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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INDIA

SECOND LOAN ADMINISTRATION REPORT

August 12, 1955

Department of Operations
Asia and Middle East

CURRENCY CONVERSION

Rs. 1	=	\$ US 0.21
\$ US 1	=	Rs. 4.761
Rs. 1 million	=	\$ US 210,000

INDIA

SECOND LOAN ADMINISTRATION REPORT

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INDIA

BASIC STATISTICS

<u>Area</u>	1.27 million square miles.
<u>Population</u> (1951 census)	357 million (plus an estimated 5 million for areas not covered by the census).
<u>National Income</u> (1952/53; net domestic product at factor cost).	
Total	Rs. 98.7 billion.
Per capita	Rs. 265 (US \$54).

<u>Principal Crops</u> (million tons, except otherwise stated)			(Preliminary 1954/55)
	<u>1949/50</u>	<u>1953/54</u>	<u>1954/55</u>
Rice	23.2	27.1	24.0
Wheat	6.3	7.8	8.0
Coarse grains	16.5	21.3	20.8
Oilseeds	5.2	5.6	5.9
Sugar cane	4.9	4.6	5.2
Cotton (bales of 392 lbs.)	2.6	3.9	4.3
Jute (bales of 400 lbs.)	3.3	3.1	3.2

Industrial Production (Index - 1946 = 100)

	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>
	105	117	129	135	148

External Trade (Rs. billion)

	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>
Exports	6.01	7.33	5.77	5.32	5.62
Imports	<u>6.09</u>	<u>9.55</u>	<u>6.60</u>	<u>5.66</u>	<u>5.86</u>
Trade Deficit	0.08	2.22	0.83	0.34	0.24

Balance of Payments (Rs. million)

	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954*</u>
Merchandise (net)	-1129	-935	-356	-950
Current invisibles (net)	540	833	746	790
Foreign grants & loans	394	645	178	160
Private capital, errors & omissions ^{1/}	-309	-453	-70	140
Surplus or deficit ^{2/}	-504	90	498	140

* Preliminary.

^{1/} Including unrecorded transactions with the Middle East and debt transaction with Burma.

^{2/} Representing movement of official foreign balances (including indebtedness to IMF).

Gold and Foreign Exchange Assets of Reserve Bank
(Million of US\$ equiv.; end of December)

	1950	1951	1952	1953	1954	1st April 1955
Gold	247	247	247	247	247	247
Foreign Exchange	1753	1641	1482	1518	1535	1522
Total	2000	1888	1749	1765	1782	1769

Central Government Budget (Rs. million)

	1951/52	1952/53	1953/54	(Revised) 1954/55	(Budget) 1955/56
<u>Ordinary</u>					
Expenditure	3873	3962	4075	4561	4989
Revenue	5154	4351	4160	4511	4905
Surplus (✓) or deficit (-)	✓1281	✓389	✓ 85	- 50	- 84
<u>Capital</u>					
Expenditure not met from revenue	712	391	242	1785	2230
Loans and Advances (net)	602	854	1245	2245	3046
Unfunded debt and other accounts (net)	✓130	✓114	✓980	✓876	✓1492
Permanent Debt (net)	✓233	✓278	-386	✓1126	✓688
Deficit on capital account	951	853	893	2028	3096
Overall surplus (✓) or deficit (-)	330	-464	-808	2078	3180
Issue of Treasury Bills (net)	-322	-171	✓194	✓2200	✓3400
Drawing from cash balances	-8	✓635	✓613	-122	-220

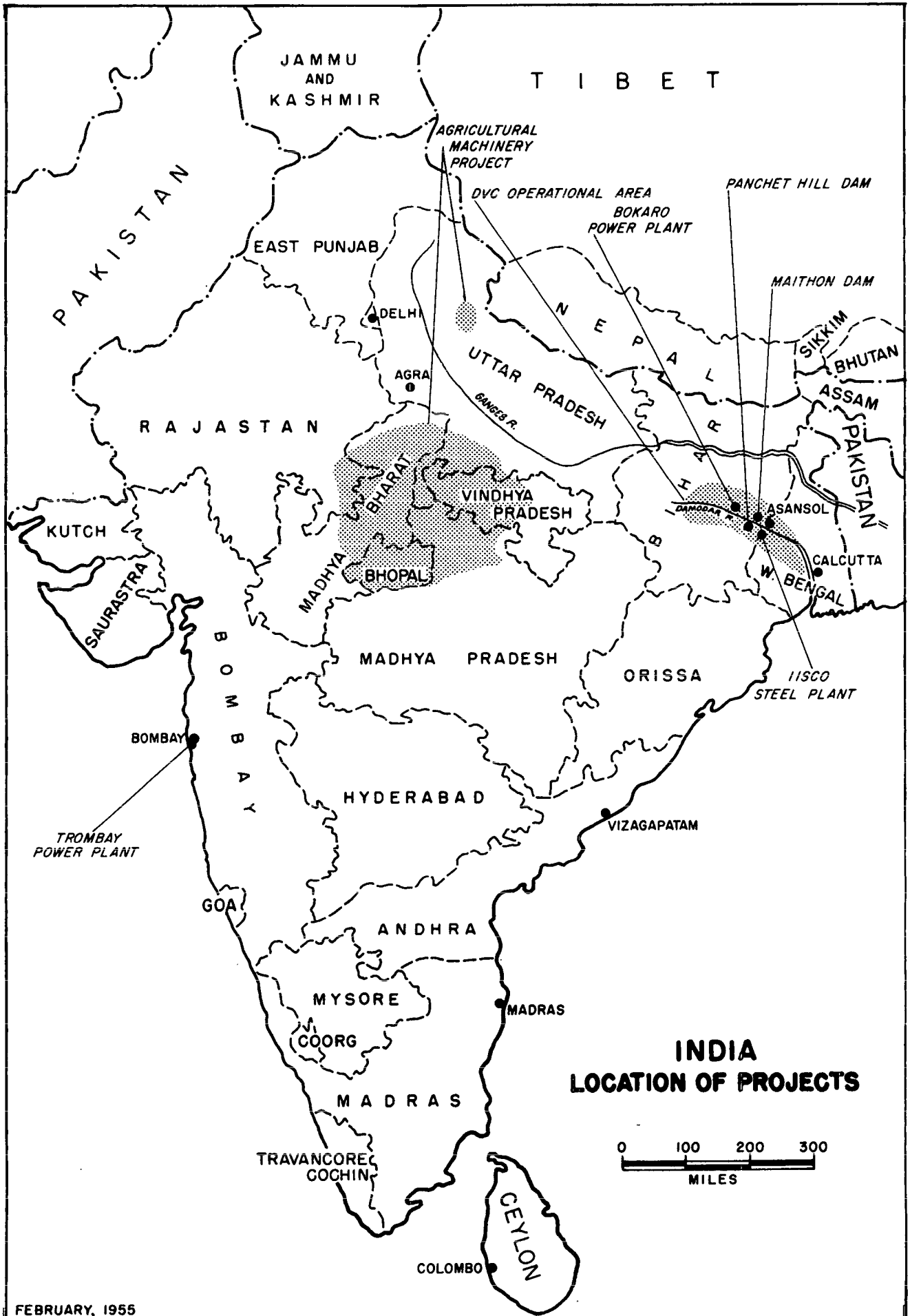
Central Government Deposits with Reserve Bank
(Rs. Billion; end of December)

1950	1951	1952	1953	1954	1st April 1955
1.65	2.10	1.75	1.10	0.55	0.65

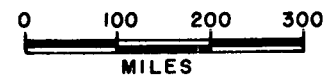
Money Supply (Rs. Billion; end of December)

1950	1951	1952	1953	1954	1st April 1955
18.3	17.7	16.8	17.1	18.4	19.8

<u>Price Indices</u> (1948 = 100)	1950	1951	1952	1953	1954	March 1955
Wholesale Prices	109	120	105	107	105	95
Cost of Living (all India)	103	107	105	108	104	96



**INDIA
LOCATION OF PROJECTS**



INDIA

SECOND LOAN ADMINISTRATION REPORT

INTRODUCTION

1. Up to March 31, 1955 seven loans had been made to India, or to private companies in India with the guarantee of the Government of India. They were:

17 IN	\$32,800,000	<u>1/</u>	15 year 4% loan of August 18, 1949 for railway rehabilitation;
19 IN	\$ 7,203,813	<u>2/</u>	7 year 3½% loan of September 29, 1949 for agricultural machinery;
23 IN	\$17,810,000	<u>3/</u>	20 year 4% loan of April 18, 1950 for electric power development;
71 IN	\$31,500,000	<u>4/</u>	15 year 4-3/4% loan of December 18, 1952 for expansion of iron and steel production facilities;
72 IN	\$10,500,000	<u>5/</u>	20 year 4-7/8% of January 23, 1953 for electric power development, flood control and irrigation;
106 IN	\$16,200,000	<u>6/</u>	20 year 4-3/4% of November 19, 1954 for electric power development;
109 IN	\$10,000,000	<u>7/</u>	15 year 4-5/8% of March 14, 1955 for industrial credit and development.
	<u>\$126,013,813</u>		Total loans made up to March 31, 1955.

Details of the first three loans, and the projects which they finance, were given in a previous Loan Administration Report No. Loan 162b of August 8, 1952. This report is a continuation of that report and covers the period April, 1952 to March, 1955.

-
- 1/ Reduced at request of Borrower from \$34 million as a result of \$1.2 million cancellation on May 16, 1950.
 - 2/ Reduced at request of Borrower from \$10 million as result of cancellations of \$1.5 million on July 27, 1951, \$1.0 million on August 25, 1952 and \$296,187 on January 1, 1954.
 - 3/ Reduced at request of Borrower from \$18,500,000 as a result of \$690,000 cancellation on February 25, 1955.
 - 4/ Borrower is Indian Iron and Steel Company, Limited.
 - 5/ Reduced at request of Borrower from \$19.5 million as result of \$9 million cancellation on February 4, 1954.
 - 6/ The borrowers are The Tata Hydro-Electric Power Supply Co., Ltd., The Andhra Valley Power Supply Company, Ltd., and The Tata Power Company, Ltd. The Loan is not yet effective.
 - 7/ The Borrower is The Industrial Credit and Investment Corporation of India, Ltd. The Loan is not yet effective.

2. Of the total of \$126,013,813 an amount of \$56,112,315 had been disbursed by March 31, 1955. Repayments of principal by the borrower totalled \$14,099,283.

RELATIONS WITH THE BORROWER

3. In addition to visits during the period by individual staff members for routine end-use inspections and discussions of various current problems, there were several missions to India for special purposes.

4. A mission went in May, 1952 to study the charter and organization of the Industrial Finance Corporation (IFC) and to make recommendations on any changes that might be necessary to make possible the proposed expansion of its operations.^{1/} This led to the opening of negotiations for a loan of \$8 million to the IFC which were concluded in August, 1952. The signing of a loan was, however, deferred until certain measures concerning the structure and powers of the IFC had been adopted. These measures, made on the Bank's suggestion, were incorporated in legislation amending the IFC Act. However, as a result of the debate in Parliament on the IFC Amendment Bill, the Government decided that a fuller inquiry into the operations of IFC was needed; and subsequently it withdrew the loan application.

5. A mission had visited India in late 1951 to examine the economic and financial position. This mission recommended, amongst other things, that the Bank consider a second loan for projects forming part of the first phase of the unified scheme for the development of the Damodar Valley. A Bank engineer was sent in June, 1952 to make a technical investigation, and on the basis of his report, negotiations for a second loan were concluded in December, 1952.

6. Also in June, 1952 a mission headed by Mr. George D. Woods, Chairman of the First Boston Corporation, New York, went to India to study the iron and steel situation, to give the Indian Government advice on a plan to be followed for the expansion of iron and steel production, and to discuss with the Government the extent to which Bank financing of an expansion program might be required. These discussions resulted in negotiations for a loan to the Indian Iron and Steel Company, Ltd., (IISCO) in November, 1952.

7. In February, 1953 a Bank engineer went to India as a member of a committee to investigate the possibilities of further expansion of iron and steel capacity.

8. In September, 1953 a mission spent one month in India to reassess the country's economic and financial position, examine the progress of the Five-Year Plan and discuss questions relating to Bank operations.

^{1/} Additional data may be found in the following reports previously circulated to the Executive Directors: AS 4 - Industrial Finance Corporation of India, December 30, 1952.

9. In February, 1954, Mr. George D. Woods, Mr. R.H. Craft, Executive Vice-President of the American Securities Corporation, and the Assistant-Director (Asia and Middle East Department) were in India to explore the possibilities of setting up a privately owned industrial bank or corporation. As interest and support for the proposal was widespread, a Steering Committee of five prominent Indian businessmen was set up to promote it. In January, 1955, a corporation was registered under the name of The Industrial Credit and Investment Corporation of India Ltd. (ICICI). The Bank made a loan to the Corporation on March 14, 1955.

10. In June, 1952, the Bombay Government agreed to grant a license to the Tata group of power companies to build a thermal power plant near Bombay. In February, 1953, a loan application from Tatas was made through the Government of India to finance a two unit plant, each with a capacity of 50,000 kw. Discussions with the Bank reached an advanced stage when the Bombay Government decided to license the installation of only one unit. This decision was apparently taken in view of the plans for a large hydro-electric plant at Koyna, 140 miles south of Bombay; the Bombay Government was uncertain that more than 50,000 kw would be necessary before power from Koyna became available. As the Tata's load forecasts indicated that both units would be necessary, the Bank was asked to arrange a comprehensive survey of the power needs of the Bombay area and to consider the Koyna project for a loan. This survey was carried out in February and March, 1954. The Bank's report showed that not only would two units be needed at Trombay, but also that, to meet the growing demand, it would be necessary for work on the Koyna project to start as soon as possible. In September, 1954, the Government of Bombay granted a license to Tatas to install the second unit. Negotiations started in October, 1954 and resulted in a loan to the Tata group of power companies made on November 19, 1954.

11. In October and November, 1954 the Vice-President of the Bank and two staff members visited India during the course of a tour through South and South East Asia.



Bank-financed locomotive

PART I

LOAN OF \$34 MILLION FOR RAILWAY REHABILITATION

A. The Loan

12. An amount of \$1.2 million of this loan was cancelled in May, 1950. The balance of \$32.8 million has been fully disbursed. The Bank sold with its guarantee \$2,684,255 of the 1952/54 maturities of the loan, which have all since been redeemed. Up to March 31, 1955 it had also sold without its guarantee \$5,614,281 of the 1954/57 maturities, of which \$3,539,234 were still outstanding. Total principal repayments by the Borrower to the Bank amounted to \$4,498,981 and on maturities sold \$4,759,302, making a total of \$9,258,283. Payments of principal, interest and loan charges were made when due.

B. Progress of the Project

13. The Bank's loan was used towards the purchase from the USA and Canada of 418 locomotives, 26 boilers and spare parts which were distributed among the six group systems comprising the Indian Railways.

14. The Indian Railways are implementing a rehabilitation program, which forms part of India's Five-Year Plan (1951/52 - 1955/56). Considerable progress has been made with this program. It calls for the purchase during the Plan period of 1,797 locomotives - 607 from India and 1,190 from abroad - and of 55,127 wagons - 37,107 from India and 18,110 from abroad. For this stock, orders either have been placed or are expected to be placed before the end of the Five-Year Plan period. During the first four years of the Plan, 954 locomotives and 41,402 wagons were delivered.

15. It was to be expected that the rate of deliveries would increase year by year throughout the Plan period and it seems likely that by the end of the period the Railways will have achieved substantially the targets set them. However, since industrial and agricultural production has progressed faster than the railway rehabilitation program, difficulties have been experienced in moving all the traffic offered. As has been indicated, the prime cause for this has been the slow rate of replacement of rolling stock; in addition, the existing limitations of track have aggravated this situation. However, there has been some improvement as is evidenced by the removal of various restrictions. Further improvement can be expected as the rehabilitation program gathers momentum.

16. The financial state of the Railway shows that there has been a steady growth in gross traffic receipts over the past five years (disregarding an unusual situation in 1951/52, the year of the Korean boom and of heavy food imports requiring movement by rail). The Railways expect that gross traffic

receipts will continue to rise as industrial production increases and that operating ratios will improve. The following table gives the pertinent financial figures over a five year period:

	In Million Rupees				
	Actual 1951/52	Actual 1952/53	Actual 1953/54	Revised Estimate 1954/55	Budget Estimate 1955/56
<u>Gross Traffic Receipts</u>	2908.2	2705.6	2742.9	2828.0	2925.0
<u>Ordinary Working Expenses</u>	1940.4	1879.6	2014.7	2027.6	2065.9
<u>Net Revenue</u>	617.5	471.8	369.2	415.3	432.1
<u>Operating Ratio</u>	77.0%	80.6%	84.4%	82.4%	82.7%
<u>Ratio of Net Revenue to Capital at Charge</u>	7.3%	5.5%	4.2%	4.6%	4.5%

17. The 1955/56 budget estimates incorporate changes covered by the revised five-year financial convention agreed at the end of 1954. The major changes are that (a) the Railways will pay a dividend on capital-at-charge at 4% annually subject to the following: (i) on the element of overcapitalization that has crept in due to the haphazard growth of the capital structure of the Railways, railway revenues will pay interest at the rate charged to commercial departments; and (ii) a moratorium will be granted in respect of the dividend payable on the capital invested on new lines during the construction period and up to the end of the fifth year of their being opened for traffic. (b) The annual contribution to the Depreciation Reserve Fund would be increased from Rs. 300 million to Rs. 350 million.

C. Effects of the Loan

18. Although the effects of the Bank loan cannot be measured precisely, there is no doubt that the locomotives which it financed has made a major contribution to the continued improvement of railway operations. Freight movements show that during 1953/54 total wagon miles and car loadings declined compared with the previous year, but the percentage of wagon miles loaded increased, suggesting an intensification of equipment use. This has been achieved by the application of new methods such as the rationalization of transshipment at junctions and the introduction of express goods trains.

	<u>1952/53</u>	<u>1953/54</u>
Total train miles	179.8 m.	182.4 m.
Wagon miles - total	2962.8 m.	2960.6 m.
Wagon miles - loaded	2091.7 m.	2106.6 m. (71.2%)
Total car loadings	<u>7,019,667</u>	<u>6,802,083</u>
Broad gauge	4,393,815	4,279,909
Meter gauge	2,625,852	2,522,174

PART II

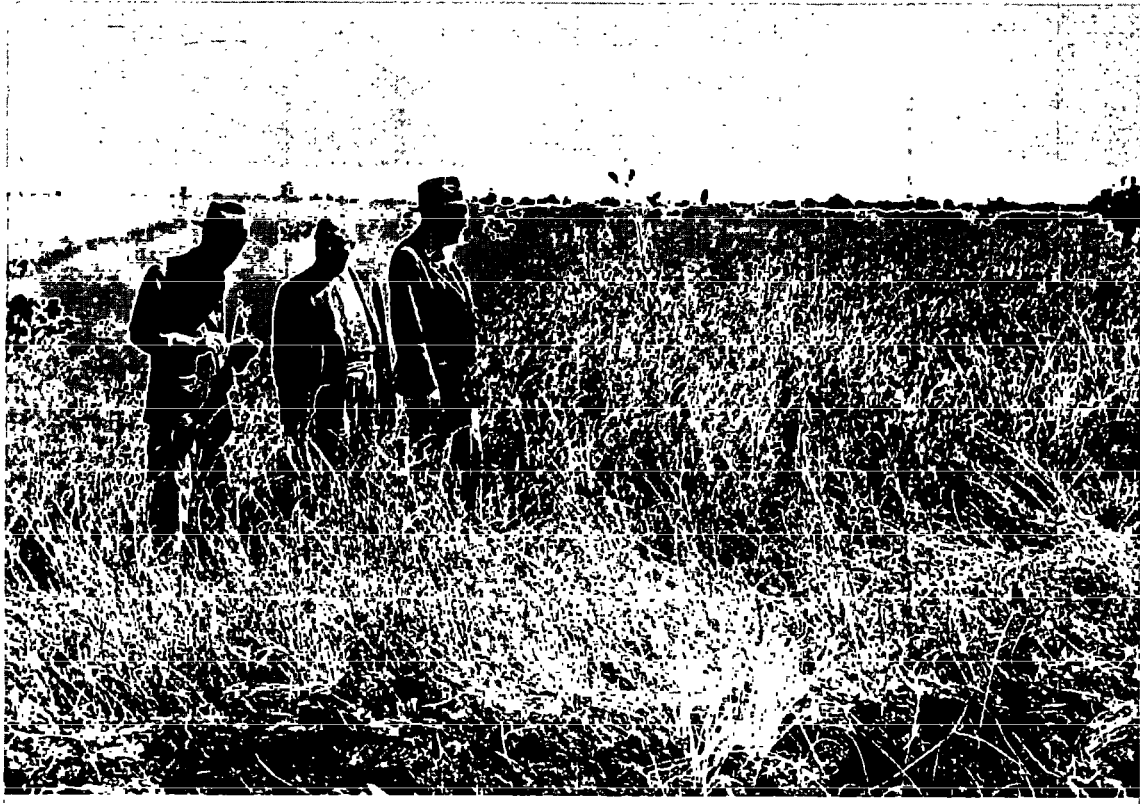
LOAN OF \$10 MILLION FOR AGRICULTURAL MACHINERY PROJECT

A. The Loan

19. The amount of this loan has been reduced by \$1,500,000 on July 27, 1951 by \$1,000,000 on August 25, 1952 and by \$296,187 on January 1, 1954. The balance of \$7,203,813 has been fully disbursed. The Bank sold with its guarantee \$2,595,000 of the 1952/54 maturities of the loan, which have all been paid off. As of March 31, 1955 it had also sold without its guarantee \$2,345,813 of the 1954 and 1956 maturities, of which \$1,065,813 of the 1956 maturities were still outstanding. Total principal repayments by the Borrower to the Bank amounted to \$966,000 and on maturities sold \$3,875,000 making a total of \$4,841,000. Payments of principal, interest and loan charges were made when due.

B. Progress of the Project

20. In the initial years of the project the Bank was mainly interested in the mechanical aspects of the project and in the ability of the Central Tractor Organization (CTO) to do the task of clearing the revised target of 1.6 million acres envisaged for the seven-year program. For this purpose a Bank engineer visited the project three times, once in 1952 and twice in 1953, to look into such matters as the operational planning, the maintenance of tractors and the adequacy of spare parts. Towards the end of 1954 it was clear that the operational efficiency of the CTO had greatly improved and that most of the problems which had been impeding the progress of the project in the earlier years had been solved. It was also clear that in the remaining years of the project more attention ought to be paid to other aspects of the project, such as the extent to which crop yields have increased, the possibilities of checking erosion, etc. In August, 1954 the Bank suggested the sending of a mission to make an assessment of the project with a view to helping the Government in assessing the value of the project to India.



Kans Grass before reclamation

21. The Mission visited the project in November, 1954 and concluded
- (a) that the project was technically and financially sound and will substantially reach its objectives;
 - (b) that the tractor fleet of 280 medium and heavy tractors (all except 12 were financed by the Bank loan) was in good sound mechanical condition and maintenance of equipment was efficient;
 - (c) that deep plowing, when done at the correct time, was an effective means of destroying kans grass;
 - (d) that CTO had provided a first-class piece of land reclamation but to obtain full benefits it would have to be followed by improved farming methods. These will also be necessary to combat soil erosion which presents an urgent problem;
 - (e) that additional agricultural statistics were needed for a full appraisal of the effects of reclamation.

C. Effects of the Loan

22. The effects of the loan cannot be accurately stated because of the inadequacy of statistics; but according to the Mission, the following benefits will be derived:

- (a) new farms created out of wilderness and some 5,000 families settled on the land;
- (b) annual gross incomes from old farms increased about Rs. 50 million;
- (c) a net cumulative increase in foodgrain production of the order of 700,000 tons by the end of the 7-year project. After the project is completed the reclaimed land will yield annually an additional 260,000 tons of foodgrains;
- (d) valuable skilled personnel trained in large scale land reclamation work.



Bokaro Thermal Plant

PART III

LOAN OF \$18.5 MILLION FOR BOKARO-KONAR PROJECTS

A. The Loan

23. The amount of this loan was reduced by \$690,000 on February 25, 1955. On March 31, 1955 the undisbursed amount of the loan amounted to \$1,791,184. The Bank had sold without its guarantee \$1,105,000 out of the 1955/57 maturities of the loan and these were still outstanding. Payments of interest and loan charges were made when due.

B. Progress of the Project

24. Bokaro Thermal Plant - The Bokaro plant has been completed. The first of the three 50,000 kw units was ready to go into service on February 22, 1953, the second on August 7, and the third on October 22, 1953. Although the total capacity of 150,000 kw is now available, the maximum load on the station had reached about 44,500 by March, 1955. The load has grown slowly partly because of the late delivery of substation transformers and switchgear and partly because major consumers were not ready to take power when it became available.

25. Coal Handling - The aerial ropeway, running between the DVC leased mine at Bermo and the Bokaro power plant, is in operation and has replaced rail transportation. DVC has had the services of an expert to study whether it would be more economical to continue mining manually or switch to machinery. The question of mechanized mining is being kept in abeyance for the time being and it will be taken up as soon as it is definitely known whether a National Coal Washery, from which the entire coal requirements of Bokaro could be obtained, will be established.

26. Konar Dam - The main part of the Konar Dam has been completed. The crest and sluice gates should be installed by the middle of 1955. The rate of progress in constructing the dam has been sufficient to meet the cooling water requirements of the Bokaro plant.

27. Transmission System - Construction of the transmission lines and substations is behind schedule. The DVC has stated that the delivery of some transmission towers being manufactured in India has been very slow. The lines and substations are now about 65% complete. The 132 k.v. transmission system is being extended to Calcutta, Gaya, Patna and Dalmianagar and is scheduled for completion before the end of 1957.

28. Cost Estimates - The total cost estimates in November, 1954 for Bokaro, Konar and the transmission system, were Rs. 334 million (\$70 million), of which Rs. 308 million had been spent up to the end of March 1955.

29. Management and Organization - (For convenience, problems of management and organization which are common to both DVC loans are described here.) All the major projects have been engineered by foreign consulting firms. The Bokaro plant and the Konar Dam were constructed by foreign and domestic contractors; but now major works are for the most part being carried out by DVC. To strengthen its staff, DVC has obtained through the U.S. Technical Assistance program a number of experts. The terms of the members of the Board of DVC expired in July, 1953 and from that date to April, 1954, temporary appointments were made. This resulted inevitably in some decline in operating efficiency, as many important problems were deferred for consideration by the new board on its appointment. The Bank has recommended two organizational changes. First, the DVC should obtain the services of a Chief Construction Engineer with experience of heavy earth moving and concreting equipment on large-scale projects who can assist, and in due course be capable of replacing, the present Chief Engineer. Second, steps should now be taken by DVC to separate the responsibilities of construction of projects from the responsibilities of operating the expanding DVC power system. The DVC has accepted in principle that it is desirable to make this second change, but claims that as long as construction and operation are both in progress simultaneously, it is not easy to have two entirely separate Departments. Both matters are being taken up by the Bank with the DVC.

C. Effects of the Loan

30. Power from the DVC system first became available to industries in 1950 when surplus power from the Sindri Fertilizer Factory was purchased and distributed by DVC. Today there are contracts for the sale of power by DVC, mainly from the Bokaro plant, for about 113,200 kw with additional firm commitments of 131,500 kw and notified requests of 112,900 kw. The system is now serving a large number of small towns in Bihar and West Bengal. It also serves the Tata Iron and Steel Co., Ltd., the Indian Iron and Steel Co., Ltd., the Chitranjan Locomotive Works, and other factories in the area. Power is being sold at 0.7 annas per kwh (less than 1 US cent). The Bank has observed that many small new industries have sprung up in recent years in the Damodar Valley, and several expansion schemes of existing industries have been started. The availability of plentiful and cheap power relative to the rest of India has undoubtedly been one of the reasons for this growth.

31. The DVC has set a high standard for housing and welfare, not only for the many thousands of workers on the various projects, but also for those persons displaced as a result of the creation of reservoirs.

PART IV

LOAN OF \$31.5 MILLION FOR EXPANSION OF IRON AND STEEL PRODUCTIVE CAPACITY 1/

A. The Loan

32. The fourth Bank loan for a project in India was made on December 18, 1952 to the Indian Iron and Steel Company, Limited, (IISCO) for an expansion

1/ Additional data may be found in the following report previously circulated to the Executive Directors: P-43, President's Report and Recommendations, December 11, 1952.

of its plant. The plant was previously owned by two companies - The Indian Iron and Steel Company, Limited, and The Steel Corporation of Bengal (SCOB), which were physically integrated but were financially and legally separate entities. The merger of the two companies was effected by a Government ordinance issued in October, 1952, which was subsequently replaced by an Act of Parliament of December 29, 1952. The merger actually took place on December 31, 1952.

33. In addition to the Government guarantee the loan is secured by a first fixed mortgage on the Borrower's immovable property and by a first floating charge 1/ on the remainder of its assets; this security is constituted by a Trust Deed with Baring Brothers & Co., Ltd., of London as Trustees. The rate of interest on the loan is 4-3/4%, including the 1% statutory commission. Equal semi-annual payments of principal and interest are due to begin on April 15, 1959 and will retire the loan by maturity on October 15, 1967. The loan became effective on October 29, 1954. On March 31, 1955 no disbursements had been made.

B. The Project

34. The loan was made to increase the company's blast furnace capacity from 640,000 tons to 1,400,000 tons of iron a year, and its finished steel capacity from 350,000 tons to 700,000 tons a year.

34a. The program included the expansion of the facilities at Burnpur, the modernization of IISCO's iron plant at Kulti, a few miles from Burnpur, and the expansion and mechanization of IISCO's operations at its iron mines at Gua. At Burnpur two new batteries of 78 coke ovens each will be installed and an obsolete 40-oven battery will be removed; two new blast furnaces, each with a daily output of 1200 tons of iron, will be installed. Steel making facilities will be increased by the addition of a third 25-ton Bessemer converter and a new duplex melting shop with two 240-ton tilting furnaces. The finishing departments in the rolling mills will be expanded for the additional tonnage. As there has been a change in the foundry iron supply situation in recent months, the question of whether to modernize the Kulti blast furnaces is being reexamined.

C. Progress of the Project

35. A number of factors delayed the declaration of effectiveness of the loan. The execution of the Trust Deed took longer than expected because* of certain legal problems. Then the decision of the Government on steel retention prices based on recommendations of the Tariff Commission was not known until March, 1954. This factor made the company reluctant to proceed with its expansion program or accept tenders for equipment. In the meantime, there were serious labor difficulties at the works caused by a split of labor into two rival groups with certain trade unions with a minority following attempting to secure control of labor. Matters got progressively worse until

1/ This mortgage and charge rank pari passu in point of security with a mortgage and charge previously constituted by a Trust Deed in 1937. The holders of the debentures under the 1937 Trust Deed have the option to be repaid at par on December 31, 1961. To the extent to which they fail to exercise this option, the Borrower, under the provisions of the Loan Agreement, must accelerate amortization of the loan to the Bank.

August 24, 1953 when the Company was compelled to declare a lock-out in face of the threat of a general strike. The lock-out continued until September 18, 1953 after which production gradually reverted to normal.

36. In view of the delays, the company asked for an extension of the closing date of the loan and for a postponement in the start of amortization. The reasons for this were (i) that the Borrower felt it would be impossible in view of the delay in beginning the project to complete it by the date stipulated in the Loan Agreement; (ii) that considerable loss of production during 1953 owing to the labor difficulties and the delay in starting the project made the Borrower doubtful whether it could make repayments as scheduled in the Loan Agreement. The Government of India supported the Borrower's request, and it was finally agreed that the loan should be declared effective as soon as possible and that thereafter the Bank should examine the position. In December, 1954 the Company informed the Bank that some time would elapse before information could be made available to justify a postponement of the schedule of repayments, and it wished to defer any approach to the Bank on the matter until the revised principles for fixing steel retention prices after March 31, 1955 were decided by the Government.

37. Only minor preliminary works were begun before the effective date. By the end of March, 1955 orders amounting to about \$8.4 million for coke ovens, blast furnaces and equipment, and the boiler plant had been placed.

PART V

LOAN OF \$19.5 MILLION FOR ELECTRIC POWER DEVELOPMENT FLOOD CONTROL AND IRRIGATION 1/

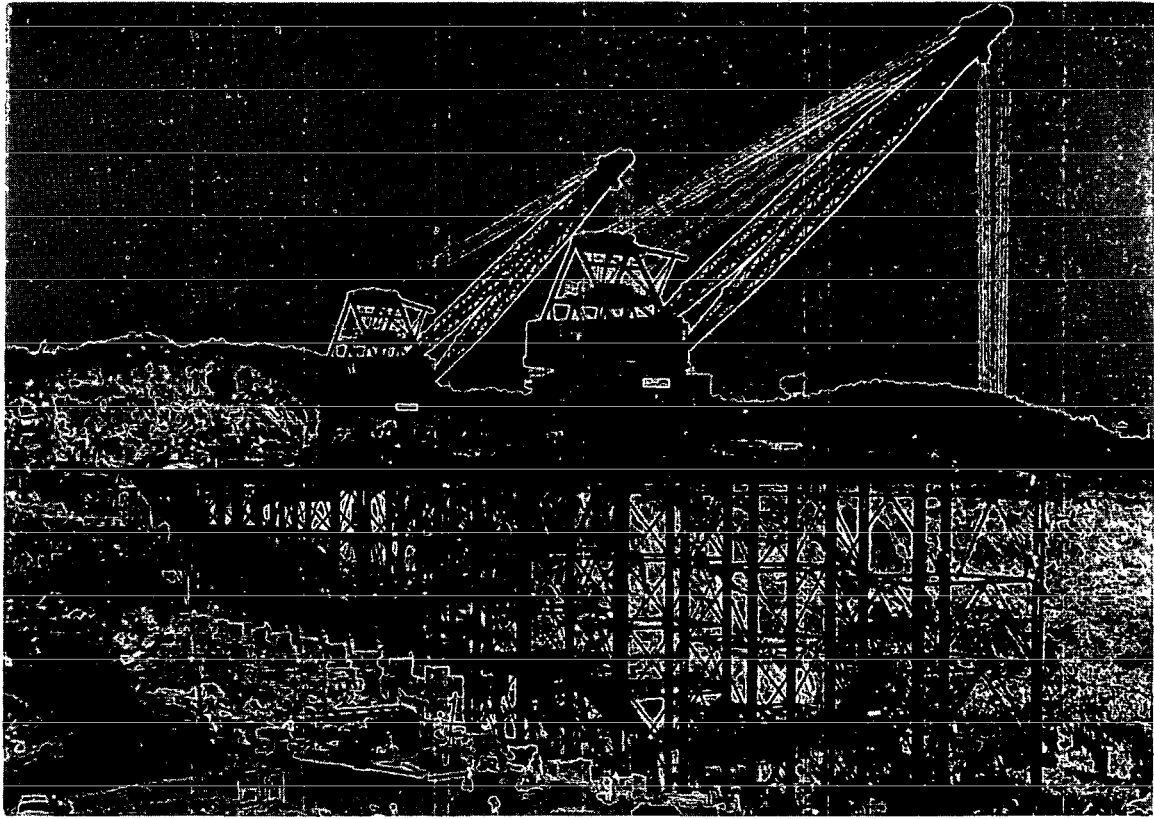
A. The Loan

38. The fifth Bank loan of \$19.5 million was made on January 23, 1953 to the Government of India for further electric power development, flood control and irrigation in the Damodar Valley. The amount of the loan was reduced to \$10.5 million on February 4, 1954 at the request of the Borrower. The loan became effective on March 22, 1954. It carries an interest rate of 4-7/8%, including the 1% statutory commission. Equal semi-annual payments of principal and interest are due to begin on July 15, 1956 and will retire the loan on July 15, 1977. On March 31, 1955 disbursements under the loan amounted to \$89,686.

B. The Project

39. Part of the first phase of the unified scheme for the development of the Damodar Valley consisting of the Bokaro thermal plant, the Konar storage

1/ Additional data may be found in the following reports previously circulated to the Executive Directors: P-45, President's Report and Recommendations, January 6, 1953; TO 2(b), Report on Projects submitted by the Indian Government for a Second Loan in Connection with the DVC, January 16, 1953.



Concreting plant at Maithon Dam

dam and transmission system, is now virtually complete (see Part III of this report). This further loan finances the remainder of the first phase, and covers two multi-purpose dams, each with a hydro-electric plant, at Maithon (kw 60,000) and Panchet Hill (kw 40,000)^{1/}, and a diversion barrage on the Damodar river at Durgapur with a system of irrigation canals.

C. Progress of the Project

40. In the original list of goods agreed upon when the loan was signed, an amount of approximately \$9 million represented the value of purchases which were to have been paid for in sterling. On February 4, 1954 the Government of India decided to cancel \$9 million of the loan.

41. The loan was not declared effective until March 22, 1954 owing to delay in issuing the necessary notification authorizing DVC to operate in an area outside the Valley in respect of irrigation, and because of problems in connection with the legal opinion.

42. The Maithon Project, while behind schedule, is now progressing satisfactorily and is due to be completed in the middle of 1957. Shortage of spare parts for construction equipment and inexperienced repair work has been primarily responsible for the slow progress. Frequent labor strikes have also contributed to the slow progress.

43. The Panchet Hill Project is now progressing practically on schedule but the completion of the project may be delayed because the date of transfer of the construction equipment to come from Maithon may be later than estimated.

44. The Durgapur Barrage is progressing on schedule and should be completed by the middle of 1955. The canal system should be finally completed in 1958. The DVC and the Government of West Bengal are negotiating about the establishment of water rates and the procedure to be used in distributing water.

45. The total cost estimates in November, 1954 for Maithon, Panchet Hill and Durgapur barrage and irrigation canals are Rs. 510 million (\$107 million) of which Rs. 256 million had been spent up to the end of March 1955.

46. The DVC, up to March 31, 1955, had used the loan only to the extent of \$89,686, and has met expenditures for the project from direct allocations from the Government. According to DVC, difficulties in obtaining proofs of payment from local agents for imported equipment are the reasons for the delay in using the loan. The Bank has made representations on the matter to the Government which has promised to take appropriate action. It is expected that drawings on the Loan will begin shortly.

^{1/} The DVC is considering the simultaneous installation of a second k.w. 40,000 unit at Panchet Hill.

PART VI

LOAN OF \$16.2 MILLION FOR ELECTRIC POWER DEVELOPMENT 1/

A. The Loan

47. The sixth Bank loan of \$16.2 million was made on November 19, 1954 to The Tata Hydro-Electric Power Supply Company, Ltd., The Andhra Valley Power Supply Company, Ltd., and The Tata Power Company, Ltd., who are jointly and severally liable. The loan is guaranteed by the Government of India. It is secured by a first mortgage and first floating charge in respect of the properties included in the project. This security is constituted by a Trust Deed with Baring Brothers & Co., Ltd., of London as Trustees. It carries an interest rate of 4-3/4% including the 1% commission. Equal semi-annual payments of principal and interest are due to begin on October 15, 1958 and will retire the loan on October 15, 1974. The National City Bank of New York is participating in the loan to the extent of \$1,364,000, representing the first four maturities. The loan has not yet become effective.

B. The Project

48. The loan will be used for the purchase of imported material and equipment, and for services needed for the construction of: a thermal station with an installed maximum capacity of 125,000 kw located at Trombay in Bombay harbour; condenser cooling water pipe line works at Trombay; a substation at the Trombay plant; an overhead transmission line connecting the Trombay substation to the existing high tension lines of the Borrowers; an operators' colony; a receiving station to be located at Carnac Bridge in Bombay; and overhead transmission and underground transmission cables between the Trombay thermal station and the Carnac Bridge receiving station. As a result of international bidding, it is estimated that most of the imported equipment will come from Germany (\$6.2 million), USA (\$7 million), and UK (\$2.9 million). An amount of \$1.3 million is included in the amount of the loan for interest and other charges. Disbursements will be made for expenditures on the project after January 1, 1954.

C. Progress of the Project

49. Contracts for the boilers and turbines have already been let to two German firms, and orders for a major portion of the remaining equipment have also been placed. Work first started on the project in September, 1953 and is on schedule. The first unit of Trombay should be ready for operation in October, 1956, and the second in April, 1957. The construction of the project is being supervised by EBASCO Services, Inc. who maintain a staff of engineers at the site.

1/ Additional data may be found in the following report previously circulated to the Executive Directors: P-77, President's Report and Recommendations, December 10, 1954.

PART VII

LOAN OF \$10.0 MILLION FOR INDUSTRIAL CREDIT AND INVESTMENT 1/

A. The Loan

50. On March 14, 1955, the Bank agreed to lend the equivalent in various currencies of \$10 million to the Industrial Credit and Investment Corporation of India Limited (ICICI). The loan is guaranteed by the Government of India. It carries an interest rate of 4-5/8% including the 1% commission. Interest is payable half-yearly on 1st January and 1st July in each year. The principal is repayable according to an amortization schedule, the first payment being due on 1st January 1960 and the final payment on 1st July 1969. The loan is not yet effective.

B. The Project

51. The purpose of the ICICI is to provide finance to private industrial enterprises in India, to encourage and promote the participation of private capital in such enterprises, to encourage the expansion of investment markets and to assist private enterprise in obtaining managerial, technical, and administrative advice.

52. The initial paid-up share capital of the ICICI is Rs. 50 million (\$10.5 million) consisting of 500,000 ordinary shares of Rs. 100 each. They have been subscribed as follows:

	<u>Millions Rs.</u>
By private placement:	
a) In India	20
b) In U.K.	10
c) In U.S.A.	5
By public issue in India	<u>15</u>
Total	50

The public issue was made in February, 1955 and was oversubscribed. Support was widespread; out of the total of nearly 2,000 applications a high proportion was for small amounts.

53. The Bank's loan of \$10 million will be used for the purchase of a portion of the imported material and equipment, and for services, needed for the carrying out of projects financed by the ICICI.

54. The Government entered into an agreement with the ICICI to make, out of the counterpart funds generated by U.S. aid grants, a 30-year interest-free advance of Rs. 75 million. The advance will be repayable in fifteen equal annual installments beginning in the sixteenth year. The advance was paid by the Government to ICICI on March 10.

1/ Additional data may be found in the following report previously circulated to the Executive Directors: P-77, President's Report and Recommendations, December 10, 1954.

55. The ICICI established its head office in Bombay and opened for business on March 1, 1955. Mr. P.S. Beale, who resigned as Chief Cashier of the Bank of England, was appointed as General Manager.

PART VIII

POLITICAL CONDITIONS

56. A new President of the Congress Party, Mr. U.N. Dhebar, formerly Chief Minister of Saurashtra, was elected on December 10, 1954. Prime Minister Nehru, who previously had this post, relinquished it because he felt that his other responsibilities left too little time to devote himself to party matters. The Congress Party still dominates through superior organization but party membership has declined. Although there is no well organized opposition, the Communist Party emerged from the general elections in 1952 as the second largest. Since then, the Communist Party has made electoral gains in State elections, especially in Travancore-Cochin, Madras, Pepsu and West Bengal, but it suffered a notable reverse in the Andhra elections in February, 1955 where 144 Communist candidates were defeated and won only 15 seats in the State Assembly of 196 seats.

57. The Congress Party believes that the best method of attaining the objectives set out in the Directive Principles of the Constitution, namely the abolition of poverty, the raising of living standards, and the promotion of equality among various sections of the population, is to adopt the ideal of a Welfare State and to work for a socialistic pattern of society. The practical steps toward attaining the objectives are set forth in the Five-Year Plan. The Congress Party's approach to economic problems is still as enunciated in the Industrial Policy Resolution of 1948. In the case of industries like coal, iron and steel, aircraft manufacture, ship-building, and telecommunications equipment manufacture, the State is to be exclusively responsible for the establishment of new industries, except where it feels that the participation of private enterprise is necessary in the public interest; in the event that some private participation is necessary it will be subject to control and regulation by the Central Government.

58. A bill for an amendment of Article 31 and 31A of the Constitution covering the right to property is now being discussed by both Houses of Parliament. The purpose of the amendment is to make it quite clear that in certain important fields any action taken under a law for the acquisition of property would not be justiciable. It would mean, for example, that Parliament and the State Legislatures would be the supreme authorities to determine the quantum of compensation in the event of acquisition by the State. The amendment would affect any impending legislation, such as contemplated reforms in company law to provide for the progressive elimination of the managing agency system, or laws providing for temporary management by the State of an undertaking in the public interest or in order to secure better management.

59. Externally India maintains a policy of "non-alignment". Although there has been some improvement in relations with Pakistan several major issues such as the Kashmir dispute, the sharing of the Indus Basin waters,

and the disposition of refugee property remain unsettled. The only other countries with which India has difficulties are Portugal and South Africa, the first over Portuguese possessions in India, and the second due to the racial policies of the Union Government. The disposition of all the French settlements in India has been amicably settled, the last and largest, Pondicherry, being formally handed over to India early in 1954.

PART IX

ECONOMIC AND FINANCIAL SITUATION 1/

60. Since the first Five-Year Plan went into operation in 1951/52, there has been a remarkable expansion in India's economy, and this expansion has been achieved against a background of economic and monetary stability. Agricultural and industrial production have increased, food controls have been practically abolished, and wholesale prices have come down. Continued unemployment is, however, a cause for concern.

61. Production of foodgrains increased nearly 20% between 1949/50 and 1954/55 to about 64 million tons. Nearly half the improvement was due to favorable monsoons, the balance being due to basic improvements, such as the addition of seven million acres of newly irrigated land and better farming methods.

62. The index for industrial production (1946 = 100) rose steadily from 117 in 1951 to 142 in 1954. Major advances have been recorded since 1951 with items such as cotton textiles, ammonium sulphate, cement, steel, diesel engines, bicycles, sewing machines, hurricane lanterns, paper, sulphuric acid, and super-phosphates. The output of mill-made cotton cloth at 5.0 billion yards in 1954 actually exceeded the Five-Year Plan target of 4.7 billion yards by 1956.

63. The improvement in domestic production resulted in a balance of payments surplus in 1952/53 and in 1953/54; official foreign exchange holdings increased by Rs. 150 and by Rs. 320 million during these two years respectively. The main factor was a drop in imports of foodgrains, raw cotton and raw jute. At the same time, there was a relatively smaller drop in export proceeds because of lower export prices. In 1954/55 increased imports of steel, vehicles and fertilizers were partly offset by the higher value of tea exports. But the foreign exchange holdings of the Reserve Bank fell by Rs. 230 million, mainly because of a further repayment of the dollar equivalent of Rs. 172 million to the IMF. A trade surplus with the dollar area has been maintained since the end of 1952.

1/ For further information see Report No. AS-26b, "Current Economic Position and Prospects of India," dated November 9, 1954.

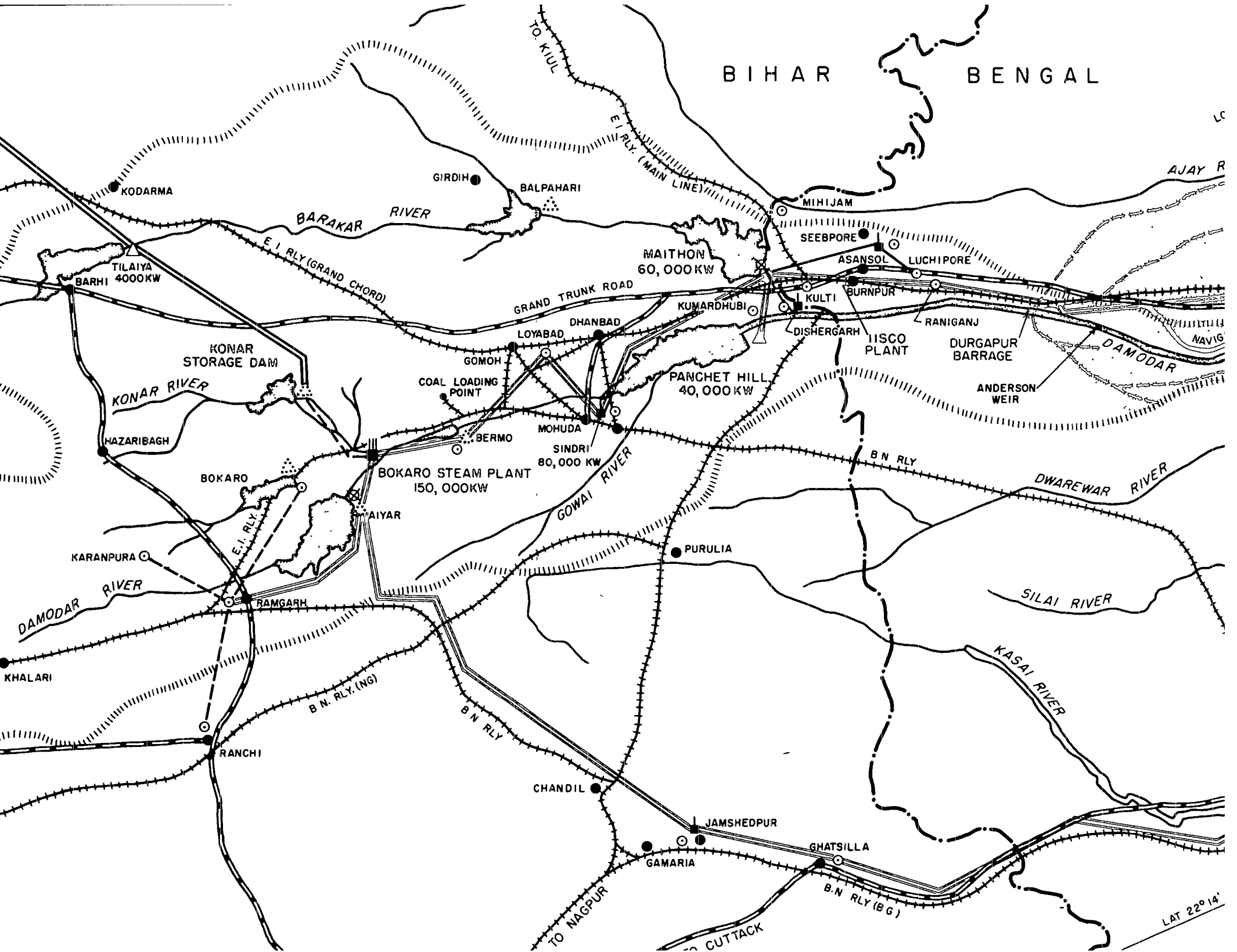
64. The revised budget estimate for 1954/55 indicated an overall deficit of Rs. 2,078 million to be met by the issue of Treasury bills. This estimate provided for a large increase in capital expenditure and in loans and advance to the States. The actual deficit, however, is likely to be smaller and, as in previous years, expenses should be lower than budget appropriations. The budget for 1955/56 provides for an overall deficit of Rs. 3,180 million to be met again by the issue of Treasury bills.

65. The deflationary policy of the Government in the early years of the Plan is reflected in the decline in money supply. With the Plan getting into full swing during the last two years, money supply has been rising moderately since the end of 1953, but is still below the pre-Korean level. The wholesale price index (1948 = 100) stood at 95 in March, 1955, having fallen from a peak of 120 in 1951. Apart from external factors, the steady increase in production together with the disinflationary policy followed between 1951 and 1953 have been the cause of this fall in prices. The cost-of-living index remained relatively stable from 1951 to 1953 and showed a small decline in 1954. The recent fall in agricultural prices has been attributed mainly to increased production and to dishoarding, following the virtual elimination of controls over foodgrains.

66. The target for expenditure in the public sector in the Five-Year Plan (1951/56) is now Rs. 22,390 million (\$4,702 million). The largest sums are being spent on Transport and Communications (23%), Agriculture and Community Development (18%), Social Services (16%), Power and Industry (14%), and Multi-Purpose Schemes (12%). To achieve the expenditure targets for the Five-Year Plan, it will be necessary to spend about Rs. 8 billion in the fifth year.

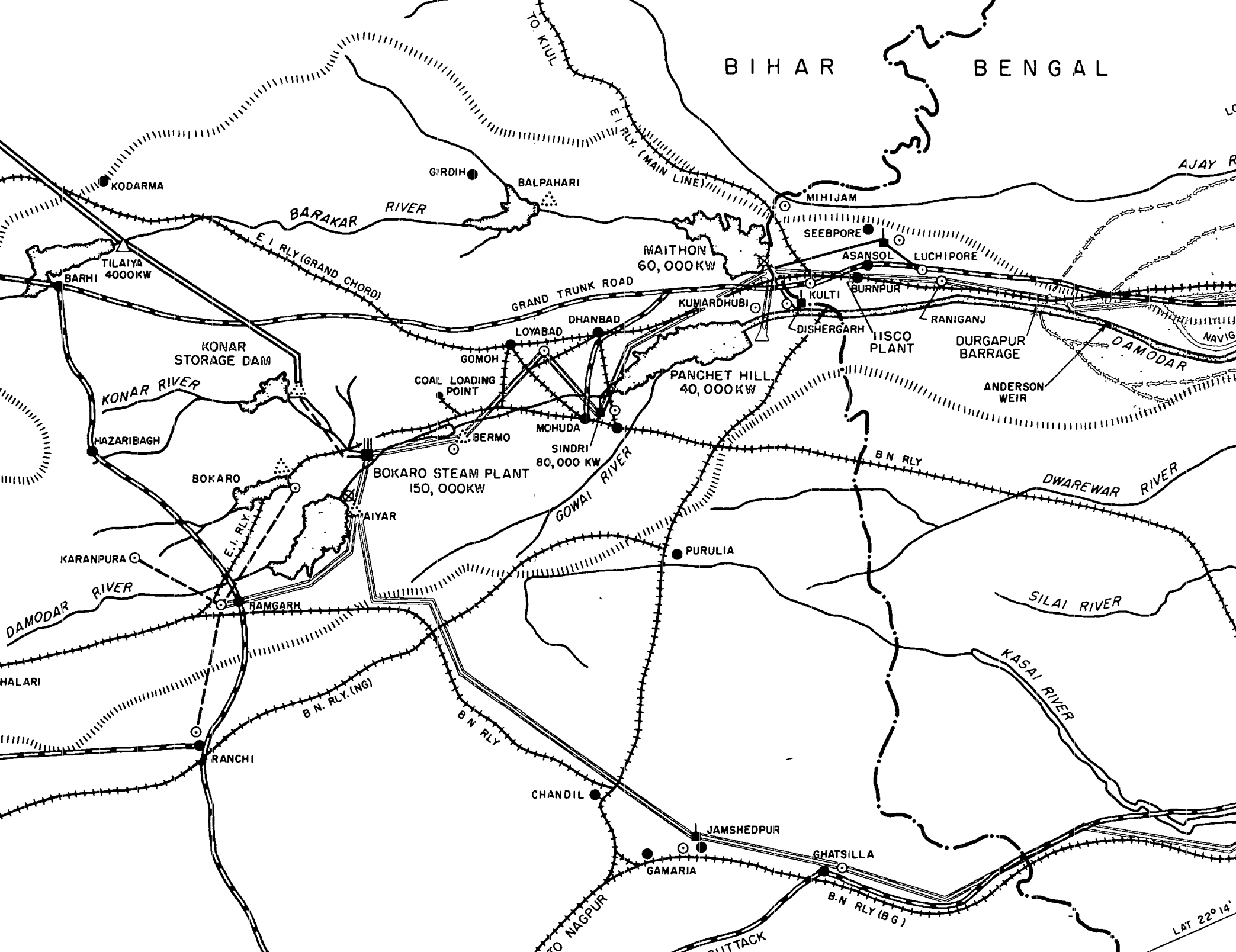
67. Apart from the releases of sterling balances and IBRD loans, India has utilized during the first four years of the Plan nearly Rs. 1.5 billion (\$315 million) in foreign aid, a large part of which was a \$190 million loan from the U.S.A. to cover foodgrain shortages in 1951 and 1952. Additional aid has been given by the United States under the Technical Cooperation Program, and by Canada, Australia and New Zealand under the aegis of the Colombo Plan.

68. The second Five-Year Plan is being considered by the Government. It is expected that more emphasis will be given to industry, particularly such heavy industries as steel and chemical fertilizers. At the same time, the Planning Commission is seeking means to incorporate some labor intensive projects to reduce urban unemployment.



BIHAR BENGAL

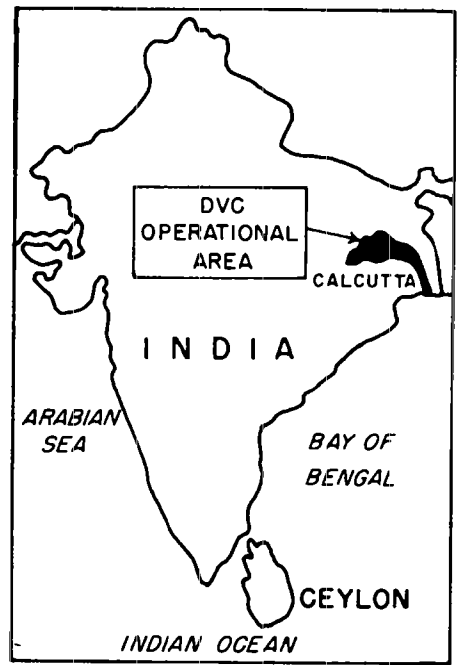
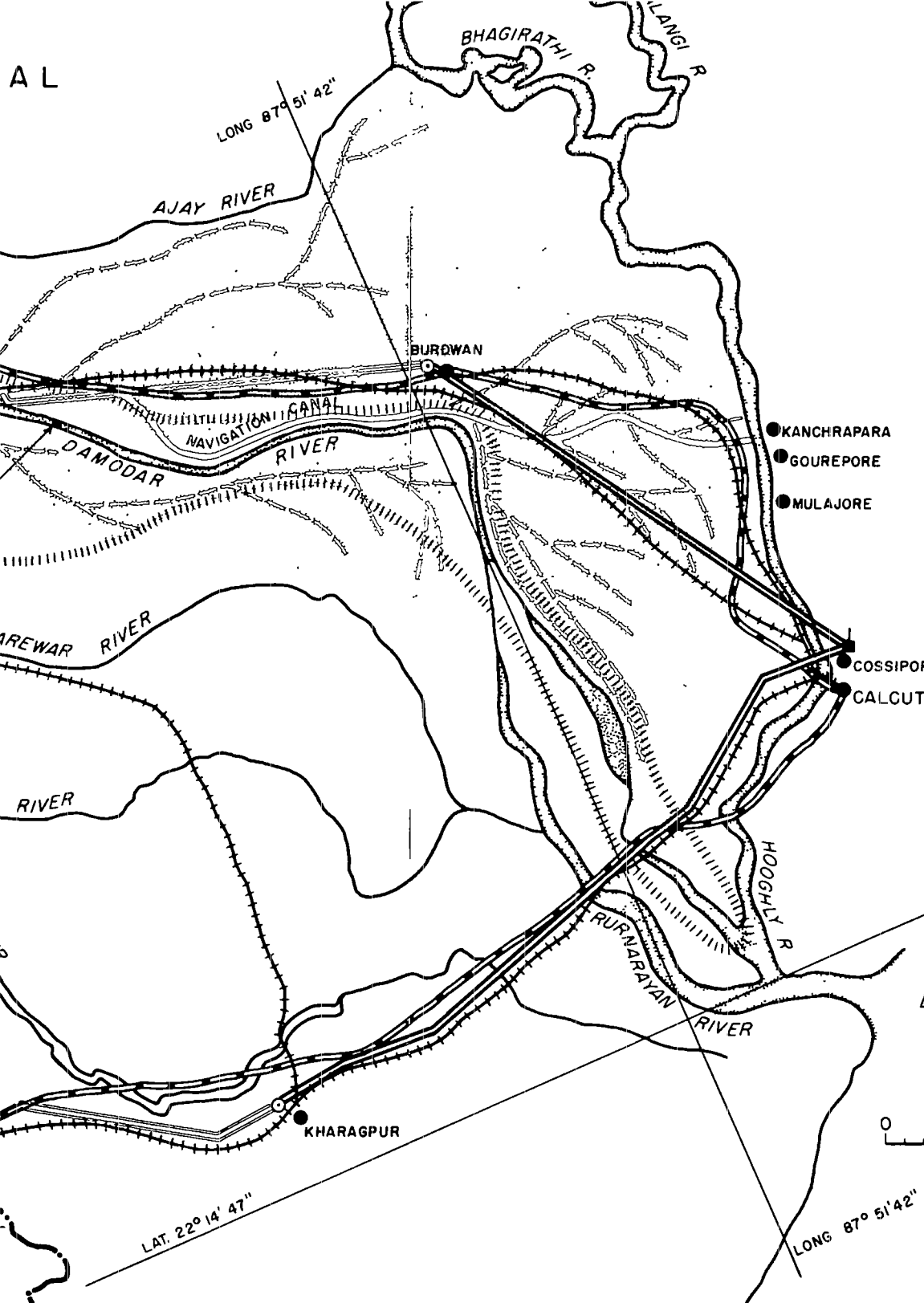
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















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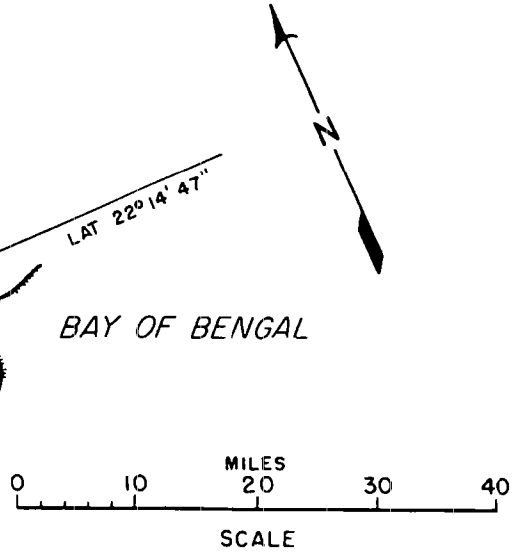
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DAMODAR RIVER UNIFIED SCHEME OF

BANK-FINANCED PROJECTS

-  Reservoirs in existence and projects
-  Area to be irrigated
-  Railways
-  Roads
-  Provincial boundary
-  Drainage area
-  Irrigation with Navigation Canal
-  Irrigation Canal and Distribution
-  132 KV Transmission Line (Future)
-  132 KV Transmission Line (Existing)
-  66 KV Transmission Line
-  33 KV Transmission Line
-  Hydro-Power Stations
-  Hydro-Power Stations (Future)
-  Hydro-Power Stations
-  Bokaro Thermal Power Station
-  Thermal Power Stations (Local)
-  Sub-Stations
-  Switching Stations



LAT. 22° 14' 47"

LONG 87° 51' 42"

MILES
0 10 20 30 40

SCALE