Folder Title:	India : Structural Adjustment Loan (PAR) - 1v
Folder ID:	1517047
Series:	Completion Reports and Audit Reports
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PAR - INDIA: Structural Adjustment
(L3421-IN/C2316 -IN) R/A

6/19/96 FY96

NUMERO 113

OED Précis

Departamento de Evaluación de Operaciones

Junio de 1996

El ajuste estructural en la India

A veces, las crisis económicas hacen posible lo que antes parecía imposible. En una sociedad abierta y democrática, pueden facilitar el paso de un prolongado debate sobre políticas a la adopción de medidas concretas. Además, cuando el debate está respaldado por un diálogo documentado y por la formación de consenso, puede dar origen a un programa de reformas satisfactorio y bien focalizado. Tal fue el caso de la India, donde, a fin de hacer frente a la crisis financiera de 1991, un nuevo gobierno inició una serie de reformas radicales en armonía con el mercado y eliminó la mayoría de las políticas intervencionistas adoptadas durante cinco décadas de economía dirigida. La rapidez, amplitud y profundidad de estas reformas, que contaron con el apoyo del Fondo Monetario Internacional (FMI), el Banco Mundial y la comunidad de donantes, no tenían precedentes en la India, y los resultados fueron extraordinarios. La inversión extranjera experimentó un auge, lo que permitió reconstituir las agotadas reservas de divisas; se intensificó el crecimiento del PIB, estimulado, esta vez, más por la inversión que por la obtención de préstamos; y aumentaron las exportaciones.

Sin embargo, en una reciente evaluación del Departamento de Evaluación de Operaciones (DEO) se advierte que la sostenibilidad de la recuperación económica de la India depende de la terminación del programa de reforma, sobre todo en lo que respecta a las reformas fiscales a nivel nacional y de los estados, al tiempo que deberán protegerse los servicios sociales para los pobres.*

Antecedentes

En 1991, la India debió hacer frente a una crisis de balanza de pagos sin precedentes. Durante casi una década, el gobierno se había venido endeudando fuertemente para respaldar una estrategia económica basada en una política de gasto público expansionista para financiar el crecimiento. Entre 1980 y 1991, la deuda pública interna de la India aumentó ininterrumpidamente —del 36% al 56% del PIB— en tanto que la deuda externa se triplicó con creces, alcanzando un monto de $70.000 millones.

Los cambios políticos, los disturbios en algunas regiones del país y la crisis del Golfo Pérsico en 1990 agravaron una situación que de por sí ya era inestable. La crisis se tradujo en un aumento de los precios del petróleo —lo cual aumentó considerablemente el costo de importación del crudo— y en una caída del ingreso de divisas. La solvencia del país, que ya era frágil, se deterioró aún más cuando los ciudadanos indios que vivían en el extranjero retiraron sus cuantiosos depósitos en divisas, y los bancos comerciales redujeron sus riesgos. A fines de 1990 se rebajó la clasificación crediticia del país, lo que coartó efectivamente su acceso a las fuentes de crédito comercial. A principios de 1991, el país se encontraba al borde de la bancarrota.

En medio de la crisis, el debate en los círculos políticos y económicos de la India se concentró progresivamente en el tema de la reforma. En el contexto de ese país democrático de gran tamaño y sumamente heterogéneo, dicho debate demostró ser importante para la formación de un consenso político entre los partidarios de la reforma. No obstante, sólo cuando el nuevo gobierno asumió el poder, en junio de 1991, fue posible poner en marcha el primer programa global de reforma de la política económica, que el Banco Mundial apoyó mediante un préstamo para ajuste estructural de $500 millones, aprobado en diciembre de 1991 y cerrado en diciembre de 1993.

Metas y ejecución del proyecto

El préstamo para ajuste estructural otorgado por el Banco tuvo dos objetivos: (1) ayudar a la India a resolver sus problemas inmediatos de balanza de pagos, y (2) respaldar un amplio conjunto de reformas de política destinado a liberalizar la economía y abrirla a una mayor competencia interna y externa. El préstamo se complementó con un programa de estabilización respaldado por el FMI. Además, otros donantes proporcionaron financiamiento paralelo, tal como se acordó en las reuniones de consorcios bancarios convocadas por el Banco Mundial.

El otorgamiento del préstamo para ajuste estructural demostró ser la medida adecuada en el momento oportuno. Si bien el programa que financiaba era audaz, estaba cuidadosamente escalonado a fin de crear un equilibrio viable entre las necesidades económicas y la realidad de la economía política del país. Las reformas se

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Division 2
Robert Armstrong

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Resultados reales versus proyectados de los indicadores macroeconómicos fundamentales, 1991-94

Indicador	*1991-94* Proyectado	Real
Tasas de crecimiento (% anual)		
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Ahorro interno bruto	21.5	23.8
Equilibrio fiscal	4.5	6.3
Balanza en cuenta corriente	-2.1	-0.9
Deuda externa	34.5	36.3
Servicio de la deuda (% de las exportaciones)	26.4	28.3
Valores (millones de US$)		
Balanza en cuenta corriente	-5,161	-2,276
Deuda externa total	86,444	92,278
Inversión extranjera	489	3,207
Donaciones	604	409

centraron, primero, en las limitaciones más graves, lo cual también dio resultados rápidos, permitiendo fortalecer el consenso en torno a las reformas.

A pocas semanas de haber anunciado el programa de reformas, el gobierno devaluó la rupia en un 23%, aumentó las tasas de interés y modificó el presupuesto nacional para 1991/92, reduciendo drásticamente las subvenciones y transferencias a las empresas estatales. En los seis meses siguientes, el gobierno suprimió el complejo sistema de licencias industriales y de importación, liberalizó las políticas comerciales, e introdujo medidas encaminadas a reforzar los mercados de capital y las instituciones. Si bien el programa de reforma era ambicioso, se ejecutó casi en su totalidad durante el período correspondiente al préstamo para ajuste estructural, es decir, entre 1991 y 1993.

A estas medidas siguieron nuevas reformas destinadas a liberalizar la inversión, desreglamentar aún más las políticas comerciales, mejorar la administración tributaria y consolidar el sector financiero. En 1995, la India había pasado de un régimen que no permitía la inversión privada en los sectores más importantes de la economía, a uno donde el nivel de apertura a la inversión extranjera era similar al de la mayoría de los países de Asia.

Resultados

Las reformas dieron resultados inmediatos. El suministro oportuno de divisas ayudó a la India a superar la crisis de balanza de pagos y mejorar su capacidad crediticia. Varios de los indicadores macroeconómicos fundamentales mejoraron más de lo que se había previsto (véase el cuadro). Tras sufrir una baja durante el primer año de reforma, la tasa de crecimiento del PIB volvió a subir, alcanzando un 5% en 1993/94 y un 6,3% en 1994/95. Las exportaciones aumentaron en casi un 12%. Lo que es más importante, se produjo un repunte de la inversión extranjera, que aumentó casi siete veces más de lo previsto.

Si bien el aumento de las importaciones fue muy superior a lo previsto, el déficit en cuenta corriente durante el período fue mucho menor, debido en gran parte al aumento de las exportaciones. Además, se produjo una rápida acumulación de reservas internacionales. A fines de 1994, las reservas, que se acumularon a una tasa mensual de casi $1.000 millones gracias a la afluencia de inversión extranjera, alcanzaron un monto de casi $20.000 millones. La composición del crecimiento también fue alentadora, registrándose un repunte de la producción agrícola (favorecido por una serie sin precedente de monzones muy beneficiosos) y un crecimiento de alrededor del 8% anual de la producción industrial.

Sin embargo, en otras de la áreas cubiertas por las condiciones del préstamo, los resultados fueron insatisfactorios, a saber, la supresión de las restricciones a la exportación de productos agrícolas, las normas de salida para las empresas industriales y, lo que es más importante, la reestructuración o clausura de las empresas públicas no viables. Aunque en ese momento no se consideraron de importancia decisiva, estas deficiencias pusieron de manifiesto, tempranamente, los peligros para la futura sostenibilidad de las reformas.

Un programa inconcluso

La crisis de liquidez de 1991 permitió al gobierno adoptar medidas muy decididas en relación con la reforma del presupuesto de 1991/92 y la eliminación de algunas de las distorsiones normativas que habían dado origen a los enormes déficit fiscales de la India. Durante la etapa inicial los componentes de estabilización y reforma estructural del programa se integraron adecuadamente. No obstante, en 1993/94 disminuyó el ritmo del ajuste fiscal. Tanto los gobiernos estatales como el gobierno central experimentaron un incremento del déficit fiscal, lo cual se tradujo en elevados índices de inflación y en una política monetaria restrictiva. En 1993-94 el déficit fiscal, expresado como porcentaje del PIB, alcanzó un promedio superior en dos puntos porcentuales al nivel previsto. De hecho, durante el período de reforma el ahorro global del sector público disminuyó. En 1994 el gobierno reanudó sus esfuerzos en materia de ajuste fiscal, gracias a lo cual el déficit disminuyó del 7,5% del PIB en 1993/94 al 6,1% en 1994/95. Sin embargo, subsisten presiones en pro de un relajamiento de la disciplina fiscal.

Si bien se ha logrado una gran mejoría de la balanza de pagos, ésta sigue siendo vulnerable. En el curso de los próximos cuatro años la India debe reembolsar alrededor de $24.000 millones de los $95.000 millones a que asciende actualmente su deuda externa. Esto significa que, además de las necesidades de financiamiento vinculadas al actual déficit del gasto público, el país deberá movilizar más de $40.000 millones en financiamiento

externo para cumplir sus compromisos relativos al servicio de la deuda.

Por consiguiente, la sostenibilidad de las reformas depende de que continúe el programa, cuyo componente central son las reformas fiscales. La continuación del proceso presenta cuatro aspectos importantes en lo que respecta a la sostenibilidad (véase el Recuadro 1).

- *Reforma de las empresas públicas.* Muchas empresas públicas, especialmente las que suministran servicios, siguen registrando fuertes pérdidas —lo cual representa una pesada carga para el presupuesto público— y absorben gran parte del capital industrial del país. El país no está en condiciones de respaldar empresas no rentables ni de aumentar la inversión para modernizar o ampliar las empresas rentables. El gobierno debe reestructurar, privatizar o eliminar las empresas públicas no viables.
- *Mercados de trabajo.* La reforma de las empresas públicas y la eficiencia de los mercados de trabajo están íntimamente vinculadas. En la India, las políticas laborales tienden a proteger a la fuerza de trabajo excesivamente numerosa, sin tener en cuenta el efecto que ello pueda tener en la rentabilidad y la estructura de la producción de una empresa. Estas políticas perjudican sobre todo a las empresas públicas, puesto que a veces las empresas privadas pueden esquivarlas. La creación de mercados de trabajo más flexibles ayudará a aumentar las oportunidades de empleo, especialmente en industrias con gran intensidad de mano de obra, área en que la India goza de ventajas comparativas.
- *Desarrollo de la infraestructura.* Si bien la infraestructura es un elemento fundamental del crecimiento económico, la inversión pública en caminos, energía, comunicaciones y otros sectores esenciales ha disminuido. Incluso las empresas rentables funcionan ineficientemente debido a la escasez de inversión. Aunque el sector privado ha respondido con entusiasmo ante la posibilidad de inversión en el sector de infraestructura, aún quedan por aclarar las normas para la inversión extranjera directa. Es necesario prestar más atención a los aspectos institucionales y normativos a fin de facilitar la inversión privada, así como a la eficiencia operativa y de organización de las empresas públicas del sector de infraestructura.
- *Sector social.* Los estados son la principal fuente de financiamiento de algunos sectores fundamentales como la educación y la salud. Sin embargo, el gasto social como proporción del PIB se redujo del 6,6% en 1991 al 5,6% en 1995, en gran parte debido a que los recursos se están orientando preferentemente al pago de intereses y a los gastos corrientes. A menos que los estados realicen una reforma presupuestaria cabal, la crisis del sector social sufrirá un inevitable agravamiento lo que enturbiará las perspectivas de crecimiento a mediano plazo y exacerbará las tensiones sociales (véase el Recuadro 2).

La función del Banco Mundial

El préstamo para ajuste estructural y el programa a que prestó apoyo fueron preparados por el gobierno, que asumió plena responsabilidad por ambos. El Banco contribuyó a preparar el terreno mediante su diálogo sobre políticas, su labor económica y sectorial, su papel en las reuniones del consorcio de ayuda, y su interacción con el FMI. Pero esta labor no se realizó de la noche a la mañana. El Banco, a través de años de diálogo sobre políticas basado en numerosos estudios analíticos de gran calidad, contribuyó al debate sobre políticas que actualmente se lleva a cabo en la India, y ayudó a centrar la atención en las principales normativas que obstaculizan el crecimiento económico y en las interrelaciones entre éstas. Este proceso permitió alcanzar un elevado nivel de compatibilidad entre la estrategia de reforma propugnada por el Banco y la adoptada por el gobierno para hacer frente a la crisis.

El Banco, mediante el préstamo para ajuste estructural, ayudó también a aumentar la credibilidad del programa de reforma de la India, lo que alentó a otros donantes, especialmente el Japón y el Banco Asiático de Desarrollo, a proporcionar una cantidad importante de fondos adicionales para ayudar al país a superar su actual crisis de balanza de pagos.

Enseñanzas

- *La estabilización macroeconómica es esencial para la sostenibilidad de las reformas.* Si no hubiera reducido el déficit fiscal, el gobierno no habría podido reducir los derechos arancelarios ni los requisitos de reserva para los bancos comerciales, liberalizar las tasas de interés, o imponer estrictas limitaciones presupuestarias a las empresas estatales. Del mismo modo, las vacilaciones posteriores con respecto al ajuste fiscal podrían reducir la capacidad de la India para intensificar las reformas estructurales y acelerar, de este modo, el crecimiento y el alivio de la pobreza.
- *La calidad y eficacia de la asistencia del Banco en el terreno del ajuste estructural depende de la labor preparatoria, sobre todo en un país democrático de*

Recuadro 1: Indicadores de sostenibilidad

Hay varios indicadores que pueden ayudar a evaluar la sostenibilidad de las reformas de la política económica de un país. En la India, éstos incluyen el ahorro público (a nivel del gobierno central y de los gobiernos estatales) y la inversión pública, el déficit fiscal y la carga de la deuda, las utilidades y la productividad de las empresas públicas, la eficiencia de los mercados de trabajo, y el desarrollo del capital humano. Al evaluar globalmente el progreso logrado mediante el programa de reforma de la India, podría ser conveniente agruparlos en un conjunto de "indicadores escogidos de la sostenibilidad", lo que ayudaría a centrar la atención en los problemas que revisten verdadera importancia a largo plazo, en lugar de aquellos que sólo tienen un carácter urgente a corto plazo.

Indicadores escogidos de la sostenibilidad

Indicadores de la actuación fiscal (% del PIB)
- Ahorro público (gobierno central, gobiernos estatales, total)
- Servicio de la deuda/ingreso tributario (gobierno central, gobiernos estatales, total)

Inversión (% del PIB)
- Pública
- Privada

Reforma de las empresas públicas
- Utilidades y pérdidas de las empresas públicas
- Tasas de rendimiento del capital
- Otros indicadores de la eficiencia

Indicadores del mercado de trabajo
- Productividad
- Empleo en el sector público

Desarrollo del capital humano

Recuadro 2: Aspectos sociales del ajuste

A un año de haberse otorgado el préstamo para ajuste estructural, el gobierno, con el respaldo de un crédito de $500 millones de la AIF (aprobado en diciembre de 1992 y cerrado en 1994) y la asistencia de los donantes, creó el Programa oficial de ajuste de las redes de seguridad social. El programa suministró respaldo en sectores clave como la educación primaria y la atención de la salud, la lucha contra las enfermedades y la nutrición. Además, se creó el Fondo de Renovación Nacional, cuyo fin es servir de red de seguridad social provisional para financiar los gastos por concepto de indemnización o despido, el readiestramiento y la redistribución de los trabajadores afectados por la reestructuración de las empresas públicas en dificultades, y los planes de generación de nuevos empleos en las ciudades y los estados afectados desfavorablemente por las reformas de los sectores industrial y público. Aún no se dispone de datos fiables sobre la evaluación de la eficacia del programa. Sin embargo, en el informe final de ejecución preparado por el Banco en junio de 1995 se destacan algunos de los logros del programa:

- A nivel del gobierno central, el creciente aumento y la mejor focalización del gasto en el sector social. El gasto en educación, salud, bienestar de la familia, la mujer y el niño, y desarrollo social, canalizado a través del plan central, aumentó del 0,9% del PIB en 1991/92 al 1,2% en 1993/94.
- El desarrollo del Programa regional de educación primaria, que actualmente constituye el principal instrumento para lograr la universalización de la educación primaria en la India. El programa se ha convertido en un instrumento centralizador de la asistencia nacional e internacional para el desarrollo de la educación primaria.
- El mejoramiento de los programas de prevención y tratamiento de la lepra, la ceguera, la tuberculosis y el paludismo, si bien en las áreas de atención primaria de la salud y nutrición no se han logrado aún resultados importantes.
- El financiamiento del Fondo de Renovación Nacional, incluido el pago de pensiones a unos 77.000 empleados que jubilaron voluntariamente. Sin embargo, la función desempeñada por el fondo ha sido más limitada de lo que se había previsto, debido a dos factores: (1) la lentitud de la reestructuración del sector industrial, y (2) la formulación y puesta en marcha relativamente tardía de los mecanismos de generación de empleo, capacitación y asesoramiento.

El *estudio económico* del gobierno, preparado por el Ministerio de Hacienda, contiene información sobre los efectos del programa de reforma sobre la pobreza y los sectores sociales.

Durante los dos primeros años de reforma, la reducción del gasto público se tradujo en una disminución del empleo y los salarios reales, si bien en los últimos dos años se han logrado avances en ambas áreas, especialmente en las zonas rurales, que han sido favorecidas por varios años de buenas cosechas. El gasto social a nivel del gobierno central ha aumentado en términos reales durante los cuatro años de reforma, aunque a nivel de los estados se ha reducido. Si bien en 1991 y 1992 dejó de disminuir la tasa de mortalidad infantil, en 1993 la disminución se reanudó. Del mismo modo, los salarios reales del sector agrícola, que se redujeron durante la crisis de 1991/92, volvieron a aumentar posteriormente.

gran tamaño y heterogéneo como la India. El Banco ejerció una influencia indirecta sobre el programa de reforma y el préstamo para ajuste estructural. Esta influencia se manifestó más a través de los varios años de diálogo sobre políticas y los estudios analíticos realizados con anterioridad a la crisis que a través de la labor realizada durante la misma. Mediante estos instrumentos, el Banco contribuyó al debate nacional sobre política económica, ayudando con ello a centrar la atención en los principales obstáculos para el crecimiento económico. El proceso permitió preparar el terreno para que el Banco y el gobierno respondieran con rapidez a la crisis.

OED *Précis* es obra del Departamento de Evaluación de Operaciones del Banco Mundial y tiene por objeto contribuir a la difusión de los resultados de las últimas evaluaciones *ex post* entre los especialistas que se ocupan del desarrollo dentro y fuera del Banco Mundial. Las opiniones expresadas en este Precís son las del personal de dicho departamento y no deben entenderse como las del Banco Mundial o sus instituciones afiliadas. La presente y otras publicaciones del DEO se pueden encontrar en Internet, http://www.worldbank.org/html/oed. Sírvanse dirigir sus comentarios y consultas a la redactora, OED, tel: 1-202/458-4497, fax: 1-202/522-3200, e-mail: eline@worldbank.org

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Deuda externa	34.5	36.3
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Resultados

Las reformas dieron resultados inmediatos. El suministro oportuno de divisas ayudó a la India a superar la crisis de balanza de pagos y mejorar su capacidad crediticia. Varios de los indicadores macroeconómicos fundamentales mejoraron más de lo que se había previsto (véase el cuadro). Tras sufrir una baja durante el primer año de reforma, la tasa de crecimiento del PIB volvió a subir, alcanzando un 5% en 1993/94 y un 6,3% en 1994/95. Las exportaciones aumentaron en casi un 12%. Lo que es más importante, se produjo un repunte de la inversión extranjera, que aumentó casi siete veces más de lo previsto.

Si bien el aumento de las importaciones fue muy superior a lo previsto, el déficit en cuenta corriente durante el período fue mucho menor, debido en gran parte al aumento de las exportaciones. Además, se produjo una rápida acumulación de reservas internacionales. A fines de 1994, las reservas, que se acumularon a una tasa mensual de casi $1.000 millones gracias a la afluencia de inversión extranjera, alcanzaron un monto de casi $20.000 millones. La composición del crecimiento también fue alentadora, registrándose un repunte de la producción agrícola (favorecido por una serie sin precedente de monzones muy beneficiosos) y un crecimiento de alrededor del 8% anual de la producción industrial.

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La crisis de liquidez de 1991 permitió al gobierno adoptar medidas muy decididas en relación con la reforma del presupuesto de 1991/92 y la eliminación de algunas de las distorsiones normativas que habían dado origen a los enormes déficit fiscales de la India. Durante la etapa inicial los componentes de estabilización y reforma estructural del programa se integraron adecuadamente. No obstante, en 1993/94 disminuyó el ritmo del ajuste fiscal. Tanto los gobiernos estatales como el gobierno central experimentaron un incremento del déficit fiscal, lo cual se tradujo en elevados índices de inflación y en una política monetaria restrictiva. En 1993-94 el déficit fiscal, expresado como porcentaje del PIB, alcanzó un promedio superior en dos puntos porcentuales al nivel previsto. De hecho, durante el período de reforma el ahorro global del sector público disminuyó. En 1994 el gobierno reanudó sus esfuerzos en materia de ajuste fiscal, gracias a lo cual el déficit disminuyó del 7,5% del PIB en 1993/94 al 6,1% en 1994/95. Sin embargo, subsisten presiones en pro de un relajamiento de la disciplina fiscal.

Si bien se ha logrado una gran mejoría de la balanza de pagos, ésta sigue siendo vulnerable. En el curso de los próximos cuatro años la India debe reembolsar alrededor de $24.000 millones de los $95.000 millones a que asciende actualmente su deuda externa. Esto significa que, además de las necesidades de financiamiento vinculadas al actual déficit del gasto público, el país deberá movilizar más de $40.000 millones en financiamiento

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Por consiguiente, la sostenibilidad de las reformas depende de que continúe el programa, cuyo componente central son las reformas fiscales. La continuación del proceso presenta cuatro aspectos importantes en lo que respecta a la sostenibilidad (véase el Recuadro 1).

- *Reforma de las empresas públicas.* Muchas empresas públicas, especialmente las que suministran servicios, siguen registrando fuertes pérdidas —lo cual representa una pesada carga para el presupuesto público— y absorben gran parte del capital industrial del país. El país no está en condiciones de respaldar empresas no rentables ni de aumentar la inversión para modernizar o ampliar las empresas rentables. El gobierno debe reestructurar, privatizar o eliminar las empresas públicas no viables.
- *Mercados de trabajo.* La reforma de las empresas públicas y la eficiencia de los mercados de trabajo están íntimamente vinculadas. En la India, las políticas laborales tienden a proteger a la fuerza de trabajo excesivamente numerosa, sin tener en cuenta el efecto que ello pueda tener en la rentabilidad y la estructura de la producción de una empresa. Estas políticas perjudican sobre todo a las empresas públicas, puesto que a veces las empresas privadas pueden esquivarlas. La creación de mercados de trabajo más flexibles ayudará a aumentar las oportunidades de empleo, especialmente en industrias con gran intensidad de mano de obra, área en que la India goza de ventajas comparativas.
- *Desarrollo de la infraestructura.* Si bien la infraestructura es un elemento fundamental del crecimiento económico, la inversión pública en caminos, energía, comunicaciones y otros sectores esenciales ha disminuido. Incluso las empresas rentables funcionan ineficientemente debido a la escasez de inversión. Aunque el sector privado ha respondido con entusiasmo ante la posibilidad de inversión en el sector de infraestructura, aún quedan por aclarar las normas para la inversión extranjera directa. Es necesario prestar más atención a los aspectos institucionales y normativos a fin de facilitar la inversión privada, así como a la eficiencia operativa y de organización de las empresas públicas del sector de infraestructura.
- *Sector social.* Los estados son la principal fuente de financiamiento de algunos sectores fundamentales como la educación y la salud. Sin embargo, el gasto social como proporción del PIB se redujo del 6,6% en 1991 al 5,6% en 1995, en gran parte debido a que los recursos se están orientando preferentemente al pago de intereses y a los gastos corrientes. A menos que los estados realicen una reforma presupuestaria cabal, la crisis del sector social sufrirá un inevitable agravamiento lo que enturbiará las perspectivas de crecimiento a mediano plazo y exacerbará las tensiones sociales (véase el Recuadro 2).

La función del Banco Mundial

El préstamo para ajuste estructural y el programa a que prestó apoyo fueron preparados por el gobierno, que asumió plena responsabilidad por ambos. El Banco contribuyó a preparar el terreno mediante su diálogo sobre políticas, su labor económica y sectorial, su papel en las reuniones del consorcio de ayuda, y su interacción con el FMI. Pero esta labor no se realizó de la noche a la mañana. El Banco, a través de años de diálogo sobre políticas basado en numerosos estudios analíticos de gran calidad, contribuyó al debate sobre políticas que actualmente se lleva a cabo en la India, y ayudó a centrar la atención en las principales normativas que obstaculizan el crecimiento económico y en las interrelaciones entre éstas. Este proceso permitió alcanzar un elevado nivel de compatibilidad entre la estrategia de reforma propugnada por el Banco y la adoptada por el gobierno para hacer frente a la crisis.

El Banco, mediante el préstamo para ajuste estructural, ayudó también a aumentar la credibilidad del programa de reforma de la India, lo que alentó a otros donantes, especialmente el Japón y el Banco Asiático de Desarrollo, a proporcionar una cantidad importante de fondos adicionales para ayudar al país a superar su actual crisis de balanza de pagos.

Enseñanzas

- *La estabilización macroeconómica es esencial para la sostenibilidad de las reformas.* Si no hubiera reducido el déficit fiscal, el gobierno no habría podido reducir los derechos arancelarios ni los requisitos de reserva para los bancos comerciales, liberalizar las tasas de interés, o imponer estrictas limitaciones presupuestarias a las empresas estatales. Del mismo modo, las vacilaciones posteriores con respecto al ajuste fiscal podrían reducir la capacidad de la India para intensificar las reformas estructurales y acelerar, de este modo, el crecimiento y el alivio de la pobreza.
- *La calidad y eficacia de la asistencia del Banco en el terreno del ajuste estructural depende de la labor preparatoria, sobre todo en un país democrático de*

Recuadro 1: Indicadores de sostenibilidad

Hay varios indicadores que pueden ayudar a evaluar la sostenibilidad de las reformas de la política económica de un país. En la India, éstos incluyen el ahorro público (a nivel del gobierno central y de los gobiernos estatales) y la inversión pública, el déficit fiscal y la carga de la deuda, las utilidades y la productividad de las empresas públicas, la eficiencia de los mercados de trabajo, y el desarrollo del capital humano. Al evaluar globalmente el progreso logrado mediante el programa de reforma de la India, podría ser conveniente agruparlos en un conjunto de "indicadores escogidos de la sostenibilidad", lo que ayudaría a centrar la atención en los problemas que revisten verdadera importancia a largo plazo, en lugar de aquellos que sólo tienen un carácter urgente a corto plazo.

Indicadores escogidos de la sostenibilidad

Indicadores de la actuación fiscal (% del PIB)
- Ahorro público (gobierno central, gobiernos estatales, total)
- Servicio de la deuda/ingreso tributario (gobierno central, gobiernos estatales, total)

Inversión (% del PIB)
- Pública
- Privada

Reforma de las empresas públicas
- Utilidades y pérdidas de las empresas públicas
- Tasas de rendimiento del capital
- Otros indicadores de la eficiencia

Indicadores del mercado de trabajo
- Productividad
- Empleo en el sector público

Desarrollo del capital humano

Recuadro 2: Aspectos sociales del ajuste

A un año de haberse otorgado el préstamo para ajuste estructural, el gobierno, con el respaldo de un crédito de $500 millones de la AIF (aprobado en diciembre de 1992 y cerrado en 1994) y la asistencia de los donantes, creó el Programa oficial de ajuste de las redes de seguridad social. El programa suministró respaldo en sectores clave como la educación primaria y la atención de la salud, la lucha contra las enfermedades y la nutrición. Además, se creó el Fondo de Renovación Nacional, cuyo fin es servir de red de seguridad social provisional para financiar los gastos por concepto de indemnización o despido, el readiestramiento y la redistribución de los trabajadores afectados por la reestructuración de las empresas públicas en dificultades, y los planes de generación de nuevos empleos en las ciudades y los estados afectados desfavorablemente por las reformas de los sectores industrial y público. Aún no se dispone de datos fiables sobre la evaluación de la eficacia del programa. Sin embargo, en el informe final de ejecución preparado por el Banco en junio de 1995 se destacan algunos de los logros del programa:

- A nivel del gobierno central, el creciente aumento y la mejor focalización del gasto en el sector social. El gasto en educación, salud, bienestar de la familia, la mujer y el niño, y desarrollo social, canalizado a través del plan central, aumentó del 0,9% del PIB en 1991/92 al 1,2% en 1993/94.
- El desarrollo del Programa regional de educación primaria, que actualmente constituye el principal instrumento para lograr la universalización de la educación primaria en la India. El programa se ha convertido en un instrumento centralizador de la asistencia nacional e internacional para el desarrollo de la educación primaria.
- El mejoramiento de los programas de prevención y tratamiento de la lepra, la ceguera, la tuberculosis y el paludismo, si bien en las áreas de atención primaria de la salud y nutrición no se han logrado aún resultados importantes.
- El financiamiento del Fondo de Renovación Nacional, incluido el pago de pensiones a unos 77.000 empleados que jubilaron voluntariamente. Sin embargo, la función desempeñada por el fondo ha sido más limitada de lo que se había previsto, debido a dos factores: (1) la lentitud de la reestructuración del sector industrial, y (2) la formulación y puesta en marcha relativamente tardía de los mecanismos de generación de empleo, capacitación y asesoramiento.

El *estudio económico* del gobierno, preparado por el Ministerio de Hacienda, contiene información sobre los efectos del programa de reforma sobre la pobreza y los sectores sociales.

Durante los dos primeros años de reforma, la reducción del gasto público se tradujo en una disminución del empleo y los salarios reales, si bien en los últimos dos años se han logrado avances en ambas áreas, especialmente en las zonas rurales, que han sido favorecidas por varios años de buenas cosechas. El gasto social a nivel del gobierno central ha aumentado en términos reales durante los cuatro años de reforma, aunque a nivel de los estados se ha reducido. Si bien en 1991 y 1992 dejó de disminuir la tasa de mortalidad infantil, en 1993 la disminución se reanudó. Del mismo modo, los salarios reales del sector agrícola, que se redujeron durante la crisis de 1991/92, volvieron a aumentar posteriormente.

gran tamaño y heterogéneo como la India. El Banco ejerció una influencia indirecta sobre el programa de reforma y el préstamo para ajuste estructural. Esta influencia se manifestó más a través de los varios años de diálogo sobre políticas y los estudios analíticos realizados con anterioridad a la crisis que a través de la labor realizada durante la misma. Mediante estos instrumentos, el Banco contribuyó al debate nacional sobre política económica, ayudando con ello a centrar la atención en los principales obstáculos para el crecimiento económico. El proceso permitió preparar el terreno para que el Banco y el gobierno respondieran con rapidez a la crisis.

OED *Précis* es obra del Departamento de Evaluación de Operaciones del Banco Mundial y tiene por objeto contribuir a la difusión de los resultados de las últimas evaluaciones *ex post* entre los especialistas que se ocupan del desarrollo dentro y fuera del Banco Mundial. Las opiniones expresadas en este Precís son las del personal de dicho departamento y no deben entenderse como las del Banco Mundial o sus instituciones afiliadas. La presente y otras publicaciones del DEO se pueden encontrar en Internet, http://www.worldbank.org/html/oed. Sírvanse dirigir sus comentarios y consultas a la redactora, OED, tel: 1-202/458-4497, fax: 1-202/522-3200, e-mail: eline@worldbank.org

NUMERO 113

OED Précis

Departamento de Evaluación de Operaciones Junio de 1996

El ajuste estructural en la India

A veces, las crisis económicas hacen posible lo que antes parecía imposible. En una sociedad abierta y democrática, pueden facilitar el paso de un prolongado debate sobre políticas a la adopción de medidas concretas. Además, cuando el debate está respaldado por un diálogo documentado y por la formación de consenso, puede dar origen a un programa de reformas satisfactorio y bien focalizado. Tal fue el caso de la India, donde, a fin de hacer frente a la crisis financiera de 1991, un nuevo gobierno inició una serie de reformas radicales en armonía con el mercado y eliminó la mayoría de las políticas intervencionistas adoptadas durante cinco décadas de economía dirigida. La rapidez, amplitud y profundidad de estas reformas, que contaron con el apoyo del Fondo Monetario Internacional (FMI), el Banco Mundial y la comunidad de donantes, no tenían precedentes en la India, y los resultados fueron extraordinarios. La inversión extranjera experimentó un auge, lo que permitió reconstituir las agotadas reservas de divisas; se intensificó el crecimiento del PIB, estimulado, esta vez, más por la inversión que por la obtención de préstamos; y aumentaron las exportaciones.

Sin embargo, en una reciente evaluación del Departamento de Evaluación de Operaciones (DEO) se advierte que la sostenibilidad de la recuperación económica de la India depende de la terminación del programa de reforma, sobre todo en lo que respecta a las reformas fiscales a nivel nacional y de los estados, al tiempo que deberán protegerse los servicios sociales para los pobres.*

Antecedentes

En 1991, la India debió hacer frente a una crisis de balanza de pagos sin precedentes. Durante casi una década, el gobierno se había venido endeudando fuertemente para respaldar una estrategia económica basada en una política de gasto público expansionista para financiar el crecimiento. Entre 1980 y 1991, la deuda pública interna de la India aumentó ininterrumpidamente —del 36% al 56% del PIB— en tanto que la deuda externa se triplicó con creces, alcanzando un monto de $70.000 millones.

Los cambios políticos, los disturbios en algunas regiones del país y la crisis del Golfo Pérsico en 1990 agravaron una situación que de por sí ya era inestable. La crisis se tradujo en un aumento de los precios del petróleo —lo cual aumentó considerablemente el costo de importación del crudo— y en una caída del ingreso de divisas. La solvencia del país, que ya era frágil, se deterioró aún más cuando los ciudadanos indios que vivían en el extranjero retiraron sus cuantiosos depósitos en divisas, y los bancos comerciales redujeron sus riesgos. A fines de 1990 se rebajó la clasificación crediticia del país, lo que coartó efectivamente su acceso a las fuentes de crédito comercial. A principios de 1991, el país se encontraba al borde de la bancarrota.

En medio de la crisis, el debate en los círculos políticos y económicos de la India se concentró progresivamente en el tema de la reforma. En el contexto de ese país democrático de gran tamaño y sumamente heterogéneo, dicho debate demostró ser importante para la formación de un consenso político entre los partidarios de la reforma. No obstante, sólo cuando el nuevo gobierno asumió el poder, en junio de 1991, fue posible poner en marcha el primer programa global de reforma de la política económica, que el Banco Mundial apoyó mediante un préstamo para ajuste estructural de $500 millones, aprobado en diciembre de 1991 y cerrado en diciembre de 1993.

Metas y ejecución del proyecto

El préstamo para ajuste estructural otorgado por el Banco tuvo dos objetivos: (1) ayudar a la India a resolver sus problemas inmediatos de balanza de pagos, y (2) respaldar un amplio conjunto de reformas de política destinado a liberalizar la economía y abrirla a una mayor competencia interna y externa. El préstamo se complementó con un programa de estabilización respaldado por el FMI. Además, otros donantes proporcionaron financiamiento paralelo, tal como se acordó en las reuniones de consorcios bancarios convocadas por el Banco Mundial.

El otorgamiento del préstamo para ajuste estructural demostró ser la medida adecuada en el momento oportuno. Si bien el programa que financiaba era audaz, estaba cuidadosamente escalonado a fin de crear un equilibrio viable entre las necesidades económicas y la realidad de la economía política del país. Las reformas se

* *Informe de evaluación* ex post: *"India: Structural Adjustment Loan/ Credit", de Robert P. Armstrong. Informe No. 15774, junio de 1996. Los informes de evaluación* ex post *están a disposición de los directores ejecutivos y el personal del Banco, y pueden solicitarse a la Unidad de Documentos Internos y a los Centros de Servicios de Información de las Oficinas Regionales. Précis escrito por Farah Ebrahimi.*

Resultados reales versus proyectados de los indicadores macroeconómicos fundamentales, 1991-94

Indicador	*1991-94* *Proyectado*	*Real*
Tasas de crecimiento (% anual)		
PIB	3.8	3.4
PIB per cápita	1.6	2.1
Inflación	6.5	9.6
Exportaciones	10.8	11.9
Importaciones	4.6	9.7
Coeficientes (% del PIB)		
Inversión interna bruta	22.7	24.6
Privada	13.7	15.2
Pública	9.0	9.4
Ahorro interno bruto	21.5	23.8
Equilibrio fiscal	4.5	6.3
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- *Mercados de trabajo.* La reforma de las empresas públicas y la eficiencia de los mercados de trabajo están íntimamente vinculadas. En la India, las políticas laborales tienden a proteger a la fuerza de trabajo excesivamente numerosa, sin tener en cuenta el efecto que ello pueda tener en la rentabilidad y la estructura de la producción de una empresa. Estas políticas perjudican sobre todo a las empresas públicas, puesto que a veces las empresas privadas pueden esquivarlas. La creación de mercados de trabajo más flexibles ayudará a aumentar las oportunidades de empleo, especialmente en industrias con gran intensidad de mano de obra, área en que la India goza de ventajas comparativas.
- *Desarrollo de la infraestructura.* Si bien la infraestructura es un elemento fundamental del crecimiento económico, la inversión pública en caminos, energía, comunicaciones y otros sectores esenciales ha disminuido. Incluso las empresas rentables funcionan ineficientemente debido a la escasez de inversión. Aunque el sector privado ha respondido con entusiasmo ante la posibilidad de inversión en el sector de infraestructura, aún quedan por aclarar las normas para la inversión extranjera directa. Es necesario prestar más atención a los aspectos institucionales y normativos a fin de facilitar la inversión privada, así como la eficiencia operativa y de organización de las empresas públicas del sector de infraestructura.
- *Sector social.* Los estados son la principal fuente de financiamiento de algunos sectores fundamentales como la educación y la salud. Sin embargo, el gasto social como proporción del PIB se redujo del 6,6% en 1991 al 5,6% en 1995, en gran parte debido a que los recursos se están orientando preferentemente al pago de intereses y a los gastos corrientes. A menos que los estados realicen una reforma presupuestaria cabal, la crisis del sector social sufrirá un inevitable agravamiento lo que enturbiará las perspectivas de crecimiento a mediano plazo y exacerbará las tensiones sociales (véase el Recuadro 2).

Recuadro 1: Indicadores de sostenibilidad

Hay varios indicadores que pueden ayudar a evaluar la sostenibilidad de las reformas de la política económica de un país. En la India, éstos incluyen el ahorro público (a nivel del gobierno central y de los gobiernos estatales) y la inversión pública, el déficit fiscal y la carga de la deuda, las utilidades y la productividad de las empresas públicas, la eficiencia de los mercados de trabajo, y el desarrollo del capital humano. Al evaluar globalmente el progreso logrado mediante el programa de reforma de la India, podría ser conveniente agruparlos en un conjunto de "indicadores escogidos de la sostenibilidad", lo que ayudaría a centrar la atención en los problemas que revisten verdadera importancia a largo plazo, en lugar de aquellos que sólo tienen un carácter urgente a corto plazo.

Indicadores escogidos de la sostenibilidad

Indicadores de la actuación fiscal (% del PIB)
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- Pública
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- Otros indicadores de la eficiencia

Indicadores del mercado de trabajo
- Productividad
- Empleo en el sector público

Desarrollo del capital humano

La función del Banco Mundial

El préstamo para ajuste estructural y el programa a que prestó apoyo fueron preparados por el gobierno, que asumió plena responsabilidad por ambos. El Banco contribuyó a preparar el terreno mediante su diálogo sobre políticas, su labor económica y sectorial, su papel en las reuniones del consorcio de ayuda, y su interacción con el FMI. Pero esta labor no se realizó de la noche a la mañana. El Banco, a través de años de diálogo sobre políticas basado en numerosos estudios analíticos de gran calidad, contribuyó al debate sobre políticas que actualmente se lleva a cabo en la India, y ayudó a centrar la atención en las principales normativas que obstaculizan el crecimiento económico y en las interrelaciones entre éstas. Este proceso permitió alcanzar un elevado nivel de compatibilidad entre la estrategia de reforma propugnada por el Banco y la adoptada por el gobierno para hacer frente a la crisis.

El Banco, mediante el préstamo para ajuste estructural, ayudó también a aumentar la credibilidad del programa de reforma de la India, lo que alentó a otros donantes, especialmente el Japón y el Banco Asiático de Desarrollo, a proporcionar una cantidad importante de fondos adicionales para ayudar al país a superar su actual crisis de balanza de pagos.

Enseñanzas

- *La estabilización macroeconómica es esencial para la sostenibilidad de las reformas.* Si no hubiera reducido el déficit fiscal, el gobierno no habría podido reducir los derechos arancelarios ni los requisitos de reserva para los bancos comerciales, liberalizar las tasas de interés, o imponer estrictas limitaciones presupuestarias a las empresas estatales. Del mismo modo, las vacilaciones posteriores con respecto al ajuste fiscal podrían reducir la capacidad de la India para intensificar las reformas estructurales y acelerar, de este modo, el crecimiento y el alivio de la pobreza.
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Recuadro 2: Aspectos sociales del ajuste

A un año de haberse otorgado el préstamo para ajuste estructural, el gobierno, con el respaldo de un crédito de $500 millones de la AIF (aprobado en diciembre de 1992 y cerrado en 1994) y la asistencia de los donantes, creó el Programa oficial de ajuste de las redes de seguridad social. El programa suministró respaldo en sectores clave como la educación primaria y la atención de la salud, la lucha contra las enfermedades y la nutrición. Además, se creó el Fondo de Renovación Nacional, cuyo fin es servir de red de seguridad social provisional para financiar los gastos por concepto de indemnización o despido, el readiestramiento y la redistribución de los trabajadores afectados por la reestructuración de las empresas públicas en dificultades, y los planes de generación de nuevos empleos en las ciudades y los estados afectados desfavorablemente por las reformas de los sectores industrial y público. Aún no se dispone de datos fiables sobre la evaluación de la eficacia del programa. Sin embargo, en el informe final de ejecución preparado por el Banco en junio de 1995 se destacan algunos de los logros del programa:

- A nivel del gobierno central, el creciente aumento y la mejor focalización del gasto en el sector social. El gasto en educación, salud, bienestar de la familia, la mujer y el niño, y desarrollo social, canalizado a través del plan central, aumentó del 0,9% del PIB en 1991/92 al 1,2% en 1993/94.
- El desarrollo del Programa regional de educación primaria, que actualmente constituye el principal instrumento para lograr la universalización de la educación primaria en la India. El programa se ha convertido en un instrumento centralizador de la asistencia nacional e internacional para el desarrollo de la educación primaria.
- El mejoramiento de los programas de prevención y tratamiento de la lepra, la ceguera, la tuberculosis y el paludismo, si bien en las áreas de atención primaria de la salud y nutrición no se han logrado aún resultados importantes.
- El financiamiento del Fondo de Renovación Nacional, incluido el pago de pensiones a unos 77.000 empleados que jubilaron voluntariamente. Sin embargo, la función desempeñada por el fondo ha sido más limitada de lo que se había previsto, debido a dos factores: (1) la lentitud de la reestructuración del sector industrial, y (2) la formulación y puesta en marcha relativamente tardía de los mecanismos de generación de empleo, capacitación y asesoramiento.

El *estudio económico* del gobierno, preparado por el Ministerio de Hacienda, contiene información sobre los efectos del programa de reforma sobre la pobreza y los sectores sociales.

Durante los dos primeros años de reforma, la reducción del gasto público se tradujo en una disminución del empleo y los salarios reales, si bien en los últimos dos años se han logrado avances en ambas áreas, especialmente en las zonas rurales, que han sido favorecidas por varios años de buenas cosechas. El gasto social a nivel del gobierno central ha aumentado en términos reales durante los cuatro años de reforma, aunque a nivel de los estados se ha reducido. Si bien en 1991 y 1992 dejó de disminuir la tasa de mortalidad infantil, en 1993 la disminución se reanudó. Del mismo modo, los salarios reales del sector agrícola, que se redujeron durante la crisis de 1991/92, volvieron a aumentar posteriormente.

gran tamaño y heterogéneo como la India. El Banco ejerció una influencia indirecta sobre el programa de reforma y el préstamo para ajuste estructural. Esta influencia se manifestó más a través de los varios años de diálogo sobre políticas y los estudios analíticos realizados con anterioridad a la crisis que a través de la labor realizada durante la misma. Mediante estos instrumentos, el Banco contribuyó al debate nacional sobre política económica, ayudando con ello a centrar la atención en los principales obstáculos para el crecimiento económico. El proceso permitió preparar el terreno para que el Banco y el gobierno respondieran con rapidez a la crisis.

OED *Précis* es obra del Departamento de Evaluación de Operaciones del Banco Mundial y tiene por objeto contribuir a la difusión de los resultados de las últimas evaluaciones *ex post* entre los especialistas que se ocupan del desarrollo dentro y fuera del Banco Mundial. Las opiniones expresadas en este Precís son las del personal de dicho departamento y no deben entenderse como las del Banco Mundial o sus instituciones afiliadas. La presente y otras publicaciones del DEO se pueden encontrar en Internet, http://www.worldbank.org/html/oed. Sírvanse dirigir sus comentarios y consultas a la redactora, OED, tel: 1-202/458-4497, fax: 1-202/522-3200, e-mail: eline@worldbank.org

NUMERO 113

OED Précis

Departamento de Evaluación de Operaciones

Junio de 1996

El ajuste estructural en la India

A veces, las crisis económicas hacen posible lo que antes parecía imposible. En una sociedad abierta y democrática, pueden facilitar el paso de un prolongado debate sobre políticas a la adopción de medidas concretas. Además, cuando el debate está respaldado por un diálogo documentado y por la formación de consenso, puede dar origen a un programa de reformas satisfactorio y bien focalizado. Tal fue el caso de la India, donde, a fin de hacer frente a la crisis financiera de 1991, un nuevo gobierno inició una serie de reformas radicales en armonía con el mercado y eliminó la mayoría de las políticas intervencionistas adoptadas durante cinco décadas de economía dirigida. La rapidez, amplitud y profundidad de estas reformas, que contaron con el apoyo del Fondo Monetario Internacional (FMI), el Banco Mundial y la comunidad de donantes, no tenían precedentes en la India, y los resultados fueron extraordinarios. La inversión extranjera experimentó un auge, lo que permitió reconstituir las agotadas reservas de divisas; se intensificó el crecimiento del PIB, estimulado, esta vez, más por la inversión que por la obtención de préstamos; y aumentaron las exportaciones.

Sin embargo, en una reciente evaluación del Departamento de Evaluación de Operaciones (DEO) se advierte que la sostenibilidad de la recuperación económica de la India depende de la terminación del programa de reforma, sobre todo en lo que respecta a las reformas fiscales a nivel nacional y de los estados, al tiempo que deberán protegerse los servicios sociales para los pobres.*

Antecedentes

En 1991, la India debió hacer frente a una crisis de balanza de pagos sin precedentes. Durante casi una década, el gobierno se había venido endeudando fuertemente para respaldar una estrategia económica basada en una política de gasto público expansionista para financiar el crecimiento. Entre 1980 y 1991, la deuda pública interna de la India aumentó ininterrumpidamente —del 36% al 56% del PIB— en tanto que la deuda externa se triplicó con creces, alcanzando un monto de $70.000 millones.

Los cambios políticos, los disturbios en algunas regiones del país y la crisis del Golfo Pérsico en 1990 agravaron una situación que de por sí ya era inestable. La crisis se tradujo en un aumento de los precios del petróleo —lo cual aumentó considerablemente el costo de importación del crudo— y en una caída del ingreso de divisas. La solvencia del país, que ya era frágil, se deterioró aún más cuando los ciudadanos indios que vivían en el extranjero retiraron sus cuantiosos depósitos en divisas, y los bancos comerciales redujeron sus riesgos. A fines de 1990 se rebajó la clasificación crediticia del país, lo que coartó efectivamente su acceso a las fuentes de crédito comercial. A principios de 1991, el país se encontraba al borde de la bancarrota.

En medio de la crisis, el debate en los círculos políticos y económicos de la India se concentró progresivamente en el tema de la reforma. En el contexto de ese país democrático de gran tamaño y sumamente heterogéneo, dicho debate demostró ser importante para la formación de un consenso político entre los partidarios de la reforma. No obstante, sólo cuando el nuevo gobierno asumió el poder, en junio de 1991, fue posible poner en marcha el primer programa global de reforma de la política económica, que el Banco Mundial apoyó mediante un préstamo para ajuste estructural de $500 millones, aprobado en diciembre de 1991 y cerrado en diciembre de 1993.

Metas y ejecución del proyecto

El préstamo para ajuste estructural otorgado por el Banco tuvo dos objetivos: (1) ayudar a la India a resolver sus problemas inmediatos de balanza de pagos, y (2) respaldar un amplio conjunto de reformas de política destinado a liberalizar la economía y abrirla a una mayor competencia interna y externa. El préstamo se complementó con un programa de estabilización respaldado por el FMI. Además, otros donantes proporcionaron financiamiento paralelo, tal como se acordó en las reuniones de consorcios bancarios convocadas por el Banco Mundial.

El otorgamiento del préstamo para ajuste estructural demostró ser la medida adecuada en el momento oportuno. Si bien el programa que financiaba era audaz, estaba cuidadosamente escalonado a fin de crear un equilibrio viable entre las necesidades económicas y la realidad de la economía política del país. Las reformas se

* *Informe de evaluación* ex post: *"India: Structural Adjustment Loan/ Credit", de Robert P. Armstrong. Informe No. 15774, junio de 1996. Los informes de evaluación* ex post *están a disposición de los directores ejecutivos y el personal del Banco, y pueden solicitarse a la Unidad de Documentos Internos y a los Centros de Servicios de Información de las Oficinas Regionales. Précis escrito por Farah Ebrahimi.*

Resultados reales versus proyectados de los indicadores macroeconómicos fundamentales, 1991-94

Indicador	*1991-94* Proyectado	*1991-94* Real
Tasas de crecimiento (% anual)		
PIB	3.8	3.4
PIB per cápita	1.6	2.1
Inflación	6.5	9.6
Exportaciones	10.8	11.9
Importaciones	4.6	9.7
Coeficientes (% del PIB)		
Inversión interna bruta	22.7	24.6
Privada	13.7	15.2
Pública	9.0	9.4
Ahorro interno bruto	21.5	23.8
Equilibrio fiscal	4.5	6.3
Balanza en cuenta corriente	-2.1	-0.9
Deuda externa	34.5	36.3
Servicio de la deuda (% de las exportaciones)	26.4	28.3
Valores (millones de US$)		
Balanza en cuenta corriente	-5,161	-2,276
Deuda externa total	86,444	92,278
Inversión extranjera	489	3,207
Donaciones	604	409

centraron, primero, en las limitaciones más graves, lo cual también dio resultados rápidos, permitiendo fortalecer el consenso en torno a las reformas.

A pocas semanas de haber anunciado el programa de reformas, el gobierno devaluó la rupia en un 23%, aumentó las tasas de interés y modificó el presupuesto nacional para 1991/92, reduciendo drásticamente las subvenciones y transferencias a las empresas estatales. En los seis meses siguientes, el gobierno suprimió el complejo sistema de licencias industriales y de importación, liberalizó las políticas comerciales, e introdujo medidas encaminadas a reforzar los mercados de capital y las instituciones. Si bien el programa de reforma era ambicioso, se ejecutó casi en su totalidad durante el período correspondiente al préstamo para ajuste estructural, es decir, entre 1991 y 1993.

A estas medidas siguieron nuevas reformas destinadas a liberalizar la inversión, desreglamentar aún más las políticas comerciales, mejorar la administración tributaria y consolidar el sector financiero. En 1995, la India había pasado de un régimen que no permitía la inversión privada en los sectores más importantes de la economía, a uno donde el nivel de apertura a la inversión extranjera era similar al de la mayoría de los países de Asia.

Resultados

Las reformas dieron resultados inmediatos. El suministro oportuno de divisas ayudó a la India a superar la crisis de balanza de pagos y mejorar su capacidad crediticia. Varios de los indicadores macroeconómicos fundamentales mejoraron más de lo que se había previsto (véase el cuadro). Tras sufrir una baja durante el primer año de reforma, la tasa de crecimiento del PIB volvió a subir, alcanzando un 5% en 1993/94 y un 6,3% en 1994/95. Las exportaciones aumentaron en casi un 12%. Lo que es más importante, se produjo un repunte de la inversión extranjera, que aumentó casi siete veces más de lo previsto.

Si bien el aumento de las importaciones fue muy superior a lo previsto, el déficit en cuenta corriente durante el período fue mucho menor, debido en gran parte al aumento de las exportaciones. Además, se produjo una rápida acumulación de reservas internacionales. A fines de 1994, las reservas, que se acumularon a una tasa mensual de casi $1.000 millones gracias a la afluencia de inversión extranjera, alcanzaron un monto de casi $20.000 millones. La composición del crecimiento también fue alentadora, registrándose un repunte de la producción agrícola (favorecido por una serie sin precedente de monzones muy beneficiosos) y un crecimiento de alrededor del 8% anual de la producción industrial.

Sin embargo, en otras de la áreas cubiertas por las condiciones del préstamo, los resultados fueron insatisfactorios, a saber, la supresión de las restricciones a la exportación de productos agrícolas, las normas de salida para las empresas industriales y, lo que es más importante, la reestructuración o clausura de las empresas públicas no viables. Aunque en ese momento no se consideraron de importancia decisiva, estas deficiencias pusieron de manifiesto, tempranamente, los peligros para la futura sostenibilidad de las reformas.

Un programa inconcluso

La crisis de liquidez de 1991 permitió al gobierno adoptar medidas muy decididas en relación con la reforma del presupuesto de 1991/92 y la eliminación de algunas de las distorsiones normativas que habían dado origen a los enormes déficit fiscales de la India. Durante la etapa inicial los componentes de estabilización y reforma estructural del programa se integraron adecuadamente. No obstante, en 1993/94 disminuyó el ritmo del ajuste fiscal. Tanto los gobiernos estatales como el gobierno central experimentaron un incremento del déficit fiscal, lo cual se tradujo en elevados índices de inflación y en una política monetaria restrictiva. En 1993-94 el déficit fiscal, expresado como porcentaje del PIB, alcanzó un promedio superior en dos puntos porcentuales al nivel previsto. De hecho, durante el período de reforma el ahorro global del sector público disminuyó. En 1994 el gobierno reanudó sus esfuerzos en materia de ajuste fiscal, gracias a lo cual el déficit disminuyó del 7,5% del PIB en 1993/94 al 6,1% en 1994/95. Sin embargo, subsisten presiones en pro de un relajamiento de la disciplina fiscal.

Si bien se ha logrado una gran mejoría de la balanza de pagos, ésta sigue siendo vulnerable. En el curso de los próximos cuatro años la India debe reembolsar alrededor de $24.000 millones de los $95.000 millones a que asciende actualmente su deuda externa. Esto significa que, además de las necesidades de financiamiento vinculadas al actual déficit del gasto público, el país deberá movilizar más de $40.000 millones en financiamiento

externo para cumplir sus compromisos relativos al servicio de la deuda.

Por consiguiente, la sostenibilidad de las reformas depende de que continúe el programa, cuyo componente central son las reformas fiscales. La continuación del proceso presenta cuatro aspectos importantes en lo que respecta a la sostenibilidad (véase el Recuadro 1).

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Enseñanzas

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Indicadores escogidos de la sostenibilidad

Indicadores de la actuación fiscal (% del PIB)
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Desarrollo del capital humano

Recuadro 2: Aspectos sociales del ajuste

A un año de haberse otorgado el préstamo para ajuste estructural, el gobierno, con el respaldo de un crédito de $500 millones de la AIF (aprobado en diciembre de 1992 y cerrado en 1994) y la asistencia de los donantes, creó el Programa oficial de ajuste de las redes de seguridad social. El programa suministró respaldo en sectores clave como la educación primaria y la atención de la salud, la lucha contra las enfermedades y la nutrición. Además, se creó el Fondo de Renovación Nacional, cuyo fin es servir de red de seguridad social provisional para financiar los gastos por concepto de indemnización o despido, el readiestramiento y la redistribución de los trabajadores afectados por la reestructuración de las empresas públicas en dificultades, y los planes de generación de nuevos empleos en las ciudades y los estados afectados desfavorablemente por las reformas de los sectores industrial y público. Aún no se dispone de datos fiables sobre la evaluación de la eficacia del programa. Sin embargo, en el informe final de ejecución preparado por el Banco en junio de 1995 se destacan algunos de los logros del programa:

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- El desarrollo del Programa regional de educación primaria, que actualmente constituye el principal instrumento para lograr la universalización de la educación primaria en la India. El programa se ha convertido en un instrumento centralizador de la asistencia nacional e internacional para el desarrollo de la educación primaria.
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Durante los dos primeros años de reforma, la reducción del gasto público se tradujo en una disminución del empleo y los salarios reales, si bien en los últimos dos años se han logrado avances en ambas áreas, especialmente en las zonas rurales, que han sido favorecidas por varios años de buenas cosechas. El gasto social a nivel del gobierno central ha aumentado en términos reales durante los cuatro años de reforma, aunque a nivel de los estados se ha reducido. Si bien en 1991 y 1992 dejó de disminuir la tasa de mortalidad infantil, en 1993 la disminución se reanudó. Del mismo modo, los salarios reales del sector agrícola, que se redujeron durante la crisis de 1991/92, volvieron a aumentar posteriormente.

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NUMERO 113

OED Précis

Departamento de Evaluación de Operaciones **Junio de 1996**

El ajuste estructural en la India

A veces, las crisis económicas hacen posible lo que antes parecía imposible. En una sociedad abierta y democrática, pueden facilitar el paso de un prolongado debate sobre políticas a la adopción de medidas concretas. Además, cuando el debate está respaldado por un diálogo documentado y por la formación de consenso, puede dar origen a un programa de reformas satisfactorio y bien focalizado. Tal fue el caso de la India, donde, a fin de hacer frente a la crisis financiera de 1991, un nuevo gobierno inició una serie de reformas radicales en armonía con el mercado y eliminó la mayoría de las políticas intervencionistas adoptadas durante cinco décadas de economía dirigida. La rapidez, amplitud y profundidad de estas reformas, que contaron con el apoyo del Fondo Monetario Internacional (FMI), el Banco Mundial y la comunidad de donantes, no tenían precedentes en la India, y los resultados fueron extraordinarios. La inversión extranjera experimentó un auge, lo que permitió reconstituir las agotadas reservas de divisas; se intensificó el crecimiento del PIB, estimulado, esta vez, más por la inversión que por la obtención de préstamos; y aumentaron las exportaciones.

Sin embargo, en una reciente evaluación del Departamento de Evaluación de Operaciones (DEO) se advierte que la sostenibilidad de la recuperación económica de la India depende de la terminación del programa de reforma, sobre todo en lo que respecta a las reformas fiscales a nivel nacional y de los estados, al tiempo que deberán protegerse los servicios sociales para los pobres.*

Antecedentes

En 1991, la India debió hacer frente a una crisis de balanza de pagos sin precedentes. Durante casi una década, el gobierno se había venido endeudando fuertemente para respaldar una estrategia económica basada en una política de gasto público expansionista para financiar el crecimiento. Entre 1980 y 1991, la deuda pública interna de la India aumentó ininterrumpidamente —del 36% al 56% del PIB— en tanto que la deuda externa se triplicó con creces, alcanzando un monto de $70.000 millones.

Los cambios políticos, los disturbios en algunas regiones del país y la crisis del Golfo Pérsico en 1990 agravaron una situación que de por sí ya era inestable. La crisis se tradujo en un aumento de los precios del petróleo —lo cual aumentó considerablemente el costo de importación del crudo— y en una caída del ingreso de divisas. La solvencia del país, que ya era frágil, se deterioró aún más cuando los ciudadanos indios que vivían en el extranjero retiraron sus cuantiosos depósitos en divisas, y los bancos comerciales redujeron sus riesgos. A fines de 1990 se rebajó la clasificación crediticia del país, lo que coartó efectivamente su acceso a las fuentes de crédito comercial. A principios de 1991, el país se encontraba al borde de la bancarrota.

En medio de la crisis, el debate en los círculos políticos y económicos de la India se concentró progresivamente en el tema de la reforma. En el contexto de ese país democrático de gran tamaño y sumamente heterogéneo, dicho debate demostró ser importante para la formación de un consenso político entre los partidarios de la reforma. No obstante, sólo cuando el nuevo gobierno asumió el poder, en junio de 1991, fue posible poner en marcha el primer programa global de reforma de la política económica, que el Banco Mundial apoyó mediante un préstamo para ajuste estructural de $500 millones, aprobado en diciembre de 1991 y cerrado en diciembre de 1993.

Metas y ejecución del proyecto

El préstamo para ajuste estructural otorgado por el Banco tuvo dos objetivos: (1) ayudar a la India a resolver sus problemas inmediatos de balanza de pagos, y (2) respaldar un amplio conjunto de reformas de política destinado a liberalizar la economía y abrirla a una mayor competencia interna y externa. El préstamo se complementó con un programa de estabilización respaldado por el FMI. Además, otros donantes proporcionaron financiamiento paralelo, tal como se acordó en las reuniones de consorcios bancarios convocadas por el Banco Mundial.

El otorgamiento del préstamo para ajuste estructural demostró ser la medida adecuada en el momento oportuno. Si bien el programa que financiaba era audaz, estaba cuidadosamente escalonado a fin de crear un equilibrio viable entre las necesidades económicas y la realidad de la economía política del país. Las reformas se

* *Informe de evaluación* ex post: *"India: Structural Adjustment Loan/ Credit", de Robert P. Armstrong. Informe No. 15774, junio de 1996. Los informes de evaluación* ex post *están a disposición de los directores ejecutivos y el personal del Banco, y pueden solicitarse a la Unidad de Documentos Internos y a los Centros de Servicios de Información de las Oficinas Regionales. Précis escrito por Farah Ebrahimi.*

Resultados reales versus proyectados de los indicadores macroeconómicos fundamentales, 1991-94

Indicador	*1991-94* Proyectado	Real
Tasas de crecimiento (% anual)		
PIB	3.8	3.4
PIB per cápita	1.6	2.1
Inflación	6.5	9.6
Exportaciones	10.8	11.9
Importaciones	4.6	9.7
Coeficientes (% del PIB)		
Inversión interna bruta	22.7	24.6
Privada	13.7	15.2
Pública	9.0	9.4
Ahorro interno bruto	21.5	23.8
Equilibrio fiscal	4.5	6.3
Balanza en cuenta corriente	-2.1	-0.9
Deuda externa	34.5	36.3
Servicio de la deuda (% de las exportaciones)	26.4	28.3
Valores (millones de US$)		
Balanza en cuenta corriente	-5,161	-2,276
Deuda externa total	86,444	92,278
Inversión extranjera	489	3,207
Donaciones	604	409

centraron, primero, en las limitaciones más graves, lo cual también dio resultados rápidos, permitiendo fortalecer el consenso en torno a las reformas.

A pocas semanas de haber anunciado el programa de reformas, el gobierno devaluó la rupia en un 23%, aumentó las tasas de interés y modificó el presupuesto nacional para 1991/92, reduciendo drásticamente las subvenciones y transferencias a las empresas estatales. En los seis meses siguientes, el gobierno suprimió el complejo sistema de licencias industriales y de importación, liberalizó las políticas comerciales, e introdujo medidas encaminadas a reforzar los mercados de capital y las instituciones. Si bien el programa de reforma era ambicioso, se ejecutó casi en su totalidad durante el período correspondiente al préstamo para ajuste estructural, es decir, entre 1991 y 1993.

A estas medidas siguieron nuevas reformas destinadas a liberalizar la inversión, desreglamentar aún más las políticas comerciales, mejorar la administración tributaria y consolidar el sector financiero. En 1995, la India había pasado de un régimen que no permitía la inversión privada en los sectores más importantes de la economía, a uno donde el nivel de apertura a la inversión extranjera era similar al de la mayoría de los países de Asia.

Resultados

Las reformas dieron resultados inmediatos. El suministro oportuno de divisas ayudó a la India a superar la crisis de balanza de pagos y mejorar su capacidad crediticia. Varios de los indicadores macroeconómicos fundamentales mejoraron más de lo que se había previsto (véase el cuadro). Tras sufrir una baja durante el primer año de reforma, la tasa de crecimiento del PIB volvió a subir, alcanzando un 5% en 1993/94 y un 6,3% en 1994/95. Las exportaciones aumentaron en casi un 12%. Lo que es más importante, se produjo un repunte de la inversión extranjera, que aumentó casi siete veces más de lo previsto.

Si bien el aumento de las importaciones fue muy superior a lo previsto, el déficit en cuenta corriente durante el período fue mucho menor, debido en gran parte al aumento de las exportaciones. Además, se produjo una rápida acumulación de reservas internacionales. A fines de 1994, las reservas, que se acumularon a una tasa mensual de casi $1.000 millones gracias a la afluencia de inversión extranjera, alcanzaron un monto de casi $20.000 millones. La composición del crecimiento también fue alentadora, registrándose un repunte de la producción agrícola (favorecido por una serie sin precedente de monzones muy beneficiosos) y un crecimiento de alrededor del 8% anual de la producción industrial.

Sin embargo, en otras de la áreas cubiertas por las condiciones del préstamo, los resultados fueron insatisfactorios, a saber, la supresión de las restricciones a la exportación de productos agrícolas, las normas de salida para las empresas industriales y, lo que es más importante, la reestructuración o clausura de las empresas públicas no viables. Aunque en ese momento no se consideraron de importancia decisiva, estas deficiencias pusieron de manifiesto, tempranamente, los peligros para la futura sostenibilidad de las reformas.

Un programa inconcluso

La crisis de liquidez de 1991 permitió al gobierno adoptar medidas muy decididas en relación con la reforma del presupuesto de 1991/92 y la eliminación de algunas de las distorsiones normativas que habían dado origen a los enormes déficit fiscales de la India. Durante la etapa inicial los componentes de estabilización y reforma estructural del programa se integraron adecuadamente. No obstante, en 1993/94 disminuyó el ritmo del ajuste fiscal. Tanto los gobiernos estatales como el gobierno central experimentaron un incremento del déficit fiscal, lo cual se tradujo en elevados índices de inflación y en una política monetaria restrictiva. En 1993-94 el déficit fiscal, expresado como porcentaje del PIB, alcanzó un promedio superior en dos puntos porcentuales al nivel previsto. De hecho, durante el período de reforma el ahorro global del sector público disminuyó. En 1994 el gobierno reanudó sus esfuerzos en materia de ajuste fiscal, gracias a lo cual el déficit disminuyó del 7,5% del PIB en 1993/94 al 6,1% en 1994/95. Sin embargo, subsisten presiones en pro de un relajamiento de la disciplina fiscal.

Si bien se ha logrado una gran mejoría de la balanza de pagos, ésta sigue siendo vulnerable. En el curso de los próximos cuatro años la India debe reembolsar alrededor de $24.000 millones de los $95.000 millones a que asciende actualmente su deuda externa. Esto significa que, además de las necesidades de financiamiento vinculadas al actual déficit del gasto público, el país deberá movilizar más de $40.000 millones en financiamiento

externo para cumplir sus compromisos relativos al servicio de la deuda.

Por consiguiente, la sostenibilidad de las reformas depende de que continúe el programa, cuyo componente central son las reformas fiscales. La continuación del proceso presenta cuatro aspectos importantes en lo que respecta a la sostenibilidad (véase el Recuadro 1).

- *Reforma de las empresas públicas.* Muchas empresas públicas, especialmente las que suministran servicios, siguen registrando fuertes pérdidas —lo cual representa una pesada carga para el presupuesto público— y absorben gran parte del capital industrial del país. El país no está en condiciones de respaldar empresas no rentables ni de aumentar la inversión para modernizar o ampliar las empresas rentables. El gobierno debe reestructurar, privatizar o eliminar las empresas públicas no viables.
- *Mercados de trabajo.* La reforma de las empresas públicas y la eficiencia de los mercados de trabajo están íntimamente vinculadas. En la India, las políticas laborales tienden a proteger a la fuerza de trabajo excesivamente numerosa, sin tener en cuenta el efecto que ello pueda tener en la rentabilidad y la estructura de la producción de una empresa. Estas políticas perjudican sobre todo a las empresas públicas, puesto que a veces las empresas privadas pueden esquivarlas. La creación de mercados de trabajo más flexibles ayudará a aumentar las oportunidades de empleo, especialmente en industrias con gran intensidad de mano de obra, área en que la India goza de ventajas comparativas.
- *Desarrollo de la infraestructura.* Si bien la infraestructura es un elemento fundamental del crecimiento económico, la inversión pública en caminos, energía, comunicaciones y otros sectores esenciales ha disminuido. Incluso las empresas rentables funcionan ineficientemente debido a la escasez de inversión. Aunque el sector privado ha respondido con entusiasmo ante la posibilidad de inversión en el sector de infraestructura, aún quedan por aclarar las normas para la inversión extranjera directa. Es necesario prestar más atención a los aspectos institucionales y normativos a fin de facilitar la inversión privada, así como a la eficiencia operativa y de organización de las empresas públicas del sector de infraestructura.
- *Sector social.* Los estados son la principal fuente de financiamiento de algunos sectores fundamentales como la educación y la salud. Sin embargo, el gasto social como proporción del PIB se redujo del 6,6% en 1991 al 5,6% en 1995, en gran parte debido a que los recursos se están orientando preferentemente al pago de intereses y a los gastos corrientes. A menos que los estados realicen una reforma presupuestaria cabal, la crisis del sector social sufrirá un inevitable agravamiento lo que enturbiará las perspectivas de crecimiento a mediano plazo y exacerbará las tensiones sociales (véase el Recuadro 2).

La función del Banco Mundial

El préstamo para ajuste estructural y el programa a que prestó apoyo fueron preparados por el gobierno, que asumió plena responsabilidad por ambos. El Banco contribuyó a preparar el terreno mediante su diálogo sobre políticas, su labor económica y sectorial, su papel en las reuniones del consorcio de ayuda, y su interacción con el FMI. Pero esta labor no se realizó de la noche a la mañana. El Banco, a través de años de diálogo sobre políticas basado en numerosos estudios analíticos de gran calidad, contribuyó al debate sobre políticas que actualmente se lleva a cabo en la India, y ayudó a centrar la atención en las principales normativas que obstaculizan el crecimiento económico y en las interrelaciones entre éstas. Este proceso permitió alcanzar un elevado nivel de compatibilidad entre la estrategia de reforma propugnada por el Banco y la adoptada por el gobierno para hacer frente a la crisis.

El Banco, mediante el préstamo para ajuste estructural, ayudó también a aumentar la credibilidad del programa de reforma de la India, lo que alentó a otros donantes, especialmente el Japón y el Banco Asiático de Desarrollo, a proporcionar una cantidad importante de fondos adicionales para ayudar al país a superar su actual crisis de balanza de pagos.

Enseñanzas

- *La estabilización macroeconómica es esencial para la sostenibilidad de las reformas.* Si no hubiera reducido el déficit fiscal, el gobierno no habría podido reducir los derechos arancelarios ni los requisitos de reserva para los bancos comerciales, liberalizar las tasas de interés, o imponer estrictas limitaciones presupuestarias a las empresas estatales. Del mismo modo, las vacilaciones posteriores con respecto al ajuste fiscal podrían reducir la capacidad de la India para intensificar las reformas estructurales y acelerar, de este modo, el crecimiento y el alivio de la pobreza.
- *La calidad y eficacia de la asistencia del Banco en el terreno del ajuste estructural depende de la labor preparatoria, sobre todo en un país democrático de*

Recuadro 1: Indicadores de sostenibilidad

Hay varios indicadores que pueden ayudar a evaluar la sostenibilidad de las reformas de la política económica de un país. En la India, éstos incluyen el ahorro público (a nivel del gobierno central y de los gobiernos estatales) y la inversión pública, el déficit fiscal y la carga de la deuda, las utilidades y la productividad de las empresas públicas, la eficiencia de los mercados de trabajo, y el desarrollo del capital humano. Al evaluar globalmente el progreso logrado mediante el programa de reforma de la India, podría ser conveniente agruparlos en un conjunto de "indicadores escogidos de la sostenibilidad", lo que ayudaría a centrar la atención en los problemas que revisten verdadera importancia a largo plazo, en lugar de aquellos que sólo tienen un carácter urgente a corto plazo.

Indicadores escogidos de la sostenibilidad

Indicadores de la actuación fiscal (% del PIB)
- Ahorro público (gobierno central, gobiernos estatales, total)
- Servicio de la deuda/ingreso tributario (gobierno central, gobiernos estatales, total)

Inversión (% del PIB)
- Pública
- Privada

Reforma de las empresas públicas
- Utilidades y pérdidas de las empresas públicas
- Tasas de rendimiento del capital
- Otros indicadores de la eficiencia

Indicadores del mercado de trabajo
- Productividad
- Empleo en el sector público

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NUMBER 113

OED Précis

Operations Evaluation Department June 1996

Structural Adjustment in India

Economic crises sometimes make possible what had previously seemed impossible. In an open, democratic society, they can become a catalyst for converting an extensive policy debate into action. And when debate is backed by informed dialogue and consensus building, it can result in a focused and successful program of reforms. Such was the case in India, when in response to the financial crisis of 1991, a new government launched a radical set of market-friendly reforms, dismantling most of the interventionist policies adopted over five decades of a command economy. In speed, scope, and depth the reforms, which were supported by the International Monetary Fund (IMF), the World Bank, and donors, were unprecedented for India. Results were dramatic. Foreign investment surged, helping to rebuild depleted foreign exchange reserves; GDP growth picked up, this time spurred by investment rather than by borrowing; and exports increased.

A recent OED audit cautions however that sustainability of India's economic recovery hinges on the completion of the unfinished agenda, particularly fiscal reforms at both national and state levels, while safeguarding social services for the poor.*

Background

In 1991, India faced an unprecedented balance of payments crisis. For almost a decade the government had borrowed heavily to support an economic strategy that relied on expansionary public spending to finance growth. From 1980 to 1991 India's domestic public debt increased steadily, from 36 percent to 56 percent of the GDP, while its external debt more than tripled to $70 billion.

Political changes, unrest in parts of the country, and the 1990 Persian Gulf crisis compounded the already volatile situation. The crisis caused oil prices to rise, substantially increasing the cost of oil imports, and foreign exchange earnings to drop. India's creditworthiness, already under strain, became even more vulnerable as Indians from abroad withdrew their substantial foreign currency deposits and commercial banks reduced their exposure. Toward the end of 1990, India's creditworthiness was downgraded, effectively cutting its access to sources of commercial credit. By early 1991, India was on the brink of default.

As the crisis unfolded the debates in India's political and economic circles increasingly focused on reform. In India's large and highly diverse democracy, those debates proved important in building political consensus around the voices for reform. Nevertheless, it took a new government, which came to power in June 1991, to launch India's first comprehensive economic policy reform program, which the World Bank supported with a $500 million structural adjustment operation (SAL), approved in December 1991 and closed in December 1993.

Project goals and implementation

The SAL's objectives were twofold: (1) to help India address its immediate balance of payments crisis and (2) to support a broad set of policy reforms aimed at liberalizing the Indian economy and opening it up to more competition both from within and abroad. The SAL was complemented by an IMF-supported stabilization program. And parallel financing was provided by other donors, as agreed at consortium meetings convened by the Bank.

The SAL proved to be the right response at the right time. The program it supported was bold but carefully sequenced to create a workable balance between economic necessity and the realities of India's political economy. The re-

**Performance audit report: "India: Structural Adjustment Loan/Credit," by Robert P. Armstrong, forthcoming. Performance audit reports are available to Bank executive directors and staff from the Internal Documents Units and from Regional Information Services Centers. Précis written by Farah Ebrahimi.*

Actual versus projected outcomes of key macroeconomic indicators, 1991-94

Indicator	*1991-94 Projected*	*1991-94 Actual*
Growth rates (% per annum)		
GDP	3.8	3.4
Per capita GDP	1.6	2.1
Inflation	6.5	9.6
Exports	10.8	11.9
Imports	4.6	9.7
Ratios (% of GDP)		
Gross domestic investment	22.7	24.6
Private	13.7	15.2
Public	9.0	9.4
Gross domestic savings	21.5	23.8
Fiscal balance	4.5	6.3
Current account balance	-2.1	-0.9
External debt	34.5	36.3
Debt service (% of exports)	26.4	28.3
Values ($ million)		
Current account balance	-5,161	-2,276
Total external debt	86,444	92,278
Foreign investment	489	3,207
Grant aid	604	409

forms focused first on the most binding constraints, which also produced quick results, helping to strengthen consensus around the reforms.

Within weeks of announcing the reform package, the government devalued the rupee by 23 percent, raised interest rates, and revised the 1991/92 union budget, making sharp cuts in subsidies and transfers to public enterprises. Over the next six months, it abolished the complex system of industrial and import licensing, liberalized trade policy, and introduced measures to strengthen capital markets and institutions. The reform agenda, though ambitious, was nearly fully implemented during the 1991-93 SAL period.

These measures were followed by additional reforms to liberalize investment, further deregulate trade policy, improve tax administration, and strengthen the financial sector. By 1995, India had moved from a regime in which private investment was not allowed in major economic sectors to one whose openness to foreign investment compares favorably with that of most Asian countries.

Results

The reforms produced immediate results. The timely provision of foreign exchange helped India weather its balance of payments crisis and improve its creditworthiness. Several key macroeconomic indicators improved more than projected (see table). After declining in the first year of the reforms, GDP growth resumed to 5 percent in 1993/94 and 6.3 percent in 1994/95. Exports increased almost 12 percent. Most important, there was a surge of foreign investment, which increased almost sevenfold over projections.

Although the growth of imports was substantially greater than was projected, the current account deficit over the period was much smaller, due largely to the increase in exports. There was also a rapid accumulation of international reserves. The reserve buildup, at a rate of nearly $1 billion a month from inflow of foreign investment, reached nearly $20 billion by the end of 1994. The composition of growth was also encouraging, with growth in agriculture picking up (aided by an unprecedented series of good monsoons) and industrial production growing at about 8 percent a year.

In other areas, covered by SAL conditions, progress was disappointing, however: removal of restrictions on agricultural exports, exit policy for industrial firms, and, most important, restructuring or closing of unviable public enterprises. While not deemed critical at the time, these shortcomings served as early warning of risks to future sustainability of the reforms.

The unfinished agenda

The liquidity crisis of 1991 allowed the government to take bold steps in revising the 1991/92 budget and in removing some of the policy distortions that had created India's large fiscal imbalances. During the initial phase the stabilization and structural reform components of the program were well integrated. But fiscal adjustment slowed in 1993/94. Budget deficits at both state and central government levels increased, leading to high inflation and straining monetary policy. The public deficit in 1993-94 averaged about 2 percent more of the GDP than planned. Consolidated public sector savings actually declined during the reform period. Since 1994, the government has resumed fiscal adjustment, with the result that the deficit declined from 7.5 percent of GDP in 1993/94 to 6.1 percent in 1994/95. But the pressures to waver from fiscal discipline remain.

India's balance of payments, though much improved, remains vulnerable. About $24 billion of India's $95 billion external debt is due to be repaid in the next four years. This means that in addition to the financing requirements of the current public expenditure deficits, India will need to mobilize more than $40 billion of external financing to meet its debt-servicing requirements.

Thus, the sustainability of the reforms hinges on the continuation of the agenda, at the heart of which are fiscal reforms. The agenda's continuation raises four issues important for sustainability (see Box 1).

- *Public enterprise reform.* Many public enterprises, particularly the utilities, continue to incur large losses, imposing a serious burden on the public budget and tying up much of the country's industrial capital. The government cannot afford either to support unprofitable enterprises or to step up investments to modernize or expand profitable ones. The government needs to restructure, privatize, or close down unviable public enterprises.

- *Labor markets.* Public enterprise reform and the efficiency of the labor market are closely linked. India's labor policies tend to protect bloated workforces, irrespective of the effect on the company's profitability and production mix. These policies particularly hurt public enterprises, since private firms can sometimes negotiate around such policies. More flexible labor markets will help increase employment opportunities, particularly in labor-intensive industries where India has a comparative advantage.

- *Infrastructure development.* Infrastructure is vital to economic growth, yet public investment in roads, power, communication, and the like has declined. Even profitable enterprises operate inefficiently because of inadequate investment. While the private sector has responded enthusiastically to the opening up of infrastructure to investment, the rules for direct foreign investment still need clarification. Greater attention needs to be given to institutional and regulatory issues to facilitate private investment, and to the operational and organizational efficiency of public infrastructure firms.

- *Social sector.* The states are the primary source of financing for such vital sectors as education and health. Yet social spending as a proportion of their GDP declined from 6.6 percent in 1991 to 5.6 percent in 1995, largely because resources are being preempted for interest payments and current expenditures. Unless the states comprehensively reform their budgets, the crisis affecting the social sector will inevitably deepen, clouding the prospects for medium-term growth and exacerbating social tensions. (See Box 2.)

Box 1: Sustainability indicators

A number of indicators can help assess the sustainability of a country's economic policy reforms. In India, these include public savings (at the central and the state levels) and investments, revenue deficits and debt burden, public enterprise profits and productivity, labor market efficiency, and human capital development. Grouping these indicators as a set of "selected sustainability indicators" in the overall assessment of progress in India's reform program can help to focus attention on matters that are truly important in the long run rather than merely urgent in the short run.

Selected sustainability indicators

Fiscal indicators (% of GDP)
- Government savings—central, state, total
- Debt service/tax revenues—central, state, total

Investment (% of GDP)
- Public
- Private

Public enterprise reform
- PE profits/losses
- Rates of return to capital
- Other efficiency indicators

Labor market indicators
- Productivity
- Public sector employment

Human capital development

Role of the World Bank

The SAL and the program it supported were designed and wholly owned by the government. The Bank, through its policy dialogue, economic and sector work, role in aid consortium meetings, and interactions with the IMF, helped in preparing the groundwork. But that groundwork did not develop overnight. Over many years of policy dialogue informed by a number of good analytic studies, the Bank contributed to India's ongoing policy debate, helping to focus attention on major policy distortions hampering economic growth and on the interrelationships among them. This process helped develop a high degree of congruence between the reform strategy advocated by the Bank and the one adopted by the government in response to the crisis.

The Bank, through its support of the SAL, also helped raise the credibility of India's reform program, contributing to the willingness of other donors, notably Japan and the Asian Development Bank, to provide substantial additional funds to help India cope with its immediate balance of payments crisis.

Lessons

- *Macroeconomic stabilization is central to the sustainability of reforms.* Without having reduced the fiscal deficit, the government would not have been able to lower custom tariff rates, reduce reserve requirements for commercial banks, deregulate interest rates, or impose strict budget constraints on public enterprises. By the same token, the

Box 2: Social dimensions of adjustment

The government, with support from a $500 million IDA credit (approved in December 1992 and closed in 1994) and assistance from donors, established the Social Safety Net Sector Adjustment Program a year after the SAL. The program provided support in key sectors dealing with primary education and health care, disease control, and nutrition. It established a National Renewal Fund as a temporary social safety net to cover the costs of compensation or severance pay, retraining and redeployment of workers affected by the restructuring of sick public enterprises, and area employment regeneration schemes in cities and states adversely affected by the industrial and public sector enterprise reforms. Firm evaluative data on the effectiveness of the program are not yet available. Nevertheless, the Bank's implementation completion report of June 1995 highlights the following from among the program's achievements:

- at the central level, increasing expenditures in social sectors and improving the targeting of the expenditures. Central Plan expenditures on education, health, family welfare, women and children, and rural development increased from 0.9 percent of GDP in 1991/92 to 1.2 percent in 1993/94.

- developing the District Primary Education Program, which is now the main vehicle for helping primary education become universal in India. The program has become the umbrella for both national and international assistance in developing primary education in India.

- improving programs in prevention and treatment of leprosy, blindness, tuberculosis, and malaria, although in the areas of primary health care and nutrition, no far-reaching outcomes are yet evident.

- funding the National Renewal Fund, including providing payments to about 77,000 voluntary retirees. The role of the fund has been more limited than expected, however, because of two factors: (1) industrial restructuring has progressed slowly and (2) the design and implementation of employment generation, training, and counseling started relatively late.

The government's *Economic Survey*, prepared by the Ministry of Finance, provides some information on the effects of India's reform program on poverty and the social sectors.

During the first two years of the reforms, cuts in government expenditures led to declines in employment and real wages. But in the past two years both have rebounded, especially in the rural areas, which have particularly benefited from several years of good harvests. Social spending at the central level has increased in real terms during the four years of the reform program, although at the state level, spending has declined. Although the decline in infant mortality rate paused in 1991 and 1992, it resumed in 1993, and while average agricultural real wages fell during the crisis year of 1991/92, they increased subsequently.

subsequent faltering in fiscal adjustment threatens India's ability to deepen and intensify the structural reforms and consequently to accelerate growth and poverty alleviation.

- *The quality and effectiveness of Bank assistance in structural adjustment, particularly in a large, diverse democratic country like India, depends on previous groundwork.* The Bank's influence on India's reform program and the SAL was indirect, shaped more by the years of policy dialogue and analytic studies that had preceded the crisis than the work around the crisis itself. Through those instruments, the Bank contributed to India's economic policy debate, helping to focus attention on the key constraints on economic growth. The process helped prepare the groundwork for both the government and the Bank's quick response to the crisis.

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International Bank for Reconstruction and Development
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SecM96-737

FROM: Vice President and Secretary

July 3, 1996

PERFORMANCE AUDIT REPORT

INDIA

STRUCTURAL ADJUSTMENT LOAN/CREDIT
(Loan 3421-IN; Credits 2316-O-IN and 2316-1-IN)

Attached is a copy of a memorandum from Mr. Picciotto with its accompanying report entitled "Performance Audit Report : India Structural Adjustment Loan/Credit (Loan 3421-IN; Credits 2316-0-IN and 2316-1-IN)" dated June 19, 1996 (Report No. 15774) prepared by the Operations Evaluation Department.

Distribution:

Executive Directors and Alternates
President's Executive Committee
Senior Management, Bank, IFC and MIGA

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The World Bank

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Report No. 15774

PERFORMANCE AUDIT REPORT

INDIA

STRUCTURAL ADJUSTMENT LOAN/CREDIT
(Loan 3421-IN; Credits 2316-0-IN and 2316-1-IN)

June 19, 1996

Operations Evaluation Department

Currency Equivalents (annual averages)

(Currency Unit = Rupee)

1990	US$1.00	Rs. 17.504
1991	US$1.00	Rs. 22.742
1992	US$1.00	Rs. 25.918
1993	US$1.00	Rs. 30.493
1994	US$1.00	Rs. 31.374
1995 (September)	US$1.00	Rs. 33.263

Abbreviations and Acronyms

CAS	Country Assistance Strategy
CEM	Country Economic Memorandum
ESW	Economic and sector work
IBRD	International Bank for Reconstruction and Development
ID	Institutional Development
IDA	International Development Association
IMF	International Monetary Fund
MOUs	Memoranda of Understandings
OED	Operations Evaluation Department
PAR	Performance Audit Report
PCR	Project Completion Report
PE	Public Enterprise
QRs	Quantitative restrictions
SAL	Structural Adjustment Loan
SAP	Structural Adjustment Program
SEBs	State Electricity Boards
SECAL	Sector Adjustment Loan
WDR	World Development Report

Fiscal Year

April 1 - March 31

The World Bank
Washington, D.C. 20433
U.S.A.

Office of the Director-General
Operations Evaluation

June 19, 1996

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Performance Audit Report on India - Structural Adjustment Loan/Credit (Loan 3421-IN; Credits 2316-0-IN and 2316-1-IN)

Attached is the Performance Audit Report (PAR) for the India Structural Adjustment Operation (Loan 3421-IN/Credits 2316-0-IN and 2316-1-IN). This US$500 million loan/credit was approved in December 1991 and closed on schedule in December 1992. This operation was the Bank's first adjustment loan/credit to India. Its main objectives were to: (i) help India cope with a balance of payments crisis of unprecedented severity; and (ii) support a broad-based set of policy reforms aimed mainly at liberalizing the Indian economy and opening it up to more competition both from within and abroad. Complementary stabilization policies were undertaken simultaneously under an IMF program. Further structural reforms were supported by two subsequent adjustment operations: the Social Safety Net Sector Adjustment Credit (FY93) and the External Sector and Investment Loan (also FY93).

This PAR finds that the operation's objectives were timely and relevant, and it agrees with the Project Completion Report (PCR) that implementation was satisfactory in most respects. The timely provision of foreign exchange in combination with other official capital that the operation helped to catalyze, enabled India weather its balance of payments crisis and improve its creditworthiness. On the policy side, the pace and scope of reforms exceeded the operation targets in several key areas, viz., exchange rate policy, liberalization of the import regime, and financial sector reform. In other areas, however, progress was more gradual (exit policy for industrial firms, removal of restrictions on agricultural exports). In the case of public enterprise reform, progress has been considerably short of what was envisaged.

The PAR agrees with the PCR's ratings of the operation's outcome as satisfactory and institutional development (ID) impact as substantial. In contrast to the PCR, however, the PAR rates sustainability as uncertain because–notwithstanding encouraging progress on the liberalization front–there have been insufficient fiscal reforms at both the central and state government levels and inadequate public enterprise and institutional reforms to ensure continued economic growth and poverty alleviation in the future. These shortcomings are reflected in declining public savings, an onerous debt burden, and a crowding out of public and private investment by public sector current expenditure, which may endanger the sustainability of the achievements so far, in terms of growth rates, foreign investment and general dynamism of the economy. In commenting on the draft PAR, the Government of India expressed its "reservations" about the sustainability rating and reaffirmed its commitment to continue with the reform process, but this rating was left as uncertain in the final PAR.

One lesson flagged in the PCR was that India's initial success in reducing its fiscal deficit was instrumental in enabling it to undertake reforms in trade, finance and public enterprises, and in restoring the credibility and confidence needed to stimulate private investment. A complementary lesson identified in the PAR is that, by the same token, sustainability of the progress is threatened by the recent weakening of fiscal performance. The PAR also finds that the Bank's ability to support the Government reform program was helped by good economic and sector work undertaken by the Bank over many years, and by good mutual understanding of the nature of the problems to be solved.

Attachment

Contents

This report was prepared by Robert Armstrong (Task Manager) and Gopi Arora (Consultant) who audited the project in April 1995. Norma Namisato provided administrative support. The report was issued by the Country Policy, Industry, and Finance Division (Manuel Peñalver, Chief) of the Operations Evaluation Department (Francisco Aguirre-Sacasa, Director).

Preface

This is a Performance Audit Report (PAR) on the Structural Adjustment Loan and Credit (SAL) for an amount of US$500 million. The SAL was approved in December 1991 and closed on schedule in December 1992, having been fully disbursed.

The PAR is based on the Project Completion Report (PCR) prepared by the South Asia Regional Office and issued in June 1995, the President's Report for the project, the legal documents, a summary of the Board discussion, project files, related economic and sector work, and discussions with Bank and IMF staff.

An OED mission visited India in April 1995 and discussed the effectiveness of the Bank's assistance with public sector officials, donor representatives, members of the business community, and others in the private sector. Their kind cooperation and invaluable assistance in the preparation of this report is gratefully acknowledged.

The draft PAR was sent to the Borrower for comments. The comments received from the Ministry of Finance are reproduced as Annex II.

Basic Data Sheet

STRUCTURAL ADJUSTMENT LOAN/CREDIT (LOAN 3421-IN/CREDITS 2316-0-IN AND 2316-1-IN)

Credit Position *(Amounts in US$ million)*

				As of May 31, 1995	
Ln./Cr.	*Original*	*Disbursed*[a]	*Canceled*	*Repaid*	*Outstanding*[a]
L3421	250	250	-	-	250
C2316-0	220	226	-	-	254
C2316-1	30	33	-	-	36

Cumulative Estimated and Actual Disbursements[a]

	1991	*1992*
Appraisal Estimate	300	500
Actual	300	500
Actual as & of Estimate	100	100

Project Dates

	Planned	*Revised*	*Actual*
Appraisal Mission	09/30/91	09/27/91	09/27/91
Negotiations	10/30/91	10/28/91	10/28/91
President's Rpt.	-	11/12/91	11/12/91
Letter of Dev Policy	-	11/11/91	11/11/91
Board Approval	12/05/91	12/05/91	12/05/91
Signature	12/05/91	12/05/91	12/05/91
Effectiveness	12/30/91	03/04/91	12/11/91
Closing	12/31/92	12/31/92	12/31/92
Completion	06/30/93	06/30/93	06/30/93

a. Disbursed and outstanding amounts differ from the original amount of the credit in terms of US$ because of changes in the US$/SDR exchange rate.

Staff Inputs (staff weeks)

	Total (up to FY93)
Preappraisal	55.3
Appraisal	27.5
Negotiations	15.4
Supervision	25.0
Others	0.3

Mission Data

	Month/Year	*No. weeks*	*No. persons*	*Staff weeks*	*Date of Report*
Preparation	07-08/91	2	4	8	09/06/91 (IM)
Appraisal	09-10/91	2	5	10	11/12/91 (PR)
Supervision I	01/92	1	2	2	02/13/92
Supervision II	05/92	1	4	4	06/18/92
Completion	n.a.				06/30/93

Other Project Data (Borrower: Government of India)

Follow-on Operations	*Ln/Cr No.*	*Amount (US$M)*	*Board Date*
Social Safety Net Sector Adj.	C2448-IN	500	12/17/92
External Sector and Investment	L3627-IN	300	06/24/93

Evaluation Summary

Background

1. The India SAL was a major event in the evolution of Bank/India relations. It was a culmination of many economic and sectoral studies produced and discussed over the years, of many aid consortium meetings chaired by the Bank, of many interactions with the IMF, and of many efforts to foster a productive dialogue concerning India's economic development strategy.

2. From independence, India pursued a planned, interventionist approach to development combining an active role for the state in key sectors with extensive regulation. Capital scarcity was perceived to be the binding constraint to India's growth, and policy focused on building the capital stock, particularly in industry. Detailed Five-Year Plans were a principal instrument of economic management, and high tariff walls and quantitative restrictions (QRs) were installed to protect the infant industries. India's trade policy was essentially inward-looking and autarkic, and by discriminating against labor-intensive exports had adverse effects on income distribution and poverty.

3. On the whole, conservative macroeconomic (stabilization) policies prevented (until the late 1980s) the emergence or persistence of fiscal and balance of payments imbalances, and thus prevented serious debt-servicing problems from arising and kept inflation low. There was, moreover, some beginning of reform in the 1980s that led to freer entry by private sector agents and some reduction in price controls. In 1984, Rajiv Gandhi assumed office following Mrs. Gandhi's assassination, bringing a fresh promise of market-oriented reforms. But his Government's modest reforms (in terms of liberalization) were partial and piecemeal.

4. Adjustment lending did not happen in India until the SAL of 1991 for two basic reasons. One was that there was no pressing need, until the crisis period of 1989-91, for quick-disbursing assistance. But even if there had been a more pressing balance of payments justification, adjustment lending would have been prevented by the fact that the Bank/India policy dialogue regarding the main structural adjustment issues (mainly the role of the state *vis-à- vis* the private sector, and the extent of state control and regulation) was not sufficiently fruitful.

Project Design and Relevance

5. The growth path of the 1980s was not sustainable because it was fueled by increasing public expenditure financed by large internal and external borrowing. But political changes and uncertainties, including domestic unrest in several parts of the country during the 1989-91 period, prevented the Government from pursuing the needed stabilization and adjustment measures. In this context, the Gulf crisis beginning in August 1990 compounded what was already a volatile situation. By 1991, the country faced a financial crisis and was on the brink of default.

6. As the crisis unfolded, the Bank's strategy shifted, to give highest priority to "supporting India's efforts to restore macroeconomic equilibrium, accelerate structural reforms (especially in the areas of industry, trade, finance and public enterprises), and helping India regain access to private credit markets." In other words, the new strategy gave priority to stabilization (especially

reduction in the fiscal deficit) and structural adjustment. The new Bank strategy was first discussed with the Government in early 1991, but the SAL was able to become a reality only because, in mid-1991, the new government that took office was fully committed to launching a comprehensive and far-reaching reform program.

7. The SAL had two basic objectives: (i) to help India deal with its immediate balance of payments crisis by providing US$500 million in quick-disbursing funds; and (ii) to support the initial phase of the Government's program of macroeconomic stabilization and structural reform.

8. The reforms focused on fiscal adjustment; deregulation of domestic industry and promotion of foreign direct investment; liberalization of the trade regime; financial sector reform (of domestic interest rates coupled with measures to strengthen capital markets and institutions); and initiation of public enterprise reform. There were no explicit prior conditions for appraisal, negotiation or Board approval. The substantial set of measures adopted between June and December 1991 were deemed to be "prior actions," sufficient to warrant the SAL's first tranche of US$250 million.

9. The SAL was well founded in good analytical work and well grounded in a long-standing relationship and dialogue between Bank staff and India. The SAL/SAP program was strongly owned by the Government, and there was high congruence between the reform strategy advocated by the Bank and the one adopted by the Government. The sequencing of the program was suited to the Indian political economy, and the Bank was appreciative of the political and institutional realities of the country.

10. The process of building the dialogue in a low key, low profile manner over time was well managed. Technically, the program was well conceived in dealing first with the most egregious distortions and most binding constraints. The stabilization and adjustment components were on the whole well integrated. Given the constraints to both SAL preparation and aid mobilization prior to June 1991, the Bank responses on these fronts after June 1991 were timely and sufficient. The balance between measures to deal with the short-term balance of payments crisis and those dealing with structural issues was appropriate to the country's circumstances and needs. There was good Bank/IMF collaboration and an effective division of labor and roles between the two institutions.

11. Two (relatively minor) shortcomings of the SAL design and preparation were that the project objectives and conditionalities were (too) numerous and unprioritized, and that there were few well-defined and monitorable performance indicators. Provisions to deal with the social dimensions of adjustments were limited, but these issues were more extensively tackled in a follow-up operation (the Social Safety Net Sector Adjustment Credit, C2448-IN, of FY93). The risk assessment was weak and there was no sensitivity analysis or contingency planning built into the project design. Little attention was given in the project documents to sustainability issues or indicators.

12. On balance, the project was highly relevant. The SAL was the right project at the right time. The process (of building and managing the policy dialogue) was as important as the product. Both Bank and Borrower performance in the design and preparation of the SAL were fully satisfactory.

Implementation and Efficacy

13. The agenda of reforms laid out in the Letter of Development Policy and the policy matrix to the SAL (Annex I) was an ambitious one, especially in the context of India's history of only incremental reform. That agenda was nearly fully implemented, within the targeted time frames. This was a remarkable and historic achievement, as the Government showed with its actions and not just its plans that it had "seized the day."

14. There were only three areas of shortfall in compliance with the SAL covenants, viz.: (i) the rate of removal of administrative export controls on selected agricultural products; (ii) the formulation of exit policies for industrial enterprises; and (iii) the initiation of measures to restructure or close unviable public enterprises. Compliance was at least partial, and the Region was justified in proceeding with tranche release notwithstanding these partial shortfalls. These shortfalls, however, while not critical at the time, did serve as early warning indicators that the implementation of reform might be most problematic in the liberalization of agriculture, firm exit policy, and public enterprise reform.

15. The actual outcomes were close to those projected for key macroeconomic variables such as GDP growth, export growth, and savings and investment rates. The growth of imports was substantially greater than was projected, the current account balance over the period was much smaller, and the international reserve accumulation was much larger, than anticipated. This was due to the unexpectedly large surge of foreign investment–most in the form of portfolio investment–that took place in 1993/94 and 1994/95. India's reserve buildup proceeded at a rate of nearly US$1 billion a month over those two years, reaching nearly US$20 billion by end-1994.

16. Progress on the stabilization front was less than targeted, with the public deficit averaging about two percent more of GDP than planned, and inflation averaging close to 10 percent annually–as compared with the target of 6.5 percent. Consolidated public sector saving has actually declined, and there is cause for concern especially about state-level public finances.

17. Implementation was strong in most areas, including: (i) the initial stabilization effort (although it did not intensify over time as planned); (ii) selected tax reforms and the reduction of subsidies; (iii) quick improvement in the balance of payments (and the "vote of confidence" in the Indian economy reflected in large inflows of foreign investment); (iv) responsible management of these capital inflows (to avoid appreciation in the real exchange rate); (v) trade reforms and deregulation; (vi) an improved investment climate that ensued from these measures (reflected in a rapid rise in investment approvals); (vii) the short duration of the downturn in output and employment, followed by a good export response after the second year; (viii) continued consensus building for reform, including at the state level; and (ix) the apparent avoidance of significant adverse effects on the poor (although the data do not permit conclusive judgments on this matter). The sequencing of reform, and the integration of its parts–particularly the exchange rate and trade reforms–was exemplary.

18. Shortcomings in implementation were linked to those on covenant compliance (para. 14 above). They included: inadequate fiscal discipline (mainly on the expenditure side) beyond the initial stage (at both the central and state levels) leading to high (for India) inflation rate and an excessive burden on monetary policy; slow reform of the large and inefficient public enterprise sector and minimal privatization; a lack of reform in labor legislation; and the lack of an action

program to change the roles and improve the performance of the public administration, including through capacity building.

19. On balance, the outcome of SAL is rated as satisfactory. The failure of the Government to pursue deficit reduction and public enterprise reform as vigorously as projected beyond the project period does not detract from the depth and coverage of the reforms introduced nor from the successes achieved in terms of renewed growth and dynamism of the Indian economy.

The Unfinished Agenda and Sustainability

20. The progress of reform since the project closed (in December 1992) has been uneven. In areas such as trade policy, investment and tax reform, progress has continued to be impressive whereas in public enterprises, labor markets, agriculture, infrastructure and social services a cautious approach has prevailed. Whether the Government will find the political will to accelerate and intensify reforms in these lagging areas remains to be seen. The words of caution contained in the Government's own 1994/95 *Economic Survey* regarding the incompleteness of fiscal consolidation and the risks it poses for growth prospects and for external viability suggests that these questions are still standing.

21. The PAR highlights the importance of monitoring a number of sustainability indicators, namely public savings (including at the state level), public investment, the "revenue deficit" (current deficit of the Central Government) and debt burden, public enterprise profits and productivity, labor market efficiency, and human capital development, among others.

22. Political and social forces are pulling in many directions. Growth is continuing at a good pace, yet some social and economic problems are still growing while the fiscal problems progressively narrow the range of options available to policymakers. India's political process showed in 1991 its capacity to come to grips with major economic issues, and the resilience and creativity of this system must not be underestimated. Further policy reforms since 1991 have shown the way forward, and there are many reasons to be optimistic about India's economic prospects, while there is little likelihood of an outright reversal of the reforms. On the other hand, sustainability of the achievements, in terms of growth rates, foreign investment, and general dynamism of the economy, will depend on the pace and intensity with which the unfinished agenda is addressed, which are now uncertain. Hence the rating of "uncertain" for sustainability.

23. The Government's main substantive comment (see Annex II), upon a draft of this report, was to reaffirm its commitment to continuing with the reform process, and it expressed "reservations" about the sustainability rating of "uncertain." It is certainly very encouraging that the Government considers the reform process to be "irreversible," but OED still finds it appropriate to rate sustainability as uncertain at this time.

Summary of Main Findings and Lessons

24. The main findings of this PAR are:

(i) that the SAL was the right project at the right time;

(ii) that project preparation was a long-term process that spanned many years of application of all the Bank's instruments;

(iii) that the role played by the Bank in helping India prepare the SAL-supported reform program took into account national sensitivities about that role, and was much more effective that would otherwise have been the case; and

(iv) that whereas a major strength of the 1991 reform program was the integration of the stabilization and structural reform components, the re-emerging fiscal deficits–both in the Central Government and in the states–pose a major threat to sustainability.

25. The main substantive lesson from the review of the SAL experience is the reaffirmation of the centrality of macroeconomic stabilization for sustainability

26. The above findings translate into a number of "process" lessons. These lessons are that the effectiveness and quality of Bank assistance in structural adjustment depend on:

- the Bank's willingness and ability to move swiftly and opportunistically to respond to crises (that may offer windows of opportunity to take bold steps);
- the mutual understanding between the Bank and the Government about the nature of the problems to be solved, and mutual respect and credibility between the people directly involved in the Bank and the country;
- the credibility of the Bank *vis-à-vis* other donors and creditors (earned through the leadership of the aid consortium, discussion of ESW studies, etc.);
- good understandings by Bank staff and management of the country's capabilities and limitations to implement various types of reforms;
- good working relations with the IMF that reflect the needs for well-defined divisions of responsibility and also joint focus on issues such as trade and fiscal reforms;
- a sensitivity by Bank staff and management to factors that make countries sensitive both to the reality and appearances of roles played by the Bank;
- adequate dissemination of Bank studies and discussion of policy issues, tailored to the country's governance conditions; and
- the extent to which key sustainability issues are addressed up front, in the design stage.

1. Introduction and Background

PAR vs. PCR Coverage: What Value Added from the PAR?

1.1 The coverage of this PAR differs significantly from that of the PCR. This PAR is "self-standing" in that it describes the project's context, assesses the relevance of its objectives and appropriateness of its design, evaluates its implementation, outcome, and sustainability, and identifies some lessons of experience. But since the PCR provided a satisfactory description of the project's objectives and main outcomes, the PAR is relatively brief in covering those areas. Where the PAR findings or conclusions differ significantly from those of the PCR, these differences are flagged and explained.

1.2 One major difference between the PCR and PAR is that the PCR reviewed post-SAL developments in India only through March 1993, 15 months following closure of the project in December 1992, whereas the PAR's review extends through FY94-95 (ending March 31, 1995).[1] This gives the PAR a longer time perspective in which to make judgments about the project's impact, outcomes, and sustainability.

1.3 Another major difference between the PCR and PAR is that the PAR gives especial attention to sustainability. This entails that the PAR focuses on related issues not much touched upon in the PCR, such as the social costs of adjustment, the size and nature of the unfinished agenda of adjustment, and the extent to which there is a social and political consensus in favor of moving ahead with further reforms. Hence, Chapter 4 constitutes an assessment of the unfinished agenda and sustainability issues.

1.4 Other ways in which the PAR differs from the PCR is that this PAR (i) identifies (as the PCR did not) how the **actual** outcomes compare with the **anticipated/projected** outcomes, and explains the differences; (ii) identifies more explicitly than the PCR the project's main strengths and successes *vis-à-vis* its main weaknesses and shortcomings; and (iii) provides some forward-looking lessons.

[1] The PCR was drafted in the first half of 1993 but was not finalized and sent to the Board until June 1995. The reason for this delay was that OED and the South Asia Region agreed that it would be important to have a government-prepared Part II for the SAL. The Government agreed to prepare Part II but never did. OED and the Region finally agreed in early 1995 to send the PCR to the Board without a Part II.

PAR vs. PCR Ratings: Differences

1.5 The following table compares the project ratings as assigned by the PAR and PCR.

	PCR	*PAR*
Outcome	Satisfactory	Satisfactory
Institutional Development	Substantial	Substantial
Sustainability	Likely	Uncertain
Bank Performance	n.a.	Satisfactory
Borrower Performance	n.a.	Satisfactory

n.a.: not available

1.6 The only difference in ratings is that the PAR is less sanguine than the PCR about sustainability. The PCR, written in mid-1993, reflected the (then) highly bullish outlook of the Government , donors, the Indian stock market, and most other observers, following the many positive developments that had occurred in the 18 months between SAL approval and PCR preparation. By the same token, the somewhat more guarded outlook of the PAR, written two years later, takes into account the more recent loss of momentum by the Government in achieving its initial stabilization objectives and in addressing its still large unfinished agenda of adjustment, particularly in terms of downsizing the public sector. The distinction is mainly in terms of the relative emphasis given in this PAR to "causes for concern" that were neither identified nor addressed in the PCR.

1.7 The PCR did not provide explicit ratings of either Bank or Borrower performance. Had such ratings been provided, however, they would have been in agreement with the PAR ratings of satisfactory on both sides.

1.8 The PCR did not explicit address the matter of the SAL's ID impact and the above rating is inferred. But the PAR finds that the ID impact was indeed substantial when ID is defined broadly as changes in the "rules of the game" that make for a better-functioning economy. If ID were defined more narrowly in terms of organizational changes and capacity building making for a more streamlined and efficient public sector, then the ID rating would be more in the range of "modest." This distinction is discussed more fully in Chapter 3.

Background

1.9 The SAL was a major event in the evolution of Bank/India relations. It was a culmination of many economic and sectoral studies produced and discussed over the years, of many aid consortium meetings chaired by the Bank, of many interactions with the IMF, and of many efforts to foster a productive dialogue concerning India's economic development strategy.

1.10 Most importantly, the SAL coincided with and supported a far-reaching set of policy measures taken by the Government. If India does in fact succeed in sustaining and deepening its reforms, as there is good reason to hope, then the events surrounding the SAL will warrant the label of historical turning point.

1.11 The remainder of this chapter provides some background on the evolution of Indian economic policy and the relationship with the Bank. For it is only by appreciating the context that one can address questions such as: What was the impact, if any, of the policy dialogue leading to the SAL? How great was Indian "ownership" of the SAL-supported reforms? Why did it take until 1991 for the Bank to make its first adjustment operation in India?

1.12 From independence, India pursued a planned, interventionist approach to development combining an active role for the state in key sectors with extensive regulation. Capital scarcity was perceived to be the binding constraint to India's growth, and policy focused on building the capital stock, particularly in industry. Detailed Five-Year Plans were a principal instrument of economic management, and high tariff walls and quantitative restrictions (Qrs) were installed to protect the infant industries. India's trade policy was essentially inward-looking and autarkic, and by discriminating against labor-intensive exports had adverse effects on income distribution and poverty.

1.13 On the whole, conservative macroeconomic (stabilization) policies prevented the emergence or persistence of fiscal and balance of payments imbalances, and thus prevented serious debt-servicing problems from arising and kept inflation low. There was, moreover, some beginning of reform in the 1980s that led to freer entry by private sector agents and some reduction in price controls. In 1984, Rajiv Gandhi assumed office following Mrs. Gandhi's assassination, bringing a fresh promise of market-oriented reforms. As Bhagwati has observed, however, the "perceptions ran ahead of the reality," and such modest reforms (in terms of liberalization) as were taken tended to be cautious, partial and piecemeal.

1.14 Nevertheless, during the 1980s India's GDP growth averaged about 5.5 percent while inflation ran about 8 percent, and poverty decreased significantly. These were certainly important achievements. Yet they fell far short of what many of India's neighbors and competitors were achieving, and India's dissatisfaction with its own performance increased accordingly. By the end of the decade growing fiscal imbalances (owing in large part to the drag of the public sector) and other constraints seriously imperiled the sustainability of development. It was in this context that the 1989-91 crisis gave a push to reform, and led to the Bank's first adjustment operation.

Bank/India Relationship

1.15 The history of the Bank/India relationship goes back to the beginnings of the Bank itself. IBRD lending began in 1949 and IDA lending began in 1960, upon the creation of IDA. The Indian portfolio is the Bank's largest by number of projects approved (365 projects for US$45 billion as of FY95). The India Aid Consortium, led by the Bank, was established in 1958. The Bank has also on many occasions lent its good offices to finding solutions to problems involving neighbors or other debtors and creditors. The Bank played a crucial role, for example, in fostering the Indus Waters Treaty of 1960.

1.16 The Bank's Resident Mission in New Delhi was opened in 1957, and the many man-years spent by Bank staff in India served to improve the Bank's understanding of India's conditions and culture. By the same token, several of the Indian technocrats responsible for designing the 1991-92 reforms had previously worked in the Bank. The length and breadth of this two-way street will be found to have been important to the realization of the SAL and its positive outcomes to date.

1.17 In the early years, the Bank emphasized infrastructure while in the 1970s and 1980s Bank assistance was broadened to include agriculture and the social sectors. Almost all of this lending involved a policy dialogue of some sort, with Bank sectoral studies often constituting significant reference points for that dialogue. But it cannot be said that there was a very fruitful policy dialogue concerning India's fundamental economic strategy.

1.18 Adjustment lending did not happen in India until the SAL of 1991 for two basic reasons. One was that there was not a pressing need, until the crisis period of 1989-91, for quick-disbursing assistance. But even if there had been a more pressing balance of payments justification for adjustment lending prior to 1991, it would have been prevented by the fact that the Bank/India policy dialogue regarding the main structural adjustment issues (mainly the role of the state *vis-à-vis* the private sector, and the extent of state control and regulation) was not sufficiently fruitful. Notwithstanding that India did in fact implement a limited number of liberalization measures in the 1980s, these by no means constituted a "minimum critical mass" of reforms sufficient to warrant adjustment lending.

1.19 Moreover, there were (and still are in some quarters) strong prejudices within India, both within and outside the Government, against engaging in a serious dialogue with either of the Bretton Woods institutions about structural adjustment, much less accepting Bank/Fund conditionalities that would be construed as politically unacceptable interferences in India's internal affairs. These resistances and reservations stemmed from a combination of ideological preferences (many remained committed to a socialist path) and nationalist sentiments. Many politicians and parts of the press were inclined to severely criticize the Government for entering into a policy dialogue with the Bank.

1.20 Right up to the time of the 1991 SAL, therefore, both Bank staff and government officials had to conduct their dialogue in recognition of these sensitivities. Whether or not Bank staff succeeded in pursuing the dialogue under these conditions with the right "style" and through an appropriate process, as well as with a constructive content, will be an important question addressed in this PAR.

2. SAL Objectives and Design: Evaluation of Relevance

2.1 This chapter describes the SAL's objectives and evaluates, with the benefit of hindsight, whether these were the right objectives. This constitutes an assessment of the SAL's relevance. Chapter 3 will subsequently take up the question of whether the SAL's objectives were achieved (the project's efficacy).

2.2 This chapter also constitutes a process evaluation of the upstream stages of the project cycle, i.e. project identification, design, preparation and negotiation. A main lesson that emerges from the findings of the chapter is the importance of the quality of the process.

2.3 In this context, the chapter addresses questions such as: How great was the Government's ownership of the SAL-supported reform program? Was the operation fully consistent with the Bank's country assistance strategy? Was it timely in view of the balance of payments crisis at the time? Did the Bank cooperate effectively with the IMF and other donors? Was adequate account taken of prospective social costs of the adjustment program? Were the upstream processes satisfactory?

Unfolding of the 1989-91 Crisis[2]

2.4 The President's Report on the SAL stated, "the basic policy philosophy shaping [India's] economic growth in the 1980s combined expansionism on the macro side with continued interventionism on the micro side."[3] Interventions in the markets for labor, foreign exchange and capital continued to be reflected in serious price distortions, low productivity, and a structural bias against exports. At the same time, the change from the conservative management of aggregate demand of the 1960s and 1970s to fiscal expansionism in the 1980s became reflected in increased trade deficits, debt accumulation, and inflation.

2.5 The growth path of the 1980s was not sustainable insofar as it was fueled by increasing public expenditure financed by unsustainable internal and external borrowing. Yet political changes and uncertainties, in the face of domestic unrest in several parts of the country during the 1989-91 period, prevented the Government from pursuing either the stabilization or adjustment measures needed. By 1991, the country was in crisis and on the brink of default.

2.6 During most of the 1980s, however, and even well into 1989, there had been an upbeat mood regarding India amongst the donors, including the World Bank and IMF.[4] This mood changed quickly when, between late 1989 and mid-1991, there were two general elections and four changes of government in a period marked by coalition governments, protests and

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[2] The overview provided in this section is drawn largely from the PCR and 1994 TIDE as well as from Jalan (1993).

[3] World Bank Report No. P-5678-IN, dated November 12, 1991.

[4] Bhagwati (1993) refers to the "harvest of goodwill" reaped by both China and India during the 1980s, but he considers that a contributing cause to the perceptions of reform taking place in India "running ahead of the reality" was the World Bank's "influential, optimistic assessments." The Bank, he notes, was eager to find successes. Whether the Bank was culpable of contributing to too much complacency and hence to too little reform action is a hypothesis that this PAR did not attempt to test.

breakdowns of law and order in parts of the country, the Gulf crisis (between mid-1990 and early 1991), and the assassination of Rajiv Gandhi in May 1991.

2.7 Some indicators of the impending financial crisis (out of which the SAL was to be borne) are as follows: The overall public sector deficit rose steadily form 7 percent to nearly 11 percent of GDP between 1980/81 and 1990/91. Total domestic public debt increased from 36 percent to 56 percent of GDP while external debt more than tripled to US$70 billion over this period. This was financed through repression of the financial system on the domestic side and increased reliance on shorter-term debt instruments on the external side. A considerable portion of India's borrowing from abroad comprised volatile funding in the form of foreign currency bank deposits from the Indian community living abroad (NRIs).

2.8 The Gulf crisis beginning in August 1990 compounded what was already a volatile situation. The increased oil import bill and losses in foreign exchange receipts caused by the Gulf crisis came at a time when India's creditworthiness was already under strain. Consequently, Indians abroad drew down their foreign currency deposits and commercial banks reduced their exposure. The downrating of India's credit rating by several rating services in the latter part of 1990 and in early 1991 resulted in an effective cutoff of India's access to commercial credit markets. By end 1990, India's foreign exchange reserves had fallen to US$1.2 billion–only about two weeks of imports.

2.9 The additional pressure put on India's balance of payments by the 1990 oil price increases and by the capital flight led to a drastic compression of imports, negotiation of compensatory and standby facilities with the IMF (the latter effective in January 1991), a decision to sell gold, and efforts to mobilize, including through the World Bank, additional sources of official assistance.

The Bank Strategy

2.10 As the crisis unfolded, the Bank's strategy shifted to give highest priority to "supporting India's efforts to restore macroeconomic equilibrium, accelerate structural reforms (especially in the areas of industry, trade, finance and public enterprises), and helping India regain access to private credit markets."[5] In other words, the new strategy gave priority to stabilization (especially reduction in the fiscal deficit) and structural adjustment.

2.11 The new strategy, discussed with the Government in early 1991, was laid out in the 1991 Country Strategy Paper (CSP), which was endorsed by the President's Council in July 1991. The strategy, subsequently described in broad terms to the Board in December 1991 when the SAL was presented for Board approval, envisaged an annual IBRD/IDA lending program of about US$3 billion, of which about US$1 billion would be policy based lending "with the remainder of the lending program linked to progress towards India's stabilization and reform objectives."[6] It was (then) expected that the SAL would be complemented: (i) in FY92 by adjustment operations in support of financial sector reform and a safety net to mitigate the social costs of

5 Quoted from President's Report for the SAL, p. 32

6 Presentation to the Board of the Country Strategy by Mr. H. Vergin, December 5, 1991

adjustment; and (ii) in FY93 by adjustment operations in support of trade reform and public enterprise reform. Subsequent SECALs were envisaged in agriculture and in the oil-gas sector.

2.12 Issues flagged for priority in the policy dialogue included fiscal policy; industrial, and trade policy and financial sector reforms; other measures geared to the promotion of private sector development and the attraction of direct foreign investment; public sector enterprise reform; and improvement in the quality and efficiency of social service delivery systems.

2.13 The strategy also called for the Bank to play a major role, including through its leadership of the Aid Consortium, to help mobilize large amounts of "exceptional financing" projected to be needed for the next several years.

2.14 The prospective SAL–together with an associated IMF-supported stabilization program–constituted a "litmus test" of the readiness of the Indian Government to do the necessary in terms of stabilization-cum-structural adjustment. For the Bank itself, the SAL was a trigger in the sense that its satisfactory conclusion would keep India on track to receive some US$3 billion a year from the Bank Group, and would also justify the Bank's continuing with its substantial efforts to mobilize aid from other donors and to turn around the capital flight. On the other hand, a failure to conclude the SAL, or to disburse its second tranche, would trigger a drastic reduction in the Bank's lending program, and would also result in much reduced aid mobilization efforts.

2.15 As of mid-1991, it appeared that India would need well over US$3 billion annually for the next several years, first in order meet the current crisis, and then to restore equilibrium, resume growth, and build up reserves to a more comfortable level.

2.16 These implications were well understood by the Indian authorities. The decision by the Bank to shift to adjustment lending, when first discussed with the Government, in January 1991, had not sat well with the authorities. One main reason was the long-standing aversion to adjustment lending. India was proud that it had never acceded to adjustment lending and its attendant conditionalities. But during the balance-of payments crisis of 1991, it was hard pressed to do so. Fortunately, however, the new government that took office in June 1991 moved quickly to define its own reform comprehensive and robust reform program. As a result, no conditions had to be "imposed."

Reform Program of the New (June 1991) Government

2.17 The new (minority) Government moved quickly and forcefully to initiate both stabilization measures and structural reforms. Within the first few weeks the rupee was devalued by 23 percent,[7] interest rates were raised, a major fiscal correction was undertaken in the 1991/92 Union Budget (including, for example, sharp cuts in subsidies and transfers to public enterprises), and major initiatives were announced, viz.: the virtual abolition of the complex system of industrial licensing; measures to strengthen competition between the private sector and public enterprises; a liberalization of foreign investment, and reforms in the trade regime.

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7 Measured in terms of the rupee cost of the US$.

2.18 A significant number of these announced measures were put into effect in the second half of 1991. Particularly notable were the changes in trade policy, aimed at strengthening export incentives and eliminating a substantial proportion of import licensing requirements.

2.19 The members of the new economic team, led by the Minister of Finance, were well known to the Bank on both professional and personal terms, and well respected. This fact, combined with the seriousness of purpose shown be the Government in promptly launching its far-reaching reform program, gave considerable credibility (in the Bank and elsewhere) to the new reform program. As from July 1991, therefore, preparation moved swiftly. A preparation mission took place in August and the project was appraised in September, negotiated in November, and approved in December.

SAL Objectives and Components

2.20 The SAL has two basic objectives: (i) to help India deal with its immediate balance of payments crisis by providing US$500 million in quick-disbursing funds; and (ii) to support the initial phase of the Government's program of macroeconomic stabilization and structural reform.

2.21 The reforms were focused on the following areas: fiscal adjustment; deregulation of domestic industry and promotion of foreign direct investment; liberalization of the trade regime; reform of domestic interest rates coupled with measures to strengthen capital markets and institutions; and initiation of public enterprise reform. There were no explicit prior conditions for appraisal, negotiation or Board approval. The substantial set of measures taken and announced between June and December 1991 were deemed to be "prior actions," sufficient to warrant the SAL's first tranche of US$250 million. The additional detailed set of actions defined as conditions for second tranche release (the remaining US$250 million) were described well in the President's Report and PCR and need not be repeated here. Annex I lists both the measures taken prior to Board approval and the second tranche conditions. Following sections of this chapter constitute an evaluation of whether those conditions were appropriate and whether the overall project was "relevant."

Evaluation of the Project's "Relevance"

2.22 The main questions to assess relevance are: Were the objectives the "right" ones? Was the amount of financing provided right? And what were the main strengths and weaknesses of the SAL in terms of its design and the processes used to arrive at that design?

Ownership and Congruence: Very High

2.23 Indian ownership of the SAL, and more broadly of the reform program supported in its first year by the SAL, was very high. This constitutes one of the project's main strengths, as it was grounded in the Indian Government's own appreciation of what needed to be done, and what could realistically be done, in the context of India's political economy. [8]

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[8] The rating of the degree of Indian ownership of the SAL is based upon the four-dimensional classification scheme devised by J. Johnson and S. Wasty in their paper entitled *Borrower Ownership of Adjustment Programs and the Political Economy of Reform* (World Bank Discussion Paper 199, May 1993). Their four dimensions comprised; (i) locus of initiative; (ii) level of intellectual conviction among key policymakers; (iii) expression of political will by top

2.24 The locus of initiative for formulating and implementing the adjustment program was clearly the borrower's. And the level of intellectual conviction among key policymakers, headed by the new Minister of Finance, was high. There was much debate and disputation in India's democratic, open, parliamentary system regarding both the causes of the crisis and what needed to be done. Building on the groundwork of studies (some contributed by the Bank), debate in the parliament, press and other forums, and consensus building that had gone on for many years prior to 1991, the new government was able, in effect, to take advantage of the need for decisive action to cope with the crisis.

2.25 The importance of the groundwork cannot be overstated. For reform programs that are hatched quickly, without the long preparation, debate and consensus building that characterized the process in India, cannot be owned as fully as was the 1991 SAL/SAP in India. The lesson is that this preparation–most especially in a large and diverse democracy such as India's–cannot be quick and it doesn't come cheap. And to the extent that the Bank seeks to be a significant partner in the preparation process, the costs–in terms of years of doing and discussing quality ESW and doing and discussing policy issues related to Bank-financed projects–are also bound to be high. But as the India case illustrates, the "payoff" to such preparation may be high.

2.26 The "congruence criterion" refers to the extent to which there was congruence between the reform strategy of the Government and the strategy preferred by the Bank. Other things being equal, the more congruent the Bank's preferred strategy for a country and the Government's actual strategy, the more "relevant" is the Bank's strategy in the sense of its probability of implementation. By and large, it may be said that the degree of congruence was large. Some differences in content, pacing and sequencing will however be noted below.

Adequate Diagnosis Based on Satisfactory ESW? Yes.

2.27 A necessary condition for designing an appropriate reform program is to have an adequate diagnosis of the economic situation: the binding constraints on growth and poverty alleviation, the most egregious distortions, the root causes of the balance of payments crisis, etc. The Government and the Bank were on the whole well served by a substantial stock of good quality economic and sector studies (ESW) carried out over the years preceding the 1991 crisis. In this regard, the framers of the Indian reform program were in a more favorable position, than their counterparts in many other countries.

2.28 The quality of the Country Economic Memoranda (CEMs) prepared in the few years leading up to 1991 was good, and many Indian commentators inside and outside of the Government cited how useful the Bank's ESW had been, in particular on industry and on trade reform issues. The ESW impact however was not very evident until 1991. In particular, warnings contained in both Bank CEMs and in IMF reports about the unsustainability of the fiscal deficits were not heeded before mid-1991. The ESW that was found most helpful in SAP/SAL preparation was that which (i) provided hard-core empirical studies, e.g on tariff structures and the industrial and financial regulatory systems (as distinguished from those exhorting the principles of sound economic management); and (ii) provided hard information on which policies and practices were proving most and least effective in comparator countries.

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leadership; and (iv) efforts toward consensus-building among various constituencies. By all four criteria, and especially the first two, the SAL would warrant a high "ownership rating."

2.29 Some senior policymakers and advisers noted that the Bank's ESW had also an important role in identifying critical problems and shortcomings in Indian economic performance, in pointing the way to rigorous analysis, and in providing (as in CEMs) a synthetic overview of the economy and its prospects. The impact of this ESW is of course difficult to define and measure. But many Indians across the political spectrum reported that the impact, over time and over many technocrats, was significant. Bank ESW was reported to have been of lesser utility and/or quality in the areas of public enterprise performance, privatization, and poverty. And while some useful study was made of the social costs of adjustment, in time for the subsequent adjustment operation relating to the social safety net, this was not integrated into the design of the SAL.

Clarity of Objectives and Appropriateness of Priorities: Mixed

2.30 The SAL warrants high marks for focusing on reforms in the key interrelated areas of trade policy, financial sector reform, industrial policy, public enterprise reform, and private sector development, including the foreign investment regime. The Bank's ESW and policy dialogue helped to demonstrate how binding were the constraints stemming from inappropriate policies in these areas, and the interrelationships among them. Also, the Government was not in the habit of producing comprehensive policy statements such as the "Letter of Development Policy" that constituted the Government's own statement of its reform objectives and priorities, and the SAL played a useful role in catalyzing the production and issuance of such a statement.

2.31 While the reform program was designed and owned by the Indian authorities, the Bank played a catalytic role in stimulating and advancing the policy dialogue amongst the Indian principals. Bank staff and managers took part in many seminars, meetings and private sessions at which they provided information and advice. And while not all this information was used, the Bank is widely credited with its cooperative and active role in "seeing the process [of designing the reform program] through." This process was one that spanned not just the 1991 period of SAL/SAP preparation, but the multiyear process of interaction with technocrats across the political spectrum.

2.32 Two shortcomings of the SAL's design, however, were its large number of conditions to be taken prior to second tranche release (see Annex I) and its lack of objective and monitorable performance indicators. As of 1991, when the SAL was approved, it was established "best practice" in Bank adjustment operations for the number of conditions to be limited to a relatively small number of important measures.[9] A large proportion of the actions to be taken were defined in terms of subjective criteria, for example where actions were required to be "satisfactory to IDA" with no indication, in the project documents, or in side letters, of the criteria to be employed in determining whether particular actions were satisfactory or not.

2.33 The Letter of Development Policy was also lacking in specificity and monitorable targets in some key areas. For example, while the Letter called for the budget deficit to be reduced "substantially" after 1992/93, no target was provided beyond that year. Similarly, the average level of tariff rates was projected to be reduced to that of "other industrializing countries,"

9 At the December 5, 1991 Board meeting that approved the SAL, several speakers said that there were too many conditions for release of the second tranche (25 conditions). They said that it was very important to select four or five objectives that were critical to the success of the adjustment program and inform the Government that these would constitute the conditions for tranche release.

without specifying the countries or levels. The weakest part of the reform program, both with respect to its design and implementation, was the lack of a robust action program to rationalize and privatize the poorly functioning public enterprises, and to improve the efficiency of the public administration.

Timeliness and Appropriate Mix of Instruments: Very Good.

2.34 An important criterion of the SAL's relevance was its timeliness. Given the balance of payments situation in 1991, and the political as well as economic importance of launching the reforms as soon as possible, there was a need for prompt action by the Bank as well as the Government. The action, on both sides, was severely constrained by the political situation until June 1991. But thereafter both the Government and Bank deserve high marks for the timeliness of their follow-up. Five months from preparation mission (August) to Board approval (December) is rapid by Bank standards.

2.35 In addition to the SAL's financial and policy support, the Bank played a major role, together with the IMF, in mobilizing and coordinating other donors and creditors to help India cope with its crisis and get its reform program going.[10]

2.36 The IMF took the lead in helping India cope with its 1991 balance of payments crisis. There was good cooperation and collaboration between the Bank and Fund regarding their respective efforts both (i) to mobilize the needed financial resources and (ii) to undertake the needed economic and financial analyses and to conduct the policy dialogue. One area where there was some significant difference of views between the institutions was with regard to the pacing of fiscal deficit reduction *vis-à-vis* tariff cuts. Not surprisingly, the IMF favored more rapid deficit reduction than either the Bank of the Indian Government.

2.37 As the balance of payments crisis evolved in 1991, the Bank and Fund made a considerable number of approaches–both through and outside of the Aid Consortium process–to try to persuade private creditors and official donors to reduce their outflows and/or increase their inflows to India. One instrument was the convening by the Bank of an informal donors' meeting in April 1991. Given the unsettled conditions in India at the time, it is not surprising that there was only very limited success in mobilizing additional resources. Exhortations by top-level Bank managers to commercial bankers similarly had only a very limited effect on stemming the outflow of commercial capital from India at that time.

2.38 By the time of the India Aid Consortium meeting held in Paris in September 1991, however, the atmosphere as well as the objective situation had changed considerably in the light of (i) the Government's decisive measures; (ii) the responses of the Bank and Fund; and (iii) positive responses of several major multinational corporations to India's liberalized foreign investment regime. Several donors indicated interest at the September Consortium meeting in associating their pledged fast-disbursing aid with the SAL, as parallel financing.

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[10] In 1991, the SAL was just one of several instruments used by the Bank to help India mobilize or conserve foreign exchange. These instruments included also: (i) the fast-disbursing gas project of FY91; (ii) a redeployment of IDA credit cancellations to fast-disbursing adjustment operations; and (iii) the application of disbursement procedures (such as those governing Special Accounts) in ways conducive to accelerating disbursements.

Adequacy of the Financing Provided: Sufficient

2.39 The President's Report (PR) for the SAL showed that US$3.7 billion in exceptional financing would be needed, over and above likely inflows of project aid, commercial borrowing, and non-resident Indian (NRI) deposits. This exceptional financing requirement was projected, in the light of the need to rebuild reserves and to service "bunched" debt, to average about US$2.5 billion for the next three years, i.e. through 1994/95.

2.40 As noted above, the IMF was a major source of financing. During calendar year 1991, for example, India made drawings totaling SDR 1.9 billion from the Fund under a first tranche stand-by arrangement and the compensatory and contingency financing facility. Moreover, on October 31, 1991, the IMF Board approved an additional standby credit of SDR 1.7 billion, to be drawn over the succeeding 20 months. This latter standby arrangement, involving upper-tranche conditions, was more important as a means of giving the IMF "seal of approval" to the Indian reform program.

2.41 The Bank's projections of financing requirements turned out to be exaggerated because the volume of portfolio capital inflows into India proved to be far greater than was anticipated. Thus, although internal Bank documents show that some Bank staff were concerned that the program would be underfunded, in the event the program would have been overfunded at the projected levels.

Adequacy of the Risk Assessment: Weak.

2.42 The President's Report for the SAL cited three types of downside risks. These were: (i) that social and political reaction to the adverse transitional consequences of adjustment could slow the pace of reform and jeopardize its success (commitment risk); (ii) the slow supply response risk (because of lukewarm private investment or import shortages); and (iii) unforeseeable exogenous shocks (slow growth of world trade, inadequate balance of payments support). The Report however did not discuss how serious these risks were deemed to be in terms of their quantitative implications, say, for the exceptional financing requirement, or the types of social safety net provisions needed. No sensitivity analyses were provided, nor were any contingency measures identified to cope with the risks.

2.43 In the event, the slower-than-projected private investment and supply responses materialized, although in some respects the adverse consequences of those developments were offset by the unidentified "upside risk" of larger-than-expected foreign investment inflows. The unanticipated portfolio capital inflow "boom" in 1993/94 and 1994/95 created its own special problems of managing economic reform under capital flow volatility.[11] Although the SAL should not be faulted for failing to anticipate this particular upside risk, the experiences in other countries (Turkey, Mexico) point to the need for the Bank to give priority to this upside risk.

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[11] Foreign investment into India, mainly in the form of portfolio flows, rose from an average of about US$300 million per year in 1991/92-1992-93 to over US$4 billion per year in 1993/94-1994/95. This was to create new problems for India's policymakers, such as how to manage the exchange rate, whether to sterilize the inflows, how to control the monetary growth, etc.

Relevance: Overview

2.44 The SAL was well founded in good underlying analytical work and well grounded in long-standing relationships and dialogues between Bank staff and Indians within and outside the Government. The SAL/SAP program was strongly owned by the Government, and there was high congruence between the reform strategy advocated by the Bank and adopted by the Government that took over in June 1991. The sequencing of the program was adapted to the Indian political economy, and the Bank was appropriately appreciative of the need for the program to fit the political and institutional realities of the political economy.

2.45 The process of building the dialogue in a low key, low profile manner over time was well managed. Technically, the program was well conceived in dealing first with the most egregious distortions and most binding constraints. The stabilization and adjustment components were on the whole well integrated. Given the constraints to both SAL preparation and aid mobilization prior to June 1991, the Bank responses on these fronts after June 1991 were timely and sufficient. The balance between coping with the short-term balance of payments crisis and in dealing with structural issues was appropriate to the country's circumstances and needs. There was good Bank/IMF collaboration and an effective division of labor and roles between the two institutions.

2.46 The main shortcomings in SAL design and preparation were as follows: (i) the project objectives and conditionalities were (too) numerous and unprioritized; (ii) there were few well-defined and monitorable performance indicators; (iii) provisions to deal with the social dimensions of adjustments were limited, but these issues were specifically addressed through a follow-up operation (the Social Safety Net Sector Adjustment Credit, C2448-IN, approved in FY93); and (iv) the risk assessment was weak and there was no sensitivity analysis or contingency planning, while little attention was given, at least in the project documents, to sustainability.

2.47 On balance, the project was highly relevant. This was, on the whole, the right project at the right time. Its strengths outweigh its shortcomings. The long-term process (of building and managing the policy dialogue) was as important as the product. Both Bank and Borrower performance in the design and preparation of the SAL were fully satisfactory.

3. SAL Implementation: Evaluation of Efficacy

3.1 This chapter reviews the SAL's implementation and evaluates the project's efficacy. Efficacy is defined here as the degree to which the project's proximate objectives were met. The project objectives are taken to be the broad objectives outlined in the Letter of Development Policy, not just the covenants applicable to release of the second tranche.

3.2 The PCR provided a good overview of the implementation of the 25 specific conditionalities. With few exceptions, this PAR is in agreement with the PCR findings on implementation. Attention will therefore be focused mainly on the few areas of disagreement, on events in the two years since the PCR was drafted, and on identifying and explaining how and why actual outcomes differed from projected outcomes.

Actual vs. Planned Implementation of Policy Reform

3.3 The agenda of reforms laid out in the Letter of Development Policy and the policy matrix to the SAL (Annex I) was an ambitious one, especially in the context of India's history of only incremental reform. That agenda was nearly fully implemented, within the targeted time frames. This was a remarkable and historic achievement, as the Government showed with its actions and not just its plans that it had "seized the day". As Bhagwati put it: "Abandoning the caution and hesitation that defined the earlier efforts at liberalization, the new government has frontally embraced the philosophy of liberal economic reforms. 'Reform by storm' has supplanted the 'reform by stealth' of Mrs. Gandhi's time and the 'reform with reluctance' under Rajiv Gandhi."[12]

3.4 Compliance with the 25 specific SAL conditionalities was nearly complete by the time of second tranche release in May 1992. The PCR provides a good overview of the implementation of these conditionalities. In several key areas, as the PCR noted, the pace and scope of reforms during the project period (i.e. between approval in December 1991 and closure in December 1991) exceeded the targets set out in the Letter of Development Policy. These included exchange rate policy, liberalization of the import regime, and financial sector reform (although there was some slowdown in the last after project closure).

3.5 There were only three areas of shortfall in compliance with the SAL covenants, viz.: (i) the removal of administrative export controls on selected agricultural products; (ii) the formulation of exit policies for industrial enterprises; and (iii) the initiation of measures to restructure or close unviable public enterprises. Compliance was at least partial, and the Region was justified in proceeding with tranche release notwithstanding these partial shortfalls. These shortfalls, while not critical at the time, did serve as early warning indicators that the implementation of reform might be most problematic in the liberalization of agriculture, exit policy, and public enterprise reform.

3.6 The seriousness of purpose of the new government in implementing the agreed-upon reform program was reflected in its attention to the monitoring of progress. The Government set

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[12] Bhagwati (1993).

up two important committees to facilitate coordination amongst the various line ministries to which the SAL related: a Monitoring Committee, headed by a senior official in the Ministry of Finance, which met every other week; and an Operational Committee, which met every week and reported to the Monitoring Committee. This attention to process was an important determinant of the success of implementation.

3.7 The monitoring and ongoing evaluation of reform progress, both during and after the SAL, was handicapped by the absence of a core set of "intermediate" performance indicators of policy reform, for example rates of protection, indicators of exchange rate dispersion, subsidy levels and the like. The SAL's policy matrix did include some quantitative targets, but given the large number of measures it was often difficult, in the absence of a core set of indicators, for the monitoring teams (both in the Bank and in the Government) to see the forest for the trees.[13] The project documents did however include a set of "outcome" targets and projections, described below.

3.8 The most notable improvements in economic management performance included: (i) virtually all licensing restrictions on imports of capital goods and intermediates were removed; (ii) initially a dual exchange rate regime was introduced, with a market-determined rate for most current and capital account transactions and a managed official rate for a few key imports, notably fertilizers and petroleum products; (iii) tariff reductions and other fiscal reforms were incorporated in the 1992/93 budget; (iv) in the financial sector, accounting norms were made more stringent, prudential regulation was strengthened, and interest subsidies were reduced; and (v) there was deregulation of entry and removal of industrial licensing (albeit subject to exceptions).

3.9 These reforms, launched during the SAL period, were followed up by further reforms, particularly in the areas of liberalizing investment, trade policy, tax reform and financial sector reform. The main progress has been in terms of deregulation, trade policy reform, and opening up of the economy. By 1995 India has moved from a regime in which private investment was not allowed in most areas of the economy to one in which the openness to foreign investment compares favorable with most East Asian countries, insurance and railways now being the only sectors reserved for the public sector. In trade policy, maximum tariffs have been reduced from over 400 percent to 50 percent in 1995/96 and the average tariff fell from 87 percent to 27 percent. In the financial sector there have been significant reductions in the statutory liquidity ratio and cash reserve requirements, commercial banks have been given considerably more autonomy, minimum lending rates have been eliminated, and numerous institutional reforms have been launched. Tax reform was slower than envisaged, but a comprehensive tax reform was introduced in 1994/95, and there has been a significant improvement in collections and enforcement.

3.10 In sum, there has been a sea change in the economic regime in the direction of liberalization. But the unfinished agenda of adjustment is a formidable one. The weakest area has been public enterprise reform.[14] For although there has been a virtual elimination of the PEs formerly privileged access to budgetary resources, commercial bank credit and protected markets, and more competition fostered between PEs and private sector enterprises, PE

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[13] This applied also to the authors of the PCR and the present PAR.

[14] This paragraph in large part paraphrases para 14 of the 1995 CAS.

managers still lack authority to restructure, retrench, reorganize, sell units, and form joint ventures with private investors. Despite some equity sales, the Government remains the majority shareholder and with few exceptions, PE performance has not improved. Chapter 4 will discuss the matter of PE performance in some detail as a key "sustainability issue."

Actual vs. Projected Outcomes

3.11 The following table shows how the actual outcomes of some key macroeconomic variables compare with the outcomes targeted or projected in the project documents, for the three year period 1991/92-1994-95.[15]

Table 3.1: Key Macroeconomic Indicators: Actual vs. Projected Values, 1991/92-1993/94

	1992-94	
	Projected	*Actual*
Growth Rates (% per annum)		
GDP	3.8	3.4
Per capita GDP	1.6	2.1
Inflation		9.6
Exports	10.8	11.9
Imports	4.6	9.7
Ratios (% of GDP)		
Gross domestic investment	22.7	24.6
Private	13.7	15.2
Public	9.0	9.4
Gross domestic savings	21.5.	23.8
Fiscal balance	4.5	6.3
Current account balance	-2.1	-0.9
External debt	34.5	36.3
Debt service (% of exports)	26.4	28.3
Values ($ million)		
Current account balance	-5,161	-2,276
Foreign exchange reserves	4,390	
Total external debt	86,444	92,278
Foreign investment	489	3,207
Grant aid	604	409

3.12 This table shows that the actual outcomes have been reasonably close to those projected for key macroeconomic variables such as GDP growth, export growth, and savings and investment rates. And although the growth of imports has been substantially greater than was projected, the current account deficit over the period was nevertheless much smaller and the

[15] The SAL was approved on December 5, 1991 and became effective on March 4, 1992–less than a month before the end of Fiscal Year 1991/92. The fiscal year runs from April 1-March 31. All calculations concerning annual changes reported in this chapter refer to fiscal years.

international reserve accumulation was much larger than anticipated. The latter was due mainly to the large surge of foreign investment–most in the form of portfolio investment–in 1993/94 and 1994/95. The reserve buildup proceeded at a rate of nearly US$1 billion a months over those two years, reaching nearly US$20 billion by end-1994. This created its own new problems for economic management, such as how to avoid a "Dutch disease" effect on the real exchange rate and on monetary expansion and inflation. The composition of the growth has also been encouraging, with industrial growth currently at the rate of about 8 percent annually while agricultural growth also has picked up. The latter has been aided by an unprecedented series of good monsoons. The Government estimates GDP growth to have been 5 percent in 1993/94, 6.3 percent in 1994/95, and 6.2 percent (forecast) in 1995/96.

3.13 Progress on the stabilization front, however, has been lower than targeted. The public deficit averaged about two percent more of GDP than planned, with inflation averaging close to 10 percent annually–as compared with the target of 6.5 percent.[16] Consolidated public sector saving has actually declined, and there is cause for concern especially about state-level public finances.

3.14 It is also significant to note that, whereas the medium-term outcomes in some areas were very close to those targeted or projected, this was not necessarily true of the short-term outcomes. For example, the foreign investment and reserve buildup came quicker than projected, but the industrial recovery and export responses were slower than expected/projected. And as was noted above, the greater-than-expected capital flows created its own problems. In the event, the Government was reasonably successful in avoiding an appreciation of the real effective exchange rate and in accelerating industrial and export growth but not so successful in containing the deficit and inflation.

Balance of Payments Outcome

3.15 The SAL policies and funding were unambiguously successful in helping India to overcome its balance of payments crisis. Although the IMF resources provided the bulk of multilateral financing in 1991/92, the SAL's US$500 million (under ordinary conditions, not a very significant sum relative to India's economy and cash flows) was quite significant in 1991/92, partly for its demonstration effect. For the SAL gave greater credibility to the Indian reform program that contributed to the willingness of other donors–notably Japan and the Asian Development Bank–to mobilize hundreds of millions of dollars in additional quick-disbursing resources for India.

3.16 The improvement in India's balance of payments exceeded the most optimistic expectations. Aided by the rapid growth in exports, the current account deficit declined significantly while the increases in foreign investment strengthened the capital account, boosting reserves to an all time high of US$20 billion by early 1995. The combined strengthening of the balance of payments and the economic reforms led to an improvement in India's creditworthiness (commercial risk) ratings as shown in the following table, which also shows ratings for some comparator countries.

[16] Table 1 does not show year-by-year changes and does not therefore differentiate between the SAL period (through CY92) and the post-SAL period. But the data suggests a difference between near-term outcomes and medium-term sustainability. Thus, the budget outcome during the SAL was satisfactory but the sustainability of deficit reduction proved not to be satisfactory. This will be discussed in detail in Chapter 4.

	1992	1993	1994	1995
India				
Euromoney rating	44	..	60	59
Institutional Investor rating	38	..	42	44
Moody's	Ba2	Ba2	Baa3	Baa3
Mexico				
Euromoney rating	59	..	62	58
Institutional Investor rating	43	..	46	47
Moody's	Ba2	Ba2	Ba2	Ba2
Turkey				
Euromoney rating	66	..	49	55
Institutional Investor rating	44	..	42	41
Moody's	Baa3	Baa3	Ba3	Ba3
China				
Euromoney rating	..	..	73	66
Institutional Investor rating	55	..	57	58
Moody's	Baa1	A3	A3	A3

Note: For both the Euromoney and Institutional Investor ratings, the lower the number, the better the rating; 1 is best. As of March 1996, India's Euromoney rating was 45 (out of 178), its Institutional Investor rating was 48 (out of 133), and its Moody's rating remained at Baa3.

3.17 The table shows that India's creditworthiness has improved in recent years to the threshold of investment grade rating. (Standard and Poor's rating in 1995 and early 1996 of BB+ was just below investment grade, whereas Moody's rating of Baa3 was just above.) India's balance of payments remains vulnerable. As the 1995 CAS noted, about US$24 billion of India's US$95 billion external debt is due to be repaid in the next four years–this being in addition to the rollover of the short-term debt and the rollover of NRI accounts. Added to the financing requirements of the current account deficit (as projected by the South Asia Region), this means that over the next four years India would need to mobilize about US$40 billion of external finance–excluding the rollover of short-term debt and NRI accounts. The experience of Mexico and other countries reveals how vulnerable such countries can be to sudden outflows of portfolio capital. India's large current reserves obviously improve her capability to deal with these vulnerabilities. But India's ability to improve or even maintain its improved credit rating will depend upon the commitment shown by the government emerging from the 1996 elections to stay the course of economic reform.

Social Costs of Adjustment

3.18 The PCR does not have a discussion of the social costs of the SAL-supported adjustment program. This is understandable given that (i) the project documents do not provide targets or quantitative framework for assessing the social dimensions of adjustment; and (ii) the continuing paucity of hard data in this area. As the 1995 CAS noted, "in the absence of firm data, definitive answers [about the nature and extent of the social impact of reforms] are not possible.[17] Subsequently, the South Asia Region has prepared an Implementation Completion Report (dated June 22, 1995) on the Social Safety Net Sector Adjustment Credit (Credit 2448-IN of FY93).[18]

3.19 In some quarters, there is a perception that the reform process has widened disparities in income distribution and that the adverse effects of the continued high inflation have hurt the poor in particular. The OED mission was able to obtain only partial information, insufficient to confirm or disprove these allegations.[19]

3.20 During the first two years of the reforms, cuts in government expenditures led to declines in employment and in real wages. But in the past two years there have been increases in real wages and employment, especially in the rural areas, and social spending has increased considerably in real terms during the four years of the reform program. The *Economic Survey* points out that Central Plan expenditure on education, health, family welfare, women and children and rural development increased from 0.9 percent of GDP in 1991/92 to 1.2 percent in 1993/94. helping to "protect disadvantaged groups from the adverse effects of the reforms." It also notes that whereas the trend decline in the infant mortality rate paused in 1991 and 1992, it resumed in 1993. And while average agricultural real wages fell during the crisis year of 1991/92, they increased subsequently, thereby "more than neutralizing" the drop in 1991/92.

3.21 The *Economic Survey* concluded that "these preliminary data are consistent with the view that the economic crisis of 1991/92 adversely affected general living standards in both 1991 and 1991 while the reform-induced recovery led to an improvement in general living standards in 1993" [the last year for which data were available]. This is however a weak assertion, in the absence of information on social expenditures at the state level, trends in the quality of such services, the effects of (high) inflation on the poorest groups, and so forth. Given the importance of getting more robust answers to such questions, it is imperative that the Bank and the Government accelerate their production of the Poverty Assessment and other relevant studies bearing on these issues.[20] A further discussion of poverty and social sector issues follows in Chapter 4.

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[17] The Regional Office was urged during the 1995 CAS discussions to accelerate preparation of the Poverty Assessment, in order to answer questions (not now answerable) concerning the impact of India's adjustment program on vulnerable groups. OED was unable to obtain advance drafts of the Poverty Assessment that might bear on these questions.

[18] The ICR, which rates outcome of the Social Safety Net (SSN) Sector Adjustment Credit as satisfactory, discusses the Central Government's success in increasing spending on the social sectors at a time of fiscal stringency, but does not discuss the role of the state governments where funding appears to have decreased considerably (see para. 4.28 below). The ICR also points out that the SSN "did not make the desired contribution toward the development of a coherent and articulated approach to the medium-term financing of the social sectors, which was one of the aims of establishing the review of financing" (ICR Evaluation Summary, para. 35). A planned OED audit of the SSN is expected to provide further insights into these issues.

[19] Much of the information was obtained from Chapter 9 of the 1994/95 *Economic Survey* prepared by the Ministry of Finance.

[20] Inflation in the past four years has been the highest of any four year period over the past 40 years. Given that only some 15 percent of the work force is in the organized sector and that inflation is likely to have more of an adverse impact on the unorganized sectors (where there is no indexing), it is not surprising that inflation is a major political as well as economic issue. The view was expressed that "Indians prefer low growth with low inflation to high growth

Efficacy Overview

3.22 The main strengths/successes achieved in implementation were in the swiftness of action taken across a broad front of policy reform (and changes in the rules of the game). These include: (i) the initial stabilization effort (although not intensified over time as planned); (ii) selected tax reforms and the reduction of subsidies; (iii) quick improvement in the balance of payments and the "vote of confidence" in the Indian economy reflected in large inflows of foreign investment; (iv) responsible management of the capital inflows (including limitations on certain types of inflows) so as to avoid appreciation in the real exchange rate and other undesirable effects; (v) trade reforms and deregulation that significantly opened up the economy (including infrastructure) to private sector agents, including foreign investors; (vi) the improved investment climate that ensued from these measures; (vii) the short duration of the downturn in output and employment, followed by rapid industrial growth and good export response after the second year; (viii) continued building of consensus for reform, including at the state level (even in some states, like West Bengal, that were considerably to the left of the Congress and JNP parties); and (ix) the apparent avoidance of significant adverse effects on the poor (although the data do not permit conclusive judgments on this matter). The sequencing of reform, and the integration of its parts–particularly the exchange rate and trade reforms–was exemplary.

3.23 The main weakness in implementation was the inadequate fiscal discipline (mainly on the expenditure side) beyond the initial stage, at both the central and state government levels. This led to high (for India) inflation rate and excessive burden placed on monetary policy, reflected in high real interest rates and some "crowding out" effects. Other weaknesses included (i) slow movement to reform the large and inefficient public enterprise sector and minimal privatization; (ii) lack of reform in labor legislation; and (iii) lack of an action program to change the roles and improve the performance of the public administration, including through capacity building. Most of these areas of concern will be discussed further in Chapter 4.

3.24 In a few other areas, the implementation performance was mixed. In the financial sector, for example, delays in improving the regulatory framework and in implementing associated institutional reforms were reflected in a lack of clarity about the "rules of the game" for certain types of foreign investment, some rigging behaviors in the stock market, and in continued inefficiencies in the banking and insurance sectors. On the other hand, it was a positive development that India consciously avoided the mistakes of other countries that suffered the consequences of pursuing financial sector liberalization too much in advance of improving the regulatory framework.

Outcome and Institutional Development Ratings

3.25 Given the high relevance of the objectives (see Chapter 2 above) and the also high achievement of these objectives, the outcome of SAL is rated as satisfactory.

3.26 This PAR rates the SAL's institutional development (ID) impact as substantial,[21] given that ID is understood to refer broadly to "changes in the rules of the game." The Indian reform

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with high inflation." This is a hypothesis that needs to be tested. And if found to be true, the implications need to be incorporated in both the Government's strategy for pursuing further reforms and the Bank's country assistance strategy, especially the ESW program and the policy dialogue.

21 The PCR did not provide any explicit rating of the project's institutional development (ID) impact.

program supported by the SAL clearly represented a major movement away from a paradigm of planning and control to one of liberalization, "market-friendliness" and opening up. In this sense, the changes in the rules of the game, particularly in terms of reducing controls and changing the regulatory framework, could hardly have been more profound.

3.27 The policy matrix shows how broad was the intended ID impact of the adjustment program. The matrix identifies many important ID measures, including the revisions of guidelines (e.g. on industrial licensing) rewriting of legislation (e.g. amending the Sick Industrial Companies Act), abolishing the roles of those occupied with various kinds of government activities (e.g. abolishing the Limited Permissible List for imports), and establishing new regulatory functions and bodies (e.g. bodies to regulate the stock market and the activities of mutual funds). The implementation performance on these ID measures was satisfactory.

3.28 The SAL did not have a capacity building or training components, nor was there any technical assistance project complementary to the SAL. While the existing SAL agenda was quite enough for one operation, a shortcoming of the broader SAP, and of the Bank's country assistance strategy, is that they did not formulate an ID strategy focusing on the capacity building measures needed to ensure effective implementation of the ID changes implied by the reforms.

3.29 Given the pace of reform, India found quickly that its needs ran ahead of its capacities to regulate monopolies, prevent fraud, protect consumers, and to define and enforce new rules in the stock market (where a serious scam emerged in 1992), in bankruptcy courts, and the regulatory framework for direct private investment in infrastructure. Hence, a gap has arisen between the "new rules" and the overstaffed bureaucracy, which needs to be retrained and retooled to perform new functions (and persuaded to stop trying to perform old control functions). In India, as elsewhere, civil service reform and retooling lags behind other forms of reform.

Borrower Performance on Implementation

3.30 The Borrower's performance on implementation was good. The slippage on the stabilization side came after the project period. The Borrower took seriously the monitoring of project progress and introduced appropriate processes to ensure that problems in implementation would be promptly identified and rectified. Covenant compliance, as noted above, was satisfactory.

Bank Performance in Supervision

3.31 Given the Borrower's seriousness of purpose in implementing this project, the Bank did not have any real difficulties in supervising the project. The quality of the report of the mission that determined the Borrower's eligibility for second tranche release was good. Documentation problems caused some delays in disbursements, but these were not serious.

4. The Unfinished Agenda and Sustainability Issues

4.1 This chapter discusses the unfinished agenda of adjustment and some sustainability issues. These include the centrality of stabilization, the trends in public savings and total investment, the implications of the heavy debt burden, the political economy of fiscal adjustment, the lack of reform in the public enterprise sector, the infrastructure constraints, social sector and poverty issues, and the importance of improving the quality of public services. Attention is given in this discussion not only to relevant technical issues but also to political economy and "process" issues. A set of core "sustainability indicators" is identified and proposed as a means of focusing attention, strategy formulation and monitoring efforts on those areas most crucial to sustainability.

Stabilization and Public Savings

4.2 In commenting upon a draft of this report, Bank management noted that "regarding the central role of fiscal adjustment in the sustainability of India's reform process, we share [the] views and concerns [expressed in this report]." The Bank's comments went on to say that the importance of substantial and sustained reductions in the Government's fiscal deficit to around 3-4 percent of GDP is keenly recognized by the authorities, and would remain a priority area in the Bank's dialogue with them. This priority was reflected in the last Country Assistance Strategy paper. In this same context, the Bank's comments on the draft PAR found encouraging the considerable reform and modernization of India's tax system undertaken in the last two years, including a reduction of corporate tax rates, simplification of the central excise tax system, a reduction in the number of rates and exemptions, and broadening of the tax base. It was envisaged that these developments would have enduring impacts in the future.

4.3 From the point of view of a viable growth strategy, the indicator that comes closest to capturing the dynamism in the fiscal picture is public savings (of the consolidated public sector). India's public savings performance has been deteriorating since the early eighties and has now plummeted to its lowest point (practically zero). Whereas India's high performing neighbors and competitors in East Asia recorded public savings typically upwards of 5 percent of GDP, India's public savings have declined from 4.1 percent of GDP in 1980-83 to 0.2 percent of GDP in 1993-94. Moreover, India's gross domestic savings and gross domestic investment ratios in 1993 (24 percent of GDP) were well below those of the East Asian and Pacific Region countries, for which the savings ratio was 35 percent and the investment ratio was 36 percent of GDP.[22]

4.4 Pre-reform governments focused too much on the capital formation rate and not enough on the determinants of the productivity of investment, and the change in focus since 1991 has been a welcome development. There is a danger, however, that the pendulum may be swinging too far towards downplaying the importance to growth of an increase in public savings as the stabilization strategy faces the difficult problems posed by special interests with large claims on public resources. The 1991-92 budget, during a liquidity crisis, made a forceful effort to come to

[22] Source: 1995 WDR. The Government's comments on the draft PAR (see Annex II) point out that gross dissaving by the Central Government rose sharply in 1993/94, declined in 1994/95, and was estimated (as of February 1996) to decline to 1.7 percent of GDP in 1995/96 (budget estimates). The Government also pointed out that India's gross domestic savings rate of 24.4 percent of GDP in 1994/95 was a record.

grips with policy distortions that had over time led to fiscal imbalances of a large magnitude. Subsequent budgets have not succeeded however in carrying forward the savings and stabilization agenda of the 1991/92 budget that constituted a watershed in India's economic policy evolution.

The Revenue Deficit and Public Debt

4.5 India's underlying fiscal problem can also be viewed from the perspective of the public debt. The public debt profile over the last two decades reveals two distinct phases: In the 1970s, the debt/GDP ratio showed a modestly declining trend. Beginning in 1980/81, the ratio showed a continuously rising trend, climbing from roughly 30 percent to 71 percent (1992/93). Over this period, the domestic debt of the Central Government increased from 23 to 54 percent of GDP, and the ratio has more or less stabilized since 1992/93. The external debt component of central government, which was about 12 percent of GDP in 1991/92 rose to 18 percent of GDP in 1991/92, but then declined to 15 percent in 1994/95. Overall external debt has risen by 2.1 percent of GDP over the period of fiscal adjustment.

4.6 These trends in the public debt reflect the increase in interest payments by the Central Government which claimed a growing share of government tax revenues–from 50 percent in 1990/91 to 70 percent in 1995/96. As a result, the Central Government faces very strict limits to its freedom of action in regard to expenditures, and finds it increasingly difficult to reduce the deficit. The "revenue deficit" (current deficit of the Central Government) rose from 1.5 percent of GDP in 1980/81 to 2.6 percent in 1989/90 and 3.5 percent in 1990/91. As pointed out earlier, the budget of 1991/92, with its legacy in 1992/93, brought down the revenue deficit by nearly a full percentage point to 2.6, before it rose again to the neighborhood of 4 percent in 1993/94. The Government indicates (Annex II) that the revenue deficit fell to 3.1 percent in 1995/96 and was projected in the 1995/96 budget to fall further to 2.7 percent.

4.7 Fiscal adjustment can take many forms depending on the objectives pursued. When the (short-term) objective is to mobilize adequate resources to fully service debt, it is not so important how the primary deficit is reduced. Fiscal correction, in line with experience in other countries, often takes place through cuts in public sector capital expenditure and in expenditures on badly needed social services. This has an adverse impact on the potential for growth, but the short-run creditworthiness can be maintained.

4.8 But a more desirable objective is to service the debt out of the proceeds of a growing economy. For this purpose, fiscal correction will have to occur predominantly through reduction of current expenditures, thus reducing the revenue deficit (and eventually generating a surplus) in order to maintain the level of investment and subsequently increase it to put the economy on a higher growth path. In India, GDP growth rates between 5 and 6 percent are required just to stabilize the existing debt-GDP ratio, which already involves very high interest payments. This emphasizes the need to reduce the revenue deficit or, in other words, of reducing the saving-investment gap at rising levels of investment. India's recently inadequate progress in this direction threatens the gains made in terms of macroeconomic stability and revival of the growth process.

4.9 But the priority to be accorded to reducing the revenue deficit, as well as the choice of areas and sequence of actions to achieve the objectives, can only come out of the political processes of India's open, plural society. In the Indian context, it would seem that these desirable policy changes can and will come about only gradually. The key question is whether the political process is being steered in the right direction and whether what the *Economic Survey* (1994/95) characterizes as the "costs of fiscal populism" will be sufficiently contained. With elections coming in 1996, the pressures and costs of such populism are particularly intense just now.

Insufficient Public Enterprise Reform

4.10 The lack of progress in the reform of public enterprises is a major constraint on fiscal correction. The magnitude of the problem can be gauged from the following: In 1993/94, out of 240 operating central public sector enterprises, 120 earned profits as compared to 131 during 1992/93. Profits of such profit-making enterprises increased from Rs. 74 billion in 1992/93 to roughly Rs. 97 billion in 1993/94. However, the losses of the non-profit making enterprises also increased from Rs. 41 billion to Rs. 52 billion over the same period. The overall rate of return on capital employed thus increased only marginally from 2.3 percent to 2.8 percent during this period. In fact, the profitability of PEs, in terms of ratios of gross margins and gross profits to capital employed, has not registered any improvement over the period 1981/82 to 1992/93. There has been, if anything, a small decline. As a percentage of capital employed, the rate of return in 1991/92 was only 2 percent and the dividend paid out was an insignificant 0.6 percent of paid-up capital of Rs. 1 185 billion. These averages, however, conceal wide divergences in performance between the petroleum sector and the rest of the PEs. If the petroleum sector is excluded, the results are even worse and the ratio of profit after tax to net worth is generally negative.

4.11 These indicators tell the story of sizable resource losses suffered by the central budget on a continuous basis for relatively long periods of time as a direct consequence of poor utilization of investment by the public sector. Of the enterprises in the State sector, the State Electricity Boards (SEBs) are by far the most conspicuous loss makers. The commercial losses of the SEBs in absolute terms increased from about Rs. 41 billion in 1991/92 to about Rs. 63 billion in 1994/95 and are projected to increase further to about Rs. 71 billion in 1995-96. These losses are equivalent to about 0.7 percent of GDP.

4.12 It is important to recall here what the Government stated about its intentions to pursue public enterprise reform in the SAL Letter of Development Policy. After stating that the central public sector enterprises as a whole imposed a burden on the exchequer, it was recognized that "actions taken in the area of public enterprise reform will be central to the near term growth performance of the economy, as well as to its medium term transformation." As a first step towards improving the efficiency of central public enterprises, 56 units incurring cash losses for a number of years were referred to the Board for Industrial and Finance Reconstruction (BIFR) for restructuring or winding up. However, in terms of specific action taken either to restructure unviable units or close them down, available information does not suggest any significant movement.

4.13 The Government has spoken in different voices since the policy was first formulated, and some statements of high government officials even rule out closures irrespective of the financial situation of sick units. In any event, the action program promised in the medium-term reform program articulated in the SAL Letter of Development Policy in regard to the restructuring and closure of unviable units has not materialized. Nor has the schedule of qualitative targets for eliminating all budgetary transfers and loans to central public sector enterprises. Only two items specifically outlined in the government program–namely the strengthening of the existing system of Memoranda of Understanding (MOU) and partial divestment of equity in public sector enterprises–have been pursued with varying degrees of success. But in the absence of an overall plan of public sector reform, their efficacy has been limited.

4.14 The crucial dilemmas of policymaking in public enterprise reform may be summed up in three propositions. First, the Government does not have adequate resources either to support loss-making enterprises or to step up the level of investment to modernize and to expand existing profit making enterprises. Secondly, the Government appears not to favor either the closure of unviable and loss making enterprises or their privatization. And thirdly, even in regard to profit-making enterprises, the Government's reforms seem to be limited to Memoranda of Understandings (MOUs, a form of performance contract) and partial divestment, neither of which has done much to bring about improvements in their efficiency to face domestic and international competition. MOUs were a carryover from the past and had no intrinsic element of managerial autonomy, given the fact that basic government policies and procedures concerning personnel matters and investment approvals had not undergone any change. Furthermore, divestment of government equity has come to be seen essentially as a financing device to help the budget. It has few implications for investment or upgrading technology or strategic planning for the future.

Labor Market Issues

4.15 There is an important link between public enterprise reform and improving the efficiency of the labor market, another area in which reforms have been few. Movement towards a flexible labor market is hampered by lack of clarity on the public role of the public enterprises. Existing labor legislation has tended to increase capital intensity in the organized sector of industry and has operated against labor intensive production processes. However, in large segments of small-scale industry and in the large informal sector, flexibility exists. Moreover, private sector industry has often been successful in finding ways and means of rationalizing the labor force through direct negotiations with the unions.

4.16 It is mainly in the public sector, therefore, that the deleterious consequences of a labor policy aimed solely at protecting existing level of employment, irrespective of its effects on profitability and production mix, are to be found. In an important sense, policies and practices in industrial relations established by the public sector are the model to which other sectors are compelled to conform. Some areas of freedom remain for privately owned enterprises, but the force of the public sector example tends to be too great to be resisted.

4.17 The employment effects of the post-1991 economic reforms have not yet been studied in depth. The *Economic Survey* for 1994/95 gives a global figure of increase in new employment creation from 3 million in the crisis year of 1991/92 to 6 million per annum in 1992/93 and 1993/94. The beneficial effect of the revival of the growth process, which accelerated in 1994/95, on employment creation is undoubtedly reflected in these figures mentioned. Nevertheless, even these encouraging results are well below the additional employment target of 8.5 million per year in the Eighth Plan. When the contribution of agriculture, which has remained generally buoyant in the last three years, is taken into account, it may turn out that industrial employment has expanded well below the potential implied by policy changes which have deregulated investment and encouraged competition.

4.18 More flexible labor markets would lead to larger employment opportunities, particularly in labor-intensive industries where India has a comparative advantage and where India's share in exports is significantly lower than that enjoyed by China and other developing countries. The key to a more flexible organization of the labor market is held by the public sector whose reform is indispensable, not only from the point of view of budgetary considerations, but from that of overall restructuring of Indian industry as well.

Infrastructure: A Key Constraint to Future Growth

4.19 If the sustainability of fiscal adjustment is open to doubt in view of the trends described above, the sustainability of the growth process is no less so. The growth process is beset with a number of problems, in addition to the concern with macroeconomic stability. A foremost constraint to growth is posed by growing shortages of infrastructure.

4.20 Many indicators point to the seriousness of underlying problems. One is the staggering commercial losses in many utilities. But even where profits are being made, as in telecommunications, efficiency is low and the rate of progress to expand the network and to bring it up to international standards is slow. It is now widely acknowledged that the Eighth Plan targets in key infrastructure areas will not be met, in many cases by wide margins. In all areas that contribute directly to growth–power, telecommunications, transport, irrigation, urban facilities, and rural infrastructure–capacity creation will be well below targets that were scaled down on account of shortages of investible resources.

4.21 The Government response to the infrastructure crisis has two tracks. The first is the encouragement of private investment in fields previously earmarked for the public sector. One of the most significant pro-growth features of the reform period is putting in place a policy framework for a systematic induction of large volumes of private capital, both domestic and foreign, into the infrastructure field. The private sector has responded enthusiastically, showing both the presence of significant opportunities and the high probability of adequate returns on capital. But the opening up of India to direct foreign investment in infrastructure is still politically problematic, and the "rules of the game" still need clarification.

4.22 Two aspects of the emerging situation need close attention. First, given the very large requirements of capacity creation, the public sector will continue to perform the leading role in this area. The need for increasing public saving to strengthen the role of public sector as investor in this critical area can hardly be over-emphasized. Secondly, institutional aspects to facilitate quicker decision-making, and speedy and efficient implementation of private investment decisions need more attention. There have been delays in setting up independent regulatory authorities, establishment of transparent criteria for evaluating investment proposals, creation of effective dispute settlement mechanisms, modifications and adaptations of existing laws and regulations to accommodate private actors in the field, and improving procedures for clearance of multistage approvals of complex investment proposals. Priority is warranted to solve these institutional problems.

4.23 The second track in infrastructure development is to improve the operational and organizational efficiency of public sector infrastructure entities and other similar entities at both central and state levels. The challenge is to remake the State Electricity Boards and similar entities into organizations that are financially viable, managerially efficient, and technologically able to hold their own in a competitive environment. Many innovative proposals have been put forward as the policymakers have come to appreciate that the infrastructure crisis is not simply a consequence of inadequate investment, but also the result of colossal organizational failure. Accordingly, pressures compatible with a democratic polity are being exerted on state functionaries at all levels to put their house in order. Competition for private investment is helping to concentrate the minds of decision makers on what has to be done to offer an attractive environment.

Social Sector and Poverty Issues

4.24 The distributional issues, always important in the Indian context because of widespread poverty, have acquired a new focus *vis-à-vis* structural adjustment policies. As noted in Chapter 3, the Bank supported, two years after the SAL, the establishment of a Social Safety Net (SSN) program through its SSN Sector Adjustment Credit. However, critics of the reform program have suggested that reform policies have adversely affected the poor in a variety of ways. Macro-policies are alleged to have led to a reduction of expenditures on social services and on poverty alleviation programs, and micropolicies of liberalization and restructuring are alleged to have resulted in a shrinkage of employment opportunities. The Government has refuted these criticisms, claiming that its policy of "adjustment with a human face" has indeed worked well. As was emphasized in Chapter 3, however, the data available to the OED mission in this area were inadequate to permit much analysis of the social dimensions of adjustment. A recently produced ICR for the SSN Sector Adjustment Credit provides some additional information and OED will conduct an audit of the SSN Sector Adjustment Credit during 1996. Therefore, the following paragraphs are limited to the discussion of some macroeconomic and fiscal data, which, nonetheless, raise some important questions regarding differing trends in public sector expenditure in the social sector between the central and the state governments.

4.25 Available evidence suggests that the revival of the growth process in 1993/94 and its acceleration in 1994/95 should have strengthened the trends of poverty reduction already visible in the eighties. There is no evidence to suggest that the reform process has either contributed to any significant loss of employment opportunities or to declines in income of the poorer groups (such as agricultural labor). Average agricultural real wages did show a decline in the crisis year of 1991/92, but that was not policy induced. It came as part of a generally bad agricultural year. Subsequent increases in wages, which neutralized the earlier decline were accompanied by significant improvements in agricultural productivity which did not owe much to any policy package of the reform program. Inflation, particularly of food prices, which undoubtedly hurts the poor, may have been responsible for adverse perceptions. But the phenomenon of rising food prices has a complex causation including a state-administered procurement crisis which tend to boost rural incomes.

4.26 India's policy on human resource development, with all its implications for both growth sustainability and poverty reduction, has continued to adhere closely to the pattern of the earlier strategy which failed to bring about rapid improvement in indicators of literacy, primary education and health care. The problem is not only a question of spending; it is also a question of achievements from a given spending. Table 4.1 shows how far India has to go to bring many of its basic social indicators up to the level of the faster-growing Asian countries.

4.27 Developments during the reform period in the broad area of poverty alleviation–rural development and social services–present an interesting pattern. In the central budget, allocations were increased significantly from Rs 80 billion in 1990/91 to Rs 179 billion in 1995/96.

Table 4.1: Comparative Social Indicators

Indicator	*India*	*East Asia/Pacific (w)*	*China*	*Pakistan*	*Indonesia*	*Thailand*
Adult illiteracy rate (%)	52	24	27	65	23	7
Life expectancy	61	68	69	62	63	69
Total fertility rate	3.7	2.3	1.9	..	..	2.1
Population with access to safe water, 1991	75	..	71	50	42	72
Prevalence of malnutrition (under 5, 1993)	63	..	25	40	46	13
Expenditure on education (% of total exp.)	2.2	..	2.2	1.1	10.0	21.1
Expenditure on health (% of total exp.)	1.9	..	0.4	0.4	2.7	8.2

.. Weighted averages for these indicators are not available.

As a proportion of the Central Government's aggregate budgetary expenditures, the increase was from 7.7 to 10.4 percent, although as a share of GDP, the increase has been marginal–from 1.5 percent in 1990/91 to 1.7 percent in 1995/96.

4.28 When the focus shifts to the states, a different picture is revealed. Their outlays on rural development and social services, as a proportion of their aggregate expenditures, have declined marginally from 38.7 percent to 38.1 percent. Overall, states' spending on these sectors as a proportion of GDP declined a full percentage point from, 6.6 percent in 1990/91 to 5.6 percent in 1994/95.

4.29 Therefore, for the economy as a whole, outlays on rural development and social services as a share of GDP declined by 0.8 percent in the first four years of economic reforms. It is also important to note that the states have reduced their spending on maintenance of existing facilities, which will surely reduce their utility. These trends are inimical to long-term prospects of sustainability.

4.30 These figures highlight the distance that has to be covered in reforming the states' budgets, which are the primary sources for financing programs in the vital areas of education and health. The fiscal deficits of the state governments have continued to remain at high levels during the reform period. There has, of course, been some diminution in net transfer of resources from the Center to the states. But this has not led to better housekeeping at the level of states. Their gross fiscal deficit declined in 1991/92, but has increased again and is now in the neighborhood of 3.5 percent of GDP, similar to the crisis year of 1990/91. The pattern of state budgets reveals a decline in capital and development expenditures as a growing proportion of resources are preempted for interest payments and current expenditures.

4.31 The message is loud and clear. Unless the states carry out a comprehensive reform of their budget, the crisis affecting the social sector will inevitably deepen, thereby clouding the prospects of medium term growth and exacerbating social tensions. This message was one of the principal ones conveyed to the Board in the 1995 CAS.

4.32 As important as the quantity is the quality of services and public goods provided to the society by different levels of government. These cover a wide range of economic and social services including the administration of justice and law and order. Although it is hard to quantify, many observers have remarked a deterioration in standards of public services, giving rise to dissatisfaction among the people. In any event, given the importance of both the quantity and quality of education, health and other public services to the sustainability of the growth-cum-poverty alleviation process, it would warrant high priority for both the Bank and Government to get a firm handle on these issues.

A Core Set of "Sustainability Indicators"

4.33 The above discussion has highlighted the importance to sustainability of a number of indicators, namely public savings (at the central and the state level) and investments, the revenue deficits and debt burden, public enterprise profits and productivity, labor market efficiency, and human capital development, among others.

Box 4.1: Selected Sustainability Indicators

Fiscal Indicators (% of GDP):
- Government savings - central, state, total
- Debt service/tax revenues - central, state, total

Investment (% of GDP):
- Public
- Private

Public Enterprise Reform
- PE profits/losses
- Rates of return to capital
- Other efficiency indicators

Labor Market Indicators
- Productivity
- Public sector employment

Human Capital Development

4.34 Indicators of developments and performance in these areas are of course already monitored and analyzed in a variety of contexts. There may nonetheless be some utility in grouping these particular indicators together as a set of "selected sustainability indicators" in the overall assessment of progress in India's reform program, and particularly in the CAS. These are truly "big picture" indicators, and giving them prominence may serve, *inter alia*, to focus attentions on matters that are truly important, not just merely urgent.

Sustainability Rating

4.35 It is not clear at present how the large unfinished agenda will evolve. Political and social forces are simultaneously pulling in many directions. Growth is continuing at a good pace, yet some serious social and economic problems are growing in volume and intensity while the fiscal problems progressively narrow the range of options available to policymakers.

4.36 On the one hand, India's political process showed in 1991 its capacity to come to grips with the defining issues of the economy, and the resilience and creativity of this system must not be underestimated. The policy movement since 1991 has shown the way forward, and there are many reasons to be optimistic about India's economic prospects. There seems little likelihood of an outright reversal of the reforms. On the other hand, sustainability will depend on the pace and intensity with which at which the unfinished agenda is addressed, and this is now uncertain. Hence the rating of "uncertain" for sustainability.

4.37 The Government's main substantive comment (see Annex II), upon a draft of this report, was to reaffirm its commitment to continuing with the reform process, and it expressed "reservations" about the sustainability rating of "uncertain." It is certainly very encouraging that the Government considers the reform process to be "irreversible," but OED still finds it appropriate to rate sustainability as uncertain at this time.

5. Main Findings and Lessons

Main Findings

5.1 Among the main findings of this PAR have been:

(i) that the SAL was on the whole the right project at the right time;

(ii) that project preparation was a long-term process that spanned many years of application of all the Bank's instruments;

(iii) that the role played by the Bank in helping India prepare the SAL-supported reform program appropriately took into account national sensitivities about that role, and was therefore much more effective that would otherwise have been the case; and

(iv) that whereas a strength of the initial reform program as it was designed in 1991 was the strong integration of the stabilization and structural reform components, the current fiscal deficits–both in the Central Government and in the states–pose a major threat to sustainability.

5.2 The SAL was the "right project" because it had appropriate objectives–objectives that were influenced constructively by the Bank through its ESW and policy dialogue over many preceding years. The Bank was able to influence these objectives not only because of the quality of its substantive work but also because of the "quality of the process" through which it pursued the dialogue across a broad spectrum of technocrats, the economic press, the business community and other stakeholders. The "audience" for Bank information and analysis was diverse. Moreover, the objectives of the reform program in general and of the SAL in particular were strongly owned by the Government.

5.3 The SAL took place at the right time because it was a timely response to a window of opportunity created by the 1991 crisis and the change in leadership that brought to power an economic team prepared to "seize the day" and to replace reform by stealth with reform by storm. It was also important that the Bank was prepared to seize the day after so many years of working to be ready for this opportunity.

5.4 The 1991 SAL had appropriately ambitious objectives. At the same time, these objectives were grounded in the political and social realties of the time and place. The objectives were fitted to the process of building commitment and consensus sufficient to ensure their implementation, and vice versa. Nevertheless, the SAL still had too many unprioritized components and lacked a set of core performance indicators.

Main Lessons

5.5 The main substantive lesson from the review of the SAL experience is:

- the reaffirmation of the centrality of macroeconomic stabilization to the prospects for sustainability

5.6 The findings of this PAR translate into a number of "process" lessons. These lessons are that the effectiveness and quality of Bank assistance in structural adjustment depend on:

- the Bank's willingness and ability to move swiftly and opportunistically to respond to crises–which crises may offer a windows of opportunity to take bolder steps than would otherwise be possible;

- the mutual understanding between the Bank and the Government about the nature of the problems to be solved–understandings which often require a long period of dialogue and ESW studies that provided a sound diagnostic;

- mutual respect and credibility between the people directly involved on the Bank and country sides;

- the credibility of the Bank *vis-à-vis* other donors and creditors–which can be earned through leadership of the aid consortium, discussion of ESW studies, etc.;

- good understandings by Bank staff and management of the country's capabilities–and of limitations in those capabilities (technical, institutional and political) to implement various types of reforms within specific time horizons;

- good working relations with the IMF that reflect the needs for well-defined divisions of responsibility and also joint focus on issues such as trade and fiscal reforms;

- a sensitivity by Bank staff and management to factors that make countries sensitive both to the reality and appearances of roles played by the Bank;

- adequate dissemination of Bank studies and discussion of policy issues, tailored to the country's governance conditions; and

- the extent to which key sustainability issues are addressed up front, in the design stage.

The Centrality of Stabilization

5.7 The main lesson identified by the PCR was that "the Government's success in reducing fiscal deficits was instrumental in enabling it to launch important measures in the key areas of trade, finance and public enterprises. Without such success on the fiscal front, it would have been difficult if not unfeasible to lower custom tariff rates, to reduce reserve requirements on commercial banks, to deregulate interest rates, and to impose a hard budget constraint on public enterprises. [The key role of fiscal adjustment] in enhancing the credibility of the overall reform program and in restoring external confidence cannot be doubted."

5.8 These points are well taken. But by the same token, the subsequent faltering in fiscal adjustment must be seen as an extremely serious threat to India's ability to deepen and intensify the structural reforms and in consequence to accelerate growth and poverty alleviation.

Fortunately, this is well perceived by the Government and by Bank staff, so this issue is at the center of the dialogue. The dialogue could be further strengthened by an economic study that further elucidated both (i) the technical causes and consequences of inflation in India, and because inflation is such an important political issue, (ii) the "political economy of inflation" in India.

5.9 A principal recommendation of this PAR is that the Government and the South Asia Region give consideration to adopting a core set of "sustainability indicators" as a means of focusing attention, strategy formulation and monitoring efforts on those indicators that are most crucial to sustainability. A prototype set of such indicators was set forth in Box 4.1 in Chapter 4.

The Importance of Country Conditions

5.10 A main theme of this PAR as been the importance to "relevance" of fitting process to place. But because the places (countries, or even states within diverse countries such as India) differ so much in their economic and governance conditions and their experiences with and attitudes towards the Bank, a corollary is that the Bank should beware of generic recommendations. The Indian SAL also showed the importance of mutual understandings and credibility as between the Government and Bank. These are not abstractions between institutions, but realities between individuals. Hence the importance of building into the Bank's country assistance strategies ways and means of building these equivalents of corporate goodwill.

5.11 In many Bank countries, including India, there remains a long unfinished agenda of adjustment. Therefore, in many countries, the Bank will continue to deal with adjustment policies for many years to come. A central lesson of the India SAL is that the Bank should take a long-term view and to develop, country by country, a long-term plan for acquiring the in-depth country knowledge and mutual understandings, at individual as well as institutional levels, that proved so important to the Bank's effectiveness in helping the Indian reform program.

INDIA: STRUCTURAL ADJUSTMENT LOAN/CREDIT

POLICY MATRIX

AREAS OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
INDUSTRIAL POLICY		
Reform of industrial regulatory framework regarding firms' entry, expansion, financing and diversification		
	A.1 The Government has abolished industrial licensing for all new, expansion, and diversification projects of all sizes except in 18 designated industries and except for projects/facilities located less than 25 km from cities of over one million population.	B.1 Guidelines will be issued clarifying that industrial licensing decisions on grounds of location (A.1) will be based solely on environmental, safety, land use, congestion, urban planning, and related concerns.
	A.2 Amendments to the MRTP Act have been made via Presidential Ordinance, abolishing all pre-entry clearance requirements for large or dominant firms; the MRTP Act has been reoriented to emphasize policing of monopolistic, restrictive, and unfair trading practices.	B.2 The 25% and Rs. 20 million limits on automatic approval for capital goods imports will be raised to 50% and Rs. 100 million, respectively.
	A.3 The requirement for producers to enter into Phased Manufacturing Program (involving indigenization of the production of parts and components over time) has been eliminated in the case of new projects.	
	A.4 The mandatory convertibility clause in term loans of financial institutions (under which they had the right to convert a portion of loan value into equity) has been abolished for new projects.	
	A.5 Price and distribution controls on low-analysis fertilizers have been removed.	
Promotion of foreign direct investment		
	A.6 The Government has introduced automatic approval for projects with foreign equity investment up to 51% in high-priority industries, provided that the foreign exchange needed for imported capital goods is covered by the foreign equity infusion and that repatriation of dividends is offset by export earnings.	

AREAS OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
	A.7 The Government has announced that foreign technical collaborations would be freely permitted in high-priority industries up to certain limits on royalty payments, and in other industries if no free foreign exchange is required.	
Deregulation of Steel Industry		B.3 The Government will adopt a satisfactory action plan to deregulate and decontrol the steel industry, including, inter alia, removal of price and distribution control.
Reform of Exit Policy	A.8 Recognizing the need to overcome legislative, regulatory, and other obstacles to adjustment by industrial firms (rehabilitation, restructuring, and winding up where necessary), the Government has established an inter-ministerial Working Group to review the existing provisions of the various laws governing labor relations, state and local governments' role in industrial restructuring, regulations governing transfer of land, procedures for liquidation under the Companies Act, and other relevant aspects.	B.4 Amendments to the Sick Industrial Companies Act of 1985 (SICA) to institute more appropriate criteria for sickness, strengthen the Board for Industrial and Financial Reconstruction (BIFR), improve its functioning, and streamline and facilitate procedures under BIFR will be prepared and submitted to Parliament.
	A.9 Establishment of a National Renewal Fund to provide workers with a safety net to protect them from the adverse consequences of restructuring and technological development has been announced by the Government.	B.5 The objectives, scope, structure, operations, sources and methods of funding, criteria and mechanisms for providing support to workers, nature and amounts of such support, and other details of the National Renewal Fund will be specified. This is expected by December 31, 1991.
		B.6 Based on the review and recommendations of the inter-ministerial Working Group (see A.8), the Government will formulate a satisfactory policy to facilitate adjustment by industrial firms and initiate steps to this end, taking into account the need for adequate safeguards for workers, programs for re-deployment and retraining, and appropriate compensation where necessary.

AREAS OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
<u>TRADE POLICY</u>		
Removal of emergency Reserve Bank restrictions on imports		
	<u>A.1</u> RBI restrictions imposed initially as part of emergency measures to deal with the critical balance of payments situation have been partially relaxed, in particular for export-related imports.	<u>B.1</u> It is expected that by December 31, 1991, there will be further reduction of margin requirements for export related imports and capital goods financing restrictions affecting exporters. By second tranche release remove the following RBI restrictions: margins, queuing system for L/Cs, and capital goods financing requirements.
Reduction of discretionary import licensing (QRs)		
	<u>A.2</u> As part of its efforts of moving from QRs to a price-based import regime system, the Government replaced the REP scheme with a new tradeable import entitlement "Exim scrip", with broader coverage and higher retention rate.	
	<u>A.3</u> In August 1991 a number of intermediate goods on the restricted list (Appendix 2B) corresponding to one-third of the domestic output of such products were made freely importable by Eximscrip or on Open General License (OGL).	<u>B.2</u> Move intermediate items on the restricted list (Appendix 2B) corresponding to at least an additional one-third of the domestic production referred to in A.3 to be freely importable by Eximscrip or on OGL. However, consumer goods will continue to be restricted and will remain on Appendix 2B. Certain products will also continue to be restricted for health, environmental and security reasons.
Reduction in state monopoly on imports (decanalization)		
	<u>A.4</u> The replacement of REP licenses by the Eximscrip increased the volume of certain canalized items also importable by private individuals or firms using these licenses. A number of minor items decanalized (i.e., for those items public sector import monopoly eliminated) in August 1991. Private imports allowed under OGL in some cases and in others using Eximscrip.	<u>B.3</u> Implement a satisfactory program of reductions and elimination of the official foreign exchange allocated to the public sector agencies in connection with the phasing out of dual pricing of previously decanalized items. Decanalize all remaining canalized products except petroleum products, fertilizers, oilseeds, cereals, certain fatty acids and acid oils, and other acceptable products. In the case of the products for which private importers must use Eximscrip, either require the canalizing

AREAS OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
		agency to also use Eximscrip from the date of decanalization or announce a satisfactory program of progressive reductions and elimination of official foreign exchange to the public sector agencies in order to phase out dual pricing.
Reduction in QRs on capital goods imports		<u>B.4</u> Allow all unlisted capital goods to be imported with Eximscrip whether or not the Eximscrip is earned by the exports of the importing firm. Remove a substantial proportion of capital goods (corresponding to at least 50 percent of protected domestic production) from the capital goods restricted list (Appendix 1A). Production from which protection by import licensing is removed will not include capital goods the import of which remains restricted for health, environmental or security reasons.
Increased flexibility of import regime	<u>A.5</u> Since April 1990 imports under transferable REP licenses have not been subject to "actual user" conditions. Actual user conditions also do not apply to the much larger volume of Eximscrip imports.	<u>B.5</u> Abolish the "Actual User" requirement for imports.
Increased transparency in import regime	<u>A.6</u> In October 1991 a computerized list corresponding to Customs Tariff HSC classifications giving import control status of each product was issued.	<u>B.6</u> Abolish the Limited Permissible List (Appendix 3). Announce that all products not on Restricted lists, the Canalized lists, or the OGL lists are importable with the use of Eximscrip.
		<u>B.7</u> Abolish the purchase preference given by the Directorate General of Supply and Disposal (DGS&D) and to domestic suppliers over the duty paid price of imports.

AREAS OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
Export incentives and removal of non-tariff barriers to exports		
	A.7 In August 1991 a new Advance License Scheme was introduced which broadens, simplifies and speeds up export incentives for manufactured goods.	
	A.8 GOI decanalized some exportable products on August 13, 1991 and decontrolled some others on September 4, 1991. Further decontrol measures were taken in October 1991. GOI is continuing to review export controls and export canalization, in particular existing policies towards agricultural and mineral exports.	B.8 Remove all export licensing, canalization and minimum export prices except for a satisfactory negative list.
Tariff reform		
	A.9 The Government has partially rolled back the earlier tariff increases adopted in the context of fiscal adjustment of December 1990 and the maximum ad valorem tariff (basic plus auxiliary) was lowered to 150 percent.	B.9 Completion of the customs tariff review and adoption of a satisfactory medium term plan to meet the objectives set out in A.10. A substantial initial reduction of the maximum customs tariff to be introduced in the 1992/93 budget.
	A.10 The GOI is undertaking a comprehensive review of the customs tariffs in order to recommend among other things, ways and means for: (i) substantially reducing the average level of tariffs; (ii) significantly lowering the maximum level of tariffs; (iii) simplifying the structure of tariff rates with a view to substantially reducing their variability and the incidence of exemptions and partial exemptions; (iv) minimizing the use of specific tariffs; (v) obtaining alternative revenue sources to compensate for any reduction in total government revenue which may follow from the tariff reform.	

AREAS OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
FINANCIAL MARKETS AND INSTITUTIONS		
Interest rate liberalization		
	A.1 Significant progress has been achieved in introducing greater flexibility and autonomy in the determination of term lending rates. Minimum lending rates for both commercial banks and financial institutions have been increased to 20% and 15% respectively, with both institutions given the freedom to add margins, depending on borrowers' creditworthiness and market conditions.	
	A.2 Term deposit rates have been increased across the board by 1 to 2 percentage points (deposit rates, however, remain still under the administrative control of the RBI).	
Reduction in the scope of directed credit allocation schemes		
	A.3 A panel (Narasimham Committee) has been established with the mandate to review all relevant aspects of structure, organization, functions and procedures of the financial system, and make recommendations for reforms by mid-November 1991.	B.1 With the reduction of the fiscal deficit of Central Government as a proportion of GDP take measures to progressively reduce the Statutory Liquidity Ratio required to be maintained by the scheduled commercial banks, starting from April 1992. B.2 Based on the recommendations of the Narasimham Committee, formulate a satisfactory program of action to reduce interest subsidies in areas of directed credit, beginning in April 1992.
Capital market regulatory and institutional reform		
	A.4 Restrictions on interest rates for debentures issued by corporations in capital markets, both convertible and non-convertible, have been completely removed (exemption applies however to tax free bonds issued by the public sector).	
	A.5 The Coupon rate on Government securities has been raised by one-half of a percentage point from 11.5% to 12% (20-year bond).	

AREAS OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
	A.6 Announcement has been made to grant full statutory powers to the Stock Exchange Board of India (SEBI) under the Securities Contracts (Regulation) Act and the Company Act.	B.3 Prepare and present to Parliament legislation to give SEBI statutory status in order to operate as an independent regulatory body, including power to investigate with due diligence.
	A.7 Announcement has been made to introduce a comprehensive package of reform to improve the trading mechanism of stock exchanges, including a system of national clearing and settlement and setting up a central depository trust.	B.4 Adopt a satisfactory Program of action to reform the trading mechanism of stock exchanges, including a system of national clearing and settlement and setting up a central depository trust.
Private sector participation in the mutual funds industry	A.8 The mutual funds industry is being opened for private sector participation. A high level Committee (Dave Committee) has been established to review the existing regulatory framework for the mutual funds industry with a view to preparing a draft legislation for regulation of mutual funds and other offshore funds, including such funds which may be a step up in the joint/ private sector, and to make recommendations on any other matters which is relevant for the orderly growth of mutual funds.	B.5 Based on the recommendation of Dave Committee, formulate and implement a satisfactory Program of action for setting up of mutual funds in the private sector.

AREAS OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
PUBLIC ENTERPRISES REFORM		
Rationalizing the scope and the role of the public sector	A.1 The Government has announced that the public sector is to concentrate on essential infrastructure, exploitation of oil and mineral resources, crucial areas where private investment is inadequate, and strategic-related activities. It was announced that the existing portfolio of public enterprises will be reviewed, with a view to focusing the public sector on strategic areas, high-tech, and essential infrastructure. The list of industries reserved for the public sector has been reduced from 18 to 8.	
Reduction in budgetary support to public sector enterprises	A.2 Budgetary support to central public enterprises has been reduced significantly, with nonplan loans and transfers to public enterprises projected to drop by about 25% in 1991-92 and budgetary plan support for investment by public enterprises (loans and equity contributions) by 10%.	B.1 As part of its program of fiscal adjustment and to ease the burden on the budget, the Government will adopt and initiate the implementation of a satisfactory phased action plan to eliminate within three years (i.e., by the end of 1994/95) budgetary transfers and loans to sick central public enterprises and budgetary plan support (loans and equity) for public enterprise investments except in energy, transport, and other infrastructure. Under the action plan, Government guarantees of central public enterprise borrowings will be limited to essential infrastructure, exploitation of oil and mineral reserves, and strategic-related activities.
Formulation of an exit policy for public enterprises	A.3 The Government is developing an exit policy for public enterprises.	B.2 In the case of units that are patently unviable, the Government will form a satisfactory action program to initiate restructuring and closure procedures.

AREAS OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
		B.3 The Government will take actions to ensure that, except for central public enterprises already determined to be unviable by the Government (B.2), all public enterprises that are sick according to the criteria specified in the Sick Industrial Companies Act (SICA) henceforth will automatically be referred to the Board for Industrial and Financial Reconstruction (BIFR) for assessment of their prospects and subsequent winding up or rehabilitation. All such sick central public enterprises will be referred to BIFR.
Divestiture	A.4 Government disinvestment of 20% of the equity of selected public enterprises has been announced; shares would be sold to mutual funds and other financial institutions, which will then resell them to the general public. Disinvestment is expected to yield proceeds of at least Rs. 25 billion for the budget in 1991-92.	B.4 The detailed program for disinvestment of 20% of equity in selected public enterprises, to yield Rs 25 billion, will be finalized and approved by the Government and implementation of the program will be completed by the end of 1991/92.
		B.5 Building on the 20% disinvestment, a satisfactory action program to progressively increase the private equity share in profitable central public enterprises to 49% within three years will be promulgated by the Government, along with a list of the companies concerned and a timetable for implementation.

MAR 8 1996

D.O.No. 366/FB-VI/96

V. Govindarajan,
Joint Secretary(FB)
Tel.No.3012752.

भारत सरकार Government of India
वित्त मंत्रालय Ministry of Finance
आर्थिक कार्य विभाग Department of Economic Affairs

नई दिल्ली / New Delhi

07.03.1996

Dear Javad,

Please refer to your letter dated 7th February, 1996 forwarding therewith the draft Performance Audit Report (PAR) on the Structural Adjustment Loan/Credit (Loan 3421-IN/Credit 2316 IN).

2. While we agree with most of the conclusions of the Performance Audit Report including those on the Balance of Payments outcome, we have reservations on the rating of "uncertain" for sustainability of the project as mentioned in para 4.36 of the PAR. We have time and again demonstrated the Government's commitment and resolve to continue with its process of opening up the economy and enhancing efficiency through domestic and external competition. The structural reforms have been focussed on fiscal adjustment, deregulation of domestic industry and promotion of foreign direct investment, liberalisation of the trade regime, financial sector reforms as also initiation of public enterprise reform. We may add that the reform process is irreversible and would be continued to achieve a greater degree of integration with the world economy.

3. Our specific comments on the issue of 'Stabilisation and Public Savings' (paras 4.2 to 4.4) and on 'Revenue Deficit and Public Debt" (paras 4.5 to 4.9) are as under:

Stabilisation and Public Savings:

Of late the situation has changed. Gross dissaving by the Central Government which rose sharply in 1993-94 and then declined in 1994-95 (Revised Estimates), is estimated to decline further to 1.7 per cent of GDP in 1995-96 (Budget Estimates).

Revenue Deficit and Public Debt.

The latest available estimates indicate that in India:

- GDP had grown by 5 per cent in 1993-94, 6.3 per cent in 1994-95 and is estimated to grow by 6.2 per cent in 1995-96. Thus, despite the deep crisis of 1991-92, average growth over the first four years of the Eighth Plan at 5.7% is higher than the Plan target of 5.6 per cent.

- Government debt, consisting of internal and external liabilities, fell from 69.7 per cent of GDP in 1993-94 to 67.0 per cent in 1994-95 (Revised Estimates).

- Revenue deficit as a per cent of GDP has fallen from 4.1 in 1993-94 to 3.1 in 1995-96 (Revised Estimates) and is estimated to be 2.7 in 1996-97 (Budget Estimates).

- The Gross Domestic Saving rate set a new record of 24.4 per cent in 1994-95, exceeding the recent peak of 23.6 per cent in 1990-91.

As regards para 5.11 of the report we consider that it does not serve useful purpose and, therefore, could be deleted.

Based on the position explained above, we feel that the relevant portion of the draft Performance Audit Report on the Structural Adjustment Loan/Credit needs to be modified.

Yours sincerely,

V. Govindarajan

(V. GOVINDARAJAN)

Mr. Javad K Shirazi
Director
Resident Staff in India,
World Bank,
New Delhi.

THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

DATE: July 17, 1996

TO: Mr. Edwin R. Lim, Director, Resident Staff in India

FROM: Luis Landau, Acting Division Chief, OEDD2

EXTENSION: 31662

SUBJECT: **INDIA: Structural Adjustment Loan/Credit (L3421-IN; C2316-0-IN and 2316-1-IN) - Performance Audit Report**

I will appreciate your distributing the enclosed final audit reports and cover letters to the officials concerned. Three additional copies of the report are enclosed for your records.

Enclosures

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

July 17, 1996

Mrs. Rani Jadhav
Joint Secretary
Department of Economic Affairs
Ministry of Finance
New Delhi, India

Dear Mrs. Jadhav:

Re: Structural Adjustment Loan/Credit
(L3421-IN, C2316-0-IN, C2316-1-IN)
Performance Audit Report

On January 30, 1996 we forwarded to you a copy of the draft Performance Audit Report on the above project.

The final version of the report has now been distributed to the Bank's Board of Executive Directors and it is my pleasure to send you three copies for your information.

Sincerely,

Luis Landau
Acting Division Chief
Country Policy, Industry, and Finance
Operations Evaluation Department

Enclosures

RCA 248423. WUI 64145 FAX (202) 477-6391

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

July 17, 1996

Dr. S.S. Talapore
Deputy Governor
Reserve Bank of India
Bombay, India

Dear Dr. Talapore:

Re: Structural Adjustment Loan/Credit
(L3421-IN, C2316-0-IN, C2316-1-IN)
Performance Audit Report

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Sincerely,

Luis Landau
Acting Division Chief
Country Policy, Industry, and Finance
Operations Evaluation Department

Enclosures

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

July 17, 1996

Mr. R.K. Sinha
Secretary
Department of Industrial Development
Ministry of Industry
New Delhi, India

Dear Mr. Sinha:

Re: Structural Adjustment Loan/Credit
(L3421-IN, C2316-0-IN, C2316-1-IN)
Performance Audit Report

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Luis Landau
Acting Division Chief
Country Policy, Industry, and Finance
Operations Evaluation Department

Enclosures

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INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

July 17, 1996

Mr. T.S. Vijayraghavan
Additional Secretary
Ministry of Commerce
New Delhi, India

Dear Mr. Vijayraghavan:

**Re: Structural Adjustment Loan/Credit
(L3421-IN, C2316-0-IN, C2316-1-IN)
Performance Audit Report**

On January 30, 1996 we forwarded to you a copy of the draft Performance Audit Report on the above project.

The final version of the report has now been distributed to the Bank's Board of Executive Directors and it is my pleasure to send you three copies for your information.

Sincerely,

Luis Landau
Acting Division Chief
Country Policy, Industry, and Finance
Operations Evaluation Department

Enclosures

RCA 248423. WUI 64145 FAX (202) 477-6391

ROUTING SLIP	Date 6/19/96

NAME	ROOM NO.
Mr. N. Mathieu, Act. Chief	

	[illegible]ENT		For Action/Comment		Per Your Request
	Appropriate Disposition		Information/Discard		Returned
	Approval/Clearance		Note And Return		See My E-Mail
	File		Per Our Conversation		Signature/Initial

RE: INDIA: SAL (L3421-IN, C2316-IN)
Performance Audit Report

REMARKS

For your approval to print.

N.M.

OK to Print

Date: 6/19/96

From	Room No.	Ext.
R. Armstrong		

P-1862

FOR OFFICIAL USE ONLY

The World Bank
Washington, D.C. 20433
U.S.A.

Office of the Director-General
Operations Evaluation

June 19, 1996

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Performance Audit Report on India - Structural Adjustment Loan/Credit (Loan 3421-IN; Credits 2316-0-IN and 2316-1-IN)

Attached is the Performance Audit Report (PAR) for the India Structural Adjustment Operation (Loan 3421-IN/Credits 2316-0-IN and 2316-1-IN). This US$500 million loan/credit was approved in December 1991 and closed on schedule in December 1992. This operation was the Bank's first adjustment loan/credit to India. Its main objectives were to: (i) help India cope with a balance of payments crisis of unprecedented severity; and (ii) support a broad-based set of policy reforms aimed mainly at liberalizing the Indian economy and opening it up to more competition both from within and abroad. Complementary stabilization policies were undertaken simultaneously under an IMF program. Further structural reforms were supported by two subsequent adjustment operations: the Social Safety Net Sector Adjustment Credit (FY93) and the External Sector and Investment Loan (also FY93).

This PAR finds that the operation's objectives were timely and relevant, and it agrees with the Project Completion Report (PCR) that implementation was satisfactory in most respects. The timely provision of foreign exchange in combination with other official capital that the operation helped to catalyze, enabled India weather its balance of payments crisis and improve its creditworthiness. On the policy side, the pace and scope of reforms exceeded the operation targets in several key areas, viz., exchange rate policy, liberalization of the import regime, and financial sector reform. In other areas, however, progress was more gradual (exit policy for industrial firms, removal of restrictions on agricultural exports). In the case of public enterprise reform, progress has been considerably short of what was envisaged.

The PAR agrees with the PCR's ratings of the operation's outcome as satisfactory and institutional development (ID) impact as substantial. In contrast to the PCR, however, the PAR rates sustainability as uncertain because–notwithstanding encouraging progress on the liberalization front–there have been insufficient fiscal reforms at both the central and state government levels and inadequate public enterprise and institutional reforms to ensure continued economic growth and poverty alleviation in the future. These shortcomings are reflected in declining public savings, an onerous debt burden, and a crowding out of public and private investment by public sector current expenditure, which may endanger the sustainability of the achievements so far, in terms of growth rates, foreign investment and general dynamism of the economy. In commenting on the draft PAR, the Government of India expressed its "reservations" about the sustainability rating and reaffirmed its commitment to continue with the reform process, but this rating was left as uncertain in the final PAR.

One lesson flagged in the PCR was that India's initial success in reducing its fiscal deficit was instrumental in enabling it to undertake reforms in trade, finance and public enterprises, and in restoring the credibility and confidence needed to stimulate private investment. A complementary lesson identified in the PAR is that, by the same token, sustainability of the progress is threatened by the recent weakening of fiscal performance. The PAR also finds that the Bank's ability to support the Government reform program was helped by good economic and sector work undertaken by the Bank over many years, and by good mutual understanding of the nature of the problems to be solved.

Attachment

THE WORLD BANK GROUP

ROUTING SLIP	DATE: RECEIVED

NAME	ROOM. NO.
Mr. R Picciotto, DGO	96 JUN 18 PM 2:08
Thru: Mr. F. Aguirre-Sacasa, Director, OED FAS	DGO

	URGENT		PER YOUR REQUEST
	FOR COMMENT		PER OUR CONVERSATION
	FOR ACTION		NOTE AND FILE
	FOR APPROVAL/CLEARANCE		FOR INFORMATION
✓	FOR SIGNATURE		PREPARE REPLY
	NOTE AND CIRCULATE		NOTE AND RETURN

RE: PAR: INDIA - Structural Adjustment Loan/Credit (L3421-IN; C2316-0-IN and C2316-1-IN)

REMARKS:

The enclosed Review Note is for your signature. Comments from the Region on the final draft PAR have been taken into account. The PAR is now ready to be sent to the Print Shop.

FROM	ROOM NO.	EXTENSION
M. Peñalver, Chief, OEDD2	G6-089	84400

A L L - I N - 1   N O T E

DATE: 16-Jun-1996 05:52pm

TO: MANUEL PENALVER (MANUEL PENALVER@A1@WBWASH)

FROM: Heinz Vergin, SA2DR (HEINZ VERGIN@A1@WBHQB)

EXT.: 80332

SUBJECT: India: SAL Audit

Manuel, In light of Javad's response please issue the audit to the Board. As regards the Precis, let's hold it back a little longer. Thanks, Heinz

A L L - I N - 1   N O T E

DATE: 14-Jun-1996 11:36pm EST

TO: Heinz Vergin (HEINZ VERGIN@A1@WBHQB)

FROM: Javad Shirazi, SA2RS (JAVAD KHALILZADEH-SHIRAZI@A1@DELHI)

EXT.:

SUBJECT: <u>RE: OED - Audit of SAL</u>

I see no reason to hold it back.

A L L - I N - 1   N O T E

DATE: 24-May-1996 12:22pm

TO: Norma Namisato (NORMA NAMISATO)
TO: Manuel Penalver (MANUEL PENALVER)

FROM: Robert P. Armstrong, SA1CO (ROBERT P. ARMSTRONG)

EXT.: 82773

SUBJECT: **India SAL PAR--Creditworthiness**

Norma/Manuel:

I've seen Mr. Vergin's memo of May 19 to Francisco, and I've had followup discussions with Mr. Dinh and gotten some updated data on India's credit ratings. So even though Ulrich hasn't forwarded me anything from Mr. Dolenc (who was to have sent him information on India's credit ratings), I'm still able to propose revisions on page 31 of the PAR as follows:

Change 1: At the bottom of the table, add a note as follows:

NOTE: For both the Euromoney and Institutional Investor ratings, the lower the number, the better the rating; 1 is best. As of March 1996, India's Euromoney rating was 45 (out of 178), its Institutional Investor rating was 48 (out of 133), and its Moody's rating remained at Baa3.

Change 2: Strike the first sentence of para 3.17 and replace it with the following:

3.17 The table shows that India's creditworthiness has improved in recent years to a low investment grade rating. (The Standard and Poor's rating in 1995 and early 1996 of BB+, like the Moody's rating of Baa3, is an investment grade rating).

Change 3: Strike the last sentence of para 3.17 and replace it with the following:

But India's ability to improve or even maintain its improved credit rating will depend upon the commitment shown by the government emerging from the 1996 elections to stay the course of economic reform.

==

Note to Manuel:

We should I suppose be flattered that Mr. Vergin is fearful that this little ole report might have such a readership and impact as to possibly damage investor confidence. In any event I'm glad that you're not requiring OED staff to "take the oath" that Heinz proposes. Is the Bank going down a road in which loyalty and other oaths are de rigueur?

Let me know what you think of my proposed changes.

Bob

The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: May 20, 1996 12:19pm

TO: GREGOR DOLENC (GREGOR DOLENC @A1@WBHQB)

FROM: Ulrich Thumm, OEDDR (ULRICH THUMM)

EXT.: 35050

SUBJECT: India Market Rating

Gregor:

I just talked to Heinz Vergin about the market rating for India which is discussed in the OED audit report for the India SAL. He tells me that you had provided him with the most recent information and that S&P's rating for India is at investment grade. Please send us the relevant information.

Thanks.

Ulrich

CC: Manuel Penalver (MANUEL PENALVER)
CC: OEDDR FILES (OEDDR FILES)

The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: May 20, 1996 12:15pm

TO: HEINZ VERGIN (HEINZ VERGIN @A1@WBHQB)

FROM: Ulrich Thumm, OEDDR (ULRICH THUMM)

EXT.: 35050

SUBJECT: India SAL, PAR, Your EM of May 19

Further to our telephone conversation, I would like to confirm that we agree with the proposed timing, i.e., finalization of the PAR but distribution to the government only after the political situation in India becomes clearer during the next few weeks. We also agree to delete paras. 1.16 and 2.19.

Regarding para. 3.17, we consider it important, but we would obviously look at additional information, particularly the rating by S&P, and possibly reformulate the paragraph slightly.

Regarding para. 3.28, we agreed to leave it in.

CC: Francisco Aguirre-Sacasa (FRANCISCO AGUIRRE-SACASA)
CC: Manuel Penalver (MANUEL PENALVER)
CC: OEDDR FILES (OEDDR FILES)

Manuel
Let's talk again. Vergin claims that S&P rates India at "investment grade"
UT
5/20

Bagoudi
Derbes

The World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: May 19, 1996 02:08pm EST

TO: FRANCISCO AGUIRRE-SACASA (FRANCISCO AGUIRRE-SACASA@A1@WBWASH)

FROM: Heinz Vergin, SA2DR (HEINZ VERGIN@A1@WBHQB)

EXT.: 80332

SUBJECT: India-SAL:Performance Audit Report; FOR YOUR URGENT ATTENTION

Francisco, This a professional and thoughtful report which takes most of our comments into account. A few important residual comments are provided below.
the most important issue now is the timing of this report to the Board. First, we need to consider that the Report if released as planned on or about May 20 will have to be transmitted to the currently unconfirmed Government. In addition we must assume that the Report will be leaked shortly after it reaches the Board.

Recommendation:Finalize the Report, but hold its release until we know with whom we are dealing in the Government. Together with our SAL partners we can then manage the "dissemination " of this important report with the necessary care. The preparations for constructive use of this Report (and its Precis) would be quite different depending on whether we are dealing with BJP or a left-wing Coalition.

Residual Issues:

1. For the reasons repeatedly stated by us, Para 1.16 should be deleted.The same holds for the reference to the ~~"personal"~~ terms of the relationships with the economic team in Para 2.19.

2. Para 2.26 is very confusing and would be best deleted without loss of substance to the Report.

3. We should think twice about the potential damage which the content of Para 3.17 could to India's market standing. In our view the composite judgement expressed in the first sentence is wrong, but economists will go on argueing about that. More importantly however, why do we want to take the risk of damaging investor confidence at this delicate stage in India's political transition? The Hyppocratic Oath "At Least Do No Harm" should apply to OED's wortk as much as to our own. No

4. The observations in Para 3.28 seem to be inconsistent with the overall sensitivity which the Report shows to the constraints under which the Economic team and the Bank team had to work. An attempt to burden the SAL with high-profile capacity building ~~would~~ would have been a lapse in good judgement on our side. Please, review one more time. No

With apologies for the last minute comments and apprehensions,
Regards Heinz

FAX 363-4755

cc: Armsbrong

The World Bank/IFC/MIGA
OFFICE MEMORANDUM

MAY 31 1996

DATE: May 20, 1996 12:19pm

TO: ~~GREGOR DOLENC~~ (GREGOR DOLENC@A1@WBHQB)

FROM: Ulrich Thumm, OEDDR (ULRICH THUMM@A1@WBWASH)

EXT.: 35050

SUBJECT: **India Market Rating**

Ulrich, pl. note the attached, which is still accurate! Gregor

Gregor:

I just talked to Heinz Vergin about the market rating for India which is discussed in the OED audit report for the India SAL. He tells me that you had provided him with the most recent information and that S&P's rating for India is at investment grade. Please send us the relevant information.

Thanks.

Ulrich

CC: ~~Manuel Penalver~~ (MANUEL PENALVER@A1@WBWASH)
CC: OEDDR FILES (OEDDR FILES@A1@WBWASH)

The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: February 29, 1996 04:04pm

TO: Heinz Vergin (HEINZ VERGIN)

FROM: Gregor Dolenc, ASTDR (GREGOR DOLENC)

EXT.: 80351

SUBJECT: India - S&P Rating

Towards the end of 1994, Moody's increased India's long term sovereign debt to BBB+, i.e. the lowest investment grade.

In May 1995, S&P sent a mission to India, at the end of which they decided to keep India's long term sovereign debt at BB+, i.e. below investment grade.

I spoke to S&P today, and the situation is unchanged, and so are the near-to-medium term India rating prospects.

As you are aware, it is rare that Moody's and S&P would disagree in a major way over a protracted period of time; in this case, it keeps going on!

S&P cited accumulated, and unresolved, fiscal problems as THE reason for continued BB+ rating. They are assuming a status quo after the election, but they will nevertheless proceed with a country review (after the election).

Even if the new government should actually tackle the fiscal issue, S&P would wait with the upgrade until there were some tangible results, i.e. a bit of a track record.

S&P's RATING IS A MAJOR OBSTACLE TO ANY SIGNIFICANT INSTITUTIONAL INVESTORS' ACQUISITION OF INDIAN UTILITIES SECURITIES, NOT TO MENTION EQUITIES.

P.S. S&P just announced some sort of tie-up with CRISIL, which is a significant development -- re. the framework for deepening of India's capital markets.

CC: Zelena Jagdeo (ZELENA JAGDEO)
CC: Asia ISC Files (ASIA ISC FILES)

* * * COMMUNICATION RESULT REPORT (JUN. 4.1996 5:25PM) * * *

TTI OEDD2 202 522 3124

FILE	MODE	OPTION	ADDRESS (GROUP)	RESULT	PAGE
198	MEMORY TX		93634755	OK	P. 2/2

REASON FOR ERROR
E-1) HANG UP OR LINE FAIL
E-3) NO ANSWER
E-2) BUSY
E-4) NO FACSIMILE CONNECTION

FAX 363-4755

cc. Armstrong

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

MAY 31 1996

DATE: May 20, 1996 12:19pm

TO: ~~GREGOR DOLENC~~ (GREGOR DOLENC@A1@WBHQB)

FROM: Ulrich Thumm, OEDDR (ULRICH THUMM@A1@WBWASH)

EXT.: 35050

SUBJECT: India Market Rating

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Thanks.

Ulrich

CC: ~~Manuel Penalver~~ (MANUEL PENALVER@A1@WBWASH)
CC: OEDDR FILES (OEDDR FILES@A1@WBWASH)

THE WORLD BANK GROUP

ROUTING SLIP	DATE: May 9, 1996

NAME	ROOM. NO.
Mr. R. Picciotto, DGO	
Thru: Mr. F. Aguirre-Sacasa, Director, OED FAS	

	URGENT		PER YOUR REQUEST
	FOR COMMENT		PER OUR CONVERSATION
	FOR ACTION		NOTE AND FILE
	FOR APPROVAL/CLEARANCE		FOR INFORMATION
✓	FOR SIGNATURE		PREPARE REPLY
	NOTE AND CIRCULATE		NOTE AND RETURN

RE: PAR: INDIA - Structural Adjustment Loan/Credit (L3421-IN; C2316-0-IN and C2316-1-IN)

REMARKS:

Please find attached for your approval the above-mentioned PAR together with the Project Information Form, Control Sheet, draft Review Note from you to the Board and memo from the Director OED through you to the VP concerned.

There were no comments from Mr. Picciotto. A letter from the Ministry of Finance has been included in the PAR as an Annex and the substance of its comments has been included in para 3 of the RN.

FROM	ROOM NO.	EXTENSION
M. Peñalver, Chief, OEDD2	G6-089	84400

✓ ✓ 5/10

THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

DATE: May 13, 1996

TO: Mr. D. Joseph Wood, Vice President, SAS

THROUGH: Mr. Robert Picciotto, DGO

FROM: Francisco Aguirre-Sacasa, Director, OED FAS

EXTENSION: 34380

SUBJECT: **INDIA - Structural Adjustment Loan/Credit (L3421-IN; C2316-0-IN and C2316-1-IN) Final Draft Performance Audit Report**

The final draft of the Performance Audit Report on the above is attached. Comments from the Region and the Government have been received.

The attached report is scheduled to be printed for release to the Executive Directors and the President on **May 20, 1996**. Please confirm before that date that the earlier comments of your staff have been adequately reflected in this final draft.

Attachment

cc: Messrs. H. Vergin (SA2DR); M.G. Gopal (LEGSA); M. Baird (DECVP)

The World Bank
Washington, D.C. 20433
U.S.A.

Office of the Director-General
Operations Evaluation

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Performance Audit Report on India - Structural Adjustment Loan/Credit (Loan 3421-IN; Credits 2316-0-IN and 2316-1-IN)

Attached is the Performance Audit Report (PAR) for the India Structural Adjustment Operation (Loan 3421-IN/Credits 2316-0-IN and 2316-1-IN). This US$500 million loan/credit was approved in December 1991 and closed on schedule in December 1992. This operation was the Bank's first adjustment loan/credit to India. Its main objectives were to: (i) help India cope with a balance of payments crisis of unprecedented severity; and (ii) support a broad-based set of policy reforms aimed mainly at liberalizing the Indian economy and opening it up to more competition both from within and abroad. Complementary stabilization policies were undertaken simultaneously under an IMF program. Further structural reforms were supported by two subsequent adjustment operations: the Social Safety Net Sector Adjustment Credit (FY93) and the External Sector and Investment Loan (also FY93).

This PAR finds that the operation's objectives were timely and relevant, and it agrees with the Project Completion Report (PCR) that implementation was satisfactory in most respects. The timely provision of foreign exchange in combination with other official capital that the operation helped to catalyze, enabled India weather its balance of payments crisis and improve its creditworthiness. On the policy side, the pace and scope of reforms exceeded the operation targets in several key areas, viz., exchange rate policy, liberalization of the import regime, and financial sector reform. In other areas, however, progress was more gradual (exit policy for industrial firms, removal of restrictions on agricultural exports). In the case of public enterprise reform, progress has been considerably short of what was envisaged.

The PAR agrees with the PCR's ratings of the operation's outcome as satisfactory and institutional development (ID) impact as substantial. In contrast to the PCR, however, the PAR rates sustainability as uncertain because–notwithstanding encouraging progress on the liberalization front–there have been insufficient fiscal reforms at both the central and state government levels and inadequate public enterprise and institutional reforms to ensure continued economic growth and poverty alleviation in the future. These shortcomings are reflected in declining public savings, an onerous debt burden, and a crowding out of public and private investment by public sector current expenditure, which may endanger the sustainability of the achievements so far, in terms of growth rates, foreign investment and general dynamism of the economy. In commenting on the draft PAR, the Government of India expressed its "reservations" about the sustainability rating and reaffirmed its commitment to continue with the reform process, but this rating was left as uncertain in the final PAR.

One lesson flagged in the PCR was that India's initial success in reducing its fiscal deficit was instrumental in enabling it to undertake reforms in trade, finance and public enterprises, and in restoring the credibility and confidence needed to stimulate private investment. A complementary lesson identified in the PAR is that, by the same token, sustainability of the progress is threatened by the recent weakening of fiscal performance. The PAR also finds that the Bank's ability to support the Government reform program was helped by good economic and sector work undertaken by the Bank over many years, and by good mutual understanding of the nature of the problems to be solved.

Attachment

THE WORLD BANK GROUP

ROUTING SLIP	DATE:

NAME	ROOM. NO.
Mr. R. Picciotto, DGO	
Thru: Mr. F. Aguirre-Sacasa, Director, OED	

	URGENT		PER YOUR REQUEST
	FOR COMMENT		PER OUR CONVERSATION
	FOR ACTION		NOTE AND FILE
	FOR APPROVAL/CLEARANCE		FOR INFORMATION
✓	FOR SIGNATURE		PREPARE REPLY
	NOTE AND CIRCULATE		NOTE AND RETURN

RE: PAR: INDIA - Structural Adjustment Loan/Credit (L3421-IN; C2316-0-IN and C2316-1-IN)

REMARKS:

Please find attached for your approval the above-mentioned PAR together with the Project Information Form, Control Sheet, draft Review Note from you to the Board and memo from the Director OED through you to the VP concerned.

A letter from the Ministry of Finance has been included in the PAR as an Annex. || Note that the substance has also been reflected, in ¶ 3 of the TN. FAS

FROM	ROOM NO.	EXTENSION
M. Peñalver, Chief, OEDD2	G6-089	84400

Manuel: Has Picciotto signed off earlier? If so, this should be noted in the cover sheet, and we should note that his comments have been reflected.

FAS

5/8.

FOR OFFICIAL USE ONLY

The World Bank
Washington, D.C. 20433
U.S.A.

Office of the Director-General
Operations Evaluation

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Attachment

A L L - I N - 1   N O T E

DATE: 26-Apr-1996 11:44am

TO: Robert P. Armstrong (ROBERT P. ARMSTRONG)

FROM: Norma Namisato, OEDD2 (NORMA NAMISATO)

EXT.: 31678

SUBJECT: **INdia PAR**

Mr. Armstrong,

1. I changed a little bit the wording of para 23 (Eval Sum) because I didn't want to repeat the word comment/ing:

Your draft: In commenting upon a draft of this report (see Annex II), the Government's main substantive comment was to reaffirm......

Revised: The Government's main substantive comment (see Annex II), upon a draft of this report, was to reaffirm ......

Is it OK with you?

2. Chapter 4, Box 4.1: Selected Sustainability Indicators: I want to ask you (maybe for the second time, but I want to be sure) if this table is complete, because the last item, Human Capital Development, says: "indicators t.b.d." Are we missing these indicators?

Would you give me a call, pls.? Thank you.

The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: April 24, 1996 12:55pm

TO: Norma Namisato (NORMA NAMISATO)

FROM: Robert P. Armstrong, SA1CO (ROBERT P. ARMSTRONG)

EXT.: 82773

SUBJECT: **India SAL PAR**

Norma:

Would you please add a new para 4.2 on page 35 as follows:

4.2 In commenting upon a draft of this report, Bank management noted that "regarding the central role of fiscal adjustment in the sustainability of India's reform process, we share [the] views and concerns [expressed in this report]." The Bank's comments went on to say that the importance of substantial and sustained reductions in the Government's fiscal deficit to around 3-4 percent of GDP is keenly recognized by the authorities and would remain a priority area in the Bank's dialogue with them. This priority was reflected in the last Country Assistance Strategy paper. In this same context, the Bank's comments on the draft PAR found encouraging the considerable reform and modernization of India's tax system undertaken in the last two years, including a reduction of corporate tax rates, simplification of the central excise tax system, a reduction in the number of rates and exemptions, and broadening of the tax base. It was envisaged that these developments would have enduring impacts in the future.

That's it. Thanks. Give me a call if you have any problems with this.

Bob

A L L - I N - 1   N O T E

DATE: 24-Apr-1996 01:08pm

TO: Norma Namisato (NORMA NAMISATO)

FROM: Robert P. Armstrong, SA1CO (ROBERT P. ARMSTRONG)

EXT.: 82773

SUBJECT: **RE: India PAR**

This will confirm that the Regional comments were taken into account. The main two changes were as follows:

Para. 5.11 as contained in the draft report sent to the Government was removed from the final PAR. This was requested in the memo/fax from Mr. Javad Shirazi to Mr. Penalver dated February 15, 1996.

A new para 4.2 was added in response to comments in a memo from Mr. Luis Derbez to Mr. Penalver dated January 23, 1996.

A few other changes were made to take into account the updating information included in the letter from Mr. V Govindarajan to Mr. Shirazi. These were mainly in the form of new footnotes.

For the record, I would note that Mr. Penalver also received, as an attachment to. A.L. Verma's letter to him dated March 19, 1996, a long listing of financial sector reforms undertaken up to February 1996. Since the letter made clear both that Mr./Ms (?) Verma had "no specific point to make on the Report [PAR]" and that the list was for Mr. Penalver's reference [only], and since in my own judgment the list was of only peripheral relevance to the PAR, I did not feel compelled to use this reference in revising the report.

OPERATIONS EVALUATION DEPARTMENT

ICR REVIEW/**AUDIT PROCESS**[1/]

CONTROL SHEET

Project: INDIA Structural Adjustment Loan/Credit
Loan/Credit No: L3421-IN, C2316-0-IN and C2316-1-IN
PCR Format (circle one): Old-Style / New-Style
Evaluating Officer: Robert Armstrong RA — Date: 4/24/96
Approved by: Manuel Peñalver, Division Chief — Date: 4/25/96

		Date (mo/dy/yr)
A.	Timetable	
	- PCR logged in by Division	____
	- If incomplete, PCR returned to Region	____
	- If PCR is unlogged	____
	In case evaluating officer requests Region to revise draft PCR:[1/]	
	- Note to Regional task manager	____
	- Follow-up memo from Division Chief, OED, to Sector Division Chief, Region, if revision delayed	____
	- Satisfactorily revised PCR received from Region	____

B. If PCR Returned to Region for Revision

Nature of revision requested (circle one):	minor	major	
Degree of hassle involved (circle one):	none	minor	major

1/ In the case of a PPAR which does not include the PCR, complete section E only.

2/ Please attach copy of note to regional task manager and follow-up memos if any.

Control Sheet (Cont'd)

C. Complete for Old-style PCRs

	YES	NO
Covenant requiring Borrower to prepare PCR[1/]	_	_
PCR prepared by:		
I. Borrower		
- Borrower staff or agencies	_	_
- FAO/CP or consultants[1/]	_	_
II. Bank		
- Bank staff	_	_
- Some input from Borrower	_	_
- Inadequate/incomplete Borrower PCR	_	_
Use of Borrower PCR in final document:[1/]		
- As final PCR	_	_
- With overview	_	_
- An Annex to Bank PCR	_	_
- On file, Bank prepared its own PCR	_	_

D. Complete for New-style PCRs

	YES	NO
Did Borrower complete Part II of the PCR	_	_
If yes,		
- Part II agrees with Parts I and III	_	_
- Part II disagrees with Parts I and III	_	_

E. OED Staff and Consultants Input

	Days
Staff	44
Consultants	30
Total	74

[3/] Please remember that a standard clause has been included in general conditions since January 1, 1985 (Article IX).

[4/] The PCR is clearly identifiable as a consultancy firm product.

[5/] Applies to item I.

This PIF has been posted

General Project Information

OED ID :	C2316
Type :	PAR
Country :	India
Project Description :	Structural Adjustment
Sector :	07 / Non-Sector Specific
Subsector :	07.99 / SAL
Lending Instrument :	SAL
L/C :	C2316 L3421

Original Commitment :	500	($US million)
Total Cancellation :	0	($US million)

KEY DATES	Original	Actual
Approval		12/05/91
Signing/Agreement		12/05/91
Effectiveness	12/11/91	12/11/91
Closing	12/31/92	12/31/92
PCR Receipt in OED		06/30/93

Review Date : 12/11/95
Reviewer : Robert Armstrong

Date of Physical Completion
Original : 06/30/93
Latest : 06/30/93

Total Project Cost ($US million)
Original : 500
Latest : 500

Applicable Disbursement Profile :
12 months

Number of Supervision Missions : 2

For PARs, are there major differences from the judgements made in the ICR/PCR Review?
(●) Yes
( ) No

Operations Evaluation Department
PROJECT INFORMATION FORM

Table of Contents

I. Project Objectives

1. Were major project objectives substantially changed during implementation?

- ◯ Yes
- ◉ No

If yes, were the objectives:

- ◯ Reduced
- ◯ Increased
- ◯ Otherwise modified

2. Rate each of the following:

	Relative IMPORTANCE of project objectives		RELEVANCE of outcomes cf. country/sector objectives		EFFICACY of outcomes cf. project objectives
	Original	Revised	Original	Revised	(Orig or Rev)
Policy					
Macro Stabilization	High		High		High
Public Policy Reform	High		High		High
Sector Policies					
Pricing efficiency	Substantial		High		Substantial
Other (specify):					
Physical / technical					
Capacity expansion					
Maintenance / rehabilitation					
Technology transfer					
Institutional Development	Substantial		High		Substantial
Private Sector Development	Substantial		Substantial		Substantial
Financial					
Mobilization of external resources	High		High		High
Social					
Poverty Alleviation	Negligible				
Gender Related Issues	Negligible				
Overall	Negligible				
Environment	Not Available				
Other (specify):					

II. Project Design

1. Taking into account the country's level of development and the competence of the implementing agency, were the project and its major objectives:

	Original Project	Revised Project
a) Demanding on Borrower / Implementing Agency?	Highly	
b) Demanding on Bank?	Modestly	
c) Complex?	Substantially	
d) Risky?	Modestly	

II. Project Design (cont'd)

2. To what extent was the Borrower involved in project design? Highly

3. How appropriate was the design for achieving the project's objectives? Highly

4. How innovative was the project's design? Substantially

5. Did the original project design, as presented in the SAR or MOP, include a plan for future project operation?
   - ○ Yes
   - ● No

6. Did the original project design include provisions for establishing an M&E system or improving the existing one?
   - ● Yes
   - ○ No

III(A). Economic Rates of Return

1. If an **Economic Rate of Return** (ERR) was calculated for the project, enter an estimate or range of estimates (in %):

	Estimate	Range
At Appraisal		From :
		To :
At Completion		From :
		To :

On what percentage of estimated total project costs was the original ERR based?

On what percentage of total project costs (final / latest estimate) was the re-estimated ERR based?

2. If an ERR was not re-estimated, indicate the reason(s):
   - ☐ Project not implemented
   - ☐ Inadequate data
   - ☐ Not relevant for the project
   - ☐ Other (specify):

3. If the re-estimated ERR differs significantly from the appraisal estimate, indicate the reason(s):
   - ☐ Cost changes
   - ☐ Changes in output price / user charges / terms of trade
   - ☐ Output changes
   - ☐ Output delays
   - ☐ Changes in methodology / analysis
   - ☐ Other (specify):

4. Does the ICR provide enough information to assess the reliability of the re-estimated ERR?
   - ○ Yes
   - ○ No

5. Is the re-estimated ERR a reasonable measure of this project's overall achievement of objectives?
   - ○ Yes
   - ○ No

   Explain:

III(B). Financial Rates of Return

1. If a **Financial Rate of Return** (FRR) or other financial indicator (e.g., rate of return on assets) was calculated for the project, enter an estimate or range of estimates (in %):

	Estimate	Range	
At Appraisal		From :	
		To :	
At Completion		From :	
		To :	

On what percentage of estimated total project costs was the original FRR based?

On what percentage of total project costs (final / latest estimate) was the re-estimated FRR based?

2. If an FRR was not re-estimated, indicate the reason(s):

- [ ] Project not implemented
- [ ] Inadequate data
- [ ] Not relevant for the project
- [ ] Other (specify):

3. If the re-estimated FRR differs significantly from the appraisal estimate, indicate the reason(s):

- [ ] Cost changes
- [ ] Changes in prices / user charges
- [ ] Changes in taxes / trade tariffs
- [ ] Output changes
- [ ] Output delays
- [ ] Changes in methodology / analysis
- [ ] Other (specify):

III(C). Indicators of Cost-Effectiveness

1. If an ERR was not calculated but the **Cost-Effectiveness** of the project was estimated in the ICR, was it:

- ○ Same as or higher than in the SAR
- ○ Lower than in the SAR
- ○ Information not available

	Cost per Unit of Output	Measures of Internal Efficiency	Cost per Unit of Input
2. For each of these types of indicator, are indicators included in the ICR?	○ Yes ◉ No	○ Yes ◉ No	○ Yes ◉ No
If Yes:			
Provide a clear description of the indicator(s) used, including units of measurement:			
Are the indicators used in the ICR evaluation?	○ Yes ○ No	○ Yes ○ No	○ Yes ○ No
Are the indicators measured appropriately?	○ Yes ○ No	○ Yes ○ No	○ Yes ○ No

IV(A). Factors Affecting Achievement of Major Objectives

1. Indicate the extent of the positive or negative influence exerted by each of the following factors on the achievement of **major objectives:**

Factors not generally subject to government control

World markets / prices	Partially Positive
Natural events	Partially Negative
Bank performance	Partially Positive
Cofinancier(s) performance	Not Available
Performance of contractors / consultants	Not Available
War / civil disturbance	Negligible
Other (specify):	

Factors generally subject to government control

Macro policies / conditions	Substantially Positive
Sector policies / conditions	Substantially Positive
Government commitment	Substantially Positive
Appointment of key staff	Substantially Positive
Counterpart funding	Not Available
Administrative procedures	Partially Positive
Other (specify):	

Factors generally subject to implementing agency control

Management	Partially Positive
Staffing	Partially Positive
Cost changes	Not Available
Implementation delays	Not Available
Use of technical assistance	Not Available
Monitoring and evaluation	Substantially Positive
Beneficiary participation	Partially Positive
Other (specify):	

2. If there was a major change in project **costs,** indicate whether each of the following tended to increase or decrease costs:

Change in project scope / scale / design	
Deficient estimate of physical quantities	
Deficient estimate of unit costs	
Inadequate price contingencies	
Change in exchange rate	
Change in prices / tariffs / taxes	
Change in time to implement project	
Performace of contractor(s)	
Other (specify):	

IV(A). Factors Affecting Achievement of Major Objectives (cont'd)

3. If there was a major change in the **time** required to implement the project, indicate whether each of the following tended to increase or decrease the time required:

Implementation schedule unrealistic		Receipt of counterpart funds	
Project preparation		Receipt of funds from Bank / cofinanciers	
Unexpected technical difficulties (specify):		Procurement procedures	
		Disbursement procedures	
Change(s) in project scope		Security problems	
Quality of management		Natural events	
Selection of staff		Other (specify):	
Selection of consultants			

4. If there was a major change in project objectives (see Section I, question #1), indicate whether each of the following was a major reason:

Change in project cost ◯ Yes ◯ No

Time delays ◯ Yes ◯ No

IV(B). Institutional Development

1. Was the project primarily directed at institutional development?	○ Yes ◉ No	2. If not, did the project contain component(s) with significant institutional development objectives?	◉ Yes ○ No

3. Rate each of the following aspects of **Institutional Development:**

	RELEVANCE of outcomes cf. country/sector objectives		EFFICACY of outcomes cf. project objectives (original or revised)	Estimated IMPACT
	Original	Revised		
National Capacity				
Economic management	Substantial		Moderate	Moderate
Civil service reform	Negligible		Negligible	Negligible
Financial intermediation	Substantial		Substantial	Substantial
Legal system	Moderate		Moderate	Moderate
Poverty alleviation	Negligible		Negligible	Negligible
Support to private sector	Negligible		Negligible	Negligible
Environment & natural resources	Negligible		Negligible	Negligible
Sectoral capacity	Negligible		Negligible	Negligible
Other (specify):				
Agency Capacity				
Planning / policy analysis	High		Moderate	Moderate
Management	High		Moderate	Moderate
Skills upgrading	Substantial		Moderate	Moderate
Personnel management	Moderate		Moderate	Moderate
MIS (incl. budgeting, auditing)	Moderate		Not Available	Not Available
Agency restructuring	High		Substantial	Substantial
Other (specify):				
Overall Insitutional Development	High		Substantial	Substantial

4. If any of the following modalities were used, indicate whether each had a positive or negative impact, or whether the impact is not available in the ICR:

	Local	Expatriate
Studies		
Twinning		
Short-term consultants		
Long-term consultants		
Training		
NGO participation		
Other (specify):		

IV(B). Institutional Development (cont'd)

5. Indicate which, if any, of the following supported development:

- [x] Joint or parallel cofinancing
- [ ] Non-project-specific advisors
- [x] Other Bank-funded operations
- [x] Other non-Bank operations
- [ ] Grant or trust funds

6. What percentage of total project cost was committed to institutional development? 0 %

What percentage of that amount did each of the following contribute?

Bank	0 %	Cofinanciers	0 %
Borrower	0 %	Other contributors	0 %
Other sources of local funding	0 %		

7. Was the design of the institutional development component mapped out completely in advance (blueprint approach), left to evolve within agreed rules (process approach), or a mixture of the two?

- ○ Blueprint
- ● Process
- ○ Mixed

8. Indicate whether each of these objectives had a positive or negative influence on the overall achievement of institutional objectives:

Borrower commitment	Positive
Quality of preparation, including institutional development sector work	Not Available
Design (including blueprint vs. process)	Positive
Supervision	Not Available
Establishment of a new organization	Positive
Elimination of an existing organization	Positive
Restructuring / privatizing / strengthening of an organization	Positive
Regulatory change	Positive
Number and/or complexity of financing arrangements	Not Available
Monitoring and evaluation	Positive
Exogenous factors, e.g., wars, civil disturbances, terms of trade shocks, etc. (specify):	

IV(C). Public Policy Reform

1. Did the project include reform of **public policies** (other than institutional development; see pt. IV(B))? ◉ Yes ○ No

2. If yes, rate each of the following **Public Policy** objectives

	RELEVANCE of outcomes cf. country/sector objectives — Original	RELEVANCE of outcomes cf. country/sector objectives — Revised	EFFICACY of outcomes cf. project objectives (original or revised)	Estimated IMPACT
Planning public investments / expenditures	Substantial		Moderate	Moderate
Budget process	Negligible		Negligible	Negligible
Tax system	Moderate		Moderate	Moderate
Monetary reform	Moderate		Moderate	Moderate
Debt management	Moderate		Moderate	Moderate
Exchange rate management	Substantial		Substantial	Substantial
Trade / tariff / etc.	High		High	High
Banking / financial sector reform	Substantial		Substantial	Substantial
Regulation of private sector	High		High	High
Public enterprises	High		Negligible	Negligible
Procurement policies	Negligible		Negligible	Negligible
Labor legislation	Substantial		Negligible	Negligible
Civil service reform	Moderate		Negligible	Negligible
Other (specify):				
Overall Public Policy Reform	High		High	High

3. Indicate whether each of these factors had a positive or negative influence on the achievement of public policy reform objectives:

Project preparation / design	Positive
Government / borrower commitment	Positive
Legal framework	Not Available
Bank staff effectiveness	Positive
Borrower / implementing agency effectiveness	Positive
Consultant(s) effectiveness	Not Available
Other (specify):	

IV(D). Social Concerns

1. Did the project target specific **Social Groups**? ○ Yes ◉ No

If yes, what characterized these groups?

- A ☐ Socio-economic status (e.g., poverty)
- B ☐ Gender (e.g., men, women, girls)
- C ☐ Ethnicity (e.g., indigenous or tribal peoples)
- D ☐ Community type or locale (e.g., resettlement)
- E ☐ Other (specify):

IV(D). Social Concerns (cont'd)

2. Indicate whether each of the following factors had a positive or negative influence on the achievement of **Social** objectives, and identify the group(s) affected using the above designations:

		A	B		D	E
Quality of project preparation / design		☐	☐	☐	☐	☐
Government / borrower commitment		☐	☐	☐	☐	☐
Effectiveness of NGO participation		☐	☐	☐	☐	☐
Effectiveness of beneficiary participation		☐	☐	☐	☐	☐
Bank staff effectiveness		☐	☐	☐	☐	☐
Borrower / Implementing agency effectiveness		☐	☐	☐	☐	☐
Other (specify):		☐	☐	☐	☐	☐

3. Rate each of the following **Social** objectives:

	RELEVANCE of outcomes cf. country/sector objectives		EFFICACY of outcomes cf. project objectives (original or revised)	Estimated IMPACT
	Original	Revised		
Community development / Beneficary particpation				
Poverty alleviation / protection of vulnerable groups				
Gender related issues				
Equity enhancement				
Improved access to services				
Improved quality of services				
Nutrition and food security				
Settlement / Resettlement				
Skills development				
Health improvement				
Other (specify):				
Overall				

4. Did the project have a significant unintended or unexpected effect on special social groups, regardless of the project's objectives?

○ Yes
◉ No

If yes:

Was the effect positive or negative?

Explain:

IV(E). Environmental Concerns

1. Did the project objectives include enhancements or protection of the **environment**?

○ Yes
◉ No

If yes, in which of the following areas:

- ☐ Natural resource management
- ☐ Biological diversity
- ☐ Air / water / soil quality
- ☐ Global warming / ozone depletion
- ☐ Natural disaster prevention / reduction
- ☐ Noise control
- ☐ Preservation of cultural heritage
- ☐ Urban environmental quality
- ☐ Other (specify):

2. Indicate whether each of the following factors had a positive or negative influence on the achievement of environmental objectives:

Project preparation / design / environmental assessment	
Government / borrower commitment	
Legal framework	
Bank staff effectiveness	
Borrower / Implementing agency effectiveness	
Consultant(s) effectiveness	
Consistency with National Environmental Action Plan	
NGOs	
Beneficiary participation	
Other (specify):	

3. Rate the Environmental Objectives:

	RELEVANCE of outcomes cf. country/sector objectives		EFFICACY of outcomes cf. project objectives (original or revised)	Estimated IMPACT
	Original	Revised		
Overall Environmental Objectives				

4. Did the project have a significant unintended or unexpected effect on the environment, regardless of the project's objectives?

○ Yes
◉ No

If yes:

Was the effect positive or negative?

Explain:

IV(F). Private Sector Development

1. Did the project include objectives to enhance / strengthen the role of the **private sector**? ◉ Yes ○ No

2. If yes, rate each of the following **Private Sector Development** objectives:

	RELEVANCE of outcomes cf. country/sector objectives		EFFICACY of outcomes cf. project objectives (original or revised)	Estimated IMPACT
	Original	Revised		
Improvement in legal or incentive framework designed to foster PSD (e.g., trade, pricing)	High		Substantial	Substantial
Restructuring / privatization of public enterprises	High		Negligible	Negligible
Financial sector development	Substantial		Substantial	Substantial
Direct government financial and/or technical assistance to private sector	Negligible		Negligible	Negligible
Other (specify):				
Overall Private Sector Development	Substantial		Substantial	Substantial

3. Indicate whether each of these factors had a positive or negative influence on the achievement of private sector development objectives:

Project preparation / design	Positive
Government / borrower commitment	Positive
Legal framework	Not Available
Bank staff effectiveness	Positive
Borrower / implementing agency effectiveness	Positive
Consultant(s) effectiveness	Not Available
Private sector interest	Positive
Other (specify):	

IV(G). Assessments of Outcome

1. Considering the project objectives (original or revised) and the extent of their achievement, give your assessment of the **Outcome** (or likely outcome) of the project: Satisfactory

If this assessment is **marginally** Satisfactory or Unsatisfactory, mark here: ☐

2. Does this assessment differ from that in the ICR? ○ Yes ◉ No

Explain:

3. Is the Borrower's view of this project significantly different from the view recorded by this PIF? ○ Yes ◉ No ○ N/A

Explain: Borrower did not however complete Part II of PCR, so we don't have a formal borrower view

IV(G). Assessments of Outcome (cont'd)

4. Taking into consideration, among other factors, the answers you gave to questions I.2, II.3, II.4, and IV.I.1, give your assessment of the **Relevance** of the project (outcomes in relation to country and sector assistance strategies): High

5. Taking into consideration, among other factors, the answers you gave to questions I.2, IV.C.1, IV.D.3, IV.E.2, IV.F.2, and IV.L, give your assessment of the **Efficacy** of the project (outcomes in relation to project objectives): Substantial

6. Taking into consideration, among other factors, the answers you gave to questions III.A, III.B, IV.A, IV.C.2, IV.D.2, IV.E.3, IV.F.2, and IV.J, give your assessment of the **Efficiency** of the project (outcomes in relation to project inputs): Not Available

7. Indicate whether any of these factors contribute to making this an outstanding project:
   - [ ] Project has exceeded all of its major objectives
   - [x] Project was highly innovative
   - [ ] Project success is highly replicable
   - [ ] Other (specify):

IV(H). Sustainability

1. What is the probability of maintaining the achievements generated (or expected to be generated in the operational plan)?
   - ( ) Likely
   - ( ) Unlikely
   - (•) Uncertain
   - ( ) Not Rated

2. Indicate whether each of the following factors will have a positive or negative influence on the likelihood of **Sustainability**:

Government commitment	Positive
Policy environment	Positive
Institution / management effectiveness	
Economic viability	
Technical viability	
Financial viability	
Environmental viability	
Social impact / local participation	
Other (specify):	

IV(H). Sustainability (cont'd)

3. Does the ICR include a plan for future operations (assessment of the quality of such a plan is discussed in Section VII)? ○ Yes ● No

If Yes:

Does the plan make the appropriate technical, financial, commercial, and institutional arrangements to ensure smooth project operation? ○ Yes ○ No

Does the plan define the performance indicators for judging proper operation? ○ Yes ○ No

Does the plan include provisions for operating an appropriate M&E system? ○ Yes ○ No

4. Has the Borrower made alternative provisions to support the infrastructure, services, or institutional investments made under the project? ● Yes ○ No

5. Does / did the project have a follow-on project which continued or expanded activities from this project? ● Yes ○ No

IV(I). Upstream Activities

1. Assess the quality of Bank performance in the **Identification** of the project:

Comments

Involvement of Government / beneficiaries	Highly Satisfactory
Project consistency with Government development strategy priority	Highly Satisfactory
Project consistency with Bank strategy for country	Highly Satisfactory
Project innovativeness	Satisfactory
Other (specify):	
Overall	Highly Satisfactory

2. Assess the quality of each of the following areas:

	PREPARATION by the Borrower / Implementing Agency	**Bank support for PREPARATION**	**APPRAISAL by the Bank**
Physical / technical	Satisfactory	Satisfactory	Satisfactory
Financial	Satisfactory	Satisfactory	Satisfactory
Economic	Highly Satisfactory	Highly Satisfactory	Satisfactory
Commercial	Not Available	Not Available	Not Available
Institutional	Satisfactory	Not Available	Not Available
Sociological	Not Available	Highly Unsatisfactory	Not Available
Environmental	Not Available	Not Available	Highly Unsatisfactory
Other (specify):			
Overall	Satisfactory	Satisfactory	Satisfactory

IV(I). Upstream Activities: Identification, Preparation, & Appraisal

3. Indicate whether each of the following factors had a positive or negative influence on the Overall quality assessment of the **Bank's** performance from question 2:

	Preparation	Appraisal
Degree of Bank involvement	Positive	Positive
Economic and sector work	Positive	Positive
Bank staff quantity	Positive	Positive
Bank staff quality	Positive	Positive
Performance of consultant(s)	Not Available	Not Available
Coordination with other donors	Positive	Positive
Other (specify):		

4. Assess the quality of Appraisal for each of these areas:

Appraisal of commitment of government / implementing agency / beneficiaries	
Appraisal of borrower / agency implementing capacity	
Realistic project design	
Identification / control for project risks / key variables	
Adequacy of implementation plan / performance indicators	
Suitability of lending instrument	
Adequately taking into account past experience	
Other (specify):	

5. Considering the identification, preparation, and appraisal processes discussed above, rate the quality of the project at the time of Board Approval **(Quality at Entry)**: Highly Satisfactory

IV(J). Downstream Activities: Implementation & Supervision

1. Rate the Borrower / Implementing Agency performance in **Implementation** of the project: Satisfactory

2. Indicate whether each of these factors had a positive or negative influence on the quality of project **Implementation**:

Management quality and continuity	Positive
Bank staff quantity	Positive
Bank staff quality	Positive
Borrower / Agency staff quantity	Positive
Borrower / Agency staff quality	Positive
Performance of contractor(s)	Not Available
Performance of consultant(s)	Not Available
Government commitment	Positive
Absence of government interference	Not Available
Project monitoring & evaluation	Positive
Level or timeliness of counterpart funding	Not Available
Other (specify):	

3. Assess the quality of Bank performance in project **Supervision** in these areas:

Reporting of project implementation progress	Highly Satisfactory
Identification / assessment of implementation problems	Satisfactory
Attention to likely development impact	Satisfactory
Attention to likely social impact	Unsatisfactory
Advice to implementing agency	Satisfactory
Adequacy of follow-up on advice / decisions	Satisfactory
Enforcement of loan covenants / excercise of remedies	Satisfactory
Flexibility in suggesting / approving modifications	Not Available
Other (specify):	
Overall	Satisfactory

4. Indicate whether each of the following factors had a positive or negative influence on the overall quality of Bank **Supervision**:

Supervision plan	Not Available
Timing of supervision missions	Positive
Sufficiency of time in field	Positive
Bank staff quantity	Positive
Bank staff quality	Positive
Performance of consultant(s)	Not Available
Country implementation reviews	Not Available
Other (specify):	

IV(K). Operational Directives

1. Indicate any significant lack of compliance with applicable ODs:

	OD Number	Subject
1		
2		
3		
4		
5		

IV(L). Compliance, Borrower / Implementing Agency Performance

1. Assess the extent of **Compliance** with major loan covenants / commitments on the part of the Government / Implementing Agency in each of the following areas:

		Was compliance belated?
Macro policies	Full	No
Sector policies	Not Available	
Institutional changes	Substantial	No
Management of social aspects	Not Available	
Effective management	Full	No
Appropriate staffing	Substantial	No
Financial improvements (tariffs, user charges, etc.)	Full	No
Provision of counterpart funds	Not Available	
Increased efficiencies / cost reductions	Substantial	No
Procurement	Not Available	
Progress reports	Full	No
Accounts and Audits	Modest	Yes
Use of technical assistance	Not Available	
Monitoring and evaluation	Full	No
Studies	Not Available	
Other (specify):		
Overall	Full	No

IV(L). Compliance, Borrower / Implementing Agency Performance (cont'd)

2. Did the Borrower / Implementing Agency satisfy the letter of some major covenants but violate their spirit?

○ Yes
● No

Explain:

V. Ratings Summary and Lessons Drawn

1. Performance by Project Cycle Processes

Identification of the project by the Bank	Highly Satisfactory
Preparation by Borrower / Agency	Satisfactory
Preparation assistance by Bank	Satisfactory
Appraisal by Bank	Satisfactory
Implementation by Borrower / Agency	Satisfactory
Supervision by Bank	Satisfactory

2. Covenant Compliance

The extent to which the Borrower / Implementing Agency has complied with major loan covenants / commitments: Full

3. Institutional Development

The impact of meeting Institutional Development objectives: Substantial

4. Project Sustainability

The probability of maintaining the achievements generated, or expected to be generated in the operational plan for the project: Uncertain

5. Outcome

The assessment of the outcome (or likely outcome) of the project, considering the project objectives (original or revised) and the extent of their achievement:

☐ Marginal

Satisfactory

6. If there are any significant positive or negative **Lessons Drawn** from the success or failure of the project *that were not mentioned in the ICR,* please list them:

VI. Comments

My comments on the project are contained in the PAR. But as I ask myself, to what extent are the important judgments about the project's quality and impact captured in this PIF or not, I realize that the PIF as now designed "misses my marks" in at least the following two respects.

One of these is the PIF's failure to capture the "quality of the dialogue" as reflected in mutual understandings and respect as between Bank staff and Borrower officials and negotiators. The amount of influence that the Bank will have in the Borrower's design of a comprehensive reform program such as the one supported by this SAL is very much a function of the credibility of individual Bank staff as well as of the institution per se, and this credibility and trust can only be built over the years, not by "parachutists", not matter how competent they may be. So I think we must look at a SAL's quality in terms of the "quality of the process" that led to the SAL, and this dimension is not captured by a PIF.

Another area where the PIF leaves much to be disired is in its treatment of institutional development. In my PAR I make a clear distinction between ID as defined broadly as "changes in the rules of the game", where this would incorporate a lot of the policy, legal and regulatory framework changes, and ID as defined a changes in the roles of organizations involved in the reform process, and capacity building within those organizations/institutions. The PIF takes a rather narrow definition of ID as capacity building, which is okay so long as the other dimensions get captured under policy reform. But I suspect that there will be some "disconnect" between the PIF's ID ratings and the Evaluative Note ratings until/unless the PIF vs the general definition of ID is clarified.

VII. Quality of ICR

1. Rate the quality of the ICR by the following characteristics:

Coverage of important subjects	Satisfactory
Availability of key data	Satisfactory
Soundness of judgements	
- Internal consistencies	Satisfactory
- Evidence complete / convincing	Satisfactory
Adequacy of analysis including Lessons Learned	Satisfactory
Consistency with SAR / revised project	
Presentation	Satisfactory
Plan for Future Project Operation (refer to section IV(H))	Not Available
Performance indicators for the project's operations phase	Unsatisfactory
Evaluation of monitoring and evaluation achievements	Satisfactory
Aide-memoire of the ICR mission	Satisfactory
Other (specify):	
Overall	Satisfactory

2. Explain the ratings in question 1 above:

3. Indicate whether the following inputs are included in the ICR:

	Yes	No
Summary evaluation of project implementation	◉ Yes	○ No
Plan for future project operation	○ Yes	◉ No
Borrower comments on draft ICR	○ Yes	◉ No

If any are missing, give reason(s):

Government never explained its reasons for not providing Part II. It repeatedly promised to provide this but never did.

4. Are there significant differences between Bank and Borrower views? ○ Yes ◉ No

If yes, explain:

VII. Quality of ICR (cont'd)

5. Identify any key data in the ICR (including relevant annexes) which are missing, incorrect, or dubious; indicate whether these data should be included, qualified, or corrected in or excluded from the OED database:

	Original data in ICR	Problem and suggested treatment
A		
B		
C		

VIII. Priority for Performance Audit & Impact Evaluation

1. The priority of this project for **Performance Audit** is: ○ High ○ Medium ○ Low

2. If the priority is High or Medium, indicate reason(s):

- ☐ Project is an adjustment operation
- ☐ Project is the first of its type in the subsector in the country
- ☐ Project is part of a series of projects which are suitable for packaging in a combined audit
- ☐ Project is large and complex
- ☐ Project has especially innovative and unusual features
- ☐ Project was highly successful in a difficult sector / country
- ☐ ICR was incomplete / not satisfactory
- ☐ Project is likely to have high priority for impact evaluation
- ☐ OED and Operation disagree on performance rating
- ☐ An Executive Director has proposed audit
- ☐ Project is or is likely to be of considerable public interest
- ☐ Audit is required for special studies
- ☐ Other (specify):

What are the major issues on which the audit should focus?

A

B

C

VIII. Priority for Performance Audit & Impact Evaluation (cont'd)

3. The priority of this project for **Impact Evaluation** is: ○ High ● Medium ○ Low

4. If the priority is High or Medium, indicate reason(s):

- * ☐ Project has a high or medium priority for performance audit or a satisfactory ICR
- * ☒ A satisfactory data / monitoring and evaluation system for the project exists
- ☐ Project gives high priority to special emphases (e.g., public sector reform, social concerns, environment, private sector development)
- ☐ Project is reasonably representative for sector / subsector
- ☒ Project has experimental / innovative features
- ☒ Project is large and complex
- ☒ Project has considerable indirect costs and benefits / externalities
- ☐ Project is likely to be in operation at time of impact study
- ☒ Project sustainability is uncertain
- ☒ Project is part of a series of projects which are suitable for packaging in a combined evaluation
- ☐ Evaluation is required for special studies
- ☒ Project is or is likely to be of considerable public interest
- ☐ Project type not well covered by previous impact evaluations
- ☐ Other (specify):

* These two criteria are prerequisites for impact evaluation

The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: April 22, 1996 01:26pm

TO: See Distribution Below

FROM: Robert P. Armstrong, SA1CO   (ROBERT P. ARMSTRONG)

EXT.: 82773

SUBJECT: **RE: India SAL--PAR**

I've now made all revisions to India PAR, including in transmittal note, executive summary, and main text. I'll bring these in to Norma tomorrow, or Wednesday at the latest. Promise.

A copy of the Government's letter of March 7, 1996 will be added to the PAR as "Annex II". Can you, Norma or Carmen, please find a clean copy of that letter? (My copy is a messy fax sent to Pakistan).

Bob

DISTRIBUTION:

TO: Manuel Penalver   (MANUEL PENALVER)
TO: Carmen Mispireta   (CARMEN MISPIRETA)
TO: Norma Namisato   (NORMA NAMISATO)

ADVISER

D.O.No.DEAP/DIER/ 27.01-76/1275 95/96

March 19, 1996

Dear Mr. Penalver,

Re.: INDIA : Structural Adjustment Loan/Credit
(L3421-IN, C2316-0-IN, C2316-1-IN)
Performance Audit Report.

Please refer to your letter of January 30, 1996 to Mr. S.S. Tarapore, Deputy Governor enclosing a copy of draft Performance Audit Report (PAR) for India for comments.

I may indicate that we have no specific point to make on the Report. However, I am appending a chart of Financial Sector Reforms which covers developments up to February 1996 for your reference.

With regards,

Yours sincerely,

(A.L. Verma)

Encls: As above

Mr. Manuel Penalver
Division Chief
Country Policy, Industry, and Finance
Operations Evaluation Department
The World Bank
1818 H Street N.W.
Washington D.C. 20433
U.S.A.

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ANNEXURE : PROGRESS OF FINANCIAL SECTOR REFORMS

Issues / Year	1994-95	1995-96
I. Overall Monetary Policy		
1. Reserve Requirements		
a) Cash Reserve Ratio (CRR) on domestic net demand and time liabilities (NDTL)	i) CRR was increased from 14 per cent to 15 per cent in three phases; 14.5 per cent, 14.75 per cent and 15 per cent from the fortnights beginning June 11, July 9, and August 6, 1994 respectively.	i) CRR was reduced from 15.0 per cent to 14.5 per cent from the fortnight beginning November 11, 1995 and further to 14 per cent from the fortnight beginning December 9, 1995.
	ii) From the fortnight beginning January 7, 1995 banks were required to maintain a minimum level of 85 per cent of the CRR balances required to be maintained on each of the first 13 days of the reporting fortnight, failing which they would not be paid interest for that/those day/days eventhough there was no shortfall in the maintenance of CRR on the average basis for the fortnight. On the 14th day of the reporting fortnight banks were allowed to maintain less than 85 per cent of the required cash balances to adjust the average of daily balances to the required level.	ii) From the fortnight beginning September 30, 1995 banks were required to maintain a minimum level of 85 per cent of the CRR requirement only from the first working day of the reporting fortnight. However, this stipulation would not be required to be maintained on the last working day of the reporting fortnight. For this purpose, banks should reckon the holidays with reference to the Centre where they have their principal account for maintenance of CRR.
b) Statutory Liquidity Ratio (SLR)	i) SLR on the level of domestic NDTL as on September 17, 1993 was reduced from 34.75 per cent to 34.25 per cent effective August 20, 1994 and further to 33.75 per cent effective September 17, 1994.	i) With a lower stipulation of SLR on incremental NDTL and zero SLR on certain specific external liabilities, the overall effective SLR which was 28.5 per cent in December 1995 would continue to decline on the basis of existing stipulations.
	ii) The base date for SLR on domestic NDTL was brought forward from September 17, 1993 to September 30, 1994 and SLR was fixed at 31.5 per cent and for any increase in domestic NDTL over the level as on September 30, 1994 the SLR would be 25 per cent.	ii) With effect from October 14, 1995 all scheduled commercial banks (excluding regional rural banks) were required to adopt for purpose of SLR, the same system of valuation of securities as for the balance sheet.

Issues / Year	1994-95	1995-96
c) Inclusion/Exemption of certain liabilities from Reserve Requirements	i) From the fortnight beginning October 29, 1994 a CRR of 7.5 per cent was prescribed on liabilities under the Foreign Currency Non-Resident (Bank) [FCNR(B)] Scheme. This was raised to 15 per cent from the fortnight beginning January 21, 1995. However, liability under FCNR(B) Scheme was exempted from SLR requirement.	i) The increase in liabilities under Non-resident External (Rupee) (NRE) Accounts over the level outstanding as on October 27, 1995 was exempted for maintenance of average CRR with effect from the fortnight beginning October 28, 1995 and average CRR on outstanding liabilities as on October 27, 1995 was reduced to 10 per cent with effect from the fortnight beginning January 6, 1996.
	ii) A CRR of 7.5 per cent on liability under Non-Resident Non-Repatriable (NRNR) Scheme was prescribed from the fortnight beginning January 21, 1995.	ii) The increase in liabilities under NRNR accounts over the level outstanding as on October 27, 1995 was exempted from maintenance of CRR with effect from the fortnight beginning October 28, 1995 and with effect from fortnight beginning January 6, 1996 all liabilities under NRNR Scheme were exempted from CRR.
		iii) The increase in liabilities under Foreign Currency Non-Resident Accounts (Banks) [FCNR(B)] Scheme over the level outstanding as on November 24, 1995 was exempted from CRR with effect from the fortnight beginning November 25, 1995. Average CRR on the outstanding liabilities as on November 24, 1995 was reduced to 7.5 per cent with effect from December 9, 1995. With effect from January 6, 1996 all liabilities under FCNR(B) Scheme were exempted from CRR.
2. Interest Rates		
a) Lending Rate	i) Effective October 18, 1994 Minimum Lending Rate (MLR) for credit limits of over Rs.2 lakh was abolished and banks were free to fix their own Prime Lending Rates (PLR) subject to the approval of their Board of Directors.	i) Effective October 1, 1995 banks were allowed to fix their own interest rate on advances over Rs. 2 lakh against term deposits.
	ii) Effective October 18, 1994 the lending rate for credit limits of over Rs.25,000 and upto Rs.2 lakh for all advances including term loans was fixed at 13.5 per cent.	ii) Effective October 31, 1995 interest rate on Post-Shipment Export Credit denominated in US Dollars(PSCFC) in respect of usance bills for periods beyond 90 days and upto six months from the date of shipment was enhanced from 7.5 per cent to 9.5 per cent per annum before PSCFC's termination on February 8, 1996; interest rate on export credit not otherwise specified for PSCFC.

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Issues / Year	1994-95	1995-96
a) Lending Rate	iii) The stipulation of effective interest rate on bill discounting of over Rs.2 lakh which was at one percentage point below the lending rate under this category was withdrawn from October 10, 1994.	which was 9.5 per cent per annum, was freed. iii) Effective from January 16, 1996, a rate of interest of 9.5 per cent per annum was prescribed on PSCFC for a total period of upto 90 days as against 7.5 per cent per annum earlier. On credit over 90 days and on export credit not otherwise specified for PSCFC, banks were free to fix their own interest rates. iv) Effective February 8, 1996 the interest rate on Post-Shipment Export Rupee Credit for over 90 days and upto 180 days was de-regulated.
b) Deposit Rate	i) Effective October 18, 1994 term deposit rate for NRE accounts for maturity of 6 months to 3 years and above was reduced from 'not exceeding 10 per cent' to 'not exceeding 8 per cent'. ii) Effective November 1, 1994 the savings deposit rate for deposits including under NRE accounts was reduced to 4.5 per cent from 5 per cent earlier. iii) Effective February 10, 1995 banks' maximum term deposit rate was increased to 'not exceeding 11 per cent' from 'not exceeding 10 per cent' earlier.	i) Effective April 18, 1995 the maximum term deposit rate was increased to 'not exceeding 12 per cent' from 'not exceeding 11.0 per cent' per annum earlier. ii) Effective October 1, 1995 banks were given freedom to fix their own interest rates on domestic term deposits with a maturity of over two years. iii) Effective October 1, 1995 the maximum term deposit rate for NRE accounts for maturity of 6 months to 3 years and above was increased from 8 per cent to 10 per cent and further to 12 per cent effective October 31, 1995.
3. Institutional/ Other Developments		i) Private sector mutual funds, approved by SEBI, were allowed to operate only as lenders in the call/notice money/bill rediscounting market. ii) Effective September 30, 1995 the minimum period for Repos in Treasury Bills and Government dated securities was stipulated to be 3 days. iii) The private sector was allowed to set up Money Market Mutual Funds (MMMFs) in November 1995. The size of MMMFs and limits on investments by MMMFs were deregulated.

Issues / Year	1994-95	1995-96
3. Institutional/ Other Developments		iv) Banks were free to decide their own foreign exchange overnight open position limits subject to the approval by the Reserve Bank as against the earlier uniform limit of Rs.15 crore for each bank.
4. Internal Debt Management Policies	i) A historic agreement was signed on September [illegible] between RBI and the Government of India on the net issue of ad hoc Treasury Bills. As per the agreement, the net issue of ad hoc Treasury Bills for the year 1994-95 was not to exceed Rs.6000 crore; if the net issue of ad hoc Treasury Bills exceeded Rs.9000 crore for more than ten consecutive working days at any time during the financial year 1994-95, the Reserve Bank was to automatically reduce only the excess beyond the prescribed level of ad hoc Treasury Bills by auctioning Treasury Bills or selling fresh Government of India dated securities in the market. Similar ceilings for the net issue of ad hoc Treasury Bills would be stipulated for the years 1995-96 and 1996-97. From 1997-98 the system of ad hoc Treasury Bill would be totally discontinued. ii) The Securities Trading Corporation of India Ltd. (STCI) commenced operations from June 27, 1994. iii) From the fiscal year 1994-95 the allocations of open market borrowings was made only to State Governments and not to state guaranteed institutions. iv) From August 1994, State Governments and non-Government provident funds were allowed to participate in 91 day Treasury Bills auctions on a non-competitive basis with allotment at weighted average price.	i) Net issue of ad hoc Treasury Bills was [illegible] Rs 5000 crore at the end of the financial year 1995-96 and not to exceed Rs 9000 crore for more than ten continuous working days at any time during the year 1995-96. ii) An auction system for conversion of Treasury Bills into dated Government of India securities was introduced in April 1995. iii) For the first time, Government of India converted a maturing two year dated Government security into another dated security of the same maturity on July 14, 1995. iv) A system of Delivery versus Payment (DvP) in Government securities was introduced in Bombay from July 17, 1995 to synchronise the transfer of securities with the cash payment thereby reducing the settlement risk in securities transaction and also preventing diversion of funds in the case of transactions through Subsidiary General Ledger (SGL). v) New instrument of Floating Rate Bonds was introduced on September 29, 1995. vi) With effect from February 29, 1996 Discount and Finance House of India Ltd. (DFHI), and STCI have started functioning as primary dealers in government securities market out of the six 'in principle' approvals granted in November 1995.

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Issues / Year	1994-95	1995-96
4. Internal Debt Management Policies	v) Government of India, for the first time, issued securities on a tap basis on July 29, 1994.	
	vi) Particulars of transactions in Government securities including Treasury Bills put through SGL accounts at Public Debt Office at Bombay were being released to the Press daily beginning September 1, 1994.	
	vii) Government of India issued, for the first time, on November 14, 1994, Government Stock (Securities) for which payment was made in instalments.	
	viii) Repo facility with RBI in Government dated securities was extended to STCI and DFHI to provide liquidity support to their operations.	
	ix) To strengthen Government securities market, guidelines and procedure for enlistment of Primary Dealers in Government securities market were issued on March 29, 1995.	
	x) A scheme for auction sale of Central Government securities held in RBI's portfolio was introduced.	
	xi) RBI decided to delink its role of investment management on behalf of Provident Funds.	
II. In-House Issues		
a) Capital Adequacy Norms	i) As against the budgetary provision of Rs.5,600 crore towards recapitalisation of nationalised banks the revised estimates are placed at Rs. 5292.37 crore out of which a sum of Rs. 4362.54 crore was allocated to 13 nationalised banks and Rs. 924.58 crore was passed on as Tier II capital to six nationalised banks against the World Bank assistance.	i) The Government released a sum of Rs.850.50 crore towards recapitalisation of nationalised banks during 1995-96. ii) Banks were required to maintain Tier I capital funds of 5 per cent of the foreign exchange open position limit besides the existing capital adequacy requirements.

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Issues / Year	1994-95	1995-96
b) Capital Restructuring	i) Banking Companies (Acquisition and Transfer of Undertakings) Acts, 1970/1980 were amended with effect from July 15, 1994 permitting the banks to raise capital upto 49 per cent from the public. ii) Oriental Bank of Commerce was the first nationalised bank to access the capital market with an equity issue of Rs. 360 crore in October 1994. iii) The Government of India promulgated an Ordinance in January 1995 to amend the Banking Companies (Acquisition and Transfer of Undertakings) Acts, 1970/80 for enabling the banks to reduce their paid-up capital.	i) The Government of India provided Rs.1,506.21 crore during 1995-96 towards writing down of the capital base of two banks for adjustment of their losses. A further provision of Rs.1,532 crore was made in the Union Budget (Interim) of 1996-97 for similar writing down of investments in three banks.
c) Income Recognition and Provisioning	i) The provisioning requirement for non-performing assets (NPAs) with balances of less than Rs.25,000 was increased from 5 per cent of the aggregate amount outstanding to 7.5 per cent for the year ending March 31, 1995 and further to 10 per cent for the year ending March 31, 1996.	i) The ratio of 'permanent' and 'current' investments in approved securities was prescribed as 40:60 for the year ending March 1996 as against 70:30 earlier. ii) Banks were advised on April 3, 1995 that interest accrued and credited to income account during the year ended March 1994 in respect of accounts identified as NPA for the first time during the year ended March 31, 1995 should be reversed or provided for as on that date. iii) Banks were advised that provision need not be made for a period of one year from the date of disbursement in respect of additional facilities sanctioned under the rehabilitation package approved by BIFR/term lending institutions. iv) Banks were advised that from 1995-96 onwards, for arriving at the provision required to be made in respect of doubtful assets, the realisable value of the securities should be deducted from the outstanding balance in respect of advances guaranteed by ECGC/DICGC.

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Issues / Year	1994-95	1995-96
d) Recovery of Bank Loans	i) Debt Recovery Tribunals at Calcutta, Delhi, Bangalore, Jaipur and Ahmedabad, and Appellate Tribunal at Bombay were set up. However, Delhi High Court quashed the notification constituting the Tribunal for Delhi region in March 1995.	i) Banks were required to have loan recovery policy delineating, inter alia, norms for write-off. ii) The Supreme Court stayed the operation of the Delhi High Court judgement in April 1995 and admitted special leave petition filed on behalf of the Government.
e) Lending Norms	i) Banks were advised to extend cash credit facilities to farmers with irrigation facilities in October 1994 and also to other farmers undertaking off farm/allied activities. ii) In [illegible] 1994, the ceiling for term loans for any project of Rs. 50 crore for each bank was abolished and the limit of Rs.200 crore for the banking system as a whole was raised to Rs.500 crore for any project. Sanction of such term loans, however, continued to be subject to compliance with prudential exposure norms. iii) The stipulated margin of not less than [illegible] per cent for advances granted against deposits was withdrawn; banks were free to determine the margin on a case by case basis. iv) Banks/financial institutions were permitted to extend bridge loans/interim finance to all companies, including finance companies, against public issues/market borrowing (domestic) upto 75 per cent of the amount called up on each occasion (as against 50 per cent earlier by banks). In September 1994, however, banks were advised not to extend bridge loans/interim finance loans in the form of bridging nature to all non-banking financial companies. v) The overall limits of bank credit to loan and investment companies and residuary non-banking financial compani-	i) A 'Loan System' for Delivery of Bank Credit for working capital purpose was introduced effective April 17, 1995 to bring about greater discipline in credit utilisation and better control over credit flow. The cash credit component was fixed at 75 per cent of the Maximum Permissible Bank Finance (MPBF), while loan component was fixed at 25 per cent. ii) Banks were advised to reduce the cash credit component from 75 per cent to 60 per cent of the MPBF and to increase the loan component from 25 per cent to 40 per cent effective October 5, 1995. iii) Effective April 17, 1995 bridge loan by banks/financial institutions to all companies was banned. In October 1995, subject to the compliance of certain conditions, banks were allowed to sanction bridge loans against the commitment of financial institutions and/or other banks where the lending institution was faced with temporary liquidity constraint. iv) Bank credit limit to loan and investment companies and residuary non-banking companies was reduced to the NOF from twice the NOF of the company. For companies having not less than 75 per cent of their assets in equipment leasing and hire purchase and 75 per cent of their gross income from these two types of activities as per their last audited balance sheets, the limit was brought down to thrice the NOF; for other equipment leasing/hire purchase companies the limit was prescribed to twice the NOF.

Issues / Year	1994-95	1995-96
e) Lending Norms	as were reduced to twice the net owned fund(NOF) as against three times the NOF as hitherto. In respect of credit to equipment leasing and hire purchase companies, the limit of four times the NOF was to continue provided such borrowers were predominantly engaged in equipment leasing/ hire purchase business; otherwise, bank credit should be restricted to three times the NOF. Banks were permitted to extend finance to public sector undertakings (registered under the Companies Act, 1956 or as a corporation under the relevant Act) for projects involving creation of infrastructure facilities subject to the same terms and conditions as applicable to the private sector. Additionally, banks were asked to ensure that such PSUs were run on commercial lines and repayment was made out of income generated by the project and not out of Government subsidies.	v) Effective April 21, 1995 the extent of Commercial Paper was restricted to 75 per cent of the cash credit component of the working capital limit instead of 75 per cent of the working capital (fund based) limit as hitherto. vi) Effective July 25, 1995, banks were advised to scrupulously follow the guidelines in the Accounting Standard (AS7) prescribed/issued by the Institute of Chartered Accountants of India (ICAI) for the construction companies. (vii) Effective December 22, 1995, banks were allowed to sanction term finance upto Rs. 1,000 crore for each power generation project, subject to certain terms and conditions.
f) Investment Norm	Standby facility for Commercial Paper (CP) was abolished; after issuance of CP, the bank would effect a 'pro tanto' reduction in the cash credit limit.	i) Banks were advised to desist from acquiring shares/debentures etc. in the secondary market.
g) Computerisation	A High Powered Committee headed by Shri W.S. Saraf set up to study the technology issues relating to payment and settlement system in the banking industry submitted its report.	i) The recommendations of the Saraf Committee were at various stages of implementation. ii) The Committee (Chairperson: Ms.K.S. Shere) set up by the Reserve Bank to study all aspects of Electronic Funds Transfer (EFT) for instituting an EFT system in India, submitted its report in January 1996. iii) Under the World Bank's Financial Sector Development Project, the participating banks would obtain a modernisation and institutional development loan of US $ 150 mn for extending inter alia

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Issues / Year	1994-95	1995-96
g) Computerisation		automation and computerisation of banking operations.
III. Other Issues		
a) Supervision System	i) To enable the Board for Financial Supervision (BFS) to perform some of the functions of the Central Board of the Reserve Bank of India, the Reserve Bank of India (BFS) Regulations, 1994 framed under Section 58 of the RBI Act, 1934 came into effect from July 28, 1994. ii) BFS under the Chairmanship of Governor of the Reserve Bank became functional from November 16, 1994 with a Deputy Governor as Vice Chairman and six other members. BFS and the Advisory Council constituted under the RBI (BFS) Regulations, 1994 would each have a term of two years.	i) Effective April 1995, the BFS would take up the supervisory responsibility for all-India financial institutions and non-banking financial companies. ii) An audit sub-committee, comprising the Vice Chairman and two members of the BFS was examining the system of auditing of banks, financial institutions and non-banking financial companies. iii) The Expert group headed by Shri S.Padmanabhan, constituted to review the on-site supervision function, submitted its report in November 1995.
b) Bank Branch License		i) In line with the Bhandari Committee's recommendation, the branch licensing policy for RRBs was modified: (a) 70 RRBs, freed from the Service Area obligations, were given freedom to relocate their loss making branches preferably within the same block or convert them into satellite/mobile offices. Two loss making branches of the same RRB within five kms were permitted to merge. (b) RRBs with Service Area obligations were free to relocate loss-making branches at 'specified centres' within their Service Area. Their loss making branches could be converted into satellite/mobile offices, provided such conversion would not impair the performance of SAA obligations. Two branches of the same RRB within five kms in a geographically contiguous Service Area could be merged. New branches at 'specified centres' were allowed to be opened within their area of operation.

Issues / Year	1994-95	1995-96
b) Bank Branch License		ii) Banks were asked to set up 100 specialised branches in 85 identified districts to meet the requirements of Small Scale Industries.
c) Private Sector Banks	i) Six private banks, viz., UTI Bank Ltd., IndusInd Bank Ltd., ICICI Banking Corporation Ltd, Global Trust Bank Ltd, Centurion Bank Ltd., and HDFC Bank Ltd., commenced banking business out of 'in principle' approval given for setting up ten private banks.	i) With four more private banks viz., Times Bank Ltd., Bank of Punjab Ltd., Development Credit Bank Ltd., and IDBI Bank Ltd., ten private sector banks became operational out of 12 'in principle' approvals.
d) Priority Sector Lending	i) Banks were advised to consider on merits proposals for term finance/loans in the form of lines of credit to State Industrial Development Corporations and State Financial Corporations subject to the observance of terms and conditions advised to banks from time to time. The extent of such loans to SSI units would be treated as a part of priority sector lending.	i) Entire amounts of refinance granted by sponsor banks to the RRBs would be reckoned as priority sector lending.
e) Customer Services		i) For expeditious and inexpensive resolution of customer complaints against deficiency in banking services, the Banking Ombudsman Scheme, 1995 was introduced in June 1995. So far 8 ombudsmen were appointed, one each at New Delhi, Mumbai, Bhopal, Bangalore, Chandigarh, Hyderabad, Patna and Jaipur. ii) a) For local and outstation cheques upto Rs. 5000, banks were required to provide immediate credit. b) For local cheques, customers were allowed to use the credited funds latest by the third working day from the date of acceptance of the cheque. c) Banks were advised to constitute a committee under a General Manager to identify the areas and factors for delays in collection of outstation instruments.
f) Frauds and Malpractices in Banks		i) Banks were required to devise a system of close watch on new deposit accounts, and cash deposits and withdrawals for Rs.10 lakh and above.

Issues / Year	1994-95	1995-96
g) Export/Import Credit	i) Sub-suppliers of export orders would be provided credit within the overall permissible pre-shipment export credit wherever letters of credit were opened by the export order holder.	i) Effective October 31, 1995, outstandings under the import credit sublimit of the cash credit would be subject to a 15 per cent interest rate surcharge which was raised to 25 per cent effective February 8, 1996. ii) Effective February 8, 1996 the scheme of Post-Shipment Export Credit denominated in US Dollars (PSCFC) was terminated.
h) Dividend Declaration by commercial banks		i) Public sector banks were made subject to prior approval for payment of interim dividend, dividend higher than 25 per cent and in cases of non-fulfillment of four stipulated conditions; fulfillment of the latter would obviate the need for prior approval.
i) Bank Restructuring		i) The Kashinath Seth Bank Ltd., was amalgamated with the State Bank of India on January 1, 1996.
j) RRBs	i) As recommended by the Bhandari Committee 49 RRBs were taken up for restructuring and revival. ii) RRBs were allowed to deploy a part of their surplus non-SLR funds in credit portfolios of their sponsor banks and in specified investment avenues like UTI listed schemes, etc.	i) The Basu Committee set up by NABARD recommended in December 1995 for selection of 68 RRBs for comprehensive restructuring under phase II. ii) The Government provided a sum of Rs.244.57 crore during 1995-96 for capital restructuring of the selected RRBs. A further provision of Rs.200 crore was made in the Union Budget (Interim) for 1996-97. iii) An Expert Group under the chairmanship of Dr. N.K. Thingalaya was set up to examine the issues concerning the managerial and financial restructuring of RRBs taken up during 1994-95 and continued in 1995-96 and to monitor the progress in this regard. iv) RRBs were advised to adopt income recognition and asset classification norms from 1995-96 and provisioning norms from 1996-97 onwards.

Issues / Year	1994-95	1995-96
IV. Reforms in Co-operative Banking		
a) Co-operative Banks	i) Co-operative credit structure was set to be strengthened through state specific development action plans, and through MoU between NABARD, State Governments, SCBs and CCBs. ii) Lending and deposit rates of all co-operative banks, excluding urban co-operative banks, were deregulated in October 1994 subject to an MLR of 12 per cent. iii) Effective October 18, 1994 MLR for credit limits of over Rs.2 lakh was abolished and urban co-operative banks were free to fix their lending rates for such credit limits.	i) Effective June 21, 1995 urban co-operative banks were free to fix their lending rates for all categories of loans subject to an MLR of 13 per cent. ii) Urban co-operative banks were allowed in April 1995 to invest their surplus funds in equity/bonds of all India Financial Institutions, in addition to their investment in PSU bonds, within the ceiling of 10 per cent of their deposits. iii) For term deposits of over two years, urban co-operative banks were given freedom to fix their own interest rate, effective October 1, 1995.
V. Reforms in Non-bank Financial Sector		
a) Non-bank Financial Companies (NBFCs)	i) Detailed prudential guidelines to NBFCs were issued in June 1994. The registered NBFCs were required to achieve a minimum capital adequacy norm of 6 per cent by March 31, 1995 and 8 per cent by March 31, 1996 and also obtain a minimum credit rating from any one of the three credit rating agencies.	i) As at the end of December 1995, 745 NBFCs having net owned fund of Rs.50 lakh and above have got themselves registered with the Bank. ii) Board for Financial Supervision with the assistance of the Bank's Department of Supervision started supervising the NBFCs w.e.f., July 1995. iii) An expert group (Chairman: Shri P.R. Khanna) was set up for recommending a framework for supervision of the financial companies. iv) Maintenance of liquid assets was increased from 10 per cent to 15 per cent of deposit liabilities for the equipment leasing and hire purchase finance companies and other NBFCs registered with the Reserve Bank. For other NBFCs not registered with RBI, the requirement was raised from 5 per cent to 7.5 per cent of the deposit liabilities. v) For better and effective regulation of the NBFCs, certain legislative changes were being considered.
b) Insurance Sector		i) As announced in the Union Budget for 1995-96, a three member board for the interim Insurance Regulatory Authority (IRA) was constituted in January 1996.

****

The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: March 18, 1996 09:01am

TO: Robert P. Armstrong - Visitor (ROBERT P. ARMSTRONG @A1@PAKSTN)

FROM: Manuel Penalver, OEDD2 (MANUEL PENALVER)

EXT.: 84400

SUBJECT: **RE: India SAL: PAR**

Bob,

Thanks for your EM. I hope all is well in Islamabad (and my regards to Sadiq).

It is quite fine if you do the necessary updating on your return on April 3. And I agree with you on the sustainability issue. I would appreciate, however, your introducing in a clear manner the Government's comments and reactions, both in the main text and summary, but also in the "transmittal note" to be signed by the DGO. Regards,

Manuel

CC: NORMA NAMISATO (NORMA NAMISATO)

The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: March 17, 1996 03:13am

TO: MANUEL PENALVER (MANUEL PENALVER@A1@WBWASH)

FROM: Robert P. Armstrong - Visitor, SA1CO (ROBERT P. ARMSTRONG@A1@PAKSTN)

EXT.:

SUBJECT: **India SAL: PAR**

Manuel,

I just saw the official Indian Government comments on the draft PAR. The only substantive points seem to be that a few figures need to be updated--no surprise there--and that they want the sustainability rating changed to "likely"--no surprise that.

Given that elections are coming so soon, I'd say that the uncertainty aboout sustainability is particularly acute just now. Maybe if Rao is re-elected and then makes convincing statements, including through the budget, about just how the deficit is to be contained while the reforms are deepened, we'd then have stronger grounds to raise the rating to likely. But the few figures and arguments contained in the Government letter don't really persuade me, by themselves, to change the current rating of uncertain.

I don't have a copy of the draft PAR with me, so it's not too easy for me to make the few changes required--plus perhaps some further nuancing of the argument on sustainability. If it's okay with you, I'd prefer to do this as soon as I get back on April 3 (I'll be in the office on the 4th) and should be able to do the necessary in an hour at most. If you really need it quicker than that, then could you ask Norma to fax me the relevant sections of the PAR, or send them as an attachment to an EM? I'm here (in Islamabad) until Thursday, March 21. Regards,

Bob

CC: NORMA NAMISATO (NORMA NAMISATO@A1@WBWASH)

THE WORLD BANK GROUP
Headquarters: Washington, D.C. 20433 U.S.A.
Tel. No. (202) 477-1234 • Fax (202) 477-6391 • Telex No. RCA 248423

FACSIMILE COVER SHEET AND MESSAGE

DATE:	March 14, 1996	**NO. OF PAGES:** 3 (including cover sheet)	**MESSAGE NO.:**
TO:	Mr. Sadiq Ahmed	**FAX NO.:**	(92-51) 210-964
Title:	Chief, Res. Mission		
Organization:			
City/Country:	Islamabad, Pakistan		
FROM:	Norma Namisato	**FAX NO.:**	(202) 522-3124
Title:		Telephone:	(202) 473-1678
Dept/Div:	Div. 2	Dept./Div. No.:	17520
Room No.:	G6-074		
JBJECT:	**INDIA PAR - Comments from GOI**		

MESSAGE:

Mr. Ahmed,

I will greatly appreciate your forwarding the enclosed message to Mr. Robert Armstrong, who is visiting Islamabad on mission for SA1CO.

Thank you.

Regards,

N. Namisato

Transmission authorized by:

If you experience any problem in receiving this transmission, inform the sender at the telephone or fax no. listed above.

TO: MR. ARMSTRONG

MAR 8 1996

846/2

D.O.No.366/FB-VI/96

भारत सरकार Government of India
वित्त मंत्रालय Ministry of FINANCE
आर्थिक कार्य विभाग Department of Economic Affairs
नई दिल्ली / New Delhi

V. Govindarajan,
Joint Secretary(FB)
Tel.No.3012752.

07.03.1996

Dear Javad,

Please refer to your letter dated 7th February, 1996 forwarding therewith the draft Performance Audit Report (PAR) on the Structural Adjustment Loan/Credit (Loan 3421-IN/Credit 2316 IN).

2. While we agree with most of the conclusions of the Performance Audit Report including those on the Balance of Payments outcome, we have reservations on the rating of "uncertain" for sustainability of the project as mentioned in para 4.36 of the PAR. We have time and again demonstrated the Government's commitment and resolve to continue with its process of opening up the economy and enhancing efficiency through domestic and external competition. The structural reforms have been focussed on fiscal adjustment, deregulation of domestic industry and promotion of foreign direct investment, liberalisation of the trade regime, financial sector reforms as also initiation of public enterprise reform. We may add that the reform process is irreversible and would be continued to achieve a greater degree of integration with the world economy.

3. Our specific comments on the issue of 'Stabilisation and Public Savings' (paras 4.2 to 4.4) and on 'Revenue Deficit and Public Debt" (paras 4.5 to 4.9) are as under:

Stabilisation and Public Savings:

Of late the situation has changed. Gross dissaving by the Central Government which rose sharply in 1993-94 and then declined in 1994-95 (Revised Estimates), is estimated to decline further to 1.7 per cent of GDP in 1995-96 (Budget Estimates).

Revenue Deficit and Public Debt.

The latest available estimates indicate that in India:

- GDP had grown by 5 per cent in 1993-94, 6.3 per cent in 1994-95 and is estimated to grow by 6.2 per cent in 1995-96. Thus, despite the deep crisis of 1991-92, average growth over the first four years of the Eighth Plan at 5.7% is higher than the Plan target of 5.6 per cent.

- Government debt, consisting of internal and external

TO: MR. ARMSTRONG 846/3

liabilities, fell from 69.7 per cent of GDP in 1993-94 to 67.0 per cent in 1994-95 (Revised Estimates).

- Revenue deficit as a per cent of GDP has fallen from 4.1 in 1993-94 to 3.1 in 1995-96 (Revised Estimates) and is estimated to be 2.7 in 1996-97 (Budget Estimates).

- The Gross Domestic Saving rate set a new record of 24.4 per cent in 1994-95, exceeding the recent peak of 23.6 per cent in 1990-91.

As regards para 5.11 of the report we consider that it does not serve useful purpose and, therefore, could be deleted.

Based on the position explained above, we feel that the relevant portion of the draft Performance Audit Report on the Structural Adjustment Loan/Credit needs to be modified.

Yours sincerely,

Govindarajan

(V. GOVINDARAJAN)

Mr. Javad K Shirazi
Director
Resident Staff in India,
World Bank,
New Delhi.

TRANSMISSION CONFIRMATION REPORT No.=004924

DATE/TIME	MAR 14, 1996 10:39AM
DURATION	1m 31s
TRANSMITTER (FROM)	WB OEDD2 202-522-3124 202 522 3124
RECEIVER (TO)	WORLD BANK ISLAMABAD 90119251210964
PAGES XMITTED	03
PAGES ERRORED	
RESULT	OK
COMM. MODE	G3
RESOLUTION	NORMAL

5005508014

cc: RA
0846/1

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

DATE : March 14, 1996 **SENT BY FAX**

TO : Manuel Penalver, Division Chief, OEDD2

FROM : Javad K. Shirazi, Director, Resident Staff in India

SUBJECT: **India Structural Adjustment Loan/Credit --Draft Performance Audit Report**

Attached please find the Government's response to the draft Performance Audit Report.

Attachment:

cc: Mr. Heinz Vergin, Director, SA2DR

cc: RA
forward 2/15

54871

THE WORLD BANK
FACSIMILE TRANSMITTAL FORM

Date	:	**February 15, 1996**
Number of pages (including this page)	:	**2**
To	:	**Mr. Manuel Penalver**
cc	:	**Mr. Heinz Vergin, Director, SA2**
Your fax number	:	(202) 522 3124 (202) 477 4510
From	:	**Javad Khalilzadeh Shirazi**
Our fax number	:	91-11-4632372

SUBJECT : ***Performance Audit Report on the Structural Adjustment Loan/Credit***

Dear Manuel,

I have forwarded the draft audit report to the Finance Secretary and I believe he has sent it for comments to the relevant people. One reaction which I have already received from one senior individual concerns paragraph 5.11. He believes, and I share the view, that the content of that paragraph could be very damaging to those senior Civil Servants in the Government who have previously been associated with the Bank. Without the reference we make in that paragraph they are already under a lot of suspicion in this country. I suggest that you delete the paragraph. (As the person who negotiated the SAL, I can tell you that the connection you make is not very germane in this case. I will be happy to discuss when I visit Washington.)

Regards,

Javad

Javad K. Shirazi

Attachment: (Paragraph 5.11)

5218/2

5.11 In the Indian case, for example, the mechanism of secondments and leaves of absence (of Indian nationals on the Bank staff to the Indian government, or vice versa) was a valuable one in building mutual understandings, shared perceptions and paradigms of reform. Such exchanges can have substantial costs as well as benefits, but the quality of the dialogue between the Bank and India surely benefited by these interchanges. The Bank should consider how to make such interchanges less *ad hoc* and more systematic in other countries.

A L L - I N - 1   N O T E

DATE: 06-Feb-1996 11:23am

TO: Robert P. Armstrong (ROBERT P. ARMSTRONG)

FROM: Manuel Penalver, OEDD2 (MANUEL PENALVER)

EXT.: 84400

SUBJECT: **RE: Deadline for PAR Comments from India**

Bob,

Thanks for the remainder. It turns out that we only sent it to India on January 30, so I could only ask for an advance of about two weeks. On balance I prefer not to ask for this but to send remainders in advance and keep the pressure for the March 19 date.

I also discovered (or rediscovered) that the "official" time we allow is 7 weeks, but I have already asked that this be changed in the future to 1 month. So if it didn't help for the Inadia SAL, your pointing it out to me will help for the future. Regards,

Manuel

CC: Norma Namisato (NORMA NAMISATO)
CC: Carmen Mispireta (CARMEN MISPIRETA)

A L L - I N - 1   N O T E

DATE: 05-Feb-1996 06:50pm

TO: Manuel Penalver (MANUEL PENALVER)

FROM: Robert P. Armstrong, OEDD2 (ROBERT P. ARMSTRONG)

EXT.: 34585

SUBJECT: **Deadline for PAR Comments from India**

Manuel,

Norma confirms to me that the cover letter calls for the Govt of India to send comments on the draft PAR on the SAL by March 19. You said that if were the case, you'd follow up to request an earlier response time. Could you let me know when that revised deadline will be, so that I may enter it into my "tickler" and ask Derbez et al to "nudge" GOI as appropriate? Thanks,

Bob

CC: Norma Namisato (NORMA NAMISATO)

The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: February 1, 1996 03:57pm

TO: Robert P. Armstrong (ROBERT P. ARMSTRONG)

FROM: Manuel Penalver, OEDD2 (MANUEL PENALVER)

EXT.: 84400

SUBJECT: **RE: India SAL PAR**

Bob,

Fine tomorrow after 4.15. Needless to say I did not change the rating (and I hope did not change the analysis). If I felt I had to change it I would have waited for your return. And while you were in the South Pacific I was shovelling snow, so that did NOT make any mellower.

Norma can tell you about the deadline. I agree with you that it is very important to get Government comments. You may want to follow up directly with the resident mission to pester them till they give comments.

Manuel

CC: Norma Namisato (NORMA NAMISATO)

The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: February 1, 1996 03:30pm

TO: Manuel Penalver (MANUEL PENALVER)

FROM: Robert P. Armstrong, OEDD2 (ROBERT P. ARMSTRONG)

EXT.: 34585

SUBJECT: **RE: India SAL PAR**

Manuel,

Norma faxed me both Derbez's memo on the India PAR and Bob P's note. I was glad to see that the Region didn't seem to have any problems (at least so far--do you expect further susbtantive comments from them?) and that Bob thinks that the price warrants a Precis (to be drafted by some else, I presume). But I'll be glad to help out with taking the government comments into account--that is if they make any. (Remember we couldn't ever get them to do a Part II). What's the deadline for the government comments?

I'll pick up from Norma tomorrow a copy of the final draft showing your editing. Needless to say I'll be particularly interested in how you may have changed the sustainability analysis and rating. But I don't expect you'll get too much of an ex post argument from me in any event, given how close to the margin I myself considered that call to be. Besides which, I'm feeling quite mellow in the aftermath of my South Pacific sojourn!

Would you be free to see me sometime tomorrow in the late afternoon, say after 4:15pm? I'm meeting with Rachel at 3:15.

Bob

CC: Norma Namisato (NORMA NAMISATO)

THE WORLD BANK GROUP
Headquarters: Washington, D.C. 20433 U.S.A.
Tel. No. (202) 477-1234 • Fax (202) 477-6391 • Telex No. RCA 248423

FACSIMILE COVER SHEET AND MESSAGE

DATE:	January 30, 1996	**NO. OF PAGES:** 2 (including cover sheet)	**MESSAGE NO.:**
TO:	Mr. Javad Khalilzadeh-Shirazi	**FAX NO.:**	(91-11) 461-9393
Title:	Director, Resident Staff in India		
Organization:			
City/Country:	New Delhi, India		
FROM:	Manuel Peñalver	**FAX NO.:**	(202) 522-3124
Title:	Division Chief	Telephone:	(202) 458-4400
Dept/Div:	Country Policy, Industry, and Finance	Dept./Div. No.:	175-20
Room No.:	G6-089		
JBJECT:	**Draft PAR - India: Structural Adjustment Loan/Credit (L3421/C2316)**		

MESSAGE:

Today, I am mailing the above-mentioned reports to you, by pouch. Kindly distribute them accordingly.

Thank you and regards.

Transmission authorized by:

If you experience any problem in receiving this transmission, inform the sender at the telephone or fax no. listed above.

THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

DATE: January 30, 1996

TO: Mr. Javad Khalilzadeh-Shirazi, Director, Resident Staff in India

FROM: Manuel Peñalver, Division Chief, OEDD2

EXTENSION: 84400

SUBJECT: **INDIA: Structural Adjustment Loan/Credit (L3421-IN; C2316-0-IN and 2316-1-IN) - Draft Performance Audit Report**

I will appreciate your distributing the enclosed audit reports and cover letters to the officials concerned. An additional copy of the report is enclosed for your information and would appreciate it if you could encourage the addressees to respond by **March 19, 1996**.

Enclosures

TRANSMISSION CONFIRMATION REPORT No.=004734

DATE/TIME	JAN 30. 1996 12:01PM
DURATION	54s
TRANSMITTER (FROM)	WB OEDD2 202-522-3124 202 522 3124
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PAGES XMITTED	02
PAGES ERRORED	
RESULT	OK
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RESOLUTION	NORMAL

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

January 30, 1996

Mrs. Rani Jadhav
Joint Secretary
Department of Economic Affairs
Ministry of Finance
New Delhi, India

Dear Mrs. Jadhav:

**Re: INDIA: Structural Adjustment Loan/Credit
(L3421-IN, C2316-0-IN, C2316-1-IN)
Performance Audit Report**

The Operations Evaluation Department (OED) is an independent department reporting to the World Bank's Executive Directors. It reviews all programs supported by the World Bank and evaluates the extent to which objectives were achieved, determines reasons for variations between planned and actual results, and the general effectiveness of World Bank support. We are particularly interested in what can be learned from past experience.

OED has audited the above program. Enclosed is the draft Performance Audit Report (PAR). We would welcome any comments on the report which you would like to make. Please let us have your comments by **March 19, 1996**, preferably by fax ([202] 522-3124).

Copies of the draft report have also been sent for comment to the persons on the attached list. A complete list of addressees is attached.

All comments which we receive will be reflected in the final report which we will then distribute to our Board of Executive Directors. At the same time we will send you a copy.

Sincerely,

Manuel Peñalver
Division Chief
Country Policy, Industry, and Finance
Operations Evaluation Department

Enclosures

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

January 30, 1996

Dr. S.S. Talapore
Deputy Governor
Reserve Bank of India
Bombay, India

Dear Dr. Talapore:

Re: INDIA: Structural Adjustment Loan/Credit (L3421-IN, C2316-0-IN, C2316-1-IN) Performance Audit Report

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January 30, 1996

Mr. R.K. Sinha
Secretary
Department of Industrial Development
Ministry of Industry
New Delhi, India

Dear Mr. Sinha:

Re: INDIA: Structural Adjustment Loan/Credit
(L3421-IN, C2316-0-IN, C2316-1-IN)
Performance Audit Report

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Cable Address: INDEVAS

January 30, 1996

Mr. T.S. Vijayraghavan
Additional Secretary
Ministry of Commerce
New Delhi, India

Dear Mr. Vijayraghavan:

**Re: INDIA: Structural Adjustment Loan/Credit
(L3421-IN, C2316-0-IN, C2316-1-IN)
Performance Audit Report**

The Operations Evaluation Department (OED) is an independent department reporting to the World Bank's Executive Directors. It reviews all programs supported by the World Bank and evaluates the extent to which objectives were achieved, determines reasons for variations between planned and actual results, and the general effectiveness of World Bank support. We are particularly interested in what can be learned from past experience.

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Sincerely,

~~Manuel Peñalver~~
Division Chief
Country Policy, Industry, and Finance
Operations Evaluation Department

Enclosures

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(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

January 30, 1996

Mrs. Rani Jadhav
Joint Secretary
Department of Economic Affairs
Ministry of Finance
New Delhi, India

Dear Mrs. Jadhav:

Re: INDIA: Structural Adjustment Loan/Credit
(L3421-IN, C2316-0-IN, C2316-1-IN)
Performance Audit Report

The Operations Evaluation Department (OED) is an independent department reporting to the World Bank's Executive Directors. It reviews all programs supported by the World Bank and evaluates the extent to which objectives were achieved, determines reasons for variations between planned and actual results, and the general effectiveness of World Bank support. We are particularly interested in what can be learned from past experience.

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Copies of the draft report have also been sent for comment to the persons on the attached list. A complete list of addressees is attached.

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Sincerely,

Manuel Peñalver
Division Chief
Country Policy, Industry, and Finance
Operations Evaluation Department

Enclosures

cc: Mr. Bimal Jalan (EDS12)

Performance Audit Report

INDIA: Structural Adjustment Loan/Credit
(L3421-IN, C2316-0-IN, C2316-1-IN)

Mrs. Rani Jadhav
Joint Secretary
Department of Economic Affairs
Ministry of Finance

Dr. S.S. Talapore
Deputy Governor
Reserve Bank of India

Mr. R.K. Sinha
Secretary
Department of Industrial Development
Ministry of Industry

Mr. T.S. Vijayraghavan
Additional Secretary
Ministry of Commerce

THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

DATE: January 23, 1996

TO: Mr. Manuel Penalver, Chief, OEDD2

FROM: Luis E. Derbez, Chief, SA2CI Luis E Derbez

EXTENSION: 39570

SUBJECT: **INDIA: Structural Adjustment Loan/Credit (L3421-IN, C2316-O-IN, C2316-1-IN) Draft Performance Audit Report**

1. We have reviewed the above draft report, and are in agreement with your very positive evaluation of the SAL Program. Regarding the central role of fiscal adjustment in the sustainability of India's reform process, we share your views and concerns. The importance of substantial and sustained reductions in the GOI's fiscal deficit to around 3 to 4 percent of GDP is keenly recognized by the authorities, and will remain a priority area in our dialogue with them. In this respect, reference should be made to the considerable reform and modernization of India's tax system, undertaken by GOI over the past two years, and including, reduction of corporate tax rates from 45 to 50% to a unified 40%; simplification of the central excise tax system by a shift from specific to *ad valorem*, a reduction in the number of rates and exemptions; and broadening of the tax base, which would have enduring impacts in the future.

2. Regarding the distribution of PAR to the Borrower, given the scope of the SAL project, which covered trade, industry, finance and public enterprises, we suggest the following:

Mrs. Rani Jadhav
Joint Secretary
Department of Economic Affairs
Ministry of Finance
New Delhi, India

Dr. S.S. Talapore
Deputy Governor
Reserve Bank of India
Bombay, India

Mr. R.K. Sinha
Secretary
Department of Industrial Development
Ministry of Industry
Udyog Bhawan
New Delhi 110 011

Mr. T.S. Vijayraghavan
Additional Secretary
Ministry of Commerce
Udyog Bhawan
New Delhi 110 011

cc: Messrs./Mme. Vergin, Uchimura (SA2DR); Alexander (OPRDR); Siraj (ASTTP); Gopal (LEGSA); Baird (DECVP); Collyns (IMF)

THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

DATE: January 17, 1996

TO: Mr. Luis Ernesto Derbez, Chief, SA2CI

FROM: Manuel Peñalver, Division Chief, OEDD2

EXTENSION: 84400

SUBJECT: **INDIA: Structural Adjustment Loan/Credit (L3421-IN; C2316-0-IN, C2316-1-IN) Draft Performance Audit Report**

The enclosed Annex I of the above-mentioned PAR was not included in the copy I sent you yesterday. Kindly attach it to the report.

Attachment

cc: Messrs./Mme. Vergin, Uchimura (SA2DR); Alexander (OPRDR); Siraj (ASTTP); Gopal (LEGSA); Baird (DECVP); Collyns (IMF)

INDIA: STRUCTURAL ADJUSTMENT LOAN/CREDIT

POLICY MATRIX

AREAS OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
INDUSTRIAL POLICY		
Reform of industrial regulatory framework regarding firms' entry, expansion, financing and diversification		
	A.1 The Government has abolished industrial licensing for all new, expansion, and diversification projects of all sizes except in 18 designated industries and except for projects/facilities located less than 25 km from cities of over one million population.	B.1 Guidelines will be issued clarifying that industrial licensing decisions on grounds of location (A.1) will be based solely on environmental, safety, land use, congestion, urban planning, and related concerns.
	A.2 Amendments to the MRTP Act have been made via Presidential Ordinance, abolishing all pre-entry clearance requirements for large or dominant firms; the MRTP Act has been reoriented to emphasize policing of monopolistic, restrictive, and unfair trading practices.	B.2 The 25% and Rs. 20 million limits on automatic approval for capital goods imports will be raised to 50% and Rs. 100 million, respectively.
	A.3 The requirement for producers to enter into Phased Manufacturing Program (involving indigenization of the production of parts and components over time) has been eliminated in the case of new projects.	
	A.4 The mandatory convertibility clause in term loans of financial institutions (under which they had the right to convert a portion of loan value into equity) has been abolished for new projects.	
	A.5 Price and distribution controls on low-analysis fertilizers have been removed.	
Promotion of foreign direct investment		
	A.6 The Government has introduced automatic approval for projects with foreign equity investment up to 51% in high-priority industries, provided that the foreign exchange needed for imported capital goods is covered by the foreign equity infusion and that repatriation of dividends is offset by export earnings.	

AREAS OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
	A.7 The Government has announced that foreign technical collaborations would be freely permitted in high-priority industries up to certain limits on royalty payments, and in other industries if no free foreign exchange is required.	
Deregulation of Steel Industry		B.3 The Government will adopt a satisfactory action plan to deregulate and decontrol the steel industry, including, *inter alia*, removal of price and distribution control.
Reform of Exit Policy	A.8 Recognizing the need to overcome legislative, regulatory, and other obstacles to adjustment by industrial firms (rehabilitation, restructuring, and winding up where necessary), the Government has established an inter-ministerial Working Group to review the existing provisions of the various laws governing labor relations, state and local governments' role in industrial restructuring, regulations governing transfer of land, procedures for liquidation under the Companies Act, and other relevant aspects. A.9 Establishment of a National Renewal Fund to provide workers with a safety net to protect them from the adverse consequences of restructuring and technological development has been announced by the Government.	B.4 Amendments to the Sick Industrial Companies Act of 1985 (SICA) to institute more appropriate criteria for sickness, strengthen the Board for Industrial and Financial Reconstruction (BIFR), improve its functioning, and streamline and facilitate procedures under BIFR will be prepared and submitted to Parliament. B.5 The objectives, scope, structure, operations, sources and methods of funding, criteria and mechanisms for providing support to workers, nature and amounts of such support, and other details of the National Renewal Fund will be specified. This is expected by December 31, 1991. B.6 Based on the review and recommendations of the inter-ministerial Working Group (see A.8), the Government will formulate a satisfactory policy to facilitate adjustment by industrial firms and initiate steps to this end, taking into account the need for adequate safeguards for workers, programs for re-deployment and retraining, and appropriate compensation where necessary.

AREAS OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
TRADE POLICY		
Removal of emergency Reserve Bank restrictions on imports		
	A.1 RBI restrictions imposed initially as part of emergency measures to deal with the critical balance of payments situation have been partially relaxed, in particular for export-related imports.	B.1 It is expected that by December 31, 1991, there will be further reduction of margin requirements for export related imports and capital goods financing restrictions affecting exporters. Cy second tranche release remove the following RBI restrictions: margins, queuing system for L/Cs, and capital goods financing requirements.
Reduction of discretionary import licensing (QRs)		
	A.2 As part of its efforts of moving from QRs to a price-based import regime system, the Government replaced the REP scheme with a new tradeable import entitlement "Exim scrip", with broader coverage and higher retention rate.	
	A.3 In August 1991 a number of intermediate goods on the restricted list (Appendix 2B) corresponding to one-third of the domestic output of such products were made freely importable by Eximscrip or on Open General License (OGL).	B.2 Move intermediate items on the restricted list (Appendix 2B) corresponding to at least an additional one-third of the domestic production referred to in A.3 to be freely importable by Eximscrip or on OGL. However, consumer goods will continue to be restricted and will remain on Appendix 2B. Certain products will also continue to be restricted for health, environmental and security reasons.
Reduction in state monopoly on imports (decanalization)		
	A.4 The replacement of REP licenses by the Eximscrip increased the volume of certain canalized items also importable by private individuals or firms using these licenses. A number of minor items decanalized (i.e., for those items public sector import monopoly eliminated) in August 1991. Private imports allowed under OGL in some cases and in others using Eximscrip.	B.3 Implement a satisfactory program of reductions and elimination of the official foreign exchange allocated to the public sector agencies in connection with the phasing out of dual pricing of previously decanalized items. Decanalize all remaining canalized products except petroleum products, fertilizers, oilseeds, cereals, certain fatty acids and acid oils, and other acceptable products. In the case of the products for which private importers must use Eximscrip, either require the canalizing

AREAS OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
		agency to also use Eximscrip from the date of decanalization or announce a satisfactory program of progressive reductions and elimination of official foreign exchange to the public sector agencies in order to phase out dual pricing.
Reduction in QRs on capital goods imports		B.4 Allow all unlisted capital goods to be imported with Eximscrip whether or not the Eximscrip is earned by the exports of the importing firm. Remove a substantial proportion of capital goods (corresponding to at least 50 percent of protected domestic production) from the capital goods restricted list (Appendix 1A). Production from which protection by import licensing is removed will not include capital goods the import of which remains restricted for health, environmental or security reasons.
Increased flexibility of import regime	A.5 Since April 1990 imports under transferable REP licenses have not been subject to "actual user" conditions. Actual user conditions also do not apply to the much larger volume of Eximscrip imports.	B.5 Abolish the "Actual User" requirement for imports.
Increased transparency in import regime	A.6 In October 1991 a computerized list corresponding to Customs Tariff HSC classifications giving import control status of each product was issued.	B.6 Abolish the Limited Permissible List (Appendix 3). Announce that all products not on Restricted lists, the Canalized lists, or the OGL lists are importable with the use of Eximscrip.
		B.7 Abolish the purchase preference given by the Directorate General of Supply and Disposal (DGS&D) and to domestic suppliers over the duty paid price of imports.

AREAS OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
Export incentives and removal of non-tariff barriers to exports		
	A.7 In August 1991 a new Advance License Scheme was introduced which broadens, simplifies and speeds up export incentives for manufactured goods.	
	A.8 GOI decanalized some exportable products on August 13, 1991 and decontrolled some others on September 4, 1991. Further decontrol measures were taken in October 1991. GOI is continuing to review export controls and export canalization, in particular existing policies towards agricultural and mineral exports.	B.8 Remove all export licensing, canalization and minimum export prices except for a satisfactory negative list.
Tariff reform		
	A.9 The Government has partially rolled back the earlier tariff increases adopted in the context of fiscal adjustment of December 1990 and the maximum ad valorem tariff (basic plus auxiliary) was lowered to 150 percent.	B.9 Completion of the customs tariff review and adoption of a satisfactory medium term plan to meet the objectives set out in A.10. A substantial initial reduction of the maximum customs tariff to be introduced in the 1992/93 budget.
	A.10 The GOI is undertaking a comprehensive review of the customs tariffs in order to recommend among other things, ways and means for: (i) substantially reducing the average level of tariffs; (ii) significantly lowering the maximum level of tariffs; (iii) simplifying the structure of tariff rates with a view to substantially reducing their variability and the incidence of exemptions and partial exemptions; (iv) minimizing the use of specific tariffs; (v) obtaining alternative revenue sources to compensate for any reduction in total government revenue which may follow from the tariff reform.	

AREAS OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
FINANCIAL MARKETS AND INSTITUTIONS		
Interest rate liberalization	A.1 Significant progress has been achieved in introducing greater flexibility and autonomy in the determination of term lending rates. Minimum lending rates for both commercial banks and financial institutions have been increased to 20% and 15% respectively, with both institutions given the freedom to add margins, depending on borrowers' creditworthiness and market conditions. A.2 Term deposit rates have been increased across the board by 1 to 2 percentage points (deposit rates, however, remain still under the administrative control of the RBI).	
Reduction in the scope of directed credit allocation schemes	A.3 A panel (Narasimham Committee) has been established with the mandate to review all relevant aspects of structure, organization, functions and procedures of the financial system, and make recommendations for reforms by mid-November 1991.	B.1 With the reduction of the fiscal deficit of Central Government as a proportion of GDP take measures to progressively reduce the Statutory Liquidity Ratio required to be maintained by the scheduled commercial bank starting from April 1992. B.2 Based on the recommendations of the Narasimham Committee, formulate a satisfactory program of action to reduce interest subsidies in areas of directed credit, beginning in April 1992.
Capital market regulatory and institutional reform	A.4 Restrictions on interest rates for debentures issued by corporations in capital markets, both convertible and non-convertible, have been completely removed (exemption applies however to tax free bonds issued by the public sector). A.5 The Coupon rate on Government securities has been raised by one-half of a percentage point from 11.5% to 12% (20-year bond).	

AREAS OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
	A.6 Announcement has been made to grant full statutory powers to the Stock Exchange Board of India (SEBI) under the Securities Contracts (Regulation) Act and the Company Act.	B.3 Prepare and present to Parliament legislation to give SEBI statutory status in order to operate as an independent regulatory body, including power to investigate with due diligence.
	A.7 Announcement has been made to introduce a comprehensive package of reform to improve the trading mechanism of stock exchanges, including a system of national clearing and settlement and setting up a central depository trust.	B.4 Adopt a satisfactory Program of action to reform the trading mechanism of stock exchanges, including a system of national clearing and settlement and setting up a central depository trust.
Private sector participation in the mutual funds industry	A.8 The mutual funds industry is being opened for private sector participation. A high level Committee (Dave Committee) has been established to review the existing regulatory framework for the mutual funds industry with a view to preparing a draft legislation for regulation of mutual funds and other offshore funds, including such funds which may be a step up in the joint/ private sector, and to make recommendations on any other matters which is relevant for the orderly growth of mutual funds.	B.5 Based on the recommendation of Dave Committee, formulate and implement a satisfactory Program of action for setting up of mutual funds in the private sector.

AREAS OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
PUBLIC ENTERPRISES REFORM		
Rationalizing the scope and the role of the public sector	A.1 The Government has announced that the public sector is to concentrate on essential infrastructure, exploitation of oil and mineral resources, crucial areas where private investment is inadequate, and strategic-related activities. It was announced that the existing portfolio of public enterprises will be reviewed, with a view to focusing the public sector on strategic areas, high-tech, and essential infrastructure. The list of industries reserved for the public sector has been reduced from 18 to 8.	
Reduction in budgetary support to public sector enterprises	A.2 Budgetary support to central public enterprises has been reduced significantly, with nonplan loans and transfers to public enterprises projected to drop by about 25% in 1991-92 and budgetary plan support for investment by public enterprises (loans and equity contributions) by 10%.	B.1 As part of its program of fiscal adjustment and to ease the burden on the budget, the Government will adopt and initiate the implementation of a satisfactory phased action plan to eliminate within three years (i.e., by the end of 1994/95) budgetary transfers and loans to sick central public enterprises and budgetary plan support (loans and equity) for public enterprise investments except in energy, transport, and other infrastructure. Under the action plan, Government guarantees of central public enterprise borrowings will be limited to essential infrastructure, exploitation of oil and mineral reserves, and strategic-related activities.
Formulation of an exit policy for public enterprises	A.3 The Government is developing an exit policy for public enterprises.	B.2 In the case of units that are patently unviable, the Government will form a satisfactory action program to initiate restructuring and closure procedures.

AREAS OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
		B.3 The Government will take actions to ensure that, except for central public enterprises already determined to be unviable by the Government (B.2), all public enterprises that are sick according to the criteria specified in the Sick Industrial Companies Act (SICA) henceforth will automatically be referred to the Board for Industrial and Financial Reconstruction (BIFR) for assessment of their prospects and subsequent winding up or rehabilitation. All such sick central public enterprises will be referred to BIFR.
Divestiture		
	A.4 Government disinvestment of 20% of the equity of selected public enterprises has been announced; shares would be sold to mutual funds and other financial institutions, which will then resell them to the general public. Disinvestment is expected to yield proceeds of at least Rs. 25 billion for the budget in 1991-92.	B.4 The detailed program for disinvestment of 20% of equity in selected public enterprises, to yield Rs 25 billion, will be finalized and approved by the Government and implementation of the program will be completed by the end of 1991/92.
		B.5 Building on the 20% disinvestment, a satisfactory action program to progressively increase the private equity share in profitable central public enterprises to 49% within three years will be promulgated by the Government, along with a list of the companies concerned and a timetable for implementation.

cc: file

1/23

THE WORLD BANK GROUP

ROUTING SLIP	DATE: January 16, 1996

NAME	ROOM. NO.
Mr. R. Picciotto, DGO	
Mr. F. Aguirre-Sacasa, Director, OED	

	URGENT		PER YOUR REQUEST
✓	FOR COMMENT		PER OUR CONVERSATION
	FOR ACTION		NOTE AND FILE
	FOR APPROVAL/CLEARANCE		FOR INFORMATION
	FOR SIGNATURE		PREPARE REPLY
	NOTE AND CIRCULATE		NOTE AND RETURN

RE: PAR: INDIA - Structural Adjustment Loan/Credit (L3421-IN, C2316-0-IN and C2316-1-IN)

REMARKS:

This report is being sent to the Region for comments. We plan to send the report to the Borrower for their comments on January 30, 1996.

Robert Armstrong (task manager) and Gopi Arora (consultant) are the authors of this report.

FROM	ROOM NO.	EXTENSION
Manuel Peñalver, Chief, OEDD2	G6-089	84400

FAS

A very good job. Well worth a press.

RP

cc: RW

THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

DATE: January 16, 1996

TO: Mr. Luis Ernesto Derbez, Chief, SA2CI

FROM: Manuel Peñalver, Division Chief, OEDD2

EXTENSION: 84400

SUBJECT: **INDIA: Structural Adjustment Loan/Credit (L3421-IN; C2316-0-IN, C2316-1-IN) Draft Performance Audit Report**

1. Attached for your review and comment is the draft of the above report.

2. It would be appreciated if we could receive your comments by **February 20 , 1996**. Meanwhile, we plan to send the draft report to the Borrower for comment on **January 30, 1996**. If there is any particular reason why you consider this should not go to the Borrower **at that time**, we would appreciate your earliest advice, with confirmation in writing.

3. Based on OED's review the performance of this project has been rated as:

Outcome:	**Satisfactory**
Sustainability:	**Uncertain**
Institutional Impact:	**Substantial**
Bank Performance:	**Satisfactory**
Borrower Performance	**Satisfactory**

Unless you advise us otherwise within 30 days, we will assume you agree with this rating, and it will be shown as such for the purpose of the Annual Review of Evaluation Results.

4. This PAR finds that the project's objectives were highly timely and relevant as of late 1991 and it agrees with the PCR's finding that implementation was satisfactory in most respects.

5. As noted above, however, the PAR finds sustainability to be uncertain. This is largely because–notwithstanding encouraging progress on the liberalization front–there have been insufficient fiscal reforms at both the central and state government levels and inadequate public enterprise and institutional reforms to ensure continued economic growth and poverty alleviation in the future.

6. One lesson flagged in the PCR was that India's initial success in reducing its fiscal deficit was instrumental in enabling it to undertake reforms in trade, finance and public enterprises and also important in restoring the credibility and confidence needed to stimulate private investment. The centrality of macroeconomic stabilization to the growth strategy was recognized in 1991 by the framers of the adjustment program. A complementary lesson identified in the PAR is that, by the same token, the sustainability of recent progress is threatened by recent weakening in fiscal performance at both central and state levels.

7. I would also be grateful is you would send us the names, titles, and complete addresses of people in the Borrower country to whom the draft report should be sent for comment.

Attachment

cc: Messrs./Mme. Vergin, Uchimura (SA2DR); Alexander (OPRDR); Siraj (ASTTP); Gopal (LEGSA); Baird (DECVP); Collyns (IMF)

A L L - I N - 1   N O T E

DATE: 20-Dec-1995 01:28pm

TO: Manuel Penalver (MANUEL PENALVER)

FROM: Robert P. Armstrong, OEDD2 (ROBERT P. ARMSTRONG)

EXT.: 34585

SUBJECT: **Sustainability Handicapping**

Manuel,

A couple of quick thoughts on sustainability. It's not as silly as may first seem.

We're supposed to put our sustainability ratings in terms of "liklihoods", which means probabilities. But as discussed briefly yesterday, I suspect there's not much consistency across individuals as to how/where to draw the lines, much less agree on the criteria. Maybe you can clarify how we can translate the dividing lines into "odds ranges" for the continuence of certain kinds of outcomes.

The first issue is: which kind(s) of outcomes (e.g. partial policy measures not reversed or output/outcomes at certain rates)? The second issue is: Which ranges of odds correspond to the three ratings of likely (i.e. good odds--I'd give you 2-1 and still take the bet), unlikely (bad odds, I wouldn't take the bet even if you gave me 2-1) and uncertain (anything in between).

When we can translate these ratings into such terms--or even think about them more in such terms--I think we'll be on the road to more rigor and consistency in this sustainability ratings business.

I'm reminded of how I used to challenge some country economists who were supposed to come up with CSP projections deemed "most likely". They'd put down, say, a five year GDP growth rate for Sudan of 4.8 percent and say, yes, I think that's the most likely scenario. I'd say I think the most likely (if I had to choose a single rate and not a range) would be 3.3 percent and that I'd be willing to make a $1000 bet that the outcome would be closer to my figure than theirs. This led to discussions of "odds" that the outcome would be in this or that range, and we'd then converge on a figure where we thought the probability to be 50-50 of an outcome above or below that figure. Our crude American phrase for this approach is putting your money where your mouth is.

How about the same approach to getting more convergence on the sustainability ratings? (I'm talking now of an approach to be used internally until developed a lot further). Suppose it's ten years from now and we're doing an impact assessment of the several Indian adjustment operations, and also an ex post assessment of OED's judgments about the sustainability of the benefits of those operations. If it turned out the Indian growth had averaged, say, 7 percent or better over that decade, then we'd easily agree that the SAL benefits had in fact been sustainable and that the OED evaluator who gave the 1995 sustainability rating at only "uncertain" rather than "likely" was wrong, wrong, wrong. (Let's also assume for the momement that GDP growth is a good performance indicator of sustainability).

On the other hand Indian growth turned out to be only 3-4 percent or less, then we'd also agree that the "uncertain" rating had been too optimistic--it should have been unlikely.

Suppose we cast our debate about SAL sustainability into those terms. I tell you that I favor a rating of uncertain and would bet you $1000 or more (1995 prices) that India will probably not carry out enough of its unfinished agenda of adjustment to achieve average 7 percent growth or better over the next decade. You say that you favor a rating a of likely but will take my bet only if I give you odds or we lower the performance criterion to 6 percent, or take a different performance criterion such as that India won't reimpose price controls on fish--or whatever.

You're the boss, so you can choose the criterion and also define what odds ranges correspond to which sustainability ratings. But at least putting the debate into these terms would give us more transparency and consistency in the ratings across countries and projects. (And if we put our own real cash on the line, maybe more conviction and accountability, too. Speaking of which, will you give me better than 12-1 odds on a $5000 bet that Spain wins the next World Cup? Would you say that Spain's liklihood of winning the whole thing is likely or uncertain? How about the round of 16 at 6-1?).

Bob

P.S. I look forward to your reaction to the chapter in the PAR on the unfinished agenda of adjustment and sustainability. Do you still think the rating should be likely? Is that crash in the Indian stock market since 1993 perhaps telling us something about what the market (increasingly influence by foreign capital) thinks about sustainability?

Subject: India SAL - PAR 12/11/95

Manuel:

I'm sorry you didn't get a chance to review the draft PAR that I gave to Carmen two weeks ago, but I trust you'll be able to look over the attached package fairly soon.

This version incorporates the comments of Nicolas, my internal peer reviewer, but not yet the comments of Jayanta Roy, my unofficial external peer reviewer. I sent it also to Zagha, but he's out of the country now and I don't think we need wait upon their comments before sending it to the Region.

In addition to the PAR, the attached package includes the draft Transmittal Note plus the PIF.

Bob

THE WORLD BANK GROUP

ROUTING SLIP	DATE: December , 1995

NAME	ROOM. NO.
Messrs. R. Picciotto, DGO	
F. Aguirre-Sacasa, Director, OED	

	URGENT		PER YOUR REQUEST
✓	FOR COMMENT		PER OUR CONVERSATION
	FOR ACTION		NOTE AND FILE
	FOR APPROVAL/CLEARANCE		FOR INFORMATION
	FOR SIGNATURE		PREPARE REPLY
	NOTE AND CIRCULATE		NOTE AND RETURN

RE: PAR: INDIA- SAL/SAC (L3421-IN; C2316-0-IN, C2316-1-IN)

REMARKS:

The attached PAR is now being sent to the Region for comments. The authors of this report are Robert Armstrong (Task manager) and Gopi Arora (Consultant).

FROM	ROOM NO.	EXTENSION
Manuel Peñalver	G6-089	8-4400

THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

DATE:

TO: Mr. Luis Ernesto Derbez, Chief, SA2CI

FROM: Manuel Peñalver, Division Chief, OEDD2

EXTENSION: 84400

SUBJECT: **INDIA: Structural Adjustment Loan/Credit (L3421-IN; C2316-0-IN, C2316-1-IN) Draft Performance Audit Report**

1. Attached for your review and comment is the draft of the above report.

2. It would be appreciated if we could receive your comments by January , 1996. Meanwhile, we plan to send the draft report to the Borrower for comment on January , 1996. If there is any particular reason why you consider this should not go to the Borrower **at that time**, we would appreciate your earliest advice, with confirmation in writing.

3. This PAR finds that the project's objectives were highly timely and relevant as of late 1991 and it agrees with the PCR's finding that implementation was satisfactory in most respects.

4. As noted above, however, the PAR finds sustainability to be uncertain. This is largely because–notwithstanding encouraging progress on the liberalization front–there have been insufficient fiscal reforms at both the central and state government levels and inadequate public enterprise and institutional reforms to ensure continued economic growth and poverty alleviation in the future.

5. One lesson flagged in the PCR was that India's initial success in reducing its fiscal deficit was instrumental in enabling it to undertake reforms in trade, finance and public enterprises and also important in restoring the credibility and confidence needed to stimulate private investment. The centrality of macroeconomic stabilization to the growth strategy was recognized in 1991 by the framers of the adjustment program. A complementary lesson identified in the PAR is that, by the same token, the sustainability of recent progress is threatened by recent "fiscal faltering" at both central and state levels.

6. Based on OED's review the performance of this project has been rated as:

Outcome:	**Satisfactory**
Sustainability:	**Uncertain**
Institutional Impact:	**Substantial**
Bank Performance:	**Satisfactory**
Borrower Performance	**Satisfactory**

Unless you advise us otherwise within 30 days, we will assume you agree with this rating, and it will be shown as such for the purpose of the Annual Review of Evaluation Results.

7. I would also be grateful is you would send us the names, titles, and complete addresses of people in the Borrower country to whom the draft report should be sent for comment.

Attachment

cc: Messrs./Mme. Vergin, Uchimura (SA2DR); Alexander (OPRDR); Siraj (ASTTP); Gopal (LEGSA); Baird (DECVP); Collyns (IMF)

The World Bank
Washington, D.C. 20433
U.S.A.

Office of the Director-General
Operations Evaluation

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Performance Audit Report on India - Structural Adjustment Loan/Credit (Loan 3421-IN; Credits 2316-0-IN and 2316-1-IN)

Attached is the Project Audit Report (PAR) for the India Structural Adjustment Project (Loan 3421-IN/Credits 2316-0-IN and 2316-1-IN). This US$500 million project was approved in December 1991 and closed on schedule in December 1992. This project was the Bank's first policy-based loan/credit to India. It had the main objectives of (i) helping India to cope with a balance of payments crisis of unprecedented severity; and (ii) supporting a broad-based set of policy reforms aimed mainly at liberalizing the Indian economy and opening it up to more competition both from within and abroad. Complementary stabilization policies were undertaken simultaneously under the aegis of an IMF program.

This PAR finds that the project's objectives were highly timely and relevant as of late 1991 and it agrees with the PCR's finding that implementation was satisfactory in most respects. The timely provision of foreign exchange in combination with other official capital that the project helped to catalyze, helped India to weather its balance of payments crisis and improve its creditworthiness. On the policy side, the pace and scope of reforms exceeded the project targets in several key areas, **viz**. exchange rate policy, liberalization of the import regime and financial sector reform. In other areas, however, progress was more gradual (exit policy for industrial firms, removal of restrictions on agricultural exports). In the case of public enterprise reform, progress has been considerably short of what was envisaged. On balance, however, implementation of the project's proximate objectives was found to have been quite satisfactory.

The PAR agrees with the PCR's ratings of the project's outcome as satisfactory and the project's institutional development (ID) impact as substantial–where ID is interpreted broadly to mean "changes in the rules of the game" and not just organizational change and capacity building. In contrast to the PCR-based rating of sustainability as likely, however, the PAR finds sustainability to be uncertain. This is largely because–notwithstanding encouraging progress on the liberalization front–there have been insufficient fiscal reforms at both the central and state government levels and inadequate public enterprise and institutional reforms to ensure continued economic growth and poverty alleviation in the future. These shortcomings are reflected in declining public savings, an onerous debt burden, a crowding out of public and private investment by public sector current expenditure, and insufficiencies and inefficiencies in the delivery of public services.

One lesson flagged in the PCR was that India's initial success in reducing its fiscal deficit was instrumental in enabling it to undertake reforms in trade, finance and public enterprises and also important in restoring the credibility and confidence needed to stimulate private investment. The centrality of macroeconomic stabilization to the growth strategy was recognized in 1991 by the framers of the adjustment program. A complementary lesson identified in the PAR is that, by the same token, the sustainability of recent progress is threatened by recent "fiscal faltering" at both central and state levels.

Attachment

Subject: Distribution of draft India SAL PAR 12/11/95

Norma:

Please send a copy of the PAR (incl. Transmittal Note but not PIF) to Mr. Jayanta Roy in Room H-10-045 by special messenger with routing slip saying "We spoke about the attached. I look forward to your comments. Thanks and regards and seasons greetings,
Bob Armstrong"

Please send another copy to Mr. Robert Zagha in Room J-7-145 with routing slip saying: "Roberto: Here (finally) is a copy of the draft PAR on the India SAL. If you get a chance to look it over and could pass on any comments, I'd be very grateful. Especially if you save me from any big mistakes! Thanks and regards and seasons greetings. (My home phone number is 202-363-8754.
Bob ARmstrong"

ANZ Grindlays Bank plc

ANZ Grindlays Bank

Mercantile House 15, Kasturba Gandhi Marg, P.O. Box 600, New Delhi 110 001 India
Telephone (D) 3328568 (B) 3721242 Telex 031 65014
91-11 Fax 3711452

Chairman, Indian Advisory Board

June 8, 1995

Mr Robert Armstrong
World Bank
Washington DC

Fax : 202 522 3124

Dear Mr Armstrong,

It was nice talking to you yesterday. I am glad you and Mrs Armstrong had a nice holiday.

I seem to have misplaced the ~~details~~ outline which you gave me. I shall be grateful if you could fax it to me at 3711452.

With regards,

Yours sincerely,

G K Arora

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

Post-it® Fax Note 7671	Date 6/8/95 # of pages ▶ 5
To MR GOPI ARORA	From R. ARMSTRONG
Co./Dept.	Co. WB - OEDD2
Phone #	Phone # (202) 473-4585
Fax # 3711452	Fax # (202) 522-3124

DATE: June 7, 1995

TO: Mr. Manuel Penalver, Chief, OEDD2

FROM: Robert Armstrong, OEDD2

EXTENSION: 34585

SUBJECT: INDIA: SAL Evaluation Mission - Back-to-Office Report

1. I visited India during the period April 16-28 to evaluate the 1991 SAL. Mr. Gopi Arora, a local consultant, worked with me during my field visit. There were no notable surprises in our findings, and I expect to rate the project the same way as the PCR: satisfactory in terms of outcome, substantial in terms of ID impact, and with likely sustainability.

2. The value added of the audit will be to get into issues hardly dealt with in the PCR, e.g. Bank performance (good), the leveraging for funds from other official sources (considerable), social costs (no clear net effects), the political economy context (complex), and sustainability (likely, but with some important qualifications). An outline of the audit, which also indicates some the main conclusions arrived at, is attached.

3. The mission was well received and went well in terms of my getting access to people and documents. I thought it also went well in terms of how forthcoming were most of those I did see—especially those outside of the government. Mr. Arora, a former Finance Secretary and E.D. at the IMF at the time of the SAL, proved invaluable both in opening doors and providing his own insider knowledge and insights.

4. I spent the first few days in Bombay where I met mainly with officials from the Reserve Bank of India and from major financial institutions, both public and private. In Delhi, Mr. Arora and I met with about equal number of government officials (mainly from the Ministries of Finance, Commerce, and Industry) and private sector people, including academics.

5. Unfortunately, I did not see the Bank's Resident Representative, Mr. Shirazi (a key player in the SAL), nor a few of the top Ministry of Finance people who were travelling abroad during my visit. However, Mr. Dailami, the acting ResRep and task manager of the SAL, was extremely helpful. I never did learn why the Government never produced Part II of the PCR.

6. One of the harder questions to answer, given that the Indian reform program launched in 1991 was clearly "home grown" and strongly owned by the Government, is: what role, aside from the financial one (which was in fact significant, given the liquidity crisis of the time), did the Bank really play in helping to bring about those reforms?

7. Mr. Arora and I concluded that the Bank's contribution was more than meets the eye, as it represented a culmination of many years of ESW, dialogue, project involvement, and aid coordination activities. The lessons (which we're still in the process of distilling) may therefore be particularly relevant, say, to Bank/country relations involving other very large client countries, e.g. Russia.

8. I plan to get you a draft audit by about the first of July, with a view to sending the report to the Government by the time you go on leave.

Attachment

cc: OEDD2 HLS, Mr. Arora (consultant), Messrs. Zagha (SA2CI), Dailami (SA2RS)

DRAFT OUTLINE--PAR ON INDIA SAL

Preface

Boilerplate
Highlight ratings/differences with PCR
Value added of PAR: how differentiate product from PCR?
Surprising findings? Rs contrary to CW?

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India's policies/performance to 1991
Bank's country assistance strategy: why no AL before 1991
Crisis of 1990-91

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    - -relate to diagnosis of worst distortions/binding policy constaints
  - Appropriateness of size of loan (ex ante)
  - Sequencing/pacing; 1st best sequencing/2nd best pacing? (gradualism)
  - Strengths: political economy realism/feasibility; strategic context; integration of stabilization/adjustment measures (e.g. devaluation/trade liberaliz); aid mobilization/coordination; process of consultations, ownership; good mutual understandings/respect/dialogue; Bank sensitivity to polit economy, low profile, reward actions taken
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III. SAL Implementation: Evaluation of Efficacy

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Implementation of stabilization policy measures: SAL period & since
Implementation of adjustment policy measures: SAL period & since
- trade policy
- industry policy
- financial sector policy
- PE sector policy

Implementation of aid mobilization/coordination measures
Macroeconomic targets and outcomes
- Comparison of projections and actuals
- Effects of exogenous factors (monsoons, terms of trade, developments in world capital markets, i rates, export demand, etc)

Institutional development effects: capacity building and rules of game

Main strengths/successes: initial stabilization; aid mobilization; external sector strengthening; exchange rate, trade and entry policies; mixed progress on financial sector; continuity of progress (albeit gradual) in policy reform building credibility, broadening constituencies, improving investment and business climate (incl for DFI); shortness of downturn, some quick results helped build political support; openness of debate/free press/parliamentary questions, etc.; inflow of capital, rise in investment approvals; avoidance of signficant adverse effects on poor?; mixed record on ID, regulatory framework(s) [cite positive]; lack of ID strategy, complementary ID compenents/TA; okay sequencing, e.g. avoiding LAC/Mexico mistakes in financial liberalization; lack of plan for followup adjustment operations?

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Overall Outcome Rating: clearly satisfactory for SAL per se, though PCR didn't envisage fiscal/other slackening when done in June 1993.

Bank Performance
Borrower Performance

IV. The Unfinished Agenda and Sustainability Issues

The Unfinished Agenda of Adjustment
- Binding constraints to maitaining/accelerating growth
- The deficit/debt/inflation/competitiveness nexus
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- Trade, financial sector, and labor policy issues
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The role of donors/WB in enhancing the liklihood of sustainability (can't/shouldn't go to far here)

V. Lessons and Recommendations

Effectiveness/quality of Bank assistance depends importantly on:

- o broad mutuality of understanding, which can come only from long period of dialogue based on ESW of high quality done in close cooperation with government
- o understanding by Bank staff/management of the country's capabilities (technical, institutional and political) to implement various types of reforms within specific time horizons; need for political realism
- o understanding/integration of institutional changes/reforms needed to improve efficiency/equity/economic governance

- o staff and management with skills/talents capable of and intent upon achieving the above-mentioned understandings

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- o complementarities between lending and non-lending services

[Main factors contributing to constructive Bank role

ESW, continuity, in-depth country/technical knowledge, building relations/dialogue over years w. cty counterparts; knowledge & experience in Bank of several in reform team; Bank leadership in aid group; all above consequence of years of investment, preparation w/o knowledge of if/when payoff would come; need/ability to move fast when historic circumstances require.

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ESW, aid coordination, policy dialogue, country assistance strategy formulation. Quality of lending a function of quality of non-lending services

How Bank may support adjustment w/o adjustment lending

TRANSMISSION CONFIRMATION REPORT No.=003783

DATE/TIME	JUN 8, 1995 11:30AM
DURATION	2m 57s
TRANSMITTER (FROM)	WB OEDD2 202-522-3124 202 522 3124
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PAGES XMITTED	05
PAGES ERRORED	
RESULT	OK
COMM. MODE	G3
RESOLUTION	NORMAL

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THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

RA 1/c

DATE: June 7, 1995

TO: Mr. Manuel Penalver, Chief, OEDD2

FROM: Robert Armstrong, OEDD2 RA

EXTENSION: 34585

SUBJECT: INDIA: SAL Evaluation Mission - Back-to-Office Report

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(an ambitious outline!)
M.

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Political economy of reform: Reform strategy must be grounded in new political economy (policy as endogenous) and new institutional economics (rules of game) to get social/political/institutioanl feasibility of implementation and liklihood of sustainability

Complementarities between non-lending and lending services

ESW, aid coordination, policy dialogue, country assistance strategy formulation. Quality of lending a function of quality of non-lending services

How Bank may support adjustment w/o adjustment lending file

The World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: May 17, 1995 12:39pm

TO: Manuel Penalver (MANUEL PENALVER)

FROM: Robert P. Armstrong, OEDD2 (ROBERT P. ARMSTRONG)

EXT.: 34585

SUBJECT: **Review Notes on (i) Brazil Public Sector Management Loan (ii) India SAL**

[See hard copy of this EM, which includes attachment].

Brazil TA

Re the Brazil project Review Note (package sent to Francisco on April 14, returned on May 16), you will see that I have simplified the sentence that Francisco felt represented "unclear thought". I personally feel that the original sentence was complex but not unclear. But I agree that good writing should be ladened with too much complexity, so I won't argue the point further.

Francisco rightly raised the question whether this project warrants a rating of "negligible" rather than "modest" for ID. My own initial inclination was to rate the ID impact as negligible. But during the course of a long conversation with the PCR author (Isobel Emerson) I was persuaded that the positive impact in the budgeting, auditing and MIS areas, plus some modest improvements in planning and skills upgrading, were sufficient to warrant an overall ID rating of modest--notwithstanding the negligible impact on management, personnel systems, etc. (See page 7 of PIF).

On re-reading the Review Note, I noted that I didn't put into this Note a point stressed in the PIF Comments (page 28 of PIF) regarding the "lesson" identified in the PCR that the project design should have been more a "blueprint" design. I think this is a wrong lesson. In principle, I think it's important that OED should flag PCR/ICR lessons that we think are wrong, for surely wrong lessons that might be incorporated into the Bank lexicon of conventional wisdown and best practices need to be shot down. Do you agree?

If so, I would perhaps downgrade the quality of the PCR from excellent to very good (second sentence of Review Note) and add (just before the last sentence of the Review Note) the following insert:

[However, OED's reviews of similar TA projects lead us to question the PCR's conclusion that a "blueprint" approach to project design would have been appropriate. In general, a "process" approach is more appropriate to such projects, provided that there is strong "discipline in the process"--the getting of which requires strong project management and supervision.]

What say?

India SAL - Review Note

Francisco made only one substantive change in the Review Note for the India SAL. This was in the last sentence of the third paragraph which began "India's economic growth initially slowed..." Francisco inserted the words "owing to poor harvests".

Now it is true that the poor performance of agriculture in 1990/91 was a significant factor, but it was by no means the only or even the main factor, as Francisco's insertion now makes it appear to be. In fact, the decline in manufacturing was equally large in absolute terms (and greater in relative terms). And as the PCR points out, significant causes of the overall slowdown were "the contractionary impacts of import compression measures and fiscal retrenchment which depressed public and private investment." Thus, I find it misleading to make it appear that the slowdown was entirely attributable to a (seemingly) exogenous event such as poor harvests when the main cause was the stabilization program adopted in 1990/91.

The draft Review Note has already been sent to the Region incorporating Francisco's change, but I would propose to restore the final version of the Review Note to the way it was originally. What say? (Note: I would also eliminate "and 1992/93" from that last sentence of the third paragraph of the final Review Note, since growth picked up considerably in that year).

Comments from the Region on the draft Review Note are due next Tuesday, May 23.

India SAL - Audit

You'll recall that Francisco asked that we do a simultaneous audit of the social safety net adjustment operation and the SAL. A main reason for this request was his presumption that our planned audit of the SAL would (inter alia) focus on sustainability "due to our concern over social costs".

In your note to Francisco dated May 8, you said that we cannot look at the safety net operation in parellel with the SAL "because the Region has not yet prepared the PCR..." But you went on to say that you would ask me to "take this credit [i.e. the safety net operation] into account in the [SAL] audit."

I have a few comments on this exchange. First, Francisco is correct in perceiving the link between sustainability of the SAL benefits and the social costs [and benefits] of that operation. So even though the PCR was virtually silent on the matter of the SAL's social costs in particular and its sustainability in general, I clearly need to address both in the audit, and am doing so. But the focus on sustainability is not just a function of a concern over social costs. OED focuses on sustainability issues whether or not the matter of social costs is signficant or not. And I noted in the Review Note that the OED would give particular attention to the sustainability issues because the PCR had said very little about sustainability.

During my mission to India, I made some efforts to get information on the matter of social costs/benefits of the adjustment program to date. This subject was in fact the main focus of my discussions with Shankar Acharya and several other officials and researchers. Unfortunately, the data and studies available are still pretty sketchy and incomplete, as there haven't been any recent household expenditure studies or even LSMS types of exercises on a countrywide basis. In the absence of these data, however, I was able to get a fair bit of information for some regions and (on a countrywide basis) on expenditures in the social sectors, social indicators, trends in real agricultural wages, performance against targets of various special employment and poverty alleviation programs, etc. The Region has also prepared a poverty assessment on India that contains some relevant info and analysis.

On this basis, I'll be able to tell a partial story of the social effects, albeit only a partial one. The data just isn't yet available to do a comprehensive analysis. But it surely would be helpful to see the ICR for the safety net project, since one of the strengths of that project was a well-specified set of objectively monitorable performance indicators against which progress toward project objectives could be monitored.

Incidentally, I asked Tony Cholst, the present Country Officer for India, about the timetable for the ICRs of the two followup adjustments operations, namely the social safety net opeation (approved in December 1992 and closed in August 1994) and the external sector operation (approved in June 1992 and closed in January 1994). He said that ICRs for both projects have in fact been drafted by the Region and sent to the government for its comments/inputs. The government has not yet responded. (Shades of the non-response on the SAL PCR?)

I asked to see a copy of the Region's draft of tthe ICRs and was told that Richard Skolnik, the division chief responsible for the safety net project, had refused an early request [do you know from whom?] to release this, on the grounds that the draft is "controversial" and should not be released outside the department until the government's comments are incorporated. This information naturally makes me all the more keen to see this ICR before finalizing my SAL audit. Any suggestions re how to get a bootleg copy, given that nobody in Richard's division (including Richard himself) owes me anything?

I'll also need some guidance on how to take the safety net operation "into account" (as you told Francisco would be done) in my SAL audit--whether or not I get the draft ICR for that operation.

Attachment

CC:	RA chron file	(PAPER MAIL)
CC:	OEDD2 Files	(OEDD2 FILES)
CC:	Institutional ISC Files	(INSTITUTIONAL ISC FILES)

The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: April 11, 1995 07:36am

TO: ROBERT P. ARMSTRONG (ROBERT P. ARMSTRONG @A1@WBWASH)

FROM: Padma Gopalan, SA2RS (PADMA GOPALAN AT A1 AT DELHI)

EXT.:

SUBJECT: **Meetings in Bombay**

Mr. Armstrong:

Please find attached the list of appointments for Bombay and Delhi.

Due to the sudden death of India's ex-Prime Minister Mr. Morarji Desai yesterday, the Government has declared a holiday for two days - April 11 and 12. April 13 and 14 are holidays - Mahavir Jayanti and Good Friday. Due to these unforeseen holidays, we are not receiving responses to our requests for meetings for Monday, April 17, though NDO is working except on Friday. Therefore, we will be able to firm these up only on Monday morning, and would inform you accordingly on your arrival. In the meantime, I will also try to make contact with the requested organizations on Thursday, in case some of these are working on that day.

Regards,

Padma

Appointments for the SAL Mission
(as of April 11, 1995)

BOMBAY: (April 17 - 19)

Tuesday, April 18:

10:00 a.m.	Mr. P.S. Subramanyam General Manager	Industrial Development Bank of India Resource Management Department IDBI Tower, 22nd Floor Cuffe Parade Colaba Bombay 400 005 Tel: 2183523
12 noon	Ms. Lalita Gupte Executive Director	Industrial Credit & Investment Corporation of India (ICICI) 163 Backbay Reclamation Bombay Tel: 2025115 Fax: 2046582
3 p.m.	Mr. S.S. Tarapore Deputy Governor	Reserve Bank of India 18th Floor New Central Office Building Shahid Bhagat Singh Road Bombay 400 023 Tel: 2663155 Fax: 2675831
followed by	Dr. A. Vasudevan Officer In-Charge	Reserve Bank of India Tel: 2662812 Fax: 2660729

Meetings Requested:

	Dr. Kirit Parikh Director	Indira Gandhi Institute of Development Research (IGIDR) Santosh Nagar General Arunkumar Vaidya Marg Goregaon (East) Bombay 400 065 Tel: 8400918/9 Fax: 8402752
	Mr. P. Kar	Securities & Exchange Board of India Mittal Court, B Wing, 1st Floor Nariman Point Bombay 400 021 Tel: 2028221/2851602
	Mr. Deepak Parikh Chairman	Housing Development Finance Corpn. Ramon House, 4th Floor

		169 Backbay Reclamation Bombay 400 020 Tel: 2850000/2029894 Fax: 2852336
	Mr. Udayan Bose Managing Director	Credit Capital

DELHI: (April 20 - 28)

*	Mr. J.K. Shirazi Director (* out of station)	The World Bank 70 Lodi Estate Tel: 4617241
10:00 a.m.	Mr. M. Dailami Principal Economist	The World Bank 70 Lodi Estate Tel: 4617241
	Dr. Rakesh Mohan Economic Advisor	Ministry of Industry Room 126 A, Gate 13 Udyog Bhawan Maulana Azad Road Tel: 3012721
	Mr. M.C. Gupta Secretary	Department of Public Enterprises Ministry of Industry Room 303, Block No. 14 CGO Complex Lodi Road Tel: 4360672/4362613

Meetings Requested: (Contd.)

Mr. Shyamal Ghosh Director General	Directorate General of Foreign Trade Ministry of Commerce Room ..., Gate Udyog Bhawan Maulana Azad Road Tel: 3011582
Dr. Arvind Virmani Advisor, Policy Plng.	Department of Economic Affairs Ministry of Finance Room 137 A North Block Tel: 3013838
Mr. Madhusudan Prasad Deputy Secretary	Department of Economic Affairs Ministry of Finance Room 66 C, Gate 2 North Block Tel: 3011558
Mrs. Rani Jadhav Joint Secretary, ECB	Department of Economic Affairs Ministry of Finance Room 136 B North Block Tel: 3012881
Dr. S.L Rao Director General	National Council for Applied Economic Research (NCAER) Room 101 Parisila Bhawan 11 Indraprastha Estate Tel: 3721338/3317861
Mr. Tarun Das Director General	Confederation of Indian Industry 23, 26 Institutional Area Lodi Road Tel: 4621874/4629994
Dr. Isher Ahluwalia	Center for Policy Research Dharma Marg Chanakyapuri Tel: 3015273

Meetings Requested: (Contd.)

Dr. Arjun Sengupta Secretary	Planning Commission Room 241 Yojana Bhawan Parliament Street Tel: 3710234
Mr. G.V. Ramakrishna Member	Planning Commission Room 109 A Yojana Bhawan Parliament Street Tel: 3719218
Mr. T. Khanna Secretary	Ministry of Commerce Room 144, Gate 14 Udyog Bhawan Maulana Azad Road Tel: 3016664

---

cc: Messrs. Armstrong, Arora, Yagci
Mmes. Rana, Andrews

CC: Mansoor Dailami (MANSOOR DAILAMI AT A1 AT DELHI)
CC: Fahrettin Yagci (FAHRETTIN YAGCI AT A1 AT DELHI)
CC: Sheni Rana (SHENI RANA AT A1 AT DELHI)

ANZ Grindlays Bank plc

ANZ Grindlays Bank

Mercantile House, 15, Kasturba Gandhi Marg, P.O. Box 600, New Delhi 110 001 India.

Telephone (D) 3328568 (B) 3721242 Telex 031 65014
Fax 3711452

Chairman, Indian Advisory Board

April 4, 1995

Mr Robert Armstrong
World Bank
Washington DC

Fax : 202 522 3124

Dear Mr Armstrong,

Many thanks for your fax message of April 3, 1995. We also had occasion to speak to each other on telephone. I am going to speak to Messrs Shirazi and Dailami but I suggest that the Bombay list is alright. I would only suggest addition of two more names, Mr Udayan Bose - Managing Director of Credit Capital and Mr Deepak Parikh - Chairman, Housing Development Finance Corporation.

With regards,

Yours sincerely,

Gopi Arora

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: March 31, 1995

TO: Mr. Heinz Vergin, Director, SA2

FROM: Carl Jayarajah, Acting Chief, OEDD2

EXTENSION: 31661

SUBJECT: INDIA: Structural Adjustment Loan/Credit (L3421-IN/C2316-IN)

This is to inform you that Mr. Robert Armstrong of this Department will arrive in India on April 17, 1995, and stay for approximately ten days to audit the above project. Mr. Armstrong will be accompanied by Mr. Gopi Arora, a local consultant. The appropriate authorities in the country have been notified.

cc: Messrs. Luis Ernesto Derbez, Anthony Cholst (SA2CI)
Francisco Aguirre-Sacasa, Jack Lowther (OEDDR)
Pablo Guerrero (DGO)

THE WORLD BANK/IFC/M.I.G.A.

Headquarters: Washington, D.C. 20433 U.S.A.
Tel. No. (202) 477-1234 // Fax Tel. No. (202) 477-6391 // Telex No. RCA 248423

FACSIMILE COVER SHEET AND MESSAGE

DATE: March 24, 1995
NUMBER: \

NO. OF PAGES: 6 (including this sheet)

MESSAGE

TO
Name: Mr. Gopi Arora
Organization: \

(9-011-91-11)
Fax Tel. No. 37-11-452
City: New Delhi
Country:India

FROM
Name: Robert Armstrong
Dept./Div. OEDD2
Room No. T-9-113

Fax Tel. No. 202-522-3124
Dept/Div No. \
Tel. No. 202-473-4585

SUBJECT: World Bank Mission to Evaluate SAL

MESSAGE: Please see attached letter and draft Terms of Reference
\

Transmission authorized by: RPA Robert ARMSTRONG RA

If you experience any problem in receiving this transmission, inform the sender at the telephone or fax number listed above.

1884 (2-90)

THE WORLD BANK/IFC/M.I.G.A.

Headquarters: Washington, D.C. 20433 U.S.A.
Tel. No. (202) 477-1234 // Fax Tel. No. (202) 477-6391 // Telex No. RCA 248423

FACSIMILE COVER SHEET AND MESSAGE

DATE: March 27, 1995
NUMBER: \

NO. OF PAGES: 6
(including this sheet)

6 MESSAGE

TO : Mr. Fahrettin Yagci
Name: Resident Mission in India
Organization: \

Fax Tel. No. \autolog
City: New Delhi
Country: India

FROM
Name: Robert Armstrong
Dept./Div. OEDD2
Room No. T-9-113

Fax Tel. No. 202-522-3124
Dept/Div No. \
Tel. No. 202-473-4585

SUBJECT: OED Mission to India

MESSAGE: See EM sent today for explanation, plus attachments
\

Transmission authorized by: RPA RAtg

If you experience any problem in receiving this transmission, inform the sender at the telephone or fax number listed above.

1884 (2-90)

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

March 27, 1995

Mr. Gopi Arora
New Delhi, India
Fax No. 37-11-452

Dear Mr. Arora:

I'm sorry I wasn't able to reach you by phone on my last several calls. On Thursday and Friday evenings I didn't want to call again later lest I wake your family, while today (tonight your time) I understand you're travelling outside Delhi and won't be back until tomorrow (Tuesday) evening.

Assuming that you go straight home without passing by your office on Tuesday, I will presumably have spoken with you (on Tuesday evening your time) before you see this (presumably on Wednesday). But I didn't want to delay further in sending you some draft Terms-of-Reference and a few related materials. And even if some of this becomes redundant in the event we've spoken before you see it, it may still serve as to identify some discussion points for future reference.

First a few points on the substance of the work, then a few on logistics and administrative arrangements. As I mentioned to you on the phone, OED has two main functions in carrying out performance audits such as the one we'll be doing. One is accountability, the other is to identify lessons of experience. Since I don't see any major "accountability issues" here, this frees us to look mainly for lessons after we've "told the story" of SAL I and done the obligatory ratings exercise. In brief, that ratings exercise consists of making judgments about how satisfactory or unsatisfactory were the various dimensions of a project's outcome, institutional impact, and Bank and Borrower performance along the various stages of the project cycles. I'm sending by Wednesday's pouch (to our Resident Mission, c/o Mr. Fahrettin Yagci) a document called the "Project Information Form" (PIF) that will give you a fuller picture of what this ratings exercise is all about.

But you shouldn't concern yourself much with this PIF. That will be mainly my responsibility. What I look to you for is mainly your "insider" knowledge of India's political economy and the qualitative judgments that only someone with your experience can bring to this evaluation. And in any event, I don't see this so much as a "technical exercise" in which we run regressions and second guess the tactics so much as an "essay exercise" in which we concentrate on the big picture, on strategic rather than tactical issues, and on the role of the Bank in the policy dialogue (such as it may have been) and in helping, along with the Fund, to mobilize the resources needed to cope with India's 1991 balance of payments crisis. A "counterfactual" scenario that we need to consider is whether anything different, whether in terms of design or outcome, would have eventuated if the World Bank hadn't existed.

The main questions that I'd like you to address as listed in the attached draft Terms-of-Reference. Let me know if you're comfortable working to these

TORs and what amendments you'd like to make, if any. I really would welcome your own thoughts as to how to make your participation in this evaluation most fruitful, both from your own and the Bank's standpoints. Once we've agreed on the TORs, these will be finalized and sent back to you along with a formal "Letter of Appointment".

I trust that you can obtain or borrow from the Bank's Resident Mission some of the more relevant documents such as the Bank President's Report on the SAL, the Project Completion Report, Bank Country Economic Memoranda for the period 1991-present, and also the key IMF documents for the period. If not, I'll pouch or handcarry the key documents. In any event, I'll pouch or fax also a few documents that we can't expect to find in Delhi, such as couple of "model" PARs for SAL operations in other countries, a recent Bank report on performance indicators for adjustment operations, and so forth.

FYI, Mr. Yagci at the Resident Mission has evidently been designated as our liaison who will help us to arrange appointments, acquire documents, etc. So feel free to call upon him for such assistance pending my arrival.

As I mentioned on the phone, my own logistics will make it preferable for me to go first to Bombay and then on to Delhi. My present plan is to arrive in Bombay late on the evening of Sunday, April 9, have meetings between late Monday morning and mid-afternoon on Tuesday, April 11, and then fly on to Delhi at around 6 pm that day. I gather that this is agreeable to the Government, and Mr. Dailami at the Bank Resident Mission (who I assume supervises Mr. Yagci) offered to help make appointments at the Reserve Bank and elsewhere in Delhi.

Will you be able to come to Bombay for the two days April 10-11? I surely hope so. If so, please let me know asap so that we can get the tickets issued and hotel booked through the American Express office. I'll be staying at the Taj Mahal Hotel. Would that be agreeable with you? And could you come either Sunday evening or early Monday morning? Needless to say, the Bank would cover all expenses.

In response to my question about whom to see in Bombay besides the Reserve Bank, Jayanta Roy suggested IDBI, EXIM Bank, ICICI and Indira Gandhi Institute (Dr. Kirit Parikh). Does that sound about right to you? And especially if you can join me in Bombay, could you perhaps lend a hand in setting up the interviews with those known personally to you?

(Note: It's probably none too soon to get Mr. Yagci started on making appointments in Delhi starting April 12. Could you help out also in identifying, perhaps in consultation with Javad Shiraz, whom we should see in Delhi, and in what order? Thanks).

For your reference, the particulars of my travel plans are as follows:

Arrival Bombay at 12:25 am (late night) on Monday, April 10 on Delta flight 58 coming from Frankfurt.

Depart Bombay at 5:50 pm on Tuesday April 11 on Jet Airways Flt 311 (business class)

Arrive Delhi at 7:45 pm

Staying in Delhi at Hyatt Regency Hotel
Depart Delhi at 11:15 pm on Friday, April 21 on Singapore Airlines Flt 407

Also for reference, my secretary's name is Ms. Norma Namisato. My wife's name is Judy, and she will be accompanying me on the trip (a points trip for her). I'll be taking a couple of weeks of annual leave immediately following the visit to India, so I won't be back in my office until May 8. Hence no need for you to submit a draft until a couple of weeks after that, say on May 19 as suggested in the draft TORs. I'll also be wanting you to comment on what I draft myself, if you would, as I see this as a fully collaborative undertaking, with fully joint authorship.

I'm greatly looking forward to this undertaking, and to visiting India, and to meeting and working with you soon. With cordial regards,

Sincerely,

Robert Armstrong
Lead Evaluation Officer
Operations Evaluation Department

Attachment

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DRAFT
for comments

DATE: March 27, 1995

TO: Mr. Gopi Arora

FROM: Robert Armstrong, OEDD2

EXTENSION: 34585

SUBJECT: PAR on India SAL: Terms of Reference

1. This describes in broad terms your assignment to collaborate with me in the preparation of a Performance Audit Report of the World Bank's Structural Adjustment Loan/Credit to India (Loan 3421/Credit 2316).

2. The main questions/issues to be addressed in your review of the project are as follow:

(i) What were the main strengths/successes and weaknesses/shortcomings of the project, and the main factors explaining those strengths and shortcomings, in terms of:

   (a) project objectives and design, including the appropriateness of conditionalities?

   (b) collaboration/coordination with the IMF and with other creditors and donors?

   (c) project implementation and compliance with conditionalities?

(ii) What difference did the Bank make? What were the most and least effective aspects of the Bank's role?

(iii) How likely is it that the benefits from the SAL will be sustained? What are the key "sustainability indicators"?

(iv) What lessons can be derived from the SAL experience?

3. In addressing these questions, you should be as specific as possible about the criteria by which your answers and evaluations are arrived at.

4. Your draft report be of approximately 15 single-spaced pages including text tables, matrices, etc. (Additional tables or materials, if necessary, should be annexed) In addition, your report should contain a summary of 2-3 pages.

4. The general work plan will be as follows:

Dates	*Task*
April 3-7	Review of relevant documents
April 10-11	Meetings in Bombay (with R. Armstrong)
April 12-21	Work in Delhi with R. Armstrong
By May 19	Submit draft report
By June 1	Final report submission

This schedule would entail (i) your full-time work (five working days per week) for the three working weeks between April 3 and April 21, (ii) your spending approximately ten working days between April 22 and May 19 to write up your draft; and (iii) about five working days to follow up.

THE WORLD BANK/IFC/M.I.G.A.
Headquarters: Washington, D.C. 20433 U.S.A.
Tel. No. (202) 477-1234 // Fax Tel. No. (202) 477-6391 // Telex No. RCA 248423
FACSIMILE COVER SHEET AND MESSAGE

DATE: March 28, 1995

NO. OF PAGES: 1 (including this sheet)

MESSAGE NUMBER: \

URGENT

Please deliver

TO
Name: Mr. Manuel Penalver
Organization: Guest at Hyatt Regency

Fax Tel. No. 9-011-212-7-671492
City: Rabat
Country: Morocco

FROM
Name: Robert Armstrong
Dept./Div. OEDD2
Room No. T-9-113

Fax Tel. No. (202) 522-3124
Dept/Div No. \
Tel. No. (202) 473-4585

SUBJECT: India Mission

MESSAGE:

Manuel:

As you may recall, I've been planning to depart on my India mission next Thursday evening, April 6 , spend two weeks on mission and two weeks on leave, and be back in the office on Monday, May 8.

Now a problem has arisen with my consultant (with whom I have an agreed contract and Terms-of Reference) in India that dictates that I either delay my mission by a week get another consultant for the period above, or work alone without a consultant. But I think it's now too late to get another consultant for a mission to start in less than two weeks. And I don't want to do without a consultant who knows the country from the inside, and with whom I can intereact during the mission.

So, if possible, I'd really like to keep the consultant I found (who is's a former Finance Secretary and ED at the Fund, etc) who comes highly recommended by Jayanta Roy, Jochan Kraske and others. That alternative will now however require slipping the mission by a week, which would put me back in the office on May 15 rather than May 8.

My question is: Can you live with that? The only issue, as I see it, is the timing of the Ghana CAR, which is now on track to go to the RVP with the policy ledger next week . I can still meet that deadline (barring any further comments from GOG or a GOG request for more time to respond). The current schedule calls for the CAR to go the JAC/CODE on May 15. A week's delay would move that to May 22. Do you agree to this one week slippage?

Bob Armstrong RA Could you please call me asap? Thanks.

cc: Carl Jayarajah

If you experience any problem in receiving this transmission, inform the sender at the telephone or fax number listed above.

1884 (2-90)

The World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: March 29, 1995 04:47am

TO: ROBERT P. ARMSTRONG (ROBERT P. ARMSTRONG @A1@WBWASH)

FROM: Fahrettin Yagci, SA2RS (FAHRETTIN YAGCI AT A1 AT DELHI)

EXT.:

SUBJECT: **OED Mission Beginning April 10**

Mr. Armstrong:

Thanks for your EM of March 28 and the fax copies of your letter to Mr. Arora and the draft TOR for him. I would be glad to help.

We suggest the following meetings for you:

BOMBAY

Reserve Bank of India

Mr. S.S. Tarapore - Deputy Governor

Dr. A. Vasudevan - Officer In-Charge

Industrial Development Bank of India (IDBI)

Mr. P.S. Subramanyam - General Manager (Resource Management Dept)

Industrial Credit & Investment Corpn. of India (ICICI)

Ms. Lalita Gupta - Executive Director

Indira Gandhi Institute of Development Research (IGIDR)

Dr. Kirit Parikh - Director

NEW DELHI

Ministry of Industry

Dr. Rakesh Mohan - Economic Adviser

Mr. M.C. Gupta - Secretary, Dept. of Public Enterprises

Ministry of Commerce, Directorate General of Foreign Trade

Mr. Shyamal Ghosh - Director General

Department of Economic Affairs, Ministry of Finance

Dr. Arvind Virmani - Adviser (Policy Planning)

Mr. Madhusudan Prasad - Deputy Secretary

Mrs. Rani Jadhav - Joint Secretary (ECB)

National Council for Applied Economic Research (NCAER)

Dr. S.L. Rao - Director General

Confederation of Indian Industry

Mr. Tarun Das - Director General

Center for Policy Research

Dr. Mrs. Isher Ahluwalia

Please take this list as a suggestion. You may want to add other names that Mr. Arora might suggest.

All appointments for the visiting missions are arranged by our Visiting Missions Unit. I am copying this EM to Ms. Janet Nader, the Supervisor of this unit. I understand you will be in Bombay on April 10 and 11, and in Delhi from April 12 to 21. I will send the other particulars of your travel plan to Ms. Nader. Please let her know if there is any change in your travel plans.

Looking forward to seeing you in Delhi.

Best.

Fahrettin Yagci

CC:	Mansoor Dailami	(MANSOOR DAILAMI AT A1 AT DELHI)
CC:	ROBERTO ZAGHA	(ROBERTO ZAGHA @A1@WBHQB)
CC:	Janet Nader	(JANET NADER AT A1 AT DELHI)

L - I N - 1 N O T E

DATE: 21-Mar-1995 01:29pm

TO: Robert P. Armstrong (ROBERT P. ARMSTRONG @A1@WBWASH)

FROM: Jayanta Roy, EDIEM (JAYANTA ROY@A1@WBHQB)

EXT.: 36316

SUBJECT: RE: Gopi Arora

I am glad that you have Gopi.He is a MANDARIN. In Bombay,talk to IDBI,EXIM Bank,ICICI, and Indira Gandhi Institute (Dr. Kirit Parikh)
Best luck,Jayanta

World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: March 7, 1995 06:53pm

TO: Mansoor Dailami (MANSOOR DAILAMI @A1@DELHI)

FROM: Robert P. Armstrong, OEDD2 (ROBERT P. ARMSTRONG)

EXT.: 34585

SUBJECT: **RE: India: Structural Adjustment Loan/Credit (L3421-IN/C2316-IN): OED Evaluation**

As you may recall, the OED mission to do a performance audit of SAL I, originally planned for the first half of this month, was postponed at the request of Mr. N.K. Singh, who suggested that we begin the mission instead on March 28. (Cf. your EM of January 25).

Conflicting work commitments prevent me from starting on the 28th (a Tuesday). But I would be able to start the following Monday, i.e. on April 3. Could you please confirm that a mission (comprising myself and one local consultant only) from Monday, April 3 to Friday, April 14 would be convenient to the government?

It would be most convenient for me, mainly for logistical reasons, if I could begin the mission with a two day visit to Bombay on April 3-4 (to visit the Reserve Bank and some private sector groups), and then begin my Delhi visit on April 5. Could you check also whether that would be agreeable to the government?

As for the choice of a local consultant (cf. our more recent exchange), the skills and knowledge that would be most useful for the task at hand would be those most applicable to (i) making judgments about the role, "relevance" and "efficacy" of SAL I in the context of the history of Bank/GOI relations; and (ii) assessing the sustainability of the benefits of SAL I--which is tantamount to assessing the prospects that the reform process will gain or lose momentum. Those are the two sets of questions which I propose to address (note that I say "address" and not "answer") in the evaluation, and not so much the technicalities or second-guessing the conditionalities and all that.

It follows from the above that the skills/experience that would be most valuable in the consultant would be those involving a deep understanding of the political economy of India. I don't need a number-crucher/regression-runner or a model-builder or an academic with state-of-the-art technical skills, but rather someone who is thoughtful and insightful and can also help me think rigorously, say, about what would be the ten key "sustainability indicators" that we could/should build our sustainability story and analysis around.

Such a person could be an academic (provided he/she had lots of operational experience), a retired technocrat, or some of the better economic journalists. Names suggested at this end by the likes of Gene Tidrick and Jayanta Roy include Swaminathan Aiyer, Mrinal Datta-Chaudhuri, T.N. Ninan, S.(?) Guhan (who worked on the WB history) and Gopi Arora. Vinod Dubey was also mentioned as a possibility. Jayanta Roy (who is I think now in India) seemed to think that Arora would defintely be interested/available.

Do you or Javad have thoughts about the above persons, or suggestions about alternatives? I'd like to get this consultant firmed up asap, whoever he/she may be. I'm thinking of asking for about a 6 week contract involving say (i) a week's preparation (mainly reading PCR, project documents, CEMs, other relevant documents); (ii) working with me the two weeks I'm there; (iii) two weeks thereafter to draft 10-15 pages for the report, and (iv) one additional week for further followup. Does that sound reasonable to you? I can go as high as $10,000 if necessary but assume that if you pay at local rather than international rates I can do this for less.

Just one last personal note. My wife will be accompanying me on a points trip, so we'd probably like to use the middle weekend (April 8-9) for an excursion, say to Jaipur if it won't be too excrciatingly hot then. Any suggestions, now or later, will be appreciated. In any event, I'm very much looking forward to this trip, and I send my thanks in advance for your response. Regards,

Bob Armstrong

CC:	MANUEL PENALVER	(MANUEL PENALVER)
CC:	LUIS E. DERBEZ	(LUIS E. DERBEZ @A1@WBHQB)
CC:	ROBERTO ZAGHA	(ROBERTO ZAGHA @A1@WBHQB)
CC:	JAVAD KHALILZADEH-SHIRAZI	(JAVAD KHALILZADEH-SHIRAZI @A1@DELHI)

The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: January 25, 1995 06:26am EDT

TO: MANUEL PENALVER (MANUEL PENALVER @A1@WBWASH)

FROM: Mansoor Dailami, SA2RS (MANSOOR DAILAMI AT A1 AT DELHI)

EXT.: 91 11 4617241

SUBJECT: **India: Structural Adjustment Loan/Credit (L3421-IN/C2316-IN): OED Evaluation**

I refer to your memo of January 24, 1995 to Mr. Shirazi, regarding the above. We have been advised by Mr. N.K. Singh, Additional Secretary, DEA, that the proposed mission schedule of March 6-17, 1995 would not be suitable, due to their pre-occupation with the Budget and upcoming state elections. To provide the mission the necessary attention of key DEA officials, Mr. Singh suggests to have the mission starting from March 28, 1995. Please let me know whether this alternative schedule is convenient to you, so as to inform DEA accordingly.

cc: Robert Armstrong by Fax

CC: HEINZ VERGIN (HEINZ VERGIN @A1@WBHQB)
CC: LUIS E. DERBEZ (LUIS E. DERBEZ @A1@WBHQB)
CC: ROBERTO ZAGHA (ROBERTO ZAGHA @A1@WBHQB)
CC: Javad Shirazi (JAVAD KHALILZADEH-SHIRAZI AT A1 AT DELHI)

The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: January 25, 1995 06:50am

TO: ROBERT P. ARMSTRONG (ROBERT P. ARMSTRONG @A1@WBWASH)

FROM: Mansoor Dailami, SA2RS (MANSOOR DAILAMI AT A1 AT DELHI)

EXT.: 91 11 4617241

SUBJECT: **India: Structural Adjustment Loan/Credit (L3421-IN/C2316-IN): OED Evaluation**

THE WORLD BANK/IFC/M.I.G.A.
Headquarters: Washington, D.C. 20433 U.S.A.
Tel. No. (202) 477-1234 // Fax Tel. No. (202) 477-6391 // Telex No. RCA 248423

FACSIMILE COVER SHEET AND MESSAGE

(see instructions on reverse)

DATE Jan. 24, 1995	NO. OF PAGES (Including this sheet) 3	MESSAGE NO.
TO Name Mr. Javad Khalilzadeh-Shirazi		Fax Tel. No. 9-011-91-11-4619393
Company/ Organization World Bank		City & Country Delhi, India
FROM Name Bob ARMSTRONG		Fax Tel. No. 202-522-3124
Dept./Div. Name OED		Dept/Div No.
Room No. T-911	Telephone No. 202-473-4585	
SUBJECT/ REFERENCE OED Mission to India		

MESSAGE

I think the attached memo and letter are self-explanatory. Hope to see you soon. Thanks.

Bob

Transmission authorized by RA

If you experience any problem in receiving this transmission, inform the sender at the telephone or fax number listed above.

1884 (4-90)

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: January 24, 1995

TO: Mr. Javad Khalilzadeh-Shirazi, Chief, Resident Mission

FROM: Manuel Penalver, Chief, OEDD2

EXTENSION: 84400

SUBJECT: INDIA: Structural Adjustment Loan/Credit (L3421-IN/C2316-IN)

1. As per the enclosed letter, we are proposing that Mr. Robert Armstrong (Lead Evaluation Officer) and a consultant visit India from March 6, 1995, for about two weeks, to audit the Structural Adjustment Loan/Credit.

2. I would appreciate your forwarding the enclosed letter to Mr. Singh. We appreciate that DEA may prefer delaying our mission to April, but since it will be very difficult for us to delay the mission, we would appreciate any help your office might provide in obtaining a confirmation of the acceptability of our proposed dates.

With thanks and regards.

Enclosure

cc: Messrs. Heinz Vergin (SA2DR); Luis Ernesto Derbez, Roberto Zagha (SA2CI); Robert Armstrong (OEDD2)

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

January 24, 1995

Mr. N.K. Singh
Additional Secretary
Department of Economic Affairs
Ministry of Finance
New Delhi, India

Dear Mr. Singh:

Re: Structural Adjustment Loan/Credit (Loan 3421-IN/Credit 2316-IN)

As you may know, when IBRD loans or IDA credits are fully disbursed, the Operations Evaluation Department (OED), an independent unit within the World Bank Group, evaluates the completed projects to learn from experience and contribute to the Bank's continuing efforts to improve the quality of its operations. A very important part of this process is to have the Borrower's views on the effectiveness of the Bank's interventions. To that end, we appreciate the recent assurance provided by Mrs. Jadhav that DEA will prepare Part II of the Project Completion Report (PCR) on the project within the next few weeks.

In order to carry out OED's own evaluation, an OED mission proposes to visit India for about two weeks, from March 6 to March 17, 1995 to evaluate the Structural Adjustment Loan/Credit. The mission will be comprised of Robert Armstrong (Mission Leader, Lead Evaluation Officer) and a local consultant to be determined.

Following the mission, a draft performance audit report will be prepared and sent to you for comment. We trust that the findings and lessons of experience will be of interest to you.

We hope that the above-mentioned mission timing will be convenient, notwithstanding what we understand is the commitment of some staff to be engaged during March in the elections process. We trust, however, that this should not be too much of a handicap, given that the mission is small and will focus on an operation that was already fully disbursed by mid-1992. We will appreciate your confirming by fax ([202] 522-3124) or telex (248423), or through the Bank's Resident Mission, as soon as possible.

Sincerely,

Manuel Penalver
Division Chief
Country Policy, Industry, and Finance
Operations Evaluation Department

cc: Mrs. Rani Jadhav
Mr. Montek Singh Ahluwalia

India
Trip book

A L L - I N - 1   N O T E

DATE: 24-Jan-1995 02:53pm

TO: ROBERT P. ARMSTRONG (ROBERT P. ARMSTRONG @A1@WBWASH)

FROM: Zelena Jagdeo, SA2CI (ZELENA JAGDEO@A1@WBHQB)

EXT.: 80350

SUBJECT: **Titles and Addresses**

Roberto Zagha asked me to send you the following:

Mrs. Rani Jadhav
Joint Secretary
Department of Economic Affairs
Ministry of Finance
New Delhi, India

Mr. N. K. Singh
Additional Secretary
Address (same as above)

Mr. Montek Singh Ahluwalia
Secretary
Ministry of Finance
New Delhi, India

Subject: Cover Note to Roberto Zagha G-3129 1/20/95

Fax: 77352

Roberto: We spoke about whom we should address our letter to, and you suggested consulting with Luis when he returns to the office on Monday.

Please have a look at the attached drafts and suggest any changes you think appropriate, plus any corrections in titles, etc.

I'd like to send this out on Monday for sure, so could you please give me a ring (I'm on extension 34585) as soon as convenient. Thanks.

Bob Armstrong

India trip took

India Contacts

· Luis Ernesto Derbez 39570 fax 77352

FAX MESSAGE

TO: MR. LUIS ERNESTO DERBEZ
TOTAL PAGES: 2

AT: EXT 77352

FROM: BOB ARMSTRONG

EXT: 34585

RE: Part II of PCR on Structural Adjustment Loan to India

Luis:

We spoke briefly last evening in the Bank garage about this. FYI, attached is a copy of an EM sent back in June 1994 from Mansoor Dailami to William McCarten. I'll be giving you a call shortly on this matter.

The issue is that, although the project was closed almost two years ago (December 1992), the Indian Government evidently still hasn't completed its Part II of the PCR. (Nor, according to the attached EM, has it commented on Parts I and III sent for comments).

Although the PCR was sent to OED on June 30, 1993, we have held up sending it on to the Board pending receipt of the Part II. Now we are beginning preparations for an OED performance audit of the project. So this lends, from our point of view, some new urgency to the desirability of getting a Part II by the end of the year at the latest. (As I mentioned, I will be doing this audit myself, along with one consultant, with a field mission planned for around late January).

I understand that Ms. Jadhav (Joint Secretary, DEA), with whom Mr. Dailami has raised this matter on several occasions will be at the Annual Meetings in Madrid next week. Could you perhaps take up the matter once more, whether with Ms. Jadhav or someone else, when you are there? Thanks.

Bob

India Contacts

- K.L. Luthra, Former Director of Asian Development Bank;can be reached during November in Michigan at his daughter's phone 810-442-1491
- William McCarten 80362
- Roberto Zagha 80348
- Javad Khalilzadeh-Shirazi
- Colin Bruce

SecM95-702

FROM: The Deputy Secretary

July 12, 1995

IMPLEMENTATION COMPLETION REPORT

INDIA:

Social Safety Net Sector Adjustment Program

(Credit 2448-IN)

Attached is a report entitled "Implementation Completion Report: India: Social Safety Net Sector Adjustment Program (Credit 2448-IN)" dated June 22, 1995 (Report No. 14666) prepared by the South Asia Country Department.

Distribution

Executive Directors and Alternates
Office of the President
Senior Management, Bank, IFC and MIGA

Document of

The World Bank

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Report No. 14666

IMPLEMENTATION COMPLETION REPORT

INDIA

SOCIAL SAFETY NET SECTOR ADJUSTMENT PROGRAM
(CREDIT 2448-IN)

JUNE 22, 1995

Population and Human Resources Operations Division
South Asia Country Department II
(Bhutan, India, Nepal)

CURRENCY EQUIVALENTS

Currency unit = Indian Rupee

At appraisal: US$1.00 = Rupee 30.00

At completion: US$1.00 = Rupee 31.37

METRIC EQUIVALENTS

1 meter (m) = 3.28 feet (ft)
1 kilometer (km) = 0.62 miles

FISCAL YEAR

April 1 — March 31

ABBREVIATIONS AND ACRONYMS

CEM	Country Economic Memorandum
CPSE	Central Public Sector Enterprises
CSSM	Child Survival and Safe Motherhood Project
DEA	Department of Economic Affairs
DPEP	District Primary Education Project
GOI	Government of India
ICDS	Integrated Child Development Services
JRY	Jawahar Rozgar Yojana
NCAER	National Council for Applied Economic Research
NRF	National Renewal Fund
NRGF	National Renewal Grant Fund
NRY	Nehru Rozgar Yojana
NSSO	National Sample Survey Organization
NTC	National Textile Corporation
PDS	Public Distribution System
SSN	Social Safety Net Sector Adjustment Program
VRS	Voluntary Retirement Scheme

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IMPLEMENTATION COMPLETION REPORT

INDIA

SOCIAL SAFETY NET SECTOR ADJUSTMENT PROGRAM (CR 2448-IN)

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IMPLEMENTATION COMPLETION REPORT

INDIA

SOCIAL SAFETY NET SECTOR ADJUSTMENT PROGRAM (CREDIT 2448-IN)

PREFACE

This is the Implementation Completion Report (ICR) for the Social Safety Net Sector Adjustment Program in India, for which Credit 2448-IN in the amount of SDR 354.7 (US$500 million equivalent) was approved on December 17, 1992 and made effective on December 21, 1992.

The credit was closed on August 31, 1994. The original closing date was December 31, 1993. The closing date was extended twice, first to June 30, 1994 and then to August 31, 1994. This was needed to allow sufficient time for the conditions for the second tranche release to be met, as well as for the tranche to be released. The credit was fully disbursed on October 20, 1994.

The ICR was prepared by the Population and Human Resources Operations Division, South Asia Country Department II, with important inputs from Ms. Aruna Chandran and Mr. Hiroaki Suzuki. It was reviewed by Richard L. Skolnik, Division Chief, Population and Human Resources Operations Division, South Asia Country Department II and Mr. Heinz Vergin, Director, South Asia Country Department II.

Preparation of this ICR was begun in October, 1994. It is based on material in the program files, information collected during the supervision missions, and information collected by missions on matters related to the Social Safety Net Program, across the Bank's portfolio. The report incorporates comments made on it by the government of the Netherlands. The report also takes into accounts comments made on it by the government of India.

IMPLEMENTATION COMPLETION REPORT

INDIA

SOCIAL SAFETY NET SECTOR ADJUSTMENT PROGRAM
(Credit 2448-IN)

EVALUATION SUMMARY

Introduction

i The IDA-assisted Social Safety Net Sector Adjustment Operation supported the initial phase of the government of India's Social Safety Net Sector Adjustment Program. It aimed at facilitating structural adjustment, helping mitigate potentially negative consequences of adjustment, and promoting the development of key social programs. The Sector Adjustment Credit of US$500 million became effective on December 21, 1992, and was fully disbursed by October 20, 1994. In addition to the Bank, financial and technical assistance was provided by the governments of Japan, the Netherlands, Switzerland, the European Community, and USAID. This operation complemented the Structural Adjustment Loan 1 and was followed by the External Sector and Investment Liberalization Program Loan.

Program Objectives and Design

ii. The credit for this policy based operation supported: (s) the restoration and increase of central government funding for key social programs; (b) an expansion of key social and safety net programs into districts in India that are especially disadvantaged and/or especially at risk of suffering negative consequences as a result of stabilization and adjustment; (c) the carrying out of selected measures for a number of social and safety net programs that set a foundation for and initiated some improvements in the quality, effectiveness, and efficiency of those programs; and (d) the funding of the National Renewal Fund (NRF) to facilitate industrial restructuring and the reintegration of retrenched labor into the economy. The specific components of the Social Safety Net Sector Adjustment Program (SSN) focused on policy change and activities in the areas of primary education, primary health care, disease control, nutrition, and employment and income generation.

Implementation Experience and Results

iii. The program's objectives were largely achieved, although with some delay compared to original plans. There was consistent progress toward meeting the benchmarks concerning education, disease control, primary health care, and nutrition, although progress in addressing issues of program coordination and the medium-term financing of the social sectors was slower than originally intended. In addition, activities related to the NRF generally took longer than anticipated.

iv. The progress of the Social Safety Net Program to be assisted by the credit was to be assessed in the context of the overall stabilization and adjustment program and the policy framework set out in the Letter of Development Policy provided by GOI to the Bank. More specifically, implementation of the Safety Net Program was to be considered against the first and second tranche release conditions.

v. The first tranche was available upon credit effectiveness and was based on significant up-front actions that GOI had already taken to implement the program in the major areas of reform. Some of the significant actions taken included: (a) in the area of financing of the social safety net, measures were taken to affect social sector financing policy, mobilization of non-budgetary resources and cost recovery; (b) in terms of coordination and integration, the Eighth Five-Year Plan outlined new strategies and approaches that called for better coordination and integration of services between health, education, nutrition, water supply and sanitation, and urban and rural employment programs; (c) in primary education, measures were taken to revise the National Policy on Education of 1986, target resources and programs to disadvantaged groups and regions, and enhance the quality of service delivery; (d) in health, a review of the National Health Policy of 1982 was started; (e) in the area of primary health care and disease control, measures were taken to target disadvantaged groups and areas, and to enhance the quality of service delivery; (f) in the nutrition sector, the government formulated, for the first time, a national nutrition policy, undertook measures to target disadvantaged groups and areas, and enhanced the quality of service delivery; (g) with regards to employment and income generation, the NRF was established and the operational guidelines of the NRF were formally approved by the Cabinet; and finally, (h) in terms of monitoring of the social dimensions of adjustment, management information systems were established by GOI to monitor progress in the implementation of new initiatives in primary education, primary health care and communicable disease control, and the ICDS program.

vi. The Development Credit Agreement (DCA) contained nine monitorable conditions that needed to be fulfilled prior to the release of the second tranche. These conditions were met and this fulfillment was linked to: (a) an increase in the budget allocations for key social sector programs; (b) a review of the financing of the social sectors, and some steps to improve the medium term financing of the social sectors; (c) some initial steps in program coordination leading to greater convergence of efforts across programs in the same districts; (d) the establishment of the District Primary Education Program for promoting the development of basic education in selected low literacy districts; (e) the completion of an assessment of pharmaceutical requirements and delivery of the initial batch of pharmaceutical kits developed under the Child Survival and Safe

Motherhood Program to selected districts; (f) some steps towards enhancing the quality of delivery of primary health care services; (g) development of improved programs in leprosy, blindness, tuberculosis and the initial steps of developing an enhanced malaria program; (h) some increase in feeding under the Integrated Child Development Services Program and commencement of construction of godowns for ICDS food storage in selected states; and (i) the implementation of the NRF's business and financial plan during FY92/93, approval of the FY93/94 business and financial plan for the NRF, and allocation of the necessary funds for the NRF account consistent with the projected requirements of the FY93/94 business and financial plan.

Assessment of Outcome and Sustainability

vii. The program achieved its basic objectives (paragraph ii) and should be rated as "satisfactory". In addition, it set a basis for a number of specific investment projects in disease control and education that have the potential to have very long-lasting outcomes. Future GOI investments, as well as possible IDA lending in nutrition and primary health, will also build on policy developments and program activities supported under the SSN and may lead to positive long-term outcomes. The long-term impact and sustainability of the NRF are, however, still uncertain.

viii. In terms of financing, the SSN enhanced social sector expenditure and improved the targeting of that expenditure. The SSN also contributed to important shifts in the composition of expenditure on the social sectors. However, the SSN did not make the desired contribution to the development of a coherent approach to the medium-term financing of the social sectors, which was one of the objectives of establishing the review of financing.

ix. One of the more significant and probably long-lasting contributions of the SSN was the basis that it set for increasing investment in primary education. It facilitated the rapid development of the District Primary Education Program (DPEP) in India, which is quickly becoming an umbrella for both national and international assistance to the development of primary education in India. The DPEP is now the main vehicle for encouraging universalization of primary education in India.

x. In the area of health, the SSN facilitated the development of improved programs in leprosy, blindness, and tuberculosis, and initiated developments for malaria. These programs are expected to have very important outcomes in the future if they are successful in reducing the burden of disease.

xi. In the areas of primary health care and nutrition, although related tranche release conditions were fulfilled, there have not yet been any far-reaching outcomes of the specific activities related to the program.

xii. Another area where there was significant contribution from the SSN related to the NRF. The operation did lead to the funding of the NRF and NRF payments under the Voluntary Retirement Scheme by March 1995 to about 77,000 workers. In addition, counseling, training and area regeneration schemes were initiated. The role of the NRF to date, however, has been more limited than was originally anticipated because industrial restructuring has been slow and because the design and implementation of employment generation activities and training and counseling activities started relatively late and took longer than envisaged to develop fully.

Bank and Borrower Performance

xiii. Overall Bank performance was adequate. Bank staff knowledgeable in their respective sectors were involved in the SSN. In terms of the NRF, it must be noted that Bank assistance went beyond the scope of regular supervision and Bank staff assisted GOI in identifying appropriate funding for technical assistance and training, and designing and implementing measures to institutionalize the NRF.

xiv. Overall borrower performance met agreed expectations. There did exist however, the persistent problem of lack of continuity of key staff involved with the operation in the Ministry of Industry and the Department of Economic Affairs, and among secretaries involved in committees on coordination and financing.

Key Lessons Learned

xv. Several major lessons emerge from a review of this operation:

- As suggested by the Bank's reviews of adjustment lending, the adjustment process can be used to have a positive influence on both the amount and the composition of expenditure earmarked for the social sectors. Rather than cut expenditures on key social programs during adjustment, the Union government in India has shown how countries can use the adjustment process to try to positively "adjust" public expenditure on social programs, as well as to adjust macroeconomic balances.
- Despite initial skepticism within the Bank, the SSN program suggests that operations of this type can be used to promote medium-term developments in the social sectors, as took place under the program, particularly in the education and health sectors.
- In order to maximize the impact of cross-sectoral operations like the SSN, it is imperative that each sectoral program be embedded in the ongoing collaboration of the Bank and the client and be linked, as well, to specific investment operations to follow. Taking this approach

has encouraged important positive long-term outcomes for the education and health components of the SSN program. Ongoing work promises similar results for family planning in India. The same might also be true later for nutrition.

- Programs meant to assist retrenched workers should establish institutional mechanisms for counseling, retraining, and redeployment at an early stage to avoid a mismatch between the timing of retrenchment and the provision of these important services to those who have lost their jobs.

IMPLEMENTATION COMPLETION REPORT

INDIA

SOCIAL SAFETY NET SECTOR ADJUSTMENT PROGRAM (CREDIT 2448-IN)

PART 1. PROGRAM IMPLEMENTATION ASSESSMENT

A. INTRODUCTION

1. The government of India (GOI) that came into power in June 1991, embarked on a stabilization of the economy to overcome its balance of payments crisis. Concerned about possible negative impacts of the program on the poor, GOI adopted a program of specific measures aimed at strengthening the existing social safety net. In its endeavor to achieve these measures, GOI sought the assistance of IDA.

2. On December 21, 1992, IDA's Social Safety Net Sector Adjustment Credit (SSN) of US$500 million became effective and the first tranche of the credit of SDR 177.35 million (US$250 million equivalent) was fully disbursed by March 1993. The second tranche (the remaining US$250 million equivalent) was fully disbursed by October 20, 1994.

3. The government of the Netherlands provided joint financing for the Program of 100 million Dutch guilders (US$55.56 million equivalent). USAID provided parallel financing of US$35 million for activities related to the National Renewal Fund (NRF). A grant from the government of Japan for yen 40.5 million (US$377,500 equivalent) and a Swiss grant of US$200,000 also assisted in the development of the NRF component of the program. Lastly, related to the SSN operation and the subsequent IDA assisted District Primary Education Project (DPEP), the European Community provided ECU150 million (US$184.50 million equivalent) in parallel financing for the development of primary education.

4. The Social Safety Net Sector Adjustment Program (SSN) was the second policy-based operation in India. It complemented the Structural Adjustment Loan 1 (Loan 3421-IN, Credit Nos. 2316-IN and 2316-1-IN) that was approved by the Board on December 5, 1991 and was followed by the External Sector and Investment Liberalization Program Loan (Loan 3627-IN) that was approved by the Board on June 24, 1993.

B. Origins and Evolution of the Operation

5. The initial inspiration for the program was the fear of the potentially adverse impacts of possible industrial restructuring and the desire of the government of India and the Bank to help encourage such restructuring, while mitigating its possible consequences. At its early stages, therefore, the operation concept focused on the notion of a National Renewal Fund. Some thought was also given to including labor and employment schemes in the operation. As the program concept evolved, however, both the government and the Bank became more concerned about the overall impact of adjustment and the possibility that public expenditure on the social sectors would be hurt. This led to thinking about the inclusion of the social sectors in the program and considerable discussion of whether or not the Public Distribution Scheme should also be included. Finally, there was discussion of whether primary education should feature prominently in the operation. This stemmed from the fear within the Bank and in some government circles that any negative impact of adjustment would be especially deleterious to the education sector, that was already performing at a much lower level than desired. In the end, despite considerable hesitation in the Loan Committee about including education in the operation, it was agreed that the program would be multifaceted: it would not only assist in funding the NRF, but would also try to enhance the funding and operation of the social sectors, while creating an umbrella for a major push forward in primary education. The possibility of directly including the PDS in the program was dropped, given the complexity of this matter and the fact that it is extremely sensitive politically. This was also true of directly including any assistance in the operation for labor and employment schemes, such as the Jawahar Rozgar Yojana (JRY) and the Nehru Rozgar Yojana (NRY).

C. PROGRAM OBJECTIVES AND DESIGN

6. The SSN supported: (a) the restoration and increase of central government funding for key social programs; (b) an expansion of key social and safety net programs into districts in India that are especially disadvantaged or especially at risk of suffering negative consequences as a result of stabilization and adjustment; (c) the carrying out of selected measures for a number of social and safety net programs that can set a foundation for and initiate some improvements in the quality, effectiveness, and efficiency of those programs; and (d) the funding of the NRF to facilitate industrial restructuring and the reintegration of retrenched labor into the economy. The specific components of SSN focused on policy change and activities that were categorized as primary education, primary health care, disease control, nutrition, and employment and income generation.

7. Beginning with the FY88 CEM that focused on poverty and social services for the poor, an extensive amount of Bank and Indian sector work provided the

background for the SSN adjustment operation. The adjustment credit complemented other Bank efforts in assisting India to undertake its macroeconomic stabilization and structural reform program. It was largely in line with project and sector dialogue that was started in 1987, in family welfare and nutrition, health, and education, and linked closely with ongoing and proposed specific investment operations in the social sectors. It is also important to note that, at the time the operation was developed, it was anticipated that industrial restructuring would begin to occur. However, it was not at all clear how fast that restructuring would take place.

8. The SSN touched predominantly upon nine areas of reform, related to: (a) financing of the social safety net; (b) coordination and integration of social sector programs; (c) primary education; (d) health; (e) primary health care; (f) disease control programs; (g) nutrition; (h) employment and income generation; and (i) monitoring the social dimensions of adjustment.

9. The progress of the Social Safety Net Program to be assisted by the credit was to be assessed against the agreed actions for tranche release, and the policy framework set out in the Letter of Development Policy provided by GOI to the Bank.

D. Achievement of Specific Objectives

10. IDA continuously reviewed progress in the overall implementation and achievement of the objectives of the SSN. Progress review missions visited India in January, May, and December 1993 and another in June 1994 to review the progress made against the nine agreed-upon areas for action to be taken by GOI prior to the release of the second tranche. Findings from these missions indicated that there was consistent progress toward meeting the benchmarks concerning disease control, primary health care, nutrition, and education, although progress in addressing issues of program coordination and the medium-term financing of the social sectors was slower than intended originally, mainly due to the constraints of carrying out this work across a number of government units. Funds were provided to the NRF. However, the demands on it which were not part of this operation, were less than anticipated. In addition, it took longer than expected to fund and develop counseling, retraining, and employment generation activities. As progress in these areas was slower than anticipated and because the government was committed to achieving the agreed actions under the program, the closing date of the credit was extended from December 31, 1993 to June 30, 1994 and then to August 31, 1994.

11. Following is an analysis of the progress made under this credit in each of the areas covered by the SSN adjustment program, as measured against the first and second tranche release conditions.

The First Tranche

12. The first tranche, which was available upon credit effectiveness, was based on a number of up-front actions that the government had already taken. The most significant of these are noted below, by area of program reform.

13. Related to financing of the social sectors, the government made a supplementary budget allocation (US$83.3 million) to the primary education, primary health, communicable disease control and ICDS programs in FY 1992/93 in order to maintain these programs at 1991/92 levels in real terms. The GOI also committed itself to maintaining the annual budgets for key social sector programs, at least in real terms to the end of the Eighth Five-Year Plan in 1997. It also made a commitment that all donor assistance for the safety net operation would be "additional" to plan outlays.

14. In terms of coordination and integration of social sector programs, the Eighth Five-Year Plan outlined new strategies and approaches to design, targeting, funding, and implementation of the social sector programs, which called for better coordination and integration of services between health, education, nutrition, water supply and sanitation, and urban and rural employment programs. A standing Social Sector Coordination Committee was established to develop new strategies and approaches toward (1) enhancing the convergence of social services; (2) overcoming duplication and redundancy in the staffing and management of social sector programs; (3) achieving better targeting of poor beneficiaries; and (4) ensuring greater cost-effectiveness in the delivery of social sector programs.

15. Several measures were taken by the government toward targeting disadvantaged groups and areas, particularly in the areas of primary education, primary health care, and nutrition. In education, GOI ranked all districts on the basis of selected literacy indicators and developed and introduced a strategy for the intensified development of primary education, giving priority to the districts that were ranked as educationally backward, as well as to those districts where total literacy campaigns had been successful resulting in increased demand for primary education. In primary health care, GOI targeted certain select districts for intensified implementation of the revised and enhanced primary health care program. Lastly, for the nutrition sector, GOI introduced strict geographical targeting of ICDS and selected focal districts for the intensification of services.

16. Several up-front actions were taken by the government in the area of primary education. In addition to the targeting measures noted above, GOI also developed prototype district action plans to be used in the implementation strategy for the new initiative of a national district-based primary education development program. Key aspects of the Operation Blackboard program were enhanced to

include provision of additional classrooms and teachers per school as well as flexible program delivery to meet specific local needs.

17. In the health arena, a review of the National Health Policy of 1982 was started. The National Development Council established a committee to assess all aspects of medical and dental education, and to make recommendations for starting new medical schools in the private sector. Under the Child Survival and Safe Motherhood Program in identified districts, the GOI started to supplement the existing provision of drugs and medicines to sub-centers.

18. In the area of primary health care, the National Development Council approved an action plan and policy for revamping the National Family Welfare Program. The GOI also targeted 90 priority districts for intensified implementation of the revised and enhanced primary health care program.

19. In the area of disease control programs, the GOI completed detailed reviews and action plans to enhance the effectiveness and increase coverage of the National Leprosy Eradication and AIDS Control programs. In addition, a new Health Management Information System was developed, and a plan prepared for its phased introduction in all the states.

20. In the nutrition sector, the GOI formulated for the first time a National Nutrition Policy which outlined the government's commitment and strategy for ensuring the adequate nutritional status of all citizens. It introduced strict geographical targeting of ICDS and selected 180 focal districts to receive the intensification of services. In order to address the problems relating to short-falls in the number of feeding days, the GOI started the process of devising a comprehensive strategy towards this end. Towards improving supervision of ICDS, the GOI issued and made operational a new checklist for supervision, which involved taking steps to fill vacancies of supervisors, and introduced a program under which supervisors could improve their mobility in difficult areas.

21. Important action was also taken in the area of employment and income generation. The NRF was established and the operational guidelines of the NRF were formally approved by the cabinet. A business and financial plan for the NRF for FY92/93 was prepared, approved and implementation started. A major review of the JRY was completed and implementation of its major recommendations was started.

22. Lastly, some steps were taken in the area of monitoring of the social dimensions of adjustment. The National Sample Survey Organization completed consumer expenditure surveys covering the 1990-91 period. The GOI established management information systems to monitor progress in the implementation of new initiatives in primary education, primary health care and communicable disease control, and the ICDS program.

The Second Tranche

23. In addition to what the government carried out before credit approval, it was expected to take several actions prior to the release of the second tranche. These conditions were met as indicated in the following paragraphs.

24. In terms of financing of the social sectors and the SSN program, satisfactory progress was made. Adequate funds were provided for the NRF, which is discussed in more detail in the section on Employment and Income Generation (para. 42). In FY92/93, the government provided supplementary funds to each of the social sector budgets in the program as planned, and the central government provided continuous increases in the budgets for each of the social sector areas related to the program, from FY92/93 to FY94/95. Furthermore, the GOI constituted a committee of secretaries to review the financing of the social sectors. The financing of the social sectors also received special attention from a standing committee of the Planning Commission, from the Ministry of Health and Family Welfare and from the Ministry of Education. In conjunction with these efforts, a number of specific actions were taken to improve the financing of education and focus public expenditure on basic education. These included: continuing to freeze the level of GOI financing for university education; the continuation of a high-powered committee of the Universities Grant Commission to review the financing of centrally-assisted higher education and the issuing of a major report on this matter; additional increases in fees at the Institutes of Technology and the Institutes of Management for the 1993/94 school year over those made in the previous year; and finally, revision of the Income Tax Act to make charitable contributions to universities fully deductible. On the health side, progress was disappointing. Although GOI did manage to raise fees for diagnostic tests at centrally funded tertiary hospitals, it took no other concrete steps.

25. Another area for action related to targeting of the social sector programs is The District Primary Education Program. This program being implemented by GOI in 42 priority districts, of which 38 have female literacy rates below the national average. The ICDS program has been expanded since January 1993 largely in 180 target districts, chosen for the share of poor in their population, as well as share of the population which is scheduled caste and scheduled tribe. The Family Welfare program has targeted investments in 90 districts with especially high levels of infant and maternal mortality. The enhanced programs in blindness control and leprosy have focused on districts with the highest levels of disease prevalence.

26. In terms of making mechanisms for district-level coordination of program implementation operational, the Planning Commission issued guidelines in April 1994 for enhancing the convergence of social services at the village level.

Related to this, and in addition to the establishment of the standing Social Sector Coordination Committee, a Coordination Committee for the social sectors is being established in each state. At the district level, it was decided that the Collector/Chief Executive Officers would coordinate social sector activities.

27. Especially good progress was made in the area of primary education. Within the framework of agreements reached under the SSN, the Department of Education established a medium-term investment program aimed at improving access, retention, and learning achievement in primary education in 100 of India's 473 rural districts during the Eighth Plan, with accelerated expansion in the Ninth Plan period. For the first phase of the new District Primary Education Program (DPEP), action plans for 23 districts in 6 states were prepared in detail and approved by IDA for a credit in the second quarter of FY95. An additional 19 districts in Madhya Pradesh were prepared for financing by the European Community. The DPEP is also supporting capacity building at state and national levels to manage the expanding investment program.

28. Related to health sector policy, an assessment of pharmaceutical requirements was completed in February 1993. That review found substantial gaps in the provision of essential pharmaceuticals to primary health care facilities. The initial batch of pharmaceutical kits under the CSSM project was delivered to the 90 highest priority districts by March 1994. These pharmaceuticals are to complement a number of other important investments being undertaken to improve the maternal and child health program and primary health care.

29. Another area for action dealt with enhancing the quality of delivery of primary health care. Detailed facility surveys were completed in all of the selected districts by February 1993. Here too, the surveys found substantial gaps in the provision and condition of facilities. On that basis, action plans for enhancing facilities were drawn up and funds transferred in FY92/93 and FY93/94 to the states to begin the implementation of the plans. Furthermore, each of the selected states gave assurances that they would provide the services of a female physician at selected primary health care centers. Female doctors were posted in two states. In the other selected states, training was to be completed and the posts to be filled in the near future.

30. Satisfactory progress was made in the area of disease control programs. The GOI carried out a major review of its program for the control of blindness with considerable inputs from international and local experts. It adopted an action plan, developed it into a well-prepared investment proposal, and recently began implementation of an enhanced blindness control program which is being assisted by IDA through the Cataract Blindness Control Project (Cr. 2611-IN). The GOI also completed an intensive review of its tuberculosis program, again, in close collaboration with international experts from the World Health Organization, the US Center for Disease Control, and the International Union Against Respiratory

Disease. On that basis, it has adopted an action plan and begun to implement an improved TB program, starting with carefully monitored pilot schemes in several cities and a small number of rural areas. In line with these efforts, a TB Control Project is being prepared for possible IDA assistance, as planned. The GOI also reviewed its malaria program and prepared a concept paper for improvement of that program.

31. With regards to the nutrition sector, the GOI established an ongoing information system for monitoring the ICDS program and by April 1993 completed reviews in the selected states of the number of feeding days. Funds were transferred in FY92/93 to those states for the construction of godowns, as had been planned. Over FY93/94, the feeding norm of at least 21 days of food per month had been achieved in 79 percent of the *anganwadis* in the states of Bihar, Madhya Pradesh, Orissa, and Rajasthan.

32. The last area for action related to employment and income generation and dealt largely with the NRF. The GOI approved the NRF's business and financial plans for FY93/94 and FY94/95 and allocated the required budgets to finance these plans. Linked with this, the GOI has developed the institutional capacity of the NRF to meet substantially its objectives stipulated in the Letter of Development Policy, including covering the costs of severance pay, retraining and redeployment of retrenched workers. However, the calls on the NRF were less than originally anticipated due to slowness in industrial restructuring, which is outside the scope of this operation. In addition, the development of the institutional framework for the NRF took longer than initially thought and counseling and retraining activities did not begin until December 1993. These outcomes are assessed in the next section of the report.

33. The progress of several activities related to the Program was also reviewed. These included the new medical and dental manpower training policy; the actions taken by GOI and the states to ensure that special nutrition programs, early childhood education centers, and Balwadi nutrition centers are not duplicated in ICDS blocks; the decisions regarding the location of 100 blocks in the targeted focal districts identified under the ICDS program; the establishment of area regeneration councils in key cities that have been affected by industrial restructuring programs; and the impact of GOI's stabilization and structural reform and adjustment program on the population, especially the poorer segments, based on the National Sample Survey 1990/91 and the GOI's program of monitoring Human Development Indicators. Little progress was made in developing a new dental and medical manpower training policy. The activities related to ICDS were largely carried out. As noted in paragraphs 32 and 45, there was little progress in developing area regeneration schemes. The Bank and the government of the Netherlands paid considerable attention, especially toward the end of the operation, to steps taken to monitor and assess the impact of stabilization and reform on the poor. The National Council for Applied Economic

Research (NCAER) carried out a study on this matter for the government which was furnished to the Bank and discussed with the author and the Department of Economic Affairs.

E. ASSESSMENT OF OUTCOME AND SUSTAINABILITY

34. The program achieved its basic objectives. Several of its key outcomes appear to be sustainable and the operation should be rated as "satisfactory", although the long-term sustainability of the NRF is still uncertain. The SSN program provoked an enhancement of social sector expenditure, the improved targeting of that expenditure, and the financing and strengthening of the NRF. The program also helped to prevent any major disruption in the provision of basic social services as India launched its adjustment and stabilization efforts. Moreover, in the absence of the SSN, it is possible that GOI might have cut social spending, as it initially did when it undertook fiscal retrenchment. More detailed comments are given below on the outcomes of each program area. The comments below assess the outcomes and sustainability of the policies and actions in each of the SSN program areas.

35. ***Financing of the Social Sectors***. The program outcome was significant in this area. This was demonstrated largely in the government's ability to provide funds to the various sectors, essentially as planned. This was particularly true during very severe fiscal retrenchment in FY92/93 and considerable budgetary stringency in FY93/94 and FY94/95. In addition, the Union government has continued to provide funds for the SSN-related investments. Moreover, it appears that the SSN has contributed to important shifts in the composition of expenditure on the social sectors. However, it must be noted that the SSN did not make the desired contribution toward the development of a coherent and articulated approach to the medium-term financing of the social sectors, which was one of the aims of establishing the review of financing.

36. ***Coordination, Integration and Targeting***. The steps taken to improve coordination and integration were noted in paragraphs 14 and 26. These may prove to have a significant impact on coordination and integration of social sector programs in the long run. However, to date, these measures are largely on paper and have not yet been implemented. The government did use the SSN as an opportunity to improve the targeting of investments in the social sectors. These enhancements have been continued and there is no reason to believe that they will not be sustained.

37. ***Primary Education***. It appears that an important and probably long lasting contribution of the SSN is the basis that it set for increasing Indian investment in primary education. The Bank and bilateral donors had for many years encouraged GOI to increase its efforts in the area of Basic Education (particularly since 1987, and with increased pressure since the Jomtien

Conference on Education for All in 1990). However, the GOI used the SSN operation as an opportunity for a major thrust in promoting basic education, namely the DPEP. The DPEP, which represents an unprecedented effort by India and by the central government to speed the development of primary education in India, is quickly becoming an umbrella for both national and international assistance to the development of primary education in India. It appears that it will remain the main vehicle in the medium-term for encouraging universalization of primary education in India. Furthermore, it has been prepared in an exceptionally participatory manner, with extensive involvement of key Indian educational policymakers and research institutions, further contributing to its likely sustainability.

39. ***Health***. The SSN operation was a good catalyst for GOI to move ahead in this sector. The operation was in line with the thinking at that time of the Department of Health in the Ministry of Health and Family Welfare and hence steps undertaken by the Ministry linked well with those of the SSN. The SSN operation was seen by GOI as an opportunity to encourage and fund the development of improved programs in leprosy, blindness, tuberculosis, and malaria. Investment projects have been launched for leprosy and blindness, and tuberculosis is nearing the stage of appraisal. A malaria project is under preparation. These programs are expected to have long-lasting outcomes in the future.

40. ***Primary Health Care***. Although related tranche release conditions were fulfilled, there were no far reaching outcomes in this area in terms of the functioning of the Family Welfare Program. The major contribution of the SSN in this area was to preserve program funding.

41. ***Nutrition***. The most important contribution of the SSN in nutrition was that the government used it as a basis for financing the expansion of the ICDS program. This could be beneficial in the long run if the quality of that program is improved. Activities undertaken in this sector directly under the SSN are likely to have only a marginal impact on the long-run quality of ICDS, since they deal with only two of the several important constraints to program effectiveness.

42. ***Employment and Income Generation (NRF)***. The establishment of the NRF and development of its institutional capacity must be considered significant progress in the areas of both industrial restructuring and social safety net development. However, a number of factors led to delays in carrying out activities related to the NRF. In addition, before the NRF could address a high level of demand, it would need to be strengthened in a number of ways, as noted below.

43. The calls on the NRF were less than originally anticipated. The business and financial plan of the NRF was based on uncertain programs for the

restructuring of public enterprises, which were not part of this operation, and which took place more slowly than anticipated at the time the SSN was formulated. In the NRF's business and financial plan for FY92/93, for example, it had been estimated that the National Renewal Grant Fund (NRGF) under the NRF would compensate about 80,000 workers under the Voluntary Retirement Scheme (VRS) in that year. As of the end of March 1995, however, the NRGF had compensated only about 76,916 retrenched workers at 67 public enterprises.

44. The development of the institutional framework for the NRF's operations also took longer than initially conceived. The GOI adopted the general guidelines for the NRF in October 1992. However, the work of the Empowered Committee was constrained because the detailed schemes and procedures for financing VRS and employment generation activities could not be finalized. The secretariat of the NRF was initially weak in terms of staffing and logistics, although it was reinforced at a later stage. Before the NRF could deal with a larger demand than it has faced, it would be important to further delegate power to the Empowered Committee.

45. Counseling and redeployment activities were not started until December 1993, as noted earlier. At that time, five nodal agencies were selected and budgeted, including the Gandhi Labor Institute in Ahmedabad, the Confederation of Indian Industry in Bombay, the Small Industries Service Institute in Indore, the Associated Chambers of Commerce in Kanpur, and the National Small Industries Corporation in Calcutta. The slowness in starting these activities was partly due to the timing of budget allocations for these purposes. By the time counseling and retraining efforts got underway, about 30,000 workers had already left enterprises without receiving counseling, training, and redeployment assistance, although no firm judgment can be made about how many of them would have wished to have had such opportunities, because many of these were older workers. In addition, by the time counseling and retraining were made available, many retrenched workers were no long living in the locations where these services were offered and could no longer take advantage of them. As of October 1994 about 6,000 outgoing workers had been counseled and about 840 workers had been provided training in vocational skills and entrepreneurship development. By the end of March 1995, a total of 9,021 workers were provided counseling, which is now offered in 48 location in 16 states. A small number of trainees has inevitably resulted in a high unit training cost. It is expected that the unit cost would be reduced as more workers join the training. In FY94/95, the Ministry of Industry instructed each nodal agency to develop a training program to absorb up to 5,000 workers in each region. It appears that this target may be achieved in the state of Gujarat due to the strong commitment of the state government and strong institutional capacity of the Gandhi Labor Institute, which is the nodal agency of NRF in this region. The NRF would need to strengthen both its budgeting procedures and its links with training if it were to be sustainable in a period of significant industrial restructuring.

46. Before the NRF could play a larger role, greater attention would also need to be paid to the design and implementation of employment generation activities that take into consideration the specific social and economic situations of the places where industrial restructuring is taking place. The area regeneration scheme of Ahmedabad prepared by the government of Gujarat was the only comprehensive proposal submitted to the Empowered Committee, but this has been waiting for the approval of the GOI for more than two years now.

47. Related to its work with government on the NRF, but not a part of the operation, IDA assisted GOI in identifying financing for technical assistance for the NRF and related activities. The technical assistance financed by the Japanese grant of US$377,500 equivalent has contributed significantly to the initial development of the institutional capacity of the NRF in the areas of counseling, training, and redeployment assistance activities. However, given the complexity of the NRF activities and the lack of experience in India, this technical assistance might have been provided at an earlier stage, even as early as program preparation. The first part of technical assistance that was provided by a foreign consultant team could not fully achieve its objectives, as their counterparts, the nodal agencies delivering these services, were not selected. This, however, helped the members of the secretariat of the Empowered Committee deepen their knowledge of complex retrenchment issues. Meanwhile, the second part of technical assistance, provided by the Gandhi Labor Institute and which started after the selection of the nodal agencies, has considerably contributed to the capacity building of the nodal agencies, thanks to the commitment of both the Institute and other nodal agencies and GOI. Upon the request of the GOI, IDA is continuing this technical assistance with support of the Swiss Grant Fund. This assistance should further strengthen the NRF to meet potential future demands.

48. The sustainability of the NRF eventually rests on whether the government will continue to undertake public enterprise reform, which in most cases will entail worker retrenchment. The answer to this question is uncertain. However, there exists sizable potential demand for the NRF in India. Although the reform at the central public sector enterprise level has slowed down, several states have initiated state public enterprise reform. However, given budgetary constraints, NRF resources would need to be matched with contributions from the states and the enterprises, if the NRF were to extend its coverage to state public enterprises. Private enterprises are also adjusting their workforce much more swiftly than public enterprises and these reforms could benefit from support from the NRF. Although it would be difficult for the NRF to cover severance costs of the retrenched workers of the private enterprises, the NRF could help them find new job opportunities by providing counseling and training and the nodal agencies established under the NRF are actually extending assistance not only to the retrenched workers of the public enterprises but also to those of private enterprises. The NRF could remain a valuable instrument, if the GOI continues to adjust flexibly its function, institutional framework and funding mechanism to

any emerging industrial restructuring in India. In the longer term, however, GOI will want to explore replacing the NRF with a financially independent and sustainable mechanism such as a general unemployment insurance system whose costs are borne mainly by employers and workers.

49. ***Related Activities***. As noted in paragraph 33, the Bank and government were to exchange views on progress in a number of areas related to the SSN. The area regeneration schemes and the monitoring of impact of stabilization and adjustment on the poor were the most significant of these. Little progress has been made in developing area regeneration schemes and the impact of such schemes remains to be seen. The long-run sustainability of monitoring the impact of economic adjustment on the poor will depend on the work of the National Sample Survey Organization (NSSO). This organization has the capacity to carry out and analyze periodic surveys on this matter. However, it would need to focus greater attention to this topic, ensure that surveys are completed expeditiously, and ensure that the results of the surveys are available to the public and to policymakers in a timely manner.

F. COVENANT COMPLIANCE

50. As noted in paragraph 9, the overall framework of this adjustment operation was provided by the macroeconomic stabilization and adjustment program and the Letter of Development Policy for the SSN. The Bank deemed both of these to have been satisfactorily maintained during the implementation of the SSN credit. In addition, conditions related to the release of the first and second tranche were fulfilled, as also described in earlier sections of this report.

G. BANK PERFORMANCE

51. Overall, Bank performance was adequate. From the identification of the program, the Bank tried to ensure that work on it would be led by a very senior task manager, because of the program's multisectoral nature and its importance, particularly during India's adjustment process. One such task manager was selected and formulation of the program was started. Later he was replaced by another seasoned task manager.

52. To a large extent, Bank staff knowledgeable in their respective sectors were involved in the SSN. However, partly due to the fast pace of program development, coordination within the Bank was not as effective as it might have been for work on nutrition and family planning. In addition, at the time the SSN was initially developed, there was little experience in the India Department with activities like the NRF, and staff knowledgeable of finance and industrial restructuring were asked to take responsibility for the NRF.

53. As implementation and supervision of the SSN progressed, it became increasingly evident that the SSN was intimately linked with the other social sector investments assisted by IDA in India. Thus, the Division Chief responsible for IDA's social sector work in India took over the management of supervision of the SSN. In addition, a senior task manager with experience in industrial restructuring became responsible for the NRF component of the program.

54. Also in terms of the NRF, it is important to note that Bank assistance went beyond the scope of regular supervision and the Bank assisted GOI in designing and implementing measures to strengthen the NRF institutionally. Related to this, Bank staff helped GOI prepare and implement specific development programs of the nodal agencies and assisted the nodal agencies in implementing their respective programs by providing training and technical assistance. The Bank staff also helped GOI mobilize the Swiss grant required for technical assistance to the NRF. This assistance is continuing. GOI expressed particular appreciation for the Bank's help in this area.

55. Systematic program evaluation was carried out by Bank staff. Program review missions visited India in January, May, and December 1993 and June 1994. They worked in all cases and throughout supervision with the co-financiers. Each mission carried out a joint assessment with government of progress against tranche release conditions and the equivalent of the final *Aide Memoire* was essentially the Board Note authorizing the release of the second tranche, which was also reviewed jointly by the mission and government.

H. Borrower Performance

56. Overall borrower performance met agreed-upon expectations. However, there was a persistent lack of continuity of key staff involved with the program that slowed some aspects of program implementation. Key people involved with the Program within the Department of Industry, such as the person responsible for the conceptual design and establishment of the NRF, and other important officials within the Department of Economic Affairs moved away before the operation got underway. In addition, DEA staff working with the program were changed several times. Furthermore, the secretaries working on various committees were shifted.

I. Key Lessons Learned

57. A number of lessons emerge from a review of this program.

58. ***Impact of Adjustment on Social Sectors***. As suggested by the Bank's reviews of adjustment lending, the adjustment process can be used to positively influence both the amount and the composition of expenditure earmarked for the social sectors. Rather than cut expenditures earmarked for key social programs

during adjustment, the Union government in India has shown how countries can use the adjustment process to try to positively adjust public expenditure on social programs, as well as to adjust macroeconomic balances.

58. ***The Potential for Long-Run Impacts in the Social Sectors***. Despite initial skepticism within the Bank, the SSN program suggests that operations of this type can be used to promote medium term developments in the social sectors, as took place under the program, particularly in the education and health sectors.

59. ***Cross-Sectoral Links***. In order to maximize the impact of cross-sectoral operations like the SSN, it is imperative that each sectoral program be embedded in the ongoing collaboration of the Bank and the client and be linked as well to specific investment operations to follow. Taking this approach has encouraged important positive long-term outcomes for the education and health components of the SSN program. Ongoing work promises similar results for family planning in India. The same might also be true later for nutrition.

60. ***Preparing for Policy Implementation***. By the time the SSN operation closed in August 1994, DPEP I had already been negotiated with IDA and the EC. Similarly, the disease control agreements were wrapped up in action planning for the IDA credits. Thus, both of the most successful areas featured this kind of preparation for action.

61. ***Development of Services for Retrenched Workers***. Programs meant to assist retrenched workers should establish institutional mechanisms for counseling, retraining, and redeployment at an early stage to avoid a mismatch between the timing of retrenchment and the provision of these important services to those who have lost their jobs.

IMPLEMENTATION COMPLETION REPORT

INDIA

SOCIAL SAFETY NET SECTOR ADJUSTMENT PROGRAM
(Credit 2448-IN)

PART II. STATISTICAL ANNEXES

Table 1: Summary of Assessments

A. Achievement of objectives	Substantial x	Partial x	Negligible x	Not applicable x
Macro economic policies		X		
Sector policies		X		
Financial objectives	X			
Institutional development		X		
Physical objectives	X			
Poverty reduction	X			
Gender issues	X			
Other social objectives	X			
Environmental objectives				X
Public sector management		X		
Private sector development				X
Other (specify)				

B. Project sustainability

	Likely	Unlikely	Uncertain
	x	x	x
Macro economic policies	X		

C. Bank performance

	Highly satisfactory	Satisfactory	Deficient
	x	x	x
Identification		X	
Preparation assistance	X		
Appraisal		X	
Supervision		X	

D. Borrower performance

	Highly satisfactory	Satisfactory	Deficient
	x	x	x
Preparation		X	
Implementation		X	
Covenant compliance		X	
Operation (if applicable)			

E. Assessment of outcome

	Highly satisfactory	Satisfactory	Unsatisfactory	Highly unsatisfactory
	x	x	x	x
		X		

IMPLEMENTATION COMPLETION REPORT

INDIA

SOCIAL SAFETY NET SECTOR ADJUSTMENT PROGRAM

(Credit 2448-IN)

Table 2: Program Policy Matrix

AREA OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
FINANCING THE SOCIAL SAFETY NET		
Social Sector Financing Policy	A.1 The GOI has approved the aggregate levels of additional resources required to sustain the social safety net initiatives to be undertaken in primary education, primary health, disease control and ICDS through the end of the Eighty Five-Year Plan period (1997).	B.1 The GOI would have: completed all approvals to make adequate funds available to meet the additional costs in FY93-94 of the revamped and expanded programs in primary education, primary health, disease control and ICDS.
	A.2 The GOI has approved the million (US$ 83.3 million) supplementary budget allocation to the primary education, primary health, communicable disease control and ICDS programs in FY 1992/93 in order to maintain these programs at 1991/92 levels in real terms.	
	A.3 The GOI has approved the the annual budgets for the specific Social Safety Net programs in primary health, primary education, communicable disease control, and ICDS would be maintained at least in real terms to the end of the Eight-Five-Year Plan in 1997.	
	A.4 The GOI has decided that all donor assistance for the Social Safety net will be considered as "net additionality" to Plan outlays.	
	A.5 The GOI has decided that all Committee of Secretaries including the Secretaries of the Planning Commission, and Departments of Finance, Expenditure, Economic Affairs,	B.2 The GOI has decided that all completed the review of the financing of the social sectors; and started implementation of the recommendations with particular respect to ensuring the

Table 2: Program Policy Matrix

AREA OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
	Health, Family Welfare, Education and Women and Child, to review the share of public expenditures to be devoted to the social sectors during the Eighth Five-Year Plan, methods of mobilizing additional non-budgetary resources for higher education and tertiary health, and mechanisms for progressively increasing the proportion of non-budgetary support for higher and technical education and tertiary health care.	timely availability of funds for the Program and the enhanced mobilization of non-budgetary resources for tertiary education and tertiary health care.
Mobilization of Non-budgetary resources and cost recovery.	<u>A.6</u> In FY 1992, the GOI increased significantly (between 500-1200%) tuition and other fees at the apex higher education institutions such as the Indian Institutes of Management (IIM) and Indian Institute of Technology. Tuition fees have also been increased at Polytechnics which are operated by the States. Fees have been increased by about 100% in the pay wards of centrally-funded tertiary level hospitals like the All India Institute of Medical Sciences (AIIMS).	
<u>COORDINATION AND INTEGRATION OF SOCIAL SECTOR PROGRAMS</u>		
Program Coordination Policy	<u>A.7</u> The Eighth Five-Year Plan (1992-1997) approved by the National Development Council (NDC) of which all states are members, includes new strategies and approaches to design, targeting, funding and the implementation of social sector programs. It calls for among other things, better coordination and integration of services between health, education, nutrition, water supply and sanitation, and urban and rural employment programs.	

Table 2: Program Policy Matrix

AREA OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
	A.8 The GOI has established a Standing Social Sector Coordination Committee chaired by the Secretary (Coordination) and including the Secretaries of Health, Family Welfare, Education, Women and Child, and the Chief Secretaries of the States of Kerala, Maharashtra, Madhya Pradesh and West Bengal to develop new strategies and approaches to (a) the convergence of social services; and (b) overcoming duplication and redundancy in the staffing and management of social sector programs; (c) achieving better targeting of poor beneficiaries; and (d) ensuring greater cost-effectiveness in the delivery of social sector programs.	B.3 The GOI would have: for each component of the Program (primary education, primary health care, disease control and ICDS), selected districts for priority implementation of the Program, using indicators relevant to the concerned component such as educational backwardness, maternal mortality rates, infant mortality rates and the incidence of poverty and endemic diseases; operationalized mechanisms for district-level coordination of Program implementation in the selected districts including defining the responsibility of the district administration and issuing instructions for linking implementation of the Program to district development plans.
PRIMARY EDUCATION		
Sectoral Policy Targeting of resources and programs to disadvantaged groups and regions. Enhancing the quality of service delivery. Reorientation of financial resources.	A.9 The National Policy on Education of 1986 has been revised in 1992 to introduce changes which emphasize the priority to universalizing primary education through disaggregated target setting and decentralized planning, better targeting of females and scheduled caste and scheduled tribe students; improved quality; and the provision of adequate budgetary resources.	
Targeting of disadvantaged groups and regions	A. 10 The GOI has ranked all districts in the country on the basis of literacy rates, female enrollments, and the demand for primary education. The GOI has also developed and introduced a strategy for the intensified development of primary education giving priority to the districts which are ranked as educationally backward as well as districts where total literacy campaigns have been successful resulting in increased demand for primary	

Table 2: Program Policy Matrix

AREA OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
	education.	
	<u>A.11</u> GOI has developed prototype District Action Plans to be used in the implementation strategy for the new initiative of a National district-based Primary Education Development Program <u>A.12</u> The revised National Policy on Education gives priority to: (a) quality improvement, retention and learning achievement over expansion; (b) establishing Minimum Levels of Learning (MLL) to streamline the curriculum and focus on basic competencies; and (c) cost effective decentralized planning and management. The GOI has already started implementation of these changes. <u>A.13</u> GOI has changed key aspects of the Operation Blackboard Program and is implementing an enhanced program which calls for the provision of additional classrooms and teachers per school as well as flexible program delivery to meet specific local needs. <u>A.14</u> The GOI has developed Management Information Systems to monitor progress of primary education programs especially as regards total new enrollments and the additional enrollments of girls.	<u>B.4</u> GOI would have: completed detailed actions plans for intensified implementation of the primary education component of the Program in the selected districts; transferred to each of the selected districts, the first installment of funds required for the implementation of the action plans; and caused the appointment by concerned authorities, of the key management staff for the intensified primary education program in the selected districts and States.
Reorientation of financial resources	<u>A.15</u> GOI has given priority to the financing of primary education. An additional Rs. 26,000 million (US$ 880.0 million) has been added to the Center's Eighth Five-Year Plan total educational allocation. Rs. 28,800 million (US$ 960.0 million) is dedicated to primary education. This is an increase for	

Table 2: Program Policy Matrix

AREA OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
	primary education by a factor of four over allocations during the Seventh Five-Year Plan period (1985-1990).	
	A.16 The States have also increased their Eighth Five-Year Plan allocations for primary education by a factor of three over Seventh Five-Year Plan allocations.	
	A.17 Under the Eighth Five-Year plan, the GOI has held almost constant in nominal terms, allocations to higher education.	
	A.18 GOI has developed and piloted the use of new funding mechanisms to ensure that the additional resources required for the national district-based Primary Education Development Program is successfully passed on to the targeted priority districts.	
HEALTH		
Sector Policy	**A.19** A review of the National Health Policy of 1982 has started with the objective of (a) establishing more appropriate goals and targets re: Health for All by 2000; (b) examining the role of Center and States in the provision of health services; and (c) methods to identify those areas where the center will remain active more cost-effective.	
	A.20 The National Development Council has established a Committee including the Chief Ministers of five States and the Ministers of Finance, Human Resources Development, Health and Family Welfare to assess all aspects of medical and dental education including the present and future availability of medical manpower, and to make recommendations for starting new medical schools in the private	

Table 2: Program Policy Matrix

AREA OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
	sector and/or expanding existing intake capacity.	
	<u>A.21</u> The Bureau of Planning in the Department of Health has been strengthened to create a health policy and economics planning capacity.	
	<u>A.22</u> The GOI has started to supplement the existing provision of drugs and medicines to sub-centers by providing additional quantities of drugs and medicines to the extent of about Rs. 4,000 per subcenter per year under the Child Survival and Safe Motherhood Program in identified districts.	<u>B.5</u> The GOI would have: completed the assessment of pharmaceutical requirements in all of the districts targeted for the implementation of the revised and expanded primary health care program; and delivered the initial batch of pharmaceuticals in kits developed under the Child Survival and Safe Motherhood Program to selected districts.
<u>**Primary Health Care**</u>		
Sectoral Policy	<u>A.23</u> The National Development Council (NDC) has approved an Action Plan and Policy for Revamping the National Family Welfare Program which includes (a) improving the quality and outreach of family welfare services in rural areas; (b) adopting a differential strategy for districts in the implementation of the revamped program; (c) focusing attention on the backward districts of the country; (d) enhancing the provision for safe motherhood interventions especially in districts where maternal mortality rates are above the national average.	
	<u>A.24</u> GOI has started the implementation of its new policy for the operationalization of the rural health system which includes health sub-centers and Primary Health Centers (PHCs). The new emphasis and strategy would be on: (a) the provision of supplementary facilities where required, (b) the training of medical and para-medical staff, and (c) increased provision of	

Table 2: Program Policy Matrix

AREA OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
	materials as may be required.	
Targeting of disadvantaged groups and areas	A.25 GOI has selected on the basis of higher than average infant, young child and maternal mortality, 90 districts for intensified implementation of the revised and enhanced primary health care program.	
Enhancing the quality of service delivery.	A.26 GOI has developed an implementation strategy for the provision of the enhanced primary health and safe motherhood interventions in the 90 targeted districts including the provision of special MCH facilities, equipment and the training of staff.	B.6 The GOI would have: completed detailed facility surveys and detailed action plans based on the surveys, for implementing the revised and expanded primary health care program in the selected districts; transferred to each of the selected districts, the first installment of funds required for the implementation of the action plans; and obtained from each of the States in which the selected districts are located, an assurance that it shall provide, within a stipulated time frame, the services of at least one female doctor at each primary health center which has been identified for enhanced safe motherhood facilities in the selected districts.
	A.27 GOI has started implementation of the new birth-based approach to determining work routines and the training of health workers and revised instructions have been issued to female health workers to focus on and give priority attention to pregnant and lactating mothers.	
DISEASE CONTROL PROGRAMS		
Enhancing the quality of service delivery	A.28 GOI has completed detailed reviews and Action Plans to enhance the effectiveness and increase the coverage of the National Leprosy Eradication and AIDS control programs primarily through more appropriate technologies, approaches and funding.	B.7 GOI would have: completed detailed reviews of the effectiveness of its programs for the control of blindness, malaria and tuberculosis; adopted a national action plan for the control of tuberculosis; and adopted action plans for the control of blindness and malaria

Table 2: Program Policy Matrix

AREA OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
		in designated States.
	A.29 A new Health Management Information System has been developed, and a plan prepared for its phased introduction in all the States.	
NUTRITION		
Sector Policy	**A.30** The GOI has formulated for the first time, a National Nutrition Policy which outlines the Government's commitment and strategy for ensuring the adequate nutritional status of all citizens.	
	A.31 GOI has taken action to avoid duplication, and to provide Early Childhood Education Centers only in blocks where ICDS is not being implemented. GOI has also started a review of the coverage and efficacy of State-funded Special Nutrition Programs (SNPs) in relationship to ICDS.	
Targeting of disadvantaged groups and areas	**A.32** GOI has introduced strict geographical targeting of ICDS and has already selected 180 focal districts for the intensification of services. The districts have been ranked on criteria including the poverty ratio, the concentration of scheduled castes and tribes, and the crude birth rate.	
Enhancing the quality of service delivery	**A.33** GOI has developed a strategy for the provision of intensified inputs to 200 blocks in the 180 focal districts through (a) increasing the outreach to areas and target groups who remain uncovered under existing programs (in-filling); (b) replenishing worn out articles, provision of additional facilities and equipment; and (c) better training and supervision.	
	A.34 The National Institute of Public Cooperation and Child Development (NIPCCD) has	

Table 2: Program Policy Matrix

AREA OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
	completed a comprehensive national evaluation of the ICDS program. A.35 The GOI has accepted the findings of the NIPCCD evaluation and started implementation of the key recommendations which include: (a) Increasing honoraria to grass-root workers. GOI has increased the honoraria by 25% for Anganwadi workers and 100% for helpers. (b) The introduction of a new strategy for the synchronized delivery of services at the Anganwadi level. Actions in this area have been taken by the Departments of Health, Rural Development, Urban Development, Education, Welfare and Food. (c) Addressing the problem relating to short falls in number of feeding days. The GOI is in the process of devising a comprehensive strategy but has already increased the financial norm allowance for supplementary nutrition per beneficiary. The States have undertaken district and block specific investigations of the reasons for the shortfalls. The GOI plans further to construct food storage godowns-cum Child Development Project Officer (CDPO) offices in selected remote tribal hill and difficult areas to overcome some of the logistical problems which lead to the feeding shortfalls. (d) Improving basic and refresher training. Annual Training plans for ICDS personnel have been reviewed and updated and State compliance with training targets are now linked to the release of funds by the Center. (e) Improving supervision. GOI has taken a number of steps to	B.8 The GOI would have: completed state-wide reviews in Bihar, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and West Bengal of shortfalls in required feeding days under the ICDS program; commenced construction of godowns in the selected States where logistics has been identified as the problem in the timely and adequate supply of food; and achieved the feeding norm under the ICDS program in at least 50% of the anganwadis under the ICDS program in each of the following States: Bihar, Madhya Pradesh, Orissa, and Rajasthan.

Table 2: Program Policy Matrix

AREA OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
	reinforce the supervision ratios of 1 supervisor to 17 Anganwadis in tribal areas; 1 supervisor to 20 Anganwadis in rural areas; and 1 supervisor to 25 Anganwadis in urban areas. The GOI has now issued and operationalized a new checklist for supervisions; taken steps to fill vacancies of supervisors; and introduced a program under which supervisors can purchase mopeds to improve their mobility in difficult areas. (f) Improving program monitoring. GOI has introduced a new computerized Management Information System that enables the Department of Women and Children Development to effectively monitor the quantity and quality of ICDS performance.	
	A.36 The GOI has taken steps to ensure that CARE, and World Food Program food contributions as well as its wheat-based nutrition program is used exclusively for the ICDS program. This contribution covers approximately 11 million of the 17 million ICDS beneficiaries.	
EMPLOYMENT AND INCOME GENERATION		
National Renewal Fund: Targeting of groups and areas/impacted by the industrial reform program.	A.37 The Government has established the National Renewal Fund to facilitate the industrial sector reform program and to mitigate the negative impact on workers who have been affected by the restructuring and revitalization programs being undertaken in Public Sector Enterprises (PSEs).	
	A.38 The Operational Guidelines of the NRF have been formally approved by the Cabinet and the initial meetings of the Empowered Authority have been held.	

Table 2: Program Policy Matrix

AREA OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
	A.39 A Business and Financial Plan for the NRF for FY 92/93 has been prepared, approved and implementation started. The Plan covers the Sources and projected Uses of Funds with particular attention to the support to be provided to (a) the Voluntary Retirement Scheme and the number of workers accessing this facility; (b) negotiated compensation packages for PSEs and the projected number of workers who are to be affected; and (c) projected expenditures on counseling and retraining of affected workers as well as for area regeneration schemes to stimulate new employment opportunities.	B.9 The GOI would have: made satisfactory progress in the implementation of the NRF Business and Financial Plan during FY92-93; approved the FY93-94 Business and Financial Plan for the NRF; and allocated the necessary funds for the NRF account consistent with the projected requirements of the FY93-94 Business and Financial Plan.
Improving the efficiency and effectiveness of income-generation programs	A.40 The GOI (Planning Commission) has completed a major review of the Jawahar Rozgar Yojana (JRY) and started implementation of the major recommendations A.41 The GOI has increased funding to JRY in FY 1992/93 through the National Renewal Fund.	
	A.42 GOI has revised and issued new guidelines for the Nehru Rozgar Yojana (NRY); and additional provisions have been included in the NRF 1992/93 Business and Financial Plan to support employment generation activities under the NRY especially for targeting beneficiaries and urban areas which have been impacted by industrial restructuring.	
MONITORING THE SOCIAL DIMENSIONS OF ADJUSTMENT	A.43 The National Sample Survey Organization (NSSO) has completed consumer expenditure surveys covering the 1990-91 period.	

Table 2: Program Policy Matrix

AREA OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
	<u>A.44</u> The GOI has established management information systems to monitor progress in the implementation of new initiatives in primary education (A.15), primary health care and communicable disease control (A.29); and ICDS (A.35).	

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SOCIAL SAFETY NET SECTOR ADJUSTMENT PROGRAM
(Credit 2448-IN)

Table 3: Related Bank Loans or Credits

FAMILY WELFARE

Credit No.	:	312-IN
Title	:	First Population Project
Year of approval	:	1972
Purpose	:	To support the family welfare program in five districts of Karnataka and six districts of Uttar Pradesh
Status	:	Credit Closed June 30, 1980
Comments	:	PCR 6/81; PPAR 1/82

Credit No.	:	981-IN
Title	:	Second Population Project
Year of approval	:	1980
Purpose	:	To support the family welfare program in six districts of Uttar Pradesh and three districts of Andhra Pradesh
Status	:	Credit Closed March 31, 1988
Comments	:	PCR 1/90; PPAR 8/90

Credit No.	:	1426-IN
Title	:	Third Population Project
Year of approval	:	1984
Purpose	:	To support the family welfare program in six districts of Karnataka and four districts of Kerala
Status	:	Credit Closed March 31, 1992
Comments	:	PCR 8/93

Credit No.	:	1623-IN
Title	:	Fourth Population Project
Year of approval	:	1985
Purpose	:	To support the family welfare program in the state of West Bengal
Status	:	Credit Closed March 31, 1994
Comments	:	PCR 6/94

Table 3: Related Bank Loans or Credits (Continued)

Credit No.	:	1931-IN
Title	:	Fifth (Bombay/Madras) Population Project
Year of approval	:	1988
Purpose	:	To support the family welfare program in the cities of Bombay and Madras
Status	:	Under implementation
Comments	:	NGOs and private medical practitioners are included in the project

Credit No.	:	2057-IN
Title	:	Sixth (First National Family Welfare Training and Systems Development) Population Project
Year of approval	:	1989
Purpose	:	To support the family welfare program in the states of Uttar Pradesh, Andhra Pradesh and Madhya Pradesh
Status	:	Under implementation
Comments	:	Focus on strengthening of training aspects of the program on a statewide basis

Credit No.	:	2133-IN
Title	:	Seventh (Second National Family Welfare Training and Systems Development) Population Project
Year of approval	:	1990
Purpose	:	To support the family welfare program in the states of Punjab, Haryana, Gujarat and Bihar
Status	:	Under implementation
Comments	:	Focus on strengthening of training aspects of the program on a statewide basis

Credit No.	:	2394-IN
Title	:	Family Welfare (Urban Slums) Project (Population 8)
Year of approval	:	1991
Purpose	:	To help the Government of India increase the supply of family welfare service in the slum populations of Andhra Pradesh, Karnataka, West Bengal and Delhi
Status	:	Under implementation
Comments	:	Focus on reduction of fertility and maternal and infant mortality rates among slum populations by improving the outreach of family welfareservices, upgrading the quality of family welfare services through extensive and ongoing personnel training, expanding the demand for health services through expanded information, education and communication activities and improving the administration and management of health care agencies

Credit No.	:	2300-IN
Title	:	Child Survival and Safe Motherhood Project
Year of approval	:	1992
Purpose	:	To support the Government of India's Maternal and Child Health Program
Status	:	Under implementation

Table 3: Related Bank Loans or Credits (Continued)

Comments	:	Focus on child survival, safe motherhood (prevention of maternal morbidity and mortality) and effective service delivery

Credit No.	:	2630-IN
Title	:	Family Welfare (Assam, Rajasthan and Karnataka) Project (Population 9)
Year of approval	:	1994
Purpose	:	To support the family welfare program in the states of Assam, Rajasthan and Karnataka
Status	:	Approved by the Board on June 16, 1994
Comments	:	Focus on reduction of fertility and maternal and childhood mortality by strengthening seravice delivery including extension and upgrading of infrastructure, strengthening demand generation activities through improved information, education and communication planning and activities, strengthening program management and implementation capacity, and improving service quality including training, improvement of program logistics, promotion of private sector involvement, and funding for innovative schemes

NUTRITION

Credit No.	:	1003-IN
Title	:	First Tamil Nadu Integrated Nutrition Project
Year of approval	:	1980
Purpose	:	To help the state of Tamil Nadu: (a) halve malnutrition among children under four years of age; (b) reduce infant mortality by 25%; (c) reduce vitamin A deficiency in the under fives from about 27% to about 5%; and (d) reduce anaemia in pregnant and nursing women from about 55% to about 20%.
Status	:	Credit closed, March 31, 1989
Comments	:	PCR 12/90

Credit No.	:	2158-IN
Title	:	Tamil Nadu II
Year of approval	:	1990
Purpose	:	To support the state government of Tamil Nadu's goal of improving the nutrition and health status of children 0-72 months of age, and of pregnant and nursing women.
Status	:	Under implementation.
Comments	:	Focus is to reduce severe malnutrition among children 6-36 months by 50% in new project blocks and 25% in TINP I blocks, increase the proportion of children 6-36 months of age in normal nutrition status by 50% in new and 35% in existing project areas, and contribute to a reduction in infant mortality to 55 per 1,000 live births and to a 50% reduction in the incidence of low birth weight

Table 3: Related Bank Loans or Credits (Continued)

Credit No.	:	2173-IN
Title	:	First Integrated Child Development Services Project
Year of approval	:	1990
Purpose	:	To support the objective of the Central and Andhra Pradesh and Orissa state governments of improving the nutrition and health status of children under 6 years of age, with special emphasis on those 0-3 years old, and pregnant and nursing women.
Status	:	Under implementation.
Comments	:	Project is to improve the nutrition and health status of tribal, drought-prone and otherwise disadvantaged population groups in Andhra Pradesh and Orissa.

Credit No.	:	24700-IN
Title	:	ICDS II
Year of approval	:	1992
Purpose	:	To assist the governments of Bihar and Madhya Pradesh, improve the nutrition and health status of children under 6 years of age, with special emphasis on those 0-3 years old, and pregnant and nursing women.
Status	:	Under implementation.
Comments	:	Project beneficiaries would be among India's poorest people, many of whom are tribal. In addition to improving the nutrition and health status of children, the project would also help to improve the capacity of the ICDS to deliver services in the two states, including among tribal people, over the longer term.

EDUCATION

Credit No.	:	2008-IN
Title	:	Vocational Training Project
Year of approval	:	1989
Purpose	:	To support the Ministry of Labor's (MOL) long-term program to modernize and restructure the National Vocational Training System (NVTS).
Status	:	Under implementation.
Comments	:	The main objectives of the project are to (a) improve the quality and efficiency of basic craftsman and apprenticeship training; (b) expand and diversify the advanced training programs; and (c) strengthen the NVTS planning and management capacity. Participation of women are to be increased in each of these areas.

Credit No.	:	2130-IN
Title	:	Technician Education Project I
Year of approval	:	1990
Purpose		To support the National Policy on Education, and more specifically, the Ten Year Technician Education Investment Program (1990-99) in the states of

Table 3: Related Bank Loans or Credits (Continued)

		Bihar, Gujarat, Karnataka, Kerala, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh.
Status	:	Under implementation.
Comments	:	The project is expected to provide India's industrial sector with technicians of suitable quality in the areas of civil, mechanical, and electrical engineering, as well as in computer and electronics technology and in other required new and emerging areas.

Credit No.	:	2223-IN
Title	:	Technician Education Project II
Year of approval	:	1991
Purpose	:	To support the National Policy on Education, and more specifically, the Ten Year Technician Education Investment Program (1990-99) in the states of Andhra Pradesh, Assam, Haryana, Himachal Pradesh, Maharashtra, Punjab, Tamil Nadu and West Bengal and the Union Territory of Delhi.
Status	:	Under implementation.
Comments	:	The project is a second phase of IDA's commitment to support the National Polytechnic System and the Ten-Year Investment Program. It is identical to the First Technician Education Project and has the same major objectives

Credit No.	:	2509-IN
Title	:	U.P. Basic Education Project
Year of approval	:	1993
Purpose	:	To improve the level of literacy among the citizens of UP, and hence their productivity and social welfare.
Status	:	Under implementation.
Comments	:	The project is a first investment in a longer-term program that is expected to create an institutional framework for cost-effective policy implementation in basic education.

Credit No.	:	2661-IN
Title	:	District Primary Education Project
Year of approval	:	1994
Purpose	:	To support the GOI District Primary Education Program in the states of Assam, Haryana, Karnataka, Kerala, Maharashtra and Tamil Nadu, to build national, state and district managerial and professional capacity for sustainable primary education development.
Status	:	Project was signed on December 22, 1994.
Comments	:	The project will support district-based programs aimed at decreases in dropout, increases in learning achievement, and improved access to primary education in the project states. Priority will be given to female and SC/ST students through both targeting and special strategies, and to enhanced community participation.

Table 3: Related Bank Loans or Credits (Continued)

HEALTH

Credit No.	:	2350-IN
Title	:	National AIDS Control Project
Year of approval	:	1992
Purpose	:	To support the Government's efforts in controlling the HIV/AIDS epidemic in order to preserve human capital development and to minimize the reversal of health improvements in the States and Union Territories of India.
Status	:	Under implementation.
Comments	:	The project constitutes a start-up investment to launch expanded preventive activities in the control of HIV transmission. Its ultimate objective is to slow the spread of HIV in India, so as to reduce future morbidity, mortality and impact of AIDS.

Credit No.	:	2528-IN
Title	:	National Leprosy Elimination Project
Year of approval	:	1993
Purpose	:	To eliminate leprosy as a public health problem in India by the turn of the century by reducing the disease prevalence from 2.4 per 1,000 to 0.1 per 1,000 and to reduce the impact of leprosy disability.
Status	:	Under implementation.
Comments	:	The project is expected to enable India to eliminate leprosy as a national public health problem by the year 2000. It will eliminate the disease in 2.2 million people with leprosy and in 1.8 million new cases. It will reach underprivileged communities and benefit an estimated 2.4 million people below the GOI poverty line. It is expected to benefit about 1.6 million women.

Credit No.	:	2611-IN
Title	:	Cataract Blindness Control Project
Year of approval	:	1994
Purpose	:	To upgrade the quality of cataract surgery, expand services to underprivileged sectors, and reduce the backlog of untreated cataracts in the states of Uttar Pradesh, Madhya Pradesh, Andhra Pradesh, Rajasthan, Maharashtra, Tamil Nadu and Orissa.
Status	:	Under implementation.
Comments	:	The project is expected to help eliminate most of the cataract blindness backlog by bringing the blindness prevalence down by 50% in the seven project states.

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Table 4. Program Timetable

Step In Project Cycle	Date Actual/Estimate
Identification (Executive Project Summary)	May 1992
Preparation	May 1992
Appraisal	September 1992
Negotiations	November 1992
Board presentation	December 17, 1992
Signing	December 17, 1992
Effectiveness	December 21, 1992
Project completion	June 1994
Credit closing	August 31, 1994

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Table 5: Credit Disbursements - Cumulative, Estimated and Actual
(Millions of US Dollars)

	FY93	FY94	FY95
Appraisal estimate	250.0	250.0	0.0
Actual	244.6	0.0	259.6

Note: The credit was fully disbursed by October 20, 1994.

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Table 6: Bank Resources - Actual Staff Inputs

		Number of staff weeks			
Stage of project cycle	**Total**	**FY92**	**FY93**	**FY94**	**FY95**
Through appraisal	114.2	55.4	58.8	0.0	0.0
Appraisal to Board	38.6	0.0	38.6	0.0	0.0
Board to effectiveness	(Not available)	-	-	-	-
Supervision	57.4	0.0	29.7	23.1	4.6
Completion	10.0	0.0	0.0	0.0	10.0
TOTALS	220.2	55.4	127.1	23.1	14.6

Notes: Number of staff weeks on completion is an estimate.
Staff week data from board to effectiveness not captured in the work program system.

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Table 7: Bank Resources - Missions

Month/Year	Number of persons	Days in field	Specialized staff skills represented
THROUGH APPRAISAL AND EFFECTIVENESS			
May—June/92	7	14	Ec (3), F (2), N, Edn
July—Aug/92	8	16	Ec, F (3), N, H, LE, Edn
Sept—Oct/92	1	25	Ec
SUPERVISION			
Jan —Feb/93	2	19	Ec, F
April—May/93	7	7	Mgr, F (2), E, Edn, N, Ph
Aug/93	1	13	F
Nov—Dec/93	5	10	Mgr, F, H, Ph
June 1994	2		Mgr, F

Specialized staff skills

Mgr: Task Manager
Ec: Economist
F: Finance
N: Nutrition Specialist
Edn: Education
H: Health
LE: Labor Economist
PH: Public Health

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PART III. APPENDICES

APPENDIX 1(a): NRF 1994–95 Budget in Millions of US Dollars

Ministry/Dept.	1993-94 Budget	1993-94 Revised	1994-95 Budget
I. Voluntary Retirement Scheme (VRS)			
Ministry of Chemicals & Fertilizers Dept. of Chemicals & Petrochemicals	41.50	42.00	27.00
Ministry of Chemicals & Fertilizers Dept. of Fertilizers	58.50	50.00	80.00
Ministry of Civil Aviation & Tourism Dept. of Tourism	8.73	8.73	0.00
Ministry of Civil Suppliers, Consumer Affairs & Public Distribution	14.00	12.00	5.00
Ministry of Defense	10.00	10.00	18.00
Ministry of Food Processing Industries	2.00	2.00	1.00
Ministry of Industry Dept. of Heavy Industry	136.00	161.00	107.00
Ministry of Mines	29.95	82.48	55.00
Ministry of Steel	41.00	36.00	28.00
Ministry of Surface Transport Surface Transport	70.00	70.00	49.00
Ministry of Surface Transport Ports, Light houses & Shipping	15.00	12.00	6.00
Ministry of Textiles	261.32	192.32	119.00
Ministry of Urban Development Urban Development & Housing	0.00	6.42	0.00
Ministry of Urban Development Public Works	0.00	10.00	0.00
Ministry of Water Resources	12.00	12.00	0.00
Dept. of Atomic Energy	0.00	5.00	5.00
Ministry of Industry Dept. of Industrial Development State PSUs	0.00	140.05	150.00
SUB-TOTAL	**700.00**	**852.00**	**650.00**
II. Counselling, Retraining & Area Regeneration Schemes			
Ministry of Industry Dept. of Industrial Development	0.00	46.40	48.00
Ministry of Industry Dept. of Small Scale Industries...	0.00	2.00	0.50
Ministry of Labour	0.00	0.00	1.50
SUB-TOTAL	**0.00**	**48.40**	**50.00**
UNALLOCATED	**0.00**	**119.60**	**0.00**
GRAND TOTAL	**700.00**	**900.40**	**700.00**

IMPLEMENTATION COMPLETION REPORT

INDIA

SOCIAL SAFETY NET SECTOR ADJUSTMENT PROGRAM
(Credit 2448-IN)

APPENDIX 1(b): Progress of Implementation of VRS in Central Public Sector Undertakings Being Funded from NRF

Dept./PSUs	*Year*			*Total no. Workers Availing VRS*	*Age Profile*		
	92–93 (as of 6/30/94)	*93–94*	*94–95*		*Up to 35 years*	*35–50 years*	*Over 50 years*
D/o C & PCS							
IDPL	459	454	-	913	11	259	643
SSPL	130	64	4	198	3	60	135
Bengal Immunity	132	10	-	142	-	30	112
HIL	68	38	3	109	1	26	82
BCPL	63	84	-	147	3	51	93
M/o FPI							
FPIL	14	77	67	158	-	104	54
M/o Textiles							
NTC (DPR)	1,241	595	-	1,836	258	1,066	512
NTC (MP)	3,537	779	-	4,316	71	2,656	1,589
NTC (UP)	4,154	1,412	-	5,566	34	1,924	3,608
NTC (SM)	2,759	919	-	3,678	372	1,936	1,370
NTC (NM)	2,500	1,180	-	3,680	201	1,731	1,748
NTC (Guj)	5,529	1,399	-	6,928	742	3,712	2,474
NTC (APKKM)	1,441	707	-	2,148	193	1,108	847
NTC (TNP)	145	42	-	187	6	102	79
NTC (WBABO)	2,454	309	-	2,763	196	948	1,619
TOM Bombay	1,628	1,132	-	2,760	102	1,382	1,276
NTC (HC)	-	11	-	11	-	5	6
Elgin Mills	1,000	1,859	205	3,064	-	959	2,105
Cawnpore Textiles	384	326	10	720	-	223	497
NJMC	69	598	-	667	1	194	497
Jute Corporation of India	24	15	-	39	-	223	472
M/o Steel							
HSCL	710	1,592	Nil	2,302	8	487	215
ERL	138	254	-	392	26	234	132
Bird Group of Companies	619	1,115	86	1,820	99	312	1,409
M/o Mines							
EGML	-	753*	-	753	-	-	-
MECL	-	175*	-	175	-	-	-
HCL	-	2,091	-	2,091	14	1,019	1,058

Dept./PSUs	Year			Total no. Workers Availing VRS	Age Profile		
	92–93 (as of 6/30/94)	93–94	94–95		Up to 35 years	35–50 years	Over 50 years
M/o Water Resources							
RPNM0	44	698	168	910	152	418	340
D/o Fertilizers							
PP & CL	30	32	1	63	-	35	28
PDIL	210	71	3	284	-	68	216
FCI	587	139	49	775	10	196	569
HFC	225	254	12	491	7	205	279
M/o Civil Supplies	14	77	67	158	-	104	54
HVOC	-	453	-	453	166	167	120
M/o Defense							
BEML	-	555	-	555	11	155	389
M/o Surface Transport							
HSL	606	69	6	681	12	351	318
DTC	-	4,403	-	4,403	275	2,649	1,479
HDPEL	182	345	22	549	-	151	398
CIWTCL	-	545	15	560	6	150	402
D/o Heavy Industries							
BOGL	14	8	-	22	-	3	19
HCL	39	-	-	39	1	7	31
HEC	2,036	1,328*	75	3,439	-	407	1,704
MAMC	313	716	-	1,029	9	138	882
BYN	1,019	301	-	1,320	-	642	678
NEPA	120	120	56	296	3	35	258
ILK	125	477	-	602	18	332	252
NBCIL	155	30	-	185	6	117	62
TCIL	288	408*	-	696	-	39	249
NIDC	15	11	-	26	-	5	21
EPI	-	1	-	1	-	1	1
NIL	86	97	-	183	-	40	143
BLC	-	6	-	6	1	3	2
COI	200	93	-	293	2	104	187
SIL	-	29	38	67	3	27	37
HPC	198	320	-	518	27	253	238
HMT	-	388	-	388	1	20	367
RIC	356	205	-	561	1	191	369
HPF	139	17	-	156	-	29	127
TAFCO	180	64	-	244	3	91	150
BBUNL	1,193	762	-	1,955	9	656	1,290
D/o Tourism							
ITDC	973	-	-	973	42	532	399
Total	**38,531**	**30,935**	**820**	**70,286**	**3,108**	**28,761**	**34,161**

Notes: - symbol indicates figure is not available
* Age-wise breakup not given.