INTERNATIONAL FINANCIAL AGENCIES AND DEVELOPMENT OF ECONOMIC INFRASTRUCTURE IN INDIA

ABSTRACT

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By Mohammad Mansoor

Under the Supervision of Dr. Nafees Baig
M. Com, Ph.D, D.Litt, CASF (Manchester) READER IN COMMERCE

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FOREIGN CAPITAL AND INVESTMENT

Foreign capital and investment has become an important feature in the rapid industrialization of developing economies. It has been noticed that in any developmental efforts, use of foreign capital and foreign aid has become inevitable and developing countries of today have used it quite lavishly. In fact, majority of developing countries lack resources and advanced technical know how to augment their economic prosperity. The paucity of indigenous savings is to be made up through foreign resources. India, too cannot attain rapid industrialisation and economic progress without having adequate foreign capital and external aid.

Yet another important factor that plays a significant role in rapid economic development of a country is the inevitability of adequate development of economic infrastructure. The contribution of a well synchronised economic infrastructure in breaking the stagnancy and paving the path for the development and expansion of economy are many and varied. Hence various basic components of economic infrastructural facilities like, Power, Coal, Petroleum, Railways,
roads, seaways and irrigation etc. were thought to be important stimulents to the economic development, the absence of which was regarded to be a stumbling block for rapid industrialisation.

Recognising the importance of economic infrastructure as an essential ingredient of rapid socio-economic development the Government of India has attached much importance to its installation in various sectors of the economy. Since these installations require huge initial investments and long gestation periods it was realised by the Indian Government to resort to foreign capital and investments to undertake the gigantic programmes of developing energy projects, transport, railways, roads, seaways and irrigation etc. requiring huge investments and modern technology available with the International and Regional Financial Agencies like, The World Bank, The International Development Association and The regional development banks i.e. Asian Development Bank.
The World Bank and its affiliate The IDA has played a very significant role in the development of basic economic infrastructure in India. The IBRD has been financing the development of energy projects in India for the last 37 years and contributed its mite in the construction of a number of power projects, coal mine projects as well as oil exploration projects. The interest rates of these loans have varied between 3.5 to 11.0 percent per annum. The World Bank has granted 22 credits amounting to $3194.20 million for power development programmes in India up to June 1986. The World Bank also granted 5 credits for coal projects amounting to $793.50 million and 6 credits for Oil and Natural Gas development amounting to $1380.30 million. It is worth mentioning that India has to forgo some of the World Bank’s loan because it could not fulfill some of the conditions which the World Bank imposed for granting loans. Although India on her part tried to make up differences but in spite of several rounds of discussion the differences could not be bridged.
The International Development Association provided finance to India on soft loan basis only a service charge of 3/4 percent per annum was made in order to meet the International Development Association's administrative expenses. The International Development Association credits for power development projects totalled $2,386.00 million. Many power projects are jointly financed by The World Bank and International Development Association. During the last fiscal year the IBRD including International Development Bank lend India $3.4 million for energy projects representing about one quarter of the total Bank/IDA lending. It is worth mentioning that the soft lending window IDA has not extended any financial help for either coal projects or oil and natural gas development projects in India.

The World Bank laid emphasis on agriculture and rural development in the 60's. India was a very important beneficiary of this strategy of the IBRD. The World Bank and IDA sponsored a number of irrigation projects and provided funds for agricultural credit institutions for financing inputs, such as
fertilisers, seeds and pesticides etc. India has received 12 credits from the IBRD for irrigation and agricultural development valued at $1274.20 million up to June 1986. The International Development Association has overwhelmingly assisted in the construction of a number of irrigation projects in India. It has granted 106 credits valued at $6184.00 million from 1961-1986. The World Bank along with the International Development Association had evolved a comprehensive strategy for financing the development of Indian agriculture.

The World Bank apart from financing the irrigation projects also financed the establishment of agricultural universities in the country. Technical advice was also extended to us by the World Bank. It also extended an amount of $859.71 million and $907.50 million respectively for Indian Railways. Roadways development and seaports received loans amounting to $414.06 million and $415.00 million respectively from these institutions.
Since the inception the World Bank and International Development Association approved a cumulative assistance aggregated to $24,520.1 million upto June 1986 representing 14.8 percent of the total approvals by the group. These loan assistance have enormously helped India in the construction of a sound infrastructural base. Although these institutions may have failed to finance all the developmental projects in India, but many of the projects financed by it have achieved remarkable success.

The Asian Development Bank has emerged as an important source of finance for India. Although eligible, India refrained herself from taking loans from the Asian Development Bank in the past. But keeping in view the need for more developmental finance India has, of late, started borrowing from the Asian Development Bank. The total quantum of lending from the Asian Development Bank upto December 1986 was of the order of $250 million. It is hoped that in future this Bank will extend more financial assistance to India for the construction of economic infrastructure.
In the light of the above observations, the following suggestions are being made in order to attract more and more external assistance for the construction and development of a sound economic infrastructure in India.

The loans and financial assistance approved by the International Financial Agencies should be repaid fully or partly in local currency so that it may help India to get rid off the foreign exchange problem due to debt servicing burden.

The World Bank should soften the terms and conditions of loans and charge a low rate of interest.

The World Bank should also exempt India from the debt servicing payments until the concerned projects are completed.

The soft lending window of the World Bank in the International Development Association should provide loans for petroleum projects in India. At present, there is no such provision available.
The government should see that proper safety measures are adopted in foreign collaborated projects in order to avoid the risks and hazards of pollutions hygiene and health of millions of people in the country. The case of UCC and the Bhopal tragedy should be an eye-opener.

Provision of training facilities for Indian personnels both in managerial and technical sphere should be made alongside the foreign capital.

The government should adopt more liberal policies in granting licences to the foreign 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 should take more financial loans from the Asian Development Bank for investing in major developmental projects.

Presently the contribution of the Asian Development Bank in the development of economic infrastructure in the country is almost negligible.
The government should not allow any economic or political interference of foreign countries and provide safeguards against the misuse of such foreign influence in our socio-economic life.