WORLD BANK OPERATIONS EVALUATION DEPARTMENT

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India: Country Assistance Evaluation

- India deregulated the trade and investment regimes in the early 1990s. Economic growth rebounded and social indicators improved, but the reform process was neither sustained nor broadened. In addition, there was little reduction in rural poverty, largely because of the lack of an effective strategy for agriculture and rural development, combined with low growth in the poorer states.
- The Bank has provided strong support for reform, but more emphasis on fiscal management, public sector and judicial reform, agricultural policy and rural development, and gender equity would have been beneficial.
- The relevance of Bank assistance in India was substantial, but efficacy and institutional development impact were both modest, yielding an overall outcome rating of moderately satisfactory. The sharpened focus on poverty reduction, selectivity in state assistance, and attention to governance and institutions during the past two years has improved the relevance of the Bank's assistance strategy.
- The Bank should link lending to fiscal disciple at the federal level and to progress in structural reforms in agriculture and the implementation of an effective rural development strategy. New lending should be concentrated in reforming states that have agreed to an assistance strategy, and sectoral lending linked to agreements on sectoral policies and institutional frameworks.

Background

India was one of the Bank's founders and remains one of its largest and most influential borrowers. The Bank has been India's greatest source of external long-term capital and has financed a sizeable share of its public investment. Its lending and nonlending services have been thinly spread over central and state agencies and have addressed a wide variety of objectives.

India entered the decade with substantial economic and social achievements, but also with closed trade and investment regimes, fiscal imbalances, and a large and unwieldy public sector. After a balance-of-payments crisis in 1991, India deregulated trade and investment. Economic growth rebounded quickly and proved resilient, even during the 1997 East Asian crisis. Social indicators also improved. But India failed to sustain the fiscal reform process and to broaden it to other structural areas. And there was little progress in reducing rural poverty, largely because of the absence of an effective agricultural and rural development strategy and low growth in the poorer northern and eastern states. In the second half of the 1990s, a few states initiated substantial policy and institutional changes, but there remains a large outstanding reform agenda at both the state and federal levels.

Bank Support

The Bank provided strong support for the reforms of the early 1990s, beginning with three adjustment loans. It expanded assistance to the social sectors; devoted more attention to improving participation; and, where development results had been unsatisfactory, reduced lending (to virtually zero in power) and embarked on comprehensive sector work, as in rural development and irrigation. After the mid-1990s, the Bank focused assistance on reforming states, with notable success. Still, more emphasis on fiscal management, public sector and judicial reforms, improvement in agricultural policies and rural development, and gender equity may have led to greater impact.

Overall, the strategic goals of the Bank were relevant and the design of the assistance strategy improved as the decade unfolded. Efficacy was modest, mainly because of the Bank's limited impact on fiscal and other structural reforms, the failure to develop an effective assistance strategy for rural poverty reduction, and the mediocre quality of projects at exit. Institutional development impact has also been modest and sustainability uncertain, given the serious remaining fiscal imbalances, high environmental costs, and governance weaknesses. Thus, the overall outcome of the assistance is rated as moderately satisfactory for the decade as a whole.

Enhanced Relevance

The relevance of the assistance strategy, however, has improved substantially over the past two years through a more sharpened focus on poverty reduction, a more selective approach to state assistance, and greater attention to governance and institutions. But it is too early to gauge the efficacy of these recent initiatives.

Next Steps

India has built strong foundations for development. The Bank's main challenge is to support far-reaching reforms, at both the state and central levels, with high-quality and widely disseminated policy studies and policy-based sector and program loans. The five pillars and the fiscal and structural reform triggers of the 1997 CAS remain valid, and only adjustments to accelerate and assure the full application of those pillars and triggers appear necessary.

The Bank should link the overall lending volumes to fiscal discipline at the federal level and to progress in structural reforms in agriculture and the implementation of an effective rural development strategy, as progress in these areas is crucial for rural poverty reduction. New lending should be concentrated in reforming states, where an assistance strategy has been agreed with the state government, while maintaining a strong policy dialogue with the center and supporting analyses of state finances, policies, and institutions in nonreforming states. Similarly, sectoral lending volumes should be linked to agreements on sector-specific policies and institutional frameworks.

While in recent years Bank assistance has become more pro-poor, the Bank should make greater efforts to monitor systematically the poverty and gender impacts of Bank-assisted projects and programs, as well as to mainstream gender beyond the social sectors. It should also assist government agencies to do the same for the overall public expenditure programs. Finally, it should strengthen aid coordination on country assistance strategies and on critical sector strategies (such as, agriculture and rural development) to enhance the effectiveness of external assistance and enable greater selectivity in the Bank's own programs.

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