two major international financial institutions emerged at Bretton Woods in 1944 were International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD). IMF was created to meet the financial requirements of balance of payment arising from structural deficits while IBRD deals with development finance. With the passage of time it was felt that effectiveness of Foreign Institutional Finance is still limited in fulfillment of purpose for which they have created and developing economies are still waiting for the soft – finance needed for developmental purposes i.e. wishes of third world nations are still in unfulfilled. We, therefore, recommend following specific points:

[1] Advice of international financial institutions need not to be accepted without cost benefit analysis because in case of ADB which argues that private sector participation in the energy sector will relieve governments' debt burdens and allow scarce resources to be allocated to social sectors such as health and education. Yet in India, Indonesia and the Philippines, the ADB's advice has led to escalating energy costs for consumers, increased debt burdens for the government and increasing windfalls for the private sector. In the energy sector, multinational corporations are the only ones that seem to benefit from the ADB's such advice.
In order to introduce flexibility and to ensure the optimum utilization of Foreign Institutional Finance, it is necessary that resources should be linked with programmes rather than projects. If the programme is approved for financing then it should be unnecessary to analyse in detail individual projects or enter into separate agreement for each individual project. If finance is given project-wise, foreign exchange resources economized in one use are not free to be diverted to other uses and it leads to a less effective use of resources. Indian situation calls for 'uncommitted' finance because of the large need for maintenance imports like industrial raw materials and components. If these were available on a large scale, the existing industrial capacity in the country could be more fully utilized. Finance should neither be committed to specific projects nor purchases from the countries giving finance. Thus, Foreign Institutional Finance should increasingly take the form of 'untied' rather than 'tied' aid.

Foreign Institutional Finance should increasingly take the form of long period commitment. Year-to-year negotiations not only introduce an element of uncertainty but it also creates difficulties in the way of advance planning.

As far as possible, technical assistance should take the form of establishment of technical institutions in India rather than technical training offered in the donor countries.
India should try to gather IBRD borrowings for projects requiring larger gestation periods as IBRD funds are semi-concessional and of a longer maturity and therefore cheaper than commercial external borrowings.

India should utilise its World Bank borrowings mainly for various development projects in areas of poverty alleviation, infrastructure, rural development, human resource development, etc.

The trade deficit is large and has widened due to high oil prices and increased imports. India can limit its ill effect by keeping low levels of external debt, increasing buoyant exports and maintaining stability in its large foreign exchange reserves - which touched almost US$ 285 billion on Jan 18, 2008


India should work hard to enhance its development indicators as World Bank is increasingly focusing on analytical reports on the country’s major development challenges and extending practical advice to policy makers by sharing good practices and experience from within the country and abroad. Substantial disparities persisting between urban and rural areas, prosperous and lagging states, skilled and low-skilled workers should be minimized by utilizing foreign institutional financing in a justified manner. In a marked departure from previous decades, reforms of the 1990s were accompanied by a visible increase in income inequality. Although this continues to be relatively low by global standards, disparities are growing. Inequality can have huge social costs
and evidence of social unrest in some disadvantaged regions is growing which should be as minimum as possible.

India needs to invest an additional percentage of GDP on infrastructure to sustain its current levels of growth and to spread the benefits of growth more widely. Although this will clearly require a government role, the relative roles of the government and private sector need to be defined. Policies that encourage competition can be strengthened. Indian economic planners should strategically utilize foreign institutional financing for improving standards of power networks, roads, transportation systems and ports which are facing huge demands from India’s rapidly growing economy. But shortages are eroding the country’s competitiveness and hurting the growth of labor-intensive enterprises, particularly export-oriented manufacturing which has the potential to absorb India’s fast-growing working population.

India should prepare deep rooted employment generation projects and try to secure required Foreign Institutional Finance in sustainable areas because majority of India’s labor force remains trapped in low productivity job sectors. On the other hand the services sector booms with promising job opportunities for skilled workers.

India should try to achieve Millennium Development Goals (MDGs) because current Country Assistance Strategy (CAS) of World Bank identifies the need to reorient lending so that it will have the maximum impact on the poorest states (Bihar, Orissa, Jharkhand, UP). India
should focus on more foreign institutional financing in those sectors that have direct impact on poverty alleviation and MDGs i.e. Rural Water Supply and Rural Electrification, Health, Education & Livelihood Support System.

Lagging states need to bring more jobs to their people by creating an attractive investment destination. Reforming cumbersome regulatory procedures, improving rural connectivity, establishing law and order, creating a stable platform for natural resource investment that balances business interests with social concerns and providing rural finance are important. India should try to minimize ill effects of faster economic growth like rising inter-state disparities. While India’s higher-income states have successfully reduced poverty to levels comparable with richer Latin American countries but its poorer states (like Assam, Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajasthan, and Uttar Pradesh) have not kept pace and are lagging behind their more prosperous counterparts. It can be achieved by equitable distribution of scarce resources, better employment opportunities, labour reforms etc.