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India 1991-93
Office of the President

OUR PROPOSAL IS TO ISSUE THIS AS SOON AS THE INDIAN EXECUTIVE HAS SPOKEN AT THE BOARD

T. CULLEN

FOR IMMEDIATE RELEASE

World Bank

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

BANK PRESS RELEASE NO. 93/S51

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INDIAN GOVERNMENT CANCELS WORLD BANK LOAN FOR SARDAR SAROVAR (NARMADA) PROJECT

WASHINGTON, March 30, 1993--The World Bank announced today that the Government of India has requested the Bank to cancel the remaining undisbursed portion of a World Bank loan for the Sardar Sarovar (Narmada) dam and power project and has decided to complete construction work on its own.

In advising the World Bank of its decision, Indian authorities emphasized that they remain committed to full implementation of the Government's previously announced action plan covering resettlement and rehabilitation (R&R) of people affected by the project as well as steps to assess and mitigate environmental risks.

In October 1992, the World Bank's Executive Directors agreed to continue support for the project on the basis of the agreed detailed action plan. Continued Bank support was contingent on a number of key benchmarks being met in this time period. The action plan involved a number of improvements in policies, organization and management and implementation of R&R; tighter linkage between progress on R&R and dam construction; and strengthened environmental planning and monitoring of potential environmental impacts. Many of the steps called for in the action plan have been undertaken.

In announcing the decision, the Government noted that significant progress has been made by Narmada project authorities and the three states involved (Gujarat, Maharashtra, Madhya Pradesh) in meeting performance benchmarks for R&R and environment set by the World Bank Executive Directors in October 1992. This, the Government explained, was achieved despite difficult internal complications unrelated to the project. While progress will continue to be pursued, the Government decided that, under the circumstances, it wished to proceed with the project on its own, without the financial assistance under the Bank loan.

The Sardar Sarovar project is designed to provide water to one of the most drought-prone areas of Western India. At full development, the diverted water is projected to meet the domestic needs of some 30 million people and to support irrigated agricultural production sufficient to feed about 20 million people.

The loan to be canceled was part of a $450 million package approved by the Bank in 1985 to help finance construction of a dam and power project and the first section of a large irrigation system. The total cost of the project is estimated to be about $3 billion. The first section of the irrigation system is now complete and the dam is about 50 percent built. The undisbursed portion of the World Bank loan to be canceled totals about $170 million.

- 0 -

Record Removal Notice

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File Title	Barcode No.
India Presidents Papers - Lewis T. Preston - Subject Files - India - Office of the President - Correspondence - Volume 1	1328836

Document Date	Document Type
05 January, 1993	Board Record

Correspondents / Participants

Subject / Title

Executive Directors' Meeting - December 17, 1992 - Chairman's Concluding Remarks
India : Country Assistance Srategy

Exception(s)

Additional Comments

Declassification review of this record may be initiated upon request.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

Withdrawn by	Date
Chandra Kumar	27-Mar-15

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

DATE: 12-Nov-1992 09:28am EST

TO: Attila Karaosmanoglu (ATTILA KARAOSMANOGLU)

FROM: Ralph Hanan, SA2AG (RALPH HANAN)

EXT.: 80291

SUBJECT: Board Presentation: INDIA - ADP - Rajasthan

I am attaching an EM I sent yesterday to Paul Isenman on questions received from EDs' offices.

In addition, I received two calls late yesterday from Mr. Castellanos, Mexico Office, and Mr. Callan, Australia/NZ Office.

Both ED staff raised questions about the performance of the Bank's portfolio in India generally. They referred to the large undisbursed balances of IDA/Bank funds, and implementation and institutional problems.

Mr. Callan was the more critical, querying what the project will do to improve upon past performance. He indicated clearly that the Australian Govt. is concerned over whether we should be lending further for agricultural projects to India without a reasonable assurance that the present and future projects will be much better performers than many of those in the past. I replied by referring mainly to the constraining policy/incentive environment in the economy as a whole and then for agriculture. The Bank and IMF, together with GOI, are taking concerted actions on the Central policy front. Now, I said it was appropriate that we support adjustment at the sector level, e.g. agriculture. Necessarily, constitutionally, we must do this at both the individual state and Center levels. The Rajasthan ADP is part of this two-pronged approach. For the Center, we expect over the next few months to prepare an AGSAL, which we hope to deliver in FY94.

CC: Paul Isenman (PAUL ISENMAN)
CC: Richard Skolnik (RICHARD SKOLNIK)
CC: William Humphrey (WILLIAM HUMPHREY)
CC: Shawki Barghouti (SHAWKI BARGHOUTI)

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

DATE: 11-Nov-1992 03:43pm EST

TO: Paul Isenman (PAUL ISENMAN)

FROM: Ralph Hanan, SA2AG (RALPH HANAN)

EXT.: 80291

SUBJECT: INDIA: ADP - Rajasthan. Questions from ED Offices

Thus far I have had discussions with officials from four EDs' offices -- US, France, Germany and UK.

US

I phoned Mr Joe Eichenberger, Advisor to the ED. His only question, which came from the Treasury, concerned the environmental impact of the rural roads component. I explained that we had had an EA prepared for the project as a whole, but which focused especially on roads. The EA informed that the proposed roads, which have already been identified, will not pass through environmentally sensitive areas or within 1 km of mining areas. It is also unlikely that land will have to be acquired for the roads because they will be built on existing alignments (age-old tracks etc.). If land does have to be acquired, we have agreed with GOR that arrangements and compensation will be paid prior to calling for tenders.

France

I was asked by Ms Beatrice Laurie, Advisor to the ED, to visit her to discuss the project. Her main interest was the Bank's evolving approach to addressing reform needs for agriculture in India. Her interest was sparked by comments in the MOP/SAR about agriculture being a state subject and we have decided that the best way to affect reforms is to deal largely (but not entirely) with the states. She appreciates that it is important to have the Center carry out complementary reforms, e.g. external and internal trade liberalization, simultaneously.

Ms. Laurie's other question/comment was how the project addresses the concerns of the rural poor. I replied by explaining about certain continuing subsidies (but much better targeted) for crop "minikits", upgrading of livestock and village markets, impact of rural roads on input and output prices, training (including for women and artisans), involvement of NGOs, participatory development for small infrastructural works, etc. I stressed that these activities were intended to provide the poorer strata of the rural population with greater opportunities to contribute to development, as opposed to budgetary transfers (which has been an increasingly costly approach pursued by GOR). Ms. Laurie indicated that she doubted the Frech chair would ask any questions, beyond a supportive statement.

Germany

I phoned Mr. Sigirst, Advisor. He said that Bonn had raised two concerns. First, why the Bank was continuing to lend large amounts for agriculture in India when the performance of the sector has generally been disappointing. He asked specifically why, with this project, we had decided to avoid addressing concerns we have about major and medium irrigation in Rajasthan. He said that the Bank must give greater attention to getting the "Government" to carry out reforms to improve agr. performance. (I detected an element of frustration over agriculture in India generally.) I explained that GOI has asked us to prepare a quick disbursing AGSAL, to which he replied that he hoped our objective was more than to provide more foreign exchange support!

Second, Mr. Sigrist mentioned project risks and queried whether we expected GOR to adhere to its cost recovery commitments. I handled this as best I could, noting that our agreements in the Policy Reform Program had been negotiatied and were legally binding. As such, the Bank would be able to suspend disbursements should GOR, in Management's judgement, deviate substantially from its commitments.

Finally, Mr. Sigrist noted that there would be a discussion soon on India's Country Assistance Strategy (CAS), at the time of presentation of the safety net operation. He said that given the importance of agriculture to the Indian economy, the German Government would expect that the CAS would discuss explicitly the types of reforms the Bank will want to persue for agriculture in its assistance strategy.

UK

Stuart Mills, Advisor phoned to say that the project was "interesting, good and innovative". He hoped we would view it as something of a pilot operation and monitor its impact closely as it goes along. His only question was for a little more detail on the project's proposals for women training and NGO participation. He concluded by saying that the UK ED probably would not comment, but he wanted the UK's support for the project conveyed to Management.

CC: Richard Skolnik (RICHARD SKOLNIK)
CC: William Humphrey (WILLIAM HUMPHREY)
CC: Shawki Barghouti (SHAWKI BARGHOUTI)
CC: Shamima Khan (SHAMIMA KHAN)
CC: Salman Salman (SALMAN SALMAN)
CC: Cecil Perera (CECIL PERERA)

E1227

THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

DATE: October 30, 1992

TO: See Distribution Below

FROM: Richard Cambridge, Principal Economist, SA2PH

EXTENSION: 80302

SUBJECT: INDIA - Proposed Sector Adjustment Credit for Strengthening Social Safety Nets Minutes of Loan Committee Meeting held on September 16, 1992

Attached please find a complete version of the Minutes of Loan Committee meeting held on September 16, 1992. We had inadvertently omitted to attach the Agenda.

Attachment

cc: Messrs./Mmes. Stern, Sandstrom, Mohadjer (EXC); Rajagopalan (PRSVP); Karaosmanoglu (EXC); Summers (DECVP); Linn (FPRVP); Kashiwaya (CFSVP); Shihata (LEGVP); Jaycox (AFRVP); Kaji (EAPVP); Thalwitz (ECAVP); Koch-Weser (MNAVP); Husain (LACVP); Wood, Nankani, Drysdale (SAVP); Vergin, Humphrey (SA2DR); Salop (OSPVP); Sud (CFSDR); Grilli (DPG); Nishimizu (FRSDR); Raghavan (LOADR); Hamilton (PHRDR); Socknat (ASTPH); Shirazi (SA2CI), Panfill (SA2IN); Barghouti (SA2AG); Bauer (SA2EG), Skolnik (SA2PH); Newport, Gopal (LEGAS); Goldsbrough (IMF)

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RCambridge:swp

THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

DATE: September 30, 1992

TO: Mr. Ernest Stern, Chairman, Loan Committee

FROM: Richard Cambridge, Principal Economist, SA2PH

EXTENSION: 80302

SUBJECT: INDIA - Proposed Sector Adjustment Credit for Strengthening Social Safety Nets
Minutes of Loan Committee Meeting held on September 16, 1992

Loan Committee Members Present: Messrs. Stern (Chairman); Rajagopalan (PRSVP); Shihata (LEGVP); Kashiwaya (CFSVP); Summers (DECVP); Linn (FPRVP); Wood (SASVP). Others: Messrs. Vergin (SA2DR); Khalilzadeh-Shirazi (SA2CI); Skolnik (SA2PH); Cambridge (SA2PH); Gopal (LEGAS); Ms. Mohadjer (EXC).

1. The meeting considered the Initiating Memorandum for a proposed Sector Adjustment Credit for Strengthening Social Safety Nets based on the agenda of September 14, 1992. A copy of the meeting agenda is attached. The following issues were covered at the meeting: (a) linkages to the adjustment program; (b) project scope; (c) credit conditionality; (d) the social safety net program; (e) imple- mentation; (f) supervision; (g) sustainability; and (h) disbursement arrangements.

Linkages to the Adjustment Program

2. The Chairman noted the numerous issues of concern to the members of the Committee reflected in the extensive agenda. He asked the Region to start by clarifying how the proposed operation was linked to the process of reform in India. The Region explained that the Program for Strengthening the Social Safety Net was an integral part of the adjustment program and outlined six major linkages. These were that: (a) the social costs of adjustment were already real; 20,000 workers were retrenched in 1991/92 with some form of severance pay; 70,000 workers have been locked-out/laid-off and are awaiting some form of severance pay; 100,000 workers have been identified and programmed for retrenchment in FY92/83; and 300,000 employees are at risk of retrenchment in the chronically sick PSEs from which GOI has withdrawn budget support as well as credit. With the removal of administered prices and inflation, the price of basic food items and other primary articles which are in the consumption basket of the poor have risen significantly over the past year while per capita consumption has been stagnant over the past two years; (b) the operation will enhance the quality of the ongoing fiscal adjustment. Indiscriminate budget cuts across all programs have also been a major concern of the IMF and other donors; (c) the social safety net program makes a contribution to the political sustainability of the adjustment program; (d) the operation would significantly enhance the quality of on-going and planned

IDA investments in the social sectors; (e) the operation would serve as a catalyst for substantial quick disbursing co-financing from other donors; and (f) the proposed operation has already generated significant up-front actions on the part of the Government.

3. The Region explained why the adjustment lending instrument was being used for this operation. It was pointed out that India still had a balance of payments problem although the pressure had eased somewhat over the past year as a result of the stabilization and reform program which the Bank/IDA is supporting. India still required some US$3 billion per year in exceptional financing over the next 2-3 years and this was confirmed and supported at the Consortium meeting in June. The India Country Assistance Strategy was explicit in describing and providing the rationale on how the Region would tailor its assistance to meet this exceptional financing requirement. A sector adjustment credit in support of the Government's safety nets is part of the lending strategy set out in last year's Country Strategy Paper(CSP). It is also featured in the CSP up-date which is presently before management.

4. The Region also confirmed that the Credit would only be brought to the Board and the second tranche released, if the overall adjustment program continues to conform to the agreed macroeconomic framework and the public expenditures to be allocated for the social safety nets are consistent with the overall fiscal targets of the adjustment program.

Project Scope

5. The Committee raised serious concerns about the inclusion of the education component in the proposed project, questioning its relevance to social safety nets, the appropriateness of using an adjustment loan as the vehicle for long term changes, and evidence of the long term commitment of the Government to the sector. The Region explained that the scope of the project conformed to the Government of India's (GOI) definition of the "social safety net." In its specific focus, the Program supported by the sector adjustment credit also provided the opportunity for the Bank to agree with GOI on an "umbrella" of reforms which would improve the policy and institutional environment for specific ongoing and planned IDA investment operations. The Region emphasized that the proposed social safety net operation was designed to support policy changes which address major cross-cutting issues of financing, targeting, efficiency and effectiveness which affect the social sector programs which IDA is supporting through investment credits.

6. While primary education seemed only tangentially related to the adjustment process, it was one of the priority programs which the Government was committed to protect and significantly enhance in the fiscal adjustment process. In addition, it was pointed out that India's performance in the area of basic education has been poor relative to most other countries at similar levels of income and that the reform program which the GOI would introduce for primary education was indeed significant. The Region mentioned the new national district-based Primary Education Improvement Initiative which would be launched as part of the Program, the targeting of the educationally backward districts for priority attention, the new funding mechanism which would ensure that

Central resources are channelled to these targeted districts, and the use of local-level institutions to implement district specific primary education programs. The Region noted that this was a major break from the past and the fact that the GOI was using the opportunity of the adjustment process to affect this change. This new approach would serve as an umbrella for expanded Bank lending to the individual states in education within the next two years.

Credit Conditionality

7. In response to the concern that the matrix seemed to have few concrete actions for second tranche release, the Region explained that the conditionalities as outlined in the Draft Policy Matrix, especially the actions to be completed by Board Presentation, would go substantially beyond the initiation of reviews and studies. Details of policy and program modality would be discussed and agreed with the Bank during appraisal and negotiations. The matrix did not properly reflect the monitorable actions to be agreed. The Region agreed to document the specific and monitorable measures agreed during negotiations. GOI would be expected to have provided and deployed sufficient budgetary resources in the FY93/94 budget to support the implementation of the agreed policy reforms and program enhancements.

Social Safety Net Program

8. The Region explained that the National Renewal Fund (NRF) was an essential part of the GOI's industrial sector reform effort and that labor retrenchment was the first step in a process which included disinvestment, closure and liquidation of assets in the case of chronically sick enterprises, and the restructuring of some of the more viable PSEs. Government has already acted on the textile industry. The Region was prepared to support the industrial restructuring program through policy-based lending and the first of such operations is scheduled for FY94. The Region also explained that operational details will be provided for the FY93 and FY94 Business and Financial Plans of the NRF as regards both the sources and uses of funds. It was pointed out that the expected business of the NRF in FY92/93 would involve severance pay and voluntary retirement emoluments to over 100,000 surplus PSE workers plus the unpaid claims due to another 70,000 workers who had already been laid off. Progress on these fronts will be assessed during appraisal. The financial obligations of the NRF are estimated at about US$400.0 million in FY92/93 alone when the costs of retraining and targeted employment generation costs are included.

9. The Chairman requested that the documentation discuss the broader dimensions of the ongoing industrial and PSE reform program, including, inter alia, an explanation of the Business and Financial plans, the restructuring plan and mechanisms, enterprises tagged, cost estimates of retrenchment and per capita costs.

10. In response to a question on the Public Distribution System (PDS), the Region explained that while the GOI had included the reform of the PDS in its Program for Strengthening the Social Safety Net, it was insistent that for political reasons, it would prefer to proceed with the

reform at a pace not overtly linked to the proposed operation. The Region explained further that while it proposes to respect the wishes of GOI on this matter, it had made it clear to GOI that given the importance of PDS for the management of agricultural production incentives, the reduction ofthe budget deficit, and the broader objectives of food security, Government must clearly outline in the Letter of Development Policy the specific steps it has taken and is planning to take to revamp the PDS. This approach would be satisfactory provided adequate upfront action on the PDS is taken prior to Board Presentation.

Implementation

11. The Region explained that the Center addresses implementation of social programs by and in the States, by providing or withdrawing financial and budgetary support for these programs as well as controlling the design and monitoring of centrally funded programs rather than by direct implementation. The Region pointed out that experience over the years with social sector operations, indicates that through the financing of such programs, and through the support of the States' development budgets, the Center has shown the ability to achieve changes in State government policies and actions in the social sectors. The Program would give specific attention to budgetary mechanisms which would enhance the Center's ability to influence the deployment of funds at the state level. The Committee indicated that the project documentation should include a discussion of the level of support for these activities by the States, and their implementation capacity. If tranche conditionality requires actions by the States, disbursement can only take place upon completion of these actions by the States.

Supervision

12. The Region confirmed that a detailed program implementation plan would be agreed at appraisal and confirmed during negotiations.

Sustainability

13. The Region confirmed that the Program for Strengthening the Social Safety Net is sustainable. It was explained that the Program was a multi-year effort even though the conditionality referred only to the FY 93/94 budget. The commitment to provide adequate resources for the social sectors would be monitored as part of the overall fiscal adjustment program, and in the context of the complimentary education, health and nutrition investment operations which will follow this adjustment credit in FY94 and FY95. The sustainability analysis would also be reinforced by the Public Expenditure Review which the Bank is presently undertaking. The Region also indicated that the incremental resources for the social safety net, while substantial, would represent a small share of overall GOI expenditures. It was noted that by 1994 the process of fiscal deficit reduction would have been essentially completed and the planned increases in social spending could be readily accommodated within reordered priorities. It was also noted that GOI intends to undertake a major tax reform program which should enhance revenue buoyancy. The Chairman asked

that the Board documentation be explicit about this analysis and GOI's plans and present the program in the context of the ongoing fiscal adjustment.

Disbursement Arrangements

14. The Region agreed that a Special Account of US$200.0 million was not required to achieve the objectives of this operation.

Conclusion

15. The Committee indicated that, in addition to the points mentioned above, the project documentation should explain more fully the justification for an adjustment operation, the underlying conditions affecting the social sectors, the shifts in policy envisaged by the operation, the financial and institutional sustainability of the programs, and the commitment of the central and state government bodies.

16. The Loan committee authorized the Appraisal Mission to proceed. The Back-to-Office Report of the Appraisal Mission will be circulated to the members of the Loan Committee.

Attachment

Cleared with and cc: Mr. Vergin

cc: Messrs./Mmes. Stern, Sandstrom, Mohadjer (EXC); Rajagopalan (PRSVP); Karaosmanoglu (EXC); Summers (DECVP); Linn (FPRVP); Kashiwaya (CFSVP); Shihata (LEGVP); Jaycox (AFRVP); Kaji (EAPVP); Thalwitz (ECAVP); Koch-Weser (MNAVP); Husain (LACVP); Wood, Nankani, Drysdale (SAVP); Salop (OSPVP); Sud (CFSDR); Grilli (DPG); Nishimizu (FRSDR); Raghavan (LOADR); Hamilton (PHRDR); Socknat (ASTPH); Humphrey (SA2DR); Shirazi (SA2CI), Panfill (SA2IN); Barghouti (SA2AG); Bauer (SA2EG), Skolnik (SA2PH); Newport, Gopal (LEGAS); Goldsbrough (IMF)

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LOAN COMMITTEE AGENDA

India - Strengthening Social Safety Nets

1. Linkages to the Adjustment Program

- How will the proposed loan further the process of reform in India? Reforms so far, in the areas of trade and deregulation, have not had any negative social impact. Restructuring and privatization of state enterprises, which the National Renewal Fund (NRF) would address, have not yet begun.

- Would the Region confirm that the Credit will be brought to the Board and the second tranche will be released only if the overall adjustment program, including the macroeconomic policies, are on track and that the public expenditures to be allocated for the social safety nets are consistent with the overall fiscal targets the adjustment program.

- What is the status of the retrenchment in and restructuring of public enterprises that in turn warrant the funding of the National Renewal Fund? There is no indication of the expected demand on the NRF; what would constitute making it operational; or how we expect to define efficiency of operations?

2. Project Scope

The scope of the proposed Credit is very broad. Improvements in some sectors, such as education and health, require time consuming activities in institution building, training, government activities, and are therefore more suited to investment loans. Moreover, education is only tangentially related to safety net concerns. Should the scope of the Credit be reduced and investment loans in education, health, and child development be designed to meet the problems discussed in the Initiating Memorandum?

3. Credit Conditionality

According to the policy matrix, most steps yet to be completed by Board presentation involve the initiation of reviews, studies, and strategy formulation, and second tranche release conditions consist mainly of completion of these studies with start-up of implementation. Could the Region clarify:

- the extent to which actions have already been taken which would justify this Credit;

- what, if any, specific policy or institutional reform measures will be added during appraisal;

- reasons for not insisting that agreed policy measures would be prepared and adopted by Board, and their implementation would be evaluated by second tranche.

4. Social Safety Net Program

- Given the extensive work done in India to identify vulnerable groups, could the Region identify which groups are most affected by the adjustment process, and how?

- The urgently needed improvements in the Public Distribution System and the Jawahar Rozgar Yojana do not feature in the policy matrix. What is the likely scope of the improvements to be made in these programs? What form will they take? How will they be monitored? How will performance affect this and future Bank operations?

- Could the Region explain the modalities of the planned operation of the National Renewal Fund? What is the Bank's role in the formulation of the FY93 and FY94 Business and Financial Plans?

- Could the Region explain the strategy for addressing critical labor market issues, beyond the retrenchment of workers displaced as a result of public enterprise reform, in terms of their importance for adjustment and poverty reduction?

- If the education component is to be retained, what measures can be agreed to increase the levels and efficiency of education spending or to improve recovery rates in secondary and university education? Can retention rates in primary schools, especially for female students in rural areas, be improved with the proposed education programs?

5. Implementation

The reluctance of the States to participate, and institutional weakness are cited as critical risks. Could the Region explain how these risks will be dealt with? What specific actions will be agreed during appraisal?

6. Supervision

Given the complexity of the Credit, will a detailed implementation plan be agreed at appraisal as a basis for effective supervision?

7. Sustainability

Program continuity is essential, yet the only conditionality in the loan is that the Government make adequate budget provision in the FY93/94 budget. How sustainable beyond 1993/94 is the additional social sector expenditure of the Government? Can the program continue after the Credit is fully disbursed? What impact will the project have in facilitating the flow of external official and private resources?

8. Disbursement Arrangements

- How does the Region justify external borrowing for essentially local cost expenditures? No analysis is provided indicating that domestic financing alternatives are not feasible and that additional external debt for this purpose is warranted.

- What is the rationale for a Special Account of US$200 million on top of retroactive financing of US$100 million?

FY92 - FY94 LENDING PROGRAM FOR INDIA
($ MILLIONS)

F[illegible]AL YEAR	PROJECT	NAME	LEND INST	BOARD DATE	IBRD ($m)	IDA (SDRm)	IDA ($m)	TOTAL ($m)
92	8INDPA303	POWER UTIL EFFIC IMPROVEMENT	INV	01/28/92	265.0			265.0
	8INDPA336	SHRIMP & FISH CULTURE	INV	01/14/92		62.9	85.0	85.0
	8INDPA361	NAT. HIGHWAYS II	INV	05/12/92	153.0	116.2	153.0	306.0
	8INDPA378	POPULATION VIII	INV	06/18/92		57.7	79.0	79.0
	8INDPA421	MAHARASHTRA POWER II	INV	06/25/92	350.0			350.0
	8INDPA425	MAHARASHTRA FORESTRY	INV	01/14/92		88.9	124.0	124.0
	8INDPA428	WEST BENGAL FORESTRY	INV	03/17/92		24.4	34.0	34.0
	8INDPA432	HEALTH I (MCH)	INV	09/17/91		160.9	214.5	214.5
	8INDPA442	SAL I	ADJ	12/05/91	250.0	183.8	250.0	500.0
	8INDPA457	OIL & GAS SECTOR DEVELOPMENT	ADJ	07/23/91	150.0			150.0
	8INDPA459	AIDS PREVENTION AND CONTROL	INV	03/31/92		59.8	84.0	84.0
SUB-TOTAL 92					1168.0	754.6	1023.5	2191.5
93	8INDPA322	TRADE ADJMT/TRADE LOGISTICS	ADJ	05/18/93	220.5	188.5	279.5	500.0
	8INDPA323	OIL & GAS DEVT II	INV	03/16/93	350.0			350.0
	8INDPA370	BASIC EDUCATION I	INV	05/25/93		118.0	175.0	175.0
	8INDPA374	RUBBER	INV	07/02/92		66.4	92.0	92.0
	8INDPA376	UP SODIC LANDS RECLAMATION	INV	05/18/93		67.4	100.0	100.0
	8INDPA385	FINANCIAL SAL I	ADJ	05/25/93	400.0			400.0
	8INDPA392	ICDS II (BIHAR & MP)	INV	11/24/92		141.6	194.0	194.0
	8INDPA402	SOCIAL DIMENSIONS I	ADJ	12/01/92		269.7	400.0	400.0
	8INDPA419	ADP - RAJASTHAN	INV	10/27/92		70.8	105.0	105.0
	8INDPA422	NTPC POWER GEN	INV	03/30/93	400.0			400.0
	8INDPA431	BIHAR PLATEAU	INV	11/17/92		78.9	117.0	117.0
	8INDPA435	KARNATAKA WS & ENV/SANIT.	INV	03/30/93		67.4	100.0	100.0
	8INDPA454	LEPROSY CONTROL	INV	05/25/93		74.2	110.0	110.0
	8INDPA464	NPTC POWER SYSTEM	INV	02/16/93	350.0			350.0
OTAL 93					1720.5	1142.9	1672.5	3393.0
94	8INDPA352	SARDAR SAROVAR CANAL II	INV	11/30/93	216.6	90.0	133.4	350.0
	8INDPA379	WATER RES CONSOLID I	INV	12/21/93		134.9	200.0	200.0
	8INDPA387	NATIONAL HIGHWAYS III	INV	12/28/93	300.0			300.0
	8INDPA398	PORT MODERNIZATION	INV	12/07/93	200.0			200.0
	8INDPA415	POWER-SEB RESTRUCTURING	ADJ	11/23/93	300.0			300.0
	8INDPA423	GAS INFRASTRUCTURE DEVT LOAN	INV	11/30/93	200.0			200.0
	8INDPA426	ADP KARNATAKA	INV	09/28/93		67.4	100.0	100.0
	8INDPA439	PUBLIC ENT/PRIVATE SEC DEVT I	ADJ	12/14/93	300.0	67.4	100.0	400.0
	8INDPA449	RENEWABLE RESOURCES DEVT	INV	11/24/92	75.0	67.4	100.0	175.0
	8INDPA452	AP FORESTRY/FRET	INV	09/14/93		84.3	125.0	125.0
	8INDPA456	BLINDNESS CONTROL	INV	03/15/94		60.7	90.0	90.0
	8INDPA463	POPULATION IX	INV	03/29/94		101.2	150.0	150.0
	8INDPA469	SAL II	ADJ	05/24/94	500.0			500.0
SUB-TOTAL 94					2091.6	673.3	998.4	3090.0

PBDPS
DATE: 09/14/92 - EXC02

Run Time: 09/14/92 at 11.47.52

INDIA
PFDBRZ1 - Country Summary Table: Net Transfers and Portfolio Status
(LOA data as of 7/30/92)

IBRD, IDA, and Special African in millions of U.S.$
By Country
Country: INDIA

	FY86C	FY87A	FY88A	FY89A	FY90A	FY91A	FY92A	FY93A
I. Resource Transfer								
A) Approved	24,779.09	2,805.60	2,972.20	3,036.60	1,940.40	2,049.40	2,191.50	92.00
B) Cancellations *	2,155.93	380.08	82.26	236.28	123.41	10.00	.	.
C) Net Approved Amt. (A-B)	22,623.16	2,425.52	2,889.94	2,800.32	1,816.99	2,039.40	2,191.50	92.00
D) Disbursements	13,797.57	1,519.15	2,225.43	2,359.30	1,991.64	1,900.79	2,229.79	108.65
E) Amortization - Market	1,874.26	233.65	519.91	378.37	474.69	594.54	702.69	142.57
F) Net Flow (D-E)	11,923.31	1,285.50	1,705.52	1,980.93	1,516.95	1,306.25	1,527.10	-33.92
G) Interest	1,382.79	1,035.97	549.63	579.34	643.56	748.00	783.96	122.42
H) Net Transfer								
Annual (D-E-G)	10,540.52	249.53	1,155.89	1,401.59	873.39	558.25	743.14	-156.34
Cumulative	10,540.52	10,790.05	11,945.94	13,347.53	14,220.92	14,779.17	15,522.31	15,365.98
I) Cum. Undisbursed Bal.	8,825.59	9,731.95	10,396.47	10,837.49	10,662.84	10,801.45	10,763.16	10,746.51
II. Summary Status Of Portfolio								
A) No. Projects in Portfolio **		116	112	117	112	109	117	107
B) Disbursements During FY								
1. Revised Forecast		2,918.40	3,065.99	2,957.10	2,108.14	2,151.12	3,211.38	2,500.53
2. Actual Disb. To Date		1,519.15	2,225.43	2,359.30	1,991.64	1,900.79	2,229.79	108.65
Gap (1. minus 2.)		1,399.25	840.56	597.80	116.50	250.33	981.59	2,391.88
III. Memo Items ***								
A) % Change In Cumulative								
Approved Amt.	.00	10.72	11.54	10.02	5.91	6.26	6.33	.25
Disbursements	.00	11.01	14.53	13.45	10.01	8.68	9.37	.42
B) Disb. Factor	.00	17.21	22.87	22.69	18.38	17.83	20.64	1.01

Note: * Cancellations are aggregated here by fiscal year of approval.
** A project in the Portfolio is approved, not closed, with a loan balance in excess of 100,000 $ for loans, & 100,000 SDRs for credits.
If a project closes during the fiscal year, it is considered active until the end of the fiscal year.
*** Change of approved amount is approved amount minus cancellations divided by the cumulative of the approved amount minus cancellations from previous years.
Chnage of disbursements is disbursements divided by cumulative disbursements from previous years.
Disbursement factor is the disbursements divided by cumulative previous years approved amount minus cancellations minus disbursements.
+++ Historical interest data is from Financial Data Base. At this time the data does not match the Loan Dept data. as soon as it is corrected, the MIS data will be corrected.

Within the fiscal year headings, the following codes apply: C-cumulative, A-actual

Run Time: 09/14/92 at 11.47.52

INDIA
PFDBR21 - Country Summary Table: Net Transfers and Portfolio Status
(LOA data as of 7/30/92)

IBRD only in millions of U.S.$
By Country
Country: INDIA

	FY86C	FY87A	FY88A	FY89A	FY90A	FY91A	FY92A	FY93A
I. Resource Transfer								
A) Approved	10,691.91	2,128.00	2,255.00	2,136.30	1,108.00	1,112.00	1,168.00	.
B) Cancellations *	1,479.56	310.50	51.75	197.30	80.00	10.00	.	.
C) Net Approved Amt. (A-B)	9,212.35	1,817.50	2,203.25	1,939.00	1,028.00	1,102.00	1,168.00	.
D) Disbursements	3,792.28	831.57	1,333.62	1,739.01	1,396.84	1,070.25	1,228.00	61.23
E) Amortization - Market	1,616.42	171.35	448.42	292.71	376.52	473.53	558.53	127.95
F) Net Flow (D-E)	2,175.86	660.22	885.20	1,446.30	1,020.32	596.72	669.46	-66.72
G) Interest	857.17	960.41	457.17	482.81	554.20	649.66	682.29	110.70
H) Net Transfer								
Annual (D-E-G)	1,318.69	-300.19	428.03	963.49	466.12	-52.94	-12.83	-177.42
Cumulative	1,318.69	1,018.50	1,446.53	2,410.02	2,876.14	2,823.20	2,810.37	2,632.95
I) Cum. Undisbursed Bal.	5,420.07	6,406.00	7,275.63	7,475.62	7,106.78	7,138.53	7,078.54	7,017.31
II. Summary Status Of Portfolio								
A) No. Projects in Portfolio **		47	54	63	68	71	74	70
B) Disbursements During FY								
1. Revised Forecast		1,478.53	1,900.23	2,050.66	1,500.36	1,254.34	2,356.23	1,351.05
2. Actual Disb. To Date		831.57	1,333.62	1,739.01	1,396.84	1,070.25	1,228.00	61.23
Gap (1. minus 2.)		646.96	566.61	311.65	103.52	184.09	1,128.23	1,289.82
III. Memo Items * **								
A) % Change In Cumulative								
Approved Amt.	.00	19.73	19.98	14.65	6.78	6.80	6.75	.00
Disbursements	.00	21.93	28.84	29.19	18.15	11.77	12.08	.54
B) Disb. Factor	.00	15.34	20.82	23.90	18.69	15.06	17.20	.87

Note: * Cancellations are aggregated here by fiscal year of approval.
** A project in the Portfolio is approved, not closed, with a loan balance in excess of 100,000 $ for loans, & 100,000 SDRs for credits.
If a project closes during the fiscal year, it is considered active until the end of the fiscal year.
*** Change of approved amount is approved amount minus cancellations divided by the cumulative of the approved amount minus cancellations from previous years.
Chnage of disbursements is disbursements divided by cumulative disbursements from previous years.
Disbursement factor is the disbursements divided by cumulative previous years approved amount minus cancellations minus disbursements.
+++ Historical interest data is from Financial Data Base. At this time the data does not match the Loan Dept data. as soon as it is corrected, the MIS data will be corrected.

Within the fiscal year headings, the following codes apply: C-cumulative, A-actual

Run Time: 09/14/92 at 11.47.52

INDIA
PFDBRZ1 - Country Summary Table: Net Transfers and Portfolio Status
(LOA data as of 7/30/92)

IDA and Special African only in millions of U.S.$
By Country
Country: INDIA

	FY86C	FY87A	FY88A	FY89A	FY90A	FY91A	FY92A	FY93A
I. Resource Transfer								
A) Approved	14,087.18	677.60	717.20	900.30	832.40	937.40	1,023.50	92.00
B) Cancellations *	676.38	69.58	30.51	38.98	43.41	.	.	.
C) Net Approved Amt. (A-B)	13,410.80	608.02	686.69	861.32	788.99	937.40	1,023.50	92.00
D) Disbursements	10,005.29	687.58	891.81	620.29	594.80	830.54	1,001.80	47.42
E) Amortization - Market	257.84	62.30	71.49	85.66	98.17	121.01	144.16	14.62
F) Net Flow (D-E)	9,747.45	625.28	820.32	534.63	496.63	709.53	857.64	32.80
G) Interest	525.62	75.56	92.46	96.53	89.36	98.34	101.67	11.72
H) Net Transfer								
Annual (D-E-G)	9,221.83	549.72	727.86	438.10	407.27	611.19	755.97	21.08
Cumulative	9,221.83	9,771.55	10,499.41	10,937.51	11,344.78	11,955.97	12,711.94	12,733.02
I) Cum. Undisbursed Bal.	3,405.51	3,325.95	3,120.83	3,361.86	3,556.06	3,662.92	3,684.62	3,729.20
II. Summary Status Of Portfolio								
A) No. Projects in Portfolio **		80	72	72	68	64	71	64
B) Disbursements During FY								
1. Revised Forecast		1,439.87	1,165.76	906.44	607.78	896.78	855.15	1,149.48
2. Actual Disb. To Date		687.58	891.81	620.29	594.80	830.54	1,001.80	47.42
Gap (1. minus 2.)		752.29	273.95	286.15	12.98	66.24	-146.65	1,102.06
III. Memo Items *								
A) % Change In Cumulative								
Approved Amt.	.00	4.53	4.90	5.86	5.07	5.73	5.92	.50
Disbursements	.00	6.87	8.34	5.35	4.87	6.49	7.35	.32
B) Disb. Factor	.00	20.19	26.81	19.88	17.69	23.36	27.35	1.29

Note: * Cancellations are aggregated here by fiscal year of approval.
** A project in the Portfolio is approved, not closed, with a loan balance in excess of 100,000 $ for loans, & 100,000 SDRs for credits.
If a project closes during the fiscal year, it is considered active until the end of the fiscal year.
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Within the fiscal year headings, the following codes apply: C-cumulative, A-actual

THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

DATE: September 30, 1992

TO: Mr. Ernest Stern, Chairman, Loan Committee

FROM: Richard Cambridge, Principal Economist, SA2PH

EXTENSION: 80302

SUBJECT: INDIA - Proposed Sector Adjustment Credit for Strengthening Social Safety Nets Minutes of Loan Committee Meeting held on September 16, 1992

<u>Loan Committee Members Present</u>: Messrs. Stern (Chairman); Rajagopalan (PRSVP); Shihata (LEGVP); Kashiwaya (CFSVP); Summers (DECVP); Linn (FPRVP); Wood (SASVP). <u>Others</u>: Messrs. Vergin (SA2DR); Khalilzadeh-Shirazi (SA2CI); Skolnik (SA2PH); Cambridge (SA2PH); Gopal (LEGAS); Ms. Mohadjer (EXC).

1. The meeting considered the Initiating Memorandum for a proposed Sector Adjustment Credit for Strengthening Social Safety Nets based on the agenda of September 14, 1992. A copy of the meeting agenda is attached. The following issues were covered at the meeting: (a) linkages to the adjustment program; (b) project scope; (c) credit conditionality; (d) the social safety net program; (e) imple- mentation; (f) supervision; (g) sustainability; and (h) disbursement arrangements.

<u>Linkages to the Adjustment Program</u>

2. The Chairman noted the numerous issues of concern to the members of the Committee reflected in the extensive agenda. He asked the Region to start by clarifying how the proposed operation was linked to the process of reform in India. The Region explained that the Program for Strengthening the Social Safety Net was an integral part of the adjustment program and outlined six major linkages. These were that: (a) the social costs of adjustment were already real; 20,000 workers were retrenched in 1991/92 with some form of severance pay; 70,000 workers have been locked-out/laid-off and are awaiting some form of severance pay; 100,000 workers have been identified and programmed for retrenchment in FY92/83; and 300,000 employees are at risk of retrenchment in the chronically sick PSEs from which GOI has withdrawn budget support as well as credit. With the removal of administered prices and inflation, the price of basic food items and other primary articles which are in the consumption basket of the poor have risen significantly over the past year while per capita consumption has been stagnant over the past two years; (b) the operation will enhance the quality of the ongoing fiscal adjustment. Indiscriminate budget cuts across all programs have also been a major concern of the IMF and other donors; (c) the social safety net program makes a contribution to the political sustainability of the adjustment program; (d) the operation would significantly enhance the quality of on-going and planned

IDA investments in the social sectors; (e) the operation would serve as a catalyst for substantial quick disbursing co-financing from other donors; and (f) the proposed operation has already generated significant up-front actions on the part of the Government.

3. The Region explained why the adjustment lending instrument was being used for this operation. It was pointed out that India still had a balance of payments problem although the pressure had eased somewhat over the past year as a result of the stabilization and reform program which the Bank/IDA is supporting. India still required some US$3 billion per year in exceptional financing over the next 2-3 years and this was confirmed and supported at the Consortium meeting in June. The India Country Assistance Strategy was explicit in describing and providing the rationale on how the Region would tailor its assistance to meet this exceptional financing requirement. A sector adjustment credit in support of the Government's safety nets is part of the lending strategy set out in last year's Country Strategy Paper(CSP). It is also featured in the CSP up-date which is presently before management.

4. The Region also confirmed that the Credit would only be brought to the Board and the second tranche released, if the overall adjustment program continues to conform to the agreed macroeconomic framework and the public expenditures to be allocated for the social safety nets are consistent with the overall fiscal targets of the adjustment program.

Project Scope

5. The Committee raised serious concerns about the inclusion of the education component in the proposed project, questioning its relevance to social safety nets, the appropriateness of using an adjustment loan as the vehicle for long term changes, and evidence of the long term commitment of the Government to the sector. The Region explained that the scope of the project conformed to the Government of India's (GOI) definition of the "social safety net." In its specific focus, the Program supported by the sector adjustment credit also provided the opportunity for the Bank to agree with GOI on an "umbrella" of reforms which would improve the policy and institutional environment for specific ongoing and planned IDA investment operations. The Region emphasized that the proposed social safety net operation was designed to support policy changes which address major cross-cutting issues of financing, targeting, efficiency and effectiveness which affect the social sector programs which IDA is supporting through investment credits.

6. While primary education seemed only tangentially related to the adjustment process, it was one of the priority programs which the Government was committed to protect and significantly enhance in the fiscal adjustment process. In addition, it was pointed out that India's performance in the area of basic education has been poor relative to most other countries at similar levels of income and that the reform program which the GOI would introduce for primary education was indeed significant. The Region mentioned the new national district-based Primary Education Improvement Initiative which would be launched as part of the Program, the targeting of the educationally backward districts for priority attention, the new funding mechanism which would ensure that

Central resources are channelled to these targeted districts, and the use of local-level institutions to implement district specific primary education programs. The Region noted that this was a major break from the past and the fact that the GOI was using the opportunity of the adjustment process to affect this change. This new approach would serve as an umbrella for expanded Bank lending to the individual states in education within the next two years.

Credit Conditionality

7. In response to the concern that the matrix seemed to have few concrete actions for second tranche release, the Region explained that the conditionalities as outlined in the Draft Policy Matrix, especially the actions to be completed by Board Presentation, would go substantially beyond the initiation of reviews and studies. Details of policy and program modality would be discussed and agreed with the Bank during appraisal and negotiations. The matrix did not properly reflect the monitorable actions to be agreed. The Region agreed to document the specific and monitorable measures agreed during negotiations. GOI would be expected to have provided and deployed sufficient budgetary resources in the FY93/94 budget to support the implementation of the agreed policy reforms and program enhancements.

Social Safety Net Program

8. The Region explained that the National Renewal Fund (NRF) was an essential part of the GOI's industrial sector reform effort and that labor retrenchment was the first step in a process which included disinvestment, closure and liquidation of assets in the case of chronically sick enterprises, and the restructuring of some of the more viable PSEs. Government has already acted on the textile industry. The Region was prepared to support the industrial restructuring program through policy-based lending and the first of such operations is scheduled for FY94. The Region also explained that operational details will be provided for the FY93 and FY94 Business and Financial Plans of the NRF as regards both the sources and uses of funds. It was pointed out that the expected business of the NRF in FY92/93 would involve severance pay and voluntary retirement emoluments to over 100,000 surplus PSE workers plus the unpaid claims due to another 70,000 workers who had already been laid off. Progress on these fronts will be assessed during appraisal. The financial obligations of the NRF are estimated at about US$400.0 million in FY92/93 alone when the costs of retraining and targeted employment generation costs are included.

9. The Chairman requested that the documentation discuss the broader dimensions of the ongoing industrial and PSE reform program, including, inter alia, an explanation of the Business and Financial plans, the restructuring plan and mechanisms, enterprises tagged, cost estimates of retrenchment and per capita costs.

10. In response to a question on the Public Distribution System (PDS), the Region explained that while the GOI had included the reform of the PDS in its Program for Strengthening the Social Safety Net, it was insistent that for political reasons, it would prefer to proceed with the

reform at a pace not overtly linked to the proposed operation. The Region explained further that while it proposes to respect the wishes of GOI on this matter, it had made it clear to GOI that given the importance of PDS for the management of agricultural production incentives, the reduction ofthe budget deficit, and the broader objectives of food security, Government must clearly outline in the Letter of Development Policy the specific steps it has taken and is planning to take to revamp the PDS. This approach would be satisfactory provided adequate upfront action on the PDS is taken prior to Board Presentation.

Implementation

11. The Region explained that the Center addresses implementation of social programs by and in the States, by providing or withdrawing financial and budgetary support for these programs as well as controlling the design and monitoring of centrally funded programs rather than by direct implementation. The Region pointed out that experience over the years with social sector operations, indicates that through the financing of such programs, and through the support of the States' development budgets, the Center has shown the ability to achieve changes in State government policies and actions in the social sectors. The Program would give specific attention to budgetary mechanisms which would enhance the Center's ability to influence the deployment of funds at the state level. The Committee indicated that the project documentation should include a discussion of the level of support for these activities by the States, and their implementation capacity. If tranche conditionality requires actions by the States, disbursement can only take place upon completion of these actions by the States.

Supervision

12. The Region confirmed that a detailed program implementation plan would be agreed at appraisal and confirmed during negotiations.

Sustainability

13. The Region confirmed that the Program for Strengthening the Social Safety Net is sustainable. It was explained that the Program was a multi-year effort even though the conditionality referred only to the FY 93/94 budget. The commitment to provide adequate resources for the social sectors would be monitored as part of the overall fiscal adjustment program, and in the context of the complimentary education, health and nutrition investment operations which will follow this adjustment credit in FY94 and FY95. The sustainability analysis would also be reinforced by the Public Expenditure Review which the Bank is presently undertaking. The Region also indicated that the incremental resources for the social safety net, while substantial, would represent a small share of overall GOI expenditures. It was noted that by 1994 the process of fiscal deficit reduction would have been essentially completed and the planned increases in social spending could be readily accommodated within reordered priorities. It was also noted that GOI intends to undertake a major tax reform program which should enhance revenue buoyancy. The Chairman asked

that the Board documentation be explicit about this analysis and GOI's plans and present the program in the context of the ongoing fiscal adjustment.

Disbursement Arrangements

14. The Region agreed that a Special Account of US$200.0 million was not required to achieve the objectives of this operation.

Conclusion

15. The Committee indicated that, in addition to the points mentioned above, the project documentation should explain more fully the justification for an adjustment operation, the underlying conditions affecting the social sectors, the shifts in policy envisaged by the operation, the financial and institutional sustainability of the programs, and the commitment of the central and state government bodies.

16. The Loan committee authorized the Appraisal Mission to proceed. The Back-to-Office Report of the Appraisal Mission will be circulated to the members of the Loan Committee.

Attachment

Cleared with and cc: Mr. Vergin

cc: Messrs./Mmes. Stern, Sandstrom, Mohadjer (EXC); Rajagopalan (PRSVP); Karaosmanoglu (EXC); Summers (DECVP); Linn (FPRVP); Kashiwaya (CFSVP); Shihata (LEGVP); Jaycox (AFRVP); Kaji (EAPVP); Thalwitz (ECAVP); Koch-Weser (MNAVP); Husain (LACVP); Wood, Nankani, Drysdale (SAVP); Salop (OSPVP); Sud (CFSDR); Grilli (DPG); Nishimizu (FRSDR); Raghavan (LOADR); Hamilton (PHRDR); Socknat (ASTPH); Humphrey (SA2DR); Shirazi (SA2CI), Panfill (SA2IN); Barghouti (SA2AG); Bauer (SA2EG), Skolnik (SA2PH); Newport, Gopal (LEGAS); Goldsbrough (IMF)

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LOAN COMMITTEE AGENDA

India - Strengthening Social Safety Nets

1. Linkages to the Adjustment Program

- How will the proposed loan further the process of reform in India? Reforms so far, in the areas of trade and deregulation, have not had any negative social impact. Restructuring and privatization of state enterprises, which the National Renewal Fund (NRF) would address, have not yet begun.

- Would the Region confirm that the Credit will be brought to the Board and the second tranche will be released only if the overall adjustment program, including the macroeconomic policies, are on track and that the public expenditures to be allocated for the social safety nets are consistent with the overall fiscal targets the adjustment program.

- What is the status of the retrenchment in and restructuring of public enterprises that in turn warrant the funding of the National Renewal Fund? There is no indication of the expected demand on the NRF; what would constitute making it operational; or how we expect to define efficiency of operations?

2. Project Scope

The scope of the proposed Credit is very broad. Improvements in some sectors, such as education and health, require time consuming activities in institution building, training, government activities, and are therefore more suited to investment loans. Moreover, education is only tangentially related to safety net concerns. Should the scope of the Credit be reduced and investment loans in education, health, and child development be designed to meet the problems discussed in the Initiating Memorandum?

3. Credit Conditionality

According to the policy matrix, most steps yet to be completed by Board presentation involve the initiation of reviews, studies, and strategy formulation, and second tranche release conditions consist mainly of completion of these studies with start-up of implementation. Could the Region clarify:

- the extent to which actions have already been taken which would justify this Credit;

- what, if any, specific policy or institutional reform measures will be added during appraisal;

- reasons for not insisting that agreed policy measures would be prepared and adopted by Board, and their implementation would be evaluated by second tranche.

4. Social Safety Net Program

- Given the extensive work done in India to identify vulnerable groups, could the Region identify which groups are most affected by the adjustment process, and how?

- The urgently needed improvements in the Public Distribution System and the Jawahar Rozgar Yojana do not feature in the policy matrix. What is the likely scope of the improvements to be made in these programs? What form will they take? How will they be monitored? How will performance affect this and future Bank operations?

- Could the Region explain the modalities of the planned operation of the National Renewal Fund? What is the Bank's role in the formulation of the FY93 and FY94 Business and Financial Plans?

- Could the Region explain the strategy for addressing critical labor market issues, beyond the retrenchment of workers displaced as a result of public enterprise reform, in terms of their importance for adjustment and poverty reduction?

- If the education component is to be retained, what measures can be agreed to increase the levels and efficiency of education spending or to improve recovery rates in secondary and university education? Can retention rates in primary schools, especially for female students in rural areas, be improved with the proposed education programs?

5. Implementation

The reluctance of the States to participate, and institutional weakness are cited as critical risks. Could the Region explain how these risks will be dealt with? What specific actions will be agreed during appraisal?

6. Supervision

Given the complexity of the Credit, will a detailed implementation plan be agreed at appraisal as a basis for effective supervision?

7. Sustainability

Program continuity is essential, yet the only conditionality in the loan is that the Government make adequate budget provision in the FY93/94 budget. How sustainable beyond 1993/94 is the additional social sector expenditure of the Government? Can the program continue after the Credit is fully disbursed? What impact will the project have in facilitating the flow of external official and private resources?

8. Disbursement Arrangements

- How does the Region justify external borrowing for essentially local cost expenditures? No analysis is provided indicating that domestic financing alternatives are not feasible and that additional external debt for this purpose is warranted.

- What is the rationale for a Special Account of US$200 million on top of retroactive financing of US$100 million?

FY92 - FY94 LENDING PROGRAM FOR INDIA
($ MILLIONS)

F- -AL YEAR	PROJECT	NAME	LEND INST	BOARD DATE	IBRD ($m)	IDA (SDRm)	IDA ($m)	TOTAL ($m)
92	8INDPA303	POWER UTIL EFFIC IMPROVEMENT	INV	01/28/92	265.0			265.0
	8INDPA336	SHRIMP & FISH CULTURE	INV	01/14/92		62.9	85.0	85.0
	8INDPA361	NAT. HIGHWAYS II	INV	05/12/92	153.0	116.2	153.0	306.0
	8INDPA378	POPULATION VIII	INV	06/18/92		57.7	79.0	79.0
	8INDPA421	MAHARASHTRA POWER II	INV	06/25/92	350.0			350.0
	8INDPA425	MAHARASHTRA FORESTRY	INV	01/14/92		88.9	124.0	124.0
	8INDPA428	WEST BENGAL FORESTRY	INV	03/17/92		24.4	34.0	34.0
	8INDPA432	HEALTH I (MCH)	INV	09/17/91		160.9	214.5	214.5
	8INDPA442	SAL I	ADJ	12/05/91	250.0	183.8	250.0	500.0
	8INDPA457	OIL & GAS SECTOR DEVELOPMENT	ADJ	07/23/91	150.0			150.0
	8INDPA459	AIDS PREVENTION AND CONTROL	INV	03/31/92		59.8	84.0	84.0
SUB-TOTAL 92					1168.0	754.6	1023.5	2191.5
93	8INDPA322	TRADE ADJMT/TRADE LOGISTICS	ADJ	05/18/93	220.5	188.5	279.5	500.0
	8INDPA323	OIL & GAS DEVT II	INV	03/16/93	350.0			350.0
	8INDPA370	BASIC EDUCATION I	INV	05/25/93		118.0	175.0	175.0
	8INDPA374	RUBBER	INV	07/02/92		66.4	92.0	92.0
	8INDPA376	UP SODIC LANDS RECLAMATION	INV	05/18/93		67.4	100.0	100.0
	8INDPA385	FINANCIAL SAL I	ADJ	05/25/93	400.0			400.0
	8INDPA392	ICDS II (BIHAR & MP)	INV	11/24/92		141.6	194.0	194.0
	8INDPA402	SOCIAL DIMENSIONS I	ADJ	12/01/92		269.7	400.0	400.0
	8INDPA419	ADP - RAJASTHAN	INV	10/27/92		70.8	105.0	105.0
	8INDPA422	NTPC POWER GEN	INV	03/30/93	400.0			400.0
	8INDPA431	BIHAR PLATEAU	INV	11/17/92		78.9	117.0	117.0
	8INDPA435	KARNATAKA WS & ENV/SANIT.	INV	03/30/93		67.4	100.0	100.0
	8INDPA454	LEPROSY CONTROL	INV	05/25/93		74.2	110.0	110.0
	8INDPA464	NPTC POWER SYSTEM	INV	02/16/93	350.0			350.0
OTAL 93					1720.5	1142.9	1672.5	3393.0
94	8INDPA352	SARDAR SAROVAR CANAL II	INV	11/30/93	216.6	90.0	133.4	350.0
	8INDPA379	WATER RES CONSOLID I	INV	12/21/93		134.9	200.0	200.0
	8INDPA387	NATIONAL HIGHWAYS III	INV	12/28/93	300.0			300.0
	8INDPA398	PORT MODERNIZATION	INV	12/07/93	200.0			200.0
	8INDPA415	POWER-SEB RESTRUCTURING	ADJ	11/23/93	300.0			300.0
	8INDPA423	GAS INFRASTRUCTURE DEVT LOAN	INV	11/30/93	200.0			200.0
	8INDPA426	ADP KARNATAKA	INV	09/28/93		67.4	100.0	100.0
	8INDPA439	PUBLIC ENT/PRIVATE SEC DEVT I	ADJ	12/14/93	300.0	67.4	100.0	400.0
	8INDPA449	RENEWABLE RESOURCES DEVT	INV	11/24/92	75.0	67.4	100.0	175.0
	8INDPA452	AP FORESTRY/FRET	INV	09/14/93		84.3	125.0	125.0
	8INDPA456	BLINDNESS CONTROL	INV	03/15/94		60.7	90.0	90.0
	8INDPA463	POPULATION IX	INV	03/29/94		101.2	150.0	150.0
	8INDPA469	SAL II	ADJ	05/24/94	500.0			500.0
SUB-TOTAL 94					2091.6	673.3	998.4	3090.0

PBDPS
DATE: 09/14/92 - EXC02

Run Time: 09/14/92 at 11.47.52

INDIA
PFDBRZ1 - Country Summary Table: Net Transfers and Portfolio Status
(LOA data as of 7/30/92)

IBRD, IDA, and Special African in millions of U.S.$
By Country
Country: INDIA

	FY86C	FY87A	FY88A	FY89A	FY90A	FY91A	FY92A	FY93A
I. Resource Transfer								
A) Approved	24,779.09	2,805.60	2,972.20	3,036.60	1,940.40	2,049.40	2,191.50	92.00
B) Cancellations *	2,155.93	380.08	82.26	236.28	123.41	10.00	.	.
C) Net Approved Amt. (A-B)	22,623.16	2,425.52	2,889.94	2,800.32	1,816.99	2,039.40	2,191.50	92.00
D) Disbursements	13,797.57	1,519.15	2,225.43	2,359.30	1,991.64	1,900.79	2,229.79	108.65
E) Amortization - Market	1,874.26	233.65	519.91	378.37	474.69	594.54	702.69	142.57
F) Net Flow (D-E)	11,923.31	1,285.50	1,705.52	1,980.93	1,516.95	1,306.25	1,527.10	-33.92
G) Interest	1,382.79	1,035.97	549.63	579.34	643.56	748.00	783.96	122.42
H) Net Transfer								
Annual (D-E-G)	10,540.52	249.53	1,155.89	1,401.59	873.39	558.25	743.14	-156.34
Cumulative	10,540.52	10,790.05	11,945.94	13,347.53	14,220.92	14,779.17	15,522.31	15,365.98
I) Cum. Undisbursed Bal.	8,825.59	9,731.95	10,396.47	10,837.49	10,662.84	10,801.45	10,763.16	10,746.51
II. Summary Status Of Portfolio								
A) No. Projects in Portfolio **		116	112	117	112	109	117	107
B) Disbursements During FY								
1. Revised Forecast		2,918.40	3,065.99	2,957.10	2,108.14	2,151.12	3,211.38	2,500.53
2. Actual Disb. To Date		1,519.15	2,225.43	2,359.30	1,991.64	1,900.79	2,229.79	108.65
Gap (1. minus 2.)		1,399.25	840.56	597.80	116.50	250.33	981.59	2,391.88
III. Memo Items ***								
A) % Change In Cumulative								
Approved Amt.	.00	10.72	11.54	10.02	5.91	6.26	6.33	.25
Disbursements	.00	11.01	14.53	13.45	10.01	8.68	9.37	.42
B) Disb. Factor	.00	17.21	22.87	22.69	18.38	17.83	20.64	1.01

Note: * Cancellations are aggregated here by fiscal year of approval.
** A project in the Portfolio is approved, not closed, with a loan balance in excess of 100,000 $ for loans, & 100,000 SDRs for credits.
If a project closes during the fiscal year, it is considered active until the end of the fiscal year.
*** Change of approved amount is approved amount minus cancellations divided by the cumulative of the approved amount minus cancellations from previous years.
Chnage of disbursements is disbursements divided by cumulative disbursements from previous years.
Disbursement factor is the disbursements divided by cumulative previous years approved amount minus cancellations minus disbursements.
+++ Historical interest data is from Financial Data Base. At this time the data does not match the Loan Dept data. as soon as it is corrected, the MIS data will be corrected.

Within the fiscal year headings, the following codes apply: C-cumulative, A-actual

Run Time: 09/14/92 at 11.47.52

INDIA
PFDBR21 - Country Summary Table: Net Transfers and Portfolio Status
(LOA data as of 7/30/92)

IBRD only in millions of U.S.$
By Country
Country: INDIA

	FY86C	FY87A	FY88A	FY89A	FY90A	FY91A	FY92A	FY93A
I. Resource Transfer								
A) Approved	10,691.91	2,128.00	2,255.00	2,136.30	1,108.00	1,112.00	1,168.00	.
B) Cancellations *	1,479.56	310.50	51.75	197.30	80.00	10.00	.	.
C) Net Approved Amt. (A-B)	9,212.35	1,817.50	2,203.25	1,939.00	1,028.00	1,102.00	1,168.00	.
D) Disbursements	3,792.28	831.57	1,333.62	1,739.01	1,396.84	1,070.25	1,228.00	61.23
E) Amortization - Market	1,616.42	171.35	448.42	292.71	376.52	473.53	558.53	127.95
F) Net Flow (D-E)	2,175.86	660.22	885.20	1,446.30	1,020.32	596.72	669.46	-66.72
G) Interest	857.17	960.41	457.17	482.81	554.20	649.66	682.29	110.70
H) Net Transfer								
Annual (D-E-G)	1,318.69	-300.19	428.03	963.49	466.12	-52.94	-12.83	-177.42
Cumulative	1,318.69	1,018.50	1,446.53	2,410.02	2,876.14	2,823.20	2,810.37	2,632.95
I) Cum. Undisbursed Bal.	5,420.07	6,406.00	7,275.63	7,475.62	7,106.78	7,138.53	7,078.54	7,017.31
II. Summary Status Of Portfolio								
A) No. Projects in Portfolio **		47	54	63	68	71	74	70
B) Disbursements During FY								
1. Revised Forecast		1,478.53	1,900.23	2,050.66	1,500.36	1,254.34	2,356.23	1,351.05
2. Actual Disb. To Date		831.57	1,333.62	1,739.01	1,396.84	1,070.25	1,228.00	61.23
Gap (1. minus 2.)		646.96	566.61	311.65	103.52	184.09	1,128.23	1,289.82
III. Memo Items ***								
A) % Change In Cumulative								
Approved Amt.	.00	19.73	19.98	14.65	6.78	6.80	6.75	.00
Disbursements	.00	21.93	28.84	29.19	18.15	11.77	12.08	.54
B) Disb. Factor	.00	15.34	20.82	23.90	18.69	15.06	17.20	.87

Note: * Cancellations are aggregated here by fiscal year of approval.
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Disbursement factor is the disbursements divided by cumulative previous years approved amount minus cancellations minus disbursements.
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Within the fiscal year headings, the following codes apply: C-cumulative, A-actual

Run Time: 09/14/92 at 11.47.52

INDIA
PFDBRZ1 - Country Summary Table: Net Transfers and Portfolio Status
(LOA data as of 7/30/92)

IDA and Special African only in millions of U.S.$
By Country
Country: INDIA

	FY86C	FY87A	FY88A	FY89A	FY90A	FY91A	FY92A	FY93A
I. Resource Transfer								
A) Approved	14,087.18	677.60	717.20	900.30	832.40	937.40	1,023.50	92.00
B) Cancellations *	676.38	69.58	30.51	38.98	43.41	.	.	.
C) Net Approved Amt. (A-B)	13,410.80	608.02	686.69	861.32	788.99	937.40	1,023.50	92.00
D) Disbursements	10,005.29	687.58	891.81	620.29	594.80	830.54	1,001.80	47.42
E) Amortization - Market	257.84	62.30	71.49	85.66	98.17	121.01	144.16	14.62
F) Net Flow (D-E)	9,747.45	625.28	820.32	534.63	496.63	709.53	857.64	32.80
G) Interest	525.62	75.56	92.46	96.53	89.36	98.34	101.67	11.72
H) Net Transfer								
Annual (D-E-G)	9,221.83	549.72	727.86	438.10	407.27	611.19	755.97	21.08
Cumulative	9,221.83	9,771.55	10,499.41	10,937.51	11,344.78	11,955.97	12,711.94	12,733.02
I) Cum. Undisbursed Bal.	3,405.51	3,325.95	3,120.83	3,361.86	3,556.06	3,662.92	3,684.62	3,729.20
II. Summary Status Of Portfolio								
A) No. Projects in Portfolio **		80	72	72	68	64	71	64
B) Disbursements During FY								
1. Revised Forecast		1,439.87	1,165.76	906.44	607.78	896.78	855.15	1,149.48
2. Actual Disb. To Date		687.58	891.81	620.29	594.80	830.54	1,001.80	47.42
Gap (1. minus 2.)		752.29	273.95	286.15	12.98	66.24	-146.65	1,102.06
III. Memo Items * **								
A) % Change In Cumulative								
Approved Amt.	.00	4.53	4.90	5.86	5.07	5.73	5.92	.50
Disbursements	.00	6.87	8.34	5.35	4.87	6.49	7.35	.32
B) Disb. Factor	.00	20.19	26.81	19.88	17.69	23.36	27.35	1.29

Note: * Cancellations are aggregated here by fiscal year of approval.
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If a project closes during the fiscal year, it is considered active until the end of the fiscal year.
*** Change of approved amount is approved amount minus cancellations divided by the cumulative of the approved amount minus cancellations from previous years.
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Within the fiscal year headings, the following codes apply: C-cumulative, A-actual

E1227.

THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

File
India

DATE: October 30, 1992

TO: See Distribution Below

FROM: Richard Cambridge, Principal Economist, SA2PH

EXTENSION: 80302

SUBJECT: INDIA - Proposed Sector Adjustment Credit for Strengthening Social Safety Nets
Minutes of Loan Committee Meeting held on September 16, 1992

Attached please find a complete version of the Minutes of Loan Committee meeting held on September 16, 1992. We had inadvertently omitted to attach the Agenda.

Attachment

cc: Messrs./Mmes. Stern, Sandstrom, Mohadjer (EXC); Rajagopalan (PRSVP); Karaosmanoglu (EXC); Summers (DECVP); Linn (FPRVP); Kashiwaya (CFSVP); Shihata (LEGVP); Jaycox (AFRVP); Kaji (EAPVP); Thalwitz (ECAVP); Koch-Weser (MNAVP); Husain (LACVP); Wood, Nankani, Drysdale (SAVP); Vergin, Humphrey (SA2DR); Salop (OSPVP); Sud (CFSDR); Grilli (DPG); Nishimizu (FRSDR); Raghavan (LOADR); Hamilton (PHRDR); Socknat (ASTPH); Shirazi (SA2CI), Panfill (SA2IN); Barghouti (SA2AG); Bauer (SA2EG), Skolnik (SA2PH); Newport, Gopal (LEGAS); Goldsbrough (IMF)

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THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

Mr. Sandstrom

File

India

DATE: September 30, 1992

TO: Mr. Ernest Stern, Chairman, Loan Committee

FROM: Richard Cambridge, Principal Economist, SA2PH

EXTENSION: 80302

SUBJECT: INDIA - Proposed Sector Adjustment Credit for Strengthening Social Safety Nets
Minutes of Loan Committee Meeting held on September 16, 1992

Loan Committee Members Present: Messrs. Stern (Chairman); Rajagopalan (PRSVP); Shihata (LEGVP); Kashiwaya (CFSVP); Summers (DECVP); Linn (FPRVP); Wood (SASVP). Others: Messrs. Vergin (SA2DR); Khalilzadeh-Shirazi (SA2CI); Skolnik (SA2PH); Cambridge (SA2PH); Gopal (LEGAS); Ms. Mohadjer (EXC).

1. The meeting considered the Initiating Memorandum for a proposed Sector Adjustment Credit for Strengthening Social Safety Nets based on the agenda of September 14, 1992. A copy of the meeting agenda is attached. The following issues were covered at the meeting: (a) linkages to the adjustment program; (b) project scope; (c) credit conditionality; (d) the social safety net program; (e) imple- mentation; (f) supervision; (g) sustainability; and (h) disbursement arrangements.

Linkages to the Adjustment Program

2. The Chairman noted the numerous issues of concern to the members of the Committee reflected in the extensive agenda. He asked the Region to start by clarifying how the proposed operation was linked to the process of reform in India. The Region explained that the Program for Strengthening the Social Safety Net was an integral part of the adjustment program and outlined six major linkages. These were that: (a) the social costs of adjustment were already real; 20,000 workers were retrenched in 1991/92 with some form of severance pay; 70,000 workers have been locked-out/laid-off and are awaiting some form of severance pay; 100,000 workers have been identified and programmed for retrenchment in FY92/83; and 300,000 employees are at risk of retrenchment in the chronically sick PSEs from which GOI has withdrawn budget support as well as credit. With the removal of administered prices and inflation, the price of basic food items and other primary articles which are in the consumption basket of the poor have risen significantly over the past year while per capita consumption has been stagnant over the past two years; (b) the operation will enhance the quality of the ongoing fiscal adjustment. Indiscriminate budget cuts across all programs have also been a major concern of the IMF and other donors; (c) the social safety net program makes a contribution to the political sustainability of the adjustment program; (d) the operation would significantly enhance the quality of on-going and planned

IDA investments in the social sectors; (e) the operation would serve as a catalyst for substantial quick disbursing co-financing from other donors; and (f) the proposed operation has already generated significant up-front actions on the part of the Government.

3. The Region explained why the adjustment lending instrument was being used for this operation. It was pointed out that India still had a balance of payments problem although the pressure had eased somewhat over the past year as a result of the stabilization and reform program which the Bank/IDA is supporting. India still required some US$3 billion per year in exceptional financing over the next 2-3 years and this was confirmed and supported at the Consortium meeting in June. The India Country Assistance Strategy was explicit in describing and providing the rationale on how the Region would tailor its assistance to meet this exceptional financing requirement. A sector adjustment credit in support of the Government's safety nets is part of the lending strategy set out in last year's Country Strategy Paper(CSP). It is also featured in the CSP up-date which is presently before management.

4. The Region also confirmed that the Credit would only be brought to the Board and the second tranche released, if the overall adjustment program continues to conform to the agreed macroeconomic framework and the public expenditures to be allocated for the social safety nets are consistent with the overall fiscal targets of the adjustment program.

Project Scope

5. The Committee raised serious concerns about the inclusion of the education component in the proposed project, questioning its relevance to social safety nets, the appropriateness of using an adjustment loan as the vehicle for long term changes, and evidence of the long term commitment of the Government to the sector. The Region explained that the scope of the project conformed to the Government of India's (GOI) definition of the "social safety net." In its specific focus, the Program supported by the sector adjustment credit also provided the opportunity for the Bank to agree with GOI on an "umbrella" of reforms which would improve the policy and institutional environment for specific ongoing and planned IDA investment operations. The Region emphasized that the proposed social safety net operation was designed to support policy changes which address major cross-cutting issues of financing, targeting, efficiency and effectiveness which affect the social sector programs which IDA is supporting through investment credits.

6. While primary education seemed only tangentially related to the adjustment process, it was one of the priority programs which the Government was committed to protect and significantly enhance in the fiscal adjustment process. In addition, it was pointed out that India's performance in the area of basic education has been poor relative to most other countries at similar levels of income and that the reform program which the GOI would introduce for primary education was indeed significant. The Region mentioned the new national district-based Primary Education Improvement Initiative which would be launched as part of the Program, the targeting of the educationally backward districts for priority attention, the new funding mechanism which would ensure that

Central resources are channelled to these targeted districts, and the use of local-level institutions to implement district specific primary education programs. The Region noted that this was a major break from the past and the fact that the GOI was using the opportunity of the adjustment process to affect this change. This new approach would serve as an umbrella for expanded Bank lending to the individual states in education within the next two years.

Credit Conditionality

7. In response to the concern that the matrix seemed to have few concrete actions for second tranche release, the Region explained that the conditionalities as outlined in the Draft Policy Matrix, especially the actions to be completed by Board Presentation, would go substantially beyond the initiation of reviews and studies. Details of policy and program modality would be discussed and agreed with the Bank during appraisal and negotiations. The matrix did not properly reflect the monitorable actions to be agreed. The Region agreed to document the specific and monitorable measures agreed during negotiations. GOI would be expected to have provided and deployed sufficient budgetary resources in the FY93/94 budget to support the implementation of the agreed policy reforms and program enhancements.

Social Safety Net Program

8. The Region explained that the National Renewal Fund (NRF) was an essential part of the GOI's industrial sector reform effort and that labor retrenchment was the first step in a process which included disinvestment, closure and liquidation of assets in the case of chronically sick enterprises, and the restructuring of some of the more viable PSEs. Government has already acted on the textile industry. The Region was prepared to support the industrial restructuring program through policy-based lending and the first of such operations is scheduled for FY94. The Region also explained that operational details will be provided for the FY93 and FY94 Business and Financial Plans of the NRF as regards both the sources and uses of funds. It was pointed out that the expected business of the NRF in FY92/93 would involve severance pay and voluntary retirement emoluments to over 100,000 surplus PSE workers plus the unpaid claims due to another 70,000 workers who had already been laid off. Progress on these fronts will be assessed during appraisal. The financial obligations of the NRF are estimated at about US$400.0 million in FY92/93 alone when the costs of retraining and targeted employment generation costs are included.

9. The Chairman requested that the documentation discuss the broader dimensions of the ongoing industrial and PSE reform program, including, inter alia, an explanation of the Business and Financial plans, the restructuring plan and mechanisms, enterprises tagged, cost estimates of retrenchment and per capita costs.

10. In response to a question on the Public Distribution System (PDS), the Region explained that while the GOI had included the reform of the PDS in its Program for Strengthening the Social Safety Net, it was insistent that for political reasons, it would prefer to proceed with the

reform at a pace not overtly linked to the proposed operation. The Region explained further that while it proposes to respect the wishes of GOI on this matter, it had made it clear to GOI that given the importance of PDS for the management of agricultural production incentives, the reduction ofthe budget deficit, and the broader objectives of food security, Government must clearly outline in the Letter of Development Policy the specific steps it has taken and is planning to take to revamp the PDS. This approach would be satisfactory provided adequate upfront action on the PDS is taken prior to Board Presentation.

Implementation

11. The Region explained that the Center addresses implementation of social programs by and in the States, by providing or withdrawing financial and budgetary support for these programs as well as controlling the design and monitoring of centrally funded programs rather than by direct implementation. The Region pointed out that experience over the years with social sector operations, indicates that through the financing of such programs, and through the support of the States' development budgets, the Center has shown the ability to achieve changes in State government policies and actions in the social sectors. The Program would give specific attention to budgetary mechanisms which would enhance the Center's ability to influence the deployment of funds at the state level. The Committee indicated that the project documentation should include a discussion of the level of support for these activities by the States, and their implementation capacity. If tranche conditionality requires actions by the States, disbursement can only take place upon completion of these actions by the States.

Supervision

12. The Region confirmed that a detailed program implementation plan would be agreed at appraisal and confirmed during negotiations.

Sustainability

13. The Region confirmed that the Program for Strengthening the Social Safety Net is sustainable. It was explained that the Program was a multi-year effort even though the conditionality referred only to the FY 93/94 budget. The commitment to provide adequate resources for the social sectors would be monitored as part of the overall fiscal adjustment program, and in the context of the complimentary education, health and nutrition investment operations which will follow this adjustment credit in FY94 and FY95. The sustainability analysis would also be reinforced by the Public Expenditure Review which the Bank is presently undertaking. The Region also indicated that the incremental resources for the social safety net, while substantial, would represent a small share of overall GOI expenditures. It was noted that by 1994 the process of fiscal deficit reduction would have been essentially completed and the planned increases in social spending could be readily accommodated within reordered priorities. It was also noted that GOI intends to undertake a major tax reform program which should enhance revenue buoyancy. The Chairman asked

that the Board documentation be explicit about this analysis and GOI's plans and present the program in the context of the ongoing fiscal adjustment.

Disbursement Arrangements

14. The Region agreed that a Special Account of US$200.0 million was not required to achieve the objectives of this operation.

Conclusion

15. The Committee indicated that, in addition to the points mentioned above, the project documentation should explain more fully the justification for an adjustment operation, the underlying conditions affecting the social sectors, the shifts in policy envisaged by the operation, the financial and institutional sustainability of the programs, and the commitment of the central and state government bodies.

16. The Loan committee authorized the Appraisal Mission to proceed. The Back-to-Office Report of the Appraisal Mission will be circulated to the members of the Loan Committee.

Attachment

Cleared with and cc: Mr. Vergin

cc: Messrs./Mmes. Stern, Sandstrom, Mohadjer (EXC); Rajagopalan (PRSVP); Karaosmanoglu (EXC); Summers (DECVP); Linn (FPRVP); Kashiwaya (CFSVP); Shihata (LEGVP); Jaycox (AFRVP); Kaji (EAPVP); Thalwitz (ECAVP); Koch-Weser (MNAVP); Husain (LACVP); Wood, Nankani, Drysdale (SAVP); Salop (OSPVP); Sud (CFSDR); Grilli (DPG); Nishimizu (FRSDR); Raghavan (LOADR); Hamilton (PHRDR); Socknat (ASTPH); Humphrey (SA2DR); Shirazi (SA2CI), Panfill (SA2IN); Barghouti (SA2AG); Bauer (SA2EG), Skolnik (SA2PH); Newport, Gopal (LEGAS); Goldsbrough (IMF)

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THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

Mr. Karaosmanoglu

DATE: September 30, 1992

TO: Mr. Ernest Stern, Chairman, Loan Committee

FROM: Richard Cambridge, Principal Economist, SA2PH

EXTENSION: 80302

SUBJECT: INDIA - Proposed Sector Adjustment Credit for Strengthening Social Safety Nets
Minutes of Loan Committee Meeting held on September 16, 1992

Loan Committee Members Present: Messrs. Stern (Chairman); Rajagopalan (PRSVP); Shihata (LEGVP); Kashiwaya (CFSVP); Summers (DECVP); Linn (FPRVP); Wood (SASVP). Others: Messrs. Vergin (SA2DR); Khalilzadeh-Shirazi (SA2CI); Skolnik (SA2PH); Cambridge (SA2PH); Gopal (LEGAS); Ms. Mohadjer (EXC).

1. The meeting considered the Initiating Memorandum for a proposed Sector Adjustment Credit for Strengthening Social Safety Nets based on the agenda of September 14, 1992. A copy of the meeting agenda is attached. The following issues were covered at the meeting: (a) linkages to the adjustment program; (b) project scope; (c) credit conditionality; (d) the social safety net program; (e) imple- mentation; (f) supervision; (g) sustainability; and (h) disbursement arrangements.

Linkages to the Adjustment Program

2. The Chairman noted the numerous issues of concern to the members of the Committee reflected in the extensive agenda. He asked the Region to start by clarifying how the proposed operation was linked to the process of reform in India. The Region explained that the Program for Strengthening the Social Safety Net was an integral part of the adjustment program and outlined six major linkages. These were that: (a) the social costs of adjustment were already real; 20,000 workers were retrenched in 1991/92 with some form of severance pay; 70,000 workers have been locked-out/laid-off and are awaiting some form of severance pay; 100,000 workers have been identified and programmed for retrenchment in FY92/83; and 300,000 employees are at risk of retrenchment in the chronically sick PSEs from which GOI has withdrawn budget support as well as credit. With the removal of administered prices and inflation, the price of basic food items and other primary articles which are in the consumption basket of the poor have risen significantly over the past year while per capita consumption has been stagnant over the past two years; (b) the operation will enhance the quality of the ongoing fiscal adjustment. Indiscriminate budget cuts across all programs have also been a major concern of the IMF and other donors; (c) the social safety net program makes a contribution to the political sustainability of the adjustment program; (d) the operation would significantly enhance the quality of on-going and planned

IDA investments in the social sectors; (e) the operation would serve as a catalyst for substantial quick disbursing co-financing from other donors; and (f) the proposed operation has already generated significant up-front actions on the part of the Government.

3. The Region explained why the adjustment lending instrument was being used for this operation. It was pointed out that India still had a balance of payments problem although the pressure had eased somewhat over the past year as a result of the stabilization and reform program which the Bank/IDA is supporting. India still required some US$3 billion per year in exceptional financing over the next 2-3 years and this was confirmed and supported at the Consortium meeting in June. The India Country Assistance Strategy was explicit in describing and providing the rationale on how the Region would tailor its assistance to meet this exceptional financing requirement. A sector adjustment credit in support of the Government's safety nets is part of the lending strategy set out in last year's Country Strategy Paper(CSP). It is also featured in the CSP up-date which is presently before management.

4. The Region also confirmed that the Credit would only be brought to the Board and the second tranche released, if the overall adjustment program continues to conform to the agreed macroeconomic framework and the public expenditures to be allocated for the social safety nets are consistent with the overall fiscal targets of the adjustment program.

Project Scope

5. The Committee raised serious concerns about the inclusion of the education component in the proposed project, questioning its relevance to social safety nets, the appropriateness of using an adjustment loan as the vehicle for long term changes, and evidence of the long term commitment of the Government to the sector. The Region explained that the scope of the project conformed to the Government of India's (GOI) definition of the "social safety net." In its specific focus, the Program supported by the sector adjustment credit also provided the opportunity for the Bank to agree with GOI on an "umbrella" of reforms which would improve the policy and institutional environment for specific ongoing and planned IDA investment operations. The Region emphasized that the proposed social safety net operation was designed to support policy changes which address major cross-cutting issues of financing, targeting, efficiency and effectiveness which affect the social sector programs which IDA is supporting through investment credits.

6. While primary education seemed only tangentially related to the adjustment process, it was one of the priority programs which the Government was committed to protect and significantly enhance in the fiscal adjustment process. In addition, it was pointed out that India's performance in the area of basic education has been poor relative to most other countries at similar levels of income and that the reform program which the GOI would introduce for primary education was indeed significant. The Region mentioned the new national district-based Primary Education Improvement Initiative which would be launched as part of the Program, the targeting of the educationally backward districts for priority attention, the new funding mechanism which would ensure that

Central resources are channelled to these targeted districts, and the use of local-level institutions to implement district specific primary education programs. The Region noted that this was a major break from the past and the fact that the GOI was using the opportunity of the adjustment process to affect this change. This new approach would serve as an umbrella for expanded Bank lending to the individual states in education within the next two years.

Credit Conditionality

7. In response to the concern that the matrix seemed to have few concrete actions for second tranche release, the Region explained that the conditionalities as outlined in the Draft Policy Matrix, especially the actions to be completed by Board Presentation, would go substantially beyond the initiation of reviews and studies. Details of policy and program modality would be discussed and agreed with the Bank during appraisal and negotiations. The matrix did not properly reflect the monitorable actions to be agreed. The Region agreed to document the specific and monitorable measures agreed during negotiations. GOI would be expected to have provided and deployed sufficient budgetary resources in the FY93/94 budget to support the implementation of the agreed policy reforms and program enhancements.

Social Safety Net Program

8. The Region explained that the National Renewal Fund (NRF) was an essential part of the GOI's industrial sector reform effort and that labor retrenchment was the first step in a process which included disinvestment, closure and liquidation of assets in the case of chronically sick enterprises, and the restructuring of some of the more viable PSEs. Government has already acted on the textile industry. The Region was prepared to support the industrial restructuring program through policy-based lending and the first of such operations is scheduled for FY94. The Region also explained that operational details will be provided for the FY93 and FY94 Business and Financial Plans of the NRF as regards both the sources and uses of funds. It was pointed out that the expected business of the NRF in FY92/93 would involve severance pay and voluntary retirement emoluments to over 100,000 surplus PSE workers plus the unpaid claims due to another 70,000 workers who had already been laid off. Progress on these fronts will be assessed during appraisal. The financial obligations of the NRF are estimated at about US$400.0 million in FY92/93 alone when the costs of retraining and targeted employment generation costs are included.

9. The Chairman requested that the documentation discuss the broader dimensions of the ongoing industrial and PSE reform program, including, inter alia, an explanation of the Business and Financial plans, the restructuring plan and mechanisms, enterprises tagged, cost estimates of retrenchment and per capita costs.

10. In response to a question on the Public Distribution System (PDS), the Region explained that while the GOI had included the reform of the PDS in its Program for Strengthening the Social Safety Net, it was insistent that for political reasons, it would prefer to proceed with the

reform at a pace not overtly linked to the proposed operation. The Region explained further that while it proposes to respect the wishes of GOI on this matter, it had made it clear to GOI that given the importance of PDS for the management of agricultural production incentives, the reduction ofthe budget deficit, and the broader objectives of food security, Government must clearly outline in the Letter of Development Policy the specific steps it has taken and is planning to take to revamp the PDS. This approach would be satisfactory provided adequate upfront action on the PDS is taken prior to Board Presentation.

Implementation

11. The Region explained that the Center addresses implementation of social programs by and in the States, by providing or withdrawing financial and budgetary support for these programs as well as controlling the design and monitoring of centrally funded programs rather than by direct implementation. The Region pointed out that experience over the years with social sector operations, indicates that through the financing of such programs, and through the support of the States' development budgets, the Center has shown the ability to achieve changes in State government policies and actions in the social sectors. The Program would give specific attention to budgetary mechanisms which would enhance the Center's ability to influence the deployment of funds at the state level. The Committee indicated that the project documentation should include a discussion of the level of support for these activities by the States, and their implementation capacity. If tranche conditionality requires actions by the States, disbursement can only take place upon completion of these actions by the States.

Supervision

12. The Region confirmed that a detailed program implementation plan would be agreed at appraisal and confirmed during negotiations.

Sustainability

13. The Region confirmed that the Program for Strengthening the Social Safety Net is sustainable. It was explained that the Program was a multi-year effort even though the conditionality referred only to the FY 93/94 budget. The commitment to provide adequate resources for the social sectors would be monitored as part of the overall fiscal adjustment program, and in the context of the complimentary education, health and nutrition investment operations which will follow this adjustment credit in FY94 and FY95. The sustainability analysis would also be reinforced by the Public Expenditure Review which the Bank is presently undertaking. The Region also indicated that the incremental resources for the social safety net, while substantial, would represent a small share of overall GOI expenditures. It was noted that by 1994 the process of fiscal deficit reduction would have been essentially completed and the planned increases in social spending could be readily accommodated within reordered priorities. It was also noted that GOI intends to undertake a major tax reform program which should enhance revenue buoyancy. The Chairman asked

that the Board documentation be explicit about this analysis and GOI's plans and present the program in the context of the ongoing fiscal adjustment.

Disbursement Arrangements

14. The Region agreed that a Special Account of US$200.0 million was not required to achieve the objectives of this operation.

Conclusion

15. The Committee indicated that, in addition to the points mentioned above, the project documentation should explain more fully the justification for an adjustment operation, the underlying conditions affecting the social sectors, the shifts in policy envisaged by the operation, the financial and institutional sustainability of the programs, and the commitment of the central and state government bodies.

16. The Loan committee authorized the Appraisal Mission to proceed. The Back-to-Office Report of the Appraisal Mission will be circulated to the members of the Loan Committee.

Attachment

Cleared with and cc: Mr. Vergin

cc: Messrs./Mmes. Stern, Sandstrom, Mohadjer (EXC); Rajagopalan (PRSVP); Karaosmanoglu (EXC); Summers (DECVP); Linn (FPRVP); Kashiwaya (CFSVP); Shihata (LEGVP); Jaycox (AFRVP); Kaji (EAPVP); Thalwitz (ECAVP); Koch-Weser (MNAVP); Husain (LACVP); Wood, Nankani, Drysdale (SAVP); Salop (OSPVP); Sud (CFSDR); Grilli (DPG); Nishimizu (FRSDR); Raghavan (LOADR); Hamilton (PHRDR); Socknat (ASTPH); Humphrey (SA2DR); Shirazi (SA2CI), Panfill (SA2IN); Barghouti (SA2AG); Bauer (SA2EG), Skolnik (SA2PH); Newport, Gopal (LEGAS); Goldsbrough (IMF)

Institutional ISC Files
Asia Information Center

RCambridge:swp

Country: India Delegation: Dr. Manmohan Singh, MOF
September 20, 3:00 p.m. Mr. Venkitaramanan, Gov. Reserve BOI

BACKGROUND

- It is one year since the present Government has come to power.
- The economy has improved - immediate balance of payments problems have been overcome, and macroeconomic imbalances have been reduced.
- Industrial, trade and financial policy changes have led to the liberalization of the economy.
- Recent reforms include fertilizer price decontrol; 18% increase in petroleum produce prices; guidelines for portfolio investment; approval of partial divestment of government shares.
- Reform still needed in tax system, financial & public enterprise sectors.
- External financing requirements are US$10-12 billion per year (gross flows) over the next five years.
- FY93 lending expected at US$3b, one-third of which is for adjustment, one-third for investment loans dependent on sectoral policy changes.
- The Bank is preparing four adjustment operations for FY93, totaling about US$1.75b: Social Safety Net Credit (US$500m); Hydrocarbon Sector Loan (US$350m); Financial Sector Adjustment Loan (US$400m); and Trade Adjustment Loan (US$500m).
- Foreign direct investment averaged only US$300m per year in late 1980s.
- A Debt Management Committee has been established to provide central oversight of all external borrowing.
- EFF discussions with Fund will proceed this Fall and will be finalized after the budget presentation in Spring 1993.
- IFC has large program (US$768m - 9/6% of total portfolio), and has expanded its New Delhi Office to handle increased volume of operations.
- India has signed MIGA Convention, but needs encouragement to ratify it and complete initial capital subscription during FY93.

POINTS TO MAKE TO THE DELEGATION

1. Bank Support for India's Adjustment Program. The Bank is ready to support the Government's adjustment program, and to help deepen and accelerate it in important areas. Four adjustment operations are under preparation. Progress on these operations depends on the Government's willingness to proceed with policy reforms, especially in commercialization of public enterprises. You may wish to seek their thoughts on the timing and preparation of the Finance and Trade loans.
2. Shortage of Quality Investment Lending Operations. The lending outcome for FY93 is uncertain due to the lack of quality projects and unresolved sector policy issues. Emphasize that sectoral reform is an integral part of the overall reform effort.
3. Debt management. Commend Government's new approach to external debt management, and endorse the cautious approach. Stress need for careful management of re-entry into international capital markets. Efforts should be made to mobilize non-debt capital flows.

IF THE DELEGATION RAISES THE ISSUE OF

1. Utilization of IDA cost savings
   You may indicate that the Bank is studying the issue to find measures to address these problems.
2. Upcoming visit to India
   You could mention your interest in discussing the principal macroeconomic reform issues, seeing first-hand rural and urban poverty, and meeting members of industrial and financial communities.

Population (1990):	848 m	FY93 Commitments:	US$ 2191.5 m
GNP per capita (1991):	US$ 330	Disbursements:	US$ 2229.8 m
GDP growth (1991):	5.6%	Lending Program (FY93-95):	US$ 9138.0 m

1992 ANNUAL MEETINGS

INDIA

SENIOR MANAGEMENT UPDATE (BULLET POINTS)

1. Extended Fund Facility (EFF)

EFF discussions with the Fund will proceed this Fall (the original brief indicated they had been delayed); however, finalization of the EFF would not take place until March/April 1993 after the budget presentation.

2. The Pace of Reforms

The Government has recently taken a number of significant actions as part of the stabilization and reform program:

- the prices of phosphatic and potassic fertilizers were decontrolled in early September but the controlled price of urea was reduced by 10%. While the total package will reduce the fertilizer subsidy significantly, the reduction of urea prices was a regressive measure putting these prices even further below border prices;

- substantial increases in petroleum product prices (18% weighted average) were announced on September 15. This will enable the previously accumulated deficit on the oil pool account to remain at about Rs. 50 billion. In the absence of this adjustment, the deficit this year would have increased by more than Rs. 20 billion;

- guidelines for portfolio investment have been issued which should provide a significant stimulus in attracting foreign equity investments; and

- Cabinet has cleared further partial divestment -- up to 20% of total shares -- of some public enterprises through an open auction, with the first tranche to be sold by September 26.

You should congratulate the Government for taking these positive measures. You should, at the same time, indicate that the international community is expecting the reforms to continue at a faster pace, especially in the areas of trade liberalization, financial sector reforms and public enterprise restructuring. In addition, you may want to stress that proceeding with the next Bank adjustment operation (Trade Adjustment and/or the Financial SAL) in the near future would provide important reaffirmation to the international financial community that the momentum of reforms is being sustained.

3. Social Safety Net Adjustment Operation

The Loan Committee cleared on September 16 this $500 million IDA credit for appraisal.

1992 ANNUAL MEETINGS BRIEF

INDIA September 20, 1992 at 3:00 P.M.

Meeting with: Dr. Manmohan Singh, Minister of Finance
Mr. S. Venkitaramanan, Governor, Reserve Bank of India
Mr. Montek Singh Ahluwalia, Secretary, Economic Affairs

Population: 848 m (1990); **Estimated Growth Rate:** 2.0% (1991)

GNP per capita: $330 (1991)

	(US$ million)		(US$ million)
Total Commitments to FY92:	39,774.8	**FY92** Commitments:	2191.5
of which:		Disbursements:	2229.8
Bank (147 operations)	20,599.2	Amortizations:	702.7
IDA (186 operations)	19,175.6		
Total Undisbursed	11,608.8		
Lending Program FY93-95:	9,108.0		

Summary Data	Average 1987-91	Projection 1992	
GDP growth	5.6	3.0	Aid Group Meeting: Consortium
Export growth	6.4	4.4	Last Meeting: 06/25-26/92
Import growth	1.1	13.7	IMF Status as of: Sept 1992
Current Acc. Balance % GDP	-2.6	-2.3	- Standby approved Oct 91; EFF
Debt service Ratio (LT)	28.7	27.6	discussions delayed until after
Annual Inflation Rate	9.7	10.1	March 1993 budget.

Background: India has made significant progress in overcoming the immediate balance of payments crisis and initiating a major transformation of its development strategy, including radical industrial, trade and financial policy changes. Key areas for accelerating the reforms include the tax system, financial sector and public enterprises. Also, public expenditures for infrastructure and social programs need to be protected and made more efficient. The Bank and the IMF are actively supporting the reform effort through policy based lending.

Issues Likely to be Raised by Delegation:
1. Bank support for adjustment program
2. IDA project cost savings / reduction in IBRD/IDA cost sharing following expiration of the Gulf Emergency measures
3. Mr. Preston's India visit

Issues to be Raised by Bank Management
1. Bank lending in support of adjustment
2. Shortage of quality investment lending operations
3. Debt Management

Attachments:
Five Year Lending Program: FY92-96 (FY92 actual)
Biographical Information

1992 ANNUAL MEETINGS
INDIA: SENIOR MANAGEMENT BRIEF

Background

1. In just over a year since the present Government came to power, having inherited an economy in crisis, it has overcome the immediate balance of payments problems and reduced macroeconomic imbalances, as well as initiated a major transformation of India's development strategy. Radical industrial, trade and financial policy changes over the last year have made significant strides in the liberalization of what was one of the most closed and regulated economies in the world. If sustained in line with the Government's medium-term objectives, the reform program should put India on a sustainable high growth path.

2. Key areas in which the pace of reform needs to be accelerated include the tax system, financial sector and public enterprises. Also, the quality of the ongoing fiscal adjustment needs to be examined so as to protect and increase the efficiency of public expenditure for infrastructure and social programs. India's external financing requirements are expected to be in the order of $10-12 billion per year (gross flows) over the next five years. Increased reliance on foreign investments is essential to its resource mobilization strategy. Furthermore, there is need for more efficient use of the aid resources that are mobilized, and a reduction in the volume of debt committed but undisbursed. It should be noted that the EFF discussions with the IMF have been postponed from Fall until after the March 1993 budget.

Issues Likely to be raised by the Delegation

3. The Delegation is likely to raise three issues: (a) the level and timing of Bank support for India's adjustment program; (b) IDA project cost savings and reversion of the higher disbursement percentages approved under the Gulf Initiative; and (c) Mr. Preston's visit. These issues and suggested responses are elaborated below.

Issues to be Raised by Management

Bank Lending in Support of Adjustment

4. You should reconfirm the readiness of the Bank to support the Government's adjustment program and help to deepen and accelerate it in important areas. For FY93 work is proceeding on preparation of four operations: (a) the Social Dimensions of Adjustment Credit ($400-500 million) is on track for Board presentation in Nov/Dec - the successful implementation of this operation would result in a major change in the way social sectors are treated in India through enhancing their priority in resource allocation, increasing the absolute volume of resources going to the sectors, more explicit targeting of the poorest districts and increased cost effectiveness of programs; (b) a Hydrocarbon Sector Loan ($350 million) is under preparation which would support policy reforms designed to reverse the declining trend of oil output and improve the efficiency of the sector by encouraging private investment, both domestic and foreign; and (c) policy discussions about a Financial Sector Adjustment Loan ($400 million) and a Trade Adjustment Loan ($400-500 million) are proceeding. You should ask the Minister to outline the Government's latest thinking on the timing of preparation of the latter two operations and about the readiness of the

Government to accelerate the reform and, where necessary, retrenchment of India's public sector enterprises. In this context, you should emphasize the importance of making significant progress in the "commercialization" of public enterprises.

Shortage of Quality Investment Lending Operations

5. You should emphasize the uncertainties surrounding the overall IBRD and IDA lending outcome for FY93 due to the lack of quality projects, reflecting largely the prevalence of unresolved sector policy issues (e.g., inadequate tariffs in power and water supply and inefficient contracting arrangements in infrastructure projects). Of the approximately $3 billion total planned lending in FY93 about one third is in the form of policy-based adjustment lending and about another one-third comprises investment lending operations which for their feasibility are dependent on sector policy improvements. You should stress that reforms at the sectoral level must be an integral part of the overall reform effort and that the Bank's ability to deliver the planned volume of lending will depend critically on progress in a significant range of sector policy reforms involving, in many cases, actions at the state level.

Debt Management

6. You should congratulate the Minister on the Government's new approach to external debt management (a Debt Management Committee, chaired by the Secretary, Department of Economic Affairs has recently been established to provide central oversight of all external borrowing). You might also endorse the cautious approach adopted by Government and stress the need for very careful management of the re-entry into international capital markets in order to restore over the medium term the best possible terms for India's borrowings. Simultaneously, every effort should be made to mobilize non-debt capital flows. In the late 1980s, foreign direct investment averaged less than $300 million p.a. - only 3% of the external current account compared with about 30% for China. You should commend the efforts already taken to improve the investment climate (including liberalizing the foreign investment code to allow foreign capital ownership of up to 51% in selected industries and up to 100% in special cases and drastically reduced controls over firms' entry, expansion and diversification) and encourage continued efforts in this area. You might note that GOI has asked IFC's assistance in reviewing India's foreign investment code and express the hope that the recommendations would be implemented expeditiously.

Mr. Preston's India Visit

7. With reference to the preparations for your proposed visit, the Delegation may ask about the main themes you would like to pursue during your stay. As discussed, we had suggested that the visit provide: (a) exposure to the principal macroeconomic reform issues; (b) a feel for the problems of rural and urban poverty in the context of social/urban sector activities which the Bank is helping to finance; and (c) an opportunity to meet members of the industrial and financial communities so as to better understand the environment affecting private sector development.

ANNEX 1

India: Lending Program: FY92-96 [Draft]
(US$ millions)

	FY92 (ACTUAL)		FY93		FY94		FY95		FY96	
	IBRD	IDA	IBRD	IDA	IBRD	IDA	IBRD	IDA	IBRD	IDA
Adjustment Lending										
Oil & Gas Sector Dev	150.0									
SAL I	250.0	250.0								
FSAL I			400.0							
Soc'l Dimens of Adj I				400.0						
Trade Adj/Trade Logists			220.0	280.0						
Oil & Gas Dev II			350.0							
Publ Ent/Priv Sec Dev I					300.0	100.0				
SAL II					500.0					
FSAL II							400.0			
Total Adjust Lending	400.0	250.0	970.0	680.0	800.0	100.0	400.0	0.0	0.0	0.0
Non-Adjustment lending										
Agriculture										
Maharashtra Forestry		125.0								
Shrimp & Fish Culture		85.0								
W. Bengal Forestry		34.0								
Rubber				92.0						
ADP Rajasthan				105.0						
Bihar Plateau				117.0						
UP Sodic Lands Reclam				100.0						
Water Resources Consol I						200.0				
Sardar Sarovar Can II					200.0	150.0				
ADP Karnataka						100.0				
AP Forestry/FRET						125.0				
Rural Credit Program							50.0	250.0		
Nat Agric Research II								200.0		
ADP IV								100.0		
HP Forestry								125.0		
ADP V										150.0
(S)Water Resources Cons II										250.0
Ag Uniden										100.0
Energy										
Power Util Eff Improv	265.0									
Maharashtra Pow II	350.0									
NTPC Power Generation			400.0							
NPTC Power System			350.0							
Power - SEB Restruct					300.0					
Gas Infrast Dev					200.0					
(S)Renewable Resources Dev					75.0	100.0				
Power Util Eff Impr II							300.0			
NTPC Power Generation II							400.0			
Power (Uniden)									300.0	
Power (Uniden)									300.0	
Energy (Uniden)									300.0	
Non-Adjust Lending (ctd)										
Industry and Finance										
Indust Poll'n II							100.0	30.0		
Financial Interm I									300.0	
Transport										
Nat. Highways II	153.0	153.0								
Port Modernization					200.0					
National Highways III					300.0					
National Highways IV							300.0			
Transport (Uniden)									300.0	
Urban and Water										
Karnataka WS & Env/San				100.0						
(S)Kerala Urban							100.0			
Urban (Uniden)									200.0	
Water (Uniden)										100.0
Popul'n and Human Res										
Mat'l & Child Hlth I		214.5								
Population VIII		79.0								
AIDS Prev & Control		84.0								
ICDS II (Bihar & MP)				194.0						
Basic Education I				175.0						
Leprosy Control				110.0						
Population IX						150.0				
Blindness Control						90.0				
(S)ICDS III								150.0		
Basic Education II								150.0		
Education (Uniden)										200.0
Population (Uniden)										100.0
Health (Uniden)										100.0
Total Nonadjust Lending	768.0	774.5	750.0	993.0	1275.0	915.0	1250.0	1005.0	1700.0	1000.0
Total Lending	1168.0	1024.5	1720.0	1673.0	2075.0	1015.0	1650.0	1005.0	1700.0	1000.0

(S) Standby operation

BIOGRAPHICAL INFORMATION

Dr. Manmohan Singh, Finance Minister (Governor, World Bank)

Dr. Singh (age 59) has extensive Government experience, having held the positions of Finance Secretary, Governor of the Reserve Bank of India, Deputy Chairman of the Planning Commission and Economic Advisor to former Prime Minister Chandrashekar. He has a D. Phil from Oxford and was a professor at the Delhi School of Economics from 1969-1971. He has been the architect of the stabilization and economic reform program over the last 15 months. He is clearly determined to pursue economic reforms but, at the same time, is very conscious of the political and institutional constraints to the rapid implementation of major changes.

Mr. S. Venkitaramanan, Governor, Reserve Bank of India (Alternate Governor, IMF)

Mr. Venkitaramanan (age 61) was appointed Governor of the Reserve Bank of India in December 1990 after retiring as Finance Secretary in the Rajiv Gandhi Government in March 1989. He is about to retire from public service. He has had a long and distinguished career and is highly respected domestically and internationally.

Mr. Montek Singh Ahluwalia, Secretary, Economic Affairs (Alternate Governor, World Bank)

Mr. Ahluwalia was appointed Secretary, Economic Affairs in the Ministry of Finance in late 1991, after serving for a short time under the Narasimha Rao Government as Secretary of Commerce. Previously he had served as Special Secretary in the Prime Minister's Office under Rajiv Gandhi, V. P. Singh and Chandrashekar. In the 1970s he worked at the World Bank as a division chief in the Development Research Center.

THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

TO: Members, Loan Committee

FROM: Ernest Stern, Chairman, LC

DATE: September 14, 1992

SUBJECT: India

Attached is the agenda for the Loan Committee meeting on Wednesday, September 16, to discuss the proposed adjustment credit to India, in support of Strengthening Social Safety Nets.

The meeting will be held in Room E-1208 at 10:00 am.

Distribution:

Members: Messrs. Kashiwaya, Linn, Rajagopalan, Shihata, Summers

cc: Messrs. Karaosmanoglu, Wood,Vergin, Kaji, Husain, Thalwitz, Jaycox, Koch-Weser; Mss. Armitage, Mohadjer; IISC

P-1867

LOAN COMMITTEE AGENDA

India - Strengthening Social Safety Nets

1. Linkages to the Adjustment Program

- How will the proposed loan further the process of reform in India? Reforms so far, in the areas of trade and deregulation, have not had any negative social impact. Restructuring and privatization of state enterprises, which the National Renewal Fund (NRF) would address, have not yet begun.

- Would the Region confirm that the Credit will be brought to the Board and the second tranche will be released only if the overall adjustment program, including the macroeconomic policies, are on track and that the public expenditures to be allocated for the social safety nets are consistent with the overall fiscal targets the adjustment program.

- What is the status of the retrenchment in and restructuring of public enterprises that in turn warrant the funding of the National Renewal Fund? There is no indication of the expected demand on the NRF; what would constitute making it operational; or how we expect to define efficiency of operations?

2. Project Scope

The scope of the proposed Credit is very broad. Improvements in some sectors, such as education and health, require time consuming activities in institution building, training, government activities, and are therefore more suited to investment loans. Moreover, education is only tangentially related to safety net concerns. Should the scope of the Credit be reduced and investment loans in education, health, and child development be designed to meet the problems discussed in the Initiating Memorandum?

3. Credit Conditionality

According to the policy matrix, most steps yet to be completed by Board presentation involve the initiation of reviews, studies, and strategy formulation, and second tranche release conditions consist mainly of completion of these studies with start-up of implementation. Could the Region clarify:

- the extent to which actions have already been taken which would justify this Credit;

- what, if any, specific policy or institutional reform measures will be added during appraisal;

- reasons for not insisting that agreed policy measures would be prepared and adopted by Board, and their implementation would be evaluated by second tranche.

4. Social Safety Net Program

- Given the extensive work done in India to identify vulnerable groups, could the Region identify which groups are most affected by the adjustment process, and how?

- The urgently needed improvements in the Public Distribution System and the Jawahar Rozgar Yojana do not feature in the policy matrix. What is the likely scope of the improvements to be made in these programs? What form will they take? How will they be monitored? How will performance affect this and future Bank operations?

- Could the Region explain the modalities of the planned operation of the National Renewal Fund? What is the Bank's role in the formulation of the FY93 and FY94 Business and Financial Plans?

- Could the Region explain the strategy for addressing critical labor market issues, beyond the retrenchment of workers displaced as a result of public enterprise reform, in terms of their importance for adjustment and poverty reduction?

- If the education component is to be retained, what measures can be agreed to increase the levels and efficiency of education spending or to improve recovery rates in secondary and university education? Can retention rates in primary schools, especially for female students in rural areas, be improved with the proposed education programs?

5. Implementation

The reluctance of the States to participate, and institutional weakness are cited as critical risks. Could the Region explain how these risks will be dealt with? What specific actions will be agreed during appraisal?

6. Supervision

Given the complexity of the Credit, will a detailed implementation plan be agreed at appraisal as a basis for effective supervision?

7. Sustainability

Program continuity is essential, yet the only conditionality in the loan is that the Government make adequate budget provision in the FY93/94 budget. How sustainable beyond 1993/94 is the additional social sector expenditure of the Government? Can the program continue after the Credit is fully disbursed? What impact will the project have in facilitating the flow of external official and private resources?

8. Disbursement Arrangements

- How does the Region justify external borrowing for essentially local cost expenditures? No analysis is provided indicating that domestic financing alternatives are not feasible and that additional external debt for this purpose is warranted.

- What is the rationale for a Special Account of US$200 million on top of retroactive financing of US$100 million?

FY92 - FY94 LENDING PROGRAM FOR INDIA
($ MILLIONS)

FISCAL YEAR	PROJECT	NAME	LEND INST	BOARD DATE	IBRD ($m)	IDA (SDRm)	IDA ($m)	TOTAL ($m)
92	8INDPA303	POWER UTIL EFFIC IMPROVEMENT	INV	01/28/92	265.0			265.0
	8INDPA336	SHRIMP & FISH CULTURE	INV	01/14/92		62.9	85.0	85.0
	8INDPA361	NAT. HIGHWAYS II	INV	05/12/92	153.0	116.2	153.0	306.0
	8INDPA378	POPULATION VIII	INV	06/18/92		57.7	79.0	79.0
	8INDPA421	MAHARASHTRA POWER II	INV	06/25/92	350.0			350.0
	8INDPA425	MAHARASHTRA FORESTRY	INV	01/14/92		88.9	124.0	124.0
	8INDPA428	WEST BENGAL FORESTRY	INV	03/17/92		24.4	34.0	34.0
	8INDPA432	HEALTH I (MCH)	INV	09/17/91		160.9	214.5	214.5
	8INDPA442	SAL I	ADJ	12/05/91	250.0	183.8	250.0	500.0
	8INDPA457	OIL & GAS SECTOR DEVELOPMENT	ADJ	07/23/91	150.0			150.0
	8INDPA459	AIDS PREVENTION AND CONTROL	INV	03/31/92		59.8	84.0	84.0
SUB-TOTAL 92					1168.0	754.6	1023.5	2191.5
93	8INDPA322	TRADE ADJMT/TRADE LOGISTICS	ADJ	05/18/93	220.5	188.5	279.5	500.0
	8INDPA323	OIL & GAS DEVT II	INV	03/16/93	350.0			350.0
	8INDPA370	BASIC EDUCATION I	INV	05/25/93		118.0	175.0	175.0
	8INDPA374	RUBBER	INV	07/02/92		66.4	92.0	92.0
	8INDPA376	UP SODIC LANDS RECLAMATION	INV	05/18/93		67.4	100.0	100.0
	8INDPA385	FINANCIAL SAL I	ADJ	05/25/93	400.0			400.0
	8INDPA392	ICDS II (BIHAR & MP)	INV	11/24/92		141.6	194.0	194.0
	8INDPA402	SOCIAL DIMENSIONS I	ADJ	12/01/92		269.7	400.0	400.0
	8INDPA419	ADP - RAJASTHAN	INV	10/27/92		70.8	105.0	105.0
	8INDPA422	NTPC POWER GEN	INV	03/30/93	400.0			400.0
	8INDPA431	BIHAR PLATEAU	INV	11/17/92		78.9	117.0	117.0
	8INDPA435	KARNATAKA WS & ENV/SANIT.	INV	03/30/93		67.4	100.0	100.0
	8INDPA454	LEPROSY CONTROL	INV	05/25/93		74.2	110.0	110.0
	8INDPA464	NPTC POWER SYSTEM	INV	02/16/93	350.0			350.0
SUB-TOTAL 93					1720.5	1142.9	1672.5	3393.0
94	8INDPA352	SARDAR SAROVAR CANAL II	INV	11/30/93	216.6	90.0	133.4	350.0
	8INDPA379	WATER RES CONSOLID I	INV	12/21/93		134.9	200.0	200.0
	8INDPA387	NATIONAL HIGHWAYS III	INV	12/28/93	300.0			300.0
	8INDPA398	PORT MODERNIZATION	INV	12/07/93	200.0			200.0
	8INDPA415	POWER-SEB RESTRUCTURING	ADJ	11/23/93	300.0			300.0
	8INDPA423	GAS INFRASTRUCTURE DEVT LOAN	INV	11/30/93	200.0			200.0
	8INDPA426	ADP KARNATAKA	INV	09/28/93		67.4	100.0	100.0
	8INDPA439	PUBLIC ENT/PRIVATE SEC DEVT I	ADJ	12/14/93	300.0	67.4	100.0	400.0
	8INDPA449	RENEWABLE RESOURCES DEVT	INV	11/24/92	75.0	67.4	100.0	175.0
	8INDPA452	AP FORESTRY/FRET	INV	09/14/93		84.3	125.0	125.0
	8INDPA456	BLINDNESS CONTROL	INV	03/15/94		60.7	90.0	90.0
	8INDPA463	POPULATION IX	INV	03/29/94		101.2	150.0	150.0
	8INDPA469	SAL II	ADJ	05/24/94	500.0			500.0
SUB-TOTAL 94					2091.6	673.3	998.4	3090.0

Run Time: 09/14/92 at 11.47.52

INDIA
PFDBR21 - Country Summary Table: Net Transfers and Portfolio Status
(LOA data as of 7/30/92)

IBRD, IDA, and Special African in millions of U.S.$
By Country
Country: INDIA

	FY86C	FY87A	FY88A	FY89A	FY90A	FY91A	FY92A	FY93A
I. Resource Transfer								
A) Approved	24,779.09	2,805.60	2,972.20	3,036.60	1,940.40	2,049.40	2,191.50	92.00
B) Cancellations *	2,155.93	380.08	82.26	236.28	123.41	10.00	.	.
C) Net Approved Amt. (A-B)	22,623.16	2,425.52	2,889.94	2,800.32	1,816.99	2,039.40	2,191.50	92.00
D) Disbursements	13,797.57	1,519.15	2,225.43	2,359.30	1,991.64	1,900.79	2,229.79	108.65
E) Amortization - Market	1,874.26	233.65	519.91	378.37	474.69	594.54	702.69	142.57
F) Net Flow (D-E)	11,923.31	1,285.50	1,705.52	1,980.93	1,516.95	1,306.25	1,527.10	-33.92
G) Interest	1,382.79	1,035.97	549.63	579.34	643.56	748.00	783.96	122.42
H) Net Transfer								
Annual (D-E-G)	10,540.52	249.53	1,155.89	1,401.59	873.39	558.25	743.14	-156.34
Cumulative	10,540.52	10,790.05	11,945.94	13,347.53	14,220.92	14,779.17	15,522.31	15,365.98
I) Cum. Undisbursed Bal.	8,825.59	9,731.95	10,396.47	10,837.49	10,662.84	10,801.45	10,763.16	10,746.51
II. Summary Status Of Portfolio								
A) No. Projects in Portfolio **		116	112	117	112	109	117	107
B) Disbursements During FY								
1. Revised Forecast		2,918.40	3,065.99	2,957.10	2,108.14	2,151.12	3,211.38	2,500.53
2. Actual Disb. To Date		1,519.15	2,225.43	2,359.30	1,991.64	1,900.79	2,229.79	108.65
Gap (1. minus 2.)		1,399.25	840.56	597.80	116.50	250.33	981.59	2,391.88
III. Memo Items ***								
A) % Change In Cumulative								
Approved Amt.	.00	10.72	11.54	10.02	5.91	6.26	6.33	.25
Disbursements	.00	11.01	14.53	13.45	10.01	8.68	9.37	.42
B) Disb. Factor	.00	17.21	22.87	22.69	18.38	17.83	20.64	1.01

Note: * Cancellations are aggregated here by fiscal year of approval.
** A project in the Portfolio is approved, not closed, with a loan balance in excess of 100,000 $ for loans, & 100,000 SDRs for credits.
If a project closes during the fiscal year, it is considered active until the end of the fiscal year.
*** Change of approved amount is approved amount minus cancellations divided by the cumulative of the approved amount minus cancellations from previous years.
Chnage of disbursements is disbursements divided by cumulative disbursements from previous years.
Disbursement factor is the disbursements divided by cumulative previous years approved amount minus cancellations minus disbursements.
+++ Historical interest data is from Financial Data Base. At this time the data does not match the Loan Dept data. as soon as it is corrected, the MIS data will be corrected.

Within the fiscal year headings, the following codes apply: C-cumulative, A-actual

Run Time: 09/14/92 at 11.47.52

INDIA
PFDBR21 - Country Summary Table: Net Transfers and Portfolio Status
(LOA data as of 7/30/92)

IBRD only in millions of U.S.$
By Country
Country: INDIA

	FY86C	FY87A	FY88A	FY89A	FY90A	FY91A	FY92A	FY93A
I. Resource Transfer								
A) Approved	10,691.91	2,128.00	2,255.00	2,136.30	1,108.00	1,112.00	1,168.00	.
B) Cancellations *	1,479.56	310.50	51.75	197.30	80.00	10.00	.	.
C) Net Approved Amt. (A-B)	9,212.35	1,817.50	2,203.25	1,939.00	1,028.00	1,102.00	1,168.00	.
D) Disbursements	3,792.28	831.57	1,333.62	1,739.01	1,396.84	1,070.25	1,228.00	61.23
E) Amortization - Market	1,616.42	171.35	448.42	292.71	376.52	473.53	558.53	127.95
F) Net Flow (D-E)	2,175.86	660.22	885.20	1,446.30	1,020.32	596.72	669.46	-66.72
G) Interest	857.17	960.41	457.17	482.81	554.20	649.66	682.29	110.70
H) Net Transfer								
Annual (D-E-G)	1,318.69	-300.19	428.03	963.49	466.12	-52.94	-12.83	-177.42
Cumulative	1,318.69	1,018.50	1,446.53	2,410.02	2,876.14	2,823.20	2,810.37	2,632.95
I) Cum. Undisbursed Bal.	5,420.07	6,406.00	7,275.63	7,475.62	7,106.78	7,138.53	7,078.54	7,017.31
II. Summary Status Of Portfolio								
A) No. Projects in Portfolio **		47	54	63	68	71	74	70
B) Disbursements During FY								
1. Revised Forecast		1,478.53	1,900.23	2,050.66	1,500.36	1,254.34	2,356.23	1,351.05
2. Actual Disb. To Date		831.57	1,333.62	1,739.01	1,396.84	1,070.25	1,228.00	61.23
Gap (1. minus 2.)		646.96	566.61	311.65	103.52	184.09	1,128.23	1,289.82
III. Memo Items ***								
A) % Change In Cumulative								
Approved Amt.	.00	19.73	19.98	14.65	6.78	6.80	6.75	.00
Disbursements	.00	21.93	28.84	29.19	18.15	11.77	12.08	.54
B) Disb. Factor	.00	15.34	20.82	23.90	18.69	15.06	17.20	.87

Note: * Cancellations are aggregated here by fiscal year of approval.
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*** Change of approved amount is approved amount minus cancellations divided by the cumulative of the approved amount minus cancellations from previous years.
Chnage of disbursements is disbursements divided by cumulative disbursements from previous years.
Disbursement factor is the disbursements divided by cumulative previous years approved amount minus cancellations minus disbursements.
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Within the fiscal year headings, the following codes apply: C-cumulative, A-actual

Run Time: 09/14/92 at 11.47.52

INDIA
PFDBR21 - Country Summary Table: Net Transfers and Portfolio Status
(LOA data as of 7/30/92)

IDA and Special African only in millions of U.S.$
By Country
Country: INDIA

	FY86C	FY87A	FY88A	FY89A	FY90A	FY91A	FY92A	FY93A
I. Resource Transfer								
A) Approved	14,087.18	677.60	717.20	900.30	832.40	937.40	1,023.50	92.00
B) Cancellations *	676.38	69.58	30.51	38.98	43.41	.	.	.
C) Net Approved Amt. (A-B)	13,410.80	608.02	686.69	861.32	788.99	937.40	1,023.50	92.00
D) Disbursements	10,005.29	687.58	891.81	620.29	594.80	830.54	1,001.80	47.42
E) Amortization - Market	257.84	62.30	71.49	85.66	98.17	121.01	144.16	14.62
F) Net Flow (D-E)	9,747.45	625.28	820.32	534.63	496.63	709.53	857.64	32.80
G) Interest	525.62	75.56	92.46	96.53	89.36	98.34	101.67	11.72
H) Net Transfer								
Annual (D-E-G)	9,221.83	549.72	727.86	438.10	407.27	611.19	755.97	21.08
Cumulative	9,221.83	9,771.55	10,499.41	10,937.51	11,344.78	11,955.97	12,711.94	12,733.02
I) Cum. Undisbursed Bal.	3,405.51	3,325.95	3,120.83	3,361.86	3,556.06	3,662.92	3,684.62	3,729.20
II. Summary Status Of Portfolio								
A) No. Projects in Portfolio **		80	72	72	68	64	71	64
B) Disbursements During FY								
1. Revised Forecast		1,439.87	1,165.76	906.44	607.78	896.78	855.15	1,149.48
2. Actual Disb. To Date		687.58	891.81	620.29	594.80	830.54	1,001.80	47.42
Gap (1. minus 2.)		752.29	273.95	286.15	12.98	66.24	-146.65	1,102.06
III. Memo Items ***								
A) % Change In Cumulative								
Approved Amt.	.00	4.53	4.90	5.86	5.07	5.73	5.92	.50
Disbursements	.00	6.87	8.34	5.35	4.87	6.49	7.35	.32
B) Disb. Factor	.00	20.19	26.81	19.88	17.69	23.36	27.35	1.29

Note: * Cancellations are aggregated here by fiscal year of approval.
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If a project closes during the fiscal year, it is considered active until the end of the fiscal year.
*** Change of approved amount is approved amount minus cancellations divided by the cumulative of the approved amount minus cancellations from previous years.
Chnage of disbursements is disbursements divided by cumulative disbursements from previous years.
Disbursement factor is the disbursements divided by cumulative previous years approved amount minus cancellations minus disbursements.
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Within the fiscal year headings, the following codes apply: C-cumulative, A-actual

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Statement by Mr. Wood

Exception(s)

Additional Comments

Declassification review of this record may be initiated upon request.

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FROM: The Deputy Secretary

February 7, 1992

INDIA: PORTFOLIO REVIEW AND LOAN/CREDIT CANCELLATIONS

At the request of an Executive Director at the meeting of the Executive Directors held on December 5, 1991, attached is a note entitled "India: Portfolio Review and Loan/Credit Cancellations".

Questions on this document may be referred to Mr. Talbot (ext. 80354).

Distribution:

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INDIA: PORTFOLIO REVIEW AND LOAN/CREDIT CANCELLATIONS

Background

1. This note has been prepared in response to requests made by members of the Board during the December 5, 1991 discussion of the paper entitled "India: Proposed Redeployment of IDA Credit Cancellations"[1/] for more detailed information on the major portfolio review which has led to decisions to cancel about $1 billion IBRD and $650 million IDA from ongoing India operations.

2. The major reasons for the large undisbursed balances in the India portfolio were discussed in an earlier note to the Board[2/]. As shown in that note, a major factor accounting for these large undisbursed balances has been the very large real depreciation of the rupee over the last several years combined with a high share of local cost financing, especially for the agriculture, urban/water and social sectors[3/]. Between mid-1986 and May 1991, for example, the rupee depreciated by 63% against the US dollar. The rupee was further depreciated against the US dollar by 23% in July 1991. The slow start-up and implementation of many projects has further compounded this problem.

3. Major efforts have been made to address these problems at the project level through intensive project supervision, expansion of the scope of projects consistent with the original project objectives, increased cost sharing (including the measures taken under the Gulf Initiative) and extension of closing dates. Nevertheless, given the magnitude of the currency depreciation, it has not been possible to fully utilize committed funds under many of the affected projects. As an example, for an agriculture project committed in FY84, disbursements equivalent to the total appraised rupee cost of the project had taken place by the seventh year of implementation and yet more than half of the committed US dollar amount of the credit remained undisbursed.

4. In part, the large savings created by the depreciation of the rupee also resulted from the methodology used by the Bank's appraisal teams in the calculation of the loan and credit amounts in dollar equivalents or SDR's. Prior to 1988 a constant nominal exchange rate was used in these calculations. In effect, whatever exchange rate ruled at the time of appraisal was assumed to continue throughout the entire disbursement period of the project. However, price contingencies reflecting expected foreign and local inflation were added. While from 1988 on some future depreciation of the rupee was assumed in these calculations, it did not capture the depreciation which actually has occurred.

1/ Ref. R91-241 (IDA/R91-149), dated November 12, 1991.

2/ Ref. memorandum from Mr. T.T. Thahane to Executive Directors and Alternates of May 2, 1991, "India: Undisbursed Loans and Credits".

3/ In addition, even for projects in the infrastructure (e.g. power) sectors with a high proportion of "foreign cost" financing, a large proportion of ICB contracts are won by the local manufacturing sector. Consequently, disbursements in these projects are also affected by the currency depreciation.

Thus in projects with a high percentage of local costs, which tend to be typical for loans/credits for agriculture, roads, urban/water and the social sectors, it has been possible in many cases to implement the full, original project scope in physical terms with substantial cost overruns in real rupee terms while still leaving substantial dollar amounts undisbursed.

The Cancellations

5. The Bank loans and IDA credits, for which cancellations were listed in IDA/R91-149 of November 12, 1991, can be divided into two groups. First, there are loans and credits for projects where the full planned project investment in real terms will be met and/or exceeded by the projected closing date. This group covers $925.8 million of total cancellations. Second, there are projects where slow implementation and other aspects of poor performance caused by a variety of problems other than the availability of loan and credit funds will, at the currently projected closing dates, result in physical investments which fall short of what was originally planned to be accomplished. Since we normally do not extend closing dates by more than three years, the cancellations in these cases represent an estimate of the funds likely to remain undisbursed at the final closing date of the project, taking an optimistic view of project implementation and expenditures between now and then. Included in this group are two projects (West Bengal Minor Irrigation and Kerala water Supply) for which originally planned physical investments may be completed by the projected closing dates but for which the high level of cancellations as a proportion of the original credit amounts deserves elaboration. The second group covers $489.2 million of total cancellations to date.

6. Examples of the first group are provided by all the social sector cancellations and all but two of the power sector cancellations. The former, totalling $174 million of cancellations, relate to projects with provision for a very high proportion of local cost financing which have generally been able to finance more facilities than originally envisaged since the amounts being cancelled are less than the savings due to depreciation. Similarly, investments in the seven power projects in the group will, despite the cancellations, all be completed with some additional funding having been applied to the procurement of an increased stock of spare parts.

7. Projects in the first group are listed in Annex 1, since the case for the amount of cancellation is clear without further project specific elaboration. Also included in this group are projects which have recently closed where the cancellations of the undisbursed balances are a matter of routine. Annex 2 lists the second group of projects and provides brief notes outlining the background to each of these cancellations.

PROJECTS WHERE FULL PLANNED INVESTMENTS WILL BE MET

Project Name	FY	Ln/Cr No.	Orig'l Ln/Cr Amt.	Expected Closing Date	Undisb Bal. at 10/31/91	Cancel-lations	Canc's as % of Comm't
AGRICULTURE:						(a)	(b)
W. Bengal Soc Forestry	82	Cr 1178	29.0	03/31/91	0.2	0.2	0.8%
Madhya Pradesh Major Irrig'n	82	Cr 1177	220.0	06/30/91	40.6	40.6	18.5%
Haryana Irrig'n II	83	Cr 1319	150.0	03/31/92	28.0	20.5	13.7%
Himalayan Watershed	83	Ln 2295	46.2	09/30/93	8.2	1.0	2.2%
Karnataka Soc'l Forestry	84	Cr 1432	27.0	03/31/92	6.7	3.0	11.1%
Watershed Dev-R'nfed Areas	84	Cr 1424	31.0	12/31/94	26.8	7.1	22.9%
NCDC III	84	Cr 1502	220.0	06/30/92	76.9	41.0	18.6%
Gujarat Medium Irrig'n	84	Cr 1496	172.0	12/31/92	81.1	20.5	11.9%
Upper Ganga Irrig'n	84	Cr 1483	125.0	09/30/94	85.1	25.1	20.1%
National Agric Exten I	85	Cr 1523	39.1	03/31/93	26.4	8.2	21.0%
Kerala Soc'l Forestry	85	Cr 1514	31.8	03/31/93	13.0	6.1	19.3%
Narmada Gujarat Canal	85	Cr 1553	150.0	03/31/93	72.6	6.6	4.4%
National Soc'l Forestry	85	Cr 1611	165.0	03/31/93	68.2	15.0	9.1%
National Agric Exten II	85	Cr 1569	49.0	03/31/94	27.2	5.1	10.3%
National Agric Research II	86	Cr 1631	72.1	06/30/96	57.6	16.1	22.4%
National Agric Exten III	87	Cr 1754	85.0	03/31/95	61.5	17.1	20.1%
National Sericulture	89 #	(Ln 3065	30.0	12/31/96	30.0	30.0	(16.9%
	#	(Cr 2022	170.0	12/31/96	128.1	0.0	(
Upper Krishna Irrig'n II	89 #	(Ln 3050	165.0	12/31/96	165.0	80.0	(24.6%
	#	(Cr 2010	160.0	12/31/96	125.7	0.0	(
Punjab Irrigation II	90 #	(Ln 3144	15.0	03/31/98	15.0	15.0	(12.2%
	#	(Cr 2076	150.0	03/31/98	147.0	5.1	(
Watershed Devel (Hills)	90 #	(Ln 3175	13.0	06/30/97	13.0	13.0	(14.8%
	#	(Cr 2100	75.0	06/30/97	76.8	0.0	(
Watershed Devel (Plains)	90 #	(Ln 3197	7.0	03/31/98	7.0	7.0	(11.3%
	#	(Cr 2131	55.0	03/31/98	54.6	0.0	(
POWER:							
Korba Power II	82	Cr 1172	400.0	12/31/91	20.0	12.6	3.1%
Central Power Transmission (c)	83	Ln 2283	250.7	03/31/92	129.4	50.0	19.9%
Farakka Power II	84	Ln 2442	300.8	12/31/91	118.1	22.0	7.3%
Chandrapur Thermal Power	85	Ln 2544	300.0	12/31/92	125.6	20.0	6.7%
Rihand Power Transmission (d)	85	Ln 2555	250.0	12/31/91	58.5	48.0	19.2%
Karnataka Power	87	Ln 2827	330.0	12/31/95	286.8	70.0	21.2%
Karnataka Power II	88	Ln 2938	260.0	12/31/96	232.3	40.0	15.4%

/...

Project Name	FY	Ln/Cr No.	Orig'l Ln/Cr Amt.	Expected Closing Date	Undisb Bal. at 10/31/91	Cancel-lations	Canc's as % of Comm't
INFRASTRUCTURE:						(a)	(b)
Gujarat Water Sup & Sew	83	Cr 1280	72.0	09/30/92	24.8	15.0	20.9%
Madhya Pradesh Urban	83	Ln 2329	24.1	06/30/91	5.6	5.6	23.4%
Gujarat Urban	86	Cr 1643	62.0	12/31/95	45.2	15.0	24.2%
Uttar Pradesh Urban	87 #	(Ln 2797	20.0	03/31/96	20.0	20.0	(20.1%
	#	(Cr 1780	130.0	03/31/96	90.5	10.1	(
Tamil Nadu Urban	88	Cr 1923	300.2	09/30/95	216.8	30.1	10.[illegible]
Hyderabad Water & Sew	90 #	(Ln 3181	10.0	03/31/98	10.0	10.0	(11.1%
	#	(Cr 2115	79.9	03/31/98	76.8	0.0	(
POPULATION, HEALTH & NUTRITION:							
Population IV-West Bengal	86	Cr 1623	51.0	08/31/93	25.4	7.1	13.9%
Family Welfare Training	89 #	(Ln 3108	11.3	03/31/97	11.3	11.3	(9.1%
	#	(Cr 2057	108.7	03/31/97	98.1	0.0	(
Population Training (VII)	90 #	(Ln 3199	10.0	06/30/98	10.0	10.0	(15.6%
	#	(Cr 2133	86.7	06/30/98	80.9	5.1	(
TN Int Nutrition	90	Cr 2158	95.8	12/31/97	93.0	10.1	10.6%
ICDS I (Orissa & AP)	91 #	(Ln 3253	10.0	12/31/97	10.0	10.0	(9.4%
	#	(Cr 2173	96.0	12/31/97	93.2	0.0	(
EDUCATION:							
Vocational Training	89 #	(Ln 3045	30.0	12/31/96	30.0	30.0	(25.1%
	#	(Cr 2008	250.0	12/31/96	223.4	40.3	(
Technician Education I	90 #	(Ln 3195	25.0	06/30/98	25.0	25.0	(10.7%
	#	(Cr 2130	235.0	06/30/98	225.6	25.1	(
TOTAL			6251.4		3828.7	925.8	14.8%
of which: IBRD			2108.1		1310.9	517.9	
IDA			4143.3		2517.9	407.9	

(a) Loan/credit amounts cancelled as of December 5, 1991.
The US$ values of credit cancellations are based on US$/SDR exchange rate as of October 31, 1991. Note that in the Bank's Statement of Development Credits, cancellations in US$s are valued at the US$/SDR rates prevailing at the respective dates of credit commitments. In most cases this results in much lower recorded US$ cancellations than shown in this table. However, the US$ cancellations shown here appropriately reflect the reduction in undisbursed balances expressed in US$s based on the US$/SDR exchange rate at the date of cancellation.
(b) Includes IBRD+IDA cancellations and original loan+credit amounts for blend operations.
(c) Project replaced National Capital Power Supply from original cancellation proposals.
(d) Project replaced Talcher Thermal Power from original cancellation proposals.
\# IBRD/IDA blend operation.

NOTES ON GROUP 2 PROJECTS

West Bengal Minor Irrigation (Cr 1619)
[Approved FY86; Orig Cr Amount US$99m; Cancelled US$40.3m]

The project suffered start-up delays during the first three years due mainly to procurement problems. Project implementation has since improved and the project is expected to achieve the physical targets set at appraisal. In March 1991 the Bank approved an amendment to the Development Credit Agreement to improve disbursements. The closing date has been extended once and two more extensions may be needed. The cancelled amount (representing 41% of the original credit commitment (expressed in US dollars) and 30% of the SDR commitment), comprises the savings resulting from the rupee depreciation which was compounded by the delayed project start-up.

Andhra Pradesh Composite Irrigation II (Ln 2662/Cr 1665)
[Approved FY86; Orig Ln/Cr Amount US$271m; Cancellation US$90m]

Project start-up was delayed due to procurement and resettlement and rehabilitation problems. Progress so far has remained less than satisfactory. With large savings anticipated, in October 1990 an amount of $55 million was allocated out of this project to finance works under the AP Cyclone Emergency Reconstruction Project. According to the present assessment, the project is likely to achieve only about 60% of its initial objectives by the projected closing date of June 1995. The reason for slow progress is mainly poor contract management. Cancellation from the IBRD component to the extent of $36 million is on account of slow implementation and the balance of $54 million is due to depreciation of the exchange rate.

Bihar Tubewells (Cr 1737)
[Approved FY87; Orig Cr Amount US$68m; Cancellation US$54.7m]

Project performance has remained less than satisfactory due to weak management and lack of support from government. It is considered unlikely that even with several extensions of the closing date the project can be executed fully as appraised. Cancellations have been estimated on that basis. About 50% progress is expected to be achieved by March 1992 if clearly identified remedial actions are taken by government. About 60% might be accomplished by the expected closing date (May 1994). SDR 40 million (equivalent to US$54.7 million) has been cancelled: 40% of this (about $22 million) can be attributed to implementation delays and the balance to depreciation of the rupee.

Upper Indravati Hydro (Ln 2278/Cr 1356)
[Approved FY83; Orig Ln/Cr Amount US326.4m; Cancellation US$156m]

Implementation of the project has been beset with engineering and project management problems, poor construction, and delays in the implementation of a credible resettlement and rehabilitation effort. On June 27, 1991, we suspended disbursements on the Credit and the Loan. On July 29, 1991, heavy monsoon rains led to the collapse of a main tunnel and a protection dam. The tunnel and power house site were flooded. Civil works sustained extensive damage and 25 lives were lost. This incident resulted in a further setback of the already severely delayed implementation and heightened our concerns about the safety and engineering soundness of the civil works.

By end-November 1991, the project authorities had met in substance the conditions we had agreed with them for lifting the suspension of disbursements and a limited restart of the project. In view of continuing concerns about the technical feasibility and safety aspects of the project and resulting uncertainties concerning project cost and financing requirements, we concluded that it would be best to cancel the Loan, lift the suspension of disbursement on the Credit, and in FY93, after further studies and reviews by qualified consultants, appraise a residual project for the completion of the Upper Indravati Hydroelectric Scheme and, if justified, propose Board approval for further Bank Group financing. In the meantime, the proceeds of the Credit would be used to assist the authorities in financing the employment of consultants, ongoing resettlement efforts, procurement of urgently needed electrical equipment and construction of civil works whose engineering soundness and safety had been certified by consultants. The Indian authorities have agreed with this approach. The undisbursed balance of the Bank loan (about $156 million) was cancelled on December 5, 1991. The suspension of disbursement on the Credit was lifted on December 24, 1991.

Uttar Pradesh Power (Ln 2957)
[Approved FY88; Orig Ln Amount US$350m; Cancelled - Pending]

This loan was suspended in mid-1991, primarily because of continuing failure by the Uttar Pradesh State Electricity Board (UPSEB) to meet financial covenants, in particular due to failure to increase tariffs and to take action to reduce arrears to the National Thermal Power Corporation (NTPC). Following intensive consultations between the Bank and the Borrower, a 39% tariff increase has been announced with effect from January 18, 1992 and the Unchahar thermal plant has been transferred to NTPC as payment of UPSEB's arrears to NTPC. In view of these actions we have not proceeded with the cancellation of the Loan which had been scheduled for January 24, 1992. A supervision mission will shortly evaluate UPSEB's progress in meeting other performance targets. If the review is positive we should be in a position to reinstate disbursements. We are also reviewing the revised implementation and financing plan for the project, in particular taking into account the severely constrained budgetary situation, and will identify the scope for cancellations based on these revised plans.

Calcutta Urban Development Project III (Cr 1369)
[Approved FY83; Orig Cr Amount US$147m; Cancelled US$70.4m]

About 40% of the cancellation is due to savings from the devaluation of the rupee and 60% is due to poor implementation performance. The project included Municipal Development, Transmunicipal Investment, Calcutta Howrah Investment and the Calcutta Metropolitan Area Complementary Programs. Implementation of all of these programs has been delayed because of changes in priorities, lack of budget resources and weak procurement practices. In addition, the Government of West Bengal has been reluctant to implement many of the institutional aspects of the project which involved improving accounts and audits, municipal property tax assessments, and collection and cost recovery within the Calcutta Municipal Corporation and Calcutta Water Supply Authority. The project has been extended for three years and will be closed on March 31, 1992. Only about 75-80% of the original project will have been implemented by the closing date.

Bombay Urban Development (Cr 1544)
[Approved FY85; Orig Cr Amount US$138m; Cancelled US$50.6m]

It is estimated that about half of the cancellation is due to savings caused by the devaluation of the rupee and half to poor project implementation performance. The project experienced slow start-up, procurement and execution in most of the components (sites and services, slum upgrading and local government finance, administration and services). Recently, the commitment of the Government of Maharashtra has improved. Provided that the Government fulfills the conditions which have been agreed for extending the project implementation period, the final closing date would be September 30, 1993. By that time, it is estimated that about 85% of the physical implementation of the project will have been completed.

Kerala Water Supply and Sanitation (Cr 1622)
[Approved FY86; Orig Cr Amount US$41m; Cancelled US$27.3m]

The project encountered serious start-up and continuing implementation delays, resulting from inadequate counterpart funding, weak project management, procurement problems and delays in land acquisition for the water supply schemes. As a result of intensive dialogue with the Borrower and increased commitment from the state and project authorities, there has been evidence of improved implementation performance, especially over the last year. It is estimated that, if the pace of improvement is sustained, the original appraisal targets for physical implementation could be realized by the expected closing date of March 1994 (including three one-year extensions). The cancellations reflect the savings arising from the combination of slow start-up and implementation delays and the rupee depreciation, as well as savings resulting from actual costs falling below appraisal estimates for some goods procured by ICB.

PROJECTS WHERE CANCELLATIONS REFLECTED PERFORMANCE PROBLEMS AS WELL AS SAVINGS

Project Name	FY	Ln/Cr No.	Orig'l Ln/Cr Amt.	Expected Closing Date	Undisb Bal. at 10/31/91	Cancell-tions	Canc's as Share of Orig Amt
AGRICULTURE:						(a)	(b)
West Bengal Minor Irrig'n	86	Cr 1619	99.0	03/31/94	108.5	40.3	40.7%
AP Composite Irrig'n II	86 #	(Ln 2662	131.0	06/30/95	131.0	90.0)	33.2%
	#	(Cr 1665	140.0	06/30/95	142.9	0.0)	
Bihar Tubewells	87	Cr 1737	68.0	05/31/94	65.8	54.7	80.[illegible]
POWER:							
Upper Indravati Hydro	83 #	(Ln 2278	156.4	12/31/91	156.0	156.0)	47.8%
	#	(Cr 1356	170.0	12/31/92	35.5	0.0)	
U. P. Power	88	Ln 2957	350.0	12/31/96	303.0	(c)	n.a.
INFRASTRUCTURE:							
Calcutta Urban III	83	Cr 1369	147.0	03/31/92	79.2	70.4	47.9%
Bombay Urban	85	Cr 1544	138.0	09/30/92	101.8	50.6	36.6%
Kerala Water Sup & San	86	Cr 1622	41.0	03/31/94	35.2	27.3	66.7%
TOTAL			1440.4		1158.9	489.2	44.9%
of which: IBRD			637.4		590.0	246.0	
IDA			803.0		568.9	243.2	

(a) Loan/credit amounts cancelled as of December 5, 1991 (see Footnote (c) for exception re UP Power). The US$ values of credit cancellations are based on US$/SDR exchange rate as of October 31, 1991. Note that in the Bank's Statement of Development Credits, cancellations in US$s are valued at the US$/SDR rates prevailing at the respective dates of credit commitments. In most cases this results in much lower recorded US$ cancellations than shown in this table. However, the US$ cancellations shown here appropriately reflect the reduction in undisbursed balances expressed in US$s based on the US$/SDR exchange rate at the date of cancellation.

(b) Includes IBRD+IDA cancellations and original loan+credit amounts for blend operations.

(c) Possible cancellation still under discussion with GOI.

\# IBRD/IDA blend operation.

Mr. Sandstrom

THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

File
India

DATE: February 4, 1992

TO: Distribution

FROM: Roberto Zagha, Senior Economist, SA2CI RZ

EXTENSION: 80348

SUBJECT: INDIA: FSAL Initiating Memorandum--Loan Committee Meeting

Loan Committee Members Present: Messrs. Stern (Chairman); Rajagopalan (PRSVP); Shihata (LEGVP); Wood (SASVP); Grilli (acting for DECVP); Kilby (acting for FPRVP).

In addition, Messrs. Kashiwaya (CFSVP); Vergin (SA2DR); Shirazi, Khanna (SA2CI); Gopal (LEGSA); Parmar, Kassum (IFC); Evans (IMF); and Ms. Armitage (EXC) attended.

1. The Loan Committee met on January 30, 1991 to review the FSAL Initiating Memorandum for India. In its opening remarks, the Region indicated that the Government of India (GOI) is preparing a program of financial sector reforms based on the recommendations of the Narasimham Committee. The exact content and time frame of the reforms are now being discussed at the highest levels in India. These discussions would lead to some important decisions before the presentation of the Budget to Parliament in late February. It was important to be part of these discussions before final decisions were reached and this was the rationale for fielding a mission at this juncture. The Loan Committee Meeting would enable the mission to operate on the basis of the guidance received during the meeting. The discussion focused on the following issues.

2. Privatization. In presenting its approach, the Region highlighted that it was seeking to make private sector participation in the financial system a result rather than a goal of the reform process. With this objective in mind, it had been pursuing a three-pronged approach aimed at: (i) ensuring free entry by private banks, domestic and foreign, into a financial system which provides all banks the opportunity to compete on a "level playing field"; (ii) strengthening prudential regulations; and (iii) increasing the commercial orientation and market-based operations of state banks. The appraisal mission would take stock of any direct or indirect regulatory impediments to achieving these objectives and would include measures in the loan to overcome them. The regulation requiring foreign banks to finance dividends paid abroad from earned foreign exchange, mentioned by one participant as an impediment to a truly free entry into the financial sector, was one example. Participants raised a number of issues, including the need for legislation; the commitment of the Government to a private financial sector; the possibility of commercial operations by publicly owned enterprises; and the willingness of the Government to grant operating autonomy.

3. The Region indicated that in bringing the financial system to BIS standards there would be a need to increase the banks' equity bases. The Narasimham Committee has recommended that the stronger banks rely on capital

markets for such increases. This was a promising avenue for increasing the private sector's participation in the financial system. Were the private sector participation in the major banks resulting from these measures to be over 50%, the privatization issue would be a moot one. However, were the participation to be below 50%, other avenues to increase the private sector share would need to be found. Majority private ownership for the development banks would be agreed.

4. The Chairman concluded by noting that the Bank was striving to support the development of an efficient financial system, and experience had shown that this meant a private financial system. It was important to communicate this paradigm to the Indian authorities. This said, we ought to be realistic and recognize that it would take time. But we ought to be sure that an adequate number of steps were agreed by which we could demonstrate progress in that direction. Clear understandings will have to be reached on the recapitalization of SBI. If the equity issue was not adequate to reach majority private ownership the mission would need to explore subsequent, supplementary measures. Agreement on how the weaker banks would be handled also would be needed and initial actions agreed on. Also the content of the term "level playing field" would need to be defined.

5. Statutory Liquidity Requirements (SLRs). The Region explained that the reduction in SLRs would deprive the Government of an important, cheap and non-inflationary source of financing. The Region agreed with those members of the Loan Committee who thought that care should be exercised to ensure that weaning the Government off low-interest borrowing too rapidly would not jeopardize the stabilization program and the orderly development of a government securities market. But the Region was also aware that disintermediation from repressed to liberalized parts of the system put limits on how slow the process could be. Against this background, it seemed reasonable to follow the Initiating Memorandum proposal to reduce the SLR on incremental deposits to 25 percent in FY92-93, but there could be resistance to lowering the SLR to 10 percent by the second tranche release, probably in April 1993. The Region also noted that legislative action would be required to reduce the SLR below 25 percent. It was agreed that the reductions in the SLR beyond the first year should continue to be substantial.

6. Other Issues. Several participants indicated that it was essential that by the second tranche release a well-identified mechanism to recapitalize the banks be in place. The Asset Reconstruction Fund could be such a mechanism, but others could be envisaged. Others highlighted the need to ensure that we had an adequate understanding of how the legal and regulatory framework affects financial sector efficiency; what improvements were needed; and a realistic estimate for the time required to complete the overhaul of financial legislation which seemed to be envisaged. The special tribunals discussed in the IM, for example, could help speed up debt recovery but not necessarily if there were other bottlenecks in the system. Some participants expressed concern regarding too rapid a reduction of the proportion of priority sector lending. The Region explained that the reduction to 20 percent by Board presentation referred to the incremental credit, not to the stock. This should provide sufficient time for a gradual adjustment of the stocks with minimal disruptions.

7. Concluding Remarks. The Chairman summarized the concerns about the adequacy of the preparatory work, the sequencing of measures, and the pace of liberalization, and the Region's responses by noting that there was an opportunity to support India's financial liberalization and we should seize it. We should also make sure, however, that the Bank's support is for concrete actions which will improve the efficiency of the financial sector. The matrix should be much more specific regarding dates and timing of actions for that purpose. The Government's difficulty in making public commitments on sensitive macro financial policies was well understood. But in the absence of a clear and time-bound commitment to privatize the commercial banks, there would have to be strong actions on other aspects to justify the Bank's involvement. There is no specific measure that will trigger or not trigger the acceptability of the financial reform program; the acceptability of the loan will depend on the content of the overall financial reform program which can be agreed upon. Since financial sector reform would not be possible in the absence of overall exit policy and the National Renewal Fund, these would need to be in place before the FSAL could be presented to the Board. On that basis the appraisal was authorized.

Distribution:

Messrs./Ms. Stern, Sandstrom, Armitage (EXC); Rajagopalan (PRSVP); Shihata (LEGVP); Kashiwaya (CFSVP); Wood (SASVP); Grilli (DPGDR); Kilby (FRSCR); Linn (FPRVP); Summers (DECVP); Sud, Nankani (SASVP); Newport (LEGSA); Parmar, Kassum (IFC); Goldsbrough (IMF)

India Department Management Team
SA2CI Staff

RZagha:rb

~~① cc: Attila~~
~~② Stern~~

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

ERNEST STERN
Managing Director

File
India

TO: Members, Loan Committee January 26, 1992

FROM: Ernest Stern, Chairman, LC ES.

SUBJECT: India FSAL

Attached is the agenda for our meeting on Thursday, January 30, to discuss the proposed Financial Sector Adjustment Loan to India.

Attachment

Distribution:

Messrs. Linn, Rajagopalan, Shihata, Summers, Kashiwaya

cc: Messrs. Sandstrom, Wood, Vergin, Neiss, Parmar

LOAN COMMITTEE - January 30, 1992

India - Financial Sector Adjustment Loan

(1) The FSAL is one element of Bank support for India's structural reform program. Would the Region comment on the current status of implementation; the prospects for progress in the upcoming budget; and the capacity/commitment of the government to maintain the momentum.

(2) Timing of Appraisal

- Without a credible exit policy linked to the rehabilitation of sick industries, the balance sheets of the banks cannot improve and may deteriorate. Would the Region comment on the status of the GOI's exit policy. Should we proceed to appraisal without having an articulated policy from the Government or initial credible actions?

- The benefits of the restructuring and liberalization of the financial sector are likely to be limited in the absence of reforms in the public enterprise sector. Would the Region comment on the sequencing of reforms.

- The National Renewal Fund was seen as a fundamental support to the exit policy and the restructuring of public enterprises. Disbursements from the IDA credit were part of the planned financing plan. And NRF was seen as an important aspect of dealing with the social aspects of adjustment. There seems to be little progress on the NRF and no current time schedule for appraisal and Board submission. In the absence of an agreed NRF, is it appropriate for us to proceed to appraisal of the FSAL?

- Would the Region comment on the external financial situation if we decide not to proceed with appraisal of the FSAL. Are there alternative approaches to supporting the GOI's adjustment efforts in that case? What are the prospects of a second SAL?

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(3) Private Sector Involvement

Aside from the usual problem of having long-term commitment to a private financial sector spelled out in a public document, would the Region comment on:

- The commitment of the GOI to an essentially private financial sector and the time frame which may be acceptable;
- The prospects for entry of foreign and domestic private financial institutions. When would the "level playing field" referred to in para 3.11 be defined and a time schedule of regulatory and legal changes be agreed. (The announcement of no future bank nationalizations is the least of it. Indeed, it might be as counter-productive for anyone to believe this needs saying as it is ineffective in binding future governments.)
- The prospects of privatization of existing commercial banks through joint ventures or sale. Can we spell out the extent of private ownership to be created through the public issues discussed in 3.13.

Development Banks:

Would the Region comment on:

- The timing of the privatization of DFI as proposed in para 3.12. Why can no actions be contemplated before 1993?
- The definition of majority ownership: for IDBI and IFCI, it seems to be defined as 50% which does not give majority private ownership.

- Pending the sale of a majority of shares to the public, could the Government convert part of its shares to non-voting stock to give the private shareholders management control earlier.

- Why ICICI which is, or could be made, creditworthy needs 3 years to phase out subsidies when it could immediately raise capital either by issuing public shares or bonds.

Commercial Banks:

Would the Region comment on:

- The Government's commitment to a private banking system. Para 3.13 refers only to a single public issue to recapitalize and no mention of majority private ownership.

- When the estimated budgetary impact of recapitalization will be available and to what extent, if any, these costs will be incorporated in the upcoming budget. Will the establishment and adequate funding of an Asset Reconstruction Fund, or some similar device, be a condition?

- The impact on potential beneficiaries of reductions in priority sector lending at below market rates, and other services of available financing.

- The depolitization process envisaged. Will the CEO be selected by the non-GOI Directors? What assurances are possible against the exercise of influence and in the absence of a stated intention to remove the government from direct control of the banks.

- The purpose of the detailed business plans. With standard accounting procedures in place, and enforced, what annual targets other than profit should the Government--as distinguished from management--look for.

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- When the banks would be given complete autonomy for hiring and firing of staff, remuneration, organization and all other internal management matters.

Legal and Regulatory Framework

Would the Region comment on:

- The timing envisaged for the implementation of the new prudential regulations in terms of the sequencing of changes in SLR and CRR requirements and bank financial restructuring.

- Whether RBI is equipped to handle the design of the new supervision structure, or whether it will need technical assistance. The prospects for the new independent body to perform effectively at the outset.

- The feasibility of a 1-year period for the effectiveness of new accounting policy and information disclosure rules.

- The proposed changes in the legal structure envisaged in para 3.18 especially with respect to debt recovery and capital markets ; the feasibility of the proposed timeframe and the consistency between the Special Tribunals and the review of other aspects of the legal system.

Fiscal aspects

Would the Region comment on :

- The budgetary implications of reducing forced bank lending to GOI through the SLR and CRR, and interest rate deregulation.

- The planned deficits and the link to the SLR, if GOI would have to pay market or near-market interest rates. Are the deficits referred to in para 3.06 agreed with the IMF ?

- The feasibility of moving new government issues to auction in FY 92/93.

- The GOI attachment to the minimum lending rate when the primary concern (para 3.08) seems to be lending at high rates.

- Whether immediate action to raise deposit rates is feasible to increase financial savings.

Sustainability

Would the Region comment on :

- The political sustainability of financial sector reform, and the conditions needed to support this.

- The fiscal sustainability of the proposals, and the sensitivity to compliance with IMF deficit targets.

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~~Doc: Jane~~
(2) File / India

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: January 24, 1992

TO: Mr. Ernest Stern, Managing Director

FROM: Johannes F. Linn, FPRVP

EXTENSION: 80602

SUBJECT: India - Financial Sector Adjustment Loan Initiating Memorandum

India's progress in overcoming the recent foreign exchange crisis and avoiding debt defaults has certainly justified our flexible and supportive response so far to an important member country during a difficult period. We, nevertheless, are very concerned about the following issues:

1. India is now in the high lending case as envisaged by the CSP, with total Bank group lending reaching $3 billion p.a. during FY92-94. This will lead India to breach almost all the existing exposure guidelines: India's share of Bank portfolio will quickly reach 12 percent in 1994, IBRD debt service will reach 5 percent of exports, and the share of preferred creditors will reach 45 percent by then. By 1995, interest on IBRD debt is projected to reach $1.1 billion, roughly 60 percent of our net income. The resultant increases in exposure require a very strong and sustained adjustment effort on the part of the Indian authorities.

2. You are of course aware of the political risks that this policy effort may not be sustainable in the run up to the next elections. In addition to the risk of policy slippage, financial risks pose a real danger to the adjustment program due to the large financing gap, which could be worsened by an inadequate supply response. The Region estimated that the exceptional financing gap will be in the neighborhood of $9 billion over the next three years (1991/92-1993/94), of which bilateral fast disbursing assistance will be about $1.8 billion and IBRD will be $2.3 billion. The risk of underfunding is enormous given that the assumptions underlying this gap are optimistic concerning export growth and import compression. Yet the Bank is bearing an enormous burden. In 1992, net disbursement from IBRD and IDA amounts to about 35 percent of total[1] compared to 23 percent in 1990. Including the IMF, this

[1] In the recently issued CSP, the corresponding figure was much higher because the Region has since then revised upward the private financing (and gross disbursements).

share would rise to 47 percent, while the share of bilateral and private sources are projected to decline from 56 percent in 1990 to about 25 percent in 1992. I am concerned by the burden sharing implications which are clearly not sustainable.

3. We thus have to be sure that our strategy is on track as we proceed. Recent press reports appear to question the Government's commitment and/or ability to stay on its course, given that this is a minority government and the adjustment program involves considerable sacrifice on the part of many powerful interest groups that in the past were reluctant to accept politically any economic reform.

4. Given the risks and uncertainties facing us, I believe we should modify the approach proposed by requiring more up-front actions on the part of the Government and judicious multi-tranche releases. The loan conditionality/tranching should be structured to reflect these concerns. This would improve the Bank's ability to monitor and influence the content and pace of the reform program.

5. It is unfortunate that a discussion of the sequencing of reforms was not possible in the recent CSP. It seems to me that without a strong public enterprise reform program, perhaps to be supported by a PE sector loan, the benefits from a financial liberalization at this stage are likely to be limited. The coordination between the financial sector reform and the fiscal reforms, as well as reforms in the real sector should also be carefully considered.

6. The Bank medium-term strategy in the financial sector needs to be clearly defined in light of recent policy developments on the real side of the economy. The latest financial sector report was written in 1989 and is clearly outdated in view of the recent adjustment program. Should we take the Narasimhan report at face value? If not, what are our own views on the priorities of policy reforms and how can we evaluate the Letter of Development Policy for the sector? For example, should the Government-owned development banks be privatized first before commercial banks? What is the cost of recapitalizing the Central Bank deficit and who is financing it? These issues would need to be addressed before we can be confident that we have established the right priorities and appropriate conditionality for the proposed FSAL.

cc: Messrs. Rajagopalan (PRSVP), Shihata (LEGVP), Summers (DECVP), Wood (SASVP), Sandstrom, Vergin

HDinh/FKilby

THE WORLD BANK/IFC/MIGA
OFFICE MEMORANDUM

File
India

DATE: September 23, 1991

TO: Mr. Lewis T. Preston, EXC

FROM: Jemal-ud-din Kassum, CS2DR (through Mr. Wilfried E. Kaffenberger, CPOVP)

EXT: 37723

SUBJECT: **INDIA: Briefing for September 25, 1991 Meeting with Business Leaders Mission of Confederation of Engineering Industry (CEI) of India**

Attending:	CEI Visitors:
Mr. Parmar (IFC)	Mr. Ratan N. Tata
Mr. Kassum (IFC)	Mr. Rahul Bajaj
Mr. Adams (IFC)	Mr. R.C. Bhargava
Mr. Tharmaratnam (IFC)	Mr. Dhruv M. Sawhney
Mr. Karaosmanoglu (IBRD)	Mr. M.V. Subbiah
Mr. Vergin (IBRD)	Mr. Tarun Das
Mr. Shirazi (IBRD)	Mr. Dilip Chenoy
Mr. Kashiwaya (IBRD)	

Too many

Visitors' objectives

The main objectives of the Business Leaders Mission to the US are:

- to project India's new economic policies
- to project opportunities for Indo US business cooperation
- to strengthen links with Government, business and banking organizations in the US.

The mission has been organized by the Confederation of Engineering Industry (CEI), the leading national industry association in India. The members of the mission, led by Mr. Ratan N. Tata, Chairman of Tata Sons and Mr. Dhruv M. Sawhney, current President of CEI, are amongst the most prominent, successful and progressive business leaders that India has today. Given the new Government's dramatic new policies to liberalize the economy and provide greater opportunities for the private sector, the visit of these businessmen to the World Bank Group is particularly timely and constructive.

Attached at Annex 1 is a brief note on the CEI and the individual visitors.

Our objectives

The main objectives that we could achieve during this meeting are as follows:

- to gain a fuller understanding of the Indian private sector's views on and support for the new Government's policy;
- to hear the mission's views on the likely domestic and foreign investment response;
- to understand any issues or concerns that the mission may raise about the new policies (for example, with regard to the pace and substance of policy reforms, political uncertainties, implementation of new policies by the Government bureaucracy);

- to confirm the World Bank Group's strong support for the Government's stabilization and adjustment program (both through Bank adjustment lending and IFC direct investment activity in the private sector);
- to express our intent to pursue the policy dialogue with the Government, particularly in areas which have not so far been fully addressed (for example, financial sector reform, industrial exit policy, trade liberalization and tax reform); and
- to stress the importance of the private sector supply side response if the new policies of the Government are to succeed.

Attached at Annex 2 is a brief note on the current economic situation in India and IFC strategy. The Bank's strategy in India has been recently discussed in the President's Council on July 26, 1991.

Meeting Format

You may wish to offer a brief welcome to the visitors, who could then be asked to make opening remarks. In the remaining time available, you could either respond directly to the mission, pose questions or call on others. The IFC representatives will be headed by Mr. Judhvir Parmar, Vice President, Investment Operations, while the Bank's representation will be headed by Mr. Attila Karaosmanoglu, Vice President, Asia Regional Office.

Attachments

cc: Messrs. Ryrie o/r
Qureshi
Parmar
Karaosmanoglu
Kashiwaya
Adams
Vergin
Tharmaratnam
Shirazi

BUSINESS LEADERS MISSION

The CEI is a national Industry Association serving and representing over 2,600 companies in the public and private sector in manufacturing, construction and services. CEI has 20 offices in India, 2 offices overseas (London and Moscow) and has its corporate Headquarters in New Delhi. CEI membership covers an investment of over US$21 billion and an employment of 2 million people.

CEI has constantly been building on its relationship with the USA. The focus has been on trade and industrial cooperation, joint ventures and transfer of technology. Over the years, CEI has sought partnerships formal and informal, which develop industrial cooperation and trade.

The members of the CEI Mission are:

- Mr. Ratan N. Tata, Chairman, Tata Sons

  Mr. Tata heads Tata Sons, and other companies in the Tata Group. This group is one of the largest industrial houses in India. The varied businesses include automobiles, electronics, software, oil exploration, fertilizers, hotels and consumer durables. The group has working relationships with a number of major US corporations. IFC has made investments in four Tata companies totalling US$223 million.

- Mr. Rahul Bajaj, Chairman and Managing Director, Bajaj Auto Ltd.

  Mr. Bajaj is the CEO of India's largest two-wheeler manufacturer in India, the third largest in the world. His group interests include steel, sugar, industrial components, and electricals. Mr. Bajaj has been Chairman, Indian Airlines and a member of the Governments Industrial Strategy Committee. IFC invested US$54 million in two Bajaj companies; these loans have been fully repaid.

- Mr. R. C. Bhargava, Chairman and Managing Director, Maruti Udyog

  Mr. Bhargava heads the largest manufacturer of passenger cars in India. Maruti commands 60% of the Indian domestic market. Mr. Bhargava has worked in the Indian Administrative Service and has served in the Ministries of Agriculture and Energy. In industry, Mr. Bhargava has worked in Bharat Heavy Electricals Ltd. Mr. Bhargava is currently Chairman, CEI (Northern Region). IFC is considering a project in association with Maruti to provide a total of $50 million in loans to Maruti's suppliers of automobile ancillaries.

- Mr. Tarun Das, Director General, CEI

  Mr. Das has been the Chief Executive of the permanent staff of the Confederation of Engineering Industry since its inception in 1974.

- Mr. Dhruv M. Sawhney, Chairman and Managing Director, The Triveni Engineering Works Ltd. and President, CEI.

  Mr. Sawhney is a young CEO of a fast growing group involved in engineering, sugar, energy and other businesses. The Triveni group has a turnover of more than US$130 million. Triveni along with other associate companies are India's largest producers of sugar. The group provides a wide range of products and services for the energy sector. Mr. Sawhney has held a number of public positions and is now the national President of CEI. IFC has an equity investment of $0.6 million in a Triveni oil drilling company.

- Mr. M.V. Subbiah, Vice Chairman and Managing Director, EID Parry (India) Ltd.

  Mr. Subbiah heads a company which is involved in the manufacture of a variety of engineering goods including electrical apparatus, marine engines, power generating stations and distribution networks, electronic equipment, precision tools, etc. Mr. Subbiah holds directorships in various other companies like Lakshmi Machine Works, DCM Toyota, PAL, Tube Investments of India. IFC is in discussion with Mr. Subbiah for a possible IFC role with Parry.

- Mr. Dilip M. Chenoy, Deputy Director, CEI.

  Mr. Chenoy is responsible for the Industry Divisions within CEI and their developmental programs with overall responsibility of twenty nine industry sectors. He is the CEI Executive coordinating CEI's network with industry associations and business organizations in the USA.

The Economic Situation in India:

- India is in the midst of an economic crisis. The crisis is manifested in a very tight external payments situation, which was most directly related to the oil shock of 1990, but had other roots, economic as well as political.

  - On the political side, the delay in presenting the full budget on time by the previous Janata Dal (S) government, its fall in March 1991, and the assassination of Rajiv Gandhi in May which delayed general elections for two weeks, compounded India's economic difficulties and eroded international confidence in its debt servicing capacity.

  - On the economic front, inflation reached double digits in 1990/91, the central government fiscal deficit rose to 9.1% of GDP, and the balance of payments position deteriorated.

  - India's access to commercial credit markets was effectively cut off when three credit rating agencies downgraded Indian issues in the late 1990-early 1991.

  - International reserves declined by US$1.8 billion in 1990/91 after cumulative losses in 1988/89 and 1989/90 of $2.3 billion; notwithstanding drawings on the IMF of $1.8 billion in January 1991, reserves (excluding gold) stood at barely one month of imports on March 31, 1991.

  - Surprisingly, overall GDP grew by about 5% during 1990/91, only marginally lower than the performance of previous years. A third successive good monsoon was largely responsible for sustaining the growth rate.

  - India successfully met all its international debt payment obligations. This was a significant achievement, involving mobilization of part of its gold stocks.

- The new minority Government that took office on June 21, 1991 has introduced an impressive set of measures aimed at dealing with the liquidity crisis and reducing fiscal imbalances, but equally important, beginning a much-needed restructuring of the economy. Policies are now being re-directed from the previous focus on self-sufficiency towards a more open economy. Initial actions have included:

  - a 23% devaluation of the Indian rupee against the US Dollar;

  - a sharp reduction in the number of industries reserved for the public sector;

  - adoption of a substantial list of industries in which majority foreign ownership will be permitted;

  - announcement of a new industrial policy whereby industrial licensing was largely abolished;

  - changes in the trade regime, allowing exporters to retain 30%-40% of their export proceeds, and significantly reducing the proportion of intermediate imports subject to quantitative restrictions;

  - freeing of debenture and term loan interest rates; and

  - adoption of an austere 1991/92 Central Government budget which provides for an ambitious reduction in the fiscal deficit equivalent to 2.6% of GDP, in part through cuts in major subsidies and defense spending.

IFC Strategy in India:

- As of June 30, 1991 IFC had made investments in 57 Indian companies totalling US$995 million equivalent, and our current exposure amounts to US$527 million equivalent, of which about US$70 million is in equity. The level of investments has increased significantly over the past two years. Gross investments were US$147 million in 1989/90 and US$209 million in 1990/91. In 1990/91, disbursements on Indian projects for IFC's own account amounted to US$154 million. Based on the number of projects currently in our pipeline, there is every indication that there will be a significant increase in IFC's investments in India during 1991/92.

- IFC's investment operations in the past three years have been characterized by considerable new investments in private sector power projects (all expansions of existing companies) and increasing investments in the capital markets area. IFC investment in the power sector accounts for 36% (US$193 million) of IFC's held portfolio in India, with the balance of investments well diversified.

- In this difficult and changing environment, IFC's present strategy is to offer a broad range of financing and services to the Indian private sector, with, as always, an emphasis on efficient investments that can yield significant financial and economic benefits. This includes:

  - giving priority to major lending prospects which have a large foreign exchange content. Typically, such prospects can benefit from IFC's review of project and contractual arrangements and IFC can complement the role of other financing including that from the local financial institutions.

  - expanding external funds mobilization through loan syndications, international securities issues and country funds. Such activities are somewhat dependent on a stabilization of the current situation and India's improved access to international markets and improved policies in this area.

  - increased focus on equity investments, both in new start-up prospects and in expansions. Our aim is to provide equity to both large and small companies where there is a clear role for IFC.

  - wholesaling arrangements with Financial Institutions, such as Agency Credit Lines to reach small- and medium-scale enterprises in a cost efficient manner. Pricing of such agency credits to the final borrower will be consistent with pricing of IFC's direct lending operations;

  - assisting in the development of diversified financial services companies and venture capital funds. Activities in this area would be enhanced by liberalization of the financial sector along the lines earlier indicated by IFC to the Bank;

  - promotion of foreign joint ventures. India's share of global foreign direct investment is minimal. With its large domestic market, its educated, skilled, and relatively low-cost labor force, an improved exchange rate policy, and some further adjustments to policy, India could become a very attractive base for foreign private investment.

  - planning for the expansion of our South Asia Regional Mission in India is almost complete. The expansion will enable more investment promotion and project processing work in the Regional Mission and thus be more responsive to the needs of IFC's clients in the Region. This would also include making the IFC office in Bombay fully operational to enhance our interaction with the financial and business community.

THE WORLD BANK
OPERATIONS COMMITTEE

Minutes of the Operations Committee Meeting to Consider
INDIA - Structural Adjustment Loan/Credit - Initiating Memorandum

Held on September 13, 1991 in Room E-1243

A. Present

Committee	Others
Messrs. M.A. Qureshi (Chairman)	Messrs. A. Ray (EAS)
S. Husain (LACVP)	P. Ljung (EAS)
E. Jaycox (AFRVP)	Ms. N. Okonjo-Iweala (OPNSV)
A. Karaosmanoglu (ASIVP)	H. Vergin (AS4DR)
P. Hasan (EMNVP)	R. Agarwala (ASIVP)
L. Summers (PRE)	J. Khalilzadeh-Shirazi (AS4CO)
I. Shihata (LEGVP)	M. Dailami (AS4CO)
K. Kashiwaya (CFSVP)	G. Pursell (CECTP)
D. J. Wood (FPRVP)	L. Robless (OPNSV)
D. Bock (OPNSV)	A. Stoutjesdijk (FRS)
	M. Walton (DECVP)
	M. Fardi (PRDRA)
	S. Burmester (SECGE)
	R. Gale (IFC)
	H. Neiss (IMF)

B. Issues

1. In its opening remarks, the Region explained that since the Rao administration took office on June 21, 1991, it has moved decisively to correct macro-economic imbalances. In major policy statements, the new Government has indicated its intention to deregulate the Indian economy, open it to foreign competition, investments and technology, modernize the financial sector and improve the performance of the public sector. In short, the Government has stated its intention to make a clear break with the development policies pursued during the past four decades. It has also taken some initial steps in this direction. The Region added that the proposed Structural Adjustment Loan (SAL) would support the first phase of reforms. While the direction of change was appropriate, there were three areas on which judgements differ: (i) the Government was more cautious about the size and speed of the supply response than the Bank; (ii) the Government wanted to adopt a more cautious pace of reforms to reflect political realities and, especially, the sensitivities of organized labor; and (iii) the Government was also concerned that the safety margins--especially in terms of foreign exchange reserves--might be too small.

2. In opening the discussion, the Chairman noted that the SAL was an extremely important operation. It should be seen as the first in a series of operations initiating far reaching reforms in the Indian economy. If it was the only adjustment loan contemplated, it could not be supported. Consequently, we had to make it clear to the Government that the SAL actions were part of a

comprehensive package of structural reforms (which we stood ready to support). The letter of development policy had to set out the broader medium-term framework within which the proposed SAL would fit. Of course, we had to take into account the fact that these reforms were being pursued by a minority Government in a sensitive and fragile political environment, and in conjunction with an IMF program. Consequently, we had to accept that the Government needed both political and economic safety margins.

3. Several other speakers concurred with the Chairman and noted that the measures taken so far appeared rather piecemeal and that the contemplated future actions did not seem to be part of a clear, coherent strategy for opening up the Indian economy. This led one of the members to seek clarification on the commitment of the bureaucracy and the opposition parties to the proposed reforms. The Region responded that the new administration had been able to move quickly on reforms only because the bureaucracy had already developed the proposals. Thus, there was little doubt that the key members at senior levels of the civil service were supportive of the reforms. It was more difficult to say if the lower tiers of the central departments and the civil servants in the States were supporting the new policies. There were also other factors that augured well for structural change. The major opposition party, BJP, was in many respects more market-oriented than the Congress Party. Nevertheless, the Prime Minister was well aware that he had to compromise and build parliamentary support for the new policies. Most of the influential businessmen appeared to be supportive of the regulatory changes announced so far. Finally, the general attitude of the national press seemed to have become more reform oriented and less xenophobic.

4. Most members agreed that this was an opportune time to break with past economic policies. However, it was desirable to establish a clear blue-print for future reforms. One member reinforced this by noting that experience from other countries had demonstrated the importance of the "announcement effect." By announcing a clear agenda for reforms, investor confidence could be established early on and the supply response would become faster. The Region agreed that it was desirable to get the Government to spell out its medium term framework in the letter of development policy.

5. One member noted that the Bank could provide large amounts of quick disbursing funds only during the next three or four years. Thus, it was essential that the reforms be implemented boldly. The Chairman concurred that India could not rely on direct balance of payments support for a prolonged period. He added that if India undertook strong adjustment measures, it should be able to mobilize a substantial package of financial assistance from the donor community.

6. Several speakers called for more decisive action under the proposed SAL. On regulatory reforms, the Chairman noted that the measures already taken--for example, regarding industrial licensing and direct foreign investments--still retained limitations that could be used to reduce their impact. These "modifiers" should be removed as soon as possible. It was also essential to be more explicit on the actions needed to remove obstacles to enterprise restructuring and adjustment. Similarly, the proposed condition on the Foreign Exchange Regulations Act (FERA) would only require it to be modified while the ultimate aim should be to abolish it altogether. Even if the abolition of FERA was not possible in the short term, the letter of development policy should establish this as a key policy objective.

7. In the area of trade reform, the Chairman wanted to see more concrete and far reaching steps towards the removal of quantitative restrictions on imports and export controls. Given the exceptionally high import dutires in India, it was also important to establish quite specific targets for tariff reform. Several speakers supported the Chairman's call for more drastic domestic deregulation and trade liberalization. The Region added that there was no disagreement between the Bank and the Government on the direction of change. However, the Government questioned the expected speed of the supply response and the resulting impact on the macro-economic balance and on political support for the reforms. For example, the "exim-scrips" had made exports more profitable and, as a consequence, agricultural exports had started to expand. This might push up food prices and create a political backlash.

8. One speaker noted the lack of a comprehensive framework for the reforms in the financial sector. While the Chairman agreed, he was less troubled by the proposed conditions in this area. The SAL documents should contain a clear statement of the objective of freeing interest rates. Financial institutions should be able to compete freely on the market and raise funds without any Government guarantees. A number of the specific actions presently included under the SAL could be deepened in the forthcoming financial sector operation loan. The Region responded that some of the specific conditions had been included to accommodate IFC's interests. One member noted that international bankers appeared to remain very cautious. Thus, he felt that rapid deregulation of both the financial and industrial sectors was needed to mobilize much needed--and potentially very large--direct foreign investments.

9. Some members questioned both the nature and scope of the proposed public enterprise (PE) reforms. It was suggested that the sale of minority shares in PEs had rarely been successful in other countries. The Region agreed that the Government did not have a sufficiently articulated strategy for PE reform and was simply not comfortable with the idea of letting the private sector assume control of individual PEs. Another speaker called for an explicit exit policy for loss-making PEs and suggested that the SAL should seek to impose a hard budget constraint on these enterprises. The Chairman agreed but suggested that further PE reforms should be linked with the efforts to strengthen the safety net under the planned social sector operation.

10. Several members and the Chairman recommended that the conditions for release of the second tranche should be more precise and explicit. For example, it was not clear to what extent the committees studying the financial sector, tax system and trade regime would produce recommendations that actually would move the reform process forward. Given India's balance of payments difficulties, there would be strong pressures on the Bank to quickly disburse the second tranche. In order to resist this pressure and ensure that the reforms remained on track, the tranche conditions had to be unambiguous. One speaker also cautioned that tranche conditions requiring legislative action should be avoided to the extent possible without diluting the program. The Region responded that the appraisal mission would make every effort to make the conditions explicit and monitorable. It also noted that the Government was well aware of what was expected for the second tranche--even if this had not been put down on paper. Similarly, the Government knew that the second tranche would not be released until the new budget had been presented next spring. Furthermore, the key actors in the three committees were well known to the Bank and, thus, it was possible to be confident about the soundness of the forthcoming recommendations.

11. Addressing the macro-economic framework, one speaker noted that the debt service ratio would remain essentially unchanged at least through 1995 (the last year shown in the projections) in spite of rather optimistic export projections. Although the debt service ratio was not very high by international standards, experience had shown that it was difficult for India to manage a debt burden of this magnitude. Consequently, the safety margin appeared to be very thin. Since there was no anticipated fall in the level of consumption (i.e., "no pain"), there appeared to be some scope for further fiscal adjustment. He suggested that there was some scope for making further cuts in public investments. The Region responded that the majority of the population so far had not been directly affected by the present macro-economic crisis. Food stocks were good. Inflation was barely into the double digits. The broad masses in India did not feel the balance of payments constraint. Consequently, it was politically difficult to "impose pain if people did not see the need." It was obvious, however, that fiscal adjustment was needed and a major correction was underway. Fiscal issues were central to the Bank's dialogue with the Government and the Government had appointed a committee to look at taxation issues. The Chairman concurred with the suggestion that the Bank together with the Fund should pay special attention to strategic fiscal issues.

12. Turning to the issue of the amount and composition of the loan/credit, the Chairman said that he could envisage the Bank moving forward with a package of adjustment operations amounting to around US$1.5 billion. However, not more than US$500 million should be committed through the SAL. Within the total financial package, maximum use should be made of IDA resources (including the recycling of savings that could result from a partial cancellation of some outstanding IDA credits). Several speakers agreed that IDA resources should be used for quick disbursing lending. This would not only reduce IBRD's exposure, but also make India's debt service profile more manageable. The Region noted, however, that the Government preferred to use IDA funds for investment projects in the social sectors and had prepared a program of high priority operations with which the Region concurred. The Chairman responded that the Bank had to convince the Government about the merits of using IDA funds for adjustment lending including support for operations designed to deal with the social dimensions of the adjustment process. He suggested that the proposed operation might be supported by an IBRD loan of US$300 million and an IDA credit of US$200 million.

C. <u>Decision</u>

13. The Chairman authorized the Region to appraise the proposed operation, taking into account the comments made by the Committee.

PLJung:vl
September 20, 1991

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: September 12, 1991

TO: Operations Committee

FROM: Fred D. Levy, Acting Director, EAS

EXTENSION: 81947/8

SUBJECT: INDIA: Structural Adjustment Loan - Initiating Memorandum - Agenda

1. The Operations Committee will meet on **Friday, September 13, 1991 at 4:00 p.m. in Room E-1243** to discuss the Initiating Memorandum (IM) for the first Structural Adjustment Loan to India. The IM was circulated to you under Mr. Karaosmanoglu's signature on September 6, 1991.

Background

2. After three decades of sluggish growth, the Government of India took some modest steps towards deregulation and encouragement of exports in the early 1980s. As a result, manufacturing growth in the 1980s accelerated to over 7% p.a., and, after the middle of the decade, export volume expanded at an annual rate exceeding 10%. Unfortunately, this growth was also fueled by an expansionary macro-economic policy and large domestic and external borrowings. Thus, when the reform process stalled after 1988, the fiscal and balance-of-payments positions worsened progressively to the point where India's ability to continue servicing its foreign debt was threatened.

3. During the spring of 1991, the caretaker Government took a number of emergency measures to contain the situation. It also managed to raise additional bilateral and multilateral funding to provide some breathing room for the new Government. The Rao administration, which took office on June 21, 1991, moved decisively to stabilize the economy by: (i) a reduction of the budget deficit from about 9% of GDP to 6.5%; (ii) a 23% devaluation of the rupee versus the US dollar; and (iii) a significant tightening of monetary policies. However, the Government also recognized that comprehensive structural reforms were needed if India was to regain and sustain rapid growth.

4. The structural reforms already initiated and the agenda for future action have been defined in close consultation with the Bank. The reforms cover five major areas:

* Industrial Policy: significant deregulation of domestic economic activities and liberalization of direct foreign investment;

* Financial Sector Policy: liberalization of interest rates, strengthening the market orientation of financial

institutions, and enhancing the competition in the banking system and the capital market;

* Trade Policy: removing quantitative restrictions on imports and exports, lowering tariff protection, and moving towards full convertability of the rupee;

* Public Enterprise Reforms: reducing the number of activities reserved for the public sector, restructuring or closing loss-making enterprises, and selling shares in profit-making enterprises;

* Social Consequences of Adjustments: creating a safety net for those affected by the closing and/or restructuring of public and private enterprises.

5. Reforms in all these areas would be supported under the proposed SAL. Against this background, the Committee might want to consider the issues described below:

Issues

6. Supply Response and Risks. After sluggish growth in 1991, the economy is expected to gradually regain its momentum, fueled by increased savings and private investments. The volume of exports is anticipated to expand by more than 10% per year up to 1995. With debt service expected to increase from US$7.0 billion in 1990 to US$11.9 billion in 1995, the debt service ratio would decline from 28% in 1990 to 24-26% in 1993-95. The Region might want to discuss the possibility of the domestic supply response being delayed and assess the resulting risk of default on India's obligations to the Bank and to other creditors.

7. Government Commitment and Risks. For four decades, the Indian economy has been highly regulated and excessively protected. The recently announced reforms appear to represent a clear break with the past. However, they are being implemented by a minority government that is unwilling--for political reasons--to articulate a clear reform agenda. Medium-term actions will largely depend on the recommendations of three Government committees dealing with the financial sector, tax systems and trade regimes. However, India's track record in implementing market-oriented reforms is rather mixed. Even the modest liberalization of the 1980s was resisted and diluted by an entrenched bureaucracy and powerful vested interests representing the major industrial houses. Thus, the Region might want to explain how it sees the Government's commitment to a comprehensive reform program and assesses the potential risk of serious performance slippages.

8. Banking and Prior Action. As noted above, the Government has recently taken a number of decisions regarding structural reforms. However, given political sensitivities in India, the Government has been extremely reluctant--so far--to commit itself to major additional reforms that could form the basis for tranche release conditions. Given the size of the proposed operation (US$600 million, including US$100

million IDA), the Committee might want to assess the appropriateness of the proposed conditionality and heavy reliance placed on prior action, as well as the burden-sharing implications. The Region might also wish to explain the relationship between the proposed SAL and the forthcoming financial sector adjustment and social safety net operations.

9. Price Reforms. The regulatory actions under the proposed SAL concern primarily the rules regarding entry, expansion and exit of private enterprises. Some price increases have recently been announced for public enterprises. The Committee might want to discuss whether further deregulation of prices might result in a more vigorous supply response by private enterprises and help to reduce the budgetary burden of public enterprises.

10. Public Enterprise Reform. During the discussion of the India CSP in May 1991, the Committee agreed that privatization of public enterprises was less urgent than domestic liberalization and trade reform. Consistent with this conclusion, the SAL appears to give priority to improving the performance of public enterprises (through increased competition, restructuring, etc.). The announced sale of up to 20% of the shares in profitable public enterprises would primarily be done to government-owned banks and mutual funds. The Region may wish to comment on the evolving prospects for a more vigorous privatization effort in the financial and industrial sectors.

Operations Committee

Messrs. Qureshi, Husain, Jaycox, Karaosmanoglu, Wapenhans, Rajagopalan, Summers, Shihata, Kashiwaya, Wood, Bock.

cc: Messrs/Mss. Thahane/Burmester, SECGE; Picciotto, CPB; Goldberg, LEGOP; Wyss, COD; Sandstrom, EXC; Isenman, PRD; Linn, CEC; Stoutjesdijk, FRS; Okonjo-Iweala, OPNSV; Parmar, IFC-CIO; El-Rifai, MIGPA; Rao, IEC; Kavalsky, FRM; Niehuss, CFSVP; Pfeffermann, IFC-CEI; Liebenthal, PRD; Kilby, FRS; Robless, OPNSV; Walton, DECVP; Khanna, EXC; Thomas, Vergin, Khalilzadeh-Shirazi, ASI; Institutional ISC.

PLjung:vl

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

August 1, 1991

Mr. Attila Karaosmanoglu

Re: India Country Strategy Paper

I was encouraged by your oral report on the decisive measures for fiscal adjustment and structural reform being instituted by the new government in India. While mindful of the risks to the Bank and having no illusions about the magnitude of the task and difficulties ahead, the President's Council agreed unanimously on strong Bank support, including substantial quick-disbursing policy-based lending, for a forceful stabilization and bold economic reform program. I want the Region to move as rapidly as possible without compromising quality, particularly with the proposed SAL and the Financial SECAL.

I am in broad agreement with the strategy presented in the CSP, which is well written and cogent. Clearly, our message to the Government of India should be consistent and unequivocal--Bank support is conditioned on the strength of the reform effort. Internally, regarding risk management, we could tolerate India exceeding somewhat the portfolio share guidelines, provided the adjustment program is bold. Of course, given India's large prospective external financing needs, we must also help the government mobilize fast-disbursing assistance from bilateral donors and must coordinate our efforts with other multilateral agencies.

Finally, I agree with PRE and FIN that IDA must be accorded a larger role in the adjustment operations, particularly the proximate ones. There is a strong case for making an exception to our normal policy relating to IDA savings, and I am prepared to go to the Board with a proposal to cancel the large amount of IDA savings in India and reallocate them to support the adjustment program.

An update of the CSP should be prepared in a year's time.

Barber B. Conable

cc: Mr. Qureshi (o/r)
Members, President's Council
Messrs. Jaycox, Summers, Bock, Grilli, Vergin

AK / SS (Ofr)

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

TO:	DATE:
Mr. B. Conable (E-1227)	7/31/91

SUBJECT:

Document From: Sir William Ryrie
To: bbc
Dated: 7/29/91 Reference No.: EXC910731001

Topic: Private Sector Development in India
(re PC mtg. of 7/26/91)

ACTION INSTRUCTIONS: | DUE DATE:

__XXX__ HANDLE
_______ REVIEW AND RECOMMEND
_______ FOR YOUR INFORMATION
_______ DISCUSS WITH ____________________
_______ AS WE DISCUSSED
_______ PREPARE RESPONSE FOR ______ SIGNATURE
_______ FOR YOUR FILES
_______ RETURN TO ____________________
_______ OTHER: ____________________

Remarks: cc to AK for review

International Finance Corporation
Washington, D.C. 20433
U.S.A.

Sir WILLIAM RYRIE
Executive Vice President

July 29, 1991

NOTE

Mr. Barber B. Conable

Barber:

Private Sector Development in India

I would just like to record the points I made at the President's Council on Friday, July 26, about the India CSP.

Coordination between IFC and the Bank over India is good, I think. But the CSP is deficient in three respects.

First, there is no section which contains any serious discussion about PSD overall. The section headed "Private Sector Development and Coordination with IFC" is almost entirely about amounts being lent or invested. I hope that the private sector assessment we are to do on India will rectify this.

Secondly, I think the paper should have included a statement about IFC's strategies and priorities in India which I believe was offered but not used.

Thirdly, there are some statements in para. 72 about conditions which will govern IFC "lending" which are not in accordance with policy agreed with the Board. It is not correct that IFC will generally refrain from lending in sectors where the policy framework is unacceptable for Bank lending. There can certainly be cases where IFC can and should invest although the Bank would not lend to the sector as a whole. Nor is the rest of the wording of that paragraph appropriate implying, as it does, that IFC investments will be programmed by the Bank. It is out of line with the section on IFC's priorities for project selection which was recently presented to the Board.

Bill

cc: Members of the President's Council
Messrs. Karaosmanoglu, Vergin, Tharmaratnam

India.wr

For PC on Fri 7/26/91

INDIA : COUNTRY STRATEGY PAPER
Talking Points

* We have before us CSP's for two of our largest borrowers -- India and Indonesia. Both are very well-written documents --cogent and to-the-point. Of course, the two countries are in very different situations today.

First, India ...

* We are all quite familiar with the crisis in India --we have been forecasting it for two years at least. It appears that finally the government is taking action; it has no choice given its back to the wall-- nevertheless,press reports are talking about 40 years of cobwebs being swept aside. Let us start with that ...

* Attila (Karaosmanoglu), would you or Heinz (Vergin) please update us on the budget presented day before yesterday and other recent measures (e.g. industrial policy). Basic question: Is the fiscal adjustment adequate and structural reform measures decisive enough?

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* Clearly stabilization by itself is not enough to restore India's creditworthiness; a strong and credible adjustment program must be in place soon with adequate funding. Where does this stand? What will our SAL cover? How are we coordinating our work and schedule with the Fund? other donors?

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* Turning to the medium-term strategy, the CSP proposes almost a binary approach -- all or close to nothing for IBRD lending. IDA would also be linked to performance (Note though: in per capita terms India receives less than half the worst performers in Africa, e.g. Zaire). The key elements of the strategy are spelt out on page 2. We must focus on their implications.

The questions I have are the usual ones:

(1) Reform priorities: The agenda is vast and touches most bases. Issue is not one of gradualism since radical and decisive actions are needed. What should be tackled first? Also what is the division of labor with the IMF?

(2) Mix of instruments and funding: For example, should IDA not have a greater part up front? If so what are the implications for sustaining our dialogue on traditional poverty issues? Of course, this issue of lending instruments is intimately related to ...

(3) Risk Management and Burden-sharing: What is the likelihood that India will fall off the wagon? (Combined issue of sustenance of political will and implementation capacity) What happens if it does, both in the country and to us?

* Attila, would you like to lead off before we open it up to the PC members. Perhaps you may want to start off by saying what your vision is of where India should be 3-5 years from now. That does not come through very clearly in the CSP. When can we see a discernible reduction in poverty such as that acheived in Indonesia?

* Open up for PC comments.

* Conclusion: OK to proceed. Monitor closely. CSP Update in a year.

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

PC 7/26.

DATE: July 25, 1991

TO: Mr. Lawrence H. Summers, DECVP

THROUGH: Mr. Robert Liebenthal, Chief, PRDRA

FROM: Mohsen Fardi, PRDRA

EXTENSION: 31263

SUBJECT: India - Country Strategy Paper - Briefing Notes

As indicated by the CSP Postscript, the Operations Committee at its May 9, 1991 meeting asked the Region to address certain issues in revising the CSP. The following is a list of the issues and how, in my view, the revised CSP has dealt with them.

1. The CSP now conveys a stronger sense of rapid deterioration in the macroeconomic situation and that pure and simple stabilization measures would not suffice to restore India's creditworthiness. The Bank's continued base case lending to India is now contingent on a strong and credible adjustment program. This point, however, may need reemphasis by the PC.

2. PRE's recommendation to the OC was to avoid the "muddling through" middle ground scenario of stabilization without adjustment where IBRD would still lend some $1 billion annually for sectoral projects. The Region appears to have taken this approach. Total Bank lending/credit during FY91-95 will average $2.7 billion. Fast-disbursing operations will be $1.2 billion p.a. during the four years of FY92-95, or 41% of total lending for the same years. This is higher than the 33% average FY92-94 share of adjustment operations in Africa, the region with the highest ratio under the CSP base cases.

3. The revised CSP does not deal explicitly yet with the low case scenario, where IBRD lending will be limited to $200-300 million of project loans annually and IDA credits will also be subject to revisions. The economic analysis in the CSP and the lending program is still limited to the high case.

4. The crucial test of the proposed program should be the strength of fiscal adjustment. The revised CSP is taking a tougher stand on the size of fiscal adjustment (1990-96 average public sector deficit 5.8% of GDP vs. 7.4% before). The CSP projects a fall in the budget deficit from 9.5% of GDP in 1990 to 7.0% in 1991. Incidentally, 1991 budget data is left out of Annex B, p.13, table which shows 1980-90 and 1992-95 projections.

5. In the new budget proposed yesterday (please see the attachment), GOI plans to reduce the budget deficit from 107 billion rupees in 1990 to 77 billion rupees this year. The military budget will increase from 157 billion rupees in 1990 to 163 billion in 1991, though it is reported that due to the rupee's devaluation, military expenditures will fall by some $600 million. We are not clear on

the significance of the budgetary measures announced. To wit, the CSP shows that the primary deficit in 1990 was 302 billion rupees and the total Government deficit financed was 485 billion rupees.

6. The revised CSP also takes a stronger position on the current account deficit ceiling (1991/92 $5.3 billion vs. $6.1 billion in the last version of CSP and 1990 current account deficit of $9.9 billion). This is due to a projected exports (G&NFS) growth of 8.5% while imports are projected to fall by 9%. Although some compression of imports has already taken place and the real devaluation of rupee should have a positive impact on exports, nevertheless, it is questionable whether exports and imports could move in opposite directions in the short-term.

7. Public sector retrenchment, deregulation and liberalization should also be tests of the proposed program. Measures announced on July 24, 1991, in the context of this year's budget presentation to the Parliament by the Finance Minister, give very strong indications of GOI resolve to allow foreign investors access to a wider range of industries (34 important industries) and up to 51% foreign ownership).

8. The sequencing of the reform program should give priority to internal adjustment. Trade reform should follow internal adjustment. The Region's view is that tariffs are too high to permit private sector imports. Thus both internal and external liberalization, including an active exchange rate policy, is needed. The Region proposes that the GOI phase out immediately QRs on key intermediate and capital goods imports. In the medium-term tariffs should be reduced to 20-25% and quotas completely eliminated.

9. In line with PRE's recommendation that IDA lending should be linked to performance, the revised CSP notes that the volume of IDA lending will be reexamined if the policy reform program is abandoned. This statement (see end of para. 53) appears to fall short of linking IDA credit to alternative lending scenarios. Only in the extreme case of abandoning the reform program would IDA credit volume be subject to change. The CSP now proposes a higher level of IDA credit ($700 million vs. $400 million) for fast-disbursing operations, with about the same level of IBRD fast-disbursing loans ($3500 million). The CSP also limits the use of IDA credit to social programs to minimize the negative impact of adjustment. However, earmarking IDA is not required. IF GOI is fully committed to the program, it can draw on other resources, including IBRD loans for social programs.

10. The OC noted that the Bank's share in the exceptional financing, as proposed, is too high and that more aid should come from bilateral donors. The revised CSP has not addressed this issue in a way which would lower the Bank's share in the overall financing requirements. As noted above, the combined quick-disbursing operations to be financed by IBRD and IDA are now larger ($300 million) for a much lower projected current account deficit ($19.5 billion vs. $25 billion). Exceptional cofinancing by bilateral donors is now expected to be less than before, by some $300 million. As a result, the share of the Bank in providing exceptional financing to meet the

projected financing gap is now 30% as compared to 20% in the last version of the CSP. This is an issue to be raised at the PC. Given the already high Bank exposure indicators, a strong effort should be made to mobilize a higher share of external finance requirements through cofinancing of adjustment operations or parallel support.

cc: Messrs. Thalwitz (o/r), Rajagopalan, Isenman

bcc: Messrs. Michalopoulos, Walton, Khanna

Attachment

MFardi/mf

India Retreats From Socialist Past

By SANJOY HAZARIKA

Special to The New York Times

NEW DELHI, July 24 — Finance Minister Manmohan Singh set into motion today a range of changes intended to turn India's back on decades of insularity and government controls and to attract foreign money.

Politicians and economists said the changes marked a turning point in the nation's economic history. "Let the world hear it loud and clear," declared Mr. Singh, an economist. "India is now wide awake."

Mr. Singh's reforms are the most sweeping in recent decades and will allow foreign companies to hold as much as a 51 percent interest in Indian companies, up from the current maximum of 40 percent. They would also permit direct investment in as many as 34 important industries, including transportation, food processing, hotels, tourism and electrical equipment.

Some Government Controls Stay

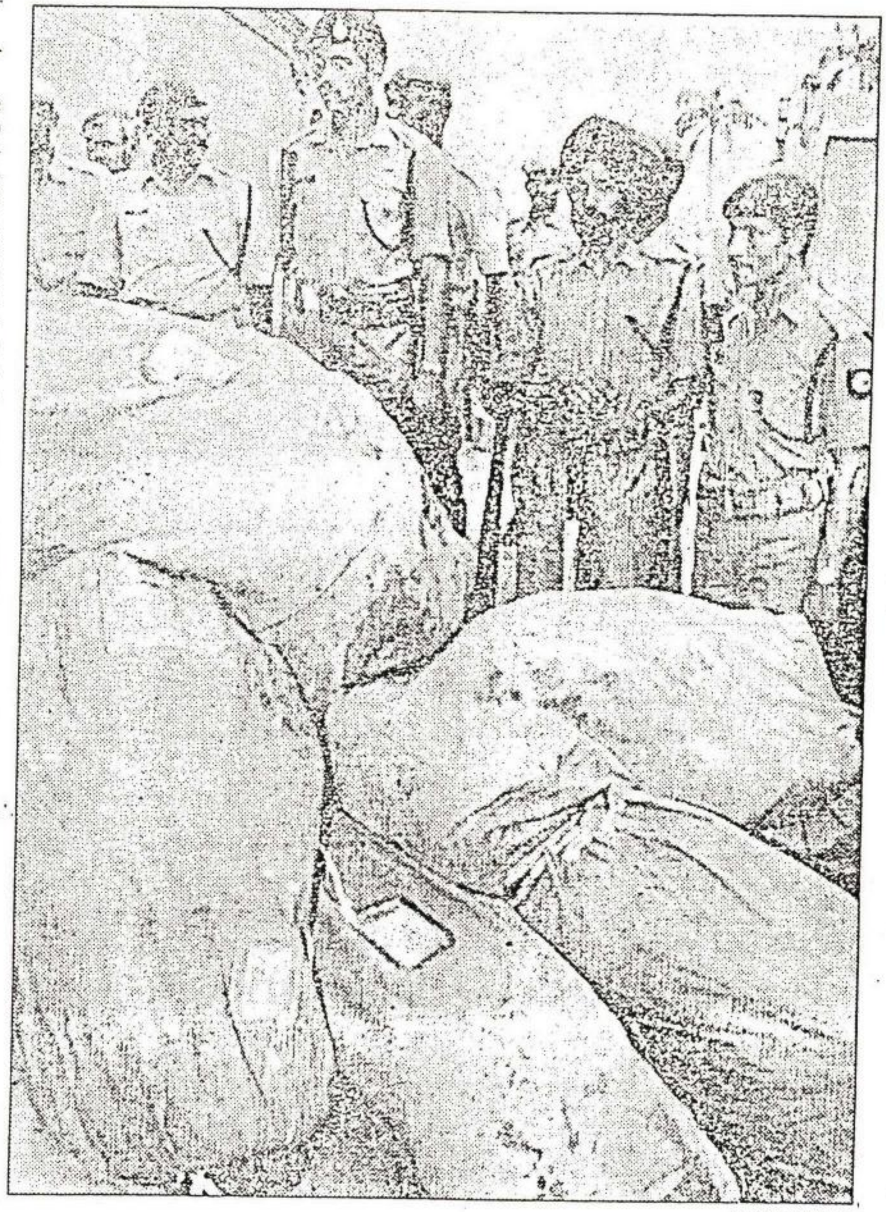
The Government will keep controls in the manufacture of hazardous chemicals, motor vehicles, coal, petroleum, arms, atomic energy and drugs.

Mr. Singh said mounting fiscal deficits and government profligacy were putting an unbearable strain on India.

"The fiscal deficit of the central Government is estimated at more than 8 percent of G.D.P. in 1990-91, as compared with 6 percent at the beginning of the 1980's and 4 percent in the mid-1970s," Mr. Singh said in a two-hour statement in Parliament that was often interrupted by opposition lawmakers.

As a first step, Mr. Singh proposed reducing the budget deficit from the equivalent of 107 billion rupees (about $4 billion) last year to 77 billion rupees (about $3 billion) through increases in corporate taxes and new taxes on cigarettes, fertilizer, videocassette recorders and cameras, re-

Continued on Page D10



Associated Press

India's budget was delivered to Parliament in New Delhi under military guard yesterday for presentation to lawmakers. In a budget address to Parliament, India's Finance Minister Manmohan Singh proposed sweeping economic reforms aimed, in part, at attracting foreign money.

Continued From First Business Page

frigerators and entertainment. He also called for cuts in Government spending.

India is seeking several billion dollars in emergency assistance from the World Bank and the International Monetary Fund, Government officials said, to help manage its economic crisis. Mr. Singh met a central demand from the I.M.F. by ending subsidies on fertilizers and sugar, although he increased food subsidies.

The minority Congress Party Government of Prime Minister P. V. Narasimha Rao also said it would pare the military budget. Because of a 20 percent devaluation in the value of the rupee earlier this month, the military budget of 163 billion rupees is worth about $6.4 billion dollars at current rates. This is nearly $600 million less than last year's budget of 157 billion rupees.

Some lawmakers and industrialists expressed fears of sharp price increases after Mr. Singh announced a 20 percent increase in the price of gasoline, aviation fuel and cooking gas.

"This is a highly inflationary budget," said Kamal Morarka, a former aide to the previous Prime Minister, Chandra Shekhar.

Jaswant Singh, a prominent leader of the main opposition party, the right-wing Bharatiya Janata Party, said, "In essence, the Finance Minister has rejected the Nehruvian ideal of Fabian socialism that has brought India to this abject pass."

Jawaharlal Nehru, India's first Prime Minister, introduced state controls in economic planning, encouraged the public sector at the cost of private enterprise and spoke of the virtues of socialism and the evils of free enterprise. The public sector in India developed as an institution that exercised control over the military, oil production and mining and was a leading employer.

Yet, Mr. Singh pointed out, the public sector accumulated losses and did little to justify the investment.

THE WORLD BANK
Operations Committee

CONFIDENTIAL

INDIA

COUNTRY STRATEGY PAPER

Postscript

95. The Operations Committee met on May 9, 1991, to consider the Country Strategy Paper (CSP) for India. In a brief opening statement, the Region noted that the economic situation had continued to deteriorate. The caretaker government had acted to compress imports, contain speculative hoarding, control the budget deficit and induce more repatriation of funds from abroad. Still, the anticipated budget deficit was now worse and the foreign exchange reserves were lower than when the CSP had been drafted. It was encouraging, however, that the caretaker government, after consultations with the major parties, had requested that the Bank initiate the preparation of a structural adjustment loan. The subsequent discussion broadly followed the agenda prepared by EAS.

96. In opening the discussion, the Chairman expressed his appreciation of the Region's strategy for dealing with this important client who faced an exceptionally difficult situation. To do justice to the strategy envisaged, the Chairman felt that the CSP should convey even more directly the message that the macro-economic situation was deteriorating rapidly, and pure and simple stabilization measures would not suffice to restore India's creditworthiness. Therefore, unless the Government undertakes, at the same time, a strong structural adjustment program, which renews the confidence of the Bank and India's other creditors, the Bank will have to reduce its financial assistance. The Chairman also noted that the nature and implications of the intermediate scenario was not fully spelled out in the CSP. The new Government was bound to take immediate action to stabilize the macroeconomic situation but it might stop short of the needed structural reforms. Such a "muddling-through" scenario could have serious negative consequences for future growth and creditworthiness of India. He was fully aware that the Region was working hard to persuade the civil servants and the main political parties to take strong structural measures in order to prevent this outcome. The CSP should present the Region's strategy as clearly and forcefully as the situation deserved.

97. Turning to the reform agenda, the Chairman stressed the importance of strong fiscal adjustment. In containing the budget deficit, cutbacks should apply not only to current expenditures but also to some capital expenditures, especially in areas where the private sector could play a greater role. He noted the need for enhanced revenues from user charges and a broadening of the VAT. It was important, given the fiscal situation, that reforms be designed and sequenced taking their impact on the budget into account. In the subsequent discussion, several Committee members agreed on the importance of cutting the budget deficit (at least in part to avoid a surge in inflation) and noted that the fiscal adjustment outlined in the "strong reform" scenario presented in the CSP might be more modest and gradual than required by the current situation. The Region responded that the Central Government deficit was expected to decline from 9.2 percent of GDP in 1990/91

to 6.5 percent in 1991/92. The IMF representative noted that since one-third of the 1991/92 fiscal year would pass before the new Government would be able to act, this target implied some rather drastic expenditure cuts in the short run. The Chairman, however, stressed the importance of bringing down substantially the consolidated public sector deficit.

98. The Chairman agreed with the Region on the need for domestic <u>deregulation and liberalization</u> of trade and direct foreign investments. He added that the Bank should press for public sector retrenchment in areas where private enterprises were likely to fill the void but warned against getting into an ideological debate with the Government about privatization of state enterprises. One member added that a more comprehensive program for privatization might have a beneficial impact on the budget. There was a general agreement among the Committee members, however, on the need for drastic deregulation and internal liberalization of the economy. Another member observed that the quality of governance appeared to be deteriorating, indicating the need for a broader reform of the legal and administrative frameworks.

99. One member recommended caution in the implementation of significant <u>tariff reductions</u>. Such reforms appeared less urgent in India than in small open economies. Given the size of the Indian economy, the Government's heavy reliance on tariff revenues and the need to reduce the budget deficit, it might be appropriate to delay the tariff reforms. A too rapid trade and tariff reform might also put too much pressure on India's fragile balance of payments. Internal deregulation was essential, trade liberalization could be implemented later. The Region responded that the average tariff was 117 percent and, for capital goods it was a staggering 130 percent. Without being able to import more cheaply, Indian enterprises--with their often obsolete and inefficient equipment--cannot be competitive on the world markets and the expected resumption in export and GDP growth will not materialize. Both internal and external liberalization were needed. The Chairman noted that demand management should help contain imports and stressed the importance of continuing an active exchange rate policy in reducing the balance of payments deficit.

100. The IMF representative reported that the Fund agree with the approach taken in the CSP. However, the Fund was concerned about the shorter term risks present in the economic and financial situation of India. A set of strong emergency stabilization measures, supported by a convincing financing package were urgently needed. The Government might have to use part of its gold reserves to help meet India's external payments. The caretaker government had failed to adopt all the required measures. Hopefully, the new government would be able to take quick action.

101. The fragility of the present situation was also stressed by one Committee member. He agreed that there was a risk that India might have to default on some of its external obligations and reschedule its debt. This would dry up new commercial lending to India and make economic recovery exceedingly difficult. Such an event could also have implications for the World Bank's own credit rating. He added that some US$1,000 million in external financing would be needed to avoid a financial crisis before an IMF program could be approved in the fall. So far, bilateral donors had pledged only half of it. To help fill the remaining gap, he suggested, that the Bank

should do whatever it could--without jeopardizing its principles--to provide some quick disbursing assistance.

102. In addressing the issue of IBRD lending volume and exposure, one member noted that the political situation in India was fragile and the past record of policy reform was mixed. The country was saddled with large external and internal debt. Under these circumstances, would it really be prudent for India to borrow very large amounts on commercial terms? IBRD was highly exposed and this exposure was expected to increase. Another member added that the "adjustment" scenario--under which India's creditworthiness would be gradually restored--assumed a rather optimistic export growth. On the first point, the Region responded that even under the high case scenario, commercial debt was expected to grow considerably more slowly than it had since the early 1980s. Addressing the second point, it noted that there had been exchange rate and trade policy changes in recent years and, as a result, exports had increased very rapidly. Given this record, the export projections could not be regarded as too optimistic. One speaker noted that there were significant downside risks and that the financing plan did not appear to be robust enough to absorb possible shocks or performance slippages. This point was echoed by another member who observed that the experience from other countries taught us that "things might get even worse before they get better." In this connection, several speakers noted that the downside scenarios were not fully spelled out in the CSP. Especially, what would happen if stabilization was forceful but structural reforms only hesitant. The Region responded that the volume of Bank lending it envisaged would depend largely on the assessment of India's creditworthiness, with a maximum annual amount of US$1.2 billion. Below this ceiling, the volume and composition of lending would be determined by the extent of structural reforms and the availability of quality projects. Indeed, this mode was already reflected in this year's IBRD lending program which was likely to be in the range of US$600-1,000 million.

103. Several speakers felt that there was a strong need to keep IDA lending volume tied to performance. The Region felt that the linkage should not be carried too far, given the large investment needs presented in the social sector and noted that even in the worst case scenario the donor community would probably like to maintain substantive IDA lending flows in order to help prevent deprivation. The Chairman noted, however, that IDA lending had to be linked with performance.

104. Several members questioned the heavy reliance on IBRD funds for the financing of adjustment operations. A different mix of lending instruments should help improve India's debt profile. The Chairman said that consideration should be given to providing a higher proportion of IDA resources in the form of quick disbursing credits.

105. There was a general consensus that, as far as possible, India should rely on concessional borrowings. It was acknowledged that even if India undertook strong reforms, only small amounts of additional IDA funds could--possibly--be made available. Similarly, adjusting disbursement percentages on IDA credits were likely to have only a negligible impact. Given this situation, one member proposed a more drastic approach: if India adopted a strong adjustment program, management should be prepared to go to the Board and recommend that part of the large amounts of undisbursed IDA project

credits should be canceled and replaced with quick disbursing adjustment credits. The Region cited policy objections to this approach.

106. Burden sharing issues were also raised by other speakers who noted that most of the financing was expected to come from IBRD, IDA and IMF. Indeed, in 1991 and 1992 around one-third of the financing--under the adjustment scenario--was expected to come from the Bank. This kind of burden--and risk--sharing was not appropriate for the Bank. More support was needed from both bilateral donors and regional development banks. The Chairman noted that the Bank should push for more concessional aid in the Consortium, but he doubted that large additional amounts would be forthcoming. He observed that the Fund and India appeared to have ruled out the use of SAF and ESAF resources for the financing of the stabilization program. The IMF representative responded that the Fund presently envisaged a stand-by arrangement for India since it could be prepared much more quickly. However, if agreement could be reached on a multi-year program, the possibility of an ESAF arrangement would be kept open.

107. In passing, one member expressed his surprise that, in a period when India faced an economic crisis, the Region proposed to cut the manpower allocation for economic and sector work by 20 percent.

108. In summing-up, the Chairman endorsed the proposed strategy but directed the Region to revise the CSP before it was submitted to the President's Council for review. The CSP should present more clearly both the strategy that the Region was pursuing to deal with the immediate liquidity crisis, and the present efforts to get a "flying start" with the new government. In particular, it should deal more fully with the downside risks present in the full adjustment scenario and take into account the useful comments and suggestions received during the meeting. Given the complexity of the Indian situation, the Chairman encouraged the Committee members and others to send additional comments directly to the Region.

109. The CSP should make clear that the situation had continued to deteriorate and that this had required a fundamental reassessment of our lending and country assistance strategy. Credit worthiness considerations would lead to a major reduction in IBRD lending unless the Government undertakes strong and credible structural reforms--in addition, of course, to the appropriate stabilization measures. The paper should downplay the notion that there are three discrete scenarios (or likely policy outcomes). Rather, it should elucidate further the type of graduated response that the Bank envisaged in case of a mixed policy performance. Thus, it should elaborate on the implications of partial reforms, on both economic performance and Bank lending. Finally, the CSP should dwell more on the fiscal aspects of the relationship between the Federal and State Governments.

PLjung:vl
May 15, 1991

LIST OF PERSONS ATTENDING THE OPERATIONS COMMITTEE MEETING

INDIA - COUNTRY STRATEGY PAPER

THURSDAY, MAY 9, 1991

Operations Committee

Messrs. M.A. Qureshi (Chairman)
S. Husain (LACVP)
S. O'Brien (AFRVP)
A. Karaosmanoglu (ASIVP)
P. Hasan (EMNVP)
L. Summers (DECVP)
I. Shihata (LEGVP)
K. Kashiwaya (CFSVP)
D. J. Wood (FPRVP)
D. Bock (OPNSV)

Other Attendees

Messrs. E. Grilli (EAS)
P. Ljung (EAS)
A. Ray (EAS)
(Ms.) N. Okonjo-Iweala (OPNSV)
O. Yenal (ASIVP)
H. Vergin (AS4DR)
J. Khalilzadeh-Shirazi (AS4CO)
M. Gould [AS4IF]
R. Anderson (AS4CO)
A. Vorkink (LEGAS)
E. J. Stoutjesdijk (FRSDR)
H. Neiss (IMF)

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: May 7, 1991

TO: Operations Committee

FROM: Enzo Grilli, Directory, EAS

EXTENSION: 81938/9

SUBJECT: INDIA - Country Strategy Paper - Agenda

1. The Operations Committee will meet on Thursday, May 9, 1991 at 11:00 a.m. in Room E-1243 to discuss the Country Strategy Paper for India.

2. As spelled out in this CSP, India has not been able to sustain the momentum of the early 1980s; the reform process has stalled since 1988, and the fiscal and balance of payments positions have progressively worsened to the point where India might well encounter a near-term payments' crisis unless exceptional financing becomes available. Thus, there appears to be an increasing awareness in India that substantive policy changes are needed and that stabilization and adjustment measures must go hand in hand. However, the present political situation has paralyzed economic policy making. Although the elections scheduled for the later part of May offer the prospects for a more decisive political leadership, the outcome is in no way given.

3. The CSP outlines a policy of response to the Indian situation, graduated according to the degree of policy change that may occur. It articulates an "adjustment" scenario in detail: this involves extensive structural reforms, supported in part by policy-based IBRD loans ($0.8 billion per year) and by policy-based IDA credits ($0.2 billion in FY92 and FY94). In a second scenario, the Region assumes no serious structural adjustment measures and no policy-based lending (even though there would be a Fund-supported stabilization program). In this less favorable case, the Bank's annual commitments would be restricted to no more than $1.2 billion of investment operations. In a third, even worse scenario, Bank lending would be reduced to no more than $200 million p.a. (IDA amounts would remain unchanged).

The Transition

4. The political and social uncertainties at this time makes it difficult to forecast how economic policies and the balance of payment situation will evolve over the next six months or so. The Committee might first wish to focus on the operational imperatives during this period of transition. Would the Region elaborate upon:

- the short-term prospects of the Indian economy and the status of current discussions between the GOI, the Fund and the Bank. What steps are being followed to meet the near-term external payments needs? What effects will these have on economic output in the short-term? To what extent have the modest trade liberalization of the 1980s been reversed to the detriment of long term export prospects? How great is the risk that foreign financing will dry up further and the payment crisis becomes acute? What would be the likely impact of a default on future financing flows and long term growth prospects?

- the most likely scenario in terms of stabilization and adjustment policies. When and how does the Region expect to conclude that one or the other of the three scenarios is going to materialize? To what extent should we be prepared to process a SAL or a FSAL during the immediate future without a sufficient track record to indicate a serious commitment to reforms?

"Stabilization without Adjustments"

5. The CSP proposes that, if India undertakes a Fund-supported stabilization program, it should qualify for up to $1.2 billion of annual IBRD lending for traditional operations, even if there are no structural reform measures that can be supported by policy-based lending. This "muddling-through scenario" would probably represent the least departure from recent policy trends, and may constitute the result of a less than clear-cut election outcome. Would the Region elaborate upon:

- the basic realism and viability of this scenario. How would India adjust its fiscal and balance of payments disequilibria without undertaking strong reforms in such areas as trade and taxation, unless it accepts continued low growth? In such circumstances, even though India might meet such criteria as "share in Bank portfolio," etc., would it really be creditworthy for lending at commercial terms? How would external lenders respond to a poorly managed transition and limited policy reforms over the next few years? Might their response not force India into a prolonged period of sluggish export performance?

- whether it would really be possible to have "quality" projects with "halting structural reform efforts" (does our project implementation record warrant such optimism?);

- whether the maximum potential amount of financing for traditional operations should be much reduced from the proposed level of $1.2 billion. Should there be any IBRD lending (beyond a core) in this case at all, and if so which sectoral policy changes should be proposed as preconditions? Should we, for example, insist on reforms of prices and institutions before contemplating any further lending in energy? Should we address issues of pricing in the agricultural sector (correcting the relative prices of wheat and rice may do more for poverty alleviation in the northeast than socially-oriented investments)?

- whether India's IDA allocation should be delinked from macro-performance, as proposed. In the absence of comprehensive reforms, it is not clear that IDA credits can effectively promote growth and poverty alleviation; consequently, should the Bank be prepared, as in other countries, to consider a much reduced volume of IDA?

The "Adjustment" Scenario

6. The adjustment scenario may be seen as a high case, in which the policy response of the GOI is tightly phased and reform occurs on a scale that warrants strong Bank support. With respect to the "adjustment" scenario, the Region might elaborate upon:

- the reform priorities (paras. 39-45). If there is a SAL, what should it primarily consist of? Should the Bank suggest first priority for trade reforms (in conjunction with compression of aggregate demand and a maxi-devaluation)? If so, should we propose rapid liberalization instead of the gradual approach adopted by the last Gandhi government? Or should the Bank instead pursue fiscal reforms as the main policy priority? If we plan to seek a combination of policy changes, should we also propose, on a priority basis, changes in labor policies and in policies on foreign direct investments?

- tranching and prior action. The GOI would prefer policy-based operations to be based entirely on prior actions. Should we be prepared to consider single-tranching, and if so, do we anticipate a sufficient amount of prior actions on which the SAL and the first SECALs can be based?

- risks. The adjustment scenario implies a departure from the limits for the "Preferred Creditor share in MLT Debt Service" and "the share in IBRD Portfolio" (Table 3, p.16). Does the strength of the adjustment program envisaged in this case warrant a deviation from Bank norms?

7. The Committee might also consider the proposal to extend, beyond December 1991, the increase in disbursement percentages on existing projects (para. 94).

8. Finally, the Region proposes that the next CSP be reviewed in July 1993, with an update in June 1992. Should the Committee ask for an earlier update - say, December 1991?

Operations Committee

Messrs. Qureshi, Husain, Jaycox, Karaosmanoglu, Wapenhans, Shihata, Kashiwaya, Rajagopalan/Summers, Wood, Bock.

cc: Messrs. Grilli, Ljung, EAS; Okonjo-Iweala, OPNSV; Isenman, PRDDR; Sandstrom, EXC; Stoutjesdijk, FRS.
Institutional ISC

ARay:vl

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STRICTLY CONFIDENTIAL

INDIA

COUNTRY STRATEGY PAPER

JULY 18, 1991

Country Operations Division
India Department
Asia Region

INDIA

COUNTRY STRATEGY PAPER

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Annexes

STRICTLY CONFIDENTIAL

INDIA

COUNTRY STRATEGY PAPER

1. The situation that India now faces is one of the most complex in its recent history. The minority Government that took office on June 21 and won a vote of confidence on July 16 is confronted with the difficult task of managing an extremely tight external liquidity position, redressing serious macroeconomic imbalances, and reshaping fundamentally the development strategy that India has pursued since Independence. These challenges must be met at a time when there are continued communal strife and other social tensions.

2. The Bank's interests, both its narrowly defined risk management interests and its longstanding commitment to India's development, call for a flexible and supportive response to this situation. India is at a juncture where it has no choice but to adjust. Its creditworthiness has declined to a point where it has been cut off from international sources of commercial credit. The only real options are whether the adjustment is made in the context of an orderly, growth-oriented adjustment program with external financial support, or through a disorderly and painful process that will leave the country cut off from international capital markets for years to come and significantly reduce its growth.

3. There is every indication that the new Government is well aware of the predicament the economy is in and the actions needed to restore viability. In its first three weeks, it has taken significant initial stabilization and structural reform measures, inter alia, a large devaluation of the rupee. Further steps will be announced in the Budget, scheduled for presentation to the Parliament on July 24.

4. Both the IMF and the Bank have a major role to play in helping India to manage its balance of payments, restore its creditworthiness and support its transition towards a far less regulated and more outward-oriented economy. In a major departure from the past assistance strategy, this CSP recommends adjustment lending over the next four years. The Bank's economic and sector work provides a strong foundation for this approach. However, while there is considerable optimism that India is embarking on a major program aimed at opening up and modernizing its economy, the transition is unlikely to be smooth and the risks of major policy reversals cannot be ruled out. Were these risks to materialize, IBRD lending would have to be drastically reduced on creditworthiness grounds.

I. Key Recommendations

5. The main elements of the strategy recommended by the Region on which senior management guidance is sought are spelled out below.

6. The Bank should support forceful stabilization and bold structural reform through quick-disbursing IBRD policy-based lending of about $1.0 billion per year for about four years within an IBRD lending plan of about $2.0 billion annually. In addition, $700 million of the IDA allocation for India during FY92-94 is proposed for adjustment lending in support of social "safety nets". Given the large external financing needs of India's stabilization-cum-reform program, this IBRD program, in concert with the IMF, will have to be executed with major emphasis on its catalytic effects in mobilizing fast-disbursing assistance from bilateral donors, restoring India's access to commercial markets and securing a significant increase in direct foreign investment in the Indian economy. The proposed use of quick disbursing lending would push India's IBRD portfolio share above the guideline level, but would be justified if the underlying adjustment effort is strong and holds the promise of strengthened creditworthiness.

7. The Bank should manage its risk and exposure carefully. Accordingly, the volume of IBRD lending will have to be linked to progress in adjustment. If structural reform or stabilization were to be inadequate, IBRD lending should be reduced drastically to as little as US$200 - 300 million per annum, to conserve headroom for supporting appropriate stabilization and structural reform when and if undertaken by the Government.

8. Our policy dialogue aims at making private sector development and orderly public sector retrenchment dominant elements of the adjustment program. To that end, lending in industry and finance will be closely linked to policy reform. Future lending in these sectors will be primarily policy based, or for investment operations that have either a strong policy content (e.g., FILs) or involve important public good externalities (e.g., industrial pollution control).

9. Other Bank lending should seek to improve efficiency and support institutional development in agriculture, infrastructure, human resources and poverty alleviation through both investment and sector lending operations.

10. The Bank should support reforms to improve the targeting and increase the cost-effectiveness of social services and to enhance the poverty alleviation impact of agricultural investments through regionally/state-focused IDA and blend lending operations. The proposed strategy reserves IDA resources for investments in social sectors and for poverty-related agricultural investment projects. In the adjustment scenario, fast disbursing IDA credits should be used to address the social dimensions of adjustment.

11. The increase in disbursement percentages on existing projects authorized under the Gulf Initiative should be extended beyond December 1991 through the life of the projects. This is essential to orderly completion of projects addressing core development priorities under the tight budgetary situation India faces.

12. The Region proposes that the next CSP be reviewed in July 1993, with an update in June 1992.

II. Background and Historical Perspective

13. Since Independence in 1947, India's governments have faced the daunting task of forging a large, extremely poor populace, sharply divided along ethnic, linguistic, and religious lines, into a modern, federated nation state. Driven by the need to build consensus in a highly diverse society, economic policies have been dominated by goals of interpersonal and interregional equity and national self reliance. The strategy for achieving these goals assigned a major role to the state, which either made or served as arbiter of virtually all economic decisions, and took substantial, sometimes exclusive, ownership positions in several sectors of the economy.

14. This dirigiste strategy resulted in slow but steady progress toward many of India's development objectives. Growth, however, was disappointing in relation to India's relatively high saving and investment rates. Its manufacturing sector and exports, both large at Independence relative to other developing countries, stagnated. Population growth rates remained high, and indicators of the health and educational status of India's population, while showing some progress, were still among the world's lowest. By 1977, thirty years after Independence, more than 40% of the population remained in poverty.

15. A consensus began to build in the late 1970s that India would have to modernize and increase the efficiency of its economy if it were ever to improve materially the standard of living of its poor. This was reflected in gradual changes of its development strategy in three important dimensions. First, and foremost, greater emphasis was given to growth as the primary motive force for poverty alleviation. To this end, the Government took a variety of policy initiatives to stimulate aggregate demand and supply. On the demand side, macroeconomic policy became more expansionary, financed by increased domestic and external borrowing. New financial instruments were developed to stimulate financial saving and facilitate public sector borrowing. On the supply side, significant initiatives were launched to improve infrastructure performance, and the scope for private initiative was gradually increased. Constraints on industrial investment, expansion, and diversification were partially relaxed. While the trade regime retained its overall bias toward import substitution, an increasingly active export promotion effort and (after 1985) flexible exchange rate policy were utilized to reduce the bias against industrial exports. Second, an effort was made to increase investment in human capital formation with the launching of national programs aimed at expanding services in health and education. Third, direct poverty interventions, based on credit and subsidies for self employment and publicly financed work schemes for the rural unemployed were initiated.

A. Recent Developments

16. Viewed in terms of India's historical growth, export, and poverty alleviation performance, the shift in economic policies served India well in the late 1980s. GDP growth averaged 5.6% (up from 3.5% in previous decades) and, despite only modest success in further reducing population growth below about 2.1% per year, per capita growth was three times its historical average. Growth rates increased across the board, but expansion in industry, and more narrowly

in manufacturing, was particularly strong. Productivity growth, stagnant from the mid 1960s to the mid 1970s, averaged 2.9%. In real terms, merchandise exports have grown at rates in excess of 12% p.a. since 1986/87. The incidence of poverty continued to trend downward, declining from over 40% of the population in 1977 to about 30% at the end of the 1980s. Finally, although still low in relation to the rest of the low income developing world, there seemed to be some modest acceleration in the rate of improvement of social indicators. The foregoing successes notwithstanding, India's expansionary fiscal policies have also created unsustainable macro-economic imbalances. Fiscal deficits have gradually risen from about 6% of GDP in the early 1980s to 9% of GDP in the last three fiscal years. The current account deficit worsened as a consequence, and India's external debt increased from US$21 billion at the end of 1980/81 to US$72 billion at the end of 1990/91, that is, from 1.4 years of exports to 2.9 years of exports. The debt service ratio rose from less than 10% to about 28% over the same period.

17. The Gulf crisis significantly worsened India's macroeconomic imbalances. World oil price hikes increased India's oil import bill by about $1,200 million in 1990/91. Lost remittances, debt repayments, and receipts from exports to the Gulf region, in addition to the costs of repatriating Indian nationals working in Iraq and Kuwait, cost India another $740 million. The current account deficit reached an estimated all time high $9.9 billion (3.5% of GDP), up from $8.4 billion (3.2% of GDP) in 1989/90. At the end of 1990/91, foreign exchange reserves had fallen to $2.3 billion (equivalent to one month of imports). Under the cost pressures of higher oil and fuel prices, and the pull of the persistently high fiscal deficit, inflation accelerated. The wholesale price index in 1990/91 rose by about 12% compared to 8% in the previous year.

18. The deteriorating macroeconomic situation, combined with political instability (para. 19), led to a severe erosion of India's creditworthiness in the international capital markets, a development which compounded the country's liquidity problems. Three rating services (two in the U.S., one in Japan) downgraded Indian issues, and India's access to international capital markets, after August, was sharply curtailed. Inflows of non resident Indian deposits also slowed significantly. In January 1991, the IMF Board approved India's applications for a stand-by arrangement covering the remainder of FY 1990/91 in the amount of SDRs 551.9 (25% of quota) and for a purchase of SDRs 716.9 million (equivalent to 32.5% of quota) under the Compensatory and Contingency Finance Facility, both of which were disbursed in January. These arrangements provided badly needed foreign exchange to tide India over the balance of 1990/91. They did not, however, establish the kind of comprehensive stabilization and structural reform program necessary to arrest and reverse macroeconomic imbalances in 1991/92 and beyond.

B. Recent Policy Initiatives

19. Redressing macroeconomic imbalances and continuing the liberalization and deregulation of the economy have been important priorities for every government in recent years, but political difficulties have slowed progress on both fronts. Despite three successive budgets calling for reductions in the central government's deficit, fiscal imbalances have worsened. Two governments have fallen since the general elections of November 1989, most recently in March 1991.

The elections that followed were marred by considerable violence, and could not be completed until June 1991. The 1991/92 budget, covering the period April 1991 to March 1992, had to be deferred until the completion of elections and is now scheduled to be presented to Parliament on July 24, five months later than normal.

20. The new Government, which took office on June 21, 1991, clearly recognizes both the immediate stabilization problem and the more fundamental need for structural reform. It has already moved forcefully to initiate policy measures on both fronts.

- The Rupee was devalued by 23% (measured in terms of the rupee cost of the US$) in the first week of July. Thus, since December 1990 the nominal exchange rate has been depreciated by about 40% in relation to the US Dollar and by about 30% in relation to the SDR. This compares with an inflation rate which in the last six months has been hovering around 12% p.a.

- All regulated deposit interest rates were increased by one percentage point, while lending rates were raised by 1.5 percentage points; this increase also applied to the Reserve Bank of India discount rate (from 10%).

- The Government unified and increased to 30% (from 5-20%) the share of export proceeds that exporters may use for their own import requirements or freely trade, while at the same time introducing significant procedural simplifications.

- The Cash Compensatory Scheme for exporters was discontinued. This subsidy scheme was an important source of pressure on the budget which, if not discontinued, would have added about 0.5% of GDP to the budget deficit. The Government has also reiterated that <u>the forthcoming budget would introduce a major fiscal adjustment</u>, bringing the budget deficit down to 6.5% of GDP. A package of reforms aimed at significantly <u>reducing regulations affecting private investment activity</u> is under preparation.

III. Development Issues and Policy Agenda

21. Three broad sets of issues will dominate the immediate and medium-term development policy agenda facing India's new government.

A. Stabilizing the economy

22. India's future growth depends on a prompt resolution of the current liquidity crisis and restoration of macroeconomic equilibrium. Public saving needs to be brought into better balance with public investment via a combination of restraint of Government expenditures (primarily current expenditures), enhancement of tax and nontax revenues (e.g., user charges for public services levied on those who can and should pay) and improvements in the efficiency (including pricing) of public sector enterprises.

B. Restructuring the economy for sustainable faster growth and strengthened creditworthiness

23. Stabilization of the economy alone, while essential, will not extricate India from its current economic crisis. In addition, structural reforms to improve the efficiency, productivity and competitiveness of the economy are essential to achieving the export growth required to strengthen India's creditworthiness and to support the future growth and development of the economy.

24. Constraints on productivity pervade all sectors of the economy and take a variety of forms. Severe distortions in relative prices attract resources into low productivity uses. Excessively high tariffs and non-tariff barriers, administered pricing, subsidies, and high and dispersed levels of indirect taxes and large subsidies reduce economic efficiency. Numerous institutional constraints on responding to incentives (e.g., regulation of location, entry, expansion, exit, choice of technology, imports, terms of employment, widespread use of directed credit, and non-economic objectives of public enterprises) also sap productivity. Weak infrastructure across sectors and controls on the movement of goods disrupt production and require uneconomical private investments in capacity and inventory. Inadequate investment in human capital (e.g., underfunded, poorly targeted, designed and administered, and inefficient social service programs) has left a rapidly growing population with standards of service that are lower than could be achieved. There are extreme disparities in all of these dimensions between the Northern states and the rest of the country, within states and regions and between females and males. Depletion of India's resource base (deforestation, soil erosion, over-fishing, salinization, water logging, air and water pollution) lowers productivity today, contributes to declining productivity in the future, and is seriously impairing the overall quality of life.

C. Alleviating extreme poverty

25. Roughly 30% of India's population still lives in extreme poverty. The proportion of children, especially girls, completing 5 years of primary school education is very low, and the adult literacy rate is only about 44%. Rates of malnutrition and infant and maternal mortality are still among the highest in the low income developing world. India also has very high incidence rates of several endemic diseases.

26. Underlying the persistence and intensity of its poverty is India's high population growth rate of just over 2.0% per year. Based on currently projected demographic trends, India's total population will continue to grow well into the twenty-second century. The pressure on India's natural resource base will intensify. While most of the population and poverty will continue to be found in rural areas, major migration to cities will tend to produce large urban slums like Daravi in Bombay, and overwhelm India's already inadequate urban infrastructure.

27. Rapid, equitable overall economic growth must be the primary instrument for addressing this complex of problems. It is the only weapon of sufficient potency given the size of the task of development in India. India's post-Independence experience suggests that significant progress in alleviating poverty requires GDP

growth rates of at least 5% p.a. In addition, significant investments will be required to build the human capital assets of the poor, to rehabilitate and protect the environment, and to provide an effective social safety net for those among the poor unable to benefit from growth or hurt by the restructuring of the economy.

IV. Macroeconomic Prospects, Creditworthiness, and External Capital Requirements

28. How India's economy evolves in the near future will depend on decisions that are taken by the new Government in the next few weeks and months. India was able to manage in 1990/91 only by drawing on the IMF for $1.8 billion, drawing down reserves by another $1.8 billion, and compressing imports. The remainder of 1991/92 will be even more difficult and the situation will remain volatile. Fund negotiations on a stand-by, which could lead to additional drawings, and a World Bank SAL will not be concluded before the fall. India will find it impossible to secure private credit without a Fund agreement in place. On an annual basis, capital account receipts from private creditors could decline by over $4 billion from levels in recent years. Non-resident Indian deposits, which provided $2.3 billion (net) in 1989/90, slowed to $1.3 billion in 1990/91 and sharply declined in the first quarter of 1991/92 (by $1 billion, including accrued interest), They now represent a major element of risk in the capital account.

29. Debt repayment is an additional source of pressure on India's capital account, particularly starting in 1993/94. Annual principal repayments obligations, including repurchase obligations to the IMF in respect of the recent CCFF and stand-by arrangement, will increase from about $3 billion during 1989-1992, to $4 billion in 1994/95, and $5-7 billion a year in the remainder of the decade.

30. The balance of payments will thus have to be very carefully managed well beyond the current crisis. With its reserve cushion severely depleted, the current account deficit will have to be contained within rigid limits defined by the availability of external finance. This will not be easy. Adverse developments in any of a number of areas (e.g., continued recession in the United States, higher than anticipated oil prices, drought, etc.) could tip an otherwise delicate balance of payments situation into an unmanageable one.

31. Importantly, the capital account will have to be managed to improve India's debt and debt servicing profiles and to re-establish India's access to international capital markets. Borrowing at relatively short maturities will have to be avoided so as not to exacerbate the rapid buildup of repayments that will occur in the mid 1990s. The costly short-term debt accumulated during the last few months of crisis management will have to be reduced. IMF resources will have to be used judiciously, both to keep debt servicing to manageable levels and to maintain a safety margin available for dealing with potential future disturbances.

32. More generally, India's macroeconomic policies will have to be strengthened considerably. Stabilization of the economy by retrenchment alone -- i.e., import compression by restraining aggregate demand -- would have high costs and a

substantial risk of failure. It would not provide the rate of growth of GDP necessary for employment and income generation, nor would it generate the export growth essential for managing the debt-service burden in the context of rapidly rising repayment obligations. Achieving the necessary GDP and export growth as well as restoring confidence in the commercial credit markets will require the adoption of a bold and visible program of stabilization and structural reform.

A. An Adjustment Scenario

33. If India were rapidly to reduce its fiscal deficit and remove structural impediments to more efficient resource allocation, its prospects for restoring internal and external balance, and returning to sustainable rapid growth (equalling or surpassing that of the 1980s) would be good. The essential elements of a program to be implemented over the next four years would consist of: (i) a significant reduction of the fiscal deficit achieved mainly through current expenditure restraint (subsidies in particular), but also through improved public sector pricing, tax reform, and measures that address the underlying causes of high subsidies; (ii) major structural reforms in trade, domestic regulation, public enterprises, and finance, aimed at creating an open, competitive economy; and (iii) targeted social sector interventions to ease transitional costs and protect the poor. The major elements of a comprehensive structural reform program necessary for restoring macro equilibrium and achieving sustainable growth are described in the following paragraphs.

34. Trade Policy. The immediate focus should be on phasing out quantitative restrictions on key intermediate and capital goods imports, a sizeable reduction in the dispersion and levels of their tariffs, and a drastic simplification of import procedures. Restrictions on agricultural imports and exports should also be relaxed. As soon as the balance of payments permits, liberalization of imports of consumer goods should be undertaken. In the medium term, tariffs should be reduced to about 20-25 percent, and bans and quota restrictions completely eliminated.

35. Tax Reform. The overriding consideration bearing upon the scope and pace of tax reform in India in the short run is the need for a prompt reduction in the fiscal deficit. This requirement calls for broadening the tax base and improving tax administration. The role of the tax system should be oriented towards the more fundamental objectives of improving equity and economic efficiency. In this respect, the emphasis should be placed on shifting the burden of the tax system away from highly distortionary production taxes to taxes on income and consumption. In particular capital goods and many of the intermediate goods currently outside the scope of the VAT should be brought into the scheme. In addition, greater reliance should be placed on presumptive taxation and less reliance on surcharges at the central level as a permanent form of taxation.

36. Deregulation of Domestic Industry. Industrial reform should build on the achievements of the last decade or so to substantially complete the deregulation process in the relatively near-term. Highest priority should be given to removing the bulk of investment from the ambit of licensing requirements and to liberalizing the foreign investment regime. Initiatives are also required to ease legal restrictions against the retrenchment of labor and closure of firms, improve the methods of handling failing firms, relax restrictions against

expansion and diversification of large companies, and relax and rationalize price and distribution controls. These changes are essential for a successful restructuring of the economy.

37. Public Sector Enterprises. As part of a strategy to reduce significantly the scope of public control of economic activities and to improve efficiency, immediate steps should be taken to abolish the system of reservations for public enterprises, to close units that cannot cover their variable costs, restructure units that cannot service their liabilities, privatize selected profitable entities, and provide for greater autonomy and accountability of public unit managers. In light of the resource stringency facing the public sector, new investments should be restricted to infrastructure, and budgetary support for non-infrastructure public enterprises rapidly eliminated.

38. Financial Sector. A reform agenda for the financial sector should aim at further rationalization, simplification and flexibility in deposit and loan rates; a major reduction in the scope of targeted credits and the subsidies involved; promoting private sector, including foreign, entry into banking; resolution of the special problems of agricultural credit; and a significant thrust at making financial institutions more autonomous, more efficient and competitive, and subject to more stringent prudential standards. Increased autonomy and improved prudential standards are particularly necessary for the healthy development of securities' markets in India. Public ownership in the sector should also be reduced.

39. Social Consequences of Adjustment. Major stabilization and structural reforms will inevitably entail significant transitional costs. Great care will be needed to ensure that the burden of government expenditure restraint and restructuring of the economy do not fall disproportionately on the poor. In the context of a highly constrained budget, government will need to refocus social expenditures, particularly in population, health, nutrition and education, towards the poor and develop effective safety nets to protect the poorest sections of the population.

40. The adjustment scenario assumes that, given the role that fiscal stimulus has played in the economy, the significant fiscal adjustment targeted by GOI for 1991/92, followed by further adjustments in subsequent years, will cost some growth in the near term, depending on the supply response. Thereafter, however, structural reform would tend to stimulate private investment, boosting it above the high levels attained during the late 1980s. Structural reforms would also be expected to increase investment productivity. Consequently, overall growth should recover, as should export growth due to both significant further real depreciation of the exchange rate and to constraint-removing structural reforms (Table 1).

Table 1: Adjustment Scenario Summary

	1980-85	1985-90	1990-95	1995-00
GDP Growth at Factor Cost (% p.a.)	5.3	6.1	3.2	5.9
GDI (% GDP)	23.3	24.1	23.0	25.5
ICOR	4.1	3.7	5.2	3.8
Public Sector Deficit Ratio (% GDP)	7.3	8.7	5.8	3.0
Export Volume Growth (% p.a.)	3.0	9.2	9.7	8.8
Reserves (months of imports)	4.5	3.5	1.7	2.6

41. The current account deficit would decline from a record estimated $9.9 billion (about 3.5% of GDP) in 1990/91 to $5.3 billion (2.2% of GDP) in 1991/92, due primarily to a substantial reduction in the trade deficit. Imports would fall by about 9% in nominal terms (4.6% in volume terms), while export receipts would grow by about 10%. It is assumed that after the initial slowdown, higher investment and more liberal trade, particularly with regard to capital goods and intermediates, would pull in more imports. However, as export growth strengthens, the current account deficit should decline to about $4 billion (1.4 % of GDP) by 1995/96.

42. Despite the large adjustment in the current account deficit, the capital account would still be critically tight. In addition to covering the current account deficits, India would need to make substantial principal repayments. As indicated in para. 29, annual principal repayment obligations, including repurchase obligations to the IMF, will remain at a high level. Thus, India would require exceptional financing of about $3.6 billion in 1991/92 and about $3.5 billion in each of the subsequent three years (Table 2).

Table 2
Financing Plan

(US$ Millions)

	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96
Current Account Balance	-8131	-9933	-5309	-4914	-4672	-4582	-4029
Official Grants	500	524	549	575	603	632	662
Portfolio & Direct Investment	350	253	151	250	500	700	1000
PPG Borrowings (net)	7589	6039	1736	2595	2461	2197	3157
Official Creditors (net)	2521	2717	2174	2276	1996	1592	1785
Disbursements	3555	4005	3544	3871	3772	3655	4126
Amortization	1034	1288	1370	1595	1775	2063	2341
Private Creditors	1810	1195	62	476	163	140	307
Disbursements	2389	1977	922	1563	1708	2029	2812
Amortization	578	782	859	1087	1546	1889	2505
Short Term	917	813	0	-157	-100	-50	20
Non-Resident Deposits (net)	2341	1314	-500	0	401	514	1045
Private Non-Guaranteed (net)	-86	230	-286	-172	-197	-61	365
Disbursements	223	520	0	100	100	200	600
Amortization	309	290	286	272	297	261	235
IMF Repurchases	1008	683	439	309	125	911	1750
Overall	7345	6363	1711	2939	3242	2556	3434
Change in Reserves	851	1770	-2	-1525	-2020	-1374	95
Exceptional Financing:	0	1800	3600	3500	3450	3400	500
IMF		1800	1700	1500	1500	1500	
IBRD			600	950	950	1000	500
IDA			150	250	200	100	
ADB			150				
Bilateral Donors	0	0	800	700	700	700	0
Gold			200				
Memo Item:							
Total LT Repayments & IMF Repurchases	2929	3043	2954	3263	3742	5123	6831

43. Meeting these exceptional financing requirements should be feasible in the context of an adjustment program supported by concerted additional assistance from official creditors. Additional external official capital of about $3.5 billion in the form of quick disbursing assistance would be required in 1991/92 as well as in each of the subsequent three years, and about $500 million in 1995/96. This would imply a total of about $14 billion over the four years 1991/92 - 1994/95. This amount could be provided by a combination of disbursements from the IMF (approximately $6 billion, assuming an EFF loan follows the 1991/92 stand-by), IDA ($0.7 billion), IBRD ($4.0 billion), and ADB ($0.5 billion), with bilateral fast-disbursing assistance ($2.9 billion). The IBRD portion of the program would be funded by commitments of about $1 billion annually for quick disbursing, policy based lending within an overall IBRD lending level of about $2.0 billion per annum. IDA commitment levels would remain at about $900 million annually, including $700 million over FY92-94 in the form of quick-disbursing assistance, primarily to support the social "safety nets" component of an overall reform effort. Commercial creditors are expected to maintain their exposure at a stable level throughout the adjustment period, with disbursements roughly matching India's repayments of principal.

B. Risks

44. Given the external liquidity situation of India and the extent of the adjustment effort required, there are substantial downside risks. Government's failure to follow through with the implementation of forceful stabilization measures and reforms is the most important risk of the scenario outlined above. The adjustment program will change the complex system of rents and patronage which has been established over the last four decades. Sustaining the reform process will require exceptional decisiveness and skill from the leadership -- a difficult challenge for a minority government. Major policy slippages and reversals may thus occur, which could in turn adversely affect the supply response and the overall availability of financial assistance. Failure to sustain rapid export growth and restore access to commercial credit would make it impossible to meet debt service obligations while maintaining minimal import levels. Sluggish growth would exacerbate social and political tensions and could potentially send India into the same downward economic spiral, including mounting debt-servicing difficulties, that has befallen many developing countries in Africa and Latin America. This risk underscores the need for bold initial measures supported by adequate external assistance which together would enhance the prospects of a strong supply response.

45. There are other risks as well. First, communal strife and internal security problems could increase further with major consequences for the management of the adjustment program. Second, the bilateral donor response to the external financing requirements of India's adjustment program may turn out to be inadequate in light of competing claims on the global aid programs. Third, external disturbances could disrupt the adjustment process. A slowdown in the world economy, higher interest rates, higher oil prices, inter alia, could have serious repercussions on India's macroeconomic situation. For example, the "downside PAC assumptions" would more than double the external financing requirements for 1994/95. In addition, private foreign lenders, including non-resident Indians, may be more cautious than we expect. Any one of these events, internal or external, would require that the Government implement additional measures to restrain domestic demand, a course of action which would exacerbate the political risks associated with the program.

V. Bank Assistance Strategy

46. The Bank's interests, in terms of both its narrowly defined institutional risk management interests and its long standing development partnership with India, are best served by a flexible and supportive response to the current crisis environment and to India's medium term needs. To so respond, the Bank needs to strengthen its roles as an advisor (through high-quality, timely and relevant ESW and intensified policy dialogue), as a lender (through lending vehicles that improve the usefulness and reliability of the Bank's resource transfers to India and, in the event, provide significant support for structural reforms), and as an aid coordinator.

47. The basic elements of the Region's proposed strategy to achieve these ends are:

(i) drawing on the economic and sector work carried out in the last two years (particularly in trade, finance, industrial deregulation, agriculture, and public enterprises) to support a program of stabilization and structural reform through a substantial amount of policy-based lending;

(ii) to intensify CESW and policy dialogue focussed on stabilization and structural reform issues, with special attention to be given to all aspects of external debt management;

(iii) to manage risk and exposure via an IBRD lending program linked to progress on stabilization and structural reform;

(iv) an IDA lending program dedicated to the maintenance of support for basic human needs and poverty alleviation; in the adjustment scenario, fast disbursing IDA credits could be used to address the social dimensions of adjustment;

(v) increased emphasis on private sector development and an orderly retrenchment of the public sector as essential elements of the adjustment program;

(vi) increased emphasis on aid coordination and cofinancing to shape the financing plan for the adjustment program and to rebuild and strengthen India's external financial structure; and

(vii) continued emphasis on portfolio management to improve the reliability and effectiveness of IBRD/IDA resource transfers.

A. Policy Dialogue and CESW

48. CESW has broadened areas of common understanding on major stabilization and structural reform issues and on approaches to human resource development and poverty alleviation. The task before us is to help India to translate this growing shared understanding into action. Dialogue to this end has been constructive, although perceived donor/creditor influence/interference is a sensitive issue in India, and explicit conditionality has so far been strongly resisted.

49. Our future policy dialogue and economic and sector work will give highest priority to economic stabilization and structural reform issues. The main objective will be to help India to devise and implement a coherent package of stabilization/adjustment measures that is sensitive to domestic political constraints. CESW will be timed to take maximum advantage of GOI decision making cycles (budget preparation, Eighth Plan finalization), and will support the Bank's policy based lending. Emphasis will be placed on public finance issues, including in depth examination of public expenditures, tax reform, and state and local government finances. In addition, special attention will have to be given to the management of India's external debt. The key elements of our economic and sector work program are summarized in Annex D and in the context of our sectoral assistance strategy (Section C).

B. Managing IBRD Risk and Exposure

50. Further increases in Bank exposure will have to be strictly linked to strengthened creditworthiness, and in the absence of a bold reform program would need to be balanced against the desirability of conserving headroom to support

future reforms. The level and composition of the lending program will be linked to India's progress in stabilizing the economy and implementing structural reforms in trade, domestic regulation, finance, agriculture and public sector enterprises. Within a lending objective of about US$2 billion per year from IBRD and US$920 million from IDA, we will support forceful stabilization and structural reform in concert with the IMF and other donors through an IBRD lending program comprising: (i) fast disbursing IBRD lending of about US$1 billion annually for about four years supporting reforms along the lines summarized in paras. 33-39; and (ii) IBRD investment lending supporting investments and structural reforms in agriculture and infrastructure. The initiation of policy based lending would be triggered by: (i) successful negotiation of an arrangement with the IMF; (ii) good evidence of the Government's commitment and political ability to undertake a range of specific structural reforms in the context of a fully articulated medium-term program; and (iii) reasonably good prospects that the assumed financial flows from other lenders will be forthcoming. Continuation of policy-based lending would be conditional on satisfactory progress in stabilizing and restructuring the economy, and availability of sufficient external financial flows to support the adjustment program and to ensure equitable burden sharing. In the latter context, restoration of access to private financial markets and enhanced reliance on direct foreign investment inflows would be important considerations.

51. Flexible application of exposure guidelines would be required to enable the Bank to undertake policy based lending of the magnitude proposed. Quick disbursing IBRD lending adequate to support an adjustment program would lead to a breach of the Bank's portfolio share guideline of 10% (Table 3). India's portfolio share would breach the guideline in 1993/94 (10.8%), peak at 11.7% in 1995/96, and then fall to about 11% in 1999/2000. Although generally declining from its recent high level, the preferred creditors' share of public debt service would also remain above Bank guidelines throughout the 1990s. At a low extreme of IBRD lending, about $200 million annually, IBRD exposure would peak at 8.6% of portfolio in 1993/94.

Table 3: Risk/Exposure Indicators

	Bank Norms	1989/ 90	Maximum 1990-95	Maximum 1995-00
Adjustment Scenario				
Pref Creditor MLT Debt Service	33%	37.4%	42.2%	45.4%
IBRD Debt/MLT Debt	20%	11.4%	16.0%	16.7%
IBRD Debt Service/MLT Debt Service	20%	15.3%	22.9%	24.3%
IBRD Debt Service/Exports	3-6%	3.7%	4.9%	4.8%
Share of IBRD Portfolio	10%	7.5%	11.5%	11.7%
$200 million annual IBRD				
Share of IBRD Portfolio	10%	7.5%	8.6%	6.3%

52. Under all IBRD lending scenarios, IDA transfers are adequate to keep Bank group net transfers to India positive at least until 1994/95 (Figure 1). There

is thus considerable scope during the next two years for linking IBRD lending levels to performance without altering India's purely financial incentives to repay the Bank.

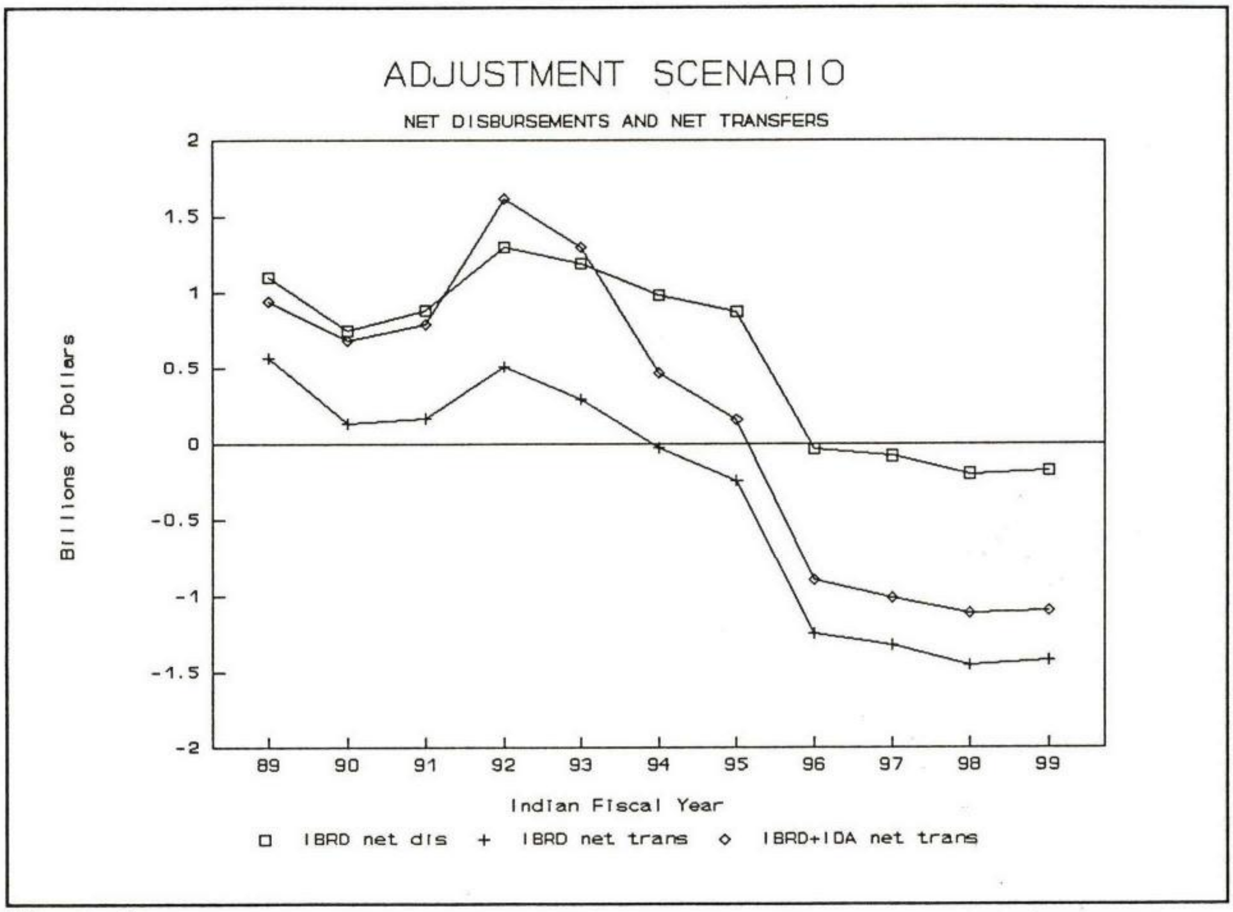


Figure 1

53. In the absence of significant progress either in stabilizing or restructuring the economy, IBRD lending would be scaled back drastically. Such response would be triggered by failure to reach agreement with the IMF on a stand-by program and with IBRD on adjustment lending. Failure to implement policy reforms that we can support through adjustment lending would lead to automatic reductions in lending. This means that the volume of IBRD project lending would be contingent not only on successful negotiations with the IMF, but also on evidence of satisfactory progress in formulating and implementing the IBRD policy-based operations being envisaged in our lending program (see Annex C), particularly in the areas of trade, domestic deregulation and finance. Failure in implementing structural reforms could require IBRD project lending to be reduced to as little as US$200-300 million per year for poverty related operations and infrastructure, in projects where we consider the policy and institutional framework satisfactory. Complete failure to stabilize the economy may force us to suspend IBRD lending altogether. Even though under the proposed strategy, IDA funds would be used in support of basic human needs and poverty alleviation, the volume of IDA lending would also need to be reassessed if the policy reform program is abandoned.

C. Lending Program

54. The strategy outlined above requires that we develop a lending program consisting of three components: (i) policy-based lending to support the Government's adjustment program, (ii) IBRD investment lending, and (iii) IDA investment credits. The preferred instrument for initiating the support for the adjustment program would be a SAL, building on substantial "prior actions" set out in the Government's 1991/92 budget, to be followed by a series of follow-up sector adjustment loans. We are particularly well-positioned, by virtue of previously completed economic and sector work, to develop policy-based loans in the areas of trade reform, industrial deregulation, financial, agricultural, and public enterprise reforms.

55. The second component of the portfolio, IBRD investment lending, would emphasize agriculture, particularly through blend operations (paras. 60-62), and infrastructure. Within the latter, lending to the power sector will be substantially reduced unless actions are taken to address the sector's critical institutional and financial problems. These actions should include, in particular, increases in power tariffs in real terms, improved bill collection and strengthened management of the State Electricity Boards (SEBs). In the absence of such actions, power sector lending would be limited to: (i) viable private sector investments in generation and transmission; (ii) the few better managed and financially stronger SEBs; and (iii) innovative, small scale developments such as mini hydro and cogeneration schemes. In addition, we will continue our dialogue with the National Thermal Power Corporation and may finance the most critical components of this important central agency's core investment program. In energy, we will follow up on the recently approved Gas Flaring Reduction project with assistance designed to promote the optimal use of India's abundant gas resources (and thereby contribute to pollution control and energy saving, particularly in the form of imported oil). Our ESW program will include an energy sector review and a study of rural electrification.

56. The emphasis in transport will be on better planning and project execution, modernization and improved efficiency of transport operations (railways, roads and ports), and efficient pricing policies and encouragement of private sector participation. In urban development, which has received relatively low priority by GOI, we will seek through urban sector work and lending operations to improve the productivity of the urban economy and the quality of urban living by promoting the more efficient provision and operation of urban infrastructure and services. Our efforts will focus on institutional strengthening and improved incentives for efficient local government through greater use of markets and the price mechanism.

57. The third component of the portfolio, IDA support for programs addressing basic human needs and core development priorities, will emphasize poverty alleviation (especially through increased efficiency and production capacity in agriculture), human resource development and environmental protection. The priorities to be pursued and issues to be addressed in these areas are discussed below.

58. Poverty Alleviation. India's capacity to reduce poverty significantly depends primarily on its success in restoring macroeconomic equilibrium and accelerating economic growth. Faster economic growth, however, is a necessary

but not sufficient condition for reducing significantly the incidence of extreme poverty. Serious regional disparities exist in the distribution of the benefits of economic growth. In order to improve our understanding of the causes of economic disparities across states and regions and to identify appropriate Bank interventions, we will undertake a development study of Bihar, one of India's poorest states.

59. In conjunction with the emphasis on growth-enhancing productivity improvements in the infrastructure and productive sectors, we will continue to focus on human resource development carefully targeted at the most disadvantaged groups (especially women and the very poor). We will also expand assistance to states/regions where the very poor are concentrated and whose governments are able to undertake efficiency/effectiveness-improving reforms that can have a significant impact on increasing the access of the very poor to resources and employment opportunities.

60. Agriculture. Our assistance strategy for poorer states and regions emphasizes agriculture. Over two-thirds of India's people rely directly on agriculture for their livelihoods -- a proportion that has declined only slightly in the last three decades, despite agriculture's declining share of national production. Workers employed in agriculture tend to have very low incomes, and nearly 80% of the absolute poor are in the rural areas. The most vulnerable group is that of women, who comprise one-third of the agricultural labor force, and for whom agriculture remains the primary source of employment.

61. Areas critical to improving agricultural performance on which the Bank's assistance strategy will be focussed include: (a) high priority investments in growth-inducing infrastructure and technology. Irrigation will continue to account for a substantial share of our agricultural lending but with priority given to completing projects (there are currently almost 160 incomplete irrigation projects in India), and improving utilization of existing systems. Support for new development will be restricted largely to the poorer states of Eastern India. Increased emphasis will be given to rainfed farming, which accounts for 70% of India's gross cropped area but which has seriously lagged behind irrigated areas in terms of access to agricultural services (research, extension and credit) and infrastructure (roads, marketing, etc.). We will support improvements in the generation and extension of technology through support for research, broad-basing of extension services (through agricultural development projects at the State level) and development of human capital, with particular emphasis on redressing the previous neglect of rainfed farming; (b) correcting policies and institutions which inhibit agricultural growth and which have contributed substantially to the growing fiscal deficit, in particular subsidies (food, fertilizer, electricity, water and credit), price supports, and domestic and international agricultural trade restrictions, through ESW, policy dialogue and, where possible, lending operations; and (c) resource management, including conservation of land and water resources, land reclamation, forestry and river basin protection. Bank assisted forestry projects will go beyond our previous involvement, which has been limited largely to social forestry, to span the whole forest sector within individual states or regions. River basin protection will involve support for a more integrated approach, including a more participatory development process, particularly with respect to watershed, forestry and fisheries, as well as with respect to flora/fauna and human resettlement and rehabilitation.

62. As an integral part of our strategy for the agriculture sector, increased attention is being paid, in both supervision of ongoing operations and in new project design, to efforts to draw women more effectively into the mainstream of agricultural development, through improved delivery of services (extension and credit), increased participation of women's groups in project design and implementation, and increased emphasis on areas and activities in which women play a key productive role (forestry, sericulture and fisheries). Similarly, our first rural water supply and environmental sanitation operation, recently approved by the Board, will support the provision of safe drinking water and low cost sanitation facilities in rural villages of Maharashtra with strong involvement of women's groups in dissemination of information on water-related health and hygiene issues. Follow up operations are planned for other states.

63. Human Resource Development. We will continue to expand our support for efforts to improve access to and the quality and efficiency of nutrition, health, family planning, and education investments that are oriented toward the weaker section of the population. Women will be a special focus of all these efforts, and investments that will contribute to reducing fertility and morbidity will be given priority.

64. Objectives in the education sector are twofold. The first is to support the development of basic education. Particular attention will be paid to increasing the access of girls to basic education and to raising the retention, achievement, and completion rates for both girls and boys. This will require expanding overall schooling opportunities, non-formal education and adult literacy programs, and raising the quality of instruction at all levels of basic education. Agreement has been reached with the Government about Bank Group financing for basic education and literacy development, and preparation of the first Bank-supported Basic Education Project, for selected districts in the state of Uttar Pradesh (FY92), is well underway. Follow-up projects in other educationally backward states and in other parts of Uttar Pradesh are planned. In support of this assistance strategy, our ESW program includes a study, already underway, of the cost-effectiveness of basic education in Tamil Nadu. The second objective of Bank involvement is the development of industrial training for craftsmen, technicians and engineers to expand the supply of competent and productive labor. Special efforts are being made to enhance the involvement of females in non-traditional vocational and technical training and to increase the participation of public and private sector industry in these areas.

65. In population, health, and nutrition, our primary objective is to promote improved health among the most vulnerable groups and to assist in reducing fertility. We will continue to approach this by strengthening the focus of India's ICDS program on pregnant and lactating women and on malnourished children under three years of age. In population, we will continue our extensive work with the National Family Welfare Program to reorient its emphasis on sterilization of older women toward the expansion of temporary methods of contraception among younger couples to encourage fewer and more widely spaced births. Given the problems of endemic and communicable disease and the lack of attention to the health of children and women, we will also begin lending in health. Here, the focus will be on diarrheal disease and upper respiratory infection among children, and activities to promote "Safe Motherhood" among women. We are also preparing a national AIDS prevention and control project in support of a medium-term program developed by GOI with assistance from WHO. In addition, our ESW program will focus on the efficiency and effectiveness of

health services. To support these efforts, we have undertaken a study of women's health, which is nearly completed; a study of health financing is about to begin. If satisfactory progress is made toward defining and agreeing with Government on appropriate changes in these sectors, a more sectoral lending approach for the ICDS, and the National Health and Family Welfare Program could be considered.

66. Environmental Degradation. The effect of the severe environmental degradation taking place in much of India is particularly devastating on some of the poorest sections of the population. The Bank is helping India to preserve and enhance its resource base through projects related to rainfed agriculture, rehabilitation of watersheds, urban water supply and industrial pollution abatement. Increased attention is also being paid to environmental issues in energy and infrastructure projects and more generally through the application of the Environmental Assessment process to new as well as ongoing lending operations.

67. Future Bank assistance in these areas will be formulated within the framework of an Environmental Action Plan (EAP) to be prepared by the Government with Bank assistance using UNDP-financed technical assistance. Based on the EAP, the Government will also prepare a comprehensive Aid Coordination Statement and Plan that will be the basis for mobilizing resources to address the priorities established in the EAP.

68. Resettlement issues are a major concern in the implementation of both Bank-assisted and other Government investment projects. They are of special concern in irrigation and power projects, as is evident in the much publicized Narmada and Singrauli projects. A set of guidelines to improve the resolution of resettlement problems is being developed by the Government. In addition, the Bank is studying underlying issues, including the legal framework, the availability of land and the functioning of the land market, and is discussing with the Government a possible nationwide study of successful resettlement efforts, covering both Bank-assisted and other projects.

D. Private Sector Development and Coordination with IFC

69. The proposed policy dialogue and the adjustment lending program are geared towards bringing about a major change in the environment for efficient private sector development. Our assistance will stress elimination of growth-sapping distortions in India's price system, deregulation of private sector investment (including foreign private investment) and greater exposure to external competition. In particular, we will seek to substantially reduce or eliminate the following: reservation of certain sectors to the public sector; price and distribution controls; the practice of nationalization of failing private enterprises; subsidies and capital transfers to public sector manufacturing enterprises; and all other forms of preferential treatment of such firms.

70. India's severely constrained budgetary circumstances create both the need and opportunity for placing greater reliance on the private sector for resource mobilization and investment. The ongoing debate in India on the proper roles of the public and private sectors is still emotive. Large scale, across-the-board privatization of public enterprises is likely to remain politically unacceptable for the time being. Privatization of individual firms or partial privatization in selected sectors, however, is feasible and is increasingly being pursued. In this context, the 1991/92 interim budget proposed the sale of partial interest

(up to 20%) in central government enterprises of up to Rs. 25 billion of equity. This represents an important first step but, to be successful, needs to be seen as demonstrably part of a more comprehensive program of divestment of public holdings and corresponding relinquishing of public controls. The Government has also recently introduced policy reforms that will significantly improve the opportunities and attractiveness of private sector investments in power generation and distribution. We will actively explore opportunities to promote private sector participation in areas such as power, other infrastructure and also in the social sectors (for example, in health care) where private providers have demonstrated the ability to provide low cost, efficient and responsive services.

71. The Bank has worked closely with the IFC in developing its policy dialogue and past operations in industry, finance and, more recently, power. India is currently IFC's third largest country exposure (after Brazil and Mexico) with $527 million (or 9.6%) of IFC's total portfolio as of June 30, 1991. IFC FY90 was a record year with approvals of $147 million in nine transactions. In FY91, net investments totalled $126 million in six transactions with an additional amount of $78 million in syndications. Like the Bank, IFC would, however, have to consider curtailing its investment activities in India on both creditworthiness and headroom conservation grounds unless India undertakes a forceful program of stabilization and structural adjustment.

72. Even closer cooperation with IFC than that we have enjoyed in the past is envisaged in the future. In view of the pervasive distortions that afflict India's industrial and financial sectors, the Bank's future lending in these sectors will be closely linked to policy reform. Future lending in these sectors will be primarily policy based, or in investment operations that either have a strong policy content (e.g., FILs) or involve important public good externalities (e..g., industrial pollution control). IFC would generally be expected to refrain from lending in sectors where the policy framework is unacceptable for Bank lending. Bank and IFC operations would thus expect to be strictly complementary in the future, with Bank lending providing support for basic sectoral policy reforms, and IFC providing financing for efficient private sector development. The Bank will keep IFC informed of its views on sectoral conditions which will be an important input into IFC's investment decision making process.

E. Donor Coordination and Cofinancing

73. In the context of a comprehensive adjustment effort, the Bank necessarily will play a leadership role in mobilizing resources to meet India's financing needs over the next several years (Table 2). Close cooperation with the IMF will be essential since both the Bank and the Fund would assist in the preparation of the Indian program, provide a major share of the funding, and mobilize other official financing. The framework for this cooperation is in place. The Bank closely coordinates its economic and sector work and policy dialogue with Fund staff, and regularly reviews draft Fund staff briefing papers and reports. Less formally, Bank and Fund staff frequently exchange views on recent developments and policy options. Consultations between the two institutions are particularly close during the current difficult times facing India, and Bank staff members participated formally in the most recent CCFF mission.

74. The Bank chairs the Aid India Consortium. The next Consortium meeting is scheduled for September 1991. In the context of a well articulated adjustment

effort, the Bank would seek quick disbursing cofinancing from bilaterals in support of the Bank's policy based lending program. Specifically a total of about $500-$600 million in such cofinancing is envisaged for the proposed FY92 projects, such as Oil and Gas Sector Development, SAL I and Financial Intermediation. Efforts will also be continued to raise parallel and joint cofinancing for ongoing and/or new investment projects. With respect to the latter, the Bank's efforts to expand the use of new techniques for mobilizing parallel cofinancing (such as Limited International Competitive Bidding, agreed in the context of FY91 Gas Flaring Reduction project in order to mobilize about $750 million in supplier cofinancing) will continue. We will also work closely with the ADB and other major donors in coordinating and strengthening the dialogue and lending strategy in key areas of sectoral policy reform. Parallel cofinancings with ADB are also envisaged.

75. In support of a decisive program of reforms, the Bank, working closely with the IMF and IFC, would play a catalytic role in restoring access to private markets. To that end, over the medium term, the Bank could consider the resumption of ECOs or B-loan operations. Since the initial impact of such cofinancings on the Bank's exposure to India would be very small, this strategy should be effective in meeting these objectives without an immediately commensurate build-up of exposure. As India's stabilization and structural reform efforts gain momentum, the Bank would also be in a position to consider more complex cofinancing applications, such as support for BOT (Build-Operate-Transfer) schemes or EXCELs.

F. Portfolio Management Strategy

76. The Bank's experience, shared with several of India's other donors, is of continuing weak project implementation capacity in most sectors in India, leading to slow and incomplete utilization of aid commitments. After some improvement in FY88 and FY89, disbursements fell to $2.0 billion (15% of undisbursed balances) in FY90 with a further decline to $1.9 billion in FY91, despite the cost sharing increases introduced under the Gulf initiative and recent vigorous efforts by the Indian authorities to accelerate disbursement claims. Over recent years, performance has been particularly weak in the agriculture and power sectors (which accounted for almost 60% ($7.5 billion) of the total undisbursed IBRD and IDA balance for India as of June 1990). However, with the major project restructurings (para. 78) and the increased disbursement percentages under the Gulf initiative, disbursements in the agriculture sector improved substantially in FY91. Nevertheless, the recent devaluation of the rupee will accentuate the problems across all sectors, as the foreign exchange counterpart of rupee expenditure has been reduced significantly.

77. As part of the Bank's Gulf crisis initiative, we have increased, on a temporary basis, average cost sharing in 64 ongoing Bank-financed projects. The increased cost sharing will also be included in new projects to be approved through end-1991. These changes resulted in incremental disbursements of the order of $150 million in FY91, with a further increment of $150 million expected in FY92.

78. The Department has made considerable efforts over the last few years to address some of the major problems which have led to slow disbursements. For example, we have progressively ensured that key actions, which in the past have contributed to implementation delays (e.g., procurement, land acquisition and

environmental clearances), are taken prior to Board presentation. Special efforts are being made to protect the access of Bank-assisted projects to essential budgetary support and to earmark and speed the flow of Bank disbursements to implementing project entities. In addition, cancellations have been pursued vigorously where project performance has been unsatisfactory or committed funds could not be used; total cancellations during FY89 to FY91 amounted to $970 million. We have also undertaken a major exercise to utilize the very large volume of IDA savings which has resulted from the substantial real depreciation of the rupee, lower than expected project costs in a number of operations, and slow project implementation. This has so far involved restructuring of 27 projects (mainly in the agriculture, and urban, water and population portfolio) to utilize an estimated $1 billion in savings, and has encompassed expanded project coverage and scope and increased cost sharing consistent with the revised cost sharing guidelines.

79. Increased attention has also been given to these issues by the Government. A Task Force, under the direction of the Prime Minister's office, was established by the V.P. Singh Government to monitor disbursement performance and improve utilization of external aid resources. In particular, Prime Minister, Mr. V.P. Singh, shortly before the fall of his Government, personally requested Chief Ministers of states with Bank-assisted projects under implementation to take all possible steps to speed implementation of these projects. This Task Force needs to be reinstated as soon as possible.

80. We will continue to give high priority to these efforts. The Department has set up a Task Force that is working jointly with the Government to address implementation issues and develop guidelines for improving project preparation and design. In addition, where poor project performance warrants, loans and credits will be suspended and subsequently canceled. Extensions of closing dates of both IDA and IBRD projects will be strictly limited to three years. In the event that a realignment of investment priorities under a forceful stabilization and adjustment scenario leads to delay or cancellation of ongoing Bank-assisted projects, we would adopt a liberal approach to cancellation of undisbursed balances and recommitment of new loans for priority investments using the headroom so released.

81. In view of India's overwhelming poverty alleviation needs and its precarious fiscal situation, maximum possible IDA disbursements should be maintained. Even with continuation beyond December 1991 of the cost sharing adjustments introduced as part of the Gulf initiative, maximum expansion in project scope, and maximum extension of closing dates, India is faced with cancellations of IDA funds totalling $700 -$800 million over the course of the next three years ($150-$200 million within the next year) based on the rupee devaluation which has occurred to date.

G. Cost sharing

82. The recently approved revised cost sharing guidelines for new projects provide for average cost sharing in Bank-assisted projects in India of up to 75% on a country basis. Consistent with these guidelines we propose to increase the sectoral cost sharing limits to 90% for social sectors and agriculture, between 70% and 90% for urban, water and transport and 50% for industry, finance and energy. We will monitor the overall average cost sharing ratio on an annual

basis to keep within the 75% country limit, and make adjustments where appropriate.

83. The current 90% level of cost sharing under existing projects provided by the Bank's Gulf initiative, now set for review in December 1991, should in our view be extended. With the fiscal crunch that India faces, higher cost sharing levels are essential to ensure the orderly completion of IDA projects in priority social developmental areas.

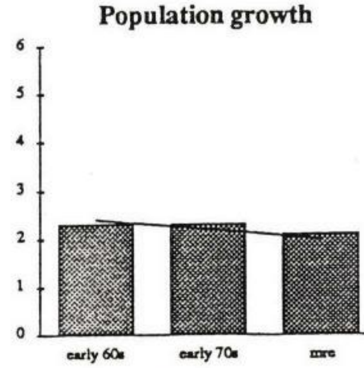
84. The proposed cost sharing limits for India include Bank financing of local costs, especially in agriculture and the social sectors. This is justified on the grounds that: (a) India has established a strong commitment to, and track record in, development and poverty alleviation and, especially in the current macroeconomic conditions, requires finance considerably in excess of available sources; and (b) the Bank's emphases on poverty alleviation, human resource development and environmental protection cannot adequately be translated into lending operations if local cost financing is precluded -- local costs account for the bulk of total project costs in agriculture and the social sectors.

Social Indicators of Development, 1990

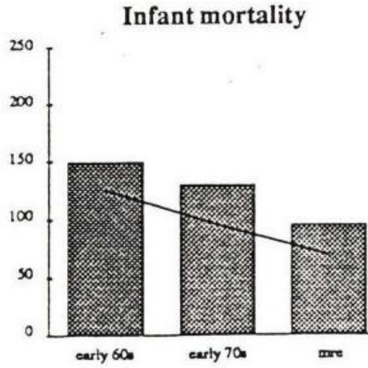
India

	Unit of measure	25-30 years ago	15-20 years ago	Most recent estimate (mre)	Same region / income group: Asia	Same region / income group: Low-income	Next higher income group
HUMAN RESOURCES							
Size, growth, structure of population							
Total population (mre = 1989)	millions	487	613	833	2,593	2,945	667
14 and under	% of pop.	40.4	39.8	37.0	32.9	35.3	37.9
15-64	"	56.1	56.4	58.6	62.2	60.1	57.6
Age dependency ratio	unit	0.78	0.77	0.70	0.60	0.65	0.73
Percentage in urban areas	% of pop.	18.8	21.5	27.5	41.7	37.4	59.2
Females per 100 males							
Urban	number	..	86	89	..	..	..
Rural	"	..	95	96	..	..	..
Population growth rate	annual %	2.3	2.3	2.1	1.8	2.0	2.1
Urban	"	3.2	3.9	3.9	5.3	5.6	3.0
Urban/rural growth differential	difference	1.0	2.0	2.5	6.1	5.8	1.9
Projected population: 2000	millions	..	..	1,007	3,080	3,620	831
Stationary population	"	..	..	1,862	..	..	..
Determinants of population growth							
Fertility							
Crude birth rate	per thou. pop.	44.8	37.5	31.1	26.0	29.8	30.0
Total fertility rate	births per woman	6.23	5.35	4.09	3.20	3.80	3.87
Contraceptive prevalence	% of women 15-49	..	19.0	35.0	57.0	56.2	..
Child (0-4) / woman (15-49) ratios							
Urban	per 100 women	..	58	48	..	..	..
Rural	"	..	67	61	..	..	..
Mortality							
Crude death rate	per thou. pop.	20.3	15.1	11.0	8.6	9.9	8.1
Infant mortality rate	per thou. live births	149.8	129.6	95.4	58.1	69.3	52.7
Under 5 mortality rate	"	..	..	115.9	83.1	161.0	81.5
Life expectancy at birth: overall	years	45.2	50.4	58.5	64.4	61.9	65.2
female	"	44.4	49.8	58.7	65.2	62.7	67.6
Labor force (15-64)							
Total labor force	millions	207	243	317	1,250	1,371	244
Agriculture	% of labor force	72.9	70.7	..	..	..	..
Industry	"	11.9	12.9	..	..	..	..
Female	"	30.7	28.5	25.4	36.5	35.9	30.2
Females per 100 males							
Urban	number	..	81	88	..	..	..
Rural	"	..	96	94	..	..	..
Participation rate: overall	% of labor force	41.8	39.2	39.0	50.8	49.5	38.8
female	"	26.5	23.2	20.5	36.7	35.0	22.6
Educational attainment of labor force							
School years completed: overall	years	0.5	..	1.9	..	..	..
male	"	..	..	..	..	..	..
NATURAL RESOURCES							
Area	thou. sq. km	3,288	3,288	3,288	18,406	36,997	21,088
Density	pop. per sq. km	148	187	243	136	76	30
Agricultural land	% of land area	53.9	55.0	55.1	38.4	36.1	36.9
Agricultural density	pop. per sq. km	275	339	441	354	212	82
Forests and woodland	thou. sq. km	612	656	673	4,831	9,154	6,084
Deforestation rate (net)	annual %	0.3	-0.2	0.0	-0.2	-0.3	-0.7
Access to safe water	% of pop.	..	31.0	57.0	..	..	63.5
Urban	"	..	80.0	76.0	72.5	73.4	77.2
Rural	"	..	18.0	50.0	..	..	46.8

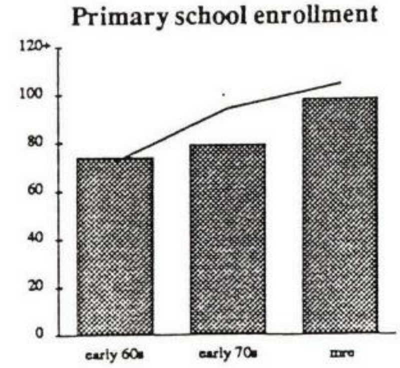
Population growth



Infant mortality



Primary school enrollment



India ___ Low-income

Social Indicators of Development, 1990

India

	Unit of measure	25-30 years ago	15-20 years ago	Most recent estimate (mre)	Same region / income group: Asia	Same region / income group: Low-income	Next higher income group
INCOME AND POVERTY							
Income							
GNP per capita (mre = 1989)	US$	90	170	340	540	330	1,320
Total household income							
Share to top 10% of households	% of income	35	34	27	..	..	..
Share to top 20% of households	"	49	49	41	..	..	..
Share to bottom 40% of households	"	17	16	20	..	..	..
Share to bottom 20% of households	"	7	6	8	..	..	..
Poverty							
Absolute poverty income: urban	US$ per person	..	..	..	..	..	..
rural	"	..	..	..	..	..	..
Pop. in absolute poverty: urban	% of pop.	..	..	..	..	..	..
rural	"	..	..	..	..	..	..
Prevalence of malnutrition (under 5)	% of age group	..	..	49.3	..	..	..
EXPENDITURE							
Food	% of GDP	..	43.6	35.3	..	..	..
Staples	"	..	20.6	12.4	..	..	..
Meat, fish, milk, cheese, eggs	"	..	6.5	7.4	..	..	..
Cereal imports	thou. metric tonnes	7,878	7,669	46	40,773	27,738	40,386
Food aid in cereals	"	..	1,108	223	3,501	7,122	7,767
Food production per capita	1979-81=100	89.6	101.0	118.4	120.8	117.8	99.9
Share of agriculture in GDP	% of GDP	44.1	40.5	30.3	23.3	32.8	15.2
Daily calorie supply	calories per person	2,103	1,945	2,104	2,412	2,342	2,741
Daily protein supply	grams per person	52	47	51	58	56	71
Housing	% of GDP	..	4.4	7.1	..	..	..
Average household size	persons per household	..	5	..	..	..	..
Urban	"	..	5	..	..	..	..
Fixed investment: housing	% of GDP	..	2.3	2.8	..	..	..
Fuel and power	% of GDP	..	2.4	2.3	..	..	..
Energy consumption per capita	kg of oil equivalent	100.1	130.5	208.1	405.5	323.8	843.7
Households with electricity							
Urban	% of households	..	..	..	..	..	..
Rural	"	..	..	..	..	..	..
Transport and communication	% of GDP	..	4.7	5.1	..	..	..
Population per passenger car	persons	1,138	807	543	..	..	30
Fixed investment: transport equipment	% of GDP	..	1.4	2.4	..	..	..
Total road length	thou. km	..	1,215	1,500	..	..	..
Population per telephone	persons	..	352	189	..	..	17
INVESTMENT IN HUMAN CAPITAL							
Medical care	% of GDP	..	2.3	2.0	..	..	..
Population per: physician	persons	4,880	4,900	2,522	1,423	1,463	1,551
nurse	"	6,500	3,710	1,701	1,674	1,747	..
hospital bed	"	..	1,700	1,300	729	755	..
Access to health care	% of pop.	..	..	75.0	..	..	..
Immunized (under 12 months): measles	% of age group	..	..	17.0	44.8	43.5	62.9
DPT	"	..	..	58.0	52.0	41.3	65.2
Oral Rehydration Therapy use (under 5)	% of cases	..	..	22.5	27.9	21.6	27.5
Education	% of GDP	..	2.6	2.8	..	..	..
Gross enrollment ratios							
Primary: total	% of school-age group	74.0	79.0	98.0	112.7	104.3	102.0
female	"	57.0	62.0	81.0	102.4	94.7	101.1
Secondary: total	"	27.0	26.0	39.0	41.8	37.2	51.1
female	"	13.0	16.0	27.0	33.5	28.0	52.4
Tertiary: science/engineering	% of tertiary students	..	28.5	..	..	..	..
Pupil-teacher ratio: primary	pupils per teacher	42	42	59	30	29	26
secondary	"	21	20	21	19	18	17
Pupils reaching grade 4	% of cohort	..	51.3	58.2	68.6	67.8	..
Repeater rate: primary	% of total enrollment	19.9	17.4	..	..	..	8.6
Illiteracy rate: overall	% of pop. (age 15+)	72.2	65.9	56.5	39.5	43.4	25.4
female	% of females (age 15+)	..	..	71.1	52.2	56.5	31.6
Newspaper circulation	per thou. pop.	13.0	15.3	19.8	26.4	20.4	78.9

Source: World Bank International Economics Department, September 1990.

Adjustment Scenario

	Actual				Estimated	Projected				
	1980	1986	1987	1988	1989	1990	1991	1992	1994	1999
Real Growth Rates:										
Gross Domestic Product	6.5%	4.8%	4.5%	9.4%	5.0%	4.7%	2.5%	3.3%	4.7%	6.3%
Gross Domestic Income	NA	5.2%	4.2%	9.5%	4.9%	4.4%	3.0%	3.0%	4.6%	6.4%
Real Per Capita Growth Rates										
Gross Domestic Product	3.7%	2.4%	2.1%	6.9%	2.6%	2.3%	0.6%	1.4%	2.7%	4.5%
Total Consumption	5.2%	3.7%	2.2%	6.4%	2.4%	2.5%	1.1%	0.2%	2.0%	4.5%
Private Consumption	5.6%	3.2%	1.5%	7.0%	2.4%	2.4%	1.9%	0.4%	2.2%	4.5%
Debt and Debt Service (LT+IMF+ST)										
Total DOD (US$M)	20652	49247	56398	58571	63943	71541	75642	81425	91921	113441
DOD/GDP	12.0%	21.5%	22.0%	21.5%	24.1%	25.2%	31.9%	34.3%	34.7%	29.1%
Debt Service (US$M)	1406	5273	5703	6308	6431	7040	7171	7507	10072	13065
Debt Service/Exports	9.3%	31.9%	29.4%	30.3%	27.3%	28.3%	26.5%	24.2%	24.7%	17.3%
Debt Service/GDP	0.8%	2.3%	2.2%	2.3%	2.4%	2.5%	3.0%	3.2%	3.8%	3.4%
Interest Burden (LT+IMF+ST)										
Interest Paid	654	2346	2740	3160	3511	3997	4217	4245	4949	5623
Interest/Exports	4.3%	14.2%	14.1%	15.2%	14.9%	16.1%	15.6%	13.7%	12.1%	7.4%
Interest/GDP	0.4%	1.0%	1.1%	1.2%	1.3%	1.4%	1.8%	1.8%	1.9%	1.4%
Gross Investment/GDP	22.8%	24.3%	22.9%	23.9%	23.6%	23.1%	21.9%	22.8%	23.9%	25.9%
ICORs (5 years ending years shown)	0.2	4.4	4.2	3.7	3.7	3.9	4.2	4.3	5.2	3.8
Domestic Saving/GDP	19.3%	21.6%	20.3%	20.7%	20.9%	20.3%	20.6%	21.6%	23.1%	25.7%
BOP Resource Balance/GDP	3.6%	2.7%	2.6%	3.2%	2.7%	2.8%	1.3%	1.2%	0.8%	0.2%
National Savings/GDP	21.1%	21.7%	20.4%	20.6%	20.5%	19.6%	19.6%	20.7%	22.2%	24.9%
BOP Current Account Bal./GDP'1/	-1.7%	-2.6%	-2.5%	-3.3%	-3.1%	-3.5%	-2.2%	-2.1%	-1.7%	-0.9%
Marginal Domestic Savings Rate	NA	15.3%	10.9%	22.9%	22.4%	16.6%	22.2%	31.5%	29.6%	26.5%
Marginal National Savings Rate	NA	14.2%	10.9%	22.1%	20.3%	14.3%	20.6%	31.6%	28.6%	25.9%
Government Investment/GDP	8.7%	12.1%	10.6%	9.9%	10.7%	10.7%	9.6%	9.3%	9.0%	9.3%
Government Savings/GDP	3.4%	2.7%	2.1%	2.0%	1.7%	1.2%	2.6%	3.8%	6.0%	6.3%
Private Investment/GDP	14.2%	12.2%	12.2%	14.0%	12.9%	12.4%	12.3%	13.5%	14.9%	16.6%
Private Savings/GDP	17.7%	19.0%	18.3%	18.6%	18.8%	18.4%	17.0%	16.9%	16.2%	18.6%

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	Actual				Estimated	Projected				
	1980	1986	1987	1988	1989	1990	1991	1992	1994	1999
Government Revenue/GDP	18.6%	23.4%	23.9%	23.7%	24.6%	24.4%	24.5%	24.6%	25.2%	24.4%
Government Expenditure/GDP	15.2%	20.7%	21.8%	21.8%	22.9%	23.2%	21.9%	20.9%	19.2%	18.1%
Budget Deficit(-) or Surplus/GDP	-5.2%	-9.4%	-8.6%	-8.0%	-9.0%	-9.5%	-7.0%	-5.5%	-3.0%	-3.0%
Primary Deficit(-) or Surplus/GDP	-4.9%	-9.2%	-8.4%	-7.8%	-8.8%	-9.3%	-6.8%	-5.3%	-2.8%	-2.8%
Consumer Price Index (growth rate)	11.4%	8.7%	9.2%	9.1%	6.2%					
GDP Deflator (growth rate)	11.6%	6.6%	8.4%	8.6%	6.7%	10.1%	11.0%	7.0%	6.0%	5.5%
Real Exchange Rate (1987=100)	86.5	95.7	100.0	110.3	115.1	121.0	153.5	163.2	169.9	187.8
Terms of Trade Index (1987=100)	87.7	106.0	100.1	101.2	99.1	96.1	103.4	99.1	99.9	100.0
Exports (GNFS) Volume Growth Rate	3.2%	7.7%	8.1%	11.0%	12.7%	3.3%	7.9%	11.0%	10.8%	8.0%
Exports (GNFS)/GDP '2/	6.6%	6.0%	6.3%	6.7%	7.9%	8.0%	10.5%	12.1%	14.4%	18.6%
Imports (GNFS) Volume Growth Rate	NA	8.9%	-1.5%	17.5%	0.1%	0.8%	-4.6%	3.5%	7.5%	8.1%
Imports (GNFS)/GDP	10.1%	8.7%	8.9%	9.8%	10.6%	10.8%	11.8%	13.3%	15.2%	18.7%
BOP Current Account Bal. (US$M) '1/	-2911	-5991	-6397	-8964	-8131	-9933	-5309	-4914	-4582	-3649
Net Reserves (US$M)	5880.9	1961.5	2368.0	2385.6	2541.8	-345.5	-1604.4	-1270.5	159.0	14566.0
Gross reserves (months imports)	5.2	4.6	3.9	2.5	2.0	1.0	1.1	1.7	2.4	3.2

Note: All ratios are calculated from data in current prices and Exchange rates. ICOR and growth rates are based on constant prices. Marginal Savings rates are based on current price data deflated by expenditures deflators.

1. Before Official Capital Grants.
2. GNFS: Goods and nonfactor services.

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(millions of LCUs)

Adjustment Scenario
Per Capita GNP: $326.2 (1990)
Mid Year Population: 849.7 millions

	Actual				Estimated	Projected				
	1980	1986	1987	1988	1989	1990	1991	1992	1994	1999
GDP at market prices	1358120.0	2933610.0	3325530.0	3949920.0	4427690.0	5103484.1	5805553.2	6418109.4	7900268.5	13652940.7
Net Indirect Taxes	135860.0	329190.0	381450.0	432680.0	476260.0	536429.7	632452.6	712590.8	953178.2	1629353.9
GDP at factor cost	1222260.0	2604420.0	2944080.0	3517240.0	3951430.0	4567054.4	5173100.7	5705518.6	6947090.3	12023586.9
Imports of GNFS	137395.5	255091.5	296187.0	388713.7	468063.7	549744.6	684674.4	851951.4	1199649.0	2555987.2
Exports of GNFS	89037.1	174881.0	210282.2	263738.8	350056.3	406784.8	607999.8	775122.2	1137661.7	2534200.7
Resource Balance	-48358.3	-80210.5	-85904.8	-124974.9	-118007.4	-142959.8	-76674.6	-76829.2	-61987.4	-21786.5
Total Expenditures	1406478.3	3013820.5	3411434.8	4074894.9	4545697.4	5246443.9	5882227.8	6494938.6	7962255.9	13674727.2
Total Consumption, etc	1096318.3	2300740.5	2650034.8	3131224.9	3501737.4	4065348.6	4611431.5	5030777.8	6075312.8	10143025.3
General Government	130840.0	346250.0	410340.0	472030.0	530670.0	617521.6	673444.2	725246.4	853229.0	1474517.6
Private, etc	965478.3	1954490.5	2239694.8	2659194.9	2971067.4	3447827.0	3937987.3	4305531.4	5222083.9	8668507.7
Gross Domestic Investment	310160.0	713080.0	761400.0	943670.0	1043960.0	1181095.3	1270796.3	1464160.8	1886943.0	3531701.9
Government 1/	116930.0	332260.0	350210.0	395420.0	460670.0	526766.4	539359.9	569229.9	672704.8	1201945.1
Private 2/	193230.0	380820.0	411190.0	548250.0	583290.0	654328.9	731436.5	894930.9	1214238.2	2329756.8
Memorandum Items:										
Gross Domestic Saving	261801.7	632869.5	675495.2	818695.1	925952.6	1038135.5	1194121.7	1387331.6	1824955.7	3509915.4
Net Factor Income	2809.8	-26148.4	-32045.1	-43212.8	-55071.2	-72201.7	-104445.4	-113437.3	-141254.9	-184843.9
Net Current Transfers	22573.0	29754.2	34988.9	38421.0	37591.7	36882.2	51042.1	57589.1	66714.8	78723.7
Gross National Saving	287184.5	636475.3	678439.0	813903.3	908473.1	1002816.1	1140718.4	1331483.4	1750415.5	3403795.2
Optional Details for RMSM-X										
Net Indirect Taxes	135860.0	329190.0	381450.0	432680.0	476260.0	536429.7	632452.6	712590.8	953178.2	1629353.9
Indirect Taxes	167460.0	427140.0	499620.0	574030.0	661450.0	751081.2	834203.5	912283.9	1147696.8	1941967.1
Subsidies	31600.0	97950.0	118170.0	141350.0	185190.0	214651.6	201750.9	199693.2	194518.5	312613.3

1/ Gross Domestic Fixed capital Formation only.
2/ Derived as a residual; includes increase in stocks.

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India - Na   al Accounts
Part B: Constant Price Data
(millions of LCUs)

Adjustment Scenario

	Actual				Estimated	Projected				
	1980	1986	1987	1988	1989	1990	1991	1992	1994	1999
GDP at Market Prices	2327676.5	3182494.6	3326352.2	3684146.1	3841590.8	4051089.3	4267155.3	4446250.9	4821208.8	6208378.2
Imports of GNFS	210764.6	300639.5	296126.9	348012.7	348280.8	337875.2	381260.1	449677.5	557609.3	806475.3
Exports of GNFS	155815.0	194534.7	210234.6	233456.5	263005.9	271175.6	347597.6	405933.8	511036.0	738891.8
Resource Balance	54949.7	106104.9	85892.3	114556.2	85274.9	66699.6	33662.5	43743.7	46573.2	67583.5
Total Expenditures	2382626.2	3288599.5	3412244.4	3798702.3	3926865.7	4117788.9	4300817.8	4489994.6	4867782.0	6275961.7
Total Consumption Expenditures	1806659.1	2529829.3	2650781.6	2930423.3	3031187.7	3198678.7	3386691.8	3496768.3	3740150.0	4714638.6
Government	235642.8	375472.5	410321.8	438201.5	453899.5	483244.7	487969.7	495292.1	513256.7	660939.2
Private	1592073.8	2103930.1	2240115.8	2500463.1	2616304.9	2753242.3	2928788.7	3034685.5	3254425.2	4069791.5
Total Investment Expenditures	575967.1	758770.2	761462.9	868278.9	895678.0	919110.2	914126.1	993226.3	1127632.0	1561323.1
Government 1/	217139.0	353549.4	350238.9	363829.4	395237.3	409921.5	387979.5	386142.1	402006.5	531365.5
Private 2/	358828.1	405220.8	411223.9	504449.6	500440.6	509188.7	526146.6	607084.2	725625.5	1029957.6
Terms of Trade Effect	-19232.0	11572.3	4.9	2667.1	-2533.0	-21164.0	-9033.7	3191.7	17760.9	60709.3
Gross Domestic Income	2308444.5	3194066.9	3326357.1	3686813.1	3839057.7	4029925.2	4258121.7	4449442.6	4838969.7	6269087.5
Domestic Savings (TT Adjusted)	521017.4	652665.3	675570.6	753722.7	810403.1	852410.5	880463.5	949482.6	1081058.8	1493739.6

1/ Gross Domestic Fixed Capital Formation only.
2/ Derived as a residual; includes increases in stocks.

India - National Accounts
Part C: Value Added by Sector
(sectoral shares in percent)

Adjustment Scenario

	Actual				Estimated	Projected				
	1980	1986	1987	1988	1989	1990	1991	1992	1994	1999
Agriculture	38.0	31.3	31.1	32.6	31.2	29.9	29.7	29.5	28.8	24.6
Industry, of which:	25.9	28.8	28.7	27.8	28.7	29.5	29.5	29.7	30.1	33.7
Mining	1.5	2.6	2.4	2.3	2.2	2.2	2.2	2.2	2.3	2.5
Manufacturing	17.7	18.3	18.4	17.8	18.7	19.3	19.3	19.4	19.8	23.1
Services	36.1	39.9	40.1	39.5	40.1	40.7	40.8	40.8	41.1	41.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

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Adjustment Scenario

	Actual			Estimated	Projected	
	1965-73	1973-80	1980-88	1989	1989-94	1994-99
Gross Domestic Product at mp:	3.7%	3.8%	5.5%	5.0%	3.7%	5.8%
Agriculture	3.3%	1.8%	2.6%	2.5%	2.0%	2.5%
Industry	3.9%	5.1%	6.8%	6.8%	4.3%	8.4%
Manufacturing	4.3%	4.9%	7.3%	7.4%	4.4%	9.2%
Mining	1.7%	5.0%	6.7%	7.8%	4.1%	7.6%
Services	4.1%	5.0%	6.5%	6.3%	3.8%	6.0%
Imports of GNFS	...	...	6.4%	0.2%	3.2%	7.8%
Exports of GNFS	6.6%	9.4%	5.1%	12.4%	9.2%	8.4%
Total Expenditures	...	4.2%	5.6%	4.1%	3.3%	5.7%
Total Consumption:	3.3%	4.3%	6.0%	4.8%	3.3%	5.3%
Government	5.7%	5.7%	8.3%	4.7%	1.3%	5.8%
Private	3.0%	4.1%	5.6%	4.9%	3.6%	5.2%
Gross Domestic Investment	3.6%	5.0%	4.3%	1.2%	3.4%	7.3%
Government	...	5.4%	6.3%	4.5%	-1.2%	6.3%
Private	...	5.4%	4.3%	-0.6%	8.5%	7.4%
Memorandum Items:						
Capacity to Import	...	...	6.9%	10.0%	8.9%	8.6%
Gross National Income	...	...	5.4%	4.9%	3.8%	5.9%
Gross National Product	...	3.9%	5.3%	5.0%	3.8%	5.8%
Gross Domestic Income	...	...	5.6%	4.9%	3.8%	5.8%
Gross Domestic Saving	...	...	4.2%	5.2%	5.7%	7.8%
Gross National Saving	...	...	3.0%	3.8%	5.6%	8.1%
Population	2.3%	2.1%	2.2%	2.3%	1.9%	1.7%
Labor Force	...	...	...	...	2.2%	1.7%
Gross domestic Product	1.4%	1.6%	3.2%	2.6%	1.8%	4.0%

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Part E: Annual Growth Rates
(from constant price data)

Adjustment Scenario

	Actual				Estimated	Projected				
	1980	1986	1987	1988	1989	1990	1991	1992	1994	1999
Gross Domestic Product at mp:	6.5%	4.8%	4.5%	9.4%	5.0%	4.7%	2.5%	3.3%	4.7%	6.3%
Agriculture	12.5%	-1.7%	0.5%	16.5%	2.5%	0.5%	1.5%	2.5%	2.5%	2.5%
Industry	3.2%	7.6%	5.5%	6.0%	6.8%	7.9%	2.0%	3.8%	5.0%	9.1%
Services	4.4%	7.0%	6.1%	7.8%	6.3%	6.5%	2.5%	3.0%	4.5%	6.0%
Gross Domestic Income	NA	5.2%	4.2%	9.5%	4.9%	4.4%	3.0%	3.0%	4.6%	6.4%
Gross Domestic Investment	5.6%	-2.1%	0.4%	14.8%	1.2%	2.3%	-4.4%	6.6%	6.6%	6.1%
Total Consumption:	8.1%	6.2%	4.6%	8.9%	4.8%	4.9%	3.0%	2.1%	3.9%	6.2%
Population	2.7%	2.3%	2.3%	2.3%	2.3%	2.3%	1.9%	1.9%	1.9%	1.7%
Per Capita:										
Gross domestic Product	3.7%	2.4%	2.1%	6.9%	2.6%	2.3%	0.6%	1.4%	2.7%	4.5%
Total Consumption	5.2%	3.7%	2.2%	6.4%	2.4%	2.5%	1.1%	0.2%	2.0%	4.5%
Private Consumption	5.6%	3.2%	1.5%	7.0%	2.4%	2.4%	1.9%	0.4%	2.2%	4.5%

Part F: Price Indices
(national accounts deflators; 1987=100)

Adjustment Scenario

	Actual				Estimated	Projected				
	1980	1986	1987	1988	1989	1990	1991	1992	1994	1999
GDP Deflator	58.4	92.2	100.0	107.3	115.3	126.1	136.1	144.5	164.0	220.1
Imports (GNFS)	65.2	84.8	100.0	111.7	134.4	162.7	179.6	189.5	215.1	316.9
Exports (GNFS)	57.1	89.9	100.0	113.0	133.1	150.0	174.9	190.9	222.6	343.0
Total Expenditures	59.1	91.5	100.0	107.1	115.7	127.4	137.1	145.1	164.2	218.7
Consumption	60.6	90.8	100.0	106.7	115.5	127.2	136.7	144.3	163.1	216.8
Investment	53.9	94.0	100.0	108.7	116.6	128.5	139.0	147.4	167.3	226.2
Agriculture	57.9	89.4	100.0	105.7	109.9	120.1	129.8	137.7	156.3	209.8
Industry, of which	59.4	93.5	100.0	107.6	116.2	127.1	137.3	145.6	165.2	220.8
Mining	43.7	99.8	100.0	103.9	87.1	95.2	102.8	109.1	123.9	166.2
Manufacturing	66.2	93.4	100.0	107.5	118.4	129.4	139.7	148.3	168.3	225.9
Services	57.0	93.3	100.0	108.5	119.1	129.9	140.0	148.3	168.1	225.0

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Adjustment Scenario	1973-80	1980-89	1989-94	1994-99	1973	1980	1989
Import Elasticity (based on GNFS)	1.1	0.9	0.6	1.4	-0.8	-0.9	0.0
Marginal Savings Rates:							
Gross Domestic Saving	20.7%	21.0%	25.5%	29.3%	22.5%	NA	22.4%
Gross National Saving	23.8%	20.2%	24.3%	28.9%	23.1%	NA	20.3%
ICOR (period averages)	5.6	4.3	5.4	3.9	6.6	3.6	4.4
Labor Force (%)							
Agriculture	70.4%	NA	NA	NA	71.1%	69.7%	NA
Industry	13.0%	NA	NA	NA	12.8%	13.2%	NA
Services	16.6%	NA	NA	NA	16.1%	17.0%	NA
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

US$ millions at cur .t prices

Adjustment Scenario

	Actual				Estimated	Projected				
	1980	1986	1987	1988	1989	1990	1991	1992	1994	1999
A. Exports of GNFS:	11281.0	13677.0	16214.9	18218.2	21008.0	22664.0	24816.6	28707.0	38180.5	72304.9
1. Merchandise (FOB)	8332.0	10459.7	12643.9	14262.2	16945.0	18392.0	20417.3	23703.9	31750.6	60929.4
2. Non-factor services	2949.0	3217.3	3571.0	3956.0	4063.0	4272.0	4399.4	5003.1	6429.9	11375.5
B. Imports of GNFS:	17408.0	19950.1	22839.0	26851.1	28090.0	30629.0	27946.2	31552.4	40260.8	72926.5
1. Merchandise (FOB)	15892.0	17728.1	19812.0	23626.1	24752.0	27052.0	24682.5	27890.2	35722.4	65232.7
2. Non-factor services	1516.0	2222.0	3027.0	3225.0	3338.0	3577.0	3263.7	3662.2	4538.5	7693.8
C. Resource balance	-6127.0	-6273.1	-6624.1	-8632.9	-7082.0	-7965.0	-3129.6	-2845.4	-2080.3	-621.6
D. Net factor income:	356.0	-2045.0	-2471.0	-2985.0	-3305.0	-4022.7	-4263.1	-4201.2	-4740.6	-5273.9
1. Factor receipts	1083.0	501.0	446.0	397.0	395.0	198.7	196.0	305.3	513.6	1105.0
2. Factor Payments	727.0	2546.0	2917.0	3382.0	3700.0	4221.4	4459.1	4506.5	5254.2	6378.9
a. Total Interest Paid	653.7	2346.5	2740.3	3159.7	3510.7	3997.1	4216.8	4244.8	4948.9	5622.9
b. Interest Arrears	...	...	...	...	...	...	...	...	...	...
c. Other Factor Payments	73.3	199.5	176.7	222.3	189.3	224.4	242.3	261.7	305.3	756.0
E. Net current transfers:	2860.0	2327.0	2698.0	2654.0	2256.0	2054.9	2083.4	2132.8	2239.0	2246.1
1. Current Receipts-	2874.0	2339.0	2724.0	2670.0	2271.0	2071.0	2100.0	2150.0	2257.3	2268.6
a. Workers Remittances	2786.0	2339.0	2724.0	2225.0	2186.0	1986.0	2016.0	2066.0	2143.1	2153.9
b. Other Curr. Transfers	88.0	0.0	0.0	445.0	85.0	85.0	84.0	84.0	114.1	114.7
2.Current Payments	14.0	12.0	26.0	16.0	15.0	16.1	16.6	17.2	18.3	22.4
F. Current Account Balance										
1. Before Official Capital Grants	-2911.0	-5991.1	-6397.1	-8963.9	-8131.0	-9932.8	-5309.4	-4913.8	-4581.9	-3649.4
2. Official Capital Grants	643.0	403.0	410.0	406.0	499.8	523.8	549.0	575.3	631.9	765.8
3. After Official Capital Grants	-2268.0	-5588.1	-5987.1	-8557.9	-7631.2	-9409.0	-4760.4	-4338.5	-3950.1	-2883.6
G. Long-Term Capital Inflow	1770.9	4943.7	5963.6	7306.1	6936.2	5709.0	3301.4	4829.5	4785.1	6806.6
1. Direct Investment	8.0	208.0	181.0	287.0	350.0	253.0	151.0	250.0	700.0	1200.0
2. Net LT Loans (DRS)	1762.9	4735.7	5782.6	7019.1	6586.2	5456.0	3150.4	4579.5	4085.1	5606.6
a. Disbursements	2518.6	7025.0	7675.0	8968.6	8507.5	7815.9	5665.7	7533.0	8297.2	12148.3
b. Repayments	755.7	2289.4	1892.3	1949.5	1921.4	2359.9	2515.3	2953.5	4212.1	6541.7
3. Other LT Inflows	...	...	...	...	...	...	...	...	...	...
H. Total Other Items (Net)	-863.2	1364.5	766.5	1029.8	852.4	813.0	200.0	-157.0	-50.0	27.0
1. Net Short-Term Capital	228.0	168.0	222.0	253.0	917.0	813.0	0.0	-157.0	-50.0	27.0
a. Interest Arrears	...	...	...	...	...	...	...	...	...	...
b. Other Net ST Capital	228.0	168.0	222.0	253.0	917.0	813.0	0.0	-157.0	-50.0	27.0
2. Capital Flows n.e.i.	-891.2	1298.5	1275.5	635.8	-64.6	0.0	0.0	0.0	0.0	0.0
3. Errors and Omissions	-200.0	-102.0	-731.0	141.0	0.0	0.0	200.0	0.0	0.0	0.0
I. Changes in net reserves	-667.7	575.9	1421.0	2641.9	1858.6	653.0	-1263.0	-2716.0	-1963.0	-2150.0
1. Net IMF credit	1014.0	-648.0	-1082.0	-1210.0	-1008.0	1117.0	1261.0	1191.0	589.0	-900.0
2. Other Reserve Changes	346.3	-72.1	339.0	1431.9	850.6	1770.0	-2.0	-1525.0	-1374.0	-3050.0
3. Escrow Account										

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Adjustment Scenario

	Actual				Estimated	Projected				
	1980	1986	1987	1988	1989	1990	1991	1992	1994	1999
J. As Shares of GDP (current US$):										
1. Resource Balance	-3.6%	-2.7%	-2.6%	-3.2%	-2.7%	-2.8%	-1.3%	-1.2%	-0.8%	-0.2%
2. LT+IMF+ST Interest/GDP	0.4%	1.0%	1.1%	1.2%	1.3%	1.4%	1.8%	1.8%	1.9%	1.4%
3. Current Account Balance	-1.7%	-2.6%	-2.5%	-3.3%	-3.1%	-3.5%	-2.2%	-2.1%	-1.7%	-0.9%
4. LT Capital Inflow	1.0%	2.2%	2.3%	2.7%	2.6%	2.0%	1.4%	2.0%	1.8%	1.7%
5. Net Credit from the IMF	0.6%	-0.3%	-0.4%	-0.4%	-0.4%	0.4%	0.5%	0.5%	0.2%	-0.2%
K. Foreign Exchange Reserves:										
1. Gross reserves (excluding Gold)	6857.6	6729.6	6390.6	4958.6	4108.0	2338.0	2340.0	3865.0	7259.0	17266.0
2. Gold (end-year London price)	4289.1	4272.4	4632.9	4072.9	4198.8	3879.1	4078.1	4277.1	4774.5	5157.1
3. Gross reserves (including Gold)	11146.7	11002.0	11023.5	9031.5	8306.8	6217.1	6418.1	8142.1	12033.5	22423.1
4. Gross reserves (in months import	5.2	4.6	3.9	2.5	2.0	1.0	1.1	1.7	2.4	3.2
L. Exchange Rates:										
1. In Nominal Terms (LCU/US$):										
a. Primary (official) Rate-										
Annual Average	7.9	12.8	13.0	14.5	16.7	17.9	24.5	27.0	29.8	35.0
End of Year	8.190	12.928	12.954	15.632	17.227	19.620	25.750	27.717	30.289	35.837
b. GNP Conversion factor										
2. In Real Terms (1987=100)										
a. MUV (PAC estimates)	83.1	89.5	100.0	107.3	103.8	111.5	115.1	118.8	126.5	155.4
b. Index Real Exchange Rate	86.5	95.7	100.0	110.3	115.1	121.0	153.5	163.2	169.9	187.8
M. Memorandum Item:										
GDP (current US$M)	172073.7	229430.3	256431.8	272847.7	265719.9	284340.4	236964.2	237697.9	265137.0	389541.0
N. Optional Details for RMSM-X:										
1. Factor Payments	727.0	2546.0	2917.0	3382.0	3700.0	4221.4	4459.1	4506.5	5254.2	6378.9
a. Government Interest	505.7	1952.6	2332.1	2734.9	3070.4	3408.4	3613.4	3704.5	4499.4	5099.3
b. Private Sector Interest	136.0	383.0	397.0	414.0	431.0	588.7	603.4	540.4	449.5	523.6
c. Profits on Foreign Direct Inves	73.3	199.5	176.7	222.3	189.3	224.4	242.3	261.7	305.3	756.0
2. Official Capital Grants	643.0	403.0	410.0	406.0	499.8	523.8	549.0	575.3	631.9	765.8
a. For Budgetary Financing	643.0	403.0	410.0	406.0	499.8	523.8	549.0	575.3	631.9	765.8
b. To Extra Budgetary Entities										
3. Public & Publicly Guar. LT	1568.9	4890.7	5723.6	7124.1	6672.2	5226.0	3436.4	4751.5	4146.1	5123.7
a. Disbursements	2233.6	6700.0	7327.0	8793.6	8284.5	7295.9	5665.7	7433.0	8097.2	11335.5
b. Repayments	664.7	1809.4	1603.3	1669.5	1612.4	2069.9	2229.3	2681.5	3951.1	6211.8
4. Private Net LT Borrowing	194.0	-155.0	59.0	-105.0	-86.0	230.0	-286.0	-172.0	-61.0	482.9
a. Disbursements	285.0	325.0	348.0	175.0	223.0	520.0	0.0	100.0	200.0	812.8
b. Repayments	91.0	480.0	289.0	280.0	309.0	290.0	286.0	272.0	261.0	329.9

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A. Volume, Value and Prices
Adjustment Scenario

	Actual				Estimated	Projected				
	1980	1986	1987	1988	1989	1990	1991	1992	1994	1999
Volume Indices 1987=100										
Merchandise Exports										
X.BEV.TEA	116.1	97.4	100.0	98.0	106.0	126.4	130.0	133.6	141.2	161.5
X.MET.FE	79.2	101.4	100.0	116.5	126.0	112.3	119.0	126.1	141.7	189.7
X.BEV.COFFEE	101.5	82.8	100.0	92.9	129.6	89.9	92.4	95.0	100.4	114.8
X.FOOD.FISH	70.9	112.9	100.0	162.0	127.3	172.8	179.7	186.9	202.2	246.0
Manufactures	60.4	79.3	100.0	117.3	136.6	144.4	161.1	182.7	236.2	396.0
Other Exports	95.4	133.8	100.0	77.3	100.0	129.7	140.1	141.9	150.7	168.1
Merchandise Exports (FOB)	70.2	90.8	100.0	111.1	128.7	139.8	153.9	170.3	211.0	331.2
Value Current Prices (US$ millions)										
Merchandise Exports										
X.BEV.TEA	539.0	451.0	457.0	413.6	542.9	598.8	653.7	698.9	805.4	1127.6
X.MET.FE	384.0	427.0	419.0	464.4	556.7	584.9	633.0	658.2	739.5	1279.9
X.BEV.COFFEE	271.0	232.0	203.0	192.7	205.6	141.1	155.5	165.9	197.0	337.4
X.FOOD.FISH	270.0	421.0	405.0	437.0	412.0	534.7	567.6	636.6	724.8	1143.2
Manufactures	5067.0	6501.0	9013.0	11105.0	13185.0	14383.0	16108.1	19121.9	26541.9	53228.8
Other Exports	1801.0	2427.7	2146.9	1649.5	2042.8	2149.5	2299.3	2422.2	2742.0	3812.7
Total Merchandise Exports (FOB)	8332.0	10459.7	12643.9	14262.2	16945.0	18392.0	20417.3	23703.9	31750.6	60929.4
Volume Indices 1987=100										
Merchandise Imports										
Food	78.8	89.3	100.0	115.1	50.6	82.5	92.0	91.2	90.3	99.2
Other Consumer Goods 1/	11.5	91.9	100.0	162.4	140.3	109.0	113.1	106.7	103.1	94.6
POL and Other Energy	111.1	84.2	100.0	113.9	127.0	147.1	152.1	146.5	175.6	299.1
Intermediate Goods	81.9	125.5	100.0	136.4	147.6	151.8	142.1	159.7	197.3	286.7
Primary	52.8	125.6	100.0	117.5	139.1	143.0	133.9	150.5	185.9	270.1
Manufactures	99.8	125.4	100.0	148.1	152.8	157.1	147.1	165.3	204.2	296.8
Capital Goods	58.7	115.9	100.0	71.7	83.3	83.5	80.0	97.6	128.5	172.3
Total Merch. Imports (CIF)	74.9	104.0	100.0	120.3	120.9	125.7	125.0	130.9	155.5	224.7
Value Current Prices (US$ million)										
Merchandise Imports										
Food	1347.7	1067.9	1291.8	1202.8	714.0	713.0	1523.9	1652.1	1809.0	2448.7
Other Consumer Goods 1/	371.3	2524.4	3139.0	4862.1	4300.0	3853.0	3920.4	3965.3	4118.4	4759.6
POL and Other Energy	6669.0	2187.0	3148.0	2938.0	3766.0	6028.0	4239.3	4482.7	5163.9	13755.6
Intermediate Goods	5197.0	7038.4	7501.6	10966.7	11783.1	12166.4	9385.8	11059.9	14871.7	27263.5
Primary	1277.0	2474.4	2997.4	3799.9	4488.0	4183.9	3187.4	3714.1	5034.4	9495.3
Manufactures	3920.0	4564.0	4504.2	7166.8	7295.1	7982.5	6198.4	7345.8	9837.4	17768.2
Capital Goods	2307.0	4910.5	4731.6	3656.5	4188.9	4291.6	5813.2	6730.2	9759.3	17005.2
Total Merch. Imports (CIF)	15892.0	17728.1	19812.0	23626.1	24752.0	27052.0	24682.5	27890.2	35722.4	65232.7
US$ Price Indices (1987=100):										
Merchandise Export Price	93.9	91.2	100.0	101.2	103.6	108.1	111.4	115.6	124.1	155.5
Merchandise Import Price	107.1	86.0	100.0	100.0	104.6	112.5	107.7	116.7	124.3	155.4
Merch. Terms of Trade	87.7	106.0	100.1	101.2	99.1	96.1	103.4	99.1	99.9	100.0

1/ Includes Statistical Discrepancy

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Adjustment Scenario

B: Shares of total, and Growth Rates

	Share of Merchandise Exports and Imports (in current prices)				Export and Import Volume Growth Rates (from constant price data)			
	Actual	Estimated	Projected		Actual	Estimated	Projected	
	1980	1989	1994	1999	1980-88	1989	1989-94	1994-99
Merchandise Exports (%, p.a.)								
X.BEV.TEA	6.5%	3.2%	2.5%	1.9%	-1.4%	8.1%	3.4%	2.7%
X.MET.FE	4.6%	3.3%	2.3%	2.1%	5.0%	8.1%	4.3%	6.0%
X.BEV.COFFEE	3.3%	1.2%	0.6%	0.6%	0.4%	39.5%	-0.8%	2.7%
X.FOOD.FISH	3.2%	2.4%	2.3%	1.9%	8.1%	-21.4%	8.3%	4.0%
Manufactures	60.8%	77.8%	83.6%	87.4%	8.3%	16.4%	11.4%	10.0%
Other Exports	21.6%	12.1%	8.6%	6.3%	0.5%	30.8%	6.4%	2.6%
Merchandise Exports (FOB)	100.0%	100.0%	100.0%	100.0%	5.7%	16.1%	9.9%	8.7%
Merchandise Imports (%,p.a.)								
Food	8.5%	2.9%	5.1%	3.8%	2.3%	-56.1%	20.0%	1.3%
Other Consumer Goods 1/	2.3%	17.4%	11.5%	7.3%	30.2%	-15.6%	-3.9%	-1.7%
POL and Other Energy	42.0%	15.2%	14.5%	21.1%	1.1%	11.4%	0.9%	12.6%
Intermediate Goods	32.7%	47.6%	41.6%	41.8%	5.6%	8.2%	0.9%	8.0%
Primary	8.0%	18.1%	14.1%	14.6%	9.2%	18.4%	0.2%	8.0%
Manufactures	24.7%	29.5%	27.5%	27.2%	4.0%	3.2%	1.3%	8.0%
Capital Goods	14.5%	16.9%	27.3%	26.1%	6.0%	16.1%	15.6%	7.2%
Total Merch. Imports (CIF)	100.0%	100.0%	100.0%	100.0%	6.0%	0.2%	3.3%	8.0%

1/ Includes Statistical Discrepancy between trade and balance of payments data

C. Trends in Nonfactor Services

	Actual				Estimated	Projected				
	1980	1986	1987	1988	1989	1990	1991	1992	1994	1999
Volume Indices 1987=100:										
Exports of Nonfactor Services	82.6	90.1	100.0	111.3	120.1	132.9	139.2	156.6	195.9	320.8
Imports of Nonfactor Services	50.1	73.4	100.0	107.2	114.9	118.2	118.6	133.3	163.1	274.5
US$ Prices Indices 1987=100										
Exports of Nonfactor Services	93.9	91.2	100.0	101.2	103.6	108.1	111.4	115.6	124.1	155.5
Imports of Nonfactor services	107.1	86.0	100.0	100.0	104.6	112.5	107.7	116.7	124.3	155.4

India - Governmer Budget
lions of local currenc current prices)

Adjustment Scenario

	Actual				Estimated	Projected			
	1980	1986	1987	1988	1989	1990	1992	1994	1999
Direct Taxes	35750.0	73280.0	78670.0	103630.0	110510.0	124925.2	164831.4	212777.4	362616.6
Indirect Taxes	167460.0	427140.0	499620.0	574030.0	661450.0	751081.2	912283.9	1147696.8	1941967.1
Nontax Revenue	49580.0	186710.0	215040.0	258940.0	316870.0	371118.9	504599.9	628896.5	1022945.4
Total Current Revenues	252790.0	687130.0	793330.0	936600.0	1088830.0	1247125.3	1581715.3	1989370.6	3327529.1
Interest on External Debt	3190.8	18403.4	21129.0	25825.2	34416.4	39804.1	72765.5	104811.0	129298.9
Interest on Domestic Debt	12049.2	57516.6	74421.0	95744.8	117783.6	143362.7	164871.7	178946.5	229351.0
Other Current Transfers	28570.0	87200.0	100660.0	124220.0	144520.0	168981.0	176871.1	187571.4	324636.8
Subsidies	31600.0	97950.0	118170.0	141350.0	185190.0	214651.6	199693.2	194518.5	312613.3
Consumption	130840.0	346250.0	410340.0	472030.0	530670.0	617521.6	725246.4	853229.0	1474517.6
Total Current Expenditures	206250.0	607320.0	724720.0	859170.0	1012580.0	1184321.0	1339447.7	1519076.4	2470417.7
Budgetary Savings	46540.0	79810.0	68610.0	77430.0	76250.0	62804.3	242267.6	470294.2	857111.4
Capital Transfers	...	...	...	...	...	...	...	...	...
Budgetary Investment	117670.0	354220.0	354040.0	391490.0	474510.0	547635.3	595263.6	707302.3	1266699.6
Total Capital Expenditures	117670.0	354220.0	354040.0	391490.0	474510.0	547635.3	595263.6	707302.3	1266699.6
Total Deficit Financing	71130.0	274410.0	285430.0	314060.0	398260.0	484831.0	352996.0	237008.1	409588.2
External Capital Grants	5075.0	5153.0	5317.1	5877.5	8328.7	9401.8	15534.2	18827.8	26839.7
External Borrowing (net)	12382.6	62534.3	74226.8	103133.5	111178.1	93798.9	128294.7	123539.8	179579.0
Monetary System Credit (net)	57040.0	136990.0	123500.0	130030.0	198330.0	176361.7	65839.0	7010.3	51280.5
Other Domes. Borrowing (net)	-3367.6	69732.7	82386.1	75018.9	80423.2	205268.6	143328.2	87630.1	151889.1
Debt (at end of year)									
External Debt (LT)									
(in millions of LCUs)	150808.7	514464.9	611459.6	793395.6	968328.7	1209542.7	1931701.4	2381736.1	3658322.0
(in millions of US$)	18413.7	39793.7	47204.2	50753.3	56209.9	61648.5	69694.6	78634.8	102081.1
Domestic Debt	518740.0	1474740.0	1753480.0	2054580.0	2443896.6	2849915.1	3424378.1	3728500.4	4804099.2
To Monetary System	257180.0	720200.0	843700.0	973730.0	1193204.3	1369566.1	1574802.7	1610253.1	1816280.7
Other Domestic Debt	261560.0	754540.0	909780.0	1080850.0	1250692.2	1480349.0	1849575.4	2118247.2	2987818.5
Memorandum Item:									
Primary Deficit	55890.0	198490.0	189880.0	192490.0	246060.0	301664.1	115358.9	-46749.4	50938.3

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India - Money anc' edit
(millions of LCUs at cu ınt prices)

Adjustment Scenario

	Actual				Estimated	Projected				
	1980	1986	1987	1988	1989	1990	1991	1992	1994	1999
A. Annual Flows										
Net International Reserves	-10859.3	2930.8	5314.9	6619.9	6494.5	-50566.3	-34535.3	6100.0	23035.8	155872.6
Net Domestic Credit	113350.0	256370.0	250960.0	381790.0	461711.6	477218.8	508833.4	404716.1	501342.2	807499.1
To Government Budget	57040.0	136990.0	123500.0	130030.0	198330.0	176361.7	139397.7	65839.0	7010.3	51280.5
To Other Official Entities	...	...	...	...	...	...	...	...	...	...
To Private Sector	56310.0	119380.0	127460.0	251760.0	263381.6	300857.0	369435.7	338877.2	494331.9	756218.6
Total Assets and Liabilities	107803.4	259439.6	254887.5	386882.1	468530.0	425398.3	474298.1	410816.1	524378.0	963371.7
Money and Quasimoney	85480.0	220410.0	224220.0	357020.0	392341.4	363376.4	377504.5	329373.2	417890.0	791787.2
Net Other Liabilities	22323.4	39029.6	30667.5	29862.1	76188.6	62021.9	96793.6	81442.9	106488.0	171584.5
B. End-of-Year Stocks										
Net International Reserves	48164.9	25358.3	30673.2	37293.1	43787.6	-6778.7	-41314.0	-35214.0	4815.9	522007.4
Net Domestic Credit	623600.0	1667610	1918570	2300360	2762072	3239290	3748124	4152840	5104192	8405850
To Government (MIL net)	257180.0	720200.0	843700.0	973730.0	1193204	1369566	1508964	1574803	1610253	1816281
To Other Official Entities	...	...	...	...	...	...	...	...	...	...
To Private Sector	366420.0	947410.0	1074870	1326630	1568867	1869724	2239160	2578037	3493939	6589569
Total Assets and Liabilities	671764.9	1692968	1949243	2337653	2805859	3232512	3706810	4117626	5109008	8927857
Money+Quasi Money	557740.0	1407200	1631420	1988440	2380781	2744158	3121662	3451036	4247997	7341225
Net Other Liabilities	114024.9	285768.3	317823.2	349213.1	425077.7	488353.8	585147.4	666590.3	861011.4	1586632
C. Offsets to Expansion of MQM										
Increase in Money+Quasimoney (%)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Net Foreign Assets	-6.5%	1.4%	1.8%	1.4%	1.7%	-14.3%	-9.1%	1.9%	5.5%	19.7%
Net Domestic Credit	132.6%	116.3%	111.9%	106.9%	117.7%	131.3%	134.8%	122.9%	120.0%	102.0%
Credit to Govt. Budget	66.7%	62.2%	55.1%	36.4%	50.6%	48.5%	36.9%	20.0%	1.7%	6.5%
Credit to Private Sector	65.9%	54.2%	56.8%	70.5%	67.1%	82.8%	97.9%	102.9%	118.3%	95.5%
Net Other Liabilities	26.1%	17.7%	13.7%	8.4%	19.4%	17.1%	25.6%	24.7%	25.5%	21.7%
D. Memorandum Items:										
Net Int. Reserves (mill. US$)										
Change during the year	...	575.9	1421.0	2641.9	1858.6	653.0	-1263.0	-2716.0	-1963.0	-2150.0
Stock at end of year	5880.9	1961.5	2368.0	2385.6	2541.8	-345.5	-1604.4	-1270.5	159.0	14566.0

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India - Private Sect Account
ludes Other Public Secto. JPS] activities)
(millions of LCUs at current prices)

Adjustment Scenario	Actual				Estimated	Projected				
	1980	1986	1987	1988	1989	1990	1991	1992	1994	1999
Current Account										
Factor Income	1194717.8	2458286.0	2772583.9	3309627.2	3696681.9	4258874.1	4807761.1	5300451.4	6444650.2	11171630.7
Interest Transfers from Budget	12049.2	57516.6	74421.0	95744.8	117783.6	143362.7	159986.7	164871.7	178946.5	229351.0
Other Transfers from Budget	28570.0	87200.0	100660.0	124220.0	144520.0	168981.0	175885.4	176871.1	187571.4	324636.8
Factor Income from ROW	8547.8	6406.0	5783.9	5747.2	6581.9	3566.9	4801.3	8244.4	15302.9	38729.8
Worker's Remmitances from ROW	21989.0	29907.6	35326.1	32210.5	36425.3	35645.7	49391.4	55784.3	63859.0	75490.8
Current Transfers from ROW	694.6	0.0	0.0	6442.1	1416.4	1525.6	2058.0	2268.1	3400.2	4019.6
Less Direct Taxes	35750.0	73280.0	78670.0	103630.0	110510.0	124925.2	145461.0	164831.4	212777.4	362616.6
Less Nontax Budgetary Receipts	13490.0	34170.0	37760.0	46700.0	50770.0	58502.0	72229.7	86695.7	105177.3	116689.1
Less Interest Paid to ROW	236.8	2020.3	1906.4	1838.5	2249.5	2171.8	3493.4	3189.4	2441.0	6419.0
Less DFI Profits Paid to ROW	578.7	2551.5	2291.6	3218.7	3155.0	4027.1	5936.7	7066.3	9095.5	26496.9
Less Current Transfers to ROW	...	...	...	...	...	...	...	...	...	...
Total Disposable Income	1206122.8	2511155.8	2849523.8	3395668.2	3803290.5	4387838.8	4926466.0	5390950.0	6498233.9	11209663.1
Uses of Disposable Income										
Private Consumption	965478.3	1954490.5	2239694.8	2659194.9	2971067.4	3447827.0	3937987.3	4305531.4	5222083.9	8668507.7
Private Saving	240644.5	556665.3	609829.0	736473.3	832223.1	940011.7	988478.6	1085418.7	1276150.0	2541155.4
Capital Account										
Total Capital Sources	300348.3	678871.1	743280.5	994530.7	1115283.7	1264130.0	1354606.9	1422162.8	1788032.3	3357304.8
Private Saving	240644.5	556665.3	609829.0	736473.3	832223.1	940011.7	988478.6	1085418.7	1276150.0	2541155.4
Capital Grants (ROW to OPS)	...	...	...	...	...	...	...	...	...	...
Direct Foreign Investment	63.1	2659.6	2347.3	4154.8	5832.1	4541.0	3699.5	6750.3	20857.8	42058.6
LT Borrowing from ROW (net)	1531.2	-1981.9	765.1	-1520.0	-1433.0	4128.2	-7006.9	-4644.2	-1817.6	16925.9
Other LT Inflows from ROW (net)	...									
ST Borrowing from ROW (net)	1799.5	2148.1	2879.0	3662.6	15280.0	14592.1	0.0	-4239.2	-1489.8	946.3
Capital Transfers from Govt.	...	...	...	...	...	...	...	...	...	...
Monetary System Net Borrowing	56310.0	119380.0	127460.0	251760.0	263381.6	300857.0	369435.7	338877.2	494331.9	756218.6
Total Capital Uses	300348.3	678871.1	743280.5	994530.7	1115283.7	1264130.0	1354606.9	1422162.8	1788032.3	3357304.8
Gross Domestic Investment	145830.0	287960.0	324300.0	436630.0	487700.0	510191.7	602415.8	715121.6	975280.4	1882510.7
BOP Capital Flows n.e.i.	-7170.7	21512.0	16715.7	24669.1	8660.6	39179.2	55984.9	46193.9	25462.8	-9969.4
Budgetary Capital Revenues	...	...	...	...	...	...	...	...	...	...
Loans to Government	30567.1	202673.9	145213.5	162836.6	169842.2	229656.8	195937.4	173289.0	124429.2	215033.8
Money and Quasimoney	84910.0	204940.0	226120.0	359492.1	394813.0	364690.3	378999.2	331025.6	419923.9	795302.2
Other Monetary System LIabilities	46211.8	-38214.9	30931.2	10902.9	54267.9	120412.0	121269.6	156532.7	242936.0	474427.5

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Adjustment Scenario

India -- External Capital and Debt
(US$ Millions at current prices)

	Actual				Estimated	Projected				
	1980	1986	1987	1988	1989	1990	1991	1992	1994	1999
A. Disbursements										
Public and Publicly Guaranteed	2234	6700	7327	8794	8285	7296	5666	7433	8097	11335
1. Official Creditors	1519	2195	3607	3607	3555	4005	5244	5871	5555	6048
a. Multilateral	863	1314	2269	2626	2106	2233	2899	3865	3578	3189
Concessional	712	672	952	796	581	788	905	1268	870	1349
of which IDA	652	656	917	755	566	762	865	1323	911	802
Nonconcessional	151	642	1317	1830	1525	1445	1994	2597	2707	1840
of which IBRD	151	641	1295	1716	1445	1219	1638	2062	2101	1459
b. Bilateral	656	881	1338	981	1449	1772	2345	2005	1977	2859
Concessional	607	782	1214	866	1005	1618	1421	1242	1268	2859
Nonconcessional	49	99	124	115	444	154	924	763	709	0
2. Private Creditors	715	4505	3720	5187	4730	3291	421	1562	2543	5287
a. Bonds	0	339	116	616	705	776	150	300	400	1200
b. Commercial Banks	330	1742	1450	1719	1287	640	457	866	1050	1600
c. Other Private	385	2424	2154	2852	2738	1875	-186	396	1093	2487
Private Non-Guaranteed LT	285	325	348	175	223	520	0	100	200	813
Total LT Disbursements	2519	7025	7675	8969	8508	7816	5666	7533	8297	12148
IMF Purchases	1023	0	0	0	0	1800	1700	1500	1500	0
Net Short-Term Capital	228	168	222	253	917	813	0	-157	-50	27
Total Disbursements (LT+IMF+ST) 1/	3770	7193	7897	9222	9425	10429	7366	8876	9747	12175
B. REPAYMENTS										
Public & Publicly Guar. LT	665	1809	1603	1669	1612	2070	2229	2682	3951	6212
1. Official Creditors	585	840	1104	968	1034	1288	1370	1595	2063	3076
a. Multilateral	86	242	508	397	467	603	692	855	1224	1942
Concessional	44	80	89	113	126	153	181	186	230	368
of which IDA	15	61	69	81	98	114	136	155	198	335
Nonconcessional	42	162	419	284	341	450	511	669	993	1574
of which IBRD	42	162	418	284	335	449	583	652	937	1375
b. Bilateral	499	598	596	571	567	684	678	740	839	1134
Concessional	473	483	549	523	507	640	615	671	685	756
Nonconcessional	26	115	47	48	60	44	63	69	153	378
2. Private Creditors	80	969	499	701	578	782	859	1087	1889	3136
a. Bonds	0	0	6	14	27	93	100	152	523	1052
b. Commercial Banks	34	778	293	427	315	380	444	632	956	1542
c. Other Private	46	191	200	260	236	310	315	304	410	541
Private Non-Guaranteed LT	91	480	289	280	309	290	286	272	261	330
Total LT Repayments	756	2289	1892	1949	1921	2360	2515	2954	4212	6542
IMF Repurchases	9	648	1082	1210	1008	683	439	309	911	900
Total Repayments	765	2937	2974	3159	2929	3043	2954	3263	5123	7442

1. "LT" denotes "long term"; "ST" denotes "short term".

.$ Millions current prices)

Adjustment Scenario

	Actual				Estimated	Projected				
	1980	1986	1987	1988	1989	1990	1991	1992	1994	1999
C. Net Disbursements										
Public & Publicly Guar. LT	1569	4891	5724	7124	6672	5226	3436	4751	4146	5124
1. Official Creditors	934	1355	2503	2639	2521	2717	3874	4276	3492	2972
a. Multilateral	777	1072	1761	2229	1639	1629	2207	3010	2354	1247
Concessional	668	592	863	683	455	634	723	1083	640	981
of which IDA	637	595	848	674	468	648	729	1168	713	468
Nonconcessional	109	480	898	1546	1184	995	1483	1928	1714	266
of which IBRD	109	479	877	1432	1110	770	1055	1410	1164	84
b. Bilateral	157	283	742	410	882	1088	1668	1266	1138	1725
Concessional	134	299	665	343	498	977	807	572	582	2103
Nonconcessional	23	-16	77	67	384	110	861	694	556	-378
2. Private Creditors	635	3536	3221	4485	4151	2509	-438	475	654	2152
a. Bonds	0	339	110	602	678	683	50	149	-123	148
b. Commercial Banks	296	964	1157	1292	972	260	13	234	94	58
c. Other Private	339	2233	1954	2591	2501	1566	-500	93	683	1946
Private Non-Guaranteed LT	194	-155	59	-105	-86	230	-286	-172	-61	483
Total From LT Loans	1763	4736	5783	7019	6586	5456	3150	4579	4085	5607
Net IMF credit	1014	-648	-1082	-1210	-1008	1117	1261	1191	589	-900
D. Interest										
Public & Publicly Guar. LT	502	1636	2035	2502	2886	3281	3378	3459	3866	4789
1. Official Creditors	346	651	774	900	1062	1182	1320	1516	1946	2453
a. Multilateral	101	388	479	581	640	753	880	1000	1325	1718
Concessional	47	103	111	112	103	108	118	126	140	185
of which IDA	35	91	98	98	90	97	109	114	124	141
Nonconcessional	54	285	368	469	537	645	761	874	1185	1533
of which IBRD	54	285	367	463	520	606	706	794	1033	1275
b. Bilateral	245	263	295	319	422	429	441	516	621	735
Concessional	234	230	257	285	363	339	345	360	370	546
Nonconcessional	11	33	38	34	59	90	96	157	251	189
2. Private Creditors	156	985	1261	1602	1824	2100	2057	1943	1920	2336
a. Bonds	0	54	83	105	143	188	236	242	241	205
b. Commercial Banks	28	254	290	369	497	559	535	541	539	527
c. Other Private	128	677	888	1128	1184	1352	1287	1160	1140	1604
Private Nonguarenteed	30	158	147	127	135	121	143	118	82	183
Total on LT Loans	544	1804	2193	2640	3031	3402	3520	3577	3948	4972
IMF Charges	4	317	297	233	184	127	236	246	634	311
Net ST Capital	106	225	250	287	296	468	461	422	368	340
Total Interest (LT+IMF+ST)	654	2346	2740	3160	3511	3997	4217	4245	4949	5623

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,$ Millions current prices)

Adjustment Scenario

	1980	1986	1987	1988	1989	1990	1991	1992	1994	1999
	Actual				Estimated	Projected				
E. External Debt (DOD)										
Public & Publicly Guar. LT	18414	39794	47204	50753	56210	61648	64774	69695	78635	102081
1. Official Creditors	16315	26056	30027	30871	33371	36821	40407	45165	53316	67473
a. Multilateral	6070	14268	16588	18060	19664	21757	23852	27321	33088	40925
Concessional	5400	11002	12113	12518	13003	13786	14361	15747	17409	21534
of which IDA	5142	10529	11615	12019	12521	13312	13933	15222	16913	19324
Nonconcessional	670	3266	4475	5542	6662	7970	9492	11574	15679	19391
of which IBRD	670	3260	4448	5403	6448	7535	8748	10383	13610	15984
b. Bilateral	10245	11788	13439	12811	13707	15065	16555	17845	20228	26548
Concessional	10075	11352	12892	12251	12729	13976	14605	15201	16373	24365
Nonconcessional	170	436	547	560	978	1088	1950	2644	3855	2183
2. Private Creditors	2099	13738	17177	19882	22839	24827	24367	24529	25319	34608
a. Bonds	2	1087	1287	1785	2428	3174	3223	3372	3127	3896
b. Commercial Banks	464	3329	4676	5781	6569	6994	7061	7341	7351	8341
c. Other Private	1633	9322	11214	12316	13842	14660	14083	13816	14841	22370
Private Nonguaranteed	336	1388	1652	1473	1478	1707	1422	1250	991	3340
Total LT DOD	18750	41182	48856	52226	57688	63355	66196	70945	79626	105421
Use of IMF Credit	977	4768	4023	2573	1566	2684	3944	5136	7100	2700
Net ST Capital	926	3297	3519	3772	4689	5502	5502	5345	5195	5320
Total DOD (LT+IMF+ST)	20652	49247	56398	58571	63943	71541	75642	81425	91921	113441
F. As Share of Total DOD (in %)										
Public & Publicly Guar. LT	89.2%	80.8%	83.7%	86.7%	87.9%	86.2%	85.6%	85.6%	85.5%	90.0%
1. Official Creditors	79.0%	52.9%	53.2%	52.7%	52.2%	51.5%	53.4%	55.5%	58.0%	59.5%
a. Multilateral	29.4%	29.0%	29.4%	30.8%	30.8%	30.4%	31.5%	33.6%	36.0%	36.1%
Concessional	26.1%	22.3%	21.5%	21.4%	20.3%	19.3%	19.0%	19.3%	18.9%	19.0%
of which IDA	24.9%	21.4%	20.6%	20.5%	19.6%	18.6%	18.4%	18.7%	18.4%	17.0%
Nonconcessional	3.2%	6.6%	7.9%	9.5%	10.4%	11.1%	12.5%	14.2%	17.1%	17.1%
of which IBRD	3.2%	6.6%	7.9%	9.2%	10.1%	10.5%	11.6%	12.8%	14.8%	14.1%
b. Bilateral	49.6%	23.9%	23.8%	21.9%	21.4%	21.1%	21.9%	21.9%	22.0%	23.4%
Concessional	48.8%	23.1%	22.9%	20.9%	19.9%	19.5%	19.3%	18.7%	17.8%	21.5%
Nonconcessional	0.8%	0.9%	1.0%	1.0%	1.5%	1.5%	2.6%	3.2%	4.2%	1.9%
2. Private Creditors	10.2%	27.9%	30.5%	33.9%	35.7%	34.7%	32.2%	30.1%	27.5%	30.5%
a. Bonds	0.0%	2.2%	2.3%	3.0%	3.8%	4.4%	4.3%	4.1%	3.4%	3.4%
b. Commercial Banks	2.2%	6.8%	8.3%	9.9%	10.3%	9.8%	9.3%	9.0%	8.0%	7.4%
c. Other Private	7.9%	18.9%	19.9%	21.0%	21.6%	20.5%	18.6%	17.0%	16.1%	19.7%
Private Nonguaranteed	1.6%	2.8%	2.9%	2.5%	2.3%	2.4%	1.9%	1.5%	1.1%	2.9%
Total LT DOD	90.8%	83.6%	86.6%	89.2%	90.2%	88.6%	87.5%	87.1%	86.6%	92.9%
Use of IMF Credit	4.7%	9.7%	7.1%	4.4%	2.4%	3.8%	5.2%	6.3%	7.7%	2.4%
Net ST Capital	4.5%	6.7%	6.2%	6.4%	7.3%	7.7%	7.3%	6.6%	5.7%	4.7%
Total DOD (LT+IMF+ST)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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.$ Millions current prices)

Adjustment Scenario

	Actual				Estimated	Projected				
	1980	1986	1987	1988	1989	1990	1991	1992	1994	1999
G. Percent of Total LT DOD										
On Concessional Terms	82.5%	54.3%	51.2%	47.4%	44.6%	43.8%	43.8%	43.6%	42.4%	43.5%
At Variables Rates	13.0%	36.7%	38.5%	40.9%	42.2%	41.9%	39.0%	36.3%	33.0%	36.0%
H. IBRD and Related ratios										
IBRD Debt Service/Exports	0.8%	2.8%	4.1%	3.7%	3.7%	4.3%	4.9%	4.7%	4.9%	3.5%
IBRD Debt Service/Public DS	10.6%	10.4%	15.9%	13.6%	15.3%	17.5%	20.9%	21.8%	21.2%	21.8%
Preferred Creditor DS/Public DS	17.0%	36.2%	47.2%	43.1%	40.4%	35.2%	35.8%	36.0%	43.7%	39.9%
Share of IBRD Portfolio	3.2%	4.6%	5.8%	7.2%	7.5%	7.7%	8.6%	9.8%	11.5%	11.0%
I. Debt to Export Ratios										
LT Debt/Exports	123.8%	249.3%	252.0%	250.6%	244.6%	255.0%	244.9%	228.3%	195.0%	139.5%
IMF Credit/Exports	6.4%	28.9%	20.8%	12.3%	6.6%	10.8%	14.6%	16.5%	17.4%	3.6%
Short Term Debt/Exports	6.1%	20.0%	18.2%	18.1%	19.9%	22.1%	20.4%	17.2%	12.7%	7.0%
Total DOD/Exports	136.3%	298.2%	290.9%	281.0%	271.1%	287.9%	279.9%	262.0%	225.1%	150.1%
J. Debt to GDP Ratios										
Long Term Debt/GDP	10.9%	17.9%	19.1%	19.1%	21.7%	22.3%	27.9%	29.8%	30.0%	27.1%
IMF Credit/GDP	0.6%	2.1%	1.6%	0.9%	0.6%	0.9%	1.7%	2.2%	2.7%	0.7%
Short Term Debt/GDP	0.5%	1.4%	1.4%	1.4%	1.8%	1.9%	2.3%	2.2%	2.0%	1.4%
Total DOD/GDP	12.0%	21.5%	22.0%	21.5%	24.1%	25.2%	31.9%	34.3%	34.7%	29.1%
K. Debt Service to Export Ratios										
Public and Publicly Guaranteed	7.7%	20.9%	18.8%	20.0%	19.1%	21.5%	20.7%	19.8%	19.1%	14.6%
Private Nonguaranteed	0.8%	3.9%	2.2%	2.0%	1.9%	1.7%	1.6%	1.3%	0.8%	0.7%
LT Debt	8.6%	24.8%	21.1%	22.0%	21.0%	23.2%	22.3%	21.0%	20.0%	15.2%
IMF	0.1%	5.8%	7.1%	6.9%	5.1%	3.3%	2.5%	1.8%	3.8%	1.6%
ST (Interest only)	0.7%	1.4%	1.3%	1.4%	1.3%	1.9%	1.7%	1.4%	0.9%	0.5%
Total Debt Service	9.4%	32.0%	29.5%	30.3%	27.3%	28.3%	26.5%	24.2%	24.7%	17.3%
L. Interest Burden Ratios										
LT+IMF+ST Interest/GDP	0.4%	1.0%	1.1%	1.2%	1.3%	1.4%	1.8%	1.8%	1.9%	1.4%
LT+IMF+ST Interest/Exports	4.3%	14.2%	14.1%	15.2%	14.9%	16.1%	15.6%	13.7%	12.1%	7.4%

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India: Proposed Lending Operations

(US$ millions)

	FY90 ACTUAL		FY91		FY92		FY93		FY94		FY95		TOTAL FY91-95	
	IBRD	IDA	IBRD	IDA	IBRD	IDA	IBRD	IDA	IBRD	IDA	IBRD	IDA	IBRD	IDA
Adjustment Lending														
Oil & Gas Sector Development					150.0								150.0	
SAL I					500.0	100.0							500.0	100.0
FSAL I / FIL					400.0								400.0	
Soc'l Dimensions of Adj I						200.0								200.0
SECAL II - Trade/Exports							500.0						500.0	
SECAL III - Public Enterp							500.0						500.0	
Soc'l Dimens of Adj II								200.0						200.0
SECAL IV - Power Sector Adj									500.0				500.0	
FSAL V / Finan									500.0				500.0	
Soc'l Dimens of Adj III										200.0				200.0
SECAL VI											500.0		500.0	
SECAL VII											500.0		500.0	
Total Adjustment Lending	0.0	0.0	0.0	0.0	1050.0	300.0	1000.0	200.0	1000.0	200.0	1000.0	0.0	4050.0	700.0
Non-Adjustment lending														
culture														
Watershed Develop. (Plains)	7.0	55.0												
Watershed Develop. (Hills)	13.0	75.0												
Punjab Irrigation	15.0	150.0												
AP Cyclone Emerg Recons			40.0	170.0									40.0	170.0
Dam Safety Ass & Rehab			23.0	130.0									23.0	130.0
Agric. Develop. (TN)			20.0	92.8									20.0	92.8
(R) Narmada River Basin Dev I					(20.0)	(100.0)								
Maharashtra/WB Forestry					75.0	106.0							75.0	106.0
Shrimp & Fish Culture					100.0	25.0							100.0	25.0
(S) Subernarekha Irr II (Orissa)							155.0	125.0					155.0	125.0
Kangsabati Modernization							118.6	54.0					118.6	54.0
(S)State Agric Devel II							25.0	75.0					25.0	75.0
Water Resources Consol'n							25.0	125.0					25.0	125.0
(R) Subernarekha Irr II (Bihar)							(50.0)	(100.0)						
ric Devel III									50.0	100.0			50.0	100.0
estry III									40.0	60.0			40.0	60.0
har Plateau									40.0	80.0			40.0	80.0
(S)UP Sodic Land Reclam'n									40.0	60.0			40.0	60.0
Ag Uniden											90.0	60.0	90.0	60.0
Ag Uniden											100.0	50.0	100.0	50.0
Ag Uniden											100.0	50.0	100.0	50.0
Ag Uniden											50.0	50.0	50.0	50.0
stry and Finance														
nnology Development	145.0	55.0												
Cement Industry Restruct	300.0													
Petrochemicals			245.0										245.0	0.0
Indust Pollution Control			124.0	31.6									124.0	31.6
Industrial Pollution II									150.0				150.0	0.0
(R)Technology Devel II											(150.0)			
Energy														
Priv Power Utils (TEC)	98.0													
Northern Region Trans.	485.0													
Priv Power Util (BSES)			200.0										200.0	0.0
Gas Flaring Reduction			450.0										450.0	0.0
(R)Indust Energy Conservation					(250.0)	(19.6)								
Power Finance Corp I					265.0								265.0	0.0
GAIL / Gas Development							150.0						150.0	0.0
(S) Maharashtra Power II							250.0						250.0	0.0
Renewable Energy Devel							120.0						120.0	0.0
(S)Electric Power Systems									250.0				250.0	0.0
NHPC Hydro Plant Rehab									200.0				200.0	0.0
(R) Gas (Uniden)									(200.0)					
Power (Uniden)											200.0		200.0	0.0
Energy (Uniden)											200.0		200.0	0.0

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	FY90 ACTUAL		FY91		FY92		FY93		FY94		FY95		TOTAL FY91-95	
	IBRD	IDA	IBRD	IDA	IBRD	IDA	IBRD	IDA	IBRD	IDA	IBRD	IDA	IBRD	IDA
Non-Adjustment Lending (ctd)														
Transport														
Nat. Highways II					300.0								300.0	0.0
Railway Productivity Imprv't					275.0								275.0	0.0
(R) Port Modernization							(200.0)							
National Highways III									200.0				200.0	0.0
Transport (Uniden)											200.0		200.0	0.0
Urban and Water														
Hyderabad Water & Sew	10.0	79.9												
Maharashtra WS/Env San				109.9									0.0	109.9
Madras Water							50.0	100.0					50.0	100.0
Karnataka WS/Env San								80.0					0.0	80.0
(S)Bombay Sewage Disposal									40.0	60.0			40.0	60.0
(R)MP Urban II									(150.0)	(50.0)				
Urban (Uniden)											50.0	100.0	50.0	100.0
Water (Uniden)												100.0	0.0	100.0
lation and Human Resources														
Int Nutrition II		95.8												
Technician Education I	25.0	235.0												
Popn Training (VII)	10.0	86.7												
ICDS I (Orissa & AP)			10.0	96.0									10.0	96.0
Technician Education II				307.1									0.0	307.1
ICDS II (Bihar & MP)						125.0							0.0	125.0
Primary Education						170.0							0.0	170.0
Maternal & Child Health I						214.0							0.0	214.0
AIDS Prevention						50.0							0.0	50.0
Population VIII								100.0					0.0	100.0
(R) Primary Educ II								(200.0)						
Maternal & Child Health II										150.0			0.0	150.0
Nutrition III										150.0			0.0	150.0
Education (Uniden)												150.0	0.0	150.0
MCH III												150.0	0.0	150.0
ulation IX												150.0	0.0	150.0
Total Nonadjustment Lending	1108.0	832.4	1112.0	937.4	1015.0	690.0	893.6	659.0	1010.0	660.0	990.0	860.0	5020.6	3806.4
Total Lending	1108.0	832.4	1112.0	937.4	2065.0	990.0	1893.6	859.0	2010.0	860.0	1990.0	860.0	9070.6	4506.4

	FY90	FY91	FY92	FY93	FY94	FY95	FY91-95	FY86-90
of Operations	11	10	13	13	14	14	64	57
Sectoral Totals								
Adjustment Operations	0.0	0.0	1350.0	1200.0	1200.0	1000.0	4750.0	0.0
Agriculture	315.0	475.8	306.0	702.6	470.0	550.0	2504.4	2921.1
Industry & Finance	500.0	400.6	0.0	0.0	150.0	0.0	550.6	2802.2
Energy	583.0	650.0	265.0	520.0	450.0	400.0	2285.0	4528.0
Transport	0.0	0.0	575.0	0.0	200.0	200.0	975.0	759.6
Urban & Water	89.9	109.9	0.0	230.0	100.0	250.0	689.9	1147.1
Population, Health & Nutr'n	192.5	106.0	389.0	100.0	300.0	300.0	1195.0	425.1
Education	260.0	307.1	170.0	0.0	0.0	150.0	627.1	540.0
Total	1940.4	2049.4	3055.0	2752.6	2870.0	2850.0	13577.0	12158.0
Sectoral Shares								
Adjustment Operations	0.0%	0.0%	44.2%	43.6%	41.8%	35.1%	35.0%	0.0%
Agriculture	16.2%	23.2%	10.0%	25.5%	16.4%	19.3%	18.4%	24.0%
Industry & Finance	25.8%	19.5%	0.0%	0.0%	5.2%	0.0%	4.1%	23.0%
Energy	30.0%	31.7%	8.7%	18.9%	15.7%	14.0%	16.8%	37.2%
Transport	0.0%	0.0%	18.8%	0.0%	7.0%	7.0%	7.2%	6.2%
Urban & Water	4.6%	5.4%	0.0%	8.4%	3.5%	8.8%	5.1%	9.4%
Population, Health & Nutr'n	9.9%	5.2%	12.7%	3.6%	10.5%	10.5%	8.8%	3.5%
Education	13.4%	15.0%	5.6%	0.0%	0.0%	5.3%	4.6%	4.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

ECONOMIC AND SECTOR WORK PROGRAM
(Staffweeks)

		Actual FY 1990	Actual FY 1991	Current FY 1992	FY 1993
ECONOMIC WORK					
Country Economic Memorandum					
Stab/Reform	1990	112			
Agr/Stab/Reform	1991	80	159	7	
Progress in Adjustment	1992		38	131	
Growth and Sustainable Development	1993				115
Public Finance					
Direct Taxation		32			
Local Government Finances			52	28	
Public Expenditure Review			8	120	
Reform of the Tax System			1	53	20
Non Debt Capital Flows		11	30		
Poverty Reduction and Employment					100
State Development -- Bihar		3			60
Monitoring and Briefing		114	122	95	120
Total Economic Work		352	410	434	415

ECONOMIC AND SECTOR WORK PROGRAM
(Staffweeks*)

SECTOR WORK	Actual FY 1990	Actual FY 1991	Current FY 1992	FY 1993
Multi-Sectoral Environmental Action Plan		4	41	
Agriculture				
Agricultural Research Review	46			
Agricultural Price Policy	32			
Irrigation Sector Review	94	47	2	
Forestry Sector Review	11	16	34	
Groundwater Review				25
Agricultural Incentives				10
Agricultural Sustainability				90
Industry and Finance				
Capital Goods Engineering	4			
Financial Sector Update	82	4		
Small Scale Industry	14	89	18	
Strategy for Trade Reform	150	24		
Industrial Regulatory Reform	35	19		
Public Enterprise Issues		46		
Industry Unidentified				20
Infrastructure				
Issues in Road Transport	3			
Trade Logistics	10			
Road Planning Issues	3	19	9	
Telecommunications Sector Review		19	11	
Port Modernization			15	10
Urban Sector Review			10	50
Bombay Urban Review				30
Energy				
Long-Term Power Issues	15	48	4	
Energy Sector Review	136	11	28	
Rural Electrification				35
Population, Human Resources & Education				
WID Strategy Paper	3			
Role of NGOs in Family Welfare Programs	19			
Health Finances	3	12	44	
Women's Health	1	51	13	
Cost Effectiveness of Basic Education (Tamil Nadu)		4	25	40
Health/Population Unidentified			25	40
Sector Monitoring	153	143	75	100
Total Sector Work	814	556	354	450
TOTAL ESW	1,166	966	788	865

* A number of these sector work tasks are resourced to a significant extent through trust funds, inputs from which are not recorded in this table.

THE WORLD BANK/IFC/MIGA
OFFICE MEMORANDUM

DATE: May 7, 1991

TO: Operations Committee

FROM: Enzo Grilli, Directory, EAS

EXTENSION: 81938/9

SUBJECT: INDIA - Country Strategy Paper - Agenda

1. The Operations Committee will meet on Thursday, May 9, 1991 at 11:00 a.m. in Room E-1243 to discuss the Country Strategy Paper for India.

2. As spelled out in this CSP, India has not been able to sustain the momentum of the early 1980s; the reform process has stalled since 1988, and the fiscal and balance of payments positions have progressively worsened to the point where India might well encounter a near-term payments' crisis unless exceptional financing becomes available. Thus, there appears to be an increasing awareness in India that substantive policy changes are needed and that stabilization and adjustment measures must go hand in hand. However, the present political situation has paralyzed economic policy making. Although the elections scheduled for the later part of May offer the prospects for a more decisive political leadership, the outcome is in no way given.

3. The CSP outlines a policy of response to the Indian situation, graduated according to the degree of policy change that may occur. It articulates an "adjustment" scenario in detail: this involves extensive structural reforms, supported in part by policy-based IBRD loans ($0.8 billion per year) and by policy-based IDA credits ($0.2 billion in FY92 and FY94). In a second scenario, the Region assumes no serious structural adjustment measures and no policy-based lending (even though there would be a Fund-supported stabilization program). In this less favorable case, the Bank's annual commitments would be restricted to no more than $1.2 billion of investment operations. In a third, even worse scenario, Bank lending would be reduced to no more than $200 million p.a. (IDA amounts would remain unchanged).

The Transition

4. The political and social uncertainties at this time makes it difficult to forecast how economic policies and the balance of payment situation will evolve over the next six months or so. The Committee might first wish to focus on the operational imperatives during this period of transition. Would the Region elaborate upon:

- the short-term prospects of the Indian economy and the status of current discussions between the GOI, the Fund and the Bank. What steps are being followed to meet the near-term external payments needs? What effects will these have on economic output in the short-term? To what extent have the modest trade liberalization of the 1980s been reversed to the detriment of long term export prospects? How great is the risk that foreign financing will dry up further and the payment crisis becomes acute? What would be the likely impact of a default on future financing flows and long term growth prospects?

- the most likely scenario in terms of stabilization and adjustment policies. When and how does the Region expect to conclude that one or the other of the three scenarios is going to materialize? To what extent should we be prepared to process a SAL or a FSAL during the immediate future without a sufficient track record to indicate a serious commitment to reforms?

"Stabilization without Adjustments"

5. The CSP proposes that, if India undertakes a Fund-supported stabilization program, it should qualify for up to $1.2 billion of annual IBRD lending for traditional operations, even if there are no structural reform measures that can be supported by policy-based lending. This "muddling-through scenario" would probably represent the least departure from recent policy trends, and may constitute the result of a less than clear-cut election outcome. Would the Region elaborate upon:

- the basic realism and viability of this scenario. How would India adjust its fiscal and balance of payments disequilibria without undertaking strong reforms in such areas as trade and taxation, unless it accepts continued low growth? In such circumstances, even though India might meet such criteria as "share in Bank portfolio," etc., would it really be creditworthy for lending at commercial terms? How would external lenders respond to a poorly managed transition and limited policy reforms over the next few years? Might their response not force India into a prolonged period of sluggish export performance?

- whether it would really be possible to have "quality" projects with "halting structural reform efforts" (does our project implementation record warrant such optimism?);

- whether the maximum potential amount of financing for traditional operations should be much reduced from the proposed level of $1.2 billion. Should there be any IBRD lending (beyond a core) in this case at all, and if so which sectoral policy changes should be proposed as preconditions? Should we, for example, insist on reforms of prices and institutions before contemplating any further lending in energy? Should we address issues of pricing in the agricultural sector (correcting the relative prices of wheat and rice may do more for poverty alleviation in the northeast than socially-oriented investments)?

- whether India's IDA allocation should be delinked from macro-performance, as proposed. In the absence of comprehensive reforms, it is not clear that IDA credits can effectively promote growth and poverty alleviation; consequently, should the Bank be prepared, as in other countries, to consider a much reduced volume of IDA?

The "Adjustment" Scenario

6. The adjustment scenario may be seen as a high case, in which the policy response of the GOI is tightly phased and reform occurs on a scale that warrants strong Bank support. With respect to the "adjustment" scenario, the Region might elaborate upon:

- the reform priorities (paras. 39-45). If there is a SAL, what should it primarily consist of? Should the Bank suggest first priority for trade reforms (in conjunction with compression of aggregate demand and a maxi-devaluation)? If so, should we propose rapid liberalization instead of the gradual approach adopted by the last Gandhi government? Or should the Bank instead pursue fiscal reforms as the main policy priority? If we plan to seek a combination of policy changes, should we also propose, on a priority basis, changes in labor policies and in policies on foreign direct investments?

- tranching and prior action. The GOI would prefer policy-based operations to be based entirely on prior actions. Should we be prepared to consider single-tranching, and if so, do we anticipate a sufficient amount of prior actions on which the SAL and the first SECALs can be based?

- risks. The adjustment scenario implies a departure from the limits for the "Preferred Creditor share in MLT Debt Service" and "the share in IBRD Portfolio" (Table 3, p.16). Does the strength of the adjustment program envisaged in this case warrant a deviation from Bank norms?

7. The Committee might also consider the proposal to extend, beyond December 1991, the increase in disbursement percentages on existing projects (para. 94).

8. Finally, the Region proposes that the next CSP be reviewed in July 1993, with an update in June 1992. Should the Committee ask for an earlier update - say, December 1991?

Operations Committee

Messrs. Qureshi, Husain, Jaycox, Karaosmanoglu, Wapenhans, Shihata, Kashiwaya, Rajagopalan/Summers, Wood, Bock.

cc: Messrs. Grilli, Ljung, EAS; Okonjo-Iweala, OPNSV; Isenman, PRDDR; Sandstrom, EXC; Stoutjesdijk, FRS.

ARay:vl