CHAPTER - V

CONCLUSIONS AND SUGGESTIONS

In the previous chapters a critical analysis was made of the contributions of the International Financial Agencies like the World Bank (IBRD), the International Development Association (IDA) and the Asian Development Bank (ADB) in the development of economic infrastructure in the country. The purpose of this final chapter is to conclude the findings of this thesis and to present the main observations, draw main inferences and conclusions for this study. This chapter would also suggest measures and remedies so as to eliminate the disturbing factors associated with the use of foreign capital and foreign investments in the development of economic infrastructure in India.

The study reveals that the constructions of adequate infrastructural facilities are inevitable for accelerated pace of economic development. Of all the factors of production capital is said to be the most important. Infact the accumulation of capital can be regarded a significant measure to help a country in its attempts to overcome its economic backwardness. Technological know how is another
factor which can contribute substantial v to economic growth. India being a developing country lacks both in capital formation and technology developments. Thus considering the scarcity of capital and technological gap, on one hand, and the underdeveloped state of infrastructural facilities on the other, it was expedient for India to invite foreign capital and technology so as to achieve rapid economic growth. The basic findings of this study further outline the facts that India has been substantially benefited by the international financial institutions in the creation of a sound economic infrastructure.

Energy, transport and irrigation being an important component of economic infrastructure constitutes the basis of material prosperity of a nation in as much as the economic development of a modern industrial economy largely depends upon the utilisation of these facilities. Sources of energy is the basic requirement of modern industrial sector and is indispensable for agricultural and industrial growth and expansion. Although the consumption of energy is low in underdeveloped countries but its demand steadily increases with the growth of the
economy. As it has been observed earlier in this study there is a positive degree of correlation between economic growth and demand for energy (See chapter I, Table No. 1). It is particularly so because growth is an index of increasing production actively which required larger quantity of energy.

At present India is facing the problems of acute shortages. In order to overcome the deficiency of energy and to ensure smooth supply of power the government had instituted a revolving fund of Rs. 100 crores to provide assistance to industry for promotion of energy conservation. The setting up of this revolving fund was the most important recommendations made by the interministerial working group on energy conservation. The decision of the government however, does not absolve industry from inducing better house keeping techniques even if there are no incentives for energy conservation efficient use of power is demanded by the fact that our power programmes are costly and the power shortages that persists can be partly attributed to the wastage of electricity.  

Moreover the problem of solving energy supply in developing countries largely depends upon massive investments in this sector. A developing country like

India with all characteristics of under-development and low standard of living has not been able to accumulate capital in sufficient quantity to meet her expenditure on major developmental projects. As a result she has to depend on foreign loans and assistance which is indescribable for its economic growth specially when it is associated with advanced technology and managerial skills.

As discussed earlier, the international organisations can play a significant role in arranging for financial assistance, training and manpower planning and implementation in India. In this regard the World Bank (IBRD) and its affiliate the IDA, right from their inception, have taken keen interest in the development of energy projects in India. Energy projects are jointly financed by those that enabled India to vigorously take instruction of new projects to cope with rising demand for power in industrial as well as agricultural sector. The World Bank along with the IDA contributed an assistance of $5,580.20 millions unto June 30th 1986 for power development with IBRD sharing $3,194.20 millions on the soft lending, with over IDA contributing $2,386.00
millions. Infact the World Bank made its first loan to India of $18.50 million to finance a portion of the first stage of the Damodar Valley an important multipurpose project as far back as 1950. Recently the World Bank has sponsored two schemes of energy development in the country in the state of Bihar and one scheme of water development in the State of Karnataka. Similarly these institutions have considerably contributed to in oil exploration and coal mining projects.

The World Bank has not been simply a lending institutions to India but also provided technical assistance in developmental programme through different survey missions which make intensive studies of national resources and make recommendations to serve as a long term development programme. The World Bank made comprehensive reports of the country's development possibilities, problems and performance, comments on the estimates of aid required and also recommended different forms of technical assistance. This study had emphasised that, energy sector is an important part of infrastructure of Indian Economy and the performance of the power supply and development of industries and the economy atlarge are closely interlinked. This study of World Bank though published
Some seven years ago is still relevant in the same sense that many of the issues it raised about the power development programme remain even unanswered today. For instance, it called for efficient working of state electricity boards, drew attention to high transmission losses, suggested improved use of electric power in industry which is its main consumer, and recommended an upward revision in the electricity tariff. It has also drawn attention to the considerable large reserves of hydro-electric power that remain to be tapped.  

From the discussions in the previous chapters it is evident that the World Bank and the ILA has been a great source of help to India in attaining socio-economic development. The international financing agencies apart from providing funds for energy projects also assisted in the development of railways, roadways, irrigation and tele-communication system which are essential ingredients of economic infrastructure. The first loan of World Bank to India of $34 million was advanced for development of railways. The World Bank

along with IDA contributed an assistance of $1,767.21
upto June 30th, 1986 for railways. Similarly Roads
and Ports and Shipping received loans of $295.00
million and $415 million respectively from those
institutions upto June 30th, 1986. During the 60's
the World Bank Group emphasis shifted from
industrial infrastructure to agriculture, and during these years
its investments in agriculture and rural development
has been increasing in cumulative terms. India was
a very important beneficiary of new strategy of invest-
ment of the World Bank for development of agricul-
ture. The World Bank Group sponsored a number of
fertilizer and irrigation projects in India and provided
funds for agricultural credit institutions for financing
inputs such as seeds, pesticides and machinery. The
assistance provided by the World Bank Group to India
for irrigation and agriculture development totaled
$7458.20 million out of which $1274.20 million was
given by the IBRD and $184.00 million by IDA upto
June 30th 1986.

It was mainly the outcome of the World Banks'
sincere efforts that a consortium of twelve (12)
countries and institutions interested in development
assistance to India has been formed under the auspices
of the World Bank in August 1958 which is commonly known as the Aid India club. This consortium meets periodically to discuss and, if necessary, assist India to meet her foreign exchange commitments. Aid India consortium an aid-givers institutions, primarily to finance Indian Five Year Plans and for any other emergency or crises situation. While in 1958 India had foreign exchange crises, in 1965–67 the nation was facing 'debt-service' difficulties and needed 'non-project aid' for development. At the consortium meetings of 1967 and 1968, rescheduling of India's debts was very much considered and aid was promised for debt relief, food and fertilizers and further 'non-project aid was promised.  

The Aid India Consortium met as usual in Paris on June 15 and 17, 1988 under the chairmanship of the World Bank. There was unanimous agreement at the meeting regarding new for concessional assistance to India. The meeting paid tribute to the quality of India's economic performance and management and initiatives that have been taken in respect of fiscal, industrial and trade policies to accelerate growth and

This year (1986) the total aid pledged have exceeded expectations. The total amount underwritten was $ 4.5 billion practically all concessional aid and a figure 16 percent higher than last year's figure of $ 3.9 billion. The World Bank which has always been most helpful has committed $ 2.5 billion and aid a great deal of favourable reporting before and during the consortium meeting to encourage other bilateral contribution of US $ 2 billion, from other donor countries and also other international, regional agencies. As regard, the World Bank Group assistance, $ 1,900 million is expected to be contributed by the World Bank (IBRD) and $ 600 million by the International Development Association (IDA).

Another important fact that emerges from the study is that Asian Development Bank has emerged as an important source of finance for India which aims at fostering economic development of the countries of Asia and Far east. Although India being founder member of the ADB and fourth largest contributor to its capital stock kept herself voluntarily refrained from taking

financial assistance from the bank in the past, but, keeping in view the need for more and more foreign investment required for developmental projects, India has of late, started borrowing from the ADB. Previous year proved to be good for India so far as it was able to break a dead lock with the ADB on its right to borrow from this institution and thus the first loan agreement signed on May 20, 1986 between the Industrial credit and Investment Corporation of India (ICICI) and ADB was for $100 million. The total quantum of lending from the ADB up to December 1986 was of the order of $250 million. Further, this Bank has also started financing for energy projects, irrigation, ports and other infrastructural facilities in India. Thus keeping in view the functions and objectives of the Bank India can hope for substantial loans and technical assistance from the bank for future developmental projects.

The study also reveals that the loans that were approved by the World Bank (IBRD) were on hard terms and conditions, since the rate of interest at which they can be borrowed was on the conditions in the

5. ADB lending crosses $2 billion mark. The Times of India - April 20, New Delhi, p.1.
international market, which have shown a hardening tendency. The loans extended by the international Development Association (IDA) to India for the establishment and construction of infrastructure were at low rate i.e. 3/4 percent per annum. As a matter of fact since these institutions were set up at the initiative of the United States backed by other West European Countries and controlled by them to a large extent through liberal provision of finance, voting system and the staffing pattern, they rendered limited financial assistance to India for the development of economic infrastructure in pursuit to protect their economic interest.

Thus it is evident from the study that, so far as the contribution of International financing agencies in the development of economic infrastructure in India is concerned, it is crystal clear that these institutions have substantially contributed and are still continuing to contribute in strengthening the energy base, railways roadways, telecommunication and irrigation which constitute the backbone for the economic development of the country. We should keep that in future too these financial institutions will play an increasing role in this direction.
SUGGESTIONS:

Taking an overall view of the international financing agencies collaboration in the development of economic infrastructure in India it is clear that India has been immensely benefited by the assistance of these agencies. However, the following lines of action can be suggested on the basis of this study to relieve strains on our balance of payment and in ushering an era of economic development with a faster speed.

- Usually the developing countries are under the grip of a debt service crisis. Timely measures have to be taken before this problem gets out of hand. The debt servicing crises had to take its toll and the developing nations find themselves unable to pay the instalments with the low growth rates of their economies in general and their exports in particular. Since a majority of loans extended to India by the World Bank were repayable in foreign currency, this mode of payment has made the problem of debt service payment more serious not only because of the magnitude of the debt service payment, but also because of, the necessity on the part of India, to
earn foreign exchange in international market. It is suggested that these loans should be repaid fully or partly in Indian currency so that it may help India to get rid of the foreign exchange problem due to the debt servicing burden.

The World Bank (IBRD) should soften the terms and conditions of financial assistance towards the development of various infrastructural projects in India and it should charge low rates of interest. Further the World Bank should also exempt India from the debt servicing payments until the concerned projects are completed. In other words the Bank should postpone the debt servicing payments during the gestation period.

It is pertinent to note that the IDA which lends with practically no interest charges for period up to 50 years is gradually decreasing the amount of loan assistance. India used to get 40 percent of the total IDA lending in 1980 but got only 22.43 in 1985. The meeting of the deputies of 34 donor countries of IDA in Paris on Jan. 28th and 29th 1986 has failed to agree to make up this deficiency. Further since its inception the soft lending

6. The Economic Times, 21st March 1986, New Delhi, p. 5-
window of the World Bank has not financed any petroleum projects in India. The IDA should therefore, pay attention in this regard and provide us loans towards the development of petroleum projects also.

- Although foreign capitalists undertake the initial risk of investments in the host countries for providing the much needed impetus to the rapid industrialisation process, they are usually influenced by larger profit motives hence do not bother about the safety measures to be adopted in their concerns. The Bhopal tragedy is a living example of such calamity. Thousands of people lost their lives by inhaling the poisonous gas that leaked out from the multinational company "The Union Carbide Company" (UCC) because of improper safety measures. The government should see that proper safety measures have been adopted in foreign collaborators or organisations in order to avoid the risks and hazards of environment pollution hygiene and health of millions of people in the country.

- One of the most vital problems which India faced immediately after attaining independence and which called for an urgent solution was eliminating the acute shortage of latest technology and know how. Since it is only her
army of scientists, engineers, technicians and skilled workers that would enable a country to build and develop a truly independent national economy. Foreign capitalist fail to do enough in the way of training and development of manpower. Hence provision for the facilities of the training of Indian personal both in managerial and technical sphere should be made along with the foreign capital which significantly contribute in the economic development process. More ever the impact of foreign investment on local skill and initiative should be carefully considered when approvals are given.

- Considering the crucial role that various basic components of economic infrastructure like the energy sector, the transport system the irrigation sector etc. play in socio-economic development of a country and keeping in view the massive investments and advanced technology that are required for the construction of such projects it is suggested that a separate International Financing Agency should be established exclusively for the construction of these projects on soft loans, terms and conditions. Since these developmental projects constitutes the basis for the economic prosperity of developing countries of the world.
India's prudent policies with regard to the foreign debt and her record of sound economic management have enabled the country to obtain excellent terms for borrowings in international capital market. There has been significant improvement in the terms obtained in recent past. This has been brought about mainly by the past records of India's debt service and repayment, obligations and increasing appreciation of the economic policies of the Government. The high credit rating that is enjoyed by India could improve further with diversification of source of borrowings. Hence the government should adopt more liberal policies in granting licences to the opinion investors and encourage them to invest in the major developmental programmes and create favourable conditions so that more foreign capital can be induced in the country.

India being a founder member of the Asian Development Bank (ADB) and the fourth largest contributor to its authorised capital stock voluntarily refrained herself from borrowing from the ADB in the past. But now we have decided to barrow loans from the ADB's ordinary capital sources because of stagnation in the level of fresh
commitments of concessional aid from IDA and other multilateral sources. Hence it is suggested to diversify India's access to multilateral capital flows and more assistance should be taken from the AD3 in future so that it can be invested in major development projects of the country. The financial accommodation provided by the AD3 can go a long way in the development of economic infrastructure in the country.

Excessive dependence on foreign capital leads to a serious and harmful consequence as it demands more and more political interference resulting in difficulties and constraints on the government in acting freely to do what it thinks best in the interest of the country. The influence of foreign countries in the garb of money lenders in the socio-economic matters of the country is a matter of grave concern for the nation. The foreign government or world agencies do not exert pressure too cruelly, nor are these pressure tactics become a part of living agreements. Yet these pressures are implicit in the sense that the country has to conform to the conditions or criteria of aid taken. The 'World Banks' review of India's economic development and the recommendation for devaluation of the rupee in 1966 is one such example of
covert pressure. Likewise, the government of India on March 21st, 1986 has decided to do without world Banks fund for the controversial thermal efficiency coal project. This follows the banks observation that the coal price hike announced on Jan. 8, 1986 would not be able to make any appreciable impact on the precarious financial conditions of Coal India Limited (CIL). The World Bank was reluctant to finance the project in view of the government policy of continuing with the uneconomical pricing of the coal.

Despite several rounds of discussion the differences could not be bridged. The government offered to forgo the assistance if the World Bank insisted a further coal price hike. The government should not allow such economic or political interferences and provide safeguards against the misuse of such foreign influence in our socio-economic life.

The above cited suggestions can be strengthened by our active participation in the sphere of infrastructural development in the country through governmental

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8. The Economic Times - March 22nd 1986, New Delhi, p. 1
support and private initiative. This initiative (governmental or private) can become all the more successful if local financial crunch is overcome by inviting foreign capital and investments in the installation and progressive development of economic infrastructural facilities in the country. There should not be any reservations in encouraging International financial agencies for giving financial helps to us. The only "if" is the non-interference (explicit or implicit) of these agencies in our internal affairs to have our own way of planning or executing the plans of development.