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INTERNATIONAL DEVELOPMENT ASSOCIATION

REPORT AND RECOMMENDATION

OF THE

PRESIDENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED CREDIT

TO

INDIA

FOR THE

ANDHRA PRADESH AGRICULTURAL CREDIT PROJECT

December 1, 1970

REPORT AND RECOMMENDATION OF
THE PRESIDENT TO THE EXECUTIVE DIRECTORS
ON A PROPOSED CREDIT TO INDIA FOR THE
ANDHRA PRADESH AGRICULTURAL CREDIT PROJECT

1. I submit the following report and recommendation on a proposed credit in an amount in various currencies equivalent to US\$24.4 million to India.

PART I - HISTORICAL

2. Since 1949 the Bank and the Association have made fourteen loans and credits totalling some US\$213 million to finance agricultural projects in India including the Agricultural Aviation Project approved on October 5, 1970.

3. The proposed credit would assist in the financing of an investment program for minor irrigation, land levelling and mechanization in the State of Andhra Pradesh. It is the third agricultural credit project resulting from project preparation efforts which began with a reconnaissance mission under the IBRD/FAO Cooperative Program in November and December, 1968. An appraisal report is being prepared now for a fourth such project in the State of Tamil Nadu and a mission has just completed its field appraisal of a fifth in the State of Haryana.

4. This project was appraised in April, 1970 and negotiations for the proposed credit were completed on November 16, 1970. The Borrower was represented by Mr. G. V. Ramakrishna, Director, Department of Economic Affairs, Ministry of Finance and Mr. M. K. Mukharji, Joint Secretary, Department of Agriculture, Ministry of Food and Agriculture. The Agricultural Refinance Corporation (ARC) was represented by its Managing Director, Mr. K. Madhava Das. Mr. B. P. R. Vithal, Secretary, Department of Cooperation, Andhra Pradesh represented the State of Andhra Pradesh. Mr. S. A. H. Razvi, its Managing Director, represented the Andhra Pradesh State Cooperative Land Mortgage Bank (LMB) and a Director, Mr. E. V. Ram Reddy, who is also Secretary of Agriculture, Government of Andhra Pradesh, represented the Andhra Pradesh State Agro-Industries Corporation (APSAIC).

5. The following is a summary statement of Bank Loans and IDA Credits to India as at October 31, 1970.

<u>Loan or Credit No.</u>	<u>Year</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Bank</u>	<u>IDA</u>	<u>Undisbursed</u>
307-IN	1961	IISCO	Coal Mining	19.5		3.8
24-IN	1962	India	Koyna Power II		17.5	*
414-IN	1965	ICICI	Industry DFC VI	49.8		10.7
416-IN	1965	India	Power Transmission	58.0		15.7
417-IN	1965	India	Kothagudem Power II	14.0		0.1
89-IN	1966	India	Beas Equipment		23.0	10.0
515-IN	1967	ICICI	Industry DFC VII	25.0		14.2
614-IN	1969	India	Tarai Seeds	13.0		13.0
615-IN	1969	India	Telecommunications III	27.5		27.5
153-IN	1969	India	Telecommunications III		27.5	15.7
162-IN	1969	India	Tenth Railways		55.0	39.9
176-IN	1970	India	Kadana Irrigation		35.0	35.0
182-IN	1970	India	Sixth Industrial Imports		75.0	66.5
683-IN	1970	ICICI	Industry DFC VIII	40.0		37.4
191-IN	1970	India	Gujarat Agriculture		35.0	35.0
203-IN	1970	India	Punjab Agriculture		27.5	27.5
-	1970	India	Agro-Aviation		6.0	6.0 **
Loans/Credits fully disbursed				<u>812.5</u>	<u>968.1</u>	<u> </u>
Total (less cancellations)				1,059.3	1,269.6	358.0
of which has been repaid to Bank and others				<u>444.9</u>		
Total now outstanding				614.4		
Amount sold				109.2		
of which has been repaid				<u>108.2</u>	<u>1.0</u>	
Total now held by Bank and IDA				<u>613.4</u>	<u>1,269.6</u>	<u> </u>
Total undisbursed				122.4	235.6	358.0
				<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>

* Insignificant amount

** Not yet effective

6. There have been delays in disbursing against a number of projects in India. The longest outstanding loan not fully disbursed is 307-IN (Collieries project) to the Indian Iron and Steel Company which first became effective in 1961. The Company has encountered severe and unexpected technical difficulties in executing the project, particularly in the sinking of mine shafts where flooding has delayed progress and necessitated changes in the work program. The closing date has recently been postponed and a mission is now in the field to review progress on the project. The Power Transmission project (Loan 416-IN) has an actual balance of US\$7.7 million, following the recent cancellation of US\$8 million.

When the closing date was postponed in March 1969, the Bank said that no further postponement would be considered. All of the works included in the project will be completed but some will not be financed under the project because many State Electricity Boards did not place orders in time to achieve disbursement by the revised closing date; consequently GOI requested cancellation of amounts it knew would not be used. Except for certain small amounts, the balance of the Loan should be disbursed by the revised closing date of December 31, 1970. Disbursements against the Sixth Industrial Imports Credit program (Credit 182-IN) have been slow to date because GOI was reluctant to make commitments for the use of foreign exchange resources under the IDA Credit until it was approved. The flow of disbursements is now expected to accelerate in early 1971 in order to complete disbursements by June 1971.

7. Commitments and disbursements on the ICICI Loans (Loans 414-IN, 515-IN and 683-IN) are moving satisfactorily. A September review mission to the Gujarat and Punjab Credit projects (Credits 191-IN and 203-IN) reported that procurement arrangements were proceeding satisfactorily. The first disbursement request against the Kadana Irrigation Credit (Credit 176-IN) for works since January 1, 1970 is expected shortly. A mission is now in India to review progress on the Beas project (Credit 89-IN) and to make recommendations with a view to expediting disbursements. The closing date is December 31, 1972. No disbursements have been made against the loan for the Tarai Seeds project (Loan 614-IN) but recent progress has been encouraging. Tractors have been ordered and many have been received already; and the first disbursement request is expected to be made shortly. Tenders for farm machinery have been issued. The consultant to the Tarai Development Corporation has submitted his report on processing plants and proposals for tenders will be made shortly. Disbursements should begin to move rapidly in the next few months. The only recent setback was on land levelling - no response was received to the first tender and bids have been invited again. The disbursements under Loan 615-IN/Credit 153-IN (Telecommunications III) are lagging behind original forecasts, mainly as a result of a delay of about six months in awarding major procurement contracts and slow deliveries of cables from the domestic factory as a result of labor difficulties. A large part of the loan and credit amounts has been committed in the form of orders placed, and the Government expects part of the delays to be overcome and the disbursement of the loan/credit amounts to be completed before the closing date of December 31, 1972.

8. Since 1957, IFC has made thirteen commitments in India totalling US\$42.3 million of which US\$34.2 represent loans and US\$8.1 million equity. As of November 20, 1970 US\$21.3 million of this total had been disbursed and US\$6.0 million cancelled leaving US\$15 million undisbursed. The largest commitment is a total of US\$18.0 million to Zuari Agro-Chemicals for a fertilizer plant in Goa.

9. In addition to the two other agricultural credit projects appraised in Tamil Nadu and in Haryana, negotiations are being conducted for a wheat storage project; other projects in various stages of preparation for submission to Executive Directors before June 30, 1971 concern irrigation (Pochampad and Tawa), family planning, telecommunications, power transmission and fertilizer plants.

10. PART II - DESCRIPTION OF THE PROPOSED CREDIT

BORROWER: India, acting by its President.

BENEFICIARIES: Agricultural Refinance Corporation (ARC), Andhra Pradesh State Cooperative Land Mortgage Bank (LMB), and participating commercial banks, for relending to farmers in Andhra Pradesh State.

PURPOSE: Helping to finance a program for minor irrigation, land levelling, farm mechanization including tractors and farm implements.

AMOUNT: US\$24.4 million.

AMORTIZATION: In 50 years including a ten-year period of grace through semi-annual installments of 1/2 of one percent from February 15, 1981 through August 15, 1990 and of 1-1/2 percent from February 15, 1991 through August 15, 2020.

SERVICE CHARGE: 3/4 of one percent per annum.

RELENDING TERMS: From India to ARC: 70 percent of the Credit at 5 percent per annum with a 1/4 percent rebate for prompt repayment of interest and principal, with lump sum repayment 9 years from withdrawal by ARC; the balance at 5-1/2 percent per annum with 1/4 percent rebate for prompt repayment of interest and principal, with lump sum repayment 15 years from withdrawal by ARC.

From ARC to LMB and participating commercial banks: at 6-1/2 percent per annum with repayments set to correspond approximately with expected collections of loans granted to farmers and other ultimate beneficiaries.

ESTIMATED ECONOMIC RETURN ON PROJECT: At least 24 percent.

PART III - THE PROJECT

11. An appraisal report entitled "Andhra Pradesh Agricultural Credit Project: India" (PA-59a) is attached.

12. The agricultural sector in India, which provides half its gross domestic product and in which 70 percent of the labor force is engaged, has been given increased importance in the country's recent developmental effort. In particular, concentrated attention has been given to increasing the rapidity with which latest technological improvements are being adopted and to achieving a wider acceptance of the new techniques. The main features of this policy are an endeavor to accelerate the availability of improved inputs and the creation of more attractive economic incentives to farmers. Good results have been achieved already and the use of high-yielding seed varieties and fertilizer has been instrumental in obtaining considerable increases in food production. Very large numbers of farmers, however, still remain outside the scope of the new agricultural strategy and need more readily available and substantial amounts of credit, particularly medium to long-term credit, which will provide them with the means to finance on-farm investments such as tubewells, and land levelling, and to mechanize. It is estimated that rural credit institutions will need additional resources equivalent to more than US\$2,000 million during the five year period of the Fourth Plan if its targets are to be met.

13. The project would finance an investment program in minor irrigation, land levelling and farm mechanization in the State of Andhra Pradesh. It would be part of a continuing program of support by the Association to the Government of India and to the State Governments to further their policies to expand credit facilities to farmers and thus to assist them in taking advantage of modern methods of cultivation through necessary on-farm investments. It would increase minor irrigation facilities in the State by the installation of some 1,350 tubewells and 14,000 dugwells, and by the improvement of some 5,000 existing dugwells. In addition almost 20,000 pump sets would be financed for installation in existing wells or wells to be developed under the project. The purchase of some 1,500 tractors with some implement components would also be financed. In addition to the lending program there is provision for consultancy services to a State Ground Water Directorate to be established and for a study of the procedures of one of the lending institutions - the LMB.

14. Funds will be channelled through the borrower to the Agricultural Refinance Corporation of India for refinancing the lending activities within the project of the LMB and its federated primary banks and of those commercial banks which may participate.

15. Total project cost is estimated to be US\$45.0 million, of which the proposed credit would finance about 54 percent, including the estimated foreign exchange cost of US\$7.1 million and approximately US\$17.3 million equivalent of local expenditures. As has been explained on previous occasions it is necessary for the Bank Group to finance substantial local currency expenditures if it is to make an effective contribution to agricultural development in India,

which characteristically involves only a very small foreign exchange component. The more general case for local expenditure financing, in the context of the foreign exchange transfer problem, has been made most recently in the latest Economic Report (SA-13a) distributed on April 24, 1970 (see paragraphs 380 - 391).

16. Benefits from the project would arise from increased agricultural production. The proposed investments should enable farmers who enjoy the benefits of the project to achieve more dependable yields and to increase cropping intensity to an extent which should expand the cropped area by about 50,000 hectares. Grain production should increase by 160,000 tons a year making possible reduced imports of commodities in which India is not yet self-sufficient. There should also be a substantial increase in the production of several commercial crops. The economic rate of return is expected to be between 24 and 30 percent and financial rates of return to farmers should range from 16 to 37 percent.

17. To ensure that the benefits of the program are available to small-scale farmers there is no minimum acreage requirement for eligibility to purchase a tractor under the project. The credit institutions will use, as a norm for appraisal of eligibility, the concept that each tractor should be used to crop 40 hectares a year or in productive agricultural work for 1,000 hours per year. This stipulation should go some way to encouraging the greater use of tractors for custom service work. Small farmers below a certain income will be encouraged to participate by being offered loans on softer lending terms for minor irrigation and levelling; down payments for certain minor irrigation investments will be reduced from 20 percent to 10 percent and repayment periods for such minor irrigation and for land levelling will be increased from 10 years to 15 years. At the same time, care has been taken to ensure that each investment will be economically and financially viable.

18. Tractors and an initial complement of spare parts will be procured under arrangements similar to those which were established for the two preceding Agricultural Credit projects in Gujarat and the Punjab (see paragraph 15 of my Report P-798, April 22, 1970). Briefly, farmers would be allowed their choice of tractors from those for which quotations were offered by suppliers in Bank member countries which have manufacturing facilities in India or which have received the Government's approval to establish such facilities. Tractor implements would also be procured by arrangements similar to those under the Gujarat and Punjab projects; discs and plough bottoms would be imported and financed by IDA after international competitive bidding. In contrast to the Gujarat and Punjab projects, in which the award of contracts for goods and services were subject to the approval of the Association, it is stipulated that if any contract should be awarded under procedures inconsistent with those set out in Schedule 3 to the Credit Agreement or over the reasonable objection of the Association, an appropriate amount of the Credit may be cancelled.

PART IV - LEGAL INSTRUMENTS AND AUTHORITY

19. The draft Credit Agreement between India and the Association, the draft Project Agreement between the Association and ARC, LMB and APSAIC, the Agreement between the Association and the State of Andhra Pradesh, the Recommendation of the Committee provided for in Article V, Section I(d) of the Articles of Agreement and the text of a Resolution approving the proposed Credit are being distributed to the Executive Directors separately.

20. The draft agreements incorporate the relending terms and procurement provisions explained in Part II and paragraphs 17 and 18 above. The specific obligations of India regarding the importation of equipment required for the Project are included in Section 3.01 (b) of the draft Development Credit Agreement.

PART V - THE ECONOMY

21. An economic report entitled "Economic Situation and Prospects of India" (SA-13a) was distributed on April 24, 1970. As indicated in paragraphs 380 to 391 of that report, the balance of payments prospect and debt service position continue to call for the provision of development assistance to India primarily on concessionary terms. A basic data sheet is annexed.

PART VI - COMPLIANCE WITH ARTICLES OF AGREEMENT

22. I am satisfied that the proposed Credit would comply with the Articles of Agreement of the Association.

PART VII - RECOMMENDATION

23. I recommend that the Executive Directors approve the proposed Credit.

Attachments

Robert S. McNamara
President

December 1, 1970

ANNEX

INDIABASIC DATA

<u>Area:</u>	<u>Total</u> (in sq. km.)	<u>Cultivated as</u> <u>% of Total</u>
	3,268,580	48.0
<u>Population</u> (1969/70 estimate)	<u>Total</u>	<u>Density per sq. km.</u>
	550 million	168
Rate of Growth, current estimate:	2.5 percent	

Political Status: Member of U.N., Commonwealth.

Gross National Product at Current Market Prices (1969/70) US\$43.6 billion.

Real rate of Growth	1960/61 - 1964/65	= 4.7%
	1964/65 - 1968/69	= 2.5%
	1960/61 - 1968/69	= 3.1%
Per capita GNP in	1969/70	= US\$80

	<u>1960/61</u>	<u>1969/70</u> */
<u>Gross Domestic Product at Current Prices</u>	Rs 140 billion	Rs 330 billion
Of which: (in percent)		
Agriculture	50	51
Mining	1	1
Manufacturing	14	18
Commerce and transport	14	15
Government and other services	21	15

<u>Percent of GNP at Market Prices</u>	<u>1961/62 - 1965/66</u>	<u>1968/69</u>
Gross investment	18.0	16.9
Gross savings	15.6	14.5
Balance of payments		
Current account deficit	2.4	2.4
Government current revenue	12.0	12.1

*/ Preliminary estimates

Money and Credit: (Rs billion)

Relationship to large monetary or customs area: member of sterling area.

	<u>At April 27</u> <u>1970</u>	<u>% change</u> <u>April 1969 - April 1970</u>
Total money supply	65.89	+ 11.2
Scheduled banks' credit to private sector	17.88	+ 17.7
Net bank credit to Government sector	48.34	+ 2.4
General wholesale price index		+ 9.9

<u>Government Operations: (Rs billion)</u>	<u>1964/65</u>	<u>1969/70</u>	<u>% Change</u>
Revenue Receipts	18.72	27.99	+ 49
Non-Development Expenditures	16.76	26.40	+ 58
Revenue Surplus	1.96	1.59	- 19
Capital Expenditures	20.69	28.40	+ 37

<u>External Assistance to Public Sector:</u> (US \$ Million)	<u>1964/65</u>	<u>1969/70</u>	<u>% Change</u>
	<u>711</u>	<u>1,217</u>	<u>+ 71</u>

Of which:

Project aid	262	300	+ 10
Non-project aid	257	620	+141
Food Aid	144	230	+ 60
Non-food PL480	48	67	+ 39

External Public Debt: (US \$ Million) As of March 1969

Total external public debt (excluding undisbursed)	5,350
Total annual debt service	500

Of which:

Amortization	352
Interest	148

Debt service as % of export earnings - 1968/69 29.3

INDIA

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<u>Balance of Payments: (US \$ Million)</u>	<u>1961/62</u>	<u>1969/70</u>	<u>% Change</u> <u>1961/62 - 1969/70</u>
Total merchandise exports	1,387	1,875	+ 35
Other capital and invisibles	249	2	- 99
Total imports c.i.f.	2,046	2,160	+ 6
Trade balance	- 659	- 285	- 57
	<u>1961/62</u>	<u>1968/69</u>	<u>% Change</u> <u>1961/62 - 1968/69</u>
Current account deficit (US \$ Million)	500	676	+ 42

1964/65 - 1968/69
Annual Average

Commodity concentration of exports (tea, jute and
cotton fabrics as % of total exports)

40%

Official exchange reserves (February 1970)

US\$903 million

Currency Equivalents:

1 Indian Rupee = US\$0.13

1 US dollar = Rs 7.5

December 1, 1970