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## INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

### REPORT AND RECOMMENDATIONS

of the

PRESIDENT

to the

EXECUTIVE DIRECTORS

concerning a

PROPOSED LOAN

to

INDIA

For a Project of the Damodar Valley Corporation

December 16, 1953

Department of Operations  
Asia and Middle East

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATIONS OF THE PRESIDENT  
TO THE EXECUTIVE DIRECTORS CONCERNING  
A PROPOSED LOAN TO INDIA

1. I submit herewith the following report and recommendations with respect to a proposed loan of \$19.5 million, or the equivalent thereof in other currencies, to India.

PART I - HISTORICAL

2. The plan for the development of the Damodar River Valley was first presented to the Bank in 1949 for the possible financing of the foreign currency costs of the various projects which the plan comprised. The main proposals in the plan were for the construction of storage dams on the Damodar River and its tributaries as a flood control measure, of a perennial irrigation system commanding one million acres, and of a system for the generation and distribution of electric power. Other proposals, which are of less importance, include soil conservation, afforestation, and the stocking of fish in reservoirs.

3. This plan is being carried out in stages by the Damodar Valley Corporation (DVC). This Corporation is modelled on the TVA and was established by an Act of the Indian Parliament in 1948. In April 1950 the Bank made a loan of \$18.5 million, or the equivalent in other currencies, to finance part of the foreign exchange cost of the first stage, which consisted of a thermal electric plant and transmission lines, and a storage dam. The thermal plant and dam should be completed by July 1953.

4. A Bank mission, which visited India at the end of 1951, recommended, inter alia, that the Bank should consider, subject to technical appraisal, making a loan to cover a part of the foreign currency cost of a further stage of the Damodar Valley Development Plan.

5. During my visit to India in February 1952, I had further discussions with officials of the Government of India and with the staff of the Corporation. I also visited the site of the projects covered by the first loan and those projects which would be covered by the loan now proposed; and was favorably impressed with the progress made and with the plans for the future. I formed the opinion that, to ensure the effective execution of the plan, the Corporation would need to employ a number of foreign technical experts in addition to those already on its staff. On April 23, 1952, I wrote to the Finance Minister that, subject to the results of further technical examination, the Bank would be willing to open negotiations for a loan.

6. In July 1952 a Bank engineer examined the technical aspects of the next stage of the plan; and the Government of India was then invited to send representatives to Washington to open negotiations for a loan. These representatives arrived on December 15 and negotiations began the next day. Mr. S. N. Mozumdar, Chairman of the DVC, was authorized to negotiate on behalf of the Government and the Corporation.

## PART II - DESCRIPTION OF PROPOSED LOAN

### Borrower

7. The Borrower would be India.

### Amount

8. The loan would be in the amount of \$19,500,000, or the equivalent in other currencies. The requirements in other currencies will not be known until the contracts are awarded.

### Purpose

9. The proceeds of the loan would be used to acquire material and equipment from abroad needed for the construction of the two storage dams, two hydro-electric plants, a barrage on the Damodar River, and a number of irrigation canals fed by the barrage. The largest of these canals will also be used for navigation. The two hydro-electric plants will have an installed capacity of 60,000 kw and 40,000 kw. The area to be commanded by the irrigation system will be about one million acres.

10. The Bank loan would help to finance the foreign exchange mainly for the cost of material and equipment for power-houses, dams and barrage; earth-moving machinery; and engineering services.

### Terms

11. The loan would bear interest at the rate of 4-7/8% per annum, including the statutory commission of 1%.

12. The commitment charge would be 3/4 of 1% per annum and would accrue from a date 90 days after the Loan Agreement, or from the effective date of the Loan Agreement, whichever is earlier.

13. The loan would be amortized by semi-annual payments beginning July 15, 1956, which are calculated to retire the entire loan by maturity on January 15, 1977, as set out in Schedule 1 of the proposed Loan Agreement.

14. I consider the proposed Schedule for the repayment of principal and the rate of interest and other charges on the proposed loan to be reasonable and appropriate.

Legal Instruments and Legal Authority

15. A draft Loan Agreement between the Republic of India and the Bank is attached as Appendix 1, and a draft Project Agreement between the DVC and the Bank is attached as Appendix 2.
16. The form of Loan Agreement follows in general the form used in other loans to governments, with the omission of some of the particular covenants relating to the construction and operation of the Project which are included in the Project Agreement. The Loan Agreement would require the Borrower to cause the DVC to perform its obligations under the Project Agreement and to do everything necessary to enable it to do so.
17. The draft Project Agreement contains covenants of the DVC concerning the completion and operation of the Project, the keeping of records, furnishing of information and the inspection of the Project by the Bank. It is in substantially the same form as the earlier Project Agreement between the Bank and the DVC relating to the Bokaro-Konar Project.
18. The Loan Agreement and the Project Agreement would not become effective until the usual conditions had been satisfied and the Bank had been satisfied that DVC had all necessary powers and authorization to construct and operate the Project.
19. The report of the Committee provided for in Article III, Section 4 (iii) of the Articles of Agreement of the Bank is attached as Appendix 3.

PART III - APPRAISAL OF THE PROPOSED LOAN

20. A technical report describing and appraising the Project is attached as Appendix 4.
21. The economic background against which this loan should be considered has been described in a report entitled "Recent Economic and Financial Developments in India," dated December 9, 1952 (R-657), which was circulated to the Executive Directors on December 12, 1952, and in a report entitled "The Five Year Plan of India and India's Creditworthiness," dated February 14, 1952 (R-564), which was circulated to the Executive Directors on February 19, 1952.

Justification of the Project

22. The first Bank loan helped finance the construction of the Bokaro-Konar power station, and this Project, which will add a further 100,000 kw of hydro-electric power to the generating capacity of the DVC system, will complement the supplies from Bokaro. It is expected that all supplies will be used by 1958-59. This area is already the most industrialized in India, and its great wealth in mineral resources should, with adequate supplies of cheap power and water, provide conditions extremely favorable.

for further industrial investment. Three-quarters of India's reserves of coal are found here; and there are in this and adjacent areas large deposits of iron ore, bauxite and other minerals. The two largest iron and steel plants in India are situated in this area; other industries, already established include India's largest fertilizer plant, the Government's locomotive works, and cement works.

23. The irrigation system will help to meet the chronic shortage of food from which this area has suffered. It is estimated that, when fully developed, the perennial irrigation made possible by the barrage and canals will increase production of foodgrains by more than 400,000 tons. The Government of India has given the highest priority in its Five Year Plan to schemes for the increase of food production, and in this area with its extremely dense population any such increase is of especial importance. This Project includes also a proposal to stock the reservoirs with fish, which in due course should make an important contribution to the food requirements of the region.

24. Floods have in the past done considerable damage to crops and urban property. In 1943, when the most disastrous flood of recent times occurred, the value of crops lost was estimated at \$16 million. Apart from the savings achieved by control of floods, the absence of this danger should be an additional factor in encouraging industrial and agricultural investment.

25. The use of the main irrigation canal for navigation should provide a cheap means of transporting coal and other goods between this area and Calcutta, thus considerably relieving the over-burdened railways.

#### Prospects of Fulfillment of Obligations

26. The total cost of this Project is estimated to be the equivalent of \$103,000,000. The Government of India and the State Governments of West Bengal and Bihar have agreed to provide the local currency as well as the additional foreign exchange required for portions of the Project not to be financed by the Bank. The present economic and financial position of India and the fiscal policies of the Government indicate that foreign exchange will be available as required for servicing the Bank loan.

27. In order to strengthen its technical staff, the Corporation approached the U.S. Technical Cooperation Administration to recruit technical experts under the Point IV Program. As a result, the contract between the Corporation and the Harza Engineering Company of Chicago, which originally provided only for the preliminary engineering of one of the dams, was extended so that it now covers the engineering and the supervision of construction of the two dams and hydro-electric plants included in the Project. The Finance Minister of the Government of India and the Chairman of the Corporation have also assured the Bank that if necessary additional technical personnel cannot be recruited under the Point IV Program within a reasonable time, the Corporation and the Government of India would make every effort to recruit them by other means.

PART IV - COMPLIANCE WITH ARTICLES OF AGREEMENT

28. I am satisfied that the proposed loan complies with the requirements of the Articles of Agreement of the Bank.

PART V - RECOMMENDATIONS

29. I recommend that the Bank grant to India a loan of \$19,500,000, or the equivalent in other currencies, for a term of 25 years, at such rates of interest and on such other terms as are specified in the draft Loan Agreement and Project Agreement attached.

Eugene R. Black  
President

Washington, D. C.  
January 15, 1953.