Foreign aid terms tighten on India

Aid from the World Bank and its affiliates will rise, but a growing proportion is on commercial terms.

The June 16-17 meeting of the Aid India Consortium at World Bank offices in Paris produced a $4.5 billion foreign aid package
87. The package consists of $2.4 billion in World Bank loans, $600 million in concessional loans from the Bank's soft-loan affiliate, the International Development Association (IDA), and the balance in official development assistance (ODA) from the 13 donor nations which are members of the consortium.

A 16% increase over last year, the aid package represents a real net gain of only 8%, when dollar exchange-rate fluctuations are taken into account. The share of soft loans from the IDA continued to decline from a peak of $1.5 billion in 1980 and now represents just over 7% of total foreign aid. The $2.4 billion in World Bank loans is at nearly commercial rates.

Increased aid commitments from Japan and West Germany more than offset slight declines in U.S. and U.K. commitments. Japan, while not a large donor, has increased its commitment by about 50%, from $179 to $285 million, to rival West Germany, which in turn raised its commitment from $240 to $286 million.

Japan's cumulative ODA to India, about $2.5 billion as of 1984, is now second only to its assistance to Indonesia. This growing Japanese involvement in India is tied to a number of large projects in basic industry, transportation, and telecommunications, including the recently contracted underground natural gas pipeline, one of the longest in the world.

India's case was presented to the consortium meeting, chaired by World Bank Vice-President for Asia David Hopper, by Indian Finance Secretary S. Venkitaramanan and Dr. Bimal Jalan, chief economic adviser to the government.

Venkitaramanan explained that although India had to rely on external assistance for only a very tiny portion—about 6%—of its $320 billion Seventh Five Year Plan, launched this year, this was nonetheless a critical margin. It was urgent, he stated, that the bulk of this assistance be on concessional terms to enable India to consolidate the gains chalked out in the new plan.

To India's dismay, the World Bank has been arguing for several years that this huge country of 800 million—with some 500 million people below the "poverty line"—ought to be competing in the commercial market for external funds. According to Bank oracles, India should be pushed off the IDA "dole."

This campaign was powerfully affected by China's newly staked claim for assistance. It became a virtual *fait accompli* with the cut imposed on World Bank funding levels by the Bank's own failure in the most recent years to raise sufficient new capital. The Bank and its minions have employed a combination of flattery and pragmatism to persuade India to accept this situation.

For the consortium meeting, the Bank couched its ritual endorsement of India's aid requirements in a detailed evaluation of the Indian economy. The report joined fulsome praise for the economic management and "new" policy thrust of the Rajiv Gandhi government with the stipulation that more changes are necessary.

All of the Bank's old saws—devaluation, privatization, elimination of subsidies, trade liberalization—are now subsumed in a pragmatic "export or die" proposition made credible by the worsening environment for concessional aid. According to the Press Trust of India, instead of calling for currency devaluation, the Bank states that industrial policy changes must be complemented by direct export incentives, especially an exchange-rate policy that enhances the relative profitability of export sales.

The Bank itself projects that India's debt-service ratio will rise from today's 15.2% to 20% by 1989-90, largely because of the hardening of aid terms. It goes on to state that unless exports grow at the annual rate of 6.8% projected in the Seventh Plan, India will not be able to sustain the level of commercial borrowing, debt servicing, and importation required to meet the Plan's growth targets. So far this year, exports have been stagnant.

The dilemma is real. But it points not to the need for exports so much as to the urgency of a focused policy to generate domestic surpluses. That means one thing: increasing agricultural productivity. For a nation the size of India, with but a tiny fraction of the domestic market developed, the prescription for "export-led growth" is absurd. Without generating a real domestic surplus for reinvestment in agro-industrial expansion, a mere trade surplus—assuming it could be achieved—will be economically useless, no matter how pleasing it might be to the accountants at the World Bank.